



PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

FIFTY NINTH REPORT TO THE PARLIAMENT

REPORT ON THE 2004–2005 BUDGET ESTIMATES

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Parliament of Victoria

Public Accounts and Estimates Committee

Report on the 2004-2005 Budget Estimates

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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 nine Members of Parliament drawn from both Houses of Parliament and all political parties.

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; and
- 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.

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.

GLOSSARY

Accrual accounting	Recognition of revenue, expenses, assets, liabilities and equity when a transaction occurs, irrespective of the timing of the related cash flow.
Additions to the net asset base	An appropriation which provides authority to increase the net capital base of a department's statement of financial position.
Administered items	Those resources which a department administers on behalf of the state, and over which it cannot exercise direct control.
Agency	An accounting identity designed to define the legal bounds of the operation of a business unit. In the general Government sector, those units which source 50 per cent or more of funding through appropriations and which are directly accountable through Minister to Parliament.
Annual appropriation	The appropriations to departments and the Parliament contained in the <i>Appropriation Act</i> and <i>Appropriation (Parliament) Act</i> . These appropriations lapse at the end of each financial year.
Assets	Service potential or future economic benefits controlled by an entity (eg. a department) as a result of past transactions or other past events. Assets may be physical (eg. plant, equipment or buildings) or non-physical (eg. financial investments).
Benchmark	A measurement or standard that serves as a point of reference by which process performance is measured.
Benchmarking	A structured approach for identifying best practice.
Budget sector	The term budget sector is identical to the general Government sector in the 2004-05 Victorian Budget Papers.

Capital asset charge	A charge generally on the written down value of non-current, physical assets controlled by agencies within the budget sector. The cost is designed to reflect the full cost of service provision and to encourage the management of surplus or under performing assets.
Commonwealth grants	<p>Includes general revenue from the Commonwealth Government for the purpose of aiding in the financing of the current operations of the recipient; in addition to monies received for specific purposes (when the Commonwealth wishes to have some involvement in the direction of the expenditure).</p> <p>Grants are also received for on-passing to third parties eg. to non-government schools, where the state has no discretion as to their allocation.</p>
Commonwealth-State Housing Agreement	A bilateral agreement between the Commonwealth and State Governments for the provision of public housing and other forms of assistance.
Consolidated Fund	The Government's primary account that receives all consolidated revenue and from which payments appropriated by Parliament for Government purposes are made. The Consolidated Fund together with the Trust Fund, form the Public Account.
Depreciation	The allocation of the cost of an asset over the years of its useful life.
Employee benefits	Entitlements which employees accumulate as a result of the rendering of their services to an employer up to the reporting date. They include wages and salaries, annual leave, sick leave, long service leave, superannuation benefits, and other post employment benefits.
Ex-ante reporting	Reporting intended outcomes, objectives, strategies, priorities, performance measures and targets, and budgets in corporate plans and budget papers, prior to the period of activity.

Ex-post reporting	Reporting achievements against intended outcomes, objectives, strategies, priorities, performance measures and targets as stated in the corporate plan and budget papers, and actual costs, after the completion of the period of activity.
Finance Lease	Leasing arrangements in which substantially all risks and benefits incidental to the ownership of the leased property effectively pass from the lessor to the lessee. Finance leases are essentially borrowings.
Financial assistance grants	Grants made by the Commonwealth government to state and territory governments for expenditure by the latter according to their own priorities. Financial assistance grants are sometimes referred to as general revenue or general purpose grants.
Financial report	Consists of a set of financial statements, which comprise of a statement of financial performance, a statement of financial position and a statement of cash flows, for a given financial year.
Franchising	The sale to an external party (usually on the basis of a competitive bidding process) of the right to distribute particular goods or services to a particular market for a defined period. Franchising is often seen as a way of introducing competition into an industry that may otherwise be seen as a monopoly.
Government business enterprise	Publicly owned entity providing goods or services on commercial terms with the objective of recovering its costs of production and, in most cases, of providing some financial return to its owner.
Goods and services tax (GST) grant	GST revenue collected by the Commonwealth and distributed to the states and territories on the basis of horizontal fiscal equalisation principles.

GST transitional grants	As part of the Commonwealth's agreement with the states and territories that their budgetary position will be no worse under national tax reform, the Commonwealth provides GST transitional payments to the states and territories. These are paid in the form of grants and an interest free loan. The loan is recognised as Commonwealth grants received in the statement of financial performance.
Gross State Product	The total market value of goods and services produced in a state after deducting the cost of goods and services used in the production process, but before deducting the consumption of fixed capital.
Intellectual property	Ideas, information, or material which has been produced as a result of intellectual effort and is protected by law: for example, confidential information, technical and professional publications, copyright, trademarks, patents, plant variety rights and designs.
Liabilities	Liabilities comprise future payments that an entity is currently obliged to make to other entities as a result of past transactions or other past events. Liabilities are thus a broader concept than debt. They also include obligations which do not have a predetermined repayment schedule, and those which do not require payments of interest such as unfunded liabilities of superannuation funds, liabilities for employee benefits and trade creditors.
Machinery of government changes	Changes to departmental structure and functions to align with a ministerial portfolio restructure announced by Government.
Nominal value	Refers to financial data expressed 'in the price of the day' and which is not adjusted to remove the effects of inflation. Nominal dollars do not allow for inter-year comparisons because reported changes may reflect changes to financial levels (prices and/or expenditure) and the adjustments to maintain purchasing power due to inflation.
Non-budget sector	Public sector entities, mainly business enterprises.

Non-current assets	All assets other than current assets. They are usually held for use rather than exchange and provide an economic benefit for periods greater than one year.
Non-current liabilities	All liabilities other than current liabilities. They are usually obligations that do not require payment within one year of the reporting date.
Net assets	The residual interest in the assets of an entity after deduction of its liabilities (the net worth).
Ordinary activities	Activities that are undertaken by an entity as part of its business or to meet its objectives.
Outcomes	The Government's desired or intended effects on the community as a result of the funding of outputs. Outcomes establish both the rationale and foundation for the budget.
Outputs	Products or services produced or delivered by departments/agencies.
Output management framework	A framework of planning for products or services on behalf of Government. Under an output management framework, the Government sets its strategic priorities or intended outcomes and then commissions departments to deliver outputs that the department determines will best achieve these outcomes.
Output costing	The process of determining on a full accrual basis all direct and indirect costs of producing an output within a given period.
Output groups	For purposes of budgeting and reporting, a grouping of individual outputs that contribute to a common outcome.
Performance measures	Quantity, quality and timeliness indicators used to describe how many, how well, when, or how frequently Government funded outputs are delivered.

Performance targets	Intended output delivery levels expressed in terms of each of the performance measures. Targets are used as a benchmark to assess performance in delivered budgeted outputs.
Public Account	Comprises the Consolidated Fund and the Trust Fund.
Public financial corporations	Comprises agencies which have the characteristics of performing a central borrowing function, accepting deposits, and the ability to incur liabilities and acquire financial assets in the market on their own account. This sector includes the Transport Accident Commission and the Victorian WorkCover Authority.
Public sector	Comprises general government sector entities, non-financial public corporations and public financial corporations that have Government ownership and control.
Responsible Minister(s)	One or more portfolio Minister(s) who have specific and/or collective responsibility over a department's activities and performance.
Revaluation	The act of recognising a reassessment of values of non-current assets at a particular date.
Sale of goods and services	This represents revenue earned from the sale of goods or provision of services to external parties in the current period, whether received or receivable.
Special appropriation	A standing authority that remains in force until amended or repealed by Parliament, for specific once-off or ongoing payments which need to be made independently of the Government's annual budget priorities.
Specific purpose grants	Grants made by the Commonwealth to state and territory governments subject to terms and conditions specified by the Commonwealth, generally to ensure that Commonwealth policy objectives (or national objectives agreed between the Commonwealth and the States) are met.

Statement of cash flows	A statement that provides information on the cash inflows and outflows as they relate to operating, investing and financing activities of an entity.
Statement of financial position	A statement that provides information on the entity's assets and liabilities, and also reflects the net worth for the reporting period.
Statement of financial performance	A statement providing information for the reporting period on the revenue and expenses, and the surplus or deficit, of an entity.
Supplies and services	This encompasses the day-to-day running costs incurred in the normal operations of Government entities, but specifically excluding the cost of employee benefits, superannuation, depreciation, amortisation, interest and other finance costs, grants and transfer payments, and other expenses.
Treasurer's Advance	An appropriation to the Treasurer, included in the annual <i>Appropriation Act</i> , to meet urgent expenditure claims that were unforeseen at the time of the budget.
Trust Fund	The Trust Fund is established to account for the receipt and disbursement of moneys not forming part of the Consolidated Fund and therefore not subject to parliamentary appropriation. The Trust Fund comprises various trust specific purpose accounts established under separate legislation or at the discretion of the Minister for Finance under the <i>Financial Management Act 1994</i> . The Trust Fund together with the Consolidated Fund, form the Public Account.
Unfunded liabilities	Liabilities that are accruing but for which no explicit provision has been made for payment.

Unfunded
superannuation
liabilities

The present value of future benefits, determined by actuarial assessment, that superannuation scheme's members have accrued during past services which are not covered by fund assets. Unfunded superannuation liabilities arise when superannuation costs are not contributed as the members' benefits accrue.

CHAIR'S INTRODUCTION

The annual budget papers are amongst the most important documents presented by the Government to the Parliament and to the community. These documents are important because they detail the Government's anticipated performance for the previous year and forecast the financial affects of policies or initiatives that the Government intends to implement in the coming years. To assist the Parliament and the community to assess the Government's discharge of its accountabilities in the financial and economic stewardship of the state, the Committee undertakes a detailed review of the budget estimates and other information contained in the budget papers.

The Committee, during the estimates hearings and in the supplementary questions sent to Departments, seeks performance and financial information that will assist in resolving such fundamental questions as:

- what the Government proposes to spend on, and why;
- what the Government expects its agencies to do (and whether or not they do it);
- what the Government expects to happen as a result of its agencies' action (and what actually happens); and
- what risks the Government and its agencies are incurring in undertaking those actions, and how those risks are being managed.

The Committee's review culminates in the presentation of this report to Parliament. This report – which is a crucial element in ensuring good governance and public accountability of the Government – contains 177 recommendations. Many of the recommendations are intended to ensure the Parliament receives better information about the Government's desired outcomes and the extent to which those outcomes are being achieved.

I am grateful to the Ministers and senior departmental officials who attended the estimates hearings and provided candid insights into the activities of their departments and agencies. I also wish to acknowledge the officers who provided supplementary information to the Committee which has assisted our understanding of the many issues considered.

I would also like to thank the Secretariat for the high quality of its assistance and support throughout the review of the budget estimates and in the preparation of this report.

Finally, I thank the other Members of the Committee for their constructive contribution during the review process, the valuable suggestions made to enhance this report and the significant amount of time that they have committed to the estimates hearings and consideration of the draft report. The community is well served by my colleagues active participation in the review of the Government's budget.

I commend the report for consideration and I look forward to the Government's response to the Committee's recommendations.

Campbell

Hon. Christine Campbell, MP

Chair

EXECUTIVE SUMMARY

Chapter 1: Introduction

The passing of the Appropriation Bills by the Parliament provides the Government with the authority to raise taxes and appropriate expenditure from the Consolidated Fund for the forthcoming year. Two separate Appropriation Bills are presented to the Parliament – one relating to the operations of the Parliament and the Auditor-General and other relating to general government activities.

The Appropriation Bills relating to 2004-05 were passed by Parliament on 27 May 2004 (*Appropriation (Parliament 2004-05) Act 2004*) and 10 June 2004 (*Appropriation (2004-05) Act 2004*) and provided for expenditure of \$23,426 million.

Accompanying the introduction of the Appropriation Bills in Parliament are the Budget Papers. The Budget Papers cover the application of additional funds to support service delivery and capital that do not require approval by the Parliament on an annual basis. These additional funds include amounts that are appropriated by Parliament on an ongoing basis via special appropriations (\$1,477.4 million in 2004-05), revenue received by agencies that is credited to appropriations (\$1,673.8 million in 2004-05) as well as amounts carried over from the previous year (\$218.3 million).

There is no reconciliation in the Budget Papers between the Government's aggregated revenues and expenses of around \$28 billion with the value of appropriations subject to parliamentary approval.

To assist the Parliament to have a more effective oversight of the activities of the Government, the Public Accounts and Estimates Committee has been delegated the responsibility of undertaking a detailed review of the budget estimates and revenues contained in the Budget Papers and presenting a report to the Parliament.

The Public Accounts and Estimates Committee's analysis of the budget estimates aims to:

- facilitate a greater understanding of the budget estimates;
- assist the Parliament and the community of Victoria to assess the achievement of the planned budget outcomes against actual performance;
- constructively contribute to the quality and the presentation of the budget information; and
- enable more effective monitoring of the performance of departments and agencies.

The 2004-05 Budget Estimates were subjected to 55 hours of scrutiny by the Committee at public hearings held with the Premier, each Minister and the Presiding Officers of the Victorian Parliament during the period May to June 2004.

This report is based on discussions at the estimates hearings as well as information contained in a range of documents including the Budget Papers, departmental responses to the Committee's budget estimates questionnaire, reports of the Auditor-General, departmental and portfolio agency annual reports and other public documents. Departments also provided specific information in response to questions taken on notice at the estimates hearings or issues subsequently raised by the Committee.

While the Committee's report on the budget estimates is not tabled in Parliament until after the Appropriation Bills are passed by Parliament and assented to by the Governor, the Committee believes that the detailed review of the budget estimates significantly enhances the transparency of the Government's proposed revenue raising and spending activities and strengthens accountability to the Parliament and the community.

The Committee believes that these arrangements can be strengthened and intends to outline how the estimates process can be further improved in a report on the management and control of parliamentary appropriations which will be tabled next year.

Chapter 2: Responses to the Committee's recommendations

Government responses to two of the Committee's budget estimates reports were tabled in Parliament during the past year. The Committee's report on the 2002-03 Budget was tabled in June 2003 because of delays associated with the state election in October 2002.

Of the 81 recommendations contained in the Committee's *Report on the 2003-2004 Budget Estimates*, 48 were accepted, 16 were accepted in part; nine were accepted/agreed to in principle, three are still under review and five were rejected.

In several cases, the Government indicated that several recommendations were 'under review'. The Committee intends to follow-up on the status of these recommendations and report on these matters in future reports.

The Committee's *Report on the 2002-2003 Budget Estimates* included 109 recommendations. Of these, 54 were accepted, 23 were accepted in part; 14 were accepted/agreed to in principle, eight were under review; 10 were rejected.

The Committee believes that in several instances where its recommendations were rejected by the Government, that further action should be taken to address concerns raised by the Committee.

Chapter 3: Budget Overview

As was the case with previous budgets, the 2004-05 Budget is framed around the Government's financial management policy to provide a sound and stable financial basis from which growth can be promoted across the whole state. Under this policy, the Government has set five short-term and five long-term financial objectives. The financial objectives for 2004-05 were identical to the objectives for 2003-04 which include an objective of maintaining an operating surplus of at least \$100 million each financial year.

The Government's financial management policy was reviewed by the international ratings agency Standard and Poor's in July 2004 when it confirmed Victoria's AAA credit rating. The agency also noted that, under Commonwealth-State financial arrangements, Victoria received less than the average per capita grant from the Commonwealth Government. The Committee was pleased that in March 2004 at the Ministerial Council for Commonwealth-State Financial Relations meeting a majority of states and territories, with the support of the Commonwealth Government, agreed to a review of some aspects of the grants system.

The Treasurer's budget speech indicated that growth in the Victorian economy was expected to be 3.25 per cent in 2003-04 and 2004-05. This growth result was anticipated from increased demand for Victoria's exports as the global economy improves and from increasing business investment. Housing activity is expected to slow in 2004-05, which would reduce the amount of property taxes collected.

The 2003-04 Budget initially forecast a surplus of \$245 million. The estimated actual surplus for the year was \$432.5 million.¹ The Committee noted that the estimated actual surplus for 2003-04 was arrived at after two large abnormal factors affected the surplus in opposite directions. The first of these factors was an actuarial revaluation of the State Superannuation Fund which, when coupled with the recovery in global equity markets, produced a superannuation expense result \$1,176 million lower than budgeted. The second factor was an abnormal one-off expenditure item of \$1,250 million relating to the cessation of the smelter reduction amount levy. In the absence of this latter factor, the estimated actual surplus for 2003-04 would have been in the vicinity of \$1,682 million, or \$1,437 million more than the initial surplus estimate of \$245 million. These unexpected events in 2003-04 illustrate the volatility of budget projections.

The Government anticipates an operating surplus of \$545 million in 2004-05 with revenue of \$28,984.9 million (or 4.5 per cent more than the 2003-04 estimated actual revenue). The revenue estimates take into account the Government's policy decisions to provide land tax relief, extend payroll tax to employment agencies and abolish some stamp duties while extending others. The projected increase in revenue is expected to be largely offset by a 4.3 per cent increase in expenditure to

¹ The Committee's review was based on the Government's estimate of the actual results for 2003-04. The Government released the actual results for 2003-04 on 13 October 2004

\$28,439.9 million, (compared to the 2003-04 estimated actual expenditure), leaving a margin of \$112.5 million to contribute towards the increased surplus anticipated for 2004-05.

With the re-election of the Federal Coalition Government in October 2004, the Committee draws attention to the impact on the budget estimates of the possible cessation of national competition policy payments to the states after 2006-07. Any shortfall in revenue will mean the Government will have to amend the forward estimates for future output and asset investment initiatives for 2006-07 and 2007-08.

Employee entitlements are a major component of Government expenditure. The Committee noted that according to the ratings agency, Standard and Poor's, the Government's wages policy has resulted in most major wage agreements being settled at a cost of less than 4 per cent per annum. According to the Department of Treasury and Finance's publication, *Victorian Economic News*, the wage cost index for Victorian public sector wages grew by 3.4 per cent during the year to March 2004, below the national index growth of 4.3 per cent.

The Committee considers that the Government's wages policy needs to be complemented by public sector-wide workforce planning to minimise potential labour shortages due to changing public sector demographics including the impact of retirements.

The Government anticipates capital spending of about \$10 billion over the next four years, with spending of about \$2.9 billion on infrastructure in 2004-05. The Government indicated that about 14 per cent of the total capital value of new infrastructure investment projects to commence in 2004-05 (including the Melbourne Convention Centre) will be delivered under the private public partnership arrangements. The Committee noted that the Growing Victoria infrastructure reserve, which up until 2004-05 has been designated as a source of funding for infrastructure, will be fully spent by 2005-06.

The Committee observed that general government net debt is forecast to increase from \$1.8 billion in June 2004 to \$2.6 billion by June 2008. However this debt only represents about one per cent of Gross State Product. Similarly, general government net financial liabilities are expected to increase from \$14 billion at June 2004 to \$16.4 billion in June 2008. As a share of Gross State Product, general government net financial liabilities are expected to fall from 6.8 per cent to 6.5 per cent.

The state's unfunded superannuation liability is the largest liability, and will be an estimated \$12,877.4 million in June 2005. This liability, which is influenced by investment returns on superannuation fund assets and additional contributions from the Government, is projected to peak at \$13,866.5 million in 2007, before being extinguished in 2033. This is two years earlier than originally projected by the Government.

However, with the move to adopt international financial reporting standards from 1 January 2005, unfunded superannuation liability is anticipated to be higher than is

currently projected in the budget estimates because of the change in the valuation methodology to be applied under international financial reporting standards.

Chapter 4: Review of the 2004-05 Budget Papers

The 2004-05 Budget Papers were restructured to improve the presentation of information with similar information now consolidated in the same volume. This resulted in an additional volume in this year's Budget Paper.

The information content in the 2004-05 Budget Papers was enhanced to focus on whole of government activities. This resulted in a reduced emphasis on details at the departmental level, therefore making it more difficult to assess individual departments contribution to meet the Government's desired outcomes.

The departmental information section in Budget Paper No. 3 *2004-05 Service Delivery* currently does not provide details of ministerial portfolio responsibilities and details of the respective Minister's responsibility for departmental outputs. The inclusion of this information would assist users of the Budget Papers to understand the ministerial portfolio responsibilities for departments and Minister's accountability for services and programs.

The explanation provided by departments in Budget Paper No. 3 *2004-05 Service Delivery* for discontinued outputs and performance measures, and changes to performance targets (including cost targets), varies significantly between departments. The Committee noted inconsistencies in the quality of the explanations with some departments providing comprehensive explanations, while others failed to provide any information. Without an adequate explanation, users of the Budget Papers would find it difficult to comprehend changes to departmental activities.

The printed copy of the Budget Papers contained a number of errors. While details of these amendments are available at the Victorian State Budget website, the Parliament and the Public Accounts and Estimates Committee had not formally been advised of these amendments.

Chapter 5: Parliamentary Departments

The Parliamentary Departments' budget allocation for 2004-05 was \$93.4 million, compared to the actual results for 2003-04 of \$89.8 million, and resulted in a variation of \$3.6 million, or 4 per cent.

Based on estimates at 1 July 2004, unspent 2003-04 funding of \$1.8 million was carried over to 2004-05. The Parliamentary Committees had an estimated carry over of \$200,000 from 2003-04 which will be applied to new inquiries. The Committee has some concerns about the funding arrangements for inquiries and believes that changes need to be made to accommodate those inquiries that are not completed within a budget year.

The number of staff employed by the Parliamentary Departments in 2004-05 is expected to remain unchanged from 2003-04. In 2004-05 an estimated 456.49 equivalent full-time staff will be employed which is inclusive of 240.93 electorate officers.

The 'One Parliament' Project introduced a new structure for the Parliamentary Departments, reducing the number of Parliamentary Departments from five to three. The new structure is intended to produce a less fragmented and more coordinated administration and improve efficiency. Parliament is now supported by the Department of Legislative Assembly, the Department of Legislative Council and the Department of Parliamentary Services.

The 2004-05 output management framework reflects the new structure, and the Parliamentary Library and the Parliamentary Debates now come under the Department of Parliamentary Services budget.

In recognition of the importance of the Parliamentary Library in supporting the work of Members of Parliament and Parliamentary Committees, it is essential that the autonomy of the Parliamentary Library is maintained under the new structure. The Committee has made a number of recommendations on this subject.

The Parliamentary Departments do not have a safety management plan for analysing the occupational health and safety environment within the parliamentary precincts.

The Parliamentary Departments are in the process of transferring to the new Victorian Public Service non-executive officer career structure. The new career structure which provides for a non-overlapping classification system, resulted in the Parliamentary Departments identifying that around 50 per cent of parliamentary staff are undertaking work at a level which is higher than their current classification.

As at 30 June 2004, the Parliamentary Departments have made significant progress in implementing the Auditor-General's recommendations from his review of the Parliament's information technology system upgrade (Parlynet 2) in 2003. However, the budgets of the Parliamentary Departments are insufficient to enable them to expeditiously implement the outstanding recommendations of the Auditor-General.

Chapter 6: Department of Education and Training

The budget allocation for the Department of Education and Training for 2004-05 was \$6,717.1 million. This is a \$349.9 million (or 5.5 percent) increase on the expected outcome for 2003-04. The increase is largely due to the cost of the capital asset charge, depreciation and employee entitlements.

At the time this report was prepared, the department was identifying funding to be carried over to 2004-05, and could not provide details to the Committee.

By 30 June 2005, the Department of Education and Training expects to control assets valued at \$10,701.4 million. This is a predicted increase of 2.2 per cent from 2003-04. The increase is mainly due to the on-going program to improve existing schools and build new schools, further investment in information technology infrastructure, and Commonwealth funded asset initiatives for schools and TAFE institutes.

On 30 June 2005, the Department of Education and Training expects to have 50,600 equivalent full-time staff, an expected increase of 320 employees (0.6 of one per cent) for the year, consisting of 260 teachers and 60 other school-based staff.

Although 97 per cent of Government schools are classified as either primary or secondary schools, the Committee was surprised to learn that the Department of Education and Training can not identify the separate funding allocated for primary and secondary schools.

The employment of casual school staff is not recorded centrally by the Department of Education and Training. The Committee is of the view that this information is essential for effective, long-term workforce planning.

While there is no teacher shortage throughout the system overall, it is hard to attract teachers to some geographic areas and for some secondary school subject areas. The Department of Education and Training is implementing initiatives to address these shortages, including offering refresher training courses to ex-teachers seeking to return to teaching, and assisting teachers in rural schools to retrain for hard-to-fill subject areas.

The 2004-05 Budget allocated \$7 million in 2004-05 to upgrade the department's human resources management system. The upgraded system will seek to centralise the management of human resources, offer users more functions and allow users to access teachers' profiles on the Internet. These changes aim to give school principals improved workforce planning tools.

Although the Department of Education and Training publishes primary level national benchmarks for numeracy and literacy, it does not have secondary level benchmarks. Therefore, the level of literacy and numeracy of Victorian secondary students cannot be compared with those of other states and territories. However, the department anticipates that national agreement on benchmarks for Year 7 reading, writing and numeracy will be reached later in 2004.

Of the approximately \$1.5 billion of departmental funds handled through trust funds in 2003-04, \$32 million was subject to administrative charges by the department. These charges totalled around \$500,000 from 19 trust accounts. As a percentage of fund expenditure, the charges ranged from 0.03 per cent (for the Student Wellbeing Drug Education general trust account) to 9.78 per cent for the Treasury Trust (Language Allowance). Charges recovered ranged from \$13 (for the Student Wellbeing Drug Education general trust account) to \$264,479 (for the Student Wellbeing – Individual School Drug Education Strategies trust account).

The Department of Education and Training plans to introduce a new funding model for schools for the 2005 school year, called the Student Resource Package. The model links funding to each school's planning, accountability and performance management mechanisms. The 2004-05 Budget provides funding for 250 more teachers under the new model. Before implementing the new arrangements, the department indicated it consulted extensively with, and provided training for, stakeholders, principals, business managers and regional office staff.

The 2004-05 Budget allocated \$1.5 million in 2004-05 to pilot a student relationship management information system in several schools. The system aims to track the progress and achievement of students across the whole system and to provide students, parents and schools with useful information about each student's progress and wellbeing.

Although about \$1.1 billion has been allocated for Training and Further Education in 2004-05, there are no performance indicators for employer satisfaction in the Budget Papers. To gauge employer satisfaction with the quality of TAFE's apprentice and trainee training, the department uses the results of the Australian National Training Authority's three yearly survey of employer satisfaction. Because the last survey was conducted in 2001, the department believes these results are unsuitable for inclusion in the Budget Papers.

The Commonwealth Government allocated 2,349 additional university places to Victoria for the 2005-2008 period, 9.4 per cent of the total additional places allocated nationally.

The details of a certified wages agreement between the Australian Education Union (Victoria) and the Department of Education and Training were not factored into the 2004-05 Budget Estimates because the agreement was reached too late for the financial consequences to be incorporated into the 2004-05 Budget Papers.

Chapter 7: Department of Human Services

The Department of Human Services' budget allocation for 2004-05 is \$9,888.3 million. This is an increase of \$774.1 million (8.5 per cent) on the expected outcome for 2003-04.

In an environment where the Government considers that Commonwealth funding relating to hospitals, home and community care and public housing has not kept pace with increases in demand and costs, the Department of Human Services indicated that it faces many challenges including:

- increased demand for services, resulting from the increasing and ageing population and from new treatment technologies;
- the need to ensure the health system's financial sustainability;
- the need for a skilled and flexible workforce;

- the requirement to modernise ageing infrastructure; and
- the importance of shifting the focus of services towards prevention and early intervention.

The Committee was informed of the following in relation to Commonwealth funding to Victoria:

- the Minister for Health stated that Victoria was more closely aligned to a fifty-fifty funding arrangement in 1999 than it is today, with the Commonwealth now contributing only 68 cents for every \$1 contributed by Victoria;
- the Minister for Health also informed the Committee that under the 2003-08 Health Care Agreement, Victoria will receive \$350 million less than it would have if the level of indexation provided in the previous agreement had continued;
- the Minister for Aged Care gave evidence that Commonwealth expenditure on aged care services per older person is lower in Victoria than in any other Australian states or territories;
- the Minister for Aged Care advised that the Commonwealth's offer of funding towards the Home and Community Care (HACC) Program, based on an indexation rate of 2.1 per cent, does not meet the expected growth in demand for services of 3.9 per cent;
- the Minister for Aged Care advised that the unmatched Victorian Government contribution to the HACC program in 2004-05 is expected to be \$61.7 million;
- the Minister for Housing indicated that the Victorian Government will contribute \$96.1 million more towards public housing funding in 2004-05 than the matching requirements of the funding agreement with the Commonwealth; and
- the department will need to work closely with the Commonwealth to obtain adequate funding when the extension to the Supported Accommodation Assistance Program Agreement is negotiated, given that demand for, and the cost of, providing short-term housing assistance through the program has increased in recent years and there is considerable unmet demand.

Information released by the Government for 2003-04, which for the first time lists the Williamstown, Mercy and Werribee hospitals, illustrates the gap between demand and the level of service provided by the public hospital system. During the June quarter, more patients waited for elective surgery, and more people waited for more than 12 hours in an emergency department for a hospital bed, than in the previous quarter, or than a year ago.

There were also more patients waiting for semi-urgent elective surgery beyond the ideal time of 90 days.²

Turning to the financial viability of public hospitals, the Committee was also concerned with the Auditor-General's finding of a further deterioration in the financial position of public hospitals. At 30 June 2003, 15 hospitals showed signs of financial difficulties with a further 22 hospitals having unfavourable results.

Despite these pressures, since the introduction of the Government's Hospital Demand Management Strategy, the deterioration in the incidence of hospital bypass and the percentages of emergency department patients being treated within ideal times has been reversed or stabilised.

The Committee acknowledges the 2004-05 Budget's initiative of \$333.2 million in 2004-05 and a total of \$1,600 million over four years of extra demand management funding. This will allow 35,000 more hospital patients and 50,000 more emergency department patients to be treated, and aims to secure the financial sustainability of the hospital system. The Committee also acknowledges the Government's funding of another 100 general practitioners to work part-time in community health services.

While the Committee noted that there is a good deal of available quantitative data about the performance of the acute health system, it also found that a broader range of performance information is needed about the quality of patient care in the Victorian public hospital system.

The Committee was disappointed to learn that the waiting times for restorative dental care and dentures will again exceed targets. This situation has not improved despite the introduction of the Dental Workforce Planning Project and extra funding of \$21 million over four years in last year's budget. It is therefore encouraging to see that the 2004-05 budget provides further funding of \$24.6 million (\$97.2 million over four years) to expand public dental health services.

The Community Services portfolio's main priorities for disability services are to invest more in home and community based living, and to support people with a disability and their families earlier in their lives. The 2004-05 Budget provided an extra \$65.9 million in 2004-05 for disability services. This included funding to assist carers, and enable people with disabilities and older frail people to live more independently in the community (\$10.8 million in 2004-05 and \$27.1 million over four years to 2007-08).

² To analyse these trends in the appropriate context, it is important to note that over the last five years, waiting list surgery capacity has increased by 8.2 per cent or an additional 10,000 elective surgery operations and that Victorian hospitals continue to treat all urgent cases (Category One) within the ideal treatment time, that is, within 30 days. (Source: Information supplied by the Department of Human Services on 29 October 2004)

The Committee noted, however, that in April 2004 there were 1,161 people with a disability urgently waiting for shared supported accommodation. A person with a disability has to wait, on average, nearly three years for shared supported accommodation. This level of unmet need, particularly for urgent cases, needs Government attention.

The 2004-05 budget funded a wide range of community care initiatives including the continuation of the Integrated Strategy on Child Protection. New diversion and prevention services will be piloted as part of this strategy. The budget also provided \$4.9 million in 2004-05 (\$24.6 million over four years to 2007-08) to expand child protection projects that focus on early intervention and prevention of child abuse.

The Committee noted that an additional \$5 million was provided for 2004-05 (\$20.6 million over four years to 2007-08) to support foster carers. It was also encouraging to see an average 7.5 per cent drop in child abuse notifications across the family support innovation project areas. However, the foreshadowed 36,900 child abuse notifications in Victoria for 2004-05 highlights an on-going and very serious community problem, one that continues to place Victoria's child protection system under pressure.

The Committee believes that every effort needs to be made to address the issues contained in the *Victorian Child Death Review Committee's Annual Report of Inquiries into Child Deaths - Child Protection 2004*, particularly in relation to practice matters such as premature closure of cases.

Private-for-profit and religious organisations are the main providers of aged residential care services in Victoria, providing 37.1 per cent and 22.4 per cent of places respectively. The Victorian Government provides 15 per cent of residential places compared to the national average of 6.7 per cent of places provided directly by state governments. The Victorian Government is also a significant provider of services, especially in rural Victoria. This means that the state budget carries higher aged care costs than other Australian jurisdictions. Although Victoria has a higher share of places provided by the Government than other states, it also has the lowest number of operational aged care beds (except for the Australian Capital Territory) per thousand people aged 70 and over. Funding per capita for residential and community care in 2002-03 was \$2,863 or approximately \$166 below the national average of \$3,029.

Evidence was given to the Committee that in 2003-04, people in need of a place in an aged care facility occupied an estimated 192,000 bed days in public hospitals, at an estimated cost of up to \$140 million.

Although the most recent Commonwealth budget includes funding for 6,555 new aged care places over three years, the Minister for Aged Care advised the Committee of ongoing concerns about the long-term sustainability of aged care funding in Victoria. The Minister indicated that concerns about the viability of investment in nursing homes under the Commonwealth's current structural and financial arrangements were

contributing to delays in providing new aged care facilities, as were delays in planning approvals (particularly in regional areas of Victoria). A recent national review of pricing arrangements for residential aged care facilities made several recommendations about the Commonwealth strengthening the financial viability of the aged care system.

The Committee noted that extra funding of \$40 million has been made available in 2004-05 by redirecting payments made by the Office of Housing to the Consolidated Fund to repay debt. This funding will provide 270 homes for lower-income Victorians.

Chapter 8: Department of Infrastructure

The Department of Infrastructure's budget allocation for 2004-05 is \$3,062.9 million. This is a \$48.1 million (or 1.5 per cent) decrease on the expected outcome for 2003-04.

The Minister for Transport told the Committee that the Victorian Government considers Victoria does not receive a fair share of road funding from the Commonwealth Government. Victorian motorists pay 25 per cent of fuel taxes collected nationally, but Victoria only receives 15 per cent of total Federal Government road funding.

The Committee noted that the Commonwealth's recently released AusLink land and transport plan provides funding for the Geelong Bypass, the Calder Highway, the Deer Park Bypass and the Leakes Road interchange. Victoria's share of funding for the proposed AusLink national network includes \$421.5 million allocated over the next five years towards the Scoresby Freeway, as long as the Victorian Government reverses its decision to impose tolls. This is in addition to \$23.5 million already contributed by the Commonwealth for pre-construction works.

The Committee understands the Victorian Government is continuing to negotiate with the Commonwealth to secure more national road funding for Victoria.

The Government's Regional Fast Rail Project, announced in September 2000, aims to provide high quality and faster rail services between Melbourne and Ballarat, Bendigo, Geelong and the Latrobe Valley. The Committee noted that the estimated total construction costs were currently \$616.8 million. Thirty-eight new trains will progressively come into service from mid 2005 and will be able to travel at up to 160km/hour.

The Minister for Transport assured the Committee that the Government will not meet any claims for delays caused by contractors to the Regional Fast Rail Project, and also advised that as at 31 May 2004, \$29 million (excluding GST) had been certified to pay contractors for approved claims and variations. The Minister would not, however, disclose the nature and amount of claims for delays lodged by two contractors on the

grounds that this information was commercial in confidence and that disclosure could compromise the Government's negotiations.

The Committee wanted to know why offsetting savings of \$25.2 million in relation to the Regional Fast Rail Project would now, according to the 2004-05 Budget Papers, not be realised. The Minister for Transport advised that the National Express Group was originally expected to upgrade the tracks before services started. However, the company withdrew from Victorian rail operations in December 2002 and the upgrading work was not undertaken. Consequently, the Government had to include provision for \$25.2 million in the budget for this unexpected development.

The 2004-05 Budget includes the provision of \$1.1 billion over five years commencing 2003-04 to 2007-08 (\$245.6 million for 2003-04 and \$225.2 million in 2004-05) for the additional costs of the new rail partnerships with Connex and Yarra Trams for the operation of Melbourne's suburban train and tram networks. The Government advised that, in contrast to previous unsustainable contracts that resulted in the withdrawal of National Express from its franchises in December 2002, these agreements use more conservative passenger growth and cost assumptions.

The Government did not conduct a competitive tendering process before deciding to enter into the partnership arrangements with Connex and Yarra Trams in February 2004. The Committee understands that the Auditor-General is reviewing the management of aspects of the public transport franchising arrangements. The Committee intends to review aspects of the new rail partnerships as part of its report on the 2003-04 budget outcomes.

The Committee also inquired about why the expected cost for country/interstate rail was over budget by \$28.9 million in 2003-04 (\$162.8 million, compared to a target of \$133.9 million). The Minister for Transport advised the Committee that, of the three passenger services formerly operated by National Express, V/Line was losing the most amount of money during that period. The Minister advised that the extra funds were needed to meet the costs of providing the country/interstate rail services.

The Government's Telecommunications Purchasing and Management Strategy (TPAMS) was developed in 2002-03. While projects under this strategy are on schedule to be delivered within the initial budget of \$47.7 million, they will not be completed until 2005-06 (originally 2003-04). This is because the consultation, design, specification, tendering and negotiating processes were more complex than expected.

The Minister for Information and Communication Technology advised the Committee that broadband services are too expensive, and were not available for many Victorians in regional and rural areas. Most unmet demand for broadband services is predicted to increase rapidly from 36,120 (18,835 households and 17,285 businesses) in 2003 to 68,762 by 2007. It is expected that unmet demand in the more remote areas will continue to rise until 2008. The Minister advised the Committee of several initiatives to meet demand for broadband services.

Chapter 9: Department of Innovation, Industry and Regional Development

The budget allocation for the Department of Innovation, Industry and Regional Development for 2004-05 was \$349 million. This is a \$47.3 million (or 11.9 per cent) decrease on the expected outcome for 2003-04. This decrease is largely due to the decision to align Science, Technology and Innovation (STI) grants payments to the budget estimates from which they are payable.

In 2004-05 about \$52 million (as at 31 May 2004) will be carried over for the Innovation portfolio from 2003-04. Most of this is grant monies and funds to be released after specified milestones are met. An estimated \$21.5 million will be carried over for the State and Regional Development portfolio and will be applied mainly to trade fairs and missions, the Agenda for New Manufacturing Initiative and the Bushfire Recovery Program. About \$1.3 million will be carried over for the Small Business portfolio.

The budget allocation for the Small Business portfolio for 2004-05 was \$14.6 million. This is a large (75.9 per cent) increase on the expected outcome for 2003-04. Despite this substantial increase, there are no new performance measures for the Small Business portfolio and 14 measures included in the 2003-04 Budget Papers have lapsed.

There are few performance measures to assess the success or quality of manufacturing and export activities. Mostly, they record whether or not activities have occurred. The department advised that the nature of export programs is such that quantitative results often take time to be achieved. The results are obtained by follow-up surveys.

Between August 1999 and May 2004, the number of Victorians employed in manufacturing industries increased by 14,000 to 341,400. This occurred despite increasing competitive pressures from tariff cuts and globalisation. To minimise future skill shortages in manufacturing industries, the department implemented the Careers in Manufacturing Strategy and intends to establish a Manufacturing Skills and Training Taskforce.

In 2004-05 the Financial Services Industry portfolio will implement *Investing in Victoria's Future*, an action plan for the financial services industry. Despite introducing a range of new initiatives for the financial services industry, the department developed only two new performance measures. The Committee noted that the 2004-05 Budget Papers do not contain details of the funding for most of the initiatives.

The Government expects the proposed Melbourne Convention Centre to attract international and domestic conventions to Melbourne and result in delegate spending of \$3.3 billion over 25 years (which will increase Gross State Product by \$5 billion over 25 years). The total construction cost of the main convention centre buildings is

expected to be \$367 million, and \$24 million is expected to be spent in 2004-05. The City of Melbourne is expected to make a \$43 million contribution to the project, which is planned to be undertaken as a public private partnership project under Partnerships Victoria. Expressions of interest will be called for in late 2004, with the centre due for completion by 2008.

The new low cost Qantas owned domestic airline Jetstar commenced flights from Avalon Airport near Geelong in May 2004. The Government expects that 1,000 Victorians will be employed directly by Jetstar in the next few years and about 3,000 jobs indirectly created. The Government is not financially supporting Avalon Airport but Tourism Victoria has provided outdoor signage welcoming visitors to Victoria. Tourism Victoria and Jetstar have a joint marketing plan to increase tourist visits to Melbourne, Geelong and the Great Ocean Road through flights into Avalon Airport. A Jetstar Tourism Task Force has been established with representatives of Tourism Victoria, Jetstar, Geelong Otway Tourism and the City of Geelong.

Chapter 10: Department of Justice

The budget allocation for the Department of Justice in 2004-05 is \$2,409.4 million. This is an increase of \$210.2 million (or 9.6 per cent) from the expected outcome for 2003-04. Almost 50 per cent of the additional funding is for Victoria Police to implement its five year strategic plan.

The department's 2004-05 Budget includes \$8.5 million carried over from the previous year. Of this, the largest single item is \$2.5 million for the Home Detention Program. Other funding carried over includes delayed payments of \$1.6 million for the Integrated Courts Management System, \$950,000 to develop the asset confiscation computer system, \$440,000 to implement amendments to the Confiscation Act and \$600,000 to implement the Wotjabaluk native title agreement.

Expenditure on capital projects in 2004-05 is expected to result in a \$292.6 million increase in the value of net assets controlled by the Department of Justice. The major asset investment projects currently being managed by the department are the Prison Expansion Program, the new metropolitan mobile radio network for emergency services and the construction and upgrade of courts and police stations.

When preparing the 2004-05 estimates, the department forecasts changes to demand for its services, feedback from community surveys, new policy implementation requirements and funding for new programs. The department expects 9 per cent more calls for assistance with personal and public safety matters, 4.9 per cent more early offenders moved away from the criminal justice system into counselling programs, 7.4 per cent more matters heard by the Children's Court and 6.1 per cent more infringements processed by the PERIN court.

In 2004-05 the number of staff employed by the Department of Justice is expected to increase by more than 570 with over 400 new staff expected to be employed at two new prisons. Victoria Police expects that the number of sworn police officers

(including police recruits) will increase by 205 during 2004-05. To meet the Government's target of 10,900 sworn police officers by November 2006, Victoria Police will need to employ a further 192 sworn officers.

The Attorney-General recently released the department's ten year strategic plan to modernise the legal system. The plan includes a work program for the next five years. When fully implemented, the Attorney-General expects that the changes foreshadowed in the plan will greatly improve the efficiency and effectiveness of Victoria's legal and courts systems.

Current legislation does not authorise the Auditor-General to audit the administrative and financial systems and processes of the Courts. For some time, the Department of Treasury and Finance and the Auditor-General's Office have supported the development of a protocol with the Courts to enable the Auditor-General restricted access. A final protocol has yet to be adopted and the matter is being considered by the Courts Consultative Council. The Committee believes that this matter needs to be finalised.

The annual reports of the Courts are usually made public later than those of other public sector agencies, which are subject to different reporting arrangements. Improving the timeliness of the Courts' annual reporting will enhance the transparency and accountability of their administrative and financial operations.

Since the release of the 2004-05 Budget, the Government has provided further funding to the Office of Public Prosecutions of \$3.5 million for the next three years (an increase of 13.2 per cent). This is to implement an asset confiscation regime and to meet increased workloads as a result of investigations by Victoria Police into organised crime. In October 2004, the Premier announced a further \$6.64 million for the Office of Public Prosecutions to support major criminal trials.

Victoria Police has extended its current information technology outsourcing contract so that its information technology needs are met while the new contract is re-tendered. The Department of Justice and Victoria Police have strengthened their governance arrangements to oversight the tender. The department has also assured the Committee that its project plan for the re-tendering has a contingency in relation to timing so that any necessary transitional arrangements can take place before the contract extension expires in February 2005.

An estimated \$194 million in revenue was foregone in 2003-04, due to issues with fixed road safety cameras. An estimated \$20.2 million will be foregone in 2004-05. Measures taken to restore public confidence in speed cameras, include bringing together previously fragmented responsibilities for speed camera operations and progressively implementing a system that provides a second camera image. This allows the first camera reading to be verified.

In January 2004 Victoria Police launched its five year strategic plan, for which the 2004-05 Budget allocated an extra \$112.2 million over four years. The plan sets the

following four performance measures and, in some cases, targets for Victoria Police over the life of the plan:

- reduce crime by 5 per cent over the period;
- reduce the road toll and the incidence of road trauma in line with the Government's *arrive alive!* 2002-2007 road safety strategy;
- increase levels of community perceptions of safety; and
- increase levels of customer satisfaction.

The Committee noted that the plan does not include targets for levels of community perceptions of safety and customer satisfaction. Nor are these targets set in Victoria Police's 2004-05 business plan. As a result, it will be difficult to assess Victoria Police's performance against these measures.

Extra funding of \$14.4 million over four years has been provided to the Victoria Police Forensic Department. This is to employ an additional 46 staff over the next two years to meet increased demand for deoxyribo nucleic acid (DNA) testing. Their work should assist the justice system by producing better evidence to solve crimes and reducing delays to court proceedings.

Prisoner rehabilitation programs appear to have had positive effects in recent years. The number of people re-entering the corrections or community corrections system within two years of being released has declined over the past two years, after having risen in the three years to 2000-01.

The Department of Justice is currently managing two new prison projects. The prisons are being financed, designed and constructed by the private sector and maintained for 25 years. The net present value of the two facilities is \$275 million, with the department to pay a monthly service charge which will commence on commercial acceptance of the prisons. The estimated service charge in 2006-07 (the full first year in which both prisons will operate) is expected to be \$25.8 million.

Efforts by Consumer Affairs Victoria to increase awareness and protection of consumer rights for Indigenous Victorians have significantly increased the number of contacts between Indigenous consumers and Consumer Affairs Victoria. Consumer Affairs Victoria has conducted education and information activities, and its Indigenous Consumers Unit is working with other agencies to improve services for Indigenous Victorians.

In implementing the new service delivery model for consumer services, the Committee believes that it is important for Consumer Affairs Victoria to develop performance information to evaluate the system and identify areas for improvement. The Committee believes that this should cover issues relating to the accessibility of services and the quality of information (including accuracy, service standards and relevance) provided to consumers, especially those considered to be vulnerable. Such

an evaluation should also consider community satisfaction with the manner and quality of information delivered under the new model.

The Australian racing industry has grown to be heavily dependent on revenue from off-course totalizator wagering, with an estimated more than 70 per cent of its total revenue derived from wagering. The ongoing integrity and viability of the racing industry in Victoria is under threat from off shore and cross border betting activities. Without a unified national approach, it will be very difficult to control.

Chapter 11: Department of Premier and Cabinet

The budget allocation for the Department of Premier and Cabinet for 2004-05 is \$432.3 million. This is a \$39.6 million or a 10.1 per cent increase on the expected outcome for 2003-04. Most of the increase relates to: the Arts portfolio; the establishment in 2004 of the Office of Information and Communication Technology; and additional resources for the Office of the Ombudsman.

The department has carried over \$41 million from 2003-04 representing \$35.4 million for net asset additions due to the State Library Redevelopment Project and \$5.6 million for goods and services.

New arrangements for whole of government oversight of Information and Communication Technology (ICT) have been established. A Cabinet Sub-Committee has been created to increase the emphasis on ICT, and the Office of Information and Communication Technology has been created within the department to implement the Government's Standard Corporate ICT Infrastructure Strategy. The Committee considers that performance measures are needed to measure and report on potential savings under the strategy. As a high priority, guidance standards for project design and management of ICT systems development are needed to avoid a repetition of problems recently experienced by some public sector IT projects.

Visits to the state's cultural facilities have been increasing since 2002-03 with visitor targets for 2004-05 estimated at \$8.9 million. The 2004-05 Budget provides \$7.7 million over two years to develop patronage across the state.

Revised arrangements have been developed for executive remuneration. Reporting by departments in their annual reports of outcomes of executive remuneration reviews should ensure revised arrangements are being met. The Committee believes that a review of processes used by departments to assess exceptional or substantial performance as the basis of payment of executive performance bonuses is needed to ensure fairness and consistency across departments.

The Committee noted that \$35.5 million was provided over four years in the 2004-05 Budget to implement initiatives associated with the Government's arts policy released in May 2003. Comprehensive performance reporting is needed to ensure accountability and transparency of expenditures under this policy.

Chapter 12: Department of Primary Industries

The Department of Primary Industries budget allocation in 2004-05 is \$342.9 million, representing a \$900,000 or 0.3 per cent decrease from the revised 2003-04 budget allocation. The 2004-05 Budget includes carry over funding of \$30.3 million to meet contractual obligations, initiatives commenced later than expected in 2003-04 and capital projects.

The department's internal audit reviewed its performance measurement processes in 2003 and found that 98 per cent of the 67 performance measures reviewed had appropriate collection systems. The Committee considers that the process of utilising internal audit to provide an assurance that the department had appropriate processes and systems to collect and report performance information to major stakeholders had scope for wider application throughout budget sector agencies.

During the estimates hearing the Committee was interested in discussing with the Minister for Agriculture the organisational arrangements and funding for managing the department's research and development function. The Committee was advised that Primary Industries Research Victoria, a division within the department, draws together the majority of the department's scientific research and development capability. Funding is provided by a variety of sources comprising the State Government, rural industry research corporations that include a Commonwealth component and industry and commercial sources. Total research project funding in 2003-04 amounted to \$122 million, with the State Government contributing \$61.7 million.

An area of particular interest to the Committee, not only with regard to agriculture but also across other budget sector agencies, related to the development of intellectual property from commercial activities and the processes in place to ensure the state's interests were maximised. The Committee learnt that returns on intellectual property generated by the department covered items such as the growing of canola, whereby 70 per cent of canola varieties grown in Australia were bred by the department. In comparison with total research funding of \$122 million, the Committee believes there is scope for the department to expand its commercial operations given that royalty income, generated on behalf of the department and joint equity holders from patents and plant breeders rights for 2002-03 and 2003-04, amounted to only \$1.81 million and \$1.78 million respectively.

Given the diverse range of projects and magnitude of funds involved in the department's agricultural research program, the Committee has recommended that an annual research report card be prepared.

The Minister informed the Committee that, in terms of progress achieved in the important area of export development, provided drought recovery continues and the dollar remains stable, the Government believes the target for food and fibre exports of \$12 billion by 2010 is achievable. Initiatives directed at trade development work, regulatory activity, research and development and extension activities will, according to the Minister, provide a framework to make Victorian industries more competitive

and expand export markets. Key activities brought to the Committee's attention, which the Minister indicated were demonstrating successful outcomes, included The International Market Development Program, The Naturally Victorian Initiative, The Opening Doors Export Plan and The Next Generation Food Strategy.

The Committee was advised that, in the event that there is no review of access arrangements, which according to the Minister for Agriculture cannot be guaranteed, Victorian agriculture is likely to be only a modest net beneficiary of the Free Trade Agreement between the United States and Australia and the increase in Gross State Product from agriculture has been recently estimated in economic modelling work for the Commonwealth at \$11.5 million. After the Free Trade Agreement has been in operation for a sufficient period of time, the Committee considers it would be in the state's interest for the Government to conduct and publish an assessment of the Agreement's total impact on all relevant industries, including the Victorian agriculture sector.

The Committee concluded from its enquiries that the audit, administration and reporting framework that applies to the Recreational Fishing Licensing Trust Account is of a high standard and should serve as a model of accountability for other significant trust accounts within the public sector. With a revenue budget of \$4.2 million for 2004-05, strong features of the model include:

- the establishment of a fisheries revenue allocation committee, comprising representative stakeholders, to provide advice to the Minister on the disbursement of funds; and
- tabling in October each year of a report audited by the Auditor-General on the receipts and disbursements from the trust account.

The Committee noted that Victorian exploration in minerals, gas and oil is reaching record levels with approximately \$400 million in exploration undertaken over the past two years and projects to an approximate value of between \$8 billion and \$10 billion to be generated over the next ten years. Up to \$63 million was spent in 2002-03 by the oil and gas industry on goods and services purchased from businesses located in rural Victoria.

During the estimates hearing the Committee became aware that a major challenge for the Resources portfolio is the request by International Power Hazelwood to gain access to an additional 92 million tonnes of new coal deposits. According to articles in the media, negotiations between the Government and Hazelwood have extended over more than a year. The greenhouse gas emission levels to which Hazelwood would have to commit, before approval would be granted by the Government, is the main issue that needs to be resolved between the parties. The Committee understands that the Government is calling for the installation of new technology capable of reducing greenhouse gas emissions by 30 million tonnes of carbon dioxide between 2009 and 2031 in return for a mining permit. The Minister for Resources informed the Committee that the same formula used in the Brown Coal Tender is to be applied in prescribing the emission targets to be met. If an agreement is not reached, existing

coal resources at Hazelwood will be exhausted by 2009 and the Government would have to make decisions regarding alternative power sources. The Committee has recommended that any variations from the requirements of the Brown Coal Tender, enabling the Hazelwood power station to have access to new coal fields, be fully disclosed in the department's annual report.

Chapter 13: Department of Sustainability and Environment

The budget allocation for the Department of Sustainability and Environment for 2004-05 is \$864.1 million. This is a \$97.8 million (or 10.2 per cent) decrease on the expected outcome for 2003-04. The decrease was largely due to variations in carry over funding, finalisation of bushfire recovery funding and completion of the *Our Forests Our Future* and *Pride of Place* initiatives.

The 2004-05 Budget includes \$10.8 million carried over from the previous year. This will be applied to the Victorian Greenhouse Strategy, bushfire recovery activities, the Natural Heritage Trust, the National Action Plan for Salinity and Water Quality Initiatives.

At 30 June 2005, the Department of Sustainability and Environment expects to control assets valued at \$3,627.6 million. This is a predicted increase of 1.4 per cent from the anticipated result in 2003-04 and is attributable mainly to the revaluation of roads.

On 30 June 2005, the department expects to have 2,388 equivalent full-time staff, an increase of 40 (1.7 per cent) for the year. The extra staff will be employed to suppress and manage fires.

The 2003-04 Budget allocated \$1.5 million to develop and implement a Sustainability Strategy. The strategy aims to apply best practice environmental management techniques to the water and energy industries, and to urban development and land management. However, it is unlikely that a draft sustainability strategy will be available for public comment until 30 June 2005. The Committee noted that there are no performance measures in the 2004-05 Budget Papers for the quality or timeliness of this strategy.

The major water reform package, *Our Water, Our Future: Securing Our Water Future Together*, is expected to raise \$225 million over four years through the Water Authorities. The Government has announced it will use these funds for water conservation and to maintain and upgrade water infrastructure.

In 2003, the Government announced funding of \$10 million over four years to provide rebates to households that are 'water smart' in their gardens and homes. The Water Smart Gardens and Home Rebate Scheme encourages Victorians to buy water saving appliances. The Committee noted the take-up had resulted in an estimated total water saving of 772 megalitres a year.

The department is working with the Department of Primary Industries and Department of Human Services on initiatives to reduce the impact of the drought on farms, businesses, industries and households.

With regard to performance monitoring of Catchment Management Authorities, the Department of Sustainability and Environment advised the Committee that it is difficult to develop performance indicators in the natural resource management sector because objectives are diverse, interconnected and often long-term. However, the department has issued Catchment Management Authorities with guidelines for performance monitoring and the development of performance indicators.

The Government allocated \$3.1 million for *Better Decisions Faster*, which seeks to reduce by up to 50 per cent the time taken for planning decisions to be made. This will fund activities to report regular permit activity, ensure pre-lodgement certification in all councils, reduce referral requirements and respond to pressure on the Planning List by providing additional funds. As the implementation costs of Melbourne 2030 were detailed in documents submitted to Cabinet during the preparation of the strategy, the Minister for Planning advised that these costs are Cabinet-in-Confidence and not available to the Committee. The department did not explain why disclosure of these costs would be harmful to the commercial or other interests of the state, or why disclosure would be contrary to the public interest.

Chapter 14: Department of Treasury and Finance

The budget allocation for the Department of Treasury and Finance in 2004-05 is \$185.7 million. This is a \$10.3 million (or 5.9 per cent) increase on the expected outcome for 2003-04. The increase is largely due to the new Victorian Competition and Efficiency Commission, established in 2004, and to increased costs of services such as strategic policy advice and financial management services.

The department's 2004-05 operating result is forecast to be a deficit of \$7.3 million, compared with a estimated actual deficit for 2003-04 of \$18 million. The improvement in the deficit is mainly due to the reassignment of vehicle leasing depreciation and interest and amortisation costs to user departments under revised vehicle leasing arrangements that were established in February 2004. The department's administered revenues and expenses are substantial, each in excess of \$20 billion. The department's administered liabilities are expected to increase by \$1 billion in 2004-05, following the discontinuation of the smelter reduction amount and the subsequent indemnity provided to the State Electricity Commission of Victoria for liabilities due under electricity supply arrangements with aluminium smelters at Point Henry and Portland.

The relativities recommended by the Commonwealth Grants Commission for the allocation of GST revenue in 2004-05 will result in a subsidy by Victoria to most other states and territories estimated at \$1.73 billion based on estimated GST raised and distributed to each state. As a result of a Victorian Government initiative, some aspects of the methodology used by the Commonwealth Grants Commission to

distribute GST revenue will be reviewed nationally. Anomalies continue to exist regarding the distribution of Special Purpose Payment grants on a per capita basis.

The 2004-05 Budget provided \$1.5 million for training and development to prepare public sector agencies to adopt the Australian equivalents of the International Financial Reporting Standards from 1 January 2005.

The Financial Management Compliance Framework came into effect on 1 July 2003. The framework governs compliance by Victorian public sector agencies with the Minister for Finance's standing directions, to ensure that the Minister's obligations to the Parliament to responsibly manage public resources are adequately discharged. It is expected that a report on the framework's first year of operation will be made by December 2004. Public reporting on the departmental outcomes for compliance with the framework should be undertaken annually in the public interest. Access to the Government's Financial Management Knowledge Centre data base, which stores an electronic copy of the Financial Management Compliance Framework, should be made publicly accessible to allow access by persons interested in the financial management of the state.

Under arrangements revised in 2004, the department's VicFleet unit will assume responsibility for managing all the Government's vehicles. This will centralise fleet management and transfer ownership and associated risks to departments and other vehicle users so they can monitor fleet costs more effectively.

The Victorian WorkCover Authority's external actuary projected that full funding for the scheme will be reached by December 2005. With the 10 per cent reduction in the average premium rate, full funding is projected to be achieved by June 2006.

The Committee was advised that farm related fatalities represent a disproportionately large share of workplace fatalities in Victoria. In the first six months of 2004, the Victorian WorkCover Authority recorded 12 fatalities in the agriculture sector. While action is being taken to attempt to improve farm safety, WorkSafe Victoria performance information needs to be improved so the outcomes of the measures implemented can be assessed.

Chapter 15: Department for Victorian Communities

The budget allocation for the Department for Victorian Communities for 2004-05 is \$441.2 million. This is a \$109.3 million increase (or 32.9 per cent) on the 2003-04 expected outcome. The increase was largely due to higher expenditure on Commonwealth Games related projects.

The 2004-05 Budget includes \$29.6 million of funding for Commonwealth Games projects carried over from the previous year. This funding was for the Athletes' Village (\$8.3 million) and the redevelopment of the Melbourne Sports and Aquatic Centre (\$21.3 million).

At 30 June 2005, the department expects to control assets valued at \$369.3 million, an increase of 10.6 per cent from the anticipated result in 2003-04. This is due to an increase of \$49.7 million in the value of property, plant and equipment, which is partly offset by a decrease of \$12.5 million in the department's holdings of cash and other financial assets.

On 30 June 2005, the department expects to have 625 equivalent full-time staff, an increase of 36 employees (6.1 per cent). Although the number of executive officers increased by five in 2003-04, the department does not expect further increases in the number of these positions in 2004-05.

To improve the administration of grants, the department established a central grants administration unit and developed an electronic grants management system, which also provides public information about grants. Asset initiative funding of \$5.2 million over two years was provided to develop this system. The department believes that by streamlining grants administration, the system will improve productivity by 5 per cent.

In 2003-04, the Jobs for Young People program was underspent by \$2.5 million, because the timing of payments to local governments did not match their budget cycle. As a consequence, the target for this initiative, 275 young people starting apprenticeships or traineeships in 2003-04, was not met with only 175 expected to start in 2003-04.

The Premier has directed that every department report yearly on its cultural diversity, women, youth and Indigenous affairs activities. Reports should include, among other things, a performance assessment based on quantitative and qualitative performance measures. Reporting of activities for young people should align with the themes of the 2002 report *Respect: The Government's Vision for Young People*. In 2004, the Office of Youth issued a whole of government report, *Young Victorians @ the Centre*. Although it was intended to report progress in achieving milestones established in 2002, it did not actually report progress for most milestones.

A whole of government cultural diversity report, *Whole of Government Report, Victorian Office of Multicultural Affairs*, was released in 2004. It consolidated information provided by departments in their annual reports to improve opportunities and services for ethnic communities in 2002-03. However, it contained almost no quantitative information and, as a result, did not allow the reader to assess what had been achieved in the Multicultural Affairs portfolio.

Whole of government reporting for activities for women should be aligned to the four main themes in *Valuing Victoria's Women: Forward Plan 2000-03*. In 2004, the *Gaining Ground for Victoria's Women* report was released. This report sets out the Government's achievements against the plan's commitments, new initiatives not envisaged in the plan, and performance measures. The report addressed most of the performance measures for three of the plan's four themes. Several extra performance measures were also developed and reported against. For most key issues, reporting allowed an adequate assessment of the outcomes achieved.

The Women's Safety Strategy aims to reduce the level and fear of violence against women. The strategy has 53 initiatives. The key mechanisms to implement the strategy are three statewide steering committees that are co-chaired by the Office of Women's Policy and Victoria Police. In 2002, \$5.6 million was allocated to implement the strategy, with \$5 million of this amount to be allocated over three years.

In November 2003, the Premier launched the Action Agenda for Work and Family Balance, a whole of government approach to improve work and family balance. Over two years, the agenda proposes to increase awareness of work and family balance issues; promote the adoption of family friendly work policies and practices in Victorian workplaces; and to work with businesses, employees, unions and the community to encourage innovative policies and practices that help employees reconcile work and family commitments. However, the performance measures for the agenda need to be improved to allow an assessment of outcomes.

The department did not meet its target in 2003-04 to table an annual whole of government report on Indigenous affairs. The first whole of government report on Indigenous affairs was released in October 2002. It summarised the Government's policy initiatives, the challenges ahead and some of the key outcomes experienced by Indigenous people, compared to non-Indigenous people.

The 2004-05 Budget included additional funding of \$8.5 million over four years to build and upgrade libraries in outer metropolitan growth corridors and rural Victoria. Councils will also contribute in some instances. Of the total, \$4.5 million was allocated to the *Living Libraries* initiative to build and upgrade libraries, and \$4 million contributed towards expected increases in costs and population growth.

The department evaluates the economic and social impact of major events, to ensure that the benefits of hosting these events match expectations. However, these evaluations are generally not publicly available, so the Parliament and the community cannot scrutinise the data used or the assumptions made in reaching conclusions about the anticipated economic value and social benefits.

The Commonwealth Games Capital Works Program is being funded by the Department for Victorian Communities and the Department of Infrastructure, as well as other sources. The budget allocation in 2004-05 was \$121.1 million. The department expects that all Commonwealth Games related projects will be completed on time.

RECOMMENDATIONS

The Committee recommends that:

Chapter 2 – Government’s Responses to previous Budget Estimates Reports

Recommendation 1: **The Parliamentary Departments adopt a recruitment policy that is consistent with the requirements applicable to the broader Victorian public service.**

Page 93

Recommendation 2: **The Department of Education and Training clarify the accountability arrangements of the Minister for Education and Training and the Minister for Education Services for outputs in the Department of Education and Training, including defining ‘overall responsibility’ for the education and training portfolio.**

Page 95

Recommendation 3: **The Department of Education and Training provide a consolidated statement in its annual report of expenditure on school capital projects and maintenance programs that separately identifies budgeted and actual expenditure directed to the construction of new schools, upgrades, modernisation and maintenance programs.**

Page 96

Recommendation 4: **The Department of Education and Training include in the Training and Further Education output an additional quality performance measure relating to the percentage of apprentices/trainees that qualify for the completion bonus.**

Page 97

Recommendation 5: **The Department of Innovation, Industry and Regional Development include in its annual report a statement that identifies the allocation of responsibility for outputs with a shared ministerial responsibility.**

Page 99

Recommendation 6: **The Victorian Government Purchasing Board include in the revised guidelines for the disclosure of information on the contracts publishing system the requirement that summary information on the key performance indicators on which contract payments are based, be disclosed.**

Page 101

Recommendation 7: **The Department of Human Services examine the information that is available from the new monitoring system for public housing maintenance and develop appropriate performance measures to assess the timeliness and quality of works undertaken by the Office of Housing.**

Page 106

Recommendation 8: **The Department for Victorian Communities develop and report performance measures that reflect its efforts to improve the quality and timeliness of local government financial and performance reports to auditors.**

Page 108

Recommendation 9: **The Department of Sustainability and Environment ensure that its annual report contains appropriate information on the outcomes achieved from funds allocated to the operations of the Joint Government Enterprise, in a manner that will complement existing reporting arrangements for this organisation.**

Page 110

Recommendation 10: In their annual reports, the Transport Accident Commission and the Victorian WorkCover Authority make clear links between expectations of performance, as expressed in planning documents, and actual performance.

Page 113

Chapter 3 – Budget Overview

Recommendation 11: The Government include in the Budget Papers a table summarising fixed asset purchases by departments.

Page 134

Recommendation 12: The Department of Treasury and Finance publish as soon as possible, and prior to the first use of international financial reporting standards in budget papers or annual reports, estimates of the effects of those standards on budget sector estimates and outcomes.

Page 137

Chapter 4 – Review of the Budget Papers

Recommendation 13: The Treasurer table in the Parliament an erratum slip notifying any changes to the information contained in the Budget Papers and provide a copy to the Public Accounts and Estimates Committee.

Page 140

Recommendation 14: The Department of Treasury and Finance include a Budget guide in future Budget Papers.

Page 145

Recommendation 15: The Department of Treasury and Finance direct all departments to explain the discontinuation of outputs and performance measures as detailed in Budget Paper No. 3 *Service Delivery*.

Page 145

Recommendation 16: **The Department of Treasury and Finance require each department to include a narrative on the following issues in the departmental output statements, including:**

- (a) a summary of the departmental objectives linked to the Government's outcomes;**
- (b) the key factors which influenced the formulation of the departmental budget; and**
- (c) the department's key priorities for the budget year.**

Page 150

Recommendation 17: **The Department of Treasury and Finance require each department to include in the departmental output statements, information on the relevant ministerial portfolios for each department.**

Page 152

Recommendation 18: **The Department of Treasury and Finance require each department to indicate in the departmental output statements, the Minister responsible for each of the department's outputs.**

Page 152

Recommendation 19: **The Department of Treasury and Finance require each department to include in the departmental output statements, an output group summary table.**

Page 153

Recommendation 20: **The Department of Treasury and Finance include in the departmental output statements for each department, comprehensive explanations for significant variances in performance measures and targets, along with any major changes in output costs.**

Page 154

Recommendation 21: The Department of Treasury and Finance require each department to include in the commentary in the departmental financial statements section of Budget Paper No. 4 *Statement of Finances*, a list of agencies that were included in the departmental financial statements along with their contribution to departmental outputs.

Page 155

Chapter 5 – Parliamentary Departments

Recommendation 22: The Parliamentary Departments develop a safety management plan linked to the occupational health and safety objectives of their corporate plan.

Page 160

Recommendation 23: The Presiding Officers ensure that the funding approved for carry over for the output group Parliamentary Investigatory Committees also be applied towards the cost of inquiries that were not completed within a financial year and consequently have to report at a later stage.

Page 169

Recommendation 24: The autonomy of the Parliamentary Library be retained under the Department of Parliamentary Services and that a protocol formalising this independence be signed by the Presiding Officers.

Page 175

Recommendation 25: The autonomy of the Parliamentary Library be reinforced through amendments to the terms of reference for the Library Committee.

Page 175

Recommendation 26: The resources and services to be provided to the Parliamentary Library in the amalgamated department be specified in an annual agreement between the Secretary of the Department of the Parliamentary Services and the Parliamentary Librarian, and approved by the Presiding Officers following consideration by the Library Committee.

Page 175

Recommendation 27: The Parliamentary Library and Parliamentary Debates continue to produce detailed information for inclusion in the annual report of the Department of Parliamentary Services in order that Members of Parliament can determine whether business plans and performance measures are achieved.

Page 176

Recommendation 28: The Parliamentary Library and Parliamentary Debates continue to produce detailed information for inclusion in the annual business plan.

Page 176

Recommendation 29: The Presiding Officers provide an opportunity for all Members of Parliament to be consulted on proposed changes to the *Parliamentary Officers Act 1975*.

Page 177

Recommendation 30: The Presiding Officers establish Steering Committees to guide future research projects to ensure that the Parliament receives value for money from these projects.

Page 178

Recommendation 31: **The Presiding Officers make representations to the Government for additional funding to enable the implementation of the Auditor-General’s outstanding recommendations relating to the Parliament’s information technology upgrade (Parlynet 2).**

Page 179

Chapter 6 – Department of Education and Training

Recommendation 32: **The Department of Education and Training include in the Budget Papers and its annual report the amount of funding separately allocated to:**

(a) primary schools; and
(b) secondary schools.

Page 185

Recommendation 33: **The Department of Education and Training develop a centralised human resources management system that records the employment and cost of casual staff and identifies trends.**

Page 193

Recommendation 34: **The Department of Education and Training address all outstanding issues identified in the department’s 2002 business case for upgrading the human resources management system.**

Page 195

Recommendation 35: **The Department of Education and Training work with other education bodies in Victoria and other states and territories to develop and publish national benchmarks for numeracy and literacy for secondary school year levels.**

Page 199

- Recommendation 36:** **The Department of Education and Training:**
- (a) provide an estimate of the cost of unmet maintenance needs in government schools in its annual report; and**
 - (b) develop appropriate transition arrangements to ensure that schools previously identified as having urgent maintenance needs under the previous funding model are not disadvantaged under the new maintenance arrangements.**

Page 201

- Recommendation 37:** **The Department of Education and Training include in its annual report details of the method used to calculate the savings in maintenance derived by expending funds on capital works.**

Page 202

- Recommendation 38:** **With respect to the allocation of school capital funding, the Department of Education and Training include the following information in its annual report:**

- (a) the method used by regional offices to establish the priority list of schools in their region;**
- (b) the process used by the department in determining the merits of each school's capital needs based on the regional lists; and**
- (c) the amount of capital allocation for each school.**

Page 202

- Recommendation 39:** **The Department of Education and Training publish in its annual report:**
- (a) the method used to calculate the administrative charge on trust accounts;**
 - (b) the aggregate administrative charges levied on departmental trust accounts; and**
 - (c) the balance of funds held in trust accounts at the end of the financial year.**
- Page 205*
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- Recommendation 40:** **The Department of Education and Training ensure the training programs and support to be provided to schools in readiness for the new resource allocation model (Student Resource Package) are evaluated after the first full year of implementation in order to determine their effectiveness.**
- Page 206*
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- Recommendation 41:** **In relation to the new student relationship management information system, the Department of Education and Training ensure that:**
- (a) adequate funding for the pilot and subsequent evaluation is provided to allow key objectives of the system to be tested; and**
 - (b) privacy issues with respect to individual student’s information are adequately addressed.**
- Page 207*
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- Recommendation 42:** **The Department of Education and Training collect, analyse and report in the Budget Papers, indicators of employer satisfaction with the training and education courses provided by the Vocational Education and Training sector.**
- Page 210*

Recommendation 43: **The Department of Education and Training include in its annual report an assessment of its performance in improving employer satisfaction with Vocational Education and Training outcomes comparative to other states.**

Page 210

Recommendation 44: **The Department of Education and Training urge the Commonwealth Government to review the allocation mechanism for university funding in an attempt to achieve a more equitable national approach to education.**

Page 212

Recommendation 45: **With respect to any change in definition of performance measures from one budget year to the next, the Department of Education and Training identify any changes in the Budget Papers so that meaningful year-on-year comparisons of performance indicators can be made.**

Page 214

Chapter 7 – Department of Human Services

Recommendation 46: **The Department of Treasury and Finance provide guidance to the Department of Human Services' major portfolio agencies with developing a more comprehensive reporting framework that allows for consistent reporting of occupational health and safety outcomes by each agency.**

Page 235

Recommendation 47: **The Department of Human Services continue to monitor the effectiveness of the Hospital Demand Management Strategy, in conjunction with research into further options to meet the demand for services in public hospitals.**

Page 250

Recommendation 48: **The Department of Human Services ensure that a sufficient number of health professionals are recruited into the public health system to complement the initiatives introduced to address the demand pressures.**

Page 250

Recommendation 49: **To enable an informed assessment to be made of the quality of health services delivered by Victoria’s public hospital system, that can also be further utilised for budget deliberations, the range of performance measures contained in the Budget Papers be expanded to include areas currently reported by individual public health services such as infection control, medication errors, falls and pressure wound prevention and management and continuity of care.**

Page 251

Recommendation 50: **The Department of Human Services:**

- (a) develop performance measures and targets to assess the effectiveness of the hospital sustainability initiatives. This performance information should be based on key financial indicators that relate to operating results, net cash flows and the working capital position of hospitals at year end.**
- (b) undertake a sector-wide analysis of this information and include details in the department’s annual report, along with a commentary on the measures taken to address emerging financial shortfalls.**

Page 253

Recommendation 51: **The Department of Human Services monitor the ongoing adequacy of funding for paediatric services to ensure that funding provided under the case-mix formula remains equitable in comparison to the actual costs incurred.**

Page 256

Recommendation 52: In terms of workforce planning, the Department of Human Services ensure that effective arrangements are in place for planning and managing the supply of, and demand for, public dentists and associated support staff in order that services are provided where they are most needed.
Page 259

Recommendation 53: The Department of Human Services, in conjunction with the Department for Victorian Communities, develop more appropriate performance measures to monitor the effectiveness of obesity and diabetes prevention strategies.
Page 261

Recommendation 54: The Department of Human Services:

- (a) in relation to people with disabilities develop a strategy to specifically address the increasing backlog of unmet critical need for home and community based living options; and
- (b) give consideration to:
 - (i) creating incentives for a greater involvement by the non-government sector in service provision;
 - (ii) investigating innovative home living options to provide alternative housing; and
 - (iii) actively seeking further funding from the Commonwealth Government for residential disability care in order to alleviate waiting times.

Page 269

Recommendation 55:

The Department of Human Services:

- (a) expand the performance measures in the Budget Papers that relate to accommodation support services provided to groups of clients in community based settings to reflect, not only the quantity of clients in shared supported accommodation, but also the wider choices and support provided under the accommodation umbrella; and**
- (b) give consideration to developing a performance measure linked to waiting times for urgent supported accommodation of a critical nature.**

Page 270

Recommendation 56:

- (a) The 2005-06 Budget Papers disclose summary details of the operations of the Disability Housing Trust, the apportionment to capital over the next three years and financial details concerning partnership arrangements between Government and the non-government and private sectors outlining funding allocations, obligations and returns on investment; and**
- (b) The Department of Human Services' 2004-05 annual report disclose full particulars of the Disability Housing Trust, including, when fully operational, the effectiveness of the Disability Housing Trust in reducing the number of individuals with a disability recorded in the Service Needs Register as in urgent need of supported accommodation.**

Page 271

- Recommendation 57:** **With regard to the implementation of the Companion Card Program for people with a disability, the Department of Human Services:**
- (a) encourage more organisations to become involved in the program e.g. across local government bodies and tourism organisations; and**
 - (b) acknowledge the participation of those bodies involved in the program in its annual report.**
- Page 272*
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- Recommendation 58:** **To enable effective monitoring of expenditure from the Community Services Investment Fund, information concerning the activities of the Fund be disclosed in the annual report of the Department of Human Services.**
- Page 273*
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- Recommendation 59:** **The Department of Human Services continue to monitor, and evaluate after 12 months operation, the effectiveness of key funding initiatives announced in the 2004-05 Budget dealing with child protection and placement.**
- Page 274*
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- Recommendation 60:** **The Department of Human Services keep under review the risk factors and outcomes of those cases where investigations into child protection services have not commenced within 14 calendar days of notification and were subsequently substantiated.**
- Page 276*
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- Recommendation 61:** **The Department of Human Services take steps to address the recommendations contained in the Victorian Child Death Review Committee's *Annual Report of Inquiries into Child Deaths - Child Protection 2004*.**
- Page 278*

- Recommendation 62:** **The Department of Human Services continuously monitor the evaluative frameworks to measure the effectiveness of initiatives designed to support those children in care with disturbing and very challenging behaviours.**
Page 279
- Recommendation 63:** **The Department of Human Services develop performance indicators to measure the affect of problem gambling on communities and to assess the extent of the gambling burden across different socio-economic groups and include this information in its annual report.**
Page 280
- Recommendation 64:** **The Department of Human Services review the performance measures for the Small Rural Services output group to ensure that they provide a more balanced assessment of service delivery, including quality and timeliness of aged care services in small rural towns.**
Page 284
- Recommendation 65:** **The Department of Human Services include additional performance information alongside existing measures in the Budget Papers and in its annual report to supplement the use of ‘service units’ to allow for a more comprehensive assessment of the quantity and quality of service delivery.**
Page 286
- Recommendation 66:** **The Victorian Government bring to the attention of the Commonwealth Government the need for a renegotiated Home and Community Care Agreement to recognise the growth in demand for these services in Victoria and the additional funding above matching requirements, made by the State Government in recent years.**
Page 288

Recommendation 67: **The Department for Victorian Communities develop clearly defined performance measures to track progress against the objectives of the Positive Ageing Strategy and report against these performance measures in its annual report.**

Page 289

Recommendation 68: **Given the increased need and use of residential care for aged and frail people, the projected growth in that population and the considerable delay between approvals and building completion of aged care facilities, the Department of Human Services and the Victorian Property Group:**

- (a) assist with identifying and facilitating the sale of State Government sites that are suitable for residential aged care development;**
- (b) encourage the building of aged care facilities that cater for high and lower levels of need and respite care for people with challenging behaviour;**
- (c) collect data on the characteristics of the population choosing residential care, particularly related to choice of location, financial contribution and length of stay to assist with long-term planning for these facilities;**
- (d) regularly review the status of licences allocated in Victoria and bring to the attention of the Commonwealth Department of Health and Ageing circumstances where there do not appear to be legitimate reasons for delays in the construction of new aged care facilities within the two year period; and**
- (e) continue to make representations to the Commonwealth Government about the need for funding arrangements that will provide for on-going financial viability for existing and prospective aged care facility operators in Victoria.**

Page 294

Recommendation 69: **The Department of Human Services disclose the costs associated with the Home Ownership and Renovation Assistance output in its annual report.**
Page 298

Recommendation 70: **The Department of Treasury and Finance improve the transparency of arrangements relating to the repayment of advances by detailing a schedule of budgeted repayments by the Office of Housing over the period of the forward estimates.**
Page 303

Recommendation 71: **The Department of Human Services develop a detailed reporting framework for inclusion in its annual report that includes capital expenditure and public housing acquisitions for the previous financial year, as well as expected movements over the forward estimates period.**
Page 306

Chapter 8 – Department of Infrastructure

Recommendation 72: **The Department of Infrastructure develop a performance measure relating to customer satisfaction with country bus services and report this information in the Budget Papers.**
Page 324

Recommendation 73: **The Department of Infrastructure investigate the reasons for the delays to the Regional Fast Rail Project with a view to minimising the extent of any future contractor claims involving additional costs, which may be attributed to delays beyond the control of contractors.**
Page 329

Recommendation 74: **The Government ensure that the level of subsidy provided to V/Line is based on sound costing structures and realistic estimates of growth in patronage.**
Page 334

- Recommendation 75:** **The Department of Infrastructure ensure that future major projects involving complex environmental considerations take into account the time involved in undertaking Environmental Effects Statements.**
- Page 336*
- Recommendation 76:** **In order for the economic benefits from the channel deepening project for the Port of Melbourne to materialise in a timely manner, the Government give this project a high priority and resolve the outstanding funding arrangements as soon as practicable.**
- Page 336*
- Recommendation 77:** **The Department of Infrastructure ensure that performance measures contained in the Budget Papers to supplement project end dates, which relate to the percentage completion of projects, specify on what basis completion is being assessed.**
- Page 339*
- Recommendation 78:** **The Department of Infrastructure keep under review the project management skills of staff, supplemented with appropriate training where required, in order to ensure the state's major capital projects are delivered on time, to an appropriate standard and within budget.**
- Page 342*
- Recommendation 79:** **The Department of Infrastructure publish in its annual report a consolidated summary of expenditure of TPAMS' funds incurred by departments for the upgrade of local area networks.**
- Page 352*

Recommendation 80: The Government keep under review the level of unmet demand for broadband services, especially in the more remote areas of Victoria, in order to assess the effectiveness of the initiatives introduced by the Department of Infrastructure to address this on-going issue.

Page 354

Recommendation 81: The Department of Infrastructure, in conjunction with co-investors, develop a monitoring regime to assess the effectiveness of the Centre for Energy and Greenhouse Technologies, in terms of:

- (a) developing new sustainable energy and greenhouse gas reduction technologies; and
- (b) generating commercial returns by meeting the growing and global demand for these technologies.

Page 359

Recommendation 82: That the Department of Infrastructure give priority to ensuring that:

- (a) the continued supply of energy provided by the electricity, gas and liquid fuel industries is adequately safeguarded; and
- (b) the identification of critical energy infrastructure to be declared under the *Terrorism (Community Protection) Act 2003* and the development of risk management plans are finalised as soon as possible.

Page 361

Chapter 9 – Department of Innovation, Industry and Regional Development

Recommendation 83: The Department of Innovation, Industry and Regional Development review its internal budgeting and business planning processes to ensure that the budget for the Innovation and Policy output group reflects planned expenditure for each financial year.

Page 373

Recommendation 84: The management arrangements between the Department of Innovation, Industry and Regional Development (as the provider of the grants funding) and the grant recipients include provisions which would allow the state to participate in the benefits from the commercialisation of Government funded research activities.

Page 382

Recommendation 85: The Department of Innovation, Industry and Regional Development develop additional performance indicators for the *Make it Happen in Provincial Victoria* (Phase 2) initiative that measures the effectiveness of the:

- (a) marketing campaign in attracting people to provincial Victoria; and
- (b) provincial economic partnerships in increasing economic and investment opportunities in provincial Victoria.

Page 384

Recommendation 86: The Government develop a coordinated strategy to identify the resources and responsibilities of the various components of the public sector that can contribute towards improving the ability of the food industry to become more globally competitive.

Page 387

Recommendation 87: The Department of Innovation, Industry and Regional Development develop appropriate performance measures relating to the 2004-05 budget initiatives or extensions to programs.

Page 390

- Recommendation 88:** **In developing the Victorian Business Master Key Initiative, the Department of Innovation, Industry and Regional Development:**
- (a) consult widely with a range of agencies from all three levels of Government to ensure assistance to small business is seamless; and**
 - (b) include performance targets and milestones so that Government assistance to small business can be monitored and evaluated in the implementation phase.**
- Page 391*
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- Recommendation 89:** **With respect to all major export-oriented programs, the Department of Innovation, Industry and Regional Development develop and publish indicators such as the amount of export growth associated with each program and the number of new exporters.**
- Page 393*
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- Recommendation 90:** **In consultation with interstate industry development agencies, the Department of Innovation, Industry and Regional Development take a lead role and develop performance measures and targets that incorporate national or international benchmarks with respect to their industry development activities.**
- Page 394*
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- Recommendation 91:** **The Department of Innovation, Industry and Regional Development develop performance targets for the Careers in Manufacturing Strategy and evaluate the success of the strategy, after an appropriate time.**
- Page 395*
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- Recommendation 92:** **The Department of Innovation, Industry and Regional Development set timelines for the Manufacturing Skills and Training Taskforce’s activities and report on its achievements.**
- Page 395*

- Recommendation 93:** **The Department of Innovation, Industry and Regional Development in collaboration with the Department of Education and Training:**
- (a) conduct research into trends in apprenticeship numbers;**
 - (b) devise new strategies to promote apprenticeships; and**
 - (c) in light of the research, consider new incentives for employers to employ apprentices.**
- Page 396*
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- Recommendation 94:** **When announcing key initiatives, the Department of Innovation, Industry and Regional Development develop and publish key performance measures for each initiative.**
- Page 398*
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- Recommendation 95:** **Where the Department of Innovation, Industry and Regional Development allocates global funding for initiatives, it should identify in the Budget Papers the costs and timeframe associated with each initiative in order to support the Budget appropriation.**
- Page 399*
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- Recommendation 96:** **The Department of Innovation, Industry and Regional Development and Tourism Victoria develop performance indicators to measure visitor use of, and satisfaction with, tourist facilities and report these in the annual report of Tourism Victoria.**
- Page 402*
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- Recommendation 97:** **The Department of Innovation, Industry and Regional Development ensure that a risk management strategy is developed for the Melbourne Convention Centre Project to make certain that the project is effectively managed and delivered on time and within budget.**
- Page 404*

Recommendation 98: **The Department of Innovation, Industry and Regional Development monitor and report on the impact on tourism in the Geelong and Otway region following the commencement of Jetstar flights at Avalon airport.**

Page 405

Recommendation 99: **The Department of Innovation, Industry and Regional Development develop and report separate performance indicators for each major program in the Industrial Relations portfolio.**

Page 407

Chapter 10 – Department of Justice

Recommendation 100: **Victoria Police adopt a broader Occupational Health and Safety reporting framework that specifically identifies its progress in addressing its most significant areas of workers compensation claims.**

Page 424

Recommendation 101: **The Department of Justice report more broadly in its annual report on the outcomes for the consolidated quality and timeliness performance measures in the 2004–05 Budget for the department.**

Page 429

Recommendation 102: **As a matter of priority, the Department of Justice develop a framework that provides the Auditor-General with total independence to audit the administrative systems and processes of the Courts.**

Page 433

Recommendation 103: **The Department of Justice liaise with the Courts to improve the timeliness of tabling the annual reports of the Courts in Parliament, with a view to the Courts adopting the same reporting timeframe as public sector agencies.**

Page 435

- Recommendation 104:** **The Office of Public Prosecutions include in its annual report appropriate indicators to allow an assessment of the outcomes that result from the additional resources provided to the Office.**
Page 438
- Recommendation 105:** **The Office of the Public Advocate and the Department of Justice closely monitor and report in their respective annual reports on the effectiveness of strategies to manage increased guardianship caseloads, including the quantity, quality and timeliness of services provided.**
Page 440
- Recommendation 106** **Victoria Police:**
- (a) develop and report on a range of police services efficiency measures;**
 - (b) continue to work within national frameworks to develop comparable efficiency indicators for police services; and**
 - (c) include in its annual report trend data over several years along with commentary on the various crime categories.**
- Page 448*
- Recommendation 107** **Victoria Police and the Department of Justice closely monitor developments associated with tendering arrangements for information technology outsourcing to ensure that a further extension to the current contract is not required.**
Page 451
- Recommendation 108** **The Department of Justice ensure that the details of the Victoria Police IBM outsourcing contract are released in accordance with the Victorian Government Purchasing Board's policy.**
Page 451

- Recommendation 109:** Victoria Police and the Department of Justice closely monitor the implementation of the new information technology contractual arrangements, including costs, to ensure that they meet performance expectations.
- Page 452*
- Recommendation 110:** The Department of Justice report on the management and operation of speed cameras in their annual report, including the outcomes of planned maintenance and testing.
- Page 455*
- Recommendation 111:** Victoria Police and VicRoads review current frameworks for measuring the effectiveness of road safety strategies with a view to adopting a common baseline for setting targets.
- Page 457*
- Recommendation 112:** Victoria Police include in its annual report summary information, including performance measures, on the implementation of the Victoria Police Road Safety Strategy.
- Page 458*
- Recommendation 113:** Victoria Police set specific targets in its five year strategic plan for community satisfaction with police services and community perceptions of public safety, in conjunction with reporting progress indicators detailing the extent to which the targets are achieved.
- Page 461*
- Recommendation 114:** Victoria Police develop performance information for the operations of the Forensic Department and separately report on achievements in its annual report.
- Page 462*

- Recommendation 115:** **Emergency Communications Victoria include in its annual report, commentary and comparisons with similar emergency communications organisations in other Australian jurisdictions, on its call taking and dispatch time performance.**
Page 467
- Recommendation 116:** **Corrections Victoria review its forecasting models to ensure that it can optimise the capacity and distribution of temporary prison accommodation.**
Page 481
- Recommendation 117:** **Consumer Affairs Victoria report more broadly in its annual report on the outcomes of activities undertaken in relation to its areas of responsibility.**
Page 484
- Recommendation 118:** **Consumer Affairs Victoria separately report on the activities of the Indigenous Consumers Unit in its annual report, including its progress against the measures of success for the Indigenous Consumers Protection Strategy.**
Page 487
- Recommendation 119:** **Consumer Affairs Victoria develop an evaluation strategy and performance measures for the new service delivery model that can clearly identify the benefits of the new model and areas for improvement.**
Page 488

- Recommendation 120:** **The Department of Justice ensure that:**
- (a) appropriate performance measures and targets are established, which enable an assessment of the project costs, timeliness and implementation outcomes of the Gambling Research Panel or its successor; and**
 - (b) performance information is reported in the annual report of the Gambling Research Panel or its successor.**
- Page 493*
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- Recommendation 121:** **The Department of Justice:**
- (a) provide support to the Victorian racing industry in its endeavours to minimise the impact from the activities of unregulated Internet based wagering providers; and**
 - (b) explore options with other jurisdictions to control cross-border betting with a view to requiring corporate bookmakers to contribute to the racing industry.**
- Page 497*
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- Chapter 11 – Department of Premier and Cabinet**
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- Recommendation 122:** **The Department of Premier and Cabinet review the relevance of its current suite of performance indicators and include in the review benchmarking against other jurisdictions and external validation of performance measures, where possible, and report on these matters in its annual report.**
- Page 503*
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- Recommendation 123:** **The Office of the Ombudsman review its existing performance information to ensure it reflects the dimensions of the Office’s expanded role and services and enable an assessment of the outcomes.**
- Page 512*

Recommendation 124: A performance measurement and reporting framework be developed to monitor and publicly report on achievements and cost savings generated from the Standard Corporate ICT Infrastructure Strategy.

Page 516

Recommendation 125: In order to avoid the recurrence of the substantial costs and disruptions to information technology services that have arisen in the past from poorly managed IT systems design and development, the Government's Information Communications and Technology Strategy clearly define responsibilities and accountabilities for specific projects.

Page 517

Recommendation 126: Departments include in their annual reports, in a format that facilitates transparency, details of the outcomes of annual reviews of executive remuneration including:

- (a) the composition and decisions of the Departmental Remuneration Committees;
- (b) the amount of annual increase in executive remuneration pay and bonus rates and performance payments; and
- (c) a statement indicating how these costs will be met.

Page 520

Recommendation 127: The Office for Workforce Development undertake a review of departmental processes used to assess exceptional or substantial performance as the basis of payment of performance incentive payments to Executive Officers, to ensure that a consistent and fair approach is adopted across government.

Page 520

Recommendation 128: The annual report of the Department of Premier and Cabinet include a comprehensive commentary on the outcomes achieved by implementing the *Creative Arts + Arts for all Victorians* policy.

Page 524

Chapter 12 – Department of Primary Industries

Recommendation 129: The Department of Primary Industries expand the performance measures contained in the Budget Papers covering the Agriculture portfolio.

Page 534

Recommendation 130: All Government agencies, in the context of reporting accurate information on performance, utilise their internal audit capability to examine whether collection and reporting systems are reliable.

Page 535

Recommendation 131:

- (a) The Department of Primary Industries prepare an annual research report card on its agricultural research activities. This document should include a consolidation of relevant information concerning Victoria's agricultural research and development program, and the benefits potentially available to the private sector from participation in state research activities;
- (b) A synopsis of this report be included in the Department of Primary Industries' annual report; and
- (c) The commercialisation activities of the Department of Primary Industries relating to agricultural research activities that involve the development of intellectual property should have a greater focus on maximising financial returns to the state.

Page 539

Recommendation 132: **The Government undertake a review of the major trust accounts within the trust fund to determine whether there is scope for applying the accountability arrangements in place for the Recreational Fishing Licence Trust Account to other major trust accounts.**

Page 543

Recommendation 133: **The Government publish a report that contains an assessment of the total impact of the Free Trade Agreement between the United States and Australia on Victoria, including the agriculture portfolio, after the Agreement has been in operation for a sufficient period of time.**

Page 544

Recommendation 134: **The Department of Primary Industries monitor the costs incurred by PrimeSafe in administering the regulatory environment to ensure that the funding contributed by the seafood industry towards the seafood safety scheme are fair and reasonable.**

Page 545

Recommendation 135: **The Department of Primary Industries disclose in its annual report details of any variations from the requirements of the Brown Coal Tender, agreed to by the Government to enable the Hazelwood power station to have access to new coal fields.**

Page 554

Chapter 13 – Department of Sustainability and Environment

Recommendation 136: **When funds of \$5 million or more are re-allocated due to a change in departmental priorities, the Department of Sustainability and Environment ensure that it has systems in place to:**

- (a) be able to explain the re-allocation of funds; and**
- (b) identify the extent to which programs and activities could not be delivered or were reduced.**

Page 568

Recommendation 137: **The Department of Sustainability and Environment develop and publish annual performance measures for the Commissioner for Environmental Sustainability.**

Page 569

Recommendation 138: **When funds are allocated for the implementation of significant new Government strategies, the relevant department develop and publish appropriate performance measures for the strategy particularly relating to quality and timeliness, in order that intended outputs and outcomes are disclosed in future Budget Papers.**

Page 570

Recommendation 139: **The Department of Sustainability and Environment, as part of the performance review project, develop a system of monitoring, evaluation and reporting of the effects of prescribed burning in relation to environmental outcomes such as conservation of flora and fauna and water quality.**

Page 571

- Recommendation 140:** **The Department of Sustainability and Environment ensure that all changes to performance indicators between budgets are appropriately documented in the Budget Papers and in its annual report.**
- Page 576*
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- Recommendation 141:** **The Department of Sustainability and Environment:**
- (a) develop and report performance indicators to monitor the progress of initiatives announced in *Our Water, Our Future: Securing Our Water Future Together*;**
 - (b) develop and report financial indicators that indicate whether the funds raised by water authorities are expended on water conservation measures or are used to maintain and upgrade water infrastructure; and**
 - (c) monitor the impact of the water conservation initiatives against long-term projections for water consumption.**
- Page 578*
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- Recommendation 142:** **The Department of Sustainability and Environment ensure that each Catchment Management Authority:**
- (a) develop appropriate financial and non-financial performance indicators;**
 - (b) include these indicators in each Authority's planning documents and annual report; and**
 - (c) is annually assessed against these pre-established performance indicators.**
- Page 583*

- Recommendation 143:** **The Department of Sustainability and Environment:**
- (a) work in consultation with local government to develop performance indicators to measure the progress of the implementation of *Better Decisions Faster*, including the average time taken for planning decisions; and
 - (b) publish these indicators in the department’s annual report.
- Page 588*
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- Recommendation 144:** **The Department of Sustainability and Environment closely monitor the performance of the Victorian Online Titles System, for example through client satisfaction surveys, to ensure that the advantages of the electronic system are realised.**
- Page 590*
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- Recommendation 145:** **The Government, when considering the withholding of information on the grounds of Cabinet-in-Confidence, should observe the general principle that information should be made public unless there is a justifiable reason not to do so.**
- Page 591*
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- Recommendation 146:** **The Department of Sustainability and Environment structure the public submissions process to allow maximum information to be made public while taking account of privacy considerations, including compliance with the Information Privacy Act 2000, and ensure the administration of the system is as simple as possible.**
- Page 592*

Recommendation 147: **The Department of Sustainability and Environment, as soon as practicable, develop and report performance indicators to establish benchmarks and measure the performance of Melbourne 2030 Activity Centres.**

Page 593

Chapter 14 – Department of Treasury and Finance

Recommendation 148: **The Department of Treasury and Finance provide an explanation for significant differences between targeted and expected performance in the Budget Papers.**

Page 602

Recommendation 149: **The Government review the specific purpose payment arrangements and continue discussions with the Commonwealth Government to seek the best possible equity and transparency in funding provided from this source.**

Page 618

Recommendation 150: **The Treasurer and the Department of Treasury and Finance develop formal protocols with the Victorian Competition and Efficiency Commission relating to staffing, resourcing and reporting arrangements.**

Page 622

Recommendation 151: **The Department of Treasury and Finance ensure departments provide details in the annual reports on the progress made with adopting the International Financial Reporting Standards, and highlighting the major changes and potential impact of the new arrangements.**

Page 627

Recommendation 152: **The Department of Treasury and Finance provide for the Financial Management Compliance Framework website to be accessible by the public.**
Page 629

Recommendation 153: **The Department of Treasury and Finance ensure public reporting on compliance and certification outcomes generated annually under the Financial Compliance Management Framework.**
Page 631

Recommendation 154: **The Department of Treasury and Finance:**

- (a) develop performance indicators to assess the efficiency and effectiveness of whole of government vehicle fleet operations under the revised leasing arrangements; and**
- (b) include in its annual report details of achievements against those indicators.**

Page 632

Recommendation 155: **The Government Superannuation Office:**

- (a) provide greater disclosure of component items of administrative expenses in its financial reports; and**
- (b) include in its annual report the results of benchmarking studies showing comparative costs and service delivery outcomes of the State Superannuation Fund relative to other similar funds.**

Page 635

Recommendation 156: **WorkSafe Victoria revise its business planning framework relating to the farm safety strategies to ensure the framework includes performance measures that reflect the effectiveness of educational, informational and compliance activities undertaken to improve farm safety outcomes as well as clearly defined injury and fatality measures.**
Page 643

Recommendation 157: **The Department of Treasury and Finance, the Transport Accident Commission and the Victorian WorkCover Authority ensure that future AFL sponsorship arrangements do not limit their capacity to publicly disclose the cost of these arrangements.**

Page 645

Chapter 15 – Department for Victorian Communities

Recommendation 158: **The Department for Victorian Communities develop and report performance indicators to measure progress on the following initiatives:**

- (a) Indigenous Community Capacity Building Program;**
- (b) implementation of shared services arrangements with other departments and other providers; and**
- (c) development of an electronic grant management system.**

Page 658

Recommendation 159: **The Department for Victorian Communities develop and report performance measures for the Jobs for Young People Program and Community Regional Industry Skills Program that will provide sufficient information to adequately assess outcomes.**

Page 666

Recommendation 160: **The Department for Victorian Communities develop and report performance measures in its annual report that demonstrate the outcomes of the Government’s employment and training initiatives in addressing skill shortages and assisting disadvantaged groups find work in metropolitan and regional areas.**

Page 667

Recommendation 161: **The Department for Victorian Communities develop and report in its annual report performance measures that demonstrate the outcomes from the Jobs for Victoria initiatives.**
Page 669

Recommendation 162: **The Department for Victorian Communities and the Office for Youth develop and report performance measures for youth programs that provide sufficient information to adequately assess the outcomes.**
Page 671

Recommendation 163: **The Department for Victorian Communities and the Office for Youth ensure that reports that measure the milestones specified in the Respect: The Government’s Vision for Young People document contain indicators that are:**

- (a) comprehensive, such that progress against all milestones is reported or an explanation provided (for example, the milestone is no longer relevant due to change in policy direction);**
- (b) reported over a consistent time period, with the base period corresponding to the implementation date; and**
- (c) quantifiable.**

Page 674

Recommendation 164: **As a matter of priority, the Department for Victorian Communities and the Office for Youth upgrade the Youth website to make it more interactive, informative and user friendly to the target audience.**
Page 675

Recommendation 165: **The Department for Victorian Communities and the Victorian Office of Multicultural Affairs develop and report performance measures that provide sufficient information to adequately assess the outcomes achieved of programs such as:**

- (a) Victorian Multicultural Commission Community Grants Program;**
- (b) Skilled Migration Strategy;**
- (c) Language Services Projects; and**
- (d) other programs funded out of the Multicultural Affairs output.**

Page 677

Recommendation 166: **The Department for Victorian Communities and Victorian Office of Multicultural Affairs consider revising the *Whole of Government Report*, by:**

- (a) developing outcomes based on the four ‘principles’ as well as establishing appropriate and quantifiable performance indicators; and**
- (b) ensuring that other departments provide information that supports the new performance management framework.**

Page 680

Recommendation 167: **The Department for Victorian Communities and the Office of Women’s Policy work collaboratively with other agencies to:**

- (a) develop performance measures for:**
 - (i) consultation with women, media portrayal of women, and information and awareness; and**
 - (ii) work and family responsibilities and economic independence.**
- (b) ensure the performance information allows for meaningful comparisons over time.**

Page 683

- Recommendation 168:** **The Department for Victorian Communities and Office of Women’s Policy publish in the department’s annual report a list of individual programs within the Women’s Safety Strategy, showing the:**
- (a) agency responsible for implementation;**
 - (b) funding allocation in each year;**
 - (c) progress of the strategy and main achievements; and**
 - (d) output measures to assess the outcomes.**
- Page 686*
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- Recommendation 169:** **The Department for Victorian Communities and the Office of Women’s Policy ensure that the report card on the Work and Family Balance Strategy:**
- (a) include relevant and appropriate performance measures and targets to assess the achievement of stated outcomes; and**
 - (b) is used as a basis for on-going reporting.**
- Page 687*
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- Recommendation 170:** **The Department for Victorian Communities ensure that where adjustments are made to targets set in previous years, appropriate notes are included in the Budget Papers to inform readers that this has occurred.**
- Page 690*
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- Recommendation 171:** **The Department for Victorian Communities finalise its Annual Aboriginal Affairs Report as soon as possible and publicly release the document.**
- Page 692*

Recommendation 172: **Aboriginal Affairs Victoria review the whole of government reporting guidelines for Indigenous affairs with a view to ensuring that departments report on their progress against the key outcomes identified in the Victorian Government’s Indigenous Affairs Report November 1999 – October 2002.**

Page 693

Recommendation 173: **Aboriginal Affairs Victoria review the whole of government reporting guidelines for Indigenous affairs with a view to ensuring that departments report on their progress in implementing the Victorian public sector Indigenous employment strategy, since its commencement in July 2002.**

Page 695

Recommendation 174: **The Department for Victorian Communities:**

- (a) continue to measure the economic benefits associated with hosting major events; and**
- (b) publicly release all studies commissioned to determine the economic impact of major events in Victoria.**

Page 709

Recommendation 175: **The Department for Victorian Communities develop appropriate performance measures for the Sport and Recreation Sector Development output to assess the contribution of the output towards building cohesive communities.**

Page 710

Recommendation 176: **The Government include in the Budget Papers details of any further quantifiable and non-quantifiable liabilities associated with Commonwealth Games related projects, in particular the nature of the types of potential liabilities that the Government faces such as further guarantees made and legal action pending.**
Page 717

Recommendation 177: **The Department for Victorian Communities include in its annual report for 2004-05, 2005-06 and 2006-07, a reconciliation of expenditure and revenue for that year in a format consistent with the Government's whole of Games funding commitments.**
Page 723

CHAPTER 1: INTRODUCTION

1.1 Background

The passing of the Appropriation Bills by the Parliament provides the Government with the authority to raise taxes and appropriate expenditure from the Consolidated Fund for the forthcoming year. Two separate Appropriation Bills are presented to Parliament – one relating to the operations of the Parliament (and the Office of the Auditor-General) and one relating to general government activities.

The Appropriation Bills relating to 2004-05 were passed by Parliament on 27 May 2004 (*Appropriation (Parliament 2004/2005) Act 2004*) and 10 June 2004 (*Appropriation (2004/2005) Act 2004*) and provided for expenditure of \$23,426 million.¹

Accompanying the introduction of the Appropriation Bills in Parliament are the Budget Papers. The Budget Papers cover the application of additional funds to support service delivery and capital that do not require approval by the Parliament on an annual basis. These additional funds include amounts that are appropriated by Parliament on an ongoing basis via special appropriations (trust funds – \$1,477.4 million in 2004-05), revenue received by agencies that is credited to appropriations (\$1,673.8 million in 2004-05) as well as amounts carried over from the previous year (\$218.3 million).²

The Budget Papers reveal that in 2004-05 the Government expects to receive revenue of \$28,984.9 million and expenses are budgeted to be \$28,429.9 million.³ These amounts are prepared in accordance with Australian accounting standards and can include the affects of a range of non-cash transactions, such as gains/losses on the disposal of assets, resources provided free of charge and the recognition of doubtful debts.

The Budget Papers also disclose that the cost of outputs delivered by departments in 2004-05 is expected to be \$24,810.4 million.⁴ Although in some cases the cost of outputs does reconcile with expenses at a departmental level, differences may emerge because revenue and expenses recognised under accounting standards can include activities other than those covered by outputs, such as the activities of controlled trusts. However, as noted by the Auditor-General,⁵ the Budget Papers do not include a reconciliation of the aggregated expenditures detailed in these Papers with the value of appropriations subject to parliamentary approval.

¹ *Appropriation (Parliament 2004/2005) Act 2004*, schedule 1; *Appropriation (2004/2005) Act 2004*, schedule 1

² Budget Paper No. 4, *2004-05 Statement of Finances*, pp.163–172

³ *ibid.*, p.7

⁴ Budget Paper No. 3, *2004-05 Service Delivery*, pp.54–258

⁵ Auditor-General Victoria, *Report on Parliamentary control and management of appropriations*, April 2003, p.43

To assist the Parliament to have a more effective oversight of the activities of the Government, the Public Accounts and Estimates Committee has been delegated the responsibility of undertaking a detailed review of the budget estimates and revenues contained in the Budget Papers.

The Committee's review of the Government's spending proposals involves a review of the budget estimates (undertaken during May and June) and a subsequent review of the budget outcomes. The review of the budget outcomes is undertaken during December and January and is largely based on departments' and agencies' annual reports for the preceding financial year, which are usually tabled in the Parliament during November.

While the Committee's report on the budget estimates is not tabled in Parliament until after the Appropriation Bills are passed by the Parliament and assented to by the Governor, the Committee believes that the detailed review of the budget estimates significantly enhances the transparency of the Government's revenue raising and spending activities and improves accountability to the Parliament and the community. The Committee believes that these arrangements can be further strengthened and intends to outline how the estimates process can be further improved in a report on the parliamentary appropriations process which will be tabled early in 2005.

1.2 Objectives of the Budget Estimates process

In submitting this report, the Public Accounts and Estimates Committee does not intend to replicate the information contained in the 2004-05 Budget Papers. Rather, the Committee is presenting information on selected areas where additional information may assist in the public understanding of those budget documents.

The Committee's analysis of the budget estimates aims to:

- facilitate a greater understanding of the budget estimates;
- assist the Parliament and the community of Victoria to assess the achievement of the planned budget outcomes against actual performance;
- constructively contribute to the quality and the presentation of the budget information; and
- enable more effective monitoring of the performance of departments and agencies.

1.3 Process followed by the Committee

In late March 2004, the Committee circulated a questionnaire to all departments requesting supplementary information to that likely to be contained in the 2004-05 Budget Papers. The Committee's questionnaire concentrated on several areas including:

- the accountability framework for departmental outputs;
- the strategic issues that have influenced the development of departments' budget estimates;
- key risks facing each department and its portfolio agencies in 2004-05 and the strategies to address those risks;
- changes to performance measures;
- asset investment projects including changes to timelines and capital budgets;
- the profile of departmental staff; and
- explanations for significant variations between estimated outcomes for 2003-04 and budgeted revenue and expenditure in 2004-05.

The Committee requested departments to provide their response by 7 May 2004. Only two departments – the Department of Treasury and Finance and the Department of Education and Training – met this timeframe, with the last response received from the Department for Victorian Communities on 13 May 2004. This is a substantial improvement on the previous year and the Committee expresses its appreciation to Ministers and departments for meeting the tight deadline.

The 2004-05 Budget Estimates were subjected to 55 hours of scrutiny by the Committee at public hearings held with the Premier, each Minister and the Presiding Officers of the Victorian Parliament during the period May to June 2004 (see Appendix 3).

In preparing for the estimates hearings, the Committee draws heavily on the information contained in a range of documents, including departmental responses to the Committee's estimates questionnaire (see Appendix 2), the Budget Papers and the Auditor-General's reports.

Part one of the Auditor-General's mid-year review of public sector agencies was tabled on 12 May 2004,⁶ three weeks earlier than the previous year. The tabling of this report meant that the Committee had this valuable source of information while it reviewed the proposed expenditure for the 41 portfolios, including the major Departments of Premier and Cabinet, and Treasury and Finance.

The second part of the Auditor-General's review, which includes useful information relating to the audits for agencies with balance dates other than 30 June, was tabled on 26 May 2004.⁷ While this information was not available for the first week of estimates hearings, it was tabled early enough to allow the Committee to follow-up issues with some Ministers.

⁶ Victorian Auditor-General's Office, *Report on Public Sector Agencies: Results of special reviews*, May 2004

⁷ Victorian Auditor-General's Office, *Report on Public Sector Agencies: Results of special reviews and financial statement audits for agencies with 2003 balance dates other than 30 June*, May 2004

The Committee appreciates the efforts of the Auditor-General to table these important reviews earlier than in previous years, which was a recommendation of the Committee in its *Report on the 2002-2003 Budget Estimates*.⁸

Following the estimates hearings, the Committee wrote to Ministers to request answers to questions that had been taken on notice at the estimates hearings. In addition, because there is a myriad of complex policies, plans and strategies which underpin the financial and performance information contained in the Budget Papers, the Committee sought additional information on some matters. In most cases, the Committee requested this information be provided within three to four weeks to enable this report to be completed in time for the resumption of the Parliament in late August.

For most portfolios this deadline was not met and, in a few cases, the information was not provided by the time this report was being finalised. In some instances, responses indicated that this material would be provided ‘when finalised’, ‘as soon as practicable’ or ‘after validation has been completed’.

The work of the Committee was further delayed on several occasions by responses to follow-up questions that clearly did not fully address the questions being asked by the Committee. Where departments and Ministers do not fully address the Committee’s follow-up questions the Committee’s secretariat and the Chair spend a considerable amount of time trying to clarify outstanding matters.

The Committee intends to follow-up on all information that was not provided in time for inclusion in this report in its review of the 2003-04 Budget Outcomes later in 2004.

The Committee is also concerned at the procedures within some departments when explanations or clarifications are sought about information contained in responses to both the departmental questionnaires and follow-up questions. The Committee believes that when matters need to be clarified that are of a technical nature and straightforward and the original information has already been provided with the agreement of the relevant Minister or Departmental Secretary, then arrangements should be made to ensure a prompt response to the Committee’s request.

The Committee is very keen for the time lag between the tabling of the Budget Papers and the Committee’s report on its review of the budget estimates to be reduced in order that:

- the Parliament can be better informed about the Government’s proposed spending plans and consequently more effective in its oversight and accountability roles;

⁸ Public Accounts and Estimates Committee, *Report on the 2002-2003 Budget Estimates*, 52nd Report, June 2003, p.103

- the Government has sufficient time to consider the Committee's recommendations prior to finalising the budget for the next financial year; and
- the Government's response to the recommendations contained in the Committee's report is received prior to the Committee commencing its next review of the budget estimates and budget outcomes.

As discussed earlier, the Committee intends to present a report on its review of the parliamentary appropriations process early next year. As part of this review, the Committee will be considering as one of the options establishing a protocol to improve the current arrangements.

Notwithstanding these concerns, the Committee is grateful to Ministers and senior department officers for their assistance at the estimates hearings and in providing responses to the Committee's follow-up questions.

CHAPTER 2: GOVERNMENT RESPONSES TO THE PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE REPORTS ON THE 2002-2003 AND THE 2003-2004 BUDGET ESTIMATES

Key Findings of the Committee:

- 2.1 The Committee's Report on the 2003-2004 Budget Estimates made 81 recommendations. Of these, 48 were accepted; 25 were accepted in part/principle; three were under review; and five were rejected.**
- 2.2 Of the 109 recommendations contained in the Committee's Report on the 2002-2003 Budget Estimates, 54 were accepted; 23 were accepted in part; 14 were accepted in principle; eight were under review; and ten were rejected.**
- 2.3 The Department of Education and Training and the Department of Innovation, Industry and Regional Development need to more clearly specify ministerial accountability arrangements for some outputs.**
- 2.4 Current recruitment arrangements in the Parliamentary Departments do not meet the standards used across the broader Victorian public sector. Application of the merit principle is enhanced when vacancies are externally advertised, thereby attracting the most suitable candidates and establishing a culture within the Parliamentary Departments that supports genuine contestability.**

2.1 Legislative requirement to respond to Committee's recommendations

There is a legislative requirement that the responsible Ministers provide a response within six months to the recommendations contained in the Committee's reports that are tabled in Parliament.¹

2.2 Previous recommendations

Government responses to two of the Committee's budget estimates reports were tabled in Parliament during the past year. The Committee's report on the 2002-03

¹ *Parliamentary Committees Act 2003*, s.36(1)

Budget Estimates was delayed and not tabled until June 2003 because of the state election in November 2002 and the Committee was not reappointed until 27 March 2003.

The Committee noted that the Government indicated in its responses that several recommendations were ‘under review’.² The Committee intends to follow-up on the status of these recommendations and report on these matters in future reports.

2.2.1 2003-2004 Budget Estimates

The Committee’s *Report on the 2003-2004 Budget Estimates* was tabled in the Legislative Assembly and the Legislative Council on 16 September 2003. The Treasurer provided a copy of the Government’s response to the Committee on 16 March 2004 and it was tabled in the Legislative Assembly on 31 March 2004.

Of the 81 recommendations contained in the Committee’s *Report on the 2003-2004 Budget Estimates*, 48 were accepted; 16 were accepted in part; nine were accepted in principle; three were under review; and five were rejected. (see exhibit 2.1). The Government’s response is at Appendix 5.

² Government’s Response to the Recommendations of the Public Accounts and Estimates Committee, *Report on the 2003-2004 Budget Estimates*, 54th Report, March 2004; Government’s Response to the Recommendations of the Public Accounts and Estimates Committee, *Report on the 2002-2003 Budget Estimates*, 52nd Report, March 2004

Exhibit 2.1: Government response to the recommendations in the PAEC 2003-2004 Budget Estimates Report

Department	Accept	Accept in part	Accept in principle	Under review	Reject	Total
Education and Training		1	4		2	7
Human Services	12		1			13
Infrastructure	6	3	1			10
Innovation, Industry and Regional Development	4	2		1		7
Justice	8	2	1		1	12
Premier and Cabinet	3		1	2		6
Primary Industries		3				3
Sustainability and Environment	3					3
Treasury and Finance	3	3	1			7
Victorian Communities	7	2			1	10
Parliamentary Departments	2				1	3
Total	48	16	9	3	5	81

Source: Government response to the Recommendations of the Public Accounts and Estimates Committee's 54th Report on the 2003-2004 Budget Estimates

The Committee was particularly interested in the response from the Government relating to the following recommendations.

Reject — Recommendation 2, 2003-2004 Budget Estimates

All vacant positions, beyond a six month period, with the Parliamentary Departments be advertised externally.

The Presiding Officers advised the Committee that the decision to advertise internally or externally should be a decision of the Parliamentary Departments. All positions are advertised internally throughout the Parliamentary Departments and, if deemed appropriate, are advertised externally.³

Parliament of Victoria staff are employed under the *Parliamentary Officers Act 1975*. As such, they are not subject to recruitment guidelines issued by the Public Service Commissioner which are applicable to the Victorian Public Service.

The Committee notes that new permanent staff are appointed by either the Speaker of the Legislative Council or the President of the Legislative Council on the recommendation of the head of the relevant department.⁴ Under the *Parliamentary*

³ Government's Response to the Recommendations of the Public Accounts and Estimates Committee, *Report on the 2003-2004 Budget Estimates*, 54th Report, March 2004, p.2

⁴ *Parliamentary Officers Act 1975*, s.7

Officers Act, the person recommended for appointment must be the person who, in the opinion of the officer recommending the appointment, is best qualified and entitled to the appointment on the basis of merit taking into account:⁵

- (a) the extent to which each applicant has skills, knowledge, aptitude and experience relevant to the requirements of the office; and
- (b) diligence and good conduct; and
- (c) where relevant, the performance of each applicant in relation to the functions of any positions, employment or occupation previously held or engaged in by the applicant.

Temporary employees may be appointed under the *Parliamentary Staff Act 1975* 'whenever in the opinion of the President, the Speaker, the Library Committee or the House Committee the prompt despatch of business renders temporary assistance necessary'.⁶ In such cases, the President, the Speaker, the Library Committee or the House Committee may engage such persons as they consider suitable and necessary to perform such work.⁷

The Parliament's equity and diversity policy states that '*all employment and management practices are based on the principle of merit, resulting in the appointment and promotion of the best person for the job in every case.*'⁸ As part of the guidelines to avoid discrimination, the equity and diversity policy states:⁹

1. When advertising any vacant position, the Parliament of Victoria will use the term 'Equal Opportunity Employer'.
2. All permanent vacancies for Parliamentary Officers will be advertised internally.
3. All long-term temporary vacancies or higher duty vacancies (three months or more) will be advertised internally.
4. All internal applicants will be considered when short-term vacancies (three months or less) arise.
5. Terms and conditions of employment will not be considered nor applied if they are not specifically related to the job.

Guidelines produced by the Commissioner for Public Employment on selecting on merit (and applying to the broader Victorian public service but not to staff employed by Parliament) specify a minimum standard that all vacancies for executive and

⁵ *ibid.*, s.8

⁶ *ibid.*, s.12

⁷ *ibid.*

⁸ Parliament of Victoria, *Equity and Diversity — Equal Opportunity Policy Statement*, 26 June 2002

⁹ *ibid.*

on-going vacancies should be advertised. Vacancies may be exempted from advertisement:¹⁰

- where the agency head certifies that there is no breach of merit and equity;
- to employ members of disadvantaged groups declared by the Commissioner; and
- where the agency head directs an employee to be re-assigned at a particular classification or remuneration level.

While the Commissioner for Public Employment's guidelines do not state that 'advertised' vacancies refers strictly to external announcements of vacancies, the Committee believes that where the field of internal applicants is not sufficiently large to ensure a competitive application process, external advertisement should be an obligatory part of the recruitment process.

Under the Commissioner for Public Employment's minimum standards on selecting on merit, agency heads are also required to report decisions to exempt vacancies from advertisement in annual reports to Parliament.¹¹

The Committee believes that the application of the merit principle is enhanced when vacancies are advertised externally, thereby attracting the most suitable candidates and contributing to establishing a culture within the Parliamentary Departments that supports genuine contestability.

The Committee considers the Parliamentary Departments should develop a recruitment policy that mirrors requirements applicable to the broader Victorian public service. Such a policy should specify circumstances where exemptions may be granted to meet operational needs without compromising the merit principle (such as where vacancies were regarded as temporary, staff were reclassified or involved specialised duties). The Committee believes that the Parliamentary Departments should also report on the operation of this policy in their annual reports.

The Committee recommends that:

Recommendation 1: **The Parliamentary Departments adopt a recruitment policy that is consistent with the requirements applicable to the broader Victorian public service.**

¹⁰ Office of Public Employment, *Selecting on Merit*, July 1998, pp.1–2

¹¹ *ibid.*

Reject — Recommendation 4, 2003-2004 Budget Estimates

The Department of Education and Training reconcile ministerial responsibilities to departmental outputs and divisional structure to ensure that responsibilities are well defined and publicly understood.

The Department of Education and Training advised the Committee that specific legislative and delegated responsibilities have been allocated to portfolio Ministers.¹² The Committee noted that public information about ministerial responsibilities is presented in Appendix 11 of the department's 2003-04 annual report, which details the Acts (or sections of each Act) administered by their respective Ministers and their responsibilities in relation to outputs.¹³ The department's annual report also states that the Minister for Education and Training has 'overall responsibility' for the Education and Training portfolio.¹⁴

The department indicated that responsibility for several outputs is shared between Ministers and responsibility is shared in some instances across divisions of the department.¹⁵ The department stated that *'it is not possible in these circumstances to reconcile ministerial responsibilities with outputs and divisional structures'*.¹⁶

While the Committee is satisfied that from a machinery of government perspective there has been a specific allocation of legislation to specific Ministers, the dual responsibility for specific outputs listed in the department's response to the Committee's 2004-05 Budget Estimates questionnaire¹⁷ clouds ministerial responsibility for specific activities - a fundamental component of accountability in the Westminster parliamentary system.

The Committee's concern about direct ministerial responsibility for outputs is reinforced by comments made by the Minister for Education and Training at the 2004-2005 Budget Estimates hearing that *'we do not have lead Ministers'*.¹⁸ This appears to contradict the department's annual report, which states that the Minister for Education and Training has 'overall responsibility' for the Education and Training portfolio.¹⁹

¹² Government's Response to the Recommendations of the Public Accounts and Estimates Committee, *Report on the 2003-2004 Budget Estimates*, 54th Report, March 2004, p.3

¹³ Department of Education and Training, *Annual Report 2003-04*, p.133

¹⁴ *ibid.*

¹⁵ Government's Response to the Recommendations of the Public Accounts and Estimates Committee, *Report on the 2003-2004 Budget Estimates*, 54th Report, March 2004, p.3

¹⁶ *ibid.*

¹⁷ Department of Education and Training response to the Committee's 2004-05 Budget Estimates questionnaire, p.1

¹⁸ Hon. L. Kosky, MP, Minister for Education and Training, record of transcript, 20 May 2004, p.24

¹⁹ Department of Education and Training, *Annual Report 2003-04*, p.133

The Committee believes that the department's current public statement about the allocation of responsibility needs to be revised to ensure that there is a single point of accountability for each output or activity to specific Ministers.

The Committee recommends that:

Recommendation 2: **The Department of Education and Training clarify the accountability arrangements of the Minister for Education and Training and the Minister for Education Services for outputs in the Department of Education and Training, including defining 'overall responsibility' for the Education and Training portfolio.**

Accept in principle — Recommendation 6, 2003-2004 Budget Estimates

The Department of Education and Training:

- (a) clarify the definitions of 'new', 'replacement', 'modernisation' and 'maintenance' in relation to schools; and publish the definitions in future Budget Papers;*
- (b) clearly distinguish, and report separately, funding allocated to the different categories of 'new', 'replacement', 'modernisation' and 'maintenance' for schools;*
- (c) monitor capital spending on new and established schools and report publicly on the progress made with implementing projects; and*
- (d) track and analyse the impact of capital spending on future maintenance requirements in educational institutions.*

The Department of Education and Training accepted in principle all parts of this recommendation, except for (b) which was accepted in part.²⁰

The Department of Education and Training advised the Committee that it will continue to work within whole of government frameworks determined by the Department of Treasury and Finance in relation to reporting on capital works.²¹ The Committee noted that in line with these arrangements, maintenance is not detailed separately in Budget Papers, as it is recurrent expenditure.²²

²⁰ Government's Response to the Recommendations of the Public Accounts and Estimates Committee, *Report on the 2003-2004 Budget Estimates*, 54th Report, March 2004, p.5

²¹ *ibid.*

²² *ibid.*

The Committee notes that information about the expenditure on school construction and maintenance is currently reported in several different publications including Budget Paper No. 3 (new output and asset initiatives over future years), Budget Information Paper No. 1 (expenditure on capital projects by school) and the department's annual report (maintenance expenditure for all portfolio agencies including schools).²³ However, drawing together information from these sources it is not possible to separately identify, on a consolidated basis, a statement of actual and budgeted expenditure on school replacement, modernisation and new school construction programs as well as actual and budgeted maintenance expenditure.

The Committee believes that the significant funding directed to constructing, upgrading and maintaining school facilities warrants the development of a consolidated reporting framework in the department's annual report, rather than reporting on different aspects across a number of separate publications.

The Committee recommends that:

Recommendation 3: **The Department of Education and Training provide a consolidated statement in its annual report of expenditure on school capital projects and maintenance programs that separately identifies budgeted and actual expenditure directed to the construction of new schools, upgrades, modernisation and maintenance programs.**

Reject — Recommendation 9, 2003-2004 Budget Estimates

To enable an assessment of the outcomes of the completion bonus program, the Department of Education and Training establish baseline information and targets that identify current and anticipated apprentice and trainee completion rates.

A completion bonus program was phased in from July 2003 to improve apprentice and trainee completion rates.²⁴ The Government estimated the budget impacts from the scheme in terms of the numbers of apprentices and trainees likely to attract the completion bonus, which were expected to rise from an average of approximately 55 per cent to 70 per cent by 2006-07.²⁵ The Committee noted that the department advised at the time (July 2003) that there are no actual target numbers for completions

²³ Budget Paper No. 3, *2004-05 Service Delivery*, pp.270–274; Budget Information Paper No. 1, *2003-04 Public Sector Asset Investment Program*, pp.32–37; Department of Education and Training, *Annual Report 2002-03*, p.103

²⁴ Public Accounts and Estimates Committee, *Report on the 2003-2004 Budget Estimates*, 54th Report, September 2003, p.148

²⁵ Hon. L. Kosky, MP, Minister for Education and Training, transcript of evidence, 16 May 2003, p.172

under the new arrangements and that data is not held on completion rates for trainees and apprentices.²⁶

The Committee was therefore surprised that while the Government rejected the recommendation, it then later advised the Committee that completion rates for apprenticeships are currently between 70 per cent and 77 per cent, while completion rates for traineeships are about 55 per cent.²⁷

While the Committee is pleased that the department is now monitoring completion rates, it believes that the significant funding directed towards the initiative (including an additional \$13.9 million over four years allocated in the 2004-05 Budget)²⁸ warrants inclusion in the Budget Papers as a separate quality performance measure that matches the existing quantity measure for the program ('Number of apprentices/trainees completions who qualify for the completion bonus').²⁹

The Committee recommends that:

Recommendation 4: **The Department of Education and Training include in the Training and Further Education output an additional quality performance measure relating to the percentage of apprentices/trainees that qualify for the completion bonus.**

Reject — Recommendation 34, 2003-2004 Budget Estimates

The Department of Innovation, Industry and Regional Development take immediate steps to resolve its complex framework of ministerial responsibilities and issue a statement that clearly aligns ministerial responsibilities with accountability for budget and departmental activities and resource issues.

The Department of Innovation, Industry and Regional Development advised the Committee that the question of ministerial responsibilities is a matter for the Premier and Ministers, not the department. The complex framework of responsibilities reflects the interconnectedness of the various aspects of the state and regional development

²⁶ Public Accounts and Estimates Committee, *Report on the 2003-2004 Budget Estimates*, 54th Report, September 2003, p.149

²⁷ Government's Response to the Recommendations of the Public Accounts and Estimates Committee, *Report on the 2003-2004 Budget Estimates*, 54th Report, March 2004, p.9

²⁸ Budget Paper No. 3, *2004-05 Service Delivery*, p.270-271

²⁹ *ibid.*, p.60

function. The desirability of clear accountability for budget and departmental activities is accepted and will be considered.³⁰

The Committee noted that Ministers share responsibility for six of the department's 12 outputs in 2004-05.³¹ Of the six outputs for which there is shared responsibility, the department identified four outputs for which responsibility was assigned to a 'lead Minister' (see exhibit 2.2). For the remaining two outputs with shared responsibility – Rural Community Development and Regional Economic Development – no lead Ministers were identified.³²

The Committee noted that the department's latest annual report did not include a statement that specified the 'lead Minister' for each output where there was shared ministerial responsibility.³³

Exhibit 2.2: Department of Innovation, Industry and Regional Development Ministerial accountability for outputs

Output	Lead Minister
Business Development	Minister for State and Regional Development
Strategic Policy	Minister for Innovation
Science Technology and Innovation	Minister for Innovation
Investment Facilitation and Attraction	Minister for State and Regional Development (a)

Note: (a) *The Minister for Information and Communication Technology has responsibility under this output in relation to Multimedia Victoria*

Source: *Department of Innovation, Industry and Regional Development response to the Committee's 2004-05 Budget Estimates questionnaire, pp.1-2*

In its response to the Committee's 2004-05 Budget Estimates questionnaire, the department advised that when responsibility for output delivery is shared by a number of Ministers the accountability framework for delivery is complex.³⁴ In many instances performance targets are directly linked to ministerial portfolios, however, responsibility for major performance targets in regard to investment, jobs and exports is shared by several Ministers. For example, all output indicators of the Investment Facilitation and Attraction output are shared by the Minister for State and Regional Development, and Minister for Innovation, Minister for Manufacturing and Export, Minister for Financial Services Industry and Minister for Small Business. The

³⁰ Government's Response to the Recommendations of the Public Accounts and Estimates Committee, *Report on the 2003-2004 Budget Estimates*, 54th Report, March 2004, p.25

³¹ Department of Innovation, Industry and Regional Development response to the Committee's 2004-05 Budget Estimates questionnaire, pp.1-4

³² *ibid.*, p.3

³³ Department of Innovation, Industry and Regional Development, *Annual Report 2002-03*, p.5

³⁴ Department of Innovation, Industry and Regional Development response to the Committee's 2004-05 Budget Estimates questionnaire, p.3

Committee noted that the lead Minister for this output was identified by the department as the Minister for State and Regional Development.³⁵

A further example is that there are 18 performance indicators in relation to the Business Development output. The distribution of performance indicators in this output among ministerial portfolios is shown in exhibit 2.3. The Committee noted that the lead Minister for this output was identified by the department as the Minister for State and Regional Development.³⁶

**Exhibit 2.3: Business Development output
Ministerial responsibility for performance measures**

Ministerial Portfolio/s	Number of indicators
Minister for Manufacturing and Export and Minister for Financial Services Industry	11
Minister for Small Business	1
Minister for State and Regional Development	2
Shared by Minister for State and Regional Development, Minister for Innovation, Minister for Manufacturing and Export, Minister for Financial Services Industry and Minister for Small Business	4
Total	18

Source: Department of Innovation, Industry and Regional Development response, to the Committee's 2004-05 Budget Estimates questionnaire, p.3

While the Committee welcomes efforts to clarify ministerial responsibility for outputs and performance measures within outputs managed by the Department of Innovation, Industry and Regional Development, the Committee believes that the two outputs where a 'lead minister' has not been identified weakens accountability to Parliament for the delivery of these outputs. The Committee believes the department should identify and clearly articulate specific responsibilities within these outputs for each Minister in its annual report. Where there is specific responsibility allocated for a performance measure within an output, this should also be clearly specified.

The Committee recommends that:

Recommendation 5: The Department of Innovation, Industry and Regional Development include in its annual report a statement that identifies the allocation of responsibility for outputs with a shared ministerial responsibility.

³⁵ *ibid.*

³⁶ *ibid.*

Under review — Recommendation 35, 2003-2004 Budget Estimates

Government contracts published on the Internet include a summary of the key performance indicators contained in the contracts.

This recommendation was specific to the performance information in the contract for the Docklands Film and Television Studio, for which contracts were published on the Internet but some information, considered to be commercial in confidence, had not been publicly released.³⁷

The Department of Innovation, Industry and Regional Development advised the Committee that the contracts publishing system is used by departments and many public sector agencies to meet the Government's disclosure requirements. For public sector agencies, Government policy requires that their policies on disclosure be documented, having regard to the Government's policy on openness and probity.³⁸

The Committee noted that the contracts publishing system is administered by the Victorian Government Purchasing Board (a statutory authority within the Department of Treasury and Finance).³⁹

The Committee noted that the contract publishing system was under review and guidelines for the uploading and maintenance of contract data were under development. The department advised the Committee that as part of the guidelines development, consideration is being given to the viability of using performance indicator headings where associated text has been deleted in accordance with Freedom of Information Act criteria.⁴⁰

The Committee believes that this specific recommendation raises a more general point regarding the availability of simplified information for contracts valued at more than \$10 million, which can often run to several hundred pages.

The Committee noted that implementation guidelines for the contracts publishing system specify that details of contracts reported include:⁴¹

- the department (including department reference);
- description of goods or services sufficient to identify the nature and quantity of procurement;

³⁷ Public Accounts and Estimates Committee, *Report on the 2003-2004 Budget Estimates*, 54th Report, September 2003, p.289

³⁸ Government's Response to the Recommendations of the Public Accounts and Estimates Committee, *Report on the 2003-2004 Budget Estimates*, 54th Report, March 2004, p.26

³⁹ Victorian Government Purchasing Board, *Annual Report 2002-03*, pp.5-7

⁴⁰ Government's Response to the Recommendations of the Public Accounts and Estimates Committee, *Report on the 2003-2004 Budget Estimates*, 54th Report, March 2004, p.26

⁴¹ Department of Premier and Cabinet, *Ensuring Openness and Probity in Victorian Government Contracts: Implementation Guidelines*, p.7

- for common use arrangements and standing offer agreements, the total estimated cost/value (including GST value) and period of offer;
- for each supplier its name, postal address, postcode, state, ABN and DUN;
- name and phone number of departmental contact officer;
- category; and
- grounds for exclusion of any information.

The Committee believes that while this information provides a useful summary of major contracts, the inclusion of simplified summary information on the key performance indicators on which contract payments are based should also be included. Such information would significantly improve the transparency of arrangements by minimising the time taken by third parties to review contracts and the performance of contractors.

The Committee recommends that:

Recommendation 6: **The Victorian Government Purchasing Board include in the revised guidelines for the disclosure of information on the contracts publishing system the requirement that summary information on the key performance indicators on which contract payments are based, be disclosed.**

Reject — Recommendation 41, 2003-2004 Budget Estimates

The Department of Justice:

- (a) delete the average prison design daily capacity utilisation rate as a performance measure for the Prisoner Supervision and Support output group; and*
- (b) develop and report in the Budget Papers on the number of beds available and capacity utilisation for the different types of prison accommodation including permanent, flexible and temporary facilities.*

The department advised the Committee that the measure is an accepted national performance comparator used in the Council of Australian Governments Report on Government Service Provision and should be retained. Current measures and targets

of average daily prison design capacity utilisation rate are updated as new capital improvements are completed.⁴²

Although the department rejected this recommendation, the measure was subsequently removed from the Budget Papers,⁴³ a move supported by the Minister at the 2004-05 Budget Estimates hearing, where the Minister for Corrections noted that:

... we think it is a fairly useless measure because it basically measures the number of prisoners against the original design capacity of the prison, which tells you nothing about whether the prison is overcrowded or not. We have done a lot of expansions and changes to our prisons. Also we have our demountables in there, so we think the more useful measure is the actual percentage utilisation rate against total prison capacity. That is a matter we also will be taking up through the correctional services ministers. Correctional services ministers in other states have expressed similar views, and it is a matter that also will be taken up with the Productivity Commission. For our purposes, for prison planning purposes and for analysis of whether our prisons are overcrowded or not it is a useless measure, and I think that is why this committee recommended [the discontinuation].⁴⁴

While the Committee supports the discontinuation of this measure, the Committee notes that the Government response did not include a discussion relating to part (b) of the recommendation, which related to the inclusion of new performance measures for capacity utilisation of the different types of prison accommodation.⁴⁵ The Committee believes that the two remaining quantity measures in the Prisoner Supervision and Support output do not adequately reflect the cost of supplying different types of accommodation (permanent and temporary). The Committee would support the expansion of measures currently used, to separately reflect the utilisation of the increased permanent prison capacity under construction as well as the utilisation of temporary capacity in the prison system.

Reject — Recommendation 78, 2003-2004 Budget Estimates

The Government develop a comprehensive strategy for the ongoing operation of the Queen Victoria Women's Centre, based on the findings of the Ministerial Advisory Committee.

⁴² Government's Response to the Recommendations of the Public Accounts and Estimates Committee, *Report on the 2003-2004 Budget Estimates*, 54th Report, March 2004, p.31

⁴³ Budget Paper No. 3, *2004-05 Service Delivery*, p.345

⁴⁴ Hon. A. Haermeyer, MP, Minister for Corrections, transcript of evidence 21 May 2004, p.5

⁴⁵ Government's Response to the Recommendations of the Public Accounts and Estimates Committee, *Report on the 2003-2004 Budget Estimates*, 54th Report, March 2004, p.31

The Department for Victorian Communities advised the Committee that it is the responsibility of the Queen Victoria Women's Centre Trust to develop a strategy addressing the medium and long-term operations of the centre. The Government's role is the monitoring of the Queen Victoria Women's Centre's comprehensive strategy to ensure the ongoing operation of the centre.⁴⁶

At the 2004-2005 Budget Estimates hearing, the Minister confirmed to the Committee that the strategy had not yet been completed, but was 'not far away'.⁴⁷ The Committee is most concerned that the strategy has not yet been released, particularly since it was foreshadowed in June 2002 as being publicly 'announced in the very near future'.⁴⁸

The Committee looks forward to the release of this strategy - a recommendation that was initially part of the Committee's *Report on the 2000-2001 Budget Estimates*.⁴⁹

2.2.2 2002-2003 Budget Estimates

The *Report on the 2002-2003 Budget Estimates* was tabled in the Legislative Council on 11 June 2003 and subsequently tabled on the next sitting day of the Legislative Assembly on 26 August 2003.

Of the 109 recommendations contained in the Committee's *Report on the 2002-2003 Budget Estimates* 54 were accepted; 23 were accepted in part; 14 were accepted/agreed to in principle; eight were under review; and ten were rejected (see exhibit 2.4). The Government's response is at Appendix 4.

⁴⁶ *ibid.*, p.54

⁴⁷ Hon. M. Delahunty, MP, Minister for Women's Affairs, transcript of evidence 16 June 2004, p.4

⁴⁸ Hon. M. Delahunty, MP, Minister for Women's Affairs, transcript of evidence 18 June 2002, p.216

⁴⁹ Public Accounts and Estimates Committee, *Report on the 2000-2001 Budget Estimates*, 38th Report, November 2000, p.459

Exhibit 2.4: Government response to the recommendations in the PAEC 2002-2003 Budget Estimates Report

Department	Accept	Accept in part	Accept in principle	Under review	Reject	Total
Education and Training	1	3	3			7
Human Services	7		2		1	10
Infrastructure	7	1	1	4	3	16
Innovation, Industry and Regional Development	12		5	2	1	20
Justice	6	8				14
Premier and Cabinet	5	1		2		8
Primary Industries		2				2
Sustainability and Environment	3					3
Treasury and Finance	6	4	1		3	14
Victorian Communities	4	4	1		2	11
Parliamentary Departments	2		1			3
Auditor-General	1					1
Total	54	23	14	8	10	109

Source: Government response to the Recommendations of the Public Accounts and Estimates Committee's 52nd Report on the 2002-2003 Budget Estimates

The Committee identified several issues in the Government's response that warranted further comment. These are discussed below.

Reject — Recommendation 6.8(d), 2002-2003 Budget Estimates

The Department of Human Services develop performance measures that focus on waiting times for repairs and maintenance, and the number of public housing units requiring repairs and maintenance.

The Committee noted that the Office of Housing provides responsive maintenance to properties on a needs basis, according to the Office of Housing maintenance standards and legislative requirements under the *Residential Tenancies Act 1997*.⁵⁰ The department advised the Committee that the Office of Housing's maintenance standards ensure that properties are maintained in good repair and are safe and secure during the life of the tenancy.⁵¹

⁵⁰ Government's Response to the Recommendations of the Public Accounts and Estimates Committee, *Report on the 2002-2003 Budget Estimates*, 52nd Report, March 2004, p.23

⁵¹ *ibid.*

The department also advised the Committee that all repairs to occupied Office of Housing public and community housing properties are required to be completed within the following timeframes:⁵²

- urgent repairs - must be completed within 24 hours;
- priority repairs - must be completed within seven days; and
- normal repairs - must be completed within 14 days.

The department pointed out that the accrued maintenance backlog figures referred to by the Committee are a result of the property inspections regime, which is undertaken to provide information to direct planned maintenance and upgrading programs – not to indicate responsive maintenance requirements.⁵³ The department believed that representation of the backlog works as outstanding maintenance is therefore not accurate and not an effective performance measure of the maintenance regime.⁵⁴

The Committee noted that expenditure on public housing maintenance in 2002-03 was \$71.3 million.⁵⁵ In a recent performance audit of public housing maintenance, the Auditor-General made 25 recommendations relating to the operations of the Office of Housing including:⁵⁶

- developing a strategy to reduce the level of backlog maintenance;
- enforcing the conditions of its contracts to ensure that all contractors perform to the required standards;
- exploring the greater use of performance benchmarking and spreading of good practice across regions; and
- training its staff to use the complaints procedure.

In its response to the Auditor-General's report, the Department of Human Services indicated it either supported the Auditor-General's recommendations or supported the intent of the recommendations.⁵⁷

While the new monitoring mechanisms for maintenance should improve the existing quality of reporting,⁵⁸ the Committee believes that the significant resources directed towards public housing maintenance warrant additional performance measures in the Budget Papers to assess the timeliness and quality of works undertaken by the Office of Housing.

⁵² *ibid.*

⁵³ *ibid.*

⁵⁴ *ibid.*

⁵⁵ Auditor-General Victoria, *Maintaining public housing stock*, June 2004, p.3

⁵⁶ *ibid.*, pp.5-11

⁵⁷ *ibid.*, pp.31-81

⁵⁸ Government's Response to the Recommendations of the Public Accounts and Estimates Committee, *Report on the 2002-2003 Budget Estimates*, 52nd Report, March 2004, p.23

The Committee recommends that:

Recommendation 7: **The Department of Human Services examine the information that is available from the new monitoring system for public housing maintenance and develop appropriate performance measures to assess the timeliness and quality of works undertaken by the Office of Housing.**

Reject — Recommendation 7.12, 2002-2003 Budget Estimates

The Department of Infrastructure develop and institute three new performance measures for the Governance Support output, namely:

- (a) a measure of the timeliness of the submission of municipal financial statements to the Auditor-General within eight weeks of the end of the financial year;*
- (b) a measure of the number and percentage of municipal financial statements qualified by the Auditor-General for a financial year; and*
- (c) a measure of the number and percentage of municipal performance statements qualified by the Auditor-General for a financial year.*

The Committee notes that the activities previously undertaken in the Governance Support output are now included in the Local Government Sector Development output, which is now the responsibility of the Department for Victorian Communities.⁵⁹ The restructured output largely carries over the performance measures from previous local government related outputs.⁶⁰

In rejecting this recommendation, the Department of Infrastructure believed that the existing performance measures provide a sound basis for assessment, with the additional measures being suggested relating to the activities of Councils and the Auditor-General.⁶¹ The department advised the Committee that the performance of these bodies in the proposed measures is not controlled by the Department for Victorian Communities and therefore adds little to any assessment of the performance of Local Government Victoria.⁶²

⁵⁹ Budget Paper No. 3, 2004-05 Service Delivery, pp.238–239

⁶⁰ *ibid.*

⁶¹ Government's Response to the Recommendations of the Public Accounts and Estimates Committee, *Report on the 2002-2003 Budget Estimates*, 52nd Report, March 2004, p.35

⁶² *ibid.*

The Committee noted the Auditor-General had recently identified that councils could achieve earlier finalisation of their financial statements, with seven weeks being the average elapsed time for the receipt of draft financial statements by auditors.⁶³

While the Committee recognises that Local Government Victoria – a division of the Department for Victorian Communities – does not directly influence the preparation of audited financial and performance statements, the Committee believes that Local Government Victoria has a significant interest in this area, which is consistent with its self defined role to:⁶⁴

not so much as micro management of individual councils but being concerned with 'oversighting, supporting and encouraging' the system of local government.

The Committee believes that this advisory/education role is currently reflected in a number of performance measures that are presently used for the Local Government Sector Development output, including '*Councils with proper structures and functioning audit committees and Council annual reports lodged within statutory timeframes*'.⁶⁵ The Committee notes that recent activities carried out by Local Government Victoria in this area include the development of a standard set of financial statements,⁶⁶ asset management policies⁶⁷ and an accounting guide for infrastructure assets.⁶⁸

The Committee believes that the inclusion of performance measures relating to the quality and timeliness of the presentation of financial and performance statements to auditors would further encourage efforts by councils and Local Government Victoria to improve this important aspect of external accountability and provide an indication of the effectiveness of Local Government Victoria's efforts to improve these processes.

⁶³ Auditor-General Victoria, *Report on Public Sector Agencies*, November 2003, p.266

⁶⁴ Department for Victorian Communities, Local Government Victoria, www.dvc.vic.gov.au/local_gov.htm, accessed 6 August 2004

⁶⁵ Budget Paper No. 3, *2004-05 Service Delivery*, pp.238-239

⁶⁶ Department for Victorian Communities, *Standard Statements: A guide*, March 2004

⁶⁷ Department for Victorian Communities, *Sustaining Local Assets: Local government asset management policy statement*, December 2003

⁶⁸ Department for Victorian Communities, *Accounting for infrastructure assets: A guide*, December 2003

The Committee recommends that:

Recommendation 8: **The Department for Victorian Communities develop and report performance measures that reflect its efforts to improve the quality and timeliness of local government financial and performance reports to auditors.**

Reject — Recommendation 8.7, 2002-2003 Budget Estimates

The Department of Innovation, Industry and Regional Development develop performance measures to reflect the achievements/outputs generated by the provision of grant funds and the extent to which the objectives of the Regional Infrastructure Development Fund are being achieved. These performance measures should be included in Budget Paper No. 3 and be reported in the department's annual report.

The Department of Innovation, Industry and Regional Development advised the Committee that it was finalising a document reviewing the first three years of the Regional Infrastructure Development Fund (RIDF), including the achievements of projects funded.⁶⁹ The report, dated January 2004, was released on 28 April 2004.⁷⁰

The Committee noted that the department believed that the diverse nature and size of individual RIDF projects meant that it is difficult to provide whole of fund outcome measures for inclusion in Budget Paper No. 3.⁷¹ For this reason, the department intended to continue to focus on assessing outputs on a project-by-project basis.⁷²

The Committee noted that performance measures for the output that administers funds from the RIDF – Regional Infrastructure Development – are largely unchanged from the 2002-03 Budget.⁷³

The department's report on the RIDF included estimates by a consultant of the economic benefits to regional Victoria, which found that the initial expenditure of \$93 million will deliver \$879 million of net additional impact over the next 20 years which equates to a benefit-to-cost ratio of 8:1.⁷⁴ To improve transparency relating to

⁶⁹ Government's Response to the Recommendations of the Public Accounts and Estimates Committee, *Report on the 2002-2003 Budget Estimates*, 52nd Report, March 2004, p.47

⁷⁰ Department of Innovation, Industry and Regional Development, *Regional Infrastructure Development Fund*, January 2004

⁷¹ Government's Response to the Recommendations of the Public Accounts and Estimates Committee, *Report on the 2002-2003 Budget Estimates*, 52nd Report, March 2004, p.47

⁷² *ibid.*

⁷³ Budget Paper No. 3, *2004-05 Service Delivery*, p.146

⁷⁴ Department of Innovation, Industry and Regional Development, *Regional Infrastructure Development Fund*, January 2004, p.7

the calculation of the economic benefits of RIDF grants, the Committee believes the department should publicly release the consultant's report.

While the Committee is impressed at the projected benefits from the initial \$93 million allocated from the RIDF, the Committee believes that the additional \$180 million allocated to the fund over five years in the 2003-04 Budget warrants the inclusion of additional performance measures in the Budget Papers.

The Committee notes that recipients of RIDF grants greater than \$1 million are required to complete a Victorian Industry Participation Policy Statement outlining the level of local content, the number of new jobs created, and possible skills and technology transfer generated by the RIDF project.⁷⁵ The department believed that through this requirement, the RIDF encourages applicants to actively evaluate and consider the use of local contractors and materials in the delivery of their project and that it would ensure that the multiplier effect of RIDF funding is felt within a local community and local jobs and industry are supported.⁷⁶

The Committee also notes that the 2004-05 Business Plan for Regional Development Victoria includes four key performance indicators relating to the administration of the RIDF.⁷⁷ While three of these are included as performance measures in the Budget Papers, the fourth – *Value of infrastructure investments leveraged through RIDF grants* – is not.⁷⁸

The Committee believes that there is merit in including additional performance measures in the Budget Papers relating to the outcomes of grants made from the RIDF. Such reporting should provide an annual indication of progress against the objectives of the fund and supplement the economic impact studies commissioned by the department on an irregular basis. The Committee therefore encourages the department to examine additional appropriate performance measures for the Regional Infrastructure Development output.

Under review — Recommendation 11.4, 2002-2003 Budget Estimates

The Government, in co-operation with the NSW Government, develop and implement an effective governance framework for the Joint Government Enterprise which includes:

- (a) comprehensive corporate and business plans containing high level objectives that are consistent with Government policy; and*

⁷⁵ *ibid.*

⁷⁶ *ibid.*

⁷⁷ Department of Innovation, Industry and Regional Development, *Regional Development Victoria: Business Plan 2004-2005*, p.4

⁷⁸ *ibid.*

(b) *an effective performance monitoring system that provides complete, accurate and timely performance information that can be compared to key targets and desired outcomes.*

This recommendation related to the formation of a Joint Government Enterprise with responsibility to identify and fund water savings projects in Victoria and NSW in order to offset increased flows in the Snowy and Murray Rivers.⁷⁹

The Department of Premier and Cabinet's response⁸⁰ (see Appendix 4) did not address this recommendation, instead discussing the forthcoming review of the Growing Victoria Strategy.

The Committee noted the Joint Government Enterprise – Water for Rivers – had been established as a company in late 2003.⁸¹ At the 2004-05 estimates hearings, the Minister for Water advised the Committee that:⁸²

The establishment of the joint government enterprise was significantly delayed because unfortunately the commonwealth government was threatening to tax it, and so it was not set up for many months because it could possibly have been set up in such a way that it would have been subject to taxation. It is now operating. In terms of actual projects, a number of projects have not only commenced, but have been completed. The Woorinen and Normanville pipeline projects have been completed and will deliver up water savings that can go towards the Snowy River.

As a company set up under the *Corporations Act 2001* (Cth) with shareholdings by the Commonwealth, NSW and Victorian governments, the Victorian Government has limited power over reporting by the Joint Government Enterprise.

The Committee recommends that:

Recommendation 9: **The Department of Sustainability and Environment ensure that its annual report contains appropriate information on the outcomes achieved from funds allocated to the operations of the Joint Government Enterprise, in a manner that will complement existing reporting arrangements for this organisation.**

⁷⁹ Public Accounts and Estimates Committee, *Report on the 2002-2003 Budget Estimates*, 52nd Report, June 2003, p.469

⁸⁰ Government's Response to the Recommendations of the Public Accounts and Estimates Committee, *Report on the 2002-2003 Budget Estimates*, 52nd Report, March 2004, p.75

⁸¹ Hon. I. MacFarlane, MP, Federal Minister for Industry, Tourism and Resources, media release, *Snowy joint government enterprise now open for business*, 17 December 2003

⁸² Hon. J. Thwaites, MP, Minister for Water, transcript of evidence, 17 June 2004, p.4

The Committee believes that reporting by the Department for Sustainability and Environment will need to complement that of the Joint Government Enterprise to ensure that the effectiveness of its activities can be fully assessed.

Reject — Recommendation 11.7(b), 2002-2003 Budget Estimates

The Department for Victorian Communities include a note in the Budget Papers to explain the low performance target and the relevance and definition of PROV standards' within the performance measure titled 'Public Record Office Victoria electronic records maintained in accordance with PROV standards'.

In rejecting this recommendation, the Department of Premier and Cabinet (which had responsibility for the Public Records Office prior to December 2002) advised the Committee that the low performance target (13 per cent) reflects the fact that only the Department of Infrastructure has implemented a Victorian electronic records strategy compliant record keeping system to date.⁸³ The Department for Victorian Communities estimate is that the Department of Infrastructure creates 13 per cent of Government electronic records.⁸⁴

The Committee noted that this performance measure was discontinued in the 2004-05 Budget Papers and that two new measures relating to the maintenance of electronic records by departments were introduced.⁸⁵

The Minister for Victorian Communities advised the Committee that:⁸⁶

We are as a government developing and implementing an electronic record system across all departments. This is not an exercise just for our department although we are the overseeing department. The individual departments themselves are implementing it and are funding it. They need to all become compliant with the new system in the coming five years. So it really is a whole of government exercise; it is about having the technology right, the formatting of information right and the technologies there to record it in a way that will remain readable into the future. It is a very positive thing for the Victorian government. It is something that governments around the world are grappling with. We are one of the more advanced governments.

The Committee welcomes the new performance measures, which provide information on the activities undertaken by the Public Records Office to support the introduction

⁸³ Government's Response to the Recommendations of the Public Accounts and Estimates Committee, *Report on the 2002-2003 Budget Estimates*, 52nd Report, March 2004, p.78

⁸⁴ *ibid.*

⁸⁵ Budget Paper No. 3, *2004-05 Service Delivery*, pp.244–245 and p.355

⁸⁶ Hon. J. Thwaites, MP, Minister for Victorian Communities, transcript of evidence, 17 June 2004, p.10

of electronic record keeping. However, the Committee believes that the Department for Victorian Communities should provide broader reporting in its annual report on efforts across departments to implement the Victorian electronic records strategy.

The Committee believes that ensuring an adequate record of administrative actions is maintained is essential for good governance. The Committee intends to closely monitor progress by departments in implementing the strategy.

Reject — Recommendation 13.7, 2002-2003 Budget Estimates

The Department of Treasury and Finance review the performance measures to ensure they include key measures that focus on key targets and outcomes of the WorkCover and Transport Accident Commission portfolios. In addition, the performance measures should be aligned with the corporate and business plans of the Victorian WorkCover Authority and the Transport Accident Commission.

The Department of Treasury and Finance advised the Committee that Victorian Workcover Authority (VWA) and the Transport Accident Commission (TAC) performance measures are extremely important and are used by the department to review these agencies' performance against their corporate and business plans. The Committee noted that the department regularly discussed these plans, measures and outcomes with VWA and TAC and sought to improve the scope and relevance of performance measures and their alignment against corporate and business plans.⁸⁷

The Committee agrees with the department that the achievement of targets is the responsibility of the boards of TAC and VWA and therefore it may not be appropriate to include these as performance measures for the Department of Treasury and Finance in the Budget Papers. However, the Committee believes that there are significant opportunities to strengthen reporting guidelines for these organisations.

The Committee's review of the TAC and VWA annual reports for 2002-03 and 2003-04 revealed that while both agencies reported current performance for a range of indicators against previous years, there were few instances where performance was measured against targets.⁸⁸

The Committee notes that neither of these agencies is required to make publicly available their corporate or business plans, a basis from which Parliament (and the community generally) would be able to assess actual performance as disclosed in the annual report against expected performance.⁸⁹ This differs from requirements for

⁸⁷ Government's Response to the Recommendations of the Public Accounts and Estimates Committee, *Report on the 2002-2003 Budget Estimates*, 52nd Report, March 2004, p.93

⁸⁸ Victorian Workcover Authority, *Annual Report 2002-03 and 2003-04*; Transport Accident Commission, *Annual Report 2002-03 and 2003-04*

⁸⁹ *Transport Accident Act 1984*; *Accident Compensation Act 1985*

similar entities in other jurisdictions such as NSW where business plans for the forthcoming year are required to be tabled in Parliament within 14 days after being received by the Treasurer and responsible Minister or in Queensland where annual reports must include a comparison of performance against the business plan.⁹⁰

Although there is no requirement for the VWA or the TAC to make such plans public, the Committee noted that the most recent corporate plan (covering the period 2003-04) for the VWA was available on the Internet, while the TAC's statement of corporate intent (covering the period 2001–2004) was also available.⁹¹

The Committee believes that accountability is strengthened when clear assessments can be made between expectations expressed in planning documents and actual performance.

The Committee recommends that:

Recommendation 10: **In their annual reports, the Transport Accident Commission and the Victorian WorkCover Authority make clear links between expectations of performance, as expressed in planning documents, and actual performance.**

Accept in principle — Recommendation 14.2, 2002-2003 Budget Estimates

Parliamentary Departments publish their business plans prior to the financial year to which they relate.

The Parliamentary Departments advised the Committee that they would endeavour to meet this recommendation, although achievement of this recommendation can be affected if the autumn session of Parliament does not finish until some time in June.⁹²

The Committee noted that Parliamentary Departments have developed a strategic plan covering the period 2003–2006. This plan – *One Parliament* – operates at a level between the corporate plan and the one year business plans and outlines the range of activities that are to be implemented over the planning period to meet 23 strategic objectives.⁹³

⁹⁰ *State Owned Corporations Act 1989* (NSW), s.26; *Government Owned Corporations Act 1993* (Qld), s.131

⁹¹ Victorian WorkCover Authority, *Corporate Plan 2003-06*, www.workcover.vic.gov.au, accessed 24 September 2004; Transport Accident Commission, *2001-2004 Statement of Corporate Intent*, www.tac.vic.gov.au, accessed 24 September 2004

⁹² Government's Response to the Recommendations of the Public Accounts and Estimates Committee, *Report on the 2002-2003 Budget Estimates*, 52nd Report, March 2004, p.95

⁹³ Parliament of Victoria, *One Parliament: A business plan for the Parliamentary Departments 2003–2006*

The Committee was disappointed that the relevant business plans for each parliamentary department have not yet been published and distributed at the time of the preparation of this report in October 2004. While the Committee acknowledges that structural changes associated with implementing the One Parliament arrangements have complicated planning activities, the Committee encourages the Parliamentary Departments to produce and distribute business plans for each year as early as possible.

CHAPTER 3: BUDGET OVERVIEW

Key Findings of the Committee:

- 3.1** In 2003-04 the estimated actual expenditure was \$27,299 million, an increase of \$945 million or 3.6 per cent from the original budget estimate for the year of \$26,354 million. The increase in expenditure was substantially influenced by a one-off expenditure of \$1,250 million involving the decision to cease collection of a levy payable to the State Electricity Commission of Victoria and the assumption of this obligation by the general government sector. The Committee observed that the expenditure over-run was able to be absorbed due primarily to a downward revaluation of unfunded superannuation liabilities.
- 3.2** Estimated actual revenue for 2003-04 was \$27,731 million, around \$1,133 million greater than the budget projection of \$26,598 million. Although the reasons for the increase were attributed to greater than expected revenue, the outcome reflected the volatility of budget projections and a need for the Government to closely monitor revenue and expenditure estimates if election commitments for 2004-05 are to be fully met.
- 3.3** The international ratings agency, Standard and Poor's confirmed Victoria's AAA rating in July 2004, but drew attention to the Commonwealth-State financial arrangements whereby Victoria benefits less than most other states under this system, receiving less than the average per capita grant from the Commonwealth. Some aspects of these financial arrangements are currently under review by the Commonwealth and all states.
- 3.4** The ability of the Government to commit to a substantial asset investment program of an estimated \$10 billion over the forward estimates period, within projected debt increase levels, will rely on the generation of ongoing accrual operating surpluses over the next four years. This source of funding emphasises the importance for the Government in maintaining operating surpluses.
- 3.5** Approximately 14 per cent of the total capital value of new infrastructure projects announced in the 2004-05 Budget are anticipated to be delivered under the public private partnership arrangements, including the Melbourne Convention Centre.

- 3.6 Employee benefits costs for 2004-05 are budgeted to increase by \$643.2 million from the revised 2003-04 estimate. The information in the Budget Papers does not separately identify employee benefit increases by wages and staffing levels. According to Standard and Poor's, the Government's wages policy has resulted in most major wage agreements being settled at a cost of less than 4 per cent per annum to the Government. The Victorian Economic News shows that the wage cost index for Victorian public sector wages grew by 3.4 per cent during the year to March 2004, below the national index growth of 4.3 per cent. Enterprise bargaining arrangements need to be complemented by public sector wide workforce planning to ensure the continuity of a skilled and efficient workforce.**
- 3.7 Recent public sector wage agreements have resulted in changes to some employee entitlements, including earlier availability of long service leave. The impact of changes to these employee entitlements will need to be closely monitored in order to maintain control over this major component of Government expenditure.**

3.1 Budget strategies and priorities

The Government is committed to maintaining a substantial budget operating surplus of at least \$100 million in each year.¹ The Government has estimated an operating surplus of \$545 million in 2004-05, with estimated surpluses averaging \$571 million over the next three years.² Revenue for 2004-05 is estimated to increase by \$1,253.7 million, or 4.5 per cent from the 2003-04 estimated actual result.³ This is slightly higher than the estimated expenditure growth of \$1,141.2 million, or 4.2 per cent.⁴ The slight margin between revenue and expenditure growth is a signal for the Government that it will need to firmly control its expenditure in 2004-05, particularly given that the generation of surpluses is a key source of funding for the Government's capital works program.

The Government's stated budget priorities are directed towards:⁵

- boosting children's health services; protecting vulnerable children; and assisting families with schooling costs, health care and housing;

¹ Budget Paper No. 2, *2004-05 Strategy and Outlook*, p.4

² *ibid.*

³ *ibid.*, p.41. The Committee's review was based on the Government's estimate of the actual results for 2003-04. The Government released the actual results for 2003-04 on 13 October 2004.

⁴ Budget Paper No. 2, *2004-05 Strategy and Outlook*, p.39

⁵ Hon. J. Brumby, MP, Treasurer, media release, *Budget 2004-05: Putting families first*, 4 May 2004

- building and modernising infrastructure; with \$10 billion in infrastructure spending over the next four years;
- providing an extra \$2 billion for the health system over the next four years to meet hospital demand, ensuring the ongoing financial stability of public hospitals, developing health and aged care facilities and expanding public dental services;⁶
- increasing education funding by \$486.3 million over four years to employ 250 additional teachers and provide new or upgraded schools; improving access to TAFE and upgrading TAFE buildings and equipment;⁷
- increasing the capacity of the Victoria Police Forensic Science Department; providing Victoria Police with state-of-the-art surveillance and IT equipment; constructing 19 new police stations; and boosting funding for court diversion programs;
- increasing the capacity of the fire fighting services, including the provision of 190 new trucks for the Country Fire Authority;
- improving outer metropolitan and rural roads through \$552.7 million in funding;
- assisting Victorian homebuyers through initiatives such as cash grants of \$5,000 for first home buyers; abolishing stamp duty on mortgages; expanding property stamp duty exemptions; and expanding access to public housing for low income families;
- encouraging business investment and jobs growth by reducing land tax by \$1 billion over five years; and reducing average WorkCover premiums;
- providing benefits totalling \$1 billion for regional Victoria, including upgrading school and TAFE facilities; improving rural and regional roads; and upgrading hospital and health services;
- boosting funding to the Arts by \$52.1 million; and
- strengthening Indigenous communities.

The Treasurer also advised the Committee that the Government's recurrent initiatives announced in *Labor's Financial Statement* in 2002 would be fully satisfied in the 2004-05 Budget. In addition, around 80 per cent of the capital commitments would be satisfied in the 2004-05 Budget, with the remainder being delivered over future budgets.⁸

⁶ Hon. B. Pike, MP, Minister for Health, media release, *More than \$2 billion to strengthen health system*, 4 May 2004

⁷ Hon. L. Kosky, MP, Minister for Education and Training, and Hon. J. Allan, MP, Minister for Education Services, media release, *\$486.3 million school building program, new teachers*, 4 May 2004

⁸ Hon. J. Brumby, MP, Treasurer, transcript of evidence, 19 May 2004, p.10

Revenue for 2004-05 is projected to be \$28,984.9 million, an increase of \$1,253.7 million from the 2003-04 estimated actual result.⁹ The increase in revenue is anticipated from taxation (\$144.1 million),¹⁰ police fines - mainly reflecting the rectification of issues leading to the suspension of fixed site speed cameras in 2003 (\$117 million),¹¹ higher dividends derived from government business enterprises - mainly from the recommencement of dividend payments by the Transport Accident Commission (\$177 million),¹² and grants from the Commonwealth Government (\$734.8 million).¹³

The Committee noted that the original 2003-04 Budget provided for revenue of \$26,598.4 million, as compared to the estimated actual result of \$27,731.2 million, an increase of \$1,132.8 million or 4.3 per cent.¹⁴ The unexpected increase in revenue was attributed by the Treasurer to higher than expected returns on superannuation fund assets, an increase in taxation revenue due to the continuing growth in the Victorian property market (\$647 million),¹⁵ and increased investment income mainly from higher dividends and tax equivalent payments derived by the Government from government business enterprises and interest revenue (\$138 million).¹⁶ It is difficult for the Committee to determine whether the economic assumptions used in the determination of estimated revenue for 2003-04 were conservative, leading to the extra revenue of \$1,132.8 million for the year, or whether the economic upturn should have reasonably been foreseen. The situation in 2003-04 illustrates the volatility of budget projections, and the need for the Government to closely monitor revenue projections if the commitments for 2004-05 are to be fully met.

Expenses for 2004-05 are projected to be \$28,439.9 million, an increase of \$1,141.2 million, or 4.2 per cent from the 2003-04 estimated actual result.¹⁷ The projections assume the superannuation expense will return to normal levels after the higher than anticipated superannuation investment returns achieved in 2003-04 and an increase in employee entitlement expenditure flowing from increases in wages and employee numbers.

The Committee also noted that the initial 2003-04 Budget provided for expenditure of \$26,353.9 million as compared to the estimated actual expenditure of \$27,298.7 million, an increase of \$944.8 million or 3.6 per cent.¹⁸ The unbudgeted increase in expenditure included the one-off expense of \$1,250 million relating to the

⁹ Budget Paper No. 2, *2004-05 Strategy and Outlook*, p.41

¹⁰ Budget Paper No. 4, *2004-05 Statement of Finances*, pp.119-120

¹¹ *ibid.*, p.120, 133

¹² *ibid.*, p.120, 134

¹³ *ibid.*, p.120, 137

¹⁴ *ibid.*, p.216

¹⁵ *ibid.*

¹⁶ *ibid.*, p.218 and the Treasurer's response to the Committee's follow up questions, p.4. The Committee intends to follow up on dividend payments paid by government business enterprises to the Government in its 2003-04 Budget Outcomes report.

¹⁷ Budget Paper No. 2, *2004-05 Strategy and Outlook*, p.39

¹⁸ Budget Paper No. 4, *2004-05 Statement of Finances*, p.216

Government's decision to cease collection of the smelter reduction amount levy.¹⁹ This increase was partially offset by the lower than budgeted superannuation expense of \$1,176 million, as a result of higher than anticipated investment returns on superannuation fund assets in 2003-04, and a reduction in the unfunded superannuation liability of the State Superannuation Fund following the 2003 triennial review of the fund.²⁰ The budget variation further illustrates a need for the Government to restrain expenditure within budget estimates, without a reliance on potential unbudgeted revenue increases to fund expenditure over-runs.

The Government has included in its expenditure estimates for 2004-05 contingency provision funding of \$268.1 million to supplement non-wage related expenses which may arise during the year from unexpected and unforeseen events, and to fund public sector salary costs associated with enterprise bargaining agreements concluded prior to 30 June 2004.²¹ The inclusion of this contingency provision strengthens the Government's projections of its financial position.

The estimates in the Commonwealth Budget Papers for 2004-05 did not specify national competition policy payments beyond 2005-06.²² The Victorian Government anticipated that the payments would continue into the future and has factored the continuation of these payments into its estimates for 2006-07 and 2007-08.²³

Since preparation of the Victorian budget, the Federal coalition parties announced in September 2004 that, if re-elected, it would apply \$1.6 billion in funding previously included as an allowance in a contingency reserve for the continuation of payments to the states under competition reform to a new national water fund, effective from 2006-07.²⁴ Subsequently, the Federal Opposition announced that, if elected, it would apply \$800 million from those contingency reserve funds towards its health policy.²⁵ With the re-election of the Federal Coalition Government in October 2004, the Committee noted that national competition policy payments to the states are expected to cease from 2006-07.

The Committee draws attention to the impact on the budget estimates of a cessation of this funding. A shortfall in revenue will result in the Government needing to amend the forward estimates for future output and asset investment initiatives for 2006-07 and 2007-08.

¹⁹ *ibid.*, p.220

²⁰ *ibid.*; Budget Paper No. 2, *2004-05 Strategy and Outlook*, p.60

²¹ Budget Paper No. 4, *2004-05 Statement of Finances*, p.33

²² Commonwealth Government, Budget Paper No. 3, *Federal Financial Relations 2004-05*, p.21

²³ Hon. J. Brumby, MP, Treasurer, media release, *Howard tears up national competition agreement*, 13 September 2004

²⁴ Liberal Party of Australia, *Securing Australia's Water Future*, www.liberal.org.au, accessed 6 October 2004

²⁵ The Courier-Mail, *Labor stakes \$1b on health*, 23 September 2004

Commencing from the 2004-05 Budget, departmental funding was allocated through a new funding model. The funding model provides departments with an 'inclusive' budget within which they are required to manage expenditure within productivity constraints. Under the funding model, departments are funded for the period from 1 July 2004 for award wage increases consistent with the Government's wages policy, without access to the contingency provision to supplement wage related increments. The new funding model will moderate the potential for large budget fluctuations due to wage increases, which were previously met from contingency funds. In effect, individual departments and recipients of departments' services, rather than the budget as a whole, will carry the risk of wage increases in excess of the Government's wages policy, while potentially benefiting from wages increases below that level.

The Government's expenditure on infrastructure investment in 2004-05 is projected to be \$2.9 billion.²⁶ In 2004-05, infrastructure expenditure will be funded mainly from net cash flows from operating activities totalling \$2,540.6 million, with additional funding sourced from drawdowns on the Growing Victoria infrastructure reserve (\$186 million) and other increases in net debt (\$143 million).²⁷ With the run down of the Growing Victoria infrastructure reserve in 2005-06, over the forward estimates period the incurring of other moderate increases in net debt will be a secondary source of funding for the Government's asset investment program.²⁸ Public private partnerships will form a small but crucial part of infrastructure delivery in Victoria in the future.²⁹

The 2004-05 Budget did not provide additional funding for the continuation of the Growing Victoria infrastructure reserve after 2005-06.³⁰ The remaining funding in the Growing Victoria infrastructure reserve of \$4.5 million is to be fully expended in 2005-06.³¹

The *Appropriation (2004/05) Act* 2004 provided a total net appropriation of \$23,351.8 million for the Government to meet its service delivery responsibilities in 2004-05.³² This amount excludes funds that are credited to departments pursuant to section 29 of the *Financial Management Act* 1994 which allows departments to retain certain revenue, mainly generated from the recoupment of costs associated with service delivery.³³ Included in the net appropriation is an amount representing an advance to the Treasurer of \$474.2 million to meet urgent claims that may arise before Parliament's sanction is obtained.³⁴

²⁶ Hon. J. Brumby, MP, Treasurer, transcript of evidence, 19 May 2004, p.2

²⁷ Budget Paper No. 2, *2004-05 Strategy and Outlook*, p.5, 47

²⁸ *ibid.*, p.5

²⁹ Hon. J. Brumby, MP, Treasurer, transcript of evidence, 19 May 2004, p.13

³⁰ Treasurer's response to the Committee's follow up questions, p.4

³¹ Budget Paper No. 2, *2004-05 Strategy and Outlook*, p.9

³² *Appropriation (2004/2005) Act* 2004, p.5; Budget Paper No. 1, *2004-05 Treasurer's Speech*, p.12

³³ Budget Paper No. 1, *2004-05 Treasurer's Speech*, p.12

³⁴ *Appropriation (2004/2005) Act* 2004, p.14

3.2 Basis for preparation of the 2004-2005 Budget

The 2004-05 Budget is framed around the Government's financial management policy to provide a sound and stable financial basis from which growth can be promoted across the whole state.³⁵ To meet the aim of this policy the Government has established short term and long term financial objectives (see exhibit 3.1).

**Exhibit 3.1: Victorian Government
2004-05 financial objectives**

Long-term financial objectives:
<ul style="list-style-type: none"> • maintain a substantial budget operating surplus; • deliver world-class infrastructure to maximise economic, social and environmental benefits; • provide improved service delivery to all Victorians; • provide a fair and efficient tax system that is competitive with other states; and • maintain State Government net financial liabilities at prudent levels.
Short-term financial objectives:
<ul style="list-style-type: none"> • maintain an operating surplus of at least \$100 million in each year; • implement strategic infrastructure projects, including those funded from the Growing Victoria infrastructure reserve; • implement 2002 election commitments; • implement reforms to Victoria's business taxation system; and • maintain a triple-A credit rating.

Source: Budget Paper No. 2, 2004-05 Strategy and Outlook, p.3

The Committee notes that the Government's financial management policy has been reviewed by the international ratings agency Standard and Poor's. On 26 July 2004, the ratings agency confirmed Victoria's AAA credit rating. The agency listed Victoria's strengths as:³⁶

- *very strong balance sheet. A conservative measure of financial obligations, non-financial public sector net financial liabilities are only 55.5 per cent of operating revenue. Less stringent measures show an even stronger position: net direct debt of the general government sector is only 6.4 per cent of operating revenue;*
- *strong management capacity. The government's commitment to fiscal discipline is evident in its traditionally prudent approach to fiscal budgeting;*
- *strong and diverse economic base;*

³⁵ Budget Paper No. 2, 2004-05 Strategy and Outlook, p.2

³⁶ Standard and Poor's, *Credit ratings: State of Victoria*, p.1, <http://www2.standardandpoors.com>, accessed 26 August 2004

- *good financial performance. The state has typically recorded non-financial public sector cash surpluses even after capital spending. Some small deficits are projected over the next few years, but this is consistent with the 'AAA' rating given the strong balance sheet and a track record of conservative budgeting; and*
- *"low risk" revenue stream. Following the sale of its energy assets, the state's revenue is dominated by "core" government revenues and "low risk" government-owned trading enterprises engaged in areas such as water and waste water.*

At the 2004-05 estimates hearing, the Treasurer advised the Committee that only 10 states in America had a AAA rating, and that outside of America, only 16 per cent of world economies had the same rating.³⁷ The Committee notes that as of October 2004, all Australian mainland states and the ACT have a AAA rating.

Standard and Poor's drew attention to Australia's institutional framework under which Victoria relies on grants from the Commonwealth Government over which it had no control, for 45 per cent of total revenue, despite reliance on this revenue for major spending responsibilities such as health, education and transport.³⁸ The agency further commented on the Commonwealth-State financial arrangements, under which the *'less well-off states [receive] more on a per capita basis than other states, [with the result that] Victoria benefits less than most other states under this system, receiving less than the average per capita grant'*.³⁹ In addition, around 40 per cent of the grants received must be used for specific purposes.⁴⁰

The issue of whether Victoria receives its fair share of Commonwealth Government funds by comparison with other states under Commonwealth-State financial agreements has been contentious for many years. The Committee is pleased to note that at the Ministerial Council for Commonwealth-State Financial Relations meeting in Canberra in March 2004, a majority of states and territories, with the support of the Commonwealth Government, agreed to review some aspects of the existing grants system.⁴¹ The review is to be conducted by Treasury heads from all Australian jurisdictions.

The Committee noted that general government net debt⁴² is expected to increase from \$1.8 billion at June 2004 to \$2.6 billion at June 2008.⁴³ As a percentage of Gross State Product (GSP), net debt is expected to remain around 1 per cent.⁴⁴

³⁷ Hon. J. Brumby, MP, Treasurer, transcript of evidence, 19 May 2004, p.6

³⁸ Standard and Poor's, *Credit ratings: State of Victoria*, p.4, <http://www2.standardandpoors.com>, accessed 26 August 2004

³⁹ *ibid.*, p.2

⁴⁰ *ibid.*, p.4

⁴¹ Hon. J. Brumby, MP, Treasurer, media release, *Victoria's push for grants review accepted*, 26 March 2004

⁴² The Government's position is that the financial assets in the Growing Victoria infrastructure reserve are not deducted from net debt because these financial assets are committed to fund Growing Victoria infrastructure projects (Source: Budget Paper No. 2, *2004-05 Strategy and Outlook*, p.64)

General government net financial liabilities⁴⁵ are expected to increase from \$14 billion at June 2004 to \$16.4 billion at June 2008. As a share of Gross State Product, these liabilities are projected to fall from 6.8 per cent to 6.5 per cent.⁴⁶

3.3 New initiatives funding for 2004-2005

The 2004-05 Budget provided additional funding for new service delivery initiatives of \$1,078.3 million in 2004-05, with further funding of \$2,517.4 million⁴⁷ over the following three years (see exhibit 3.2). After allowing for funding from existing forward estimates demand and other contingencies put aside for service delivery and demand growth of \$390.7 million, the net budget impact of 2004-05 output funding is \$687.6 million (see exhibit 3.2).

The 2004-05 Budget provided funding for the commencement of new infrastructure projects with a total estimated investment of \$2,010 million,⁴⁸ with funding of \$608.5 million for 2004-05 (see exhibit 3.2).

⁴³ Budget Paper No. 2, *2004-05 Strategy and Outlook*, p.49

⁴⁴ *ibid.*

⁴⁵ Net financial liabilities are the sum of unfunded superannuation liabilities and general government net debt. The financial assets in the Growing Victoria infrastructure reserve are excluded (Source: Budget Paper No. 2, *2004-05 Strategy and Outlook*, p.67)

⁴⁶ Budget Paper No. 2, *2004-05 Strategy and Outlook*, p.49

⁴⁷ *ibid.*, p.34

⁴⁸ *ibid.*, p.36

Exhibit 3.2: New output and asset initiatives funding for 2004-05

Departments	2004-05 Output initiatives \$ million	2004-05 Asset initiatives \$ million
Education and Training (a)	89.9	142.7
Human Services (a)	349.6	180.9
Infrastructure	301.6	155.9
Innovation, Industry and Regional Development	33.2	23.8
Justice	78.9	37.7
Premier and Cabinet	12.9	17.9
Primary Industries	10.7	0.0
Sustainability and Environment	18.0	2.0
Treasury and Finance	133.3	21.4
Victorian Communities	10.7	5.4
Parliament	2.1	4.0
Government-wide	37.5	17.0
Total	1,078.3	608.5
Less: Funding from contingencies	-390.7	n/a
Net budget impact of new 2004-05 Budget funding (b)	687.6	608.5

Notes: (a) includes funding for the taxation concessions program
 (b) excludes initiatives funded through internal reprioritisation or other existing fund sources and 2003-04 Budget Update output initiatives
 n/a not applicable
 Some figures may not add up due to rounding

Source: Budget Paper No. 2, 2004-05 Strategy and Outlook, pp.35–36

Examples of major new output initiatives announced by the Government include:

- \$128 million in 2004-05 for the First Home Bonus, providing one-off \$5,000 grants to first home buyers for homes up to \$500,000;⁴⁹
- \$177 million over four years to boost children’s health and dental services; extra support for foster-carers; and child protection;⁵⁰
- \$1.6 billion over four years to continue the hospital sustainability and demand management strategy aimed at treating an extra 35,000 hospital patients and 50,000 emergency department patients and employing an extra 900 nurses and health staff;⁵¹

⁴⁹ Budget Paper No. 3, 2004-05 Service Delivery, p.37, 301

⁵⁰ *ibid.*, p.5

⁵¹ *ibid.*, pp.13–14, 275–276

- \$243.2 million over four years to employ extra teachers, introduce specialised education and training programs, provide extra resources for TAFE and training and boost school maintenance programs;⁵²
- \$35 million for major events over the next three years;⁵³
- \$212.6 million over four years to assist Victoria Police, emergency service organisations, correctional services and the legal system to increase operational resources and services. Funding to Victoria Police will be directed towards more intelligent policing using the latest technology and crime fighting methodology, in conjunction with a greater emphasis on community policing and working with other agencies and groups;⁵⁴ and
- \$28.5 million over four years towards the Victorian On Line Titles System, document imaging and search services.⁵⁵

Examples of new asset initiatives include:

- \$157.1 million to build new and replacement schools and modernise existing schools;⁵⁶
- \$86.5 million for Kew residential services redevelopment;⁵⁷
- an estimated \$250 million for the new Royal Women’s Hospital;⁵⁸
- an estimated \$357 million for new assets to improve hospital health care services, aged care facilities and ambulance services;⁵⁹
- an outer metropolitan road upgrade program costing \$164 million;⁶⁰
- funding of \$186 million for the Geelong Western Bypass;⁶¹
- improvements to Victoria’s road safety infrastructure with funding of \$130 million from the Transport Accident Commission;⁶²
- a new Melbourne Convention Centre (\$367 million);⁶³ and
- \$67.5 million to the Victorian Water Trust for a range of projects to improve water supplies and sewerage treatment in rural towns, upgrade irrigation systems and use of recycled water.⁶⁴

⁵² *ibid.*, p.270

⁵³ *ibid.*, p.289

⁵⁴ *ibid.*, p.291

⁵⁵ *ibid.*, p.299

⁵⁶ *ibid.*, p.272

⁵⁷ *ibid.*, p.279

⁵⁸ *ibid.*, p.280

⁵⁹ *ibid.*, pp.279–280

⁶⁰ *ibid.*, p.287

⁶¹ *ibid.*

⁶² *ibid.*

⁶³ *ibid.*, p.290

⁶⁴ *ibid.*, p.300

The 2004-05 Budget provided funding of an estimated \$2,010 million to be expended on asset investment over the forward years.⁶⁵ The Government indicated that approximately 14 per cent of the total capital value of new infrastructure investment projects funded from the 2004-05 Budget are anticipated to be delivered under the public private partnership arrangements, including the Melbourne Convention Centre.⁶⁶

After taking into account projects in progress from prior years, the Government anticipates spending around \$10 billion in infrastructure over the next four years.⁶⁷ Infrastructure projects already in progress include the Fast Rail Project (\$617 million), Spencer Street Station Redevelopment (\$700 million), Australian Synchrotron (\$206 million) and the Austin Hospital Redevelopment (\$376 million).⁶⁸

The Committee observes that the ability of the Government to commit to its large asset investment program within projected debt levels is a result of the accrued operating surpluses which have been generated over recent years. It will be important for the Government to maintain operating surpluses over the next four years in order to meet the infrastructure commitments within those debt levels.

3.3.1 Changes to departmental funding arrangements

A new departmental funding model was introduced commencing from the 2004-05 year. The Treasurer indicated that the new funding arrangements will drive productivity growth and improve policy outcomes across departments.⁶⁹

The funding model provides departments with a fixed budget indexed to a price escalation factor to maintain alignment with movements in the rate of inflation and is inclusive of funding for wages growth within the Government's wages policy.⁷⁰ The funding model abolished the 1.5 per cent productivity dividend previously applied to departments. While the fixed productivity dividend no longer applies, the drive for productivity has not been abolished. Under the funding model, departments are able to take into account their individual circumstances to achieve productivity improvements.⁷¹ With the funding model, departments are presented with greater certainty of future funding levels.⁷²

⁶⁵ Budget Paper No. 2, *2004-05 Strategy and Outlook*, p.36

⁶⁶ *ibid.*, pp.57-58

⁶⁷ Hon. J. Brumby, MP, Treasurer, media release, *Record infrastructure spending drives growth and jobs*, 4 May 2004, p.2

⁶⁸ *ibid.*

⁶⁹ Budget Paper No. 1, *2004-05 Treasurer's Speech*, p.4

⁷⁰ Budget Paper No. 2, *2004-05 Strategy and Outlook*, p.13, 92

⁷¹ *ibid.*, p.13

⁷² *ibid.*, p.12

Previously, wages supplementation funding for enterprise bargaining agreement outcomes was provided to departments from the contingency provision managed centrally by the Department of Treasury and Finance.⁷³ Under the new model and effective from 1 July 2004, the Government has provided departments with funding for enterprise bargaining agreement wage increases that are consistent with the Government's wages policy.⁷⁴ The Committee will monitor if departments are able to contain wage pressures under the new arrangements.

The Committee noted that according to Standard and Poor's the Government wages policy has resulted in most major wage agreements being settled at a cost of less than 4 per cent per annum to the Government – close to national averages and well below the initial claims.⁷⁵ According to the Department of Treasury and Finance publication *Victorian Economic News*, the wage cost index for Victorian public sector wages grew by 3.4 per cent during the year to March 2004, below the national index growth of 4.3 per cent.⁷⁶

The Committee notes the significant enterprise bargaining agreements that have been finalised and accordingly, Government wages costs for 2003-04 were expected to be \$240 million higher than was estimated in the 2003-04 budget.⁷⁷

In relation to 2004-05 the Treasurer advised the Committee that:⁷⁸

Employee benefits for 2004-05 are budgeted to increase by \$643 million, which is a 6.25 per cent rise from the revised 2003-04 estimate, and that rise largely reflects the government's wages policy, obviously, plus additional expenditure as a result of higher staffing levels in health and education.

The 2004-05 budget estimates for employee entitlements are \$503 million higher than the estimates for 2004-05 in the 2003-04 budget.⁷⁹

The Budget Papers do not contain data that separately disclose employee benefit increases due to wage increases and increases due to higher staffing levels.

The Committee notes that most of the wage agreements negotiated were for three year periods, which should provide a period of certainty for budget purposes. The Treasurer also advised the Committee that a contingency provision is included in the

⁷³ *ibid.*, p.92

⁷⁴ *ibid.*

⁷⁵ Standard and Poor's, *Credit ratings: State of Victoria*, p.4, <http://www2.standardandpoors.com>, accessed 26 August 2004

⁷⁶ Department of Treasury and Finance, *Victorian Economic News*, June 2004, p.12

⁷⁷ Budget Paper No. 4, *2004-05 Statement of Finances*, p.216

⁷⁸ Hon. J. Brumby, MP, Treasurer, transcript of evidence, 19 May 2004, p.12

⁷⁹ Refers to employee entitlement expenses for 2004-05, see Budget Paper No. 2, *2003-04 Budget Statement*, p.164 and Budget Paper No. 4, *2004-05 Statement of Finances*, p.8

2004-05 Budget to provide for employee costs associated with wage agreements that were settled prior to 30 June 2004.⁸⁰

Based on its inquiry into the Victorian Public Service,⁸¹ the Committee considers that the Government's wages policy needs to be complemented by sector-wide workforce planning which takes into account labour market movements, market shortages such as occur with the nursing, medical and dental professions and salary levels for skilled professionals where the public sector competes with the private sector for placements.

3.4 Economic projections for 2004-2005

The Government identified the new challenges for the Victorian economy as: the stronger Australian dollar putting additional pressure on manufacturers and exporters; rises in interest rates increasing business costs; and an increasingly competitive global economy.⁸²

The Budget Papers estimate that economic growth for 2004-05 will be 3.25 per cent, the same growth as occurred in 2003-04.⁸³ In 2004-05, economic growth is anticipated to be led by increased demand for Victorian exports as the global economy improves, domestic demand strengthens and business investment increases.⁸⁴ Housing construction activity is anticipated to slow in 2004-05, which will have some impact on property taxes collected by the Government.⁸⁵

At the estimates hearing the Treasurer informed the Committee that the projected economic growth of 3.25 per cent is broadly consistent with private sector forecasts.⁸⁶ However, Access Economics' *Business Outlook* March Quarter 2004 forecasts that the Victorian economy will grow by only 2.9 per cent in 2004-05.⁸⁷

Employment growth is estimated to remain strong, with projections of a 1.5 per cent growth in 2004-05, signifying a 0.25 percentage point increase from the revised projections for 2003-04.⁸⁸ Inflation is expected to ease from 2.25 per cent in 2003-04 to 2 per cent in 2004-05, largely reflecting the '*impact of the unexpected strength of the Australian dollar on the price of imported consumer goods.*'⁸⁹

⁸⁰ Treasurer's response to the Committee's follow up questions, p.3

⁸¹ Public Accounts and Estimates Committee, *Report on the Review of the Victorian Public Service*, October 2002

⁸² *2004-05 Victorian Budget Overview*, p.8

⁸³ *ibid.*

⁸⁴ *ibid.*

⁸⁵ Budget Paper No. 2, *2004-05 Strategy and Outlook*, p.26

⁸⁶ Hon. J. Brumby, MP, Treasurer, transcript of evidence, 19 May 2004, p.3

⁸⁷ Access Economics, March 2004, *Business Outlook*, p.97

⁸⁸ *2004-05 Victorian Budget Overview*, p.8

⁸⁹ *ibid.*; Budget Paper No. 2, *2004-05 Strategy and Outlook*, p.26

Population growth for 2004-05 is expected to remain at 1.1 per cent, unchanged from the revised forecast for 2003-04.⁹⁰ Overseas migration is the main attributor to Victoria's population growth.⁹¹ The projection assumes there will be no net interstate migration into and out of Victoria.⁹²

The Government has projected the unemployment rate and wages growth to remain unchanged from the current projections of 5.5 per cent and 3.5 per cent respectively.⁹³

The Government identifies the key risks to its economic projections as: weaker export recovery; larger than expected decline in housing sector activity; re-emergence of drought conditions; and weaker than expected population growth.⁹⁴

The Government's projected operating surplus will be affected by variations to the Government's forecast for the economic indicators. A one percentage point decrease in economic growth will have the effect of reducing the operating surplus by \$125 million in 2004-05.⁹⁵ A one percentage point increase in wages (assuming public sector wages increased by one per cent above the Government's wages policy without productivity offsets or additional departmental funding) could reduce the operating surplus by \$94 million, and a one percentage point increase in interest rates could reduce the operating surplus by \$24 million.⁹⁶

3.5 Budget surplus for 2004-05

The estimated operating surplus for 2004-05 of \$545 million represents an increase of \$112.5 million from the revised surplus of \$432.5 million for 2003-04⁹⁷ (see exhibit 3.3). In 2004-05, revenue is projected to increase by \$1,253.7 million, compared to growth in expenses of \$1,141.2 million (see exhibit 3.3). In essence, the projected increase in revenue will be offset by increased expenditure, except for a margin of \$112.5 million which will contribute to the operating surplus.

Total revenue for 2004-05 is estimated to be \$28,984.9 million, an increase of 4.5 per cent from the 2003-04 revised estimates (see exhibit 3.3). The revenue estimates were prepared after taking into account Government policy decisions such as land tax relief, extending payroll tax to employment agencies and abolishing certain stamp duties while extending others. The projected revenue growth shows vulnerability in taxation revenue with the Government projecting an increase of only \$144.1 million from the 2003-04 revised estimates (see exhibit 3.3). The key driver of taxation revenue growth in previous years, land transfer duty, is projected to decrease

⁹⁰ 2004-05 Victorian Budget Overview, p.8

⁹¹ Budget Paper No. 2, 2004-05 Strategy and Outlook, p.25

⁹² *ibid.*, p.26

⁹³ 2004-05 Victorian Budget Overview, p.8

⁹⁴ Budget Paper No. 2, 2004-05 Strategy and Outlook, pp.85-86

⁹⁵ *ibid.*, p.87

⁹⁶ *ibid.*, pp.87-88

⁹⁷ The Committee's review was based on the Government's estimate of the actual results for 2003-04. The Government released the actual results for 2003-04 on 13 October 2004

by \$278.3 million, mainly in anticipation of the slowdown in housing market activities.⁹⁸ The net effect of the taxation policy changes that take effect in 2004-05 is expected to reduce taxation revenue by \$136.8 million in 2004-05 compared with the position if these policy changes had not been made.⁹⁹ The Government's decision to reduce the motor vehicle registration fees concession will result in reduced taxation expenditures of \$64.3 million which are redirected to other concession programs.¹⁰⁰

A greater than expected decline in budgeted taxation revenue will increase reliance on other revenue sources such as fines and dividends from government business enterprises to sustain the operating surplus.

Revenue from fines and regulatory fees is expected to return to 'more normal operational conditions'¹⁰¹ in 2004-05 following the suspension of fixed site speed camera operations in November 2003.¹⁰² Police fines are estimated to increase by \$117 million in 2004-05, representing a 50.1 per cent increase on collections in 2003-04.¹⁰³

GST revenue grants from the Commonwealth are expected to increase by \$286.4 million in 2004-05 mainly reflecting the growth in the Commonwealth's GST revenue collections.¹⁰⁴ In accordance with the Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations, Victoria does not anticipate it will require GST transitional grants in 2004-05, reflecting the Commonwealth's analysis that *'from 2004-05 onwards, every State and Territory (the States) will receive more revenue from the GST than they would have under the previous system of Financial Assistance Grants and the state taxes that were abolished by the New Tax System. ... From 2004-05 onwards, no State will require Budget Balancing Assistance.'*¹⁰⁵

In September 2004 the Commonwealth Government announced revised estimates for GST revenue grants, indicating that Victoria would receive \$7,321.1 million¹⁰⁶ in 2004-05 which includes an additional \$169.7 million above that estimated in the May 2004 Commonwealth Budget.

Total expenses for 2004-05 are estimated to be \$28,439.9 million, an increase of 4.2 per cent from the 2003-04 revised estimates (see exhibit 3.3). While expenses are projected to increase at a rate lower than revenue, growth in expenses, particularly employee entitlements and superannuation expenses will place further pressure on the Government to prudently manage its finances.

⁹⁸ Budget Paper No. 2, *2004-05 Strategy and Outlook*, p.41

⁹⁹ *ibid.*, p.37

¹⁰⁰ *ibid.*, p.38

¹⁰¹ Budget Paper No. 4, *2004-05 Statement of Finances*, p.133

¹⁰² *ibid.*

¹⁰³ *ibid.*

¹⁰⁴ *ibid.*, p.137

¹⁰⁵ Commonwealth Government, Budget Paper No. 3, *Federal Financial Relations 2004-05*, p.1

¹⁰⁶ Hon. P. Costello, MP, Commonwealth Treasurer, media release, *GST revenue windfall to the States and Territories*, Attachment A, 17 September 2004

The Committee observed that under new public sector agreements, pro-rata long service leave will now be available after seven years rather than ten years. The Committee sought to determine the potential impact of this new provision on costs and employee working patterns. The Treasurer assured the Committee that the 2004-05 Budget and forward estimates were adjusted to reflect the estimated changes to long service leave entitlements based on information available at the time of preparing the budget.¹⁰⁷ The Committee considers that the eventual impact of changes to employee entitlements will need to be closely monitored in order to retain control over this major component of Government expenditure.

In 2004-05 superannuation expenses are projected to return to their assumed level after the higher than anticipated superannuation investment returns achieved in 2003-04, hence the significant increase of \$1,014.5 million compared to the 2003-04 revised estimates (see exhibit 3.3). Although there was a strong global equity market performance in 2003-04, the Government has provided for a superannuation fund investment earnings rate of 7.5 per cent a year in 2004-05, which is only slightly higher than the previous budget projections of 7 per cent.¹⁰⁸

Exhibit 3.3 illustrates the revenue and expenses projections for 2004-05.

¹⁰⁷ Treasurer's response to follow up questions, p.4

¹⁰⁸ Budget Paper No. 4, *2004-05 Statement of Finances*, p.36

**Exhibit 3.3: Statement of Financial Performance
2003-04 and 2004-05**

	Column 1	Column 2	Column 2-1	Column (2-1)/1
	2003-04 Revised \$ million	2004-05 Budget \$ million	Variation (a) \$ million	Variation (a) %
Taxation	10,240.1	10,384.2	144.1	1.4
Fines and regulatory fees	483.1	617.0	133.9	27.7
Investment revenue	1,034.0	1,225.4	191.4	18.5
Grants	12,345.7	13,080.5	734.8	6.0
Sales of goods and services	2,165.0	2,231.3	66.3	3.1
Other revenue (b)	1,463.3	1,446.5	-16.8	-1.1
Total revenue	27,731.2	28,984.9	1,253.7	4.5
Employee benefits	9,837.3	10,480.5	643.2	6.5
Superannuation	774.7	1,789.2	1,014.5	131.0
Grants and transfer payments	6,025.0	5,087.7	-937.3	-15.6
Supplies and services	8,970.4	9,311.0	340.6	3.8
Other expenses (c)	1,691.3	1,771.3	80.0	4.7
Total expenses	27,298.7	28,439.9	1,141.2	4.2
Net surplus	432.5	545.0	112.5	26.0

Notes: (a) a negative variation denotes a decrease compared to 2003-04 Revised Budget
 (b) includes gain/loss on disposal of assets, assets received free of charge or for nominal consideration, capital asset charge revenue and other miscellaneous revenue
 (c) includes depreciation and amortisation, borrowing costs and other miscellaneous expenses

Some figures may not add up due to rounding

Sources: Budget Paper No. 4, 2004-05 Statement of Finances, p.8, 216

The above exhibit shows a revised surplus of \$432.5 million for 2003-04. The Committee's analysis disclosed that this figure was arrived at after two large abnormal factors affected the surplus in opposite directions. The first of these factors was an actuarial revaluation of the liabilities of the State Superannuation Fund which, when coupled with the recovery in global equity markets, produced a superannuation expense result of \$1,176 million¹⁰⁹ which was lower than budgeted. The second factor was an abnormal one-off expenditure item of \$1,250 million involving the cessation of the Smelter Reduction Amount.¹¹⁰ In the absence of this latter factor, the revised

¹⁰⁹ *ibid.*, p.220

¹¹⁰ *ibid.*

surplus for 2003-04 would have been in the vicinity of \$1,682 million, or \$1,437 million more than the initial budget estimate.¹¹¹

The Smelter Reduction Amount was a levy introduced in 1997 on wholesale purchases of electricity from the National Electricity Market, with the proceeds of the levy used to fund the State Electricity Commission's obligations to subsidise the aluminium smelters at Portland.¹¹² Following a legal challenge the levy was dropped and replaced by imposing land taxes on electricity transmission easements held by electricity transmission companies. To replace the \$1,250 million smelter reduction amount levy held as a receivable by the State Electricity Commission, it was necessary for the Government to undertake to pay an equivalent amount to the State Electricity Commission, and to record that amount as expenditure in its statement of financial performance in 2003-04.

The accounting treatment associated with the cessation of the Smelter Reduction Amount was accepted by the Auditor-General as appropriate.¹¹³ This is an example of an unexpected event that has an impact on budget estimates, which illustrates the volatility in budget projections.

3.6 Asset investment

At the estimates hearing, the Committee requested details of each department's purchases of physical assets for 2004-05 and the forward estimate years, which was previously included in the Budget Papers. This information is illustrated in exhibit 3.4.

¹¹¹ The initial budget estimate of the operating surplus for 2003-04 was \$244.5 million (source: Budget Paper No. 4, *2004-05 Statement of Finances*, p.216)

¹¹² Budget Paper No. 4, *2004-05 Statement of Finances*, pp.220–221

¹¹³ Hon. J. Brumby, MP, Treasurer, transcript of evidence, 19 May 2004, p.17

Exhibit 3.4: Fixed asset purchases by departments

Departments	2004-05 Budget \$ million	2005-06 Estimate \$ million	2006-07 Estimate \$ million	2007-08 Estimate \$ million
Education and Training	471	412	294	277
Human Services	665	480	327	165
Infrastructure	615	513	343	165
Innovation, Industry and Regional Development	73	41	4	4
Justice	339	130	71	62
Premier and Cabinet	78	34	36	34
Primary Industries	6	6	6	6
Sustainability and Environment	69	79	67	64
Treasury and Finance	65	100	55	24
Victorian Communities	57	22	(b) -14	(b) -7
Parliament	7	5	3	3
Other general government sector agencies (a)	99	89	84	84
Not allocated to departments	(b) -74	337	738	1,224
Total	2,471	2,250	2,013	2,107

Notes: (a) represents government agencies classified as external to the general government sector

(b) negative figures represent instances where proceeds arising from the sale of assets are retained by departments and exceeds the value of asset purchases during that year

Some figures may not add up due to rounding

Source: Treasurer's response to the Committee's follow up questions, p.1

The Committee considered that the table which was previously in the Budget Papers, should be reinstated as it provides the reader with information on all capital works expenditure over the forward estimates period, inclusive of new asset initiatives. The table also provides an overview of capital expenditure in the major areas of health, education and transport.

The Committee recommends that:

Recommendation 11: The Government include in the Budget Papers a table summarising fixed asset purchases by departments.

The budget estimates include a capital provision that is not allocated to departments and which effectively sets aside funding for future capital investment projects.¹¹⁴ The unallocated capital provision is projected to rise from \$337 million in 2005-06 to \$1,224 million in 2007-08 (see exhibit 3.4). The inclusion of this provision in the budget estimates provides the Government with some flexibility to manage capital expenditure pressures, including variations to major projects.

While the estimates assume that capital expenditure pressures will be managed within the budgeted amounts in order to avoid putting additional pressure on the budget, the Government can apply any of the following three methods should project costs exceed initial capital budgets:¹¹⁵

- reallocate resources within departments' global capital budgets;
- re-scope a project to fit within funding parameters; and
- apply funding from the unallocated capital provision.

3.7 Unfunded superannuation liability

Unfunded superannuation is the state's most significant liability and represents the present value of future benefits accrued by members of the superannuation fund that are not covered by investments of the superannuation fund.¹¹⁶ The bulk of the unfunded superannuation liability is with the State Superannuation Fund.

The 2004-05 Budget projections of the unfunded superannuation liability are significantly lower than the level projected in the 2003-04 Budget, as a result of subsequent developments (see exhibit 3.5 for the projected unfunded superannuation liability of the State Superannuation Fund). These developments included the better than expected global equity market performance during 2003-04 and the 2003 triennial actuarial review of the State Superannuation Fund.¹¹⁷ The unfunded superannuation liability is estimated to be \$12,877.4 million at 30 June 2005.¹¹⁸ Based on the 2004-05 budget projections, the unfunded superannuation liability is expected to peak at \$13,866.5 million in 2007.¹¹⁹

¹¹⁴ Budget Paper No. 2, *2004-05 Strategy and Outlook*, p.93

¹¹⁵ *ibid.*

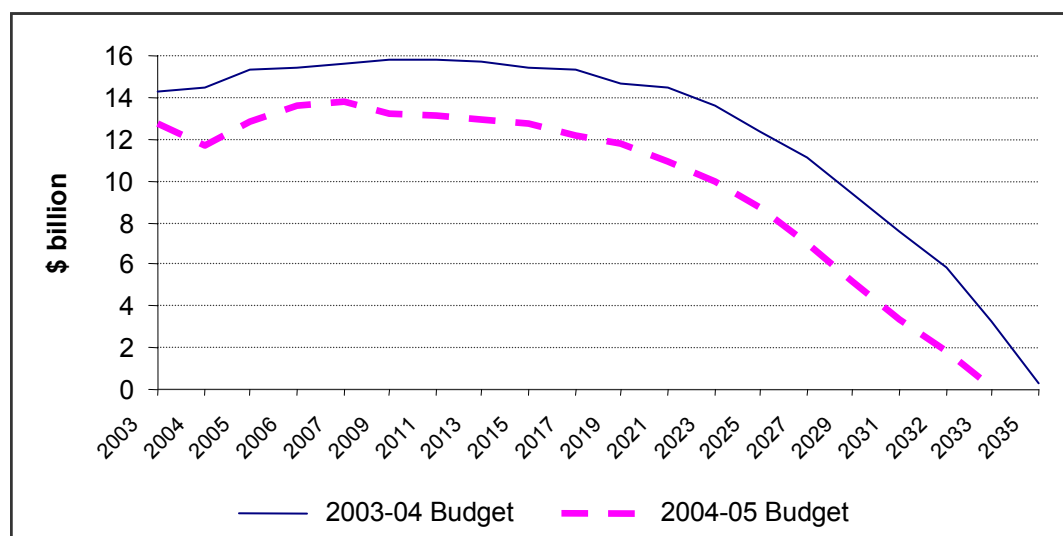
¹¹⁶ *ibid.*, p.59

¹¹⁷ *ibid.*, pp.59–60

¹¹⁸ Budget Paper No. 4, *2004-05 Statement of Finances*, p.36

¹¹⁹ *ibid.*

**Exhibit 3.5: State Superannuation Fund
Long-term projections for unfunded
superannuation liability**



Note: Projections are based on nominal values

Sources: Budget Paper No. 2, 2003-04 Budget Statement, p.120; Budget Paper No. 2, 2004-05 Strategy and Outlook, p.61

At the estimates hearing, the Treasurer indicated that the dip shown in the 2004-05 Budget projection in exhibit 3.5 reflects two factors:¹²⁰

- the prepayment of the unfunded superannuation liability; and
- movements in equity markets.

The Government has made additional payments totalling \$1.8 billion (since 2000) to the State Superannuation Fund to reduce the unfunded superannuation liability.¹²¹ The Treasurer indicated that based on the Government's present payment schedule, the unfunded superannuation liability will be extinguished by 2033, two years ahead of the Government's target of 2035.¹²² The Committee notes the explanation in the Budget Papers that the unfunded superannuation liability is projected to rise *'in the short term due to member benefits accruing more rapidly than the State Superannuation Fund's assets, [and that] after 2007, the unfunded liability declines as government contributions and investment earnings outweigh accrued liability growth.'*¹²³

¹²⁰ Hon. J. Brumby, MP, Treasurer, transcript of evidence, 19 May 2004, p.10

¹²¹ Hon. J. Lenders, MP, Minister for Finance, transcript of evidence, 15 June 2004, p.3

¹²² Hon. J. Brumby, MP, Treasurer, transcript of evidence, 19 May 2004, p.6

¹²³ Budget Paper No. 2, 2004-05 Strategy and Outlook, p.61

The Committee was advised that the unfunded superannuation liability projections and its associated extinguishment will be affected by changes arising from the adoption of international financial reporting standards from 1 January 2005.¹²⁴ The unfunded superannuation liability is expected to be higher as a result of changes to the basis for discounting of future liabilities under the reporting standard.¹²⁵ The Minister for Finance indicated that *‘any increase in the State’s **reported** unfunded superannuation liability arising from the new accounting standards will not adversely impact on the Government’s **real** financial position. The amount of cash needed to actually fund future benefit payments will be unchanged.’*¹²⁶

The Committee understands that the Department of Treasury and Finance is currently coordinating the transition to the adoption of the international financial reporting standards and it may be too early for the impact on the reported budget position to be known. The Committee notes the assurance from the Minister for Finance that the reporting of the unfunded superannuation liability under the new regime will not have an adverse affect on the state’s actual financial position. However, the Committee believes it is important in the interests of transparency that estimates of the affects on the budget estimates and outcomes of the adoption of international financial reporting standards be made public as soon as possible, and prior to the first use of international financial reporting standards in the state budget, budget updates or annual reports.

The Committee recommends that:

Recommendation 12: **The Department of Treasury and Finance publish as soon as possible, and prior to the first use of international financial reporting standards in budget papers or annual reports, estimates of the effects of those standards on budget sector estimates and outcomes.**

¹²⁴ Hon. J. Lenders, MP, Minister for Finance, transcript of evidence, 15 June 2004, pp.3–4

¹²⁵ Minister for Finance’s response to the Committee’s follow up questions, p.10

¹²⁶ *ibid.*

CHAPTER 4: REVIEW OF THE BUDGET PAPERS

Key Findings of the Committee:

- 4.1 The 2004-05 Budget Papers were restructured so each volume contains related information.
- 4.2 The focus of the Budget Papers is to provide enhanced information at the whole of government level. However, this has resulted in a reduced emphasis on details at the departmental level. More information needs to be provided at a departmental level on the budget initiatives and strategies adopted to meet the Government's desired outcomes.
- 4.3 The departmental output statements in Budget Paper No. 3 *2004-05 Service Delivery* do not distinguish the ministerial portfolio responsibilities nor the respective Minister's responsibility for outputs within their departments.
- 4.4 The extent of information provided by departments in Budget Paper No. 3 *2004-05 Service Delivery* as an explanation of discontinued outputs and performance measures, and changes to performance targets (including cost targets) varies.

4.1 Amendments to information in the 2004-05 Budget Papers

The Committee noted that some information contained in the printed versions of the 2004-05 Victorian Budget Overview, Budget Paper No. 2 *2004-05 Strategy and Outlook* and Budget Paper No. 4 *2004-05 Statement of Finances* was different to the electronic versions of these Budget Papers. A list of the amendments can be found at the Victorian State Budget website, www.budget.vic.gov.au, and is reproduced in exhibit 4.1.

Exhibit 4.1: Amendments to the 2004-05 Budget Papers

Amendments			
<i>Please note that some information contained in the Budget Overview, Budget Paper No. 2 and Budget Paper No. 4 found on this site differs from that in the printed versions. Please refer to the table below for specific details:</i>			
Budget Paper	Chapter	Page	Reason for amendment
Budget Overview	N/A	11	Investment figures for 2003-04 in original chart were based on 2003-04 Budget Update estimate. Amended chart based on revised 2003-04 estimate as published in 2004-05 Budget.
BP2	1	9	Investment figures for 2003-04 in original Chart 1.2 were based on 2003-04 Budget Update estimate. Amendments to Chart 1.2 are based on revised 2003-04 estimate as published in 2004-05 Budget.
BP2	3	44	Table 3.7 updated to correctly allocate changes in revenue between Economic/Demographic Effects, taxation revenue and Administrative Variations, and other miscellaneous variations.
BP2	3	45	Updated text to reflect revised Table 3.7.
BP2	5	77	Table 5.2 corrected to eliminate misalignment of some state and territory information across columns.
BP4	6	183	Table 6.6 corrected to eliminate the transactions between sectors in recognition of the Smelter Reduction Amount (SRA). Original table did not correctly eliminate the SRA.

Notes: BP2 – refers to Budget Paper No. 2 2004-05 Strategy and Outlook

BP4 – refers to Budget Paper No. 4 2004-05 Statement of Finances

Source: Amendments, www.budget.vic.gov.au, accessed 24 August 2004

The reason for the amendments implies that a number of errors were subsequently found in the printed Budget Papers that were tabled in Parliament. The Committee acknowledges that the Department of Treasury and Finance has a strict timeframe to adhere to during the process of formulating the budget and the budget documentation. Where errors are identified the changes should be emailed to Members of Parliament.

The Committee understands that the Parliament was not advised of these amendments to the tabled Budget Papers.

The Committee recommends that:

Recommendation 13: **The Treasurer table in the Parliament an erratum slip notifying any changes to the information contained in the Budget Papers and provide a copy to the Public Accounts and Estimates Committee.**

4.2 Presentation of the 2004-05 Budget Papers

The Government has made a number of structural changes to the 2004-05 Budget Papers. As indicated in the Budget guide,¹ these changes do not alter the scope of the Budget Papers but rearranges material between the different volumes.² A comparison of the structure of the 2003-04 Budget Papers and the 2004-05 Budget Papers is shown in exhibit 4.2.

¹ *2004-05 Victorian Budget - Your guide to the structure of the State Budget Papers*

² *ibid.*, p.2

Exhibit 4.2: Comparison between the structure of the 2003-04 and 2004-05 Budget Papers

2003-04 BUDGET PAPERS CHAPTER HEADINGS	2004-05 BUDGET PAPERS CHAPTER HEADINGS
Budget Paper No. 2 <i>Budget Statement</i>	Budget Paper No. 2 <i>Strategy and Outlook</i>
Financial policy objectives and strategies	Financial policy objectives and strategy
Budget position and outlook	Economic conditions and outlook
Economic conditions and outlook	Budget position and outlook
Budget initiatives(a)	Balance sheet management and outlook
Commonwealth-State financial relations	Commonwealth-State financial relations
Balance sheet management and outlook	Statement of risks
Election commitments: Implementation report card (a)	Style conventions
Statement of risks	
Estimated financial statements and notes (b)	
Output, asset investment and revenue initiatives (a)	
Growing Victoria Infrastructure reserve (a)	
Revised 2002-03 Budget outcome (b)	
Historical and forward estimates tables (b)	
Uniform presentation of Government Finance Statistics (b)	
Tax expenditures (b)	
<i>Growing Victoria Together</i> progress report (a)	
Style conventions	
Budget Paper No. 3 <i>Budget Estimates</i>	Budget Paper No. 3 <i>Service Delivery</i>
Introduction	Introduction
Departmental overview	Service and budget initiatives
Individual departments	Election commitments: Implementation report card
Part 1: Outlook and inputs	Departmental output statements
Individual departments (b)	Output, asset investment and revenue initiatives
Part 2: Financial information (b)	Growing Victoria Infrastructure Reserve
State revenue (b)	<i>Growing Victoria Together</i> progress report
Public account (b)	Discontinued outputs and/or measures (c)
Abbreviations and acronyms	Abbreviations and acronyms
Style conventions	
	Budget Paper No. 4 <i>Statement of Finances</i>
	Introduction
	Estimated financial statements and notes
	Departmental financial statements
	State revenue
	Tax expenditures and concessions
	Public accounts
	Uniform presentation of Government Finance Statistics
	Historical and forward estimates tables
	Revised 2003-04 Budget outcome
	2003-04 Quarterly Financial Report No. 3 for the Victorian General Government Sector (previously reported separately) (c)

Notes: (a) moved to Budget Paper No. 3 2004-05 Service Delivery
 (b) moved to Budget Paper No. 4 2004-05 Statement of Finances
 (c) new for 2004-05

Source: 2004-05 Victorian Budget - Your guide to the structure of the State Budget Papers, p.3

As shown in exhibit 4.2 each volume of the Budget Papers is structured around similar themes, in that:

- Budget Paper No. 2 *2004-05 Strategy and Outlook* provides a high-level perspective on the Budget;
- Budget Paper No. 3 *2004-05 Service Delivery* provides stronger linkages between the Government's outcomes and the outputs to be delivered by departments in the Budget year; and
- Budget Paper No. 4 *2004-05 Statement of Finances* is dedicated specifically to financial information and amalgamates financial information previously contained in the former Budget Paper No. 2 *2003-04 Budget Statement* and Budget Paper No. 3 *2003-04 Budget Estimates*.

The Committee welcomes these changes, the overall effect of which has been to improve the structure of the Budget Papers by consolidating similar information within one volume.

4.2.1 The Budget guide

Included in this year's Budget Papers is a guide which outlines the changes to the structure of the Budget Papers.³ The information in the guide is contained in the table which is reproduced in exhibit 4.2, and in the following exhibit 4.3 which identifies the chapters of the Budget Papers where the statutory requirements for the preparation of the budget are addressed.

³ *2004-05 Victorian Budget - Your guide to the structure of the State Budget Papers*

Exhibit 4.3: Requirements of the Financial Management Act 1994 and the Audit Act 1994 and their location in the 2004-05 Budget Papers

Relevant Section of the Acts	Requirement	Location
Sections 23 E-G of the <i>Financial Management Act 1994</i>	Statement of financial policy objectives and strategies for the year.	Budget Paper No. 2, Chapter 1 <i>Financial Policy Objectives and Strategies</i> Budget Paper No. 4, Chapter 1 <i>Estimated Financial Statements and Notes</i>
Sections 23 H-J of the <i>Financial Management Act 1994</i>	Estimated financial statements for the year, comprising: <ul style="list-style-type: none"> • an estimated statement of financial performance over the year; • an estimated statement of financial position at the end of the year; • an estimated statement of cash flows for the year; and • statement of the accounting policies on which these statements are based and explanatory notes. 	Budget Paper No. 4, Chapter 1 <i>Estimated Financial Statements and Notes</i>
Section 23 K of the <i>Financial Management Act 1994</i>	Statement accompanying the budget which:	
	<ul style="list-style-type: none"> • outlines the material economic assumptions used in preparation of the estimated financial statements; 	Budget Paper No. 2, Chapter 2 <i>Economic Conditions and Outlook</i>
	<ul style="list-style-type: none"> • discusses the sensitivity of the estimated financial statements to changes in these assumptions; 	Budget Paper No. 4, Chapter 1 <i>Estimated Financial Statements and Notes</i>
	<ul style="list-style-type: none"> • provides an overview of estimated tax expenditures in the budget; and 	Budget Paper No. 4, Chapter 4 <i>Tax Expenditures and Concessions</i>
	<ul style="list-style-type: none"> • provides a statement of the risks that may have a material effect on the estimated financial statements. 	Budget Paper No. 2, Chapter 6 <i>Statement of Risks</i>
Section 40 of the <i>Financial Management Act 1994</i>	Statement of information under departmental headings setting out:	
	<ul style="list-style-type: none"> • the description of goods and services to be produced or provided by each department during the period to which the statement relates, together with comparative information for the preceding financial year; and 	Budget Paper No. 3, Chapter 3 <i>Departmental Output Statements</i>
	<ul style="list-style-type: none"> • estimated amount of receipts and receivables of each department during the period, together with comparative figures. 	Budget Paper No. 4, Chapter 2 <i>Departmental Financial Statements</i>
Section 16B of the <i>Audit Act 1994</i>	The Auditor-General review and report on the estimated financial statements to ensure they are consistent with accounting convention and that the methodologies and assumptions used are reasonable.	Budget Paper No. 4, Chapter 1 <i>Estimated Financial Statements and Notes</i>

Source: 2004-05 Victorian Budget: Your guide to the structure of the State Budget Papers, p.4

The Committee acknowledges that the guide provides a clear overview of the changes to the structure of the Budget Papers and the location of the statutory budget information in the Budget Papers.

The Committee recommends that:

Recommendation 14: The Department of Treasury and Finance include a Budget guide in future Budget Papers.

4.3 Discontinued outputs and performance measures

The Committee noted that a new section summarising discontinued outputs and performance measures was included as Appendix D to Budget Paper No. 3 *2004-05 Service Delivery*.⁴ The appendix lists in detail the two outputs and 231 performance measures that were discontinued in 2004-05.⁵

However, only a few departments provided comments to explain the discontinuation of outputs and performance measures,⁶ including the Department of Human Services which provided comprehensive comments for its discontinued outputs and performance measures.⁷

The Committee endorses the consolidation of discontinued outputs and performance measures in the manner presented in Budget Paper No. 3 *2004-05 Service Delivery*. However, the Committee believes that all departments should provide explanations for their discontinued outputs and performance information.

The Committee recommends that:

Recommendation 15: The Department of Treasury and Finance direct all departments to explain the discontinuation of outputs and performance measures as detailed in Budget Paper No. 3 *Service Delivery*.

4.4 Departmental output statements

The Committee is cognisant that the changes introduced to the Budget Papers were aimed at providing a whole of government focus that is linked to the Government's key outcomes, as distinct from providing comprehensive details for every department.

⁴ Budget Paper No.3, *2004-05 Service Delivery*, pp.333–357

⁵ *ibid.*

⁶ *ibid.*

⁷ *ibid.*, pp.336–337

Budget Paper No. 3 *2004-05 Service Delivery* was structured to link the Government's key priorities and outcomes, to the outputs to be delivered by the departments.

Chapter 3 of Budget Paper No. 3 *2004-05 Service Delivery* contains the departmental output statements which indicate the relationship between the departments' outputs, the budget priorities and the key Government outcomes to be achieved by the departments.⁸ The departmental output statements comprise three components:

- output structure - this is the text commentary that explains the changes to departmental output structures and the explanation of why the changes have occurred, see exhibit 4.4.;
- output classification - this information is presented by output group basis and discusses the outputs that are covered in the output group, explanations of how these outputs contribute to the Government's desired outcomes and the linkages between the outputs and the Government's desired outcomes, see exhibit 4.5; and
- output tables – presented in a table format, which details the performance measures and costs for each output, see exhibit 4.6.

An example of a departmental output statement is shown in the following exhibits.

⁸ Budget Paper No.3, *2004-05 Service Delivery*, p.1

**Exhibit 4.4: Departmental output statement –
output structure information**

DEPARTMENT OF EDUCATION AND TRAINING			
The Department has introduced the following changes to its 2004-05 output structure:			
2004-05 Outputs	Explanation		
	New Output	Consolidation	Title Change
Early Years		Primary Education Junior Education Non-Government Education	
Middle Years		Primary Education Junior Education Non-Government Education	
Later Years		Primary Education Junior Education Non-Government Education	
Training and Further Education		Training and Further Education Places	
Adult and Community Education		Adult and Community Education Places and Community Support	
Cross-Sectoral		Senior Secondary Education Training and Further Education Places Adult and Community Education Places and Community Support Policy, Strategy and Executive Services	
Services to Students		Student Welfare Support Services to Students and Disabilities Education Maintenance Allowance Student Transport	
Services to Ministers and Policy		Policy, Strategy and Executive Services Public Information and Promotion	
Regulation		Non-Government Education Higher Education International Education	
<p>The new output structure focuses on students in compulsory years, those in post-compulsory years, services to support students and services to manage the portfolio.</p> <p>Key factors leading to the revision of the output structure and associated performance measures for 2004-05 include:</p> <ul style="list-style-type: none"> the shift from a provider to a client focus based on student progression along the key stages of learning; and the policy focus on the student cohort in the immediate post-compulsory years and associated cross-sectoral initiatives to improve the attainment of a Year 12 or equivalent qualification. <p>The new output structure will better support the achievement of the Government's policy objectives, resourcing intentions and accountability requirements for education and training.</p>			

Source: *Budget Paper No. 3, 2004-05 Service Delivery, pp.52-53*

Exhibit 4.5: Departmental output statement – output classification information

Compulsory Years

These outputs involve the provision of education and associated services designed to improve the quality of student learning of those in Prep–Year 10 in government and non–government schools. It comprises two outputs.

The ‘early years’ is concerned with developing the essential skills necessary for ongoing progress in education and providing learning experiences to engage young minds. Literary and numeracy are foremost among the skills learnt during these foundation years.

The ‘middle years’ of schooling is a fundamental stage of learning where students growing from childhood to adolescence consolidate competency in literary and numeracy, and their physical, social, emotional and intellectual development of early adolescence. It is also a stage when they attain a greater breadth of knowledge and learning, including extending their capacity for creative and critical thinking.

These outputs include development and management of education programs and curriculum.

The Compulsory Years outputs, along with other education and training outputs, are the primary mechanism through which the Government will achieve its key outcome: Valuing and investing in lifelong education. These outputs will also make a significant contribution to the following key Government outcomes:

- growing and linking all of Victoria;
- building cohesive communities and reducing inequalities; and
- promoting rights and respecting diversity.

Source: *Budget Paper No. 3, 2004-05 Service Delivery, p.54*

Exhibit 4.6: Departmental output statement – output tables information

Major Outputs/Deliverables Performance measures	Unit of measure	2002-03 Actual	2003-04 Target	2003-04 Expected Outcome	2004-05 Target
Early Years					
This output involves provision of education and other associated services designed to improve the quality of student learning of those in Prep–Year 4 in government and non–government schools.					
Quantity					
Additional principals accessing new leadership programs	per cent	nm	8.0	8.0	8.0
Average P–2 class size	number	21.8	21.0	21.0	21.0
Average years 3–6 class size	number	24.8	24.8	24.3	24.8

Source: *Budget Paper No. 3, 2005-05 Service Delivery, p.54*

The Committee’s observations on the quality of the information contained in the departmental output statements are discussed in the following sections.

4.4.1 Changes to departmental outputs

For 2004-05, most departments changed their output structures to reflect the outputs that they will be delivering. The Committee noted that these changes have been reflected in a table in the departmental output statements, along with the reasons for the change. An example of is shown in exhibit 4.4 .

The Committee welcomes the additional disclosures in this year's departmental output statement, reiterating that this disclosure improves the quality of information.

4.4.2 Disclosure of departmental objectives

As indicated previously, Budget Paper No. 3, *2004-05 Service Delivery* is intended to be the primary source of information for readers interested in the detailed delivery plans of departments.⁹ However, because of the whole of government focus in the current Budget Papers, the departmental output statements no longer provide comprehensive details for every department.

For example, the Committee noted that a comparison with the 2003-04 Budget Paper No. 3 *2003-04 Budget Estimates* showed that the departmental output statements previously provided details that include:¹⁰

- an overview of the department, including its role and functions;
- a summary of departmental objectives; and
- the department's priorities for the budget year.

The Committee observed that the departmental output statements in the 2004-05 Budget Paper No. 3 *2004-05 Service Delivery* did not include similar narratives (see exhibits 4.4 to 4.6.¹¹

The Committee considers that such information is useful in defining the respective contributions of each department towards achieving the Government's outcomes outlined in the *Growing Victoria Together* strategy.

The Committee believes that key departmental information should be reinstated in future departmental output statements. The Committee considers that this information would enable users of the Budget Papers to understand the key factors that have influenced the formulation of individual departmental budgets, as well as provide details of the key activities and priorities of the departments for the budget year.

The Committee recommends that:

⁹ Budget Paper No.3, *2004-05 Service Delivery*, p.1

¹⁰ for detailed examples, refer to Budget Paper No.3, *2003-2004 Budget Estimates*, pp.17–26

¹¹ Budget Paper No.3, *2004-05 Service Delivery*, pp.52–258

Recommendation 16: **The Department of Treasury and Finance require each department to include a narrative on the following issues in the departmental output statements:**

- (a) a summary of the departmental objectives linked to the Government's outcomes;**
- (b) the key factors which influenced the formulation of the departmental budget; and**
- (c) the department's key priorities for the budget year.**

4.4.3 *Ministerial responsibilities*

Departments are the mechanisms by which the Government implements its policies. For 2004-05, there are ten departments servicing 20 Ministers who are collectively responsible for 41 ministerial portfolios. As shown in exhibit 4.7, several ministerial portfolios are responsible for each department.

Exhibit 4.7 Ministerial portfolio responsibilities

Department	Number of Ministers (a)	Ministerial portfolio
Education and Training	2	Education and Training Education Services
Human Services	4	Health Housing Community Services Aged Care
Infrastructure	3	Transport Major Projects Energy Industries Information and Communication Technology
Innovation, Industry and Regional Development	5	State and Regional Development Innovation Manufacturing and Export Financial Services Industry Industrial Relations Small Business Tourism
Justice	4	Attorney-General Police and Emergency Services Corrections Gaming Racing Consumer Affairs
Premier and Cabinet	2	Premier Arts
Primary Industries	2	Agriculture Resources
Sustainability and Environment	2	Environment Water Planning
Treasury and Finance	3	Treasurer Finance WorkCover
Victorian Communities	7	Victorian Communities Multicultural Affairs Sport and Recreation Commonwealth Games Employment and Youth Affairs Local Government Aboriginal Affairs Women's Affairs

Note: (a) Several Ministers have portfolio responsibilities across departments

The departmental output statements currently do not indicate the ministerial portfolio responsibilities within departments. The Committee believes it is important for users of the Budget Papers to be able to distinguish which Ministers are responsible for each department.

The Committee recommends that:

Recommendation 17: **The Department of Treasury and Finance require each department to include in the departmental output statements, information on the relevant ministerial portfolios for each department.**

The relationship between ministerial responsibility and outputs can be complex. As shown in exhibit 4.7, each department has more than one Minister. Ministers have responsibility for outputs of their departments and they generally assume sole responsibility for their outputs. In some departments Ministers share responsibility for an output. For example:

- Department of Education and Training – the department has two Ministers and seven of nine outputs are shared;
- Department of Innovation, Industry and Regional Development – the department has five Ministers and six of 12 outputs are shared;
- Department of Sustainability and Environment – the department has two Ministers and one of 11 outputs are shared;
- Department of Treasury and Finance – the department has three Ministers and seven of 20 outputs are shared.

The Committee considers that disclosure of information in the departmental output statements on the collective responsibilities of each Minister for outputs delivered on behalf of portfolios would strengthen accountability for output performance.

The Committee recommends that:

Recommendation 18: **The Department of Treasury and Finance require each department to indicate in the departmental output statements, the Minister responsible for each of the department's outputs.**

4.4.4 Output group summary

The departmental output statements in Budget Paper No. 3 *2004-05 Service Delivery* contain over 200 pages of information which lists the output costs for each output.¹² For 2004-05, there are 71 output groups, comprising 231 outputs.¹³

Given the significant quantum of information contained in these pages, the Committee believes that an output group summary table detailing output costs should be included in the departmental output statements. The Committee noted that a summary table was produced for the departmental output statement in the 2003-04 Budget Paper No. 3 *2003-04 Budget Estimates*. An example of this output summary table is reproduced in exhibit 4.8.

Exhibit 4.8: Output summary table

	(\$ million)		
	2002-03 Budget	2002-03 Revised	2003-04 Budget
School Education	4,824.3	5,085.4	5,203.0
Training and Tertiary Education	992.2	1,000.3	1,019.6
Youth	5.1	5.2	-
Policy, Strategy and Information Services	33.6	36.9	35.8
Total	5,855.2	6,127.8	6,258.4

Source: *Budget Paper No. 3, 2003-04 Budget Estimates, p.26*

The Committee considers that the inclusion of a summary table in the departmental output statement will provide users of the Budget Papers with a snapshot of the output group costs for the department.

The Committee recommends that:

Recommendation 19: **The Department of Treasury and Finance require each department to include in the departmental output statements, an output group summary table.**

¹² *ibid.*

¹³ *ibid.*

4.4.5 Changes to targets in performance measures

Included in the departmental output statements is a set of output tables that list the performance measures and targets for each output. An example of this output table is shown in exhibit 4.6.

The Committee noted that most departments provided explanations where there were significant changes to the targets established for their performance measures. The Committee commends the Department of Human Services and the Department of Infrastructure for providing comprehensive explanations for their performance measures. The Committee is disappointed that other departments did not provide the same level of disclosure. The Committee welcomes the disclosure by these two departments and considers that other departments should follow these examples.

The Committee considers that these explanations provide additional clarity and further enhance the transparency of departmental activities as the factors influencing the amendment of targets are disclosed to Parliament for consideration. The Committee would also like to see further disclosures explaining significant variances to output costs of more than 10 per cent.

The Committee recommends that:

Recommendation 20: **The Department of Treasury and Finance include in the departmental output statements for each department, comprehensive explanations for significant variances in performance measures and targets, along with any major changes in output costs.**

4.5 Departmental financial statements

Chapter 2 of Budget Paper No. 4 *2004-05 Statement of Finances* presents the financial statements for each department.¹⁴ The Committee noted that commentaries are also provided to explain the major variances in the departmental financial statements.¹⁵

The Committee noted that these commentaries did not identify the entities whose financial results were consolidated into the departmental financial statements and the resultant departmental results. As an example, the Budget Financial Statements (also known as the Estimated Financial Statements),¹⁶ represent the consolidated results of general government sector entities and the entities are listed with the Estimated

¹⁴ for example, see Department of Education and Training, pp.46–49 of Budget Paper No.4 *2004-05 Statement of Finances*

¹⁵ for example, see Department of Education and Training, pp.44–45 of Budget Paper No.4 *2004-05 Statement of Finances*

¹⁶ Budget Paper No. 4 *2004-05 Statement of Finances*, pp.6–42

Financial Statements.¹⁷ This information for the general government sector is located in pages 38 to 42 of Budget Paper No. 4 *2004-05 Statement of Finances*.

The Committee believes that the disclosure of similar information for each department in the financial statements commentaries in Chapter 2 of Budget Paper No. 4 *2004-05 Statement of Finances* would improve the transparency of the departmental financial results, as the extent of the contribution of individual entities or agencies toward departmental outputs would become transparent and enable discussion on performance.

The Committee recommends that:

Recommendation 21: **The Department of Treasury and Finance require each department to include in the commentary in the departmental financial statements section of Budget Paper No. 4 *Statement of Finances*, a list of agencies that were included in the departmental financial statements along with their contribution to departmental outputs.**

¹⁷ *ibid.*, pp.38–42

CHAPTER 5: PARLIAMENTARY DEPARTMENTS

Key Findings of the Committee:

- 5.1 The Parliamentary Departments' budget allocation for 2004-05 was \$93.4 million, compared to the actual results for 2003-04 of \$89.8 million, which resulted in a variation of \$3.6 million, or 4 per cent.
- 5.2 Based on estimates at 1 July 2004, unspent 2003-04 funding of \$1.8 million will be carried over to 2004-05.
- 5.3 The number of staff employed by the Parliamentary Departments in 2004-05 is expected to remain unchanged from 2003-04. In 2004-05 an estimated 456.49 full-time equivalent staff will be employed which is inclusive of 240.93 electorate officers.
- 5.4 The reduction in the number of Parliamentary Departments from five to three is intended to produce a less fragmented and more coordinated administration process and improve efficiency.
- 5.5 The output management framework for the Parliamentary Departments was changed to reflect the establishment of the Department of Parliamentary Services. The changes also resulted in the Parliamentary Library and the Parliamentary Debates being incorporated within the Department of Parliamentary Services budget.
- 5.6 In recognition of the importance of the Parliamentary Library in supporting the work of Members of Parliament and Parliamentary Committees, it is essential that the autonomy of the Parliamentary Library be maintained under the new structure.
- 5.7 The Parliamentary Departments need to develop a safety management plan that reflects the objectives of their corporate plan.
- 5.8 The Parliamentary Departments are in the process of transferring to the new non-executive officer career structure and have identified that around 50 per cent of parliamentary staff will be subjected to an overgrade review to assess whether these officers are undertaking work at a level which is higher than their current classification.
- 5.9 The budgets of the Parliamentary Departments are insufficient to enable them to expeditiously implement the outstanding recommendations raised by the Auditor-General in his review of the Parliament's information technology system upgrade (Parlynet 2) in 2003.

Departmental review

While the Victorian Auditor-General's Office is included as an output under the Parliament¹ the budget estimates for 2004-05 for the Auditor-General are considered by the Public Accounts and Estimates Committee in a separate process provided for under the *Audit Act* 1994 and is not dealt with in this chapter.

As a result of these arrangements, the financial information outlined in this chapter will differ from the financial information for the Parliament of Victoria detailed in the 2004-05 Budget Papers.²

The budget for the Parliamentary Departments in 2004-05 is \$93.4 million, and the budget for the Victorian Auditor-General's Office is \$25.5 million.³ This chapter reviews the 2004-05 budget allocated for the Parliamentary Departments.

5.1 Parliamentary Departments overview

The Parliament is supported by three Parliamentary Departments: Department of the Legislative Assembly; Department of the Legislative Council; and Department of Parliamentary Services. The Committee noted that the Parliament's business plan has a focus on all Parliamentary Departments aiming to improve the services provided to and by Members of Parliament, who are representing the Victorian community.⁴

The business plan outlines five objectives for the Parliamentary Departments:⁵

- to provide quality advice, support and information services to Members and other clients;
- to develop and retain highly skilled and motivated people;
- to improve information management and parliamentary operations through innovative and practical technology based solutions;
- to ensure the optimal use of physical resources; and
- to manage the departments effectively and efficiently.

¹ Budget Paper No. 3, *2004-05 Service Delivery*, p.250

² Budget Paper No. 4, *2004-05 Statement of Finances*, pp.112–117

³ Budget Paper No. 3, *2004-05 Service Delivery*, pp.250–258

⁴ *ibid.*, p.250

⁵ Parliament of Victoria, *One Parliament: A business plan for the Parliamentary Departments' 2003-2006*, pp.2–7

5.1.1 Key challenges for the Parliamentary Departments in 2004-05

The Committee noted the focus for 2004-05 continued to be the implementation of the ‘One Parliament’ Project which seeks to reform the structure of the Parliamentary Departments to make them more efficient.⁶ The Committee was advised that the Presiding Officers will be looking at further changes to the structure as a result of this project.⁷

The Parliamentary Departments identified key physical risks as: damage to assets or to Parliament House; and loss of IT data.⁸ The operational risks associated with the sitting of the Houses were identified as: the capacity of Hansard to produce transcripts of proceedings within agreed timelines when there is an unexpected change to the planned sitting arrangements for the Houses; and capacity to meet occupational, health and safety requirements when the Houses extend their sitting times. The Parliamentary Departments advised that they have established strategies and procedures to manage these risks, which included the establishment of a Risk Management Committee.⁹

The Committee noted that the Parliamentary Departments do not have an overall safety management plan that is concurrent with their corporate plan’s objective ‘*to ensure the optimal use of physical resources*’.¹⁰ The Parliamentary Departments have identified occupational health and safety as one of the key measures to achieve this objective.¹¹ The Committee suggests that a safety management plan should analyse the occupational health and safety environment within the parliamentary environment and provide for general measures such as:

- data collection systems capable of recording and analysing all accidents, injuries and WorkCover claims;
- continuous safety improvement action plans for all locations, including electorate offices;
- ongoing training of occupational health and safety representatives, management and staff in risk management techniques and procedures;
- clear definitions of responsibilities and accountabilities of all staff for occupational health and safety and injury management within the Parliamentary environment; and
- establishment of performance measures and targets for reduction of health and safety incidents.

⁶ Mrs. J. Maddigan, Speaker of the Legislative Assembly, transcript of evidence, 17 June 2004, p.2

⁷ *ibid.*

⁸ Parliamentary Departments’ response to the Committee’s 2004-05 Budget Estimates questionnaire, p.4

⁹ *ibid.*

¹⁰ Parliamentary Departments’, *Corporate Plan 2002-2005*, p.10

¹¹ *ibid.*

Accordingly, the Committee recommends that:

Recommendation 22: **The Parliamentary Departments develop a safety management plan linked to the occupational health and safety objectives of their corporate plan.**

5.1.2 *Key factors influencing the budget estimates*

The Parliamentary Departments identified the following key cost factors as impacting on their budget:¹²

- increased operating costs for the Members of Parliament vehicle fleet;
- increased operating costs of Parliament;
- increased lease costs for Members' electorate offices;
- the Presiding Officers and Clerks conference; and
- the celebration of the 150th anniversary of democratic government in Victoria.

The Committee noted that the Parliamentary Departments were provided with funding for these costs in their 2004-05 Budget.¹³ The Parliamentary Departments were also provided with asset initiatives funding of \$6.1 million over two years, for repair works to Parliament House and for replacement of obsolete equipment.¹⁴

5.2 Output management framework

Exhibit 5.1 illustrates the output management framework for the Parliamentary Departments. There are four output groups, comprising the Legislative Council, Legislative Assembly, Parliamentary Services and Parliamentary Investigatory Committees.

¹² Parliamentary Departments' response to the Committee's 2004-05 Budget Estimates questionnaire, p.3

¹³ Budget Paper No. 3, *2004-05 Service Delivery*, p.305

¹⁴ *ibid.*, p.306

**Exhibit 5.1: Parliamentary Departments
Output management framework**

Output group	Output	Responsibility of	
		President	Speaker
Legislative Council	Procedural support, documentation preparation and provision of information for Council	✓	
Legislative Assembly	Procedural support, documentation preparation and provision of information for Assembly		✓
Parliamentary Services	Library - Information Provision	✓	
	Library - Information Access	✓	
	Library - Research	✓	
	Library - Public Relations and Education	✓	
	Debates - Hansard, Sessional indexes and Committee transcripts	✓	
	Joint Services - Support Services		✓
Parliamentary Investigatory Committees	Reports tabled and papers published	✓	✓

Source: *Parliamentary Departments response to the Committee's 2004-05 Budget Estimates questionnaire, p.1*

The Parliamentary Departments advised that the major change in the output group structure was the consolidation of the departments of the Parliamentary Library, Parliamentary Debates and Joint Services.¹⁵ These departments, which were previously separate output groups, now form the outputs of the new Parliamentary Services output group (see exhibit 5.1). The Committee noted that the Presiding Officers' responsibilities for these former departments remained unchanged.

The Committee was interested to know of the accountability arrangements for outputs that are shared by the Presiding Officers. The Parliamentary Departments advised that:¹⁶

[the] joint investigatory committee system is subject to policy determined jointly by the Presiding Officers and administered on their behalf on a day-to-day basis by the Clerks of Committees. The responsibility for the management of the committees is shared between the Legislative Council and the Legislative Assembly. ... To ensure uniformity in decision making between the two Houses the Presiding Officers and Clerks of Committees meet regularly and, as necessary, with the Chairs of Committees. Monthly meetings are also held between the Clerks of Committees and Committee Executive Officers.

¹⁵ Parliamentary Departments' response to the Committee's 2004-05 Budget Estimates questionnaire, p.2

¹⁶ *ibid.*, pp.1-2

5.3 Budget summary/financial analysis

The Parliamentary Departments output budget for 2004-05 is \$93.4 million, an increase of \$700,000 or 0.8 per cent compared to its budget for 2003-04 of \$92.7 million (see exhibit 5.2). Compared to the actual results for 2003-04 of \$89.8 million, the budget for the Parliamentary Departments for 2004-05 shows a variation of \$3.6 million, or 4 per cent (see exhibit 5.2).

Exhibit 5.2: Parliamentary Departments Output group budget

	Column 1	Column 2	Column 3	Column (3-2)/2
Output group	2003-04 Budget	2003-04 Actual (a)	2004-05 Budget	Variation (b)
	(\$ million)	(\$ million)	(\$ million)	(%)
Legislative Council (c)	13.1	12.9	14.1	9.3
Legislative Assembly (c)	26.6	25.0	27.1	8.4
Parliamentary Library (d)	2.4	2.3	n/a	n/a
Parliamentary Debates (d)	2.5	2.4	n/a	n/a
Joint Services Department (d)	42.8	42.5	n/a	n/a
Parliamentary Services	n/a	n/a	46.9	n/a
Parliamentary Investigatory Committees	5.3	4.7	5.3	12.8
Total	92.7	89.8	93.4	4.0

- Notes:
- (a) actual results for 2003-04 as indicated in the item Total Expenses in Note 2 of the financial statements of the Parliament of Victoria as provided in the Department of Parliamentary Services 2003-2004 Annual Report
 - (b) a negative variation indicates the 2004-05 budget decreased compared with 2003-04 actual
 - (c) includes special appropriations
 - (d) consolidated into Parliamentary Services in 2004-05. For details of funding available to the Parliamentary Library and Parliamentary Debates for 2004-05, see exhibit 5.3
- n/a not applicable

Sources: Parliamentary Departments response to the Committee's 2004-05 Budget Estimates questionnaire, p.14; Department of Parliamentary Services 2003-2004 Annual Report, p.16

The Committee was advised that for 2004-05 the Parliamentary Departments were provided with additional funding under the departmental funding model, and that the *'amounts were not apportioned but were provided to each output group individually.'*¹⁷ In total the Parliamentary Departments received \$1.01 million and the allocation to each output group is:¹⁸

- Legislative Council (\$48,000);
- Legislative Assembly (\$83,000);
- Parliamentary Investigatory Committees (\$89,000); and
- Parliamentary Services - Parliamentary Library (\$43,000); Parliamentary Debates (\$45,000); and Corporate Services (\$704,000).

The output budget for the Parliamentary Investigatory Committees for 2004-05 was \$5.325 million.¹⁹ In response to the Committee's query, the Parliamentary Departments advised that the additional funding provided from the departmental funding model had been included in the Parliamentary Investigatory Committees budget for 2004-05.²⁰

The Committee understands it is the practice to *'retain in reserve an amount equal to 4 per cent of total [committee] funding to fund new or unforeseen inquiries and to assist those committees with greater workloads that require additional funding.'*²¹ Even though the Committee was advised that the additional funding received from the departmental funding model has been included in the budget for the Parliamentary Investigatory Committees for 2004-05, because of the amount which is held in reserve, the Committee is unable to state conclusively that the additional funding has been on-passed and incorporated in the 2004-05 budgets of the 12 committees.

5.3.1 Funding available to Parliamentary Departments

The *Appropriation (Parliament 2004/2005) Act 2004* provides the Parliamentary Departments with output funding of \$59.4 million (see exhibit 5.3). This funding will be supplemented by a carry over of unspent funding from 2003-04 which was estimated by the Parliamentary Departments to be \$1.8 million.²² Thus, including funding from other sources, the Parliamentary Departments advised that the total funding available in 2004-05 is \$95.4 million.²³ The allocation of this funding by output groups is shown in exhibit 5.3.

¹⁷ Parliamentary Departments' response to follow-up questions, received 13 October 2004, p.2

¹⁸ *ibid*

¹⁹ *ibid.*

²⁰ *ibid.*

²¹ Department of the Legislative Council, *2003-2004 Annual Report*, p.36

²² Presiding Officers' response to the Committee's follow-up questions, p.7

²³ Parliamentary Departments' response to follow-up questions, received 13 October 2004, p.1

**Exhibit 5.3: Parliamentary Departments
Funding for 2004-05 by output group**

	Column 1	Column 2	Column 3	Column 4	Column (1+2+3+4)
Output group	Appropriation (a)	Treasurers Advance	Special Appropriations (b)	Carry overs (c)	Funds available
	(\$000)	(\$000)	(\$000)	(\$000)	(\$000)
Legislative Council	2,715		11,359	100	14,174
Legislative Assembly	4,297		22,782	200	27,279
Parliamentary Services comprising:					
Parliamentary Library (d)	2,400			100	2,500
Parliamentary Debates (d)	2,542			100	2,642
Corporate Services (d)	42,121	102		1,100	43,323
Total Parliamentary Services	47,063	102		1,300	48,465
Parliamentary Investigatory Committees	5,325			200	5,525
Total	59,400	102	34,141	1,800	95,443

Notes: (a) represents appropriation for the provision for outputs provided under the Appropriation (Parliament 2004/2005) Bill

(b) for further details, see Budget Paper No. 4, 2004-05 Statement of Finances, p.169

(c) unspent funding from 2003-04

(d) based on allocation by Parliamentary Services

Source: Parliamentary Departments response to the Committee's follow-up questions, received 13 October 2004, p.1

The Parliamentary Departments are negotiating a new enterprise bargaining agreement following the cessation of the previous agreement in November 2003. It is understood that the new agreement will provide for a 3 per cent increase in salaries. The Committee sought clarification from the Parliamentary Departments as to whether funding was provided by the Government for the salary increase. The Committee was advised that the departmental funding model provides the Parliamentary Departments with funding for salary increases of 2.25 per cent, and that the additional 0.75 per cent will have to be funded from within the Parliamentary Departments' existing operating budgets.²⁴

²⁴ Parliamentary Departments' response to the Committee's follow-up questions, received 21 September 2004, p.2

Given the relatively small scale of the Parliamentary Departments' budget and the limited discretionary funding available, the Committee is concerned about the Parliamentary Departments' ability to absorb the salary increases without impacting on the extent and quality of the services provided. The Committee intends to monitor this closely.

At the estimates hearing, the Committee inquired into the implications of the new organisational structure for the funding of the Parliamentary Departments. The Speaker reassured the Committee that there would be no change, stating that:

*each year the budgetary process will be done exactly the same as it has been before, and the requirements of Hansard, the library and all other departments will be addressed in the same way as they have before.*²⁵

However, the Committee noted that from 2004-05 the budgets of the Parliamentary Library and Parliamentary Debates are amalgamated into the new Department of Parliamentary Services. The Committee understands that the heads of the Parliamentary Library and Debates will have reduced autonomy in managing their budgets, staffing and resource requirements under the new arrangements. The implications of this will be discussed in further detail later in this chapter.

5.3.2 Operating performance

The budgets for the Parliamentary Departments are appropriated on a break-even basis.²⁶ In 2004-05, the Parliamentary Departments budgeted revenue is \$95.3 million, an increase of \$1.4 million, or 1.5 per cent from the estimated actual revenue for 2003-04 (see exhibit 5.4).

Expenses for the Parliamentary Departments are expected to increase by the same amount in 2004-05 to \$95.3 million. The difference between the Parliamentary Departments' output budget for 2004-05 of \$93.4 million (see exhibit 5.2) and the operating expense of \$95.3 million is due largely to the carry over of unspent funding from 2003-04 included in the operating expense for 2004-05.²⁷

²⁵ Mrs. J. Maddigan, Speaker of the Legislative Assembly, transcript of evidence, 17 June 2004, p.17

²⁶ Parliamentary Departments' response to the Committee's 2004-05 Budget Estimates questionnaire, p.13

²⁷ Mrs. J. Maddigan, Speaker of the Legislative Assembly, transcript of evidence, 17 June 2004, p.3

**Exhibit 5.4: Parliamentary Departments
Statement of Financial Performance**

	Column 1	Column 2	Column 3	Column (3-2)/2
	2003-04 Budget	2003-04 Estimated Actual	2004-05 Budget	Variation
	(\$ million)	(\$ million)	(\$ million)	(%)
Controlled items				
Operating revenue (a)	92.7	93.9	95.3	1.5
Operating expense	92.7	93.9	95.3	1.5
Net result	0.0	0.0	0.0	0.0

Note: (a) includes special appropriations of \$33.6 million (2003-04 Budget); \$34.1 million (2003-04 Estimated Actual) and \$34.1 million (2004-05 Budget)

Source: Parliamentary Departments' response to the Committee's 2004-05 Budget Estimates questionnaire, p.12

Included in the Parliamentary Departments' operating revenue for 2004-05 of \$95.3 million is special appropriations funding of \$34.1 million.²⁸ The bulk of this funding (\$33.7 million) is for the payment of Members' salaries and allowances, including superannuation contributions,²⁹ and is appropriated to the Department of Legislative Council and the Department of the Legislative Assembly.³⁰ Special appropriations funding for 2004-05 is anticipated to remain unchanged from the estimated actual appropriations for 2003-04.³¹

Excluding special appropriations totalling \$34.1 million, the Parliamentary Departments' output appropriations totalled \$61.2 million in 2004-05, an increase of \$1.4 million from the estimated actual special appropriations for 2003-04 (\$59.8 million).³²

The Committee was advised that the operating costs of the Parliamentary Departments have increased by about 25 per cent from 'two or three parliaments ago' but had not been fully addressed in previous budgets.³³ The Committee noted that these cost increases were attributed to the additional resources required to address problems with Hansard related information technology, and the costs associated with the extra³⁴ Legislative Council sittings, such as overtime for parliamentary attendants, extra

²⁸ Parliamentary Departments' response to the Committee's 2004-05 Budget Estimates questionnaire, p.12

²⁹ Budget Paper No. 4, 2004-05 Statement of Finances, p.169

³⁰ Parliamentary Departments' response to follow-up questions, received 13 October 2004, p.1

³¹ Parliamentary Departments' response to the Committee's 2004-05 Budget Estimates questionnaire, p.12

³² *ibid.*

³³ Mr. S. Aird, Director, Corporate Services, transcript of evidence, 17 June 2004, p.11

³⁴ At the estimates hearing, the President of the Legislative Council advised that the House now sits for longer periods and extra days compared to years ago (Hon. M. Gould, President of the Legislative Council, transcript of evidence, 17 June 2004, p.11)

sessional Hansard reporters, additional security staff and the operations of the dining room during these sittings.³⁵

At the estimates hearing, the Committee was presented with details of how the funding provided to the Parliamentary Departments will be expended. The Committee noted the following disbursements:³⁶

- \$61.7 million for Members' of Parliament and staff costs (parliamentary staff and electorate officers);
- \$28.9 million for supplies and services;
- \$3.7 million in depreciation expenses; and
- \$700,000 in capital assets charge.

The 2004-05 Budget also provided the Parliamentary Departments with funding of \$6.1 million for capital works at Parliament House.³⁷ The Committee noted the Parliamentary Departments' proposed capital works projects for 2004-05 include:³⁸

- Phase 5 of the air conditioning project;
- continuation of upgrade to security at Parliament House;
- fit-out of 4th floor of 157 Spring Street for occupancy; and
- addressing structural issues at Parliament House such as deteriorating ceilings and uneven floors, and replacement of obsolete equipment.

Because of the heritage status of the Parliament House the Committee considers that it is essential for the Parliamentary Departments to maintain a rolling facility management plan that identifies and prioritises capital works that are required for Parliament House and for the Parliamentary Departments to be provided with long-term funding arrangements to carry out the capital works necessary to maintain the Parliament House building.

5.3.3 Balance sheet performance

Assets from controlled operations are estimated to increase by \$4.1 million, or 2.1 per cent, from \$196.1 million to \$200.2 million in 2004-05 (see exhibit 5.5).

Liabilities from controlled operations are estimated to be \$5.2 million, unchanged from the estimated actual liabilities for 2003-04 (see exhibit 5.5).

³⁵ Mr. S. Aird, Director, Corporate Services, and Hon. M. Gould, President of the Legislative Council, transcript of evidence, 17 June 2004, p.11

³⁶ Presiding Officers', 2004-05 Budget Estimates presentation slides, 17 June 2004, p.3

³⁷ Budget Paper No. 3, *2004-05 Service Delivery*, p.306

³⁸ Presiding Officers', 2004-05 Budget Estimates presentation slides, 17 June 2004, p.9

**Exhibit 5.5: Parliamentary Departments
Statement of Financial Position**

	Column 1	Column 2	Column 3	Column (3-2)/2
	2003-04 Budget	2003-04 Estimated Actual	2004-05 Budget	Variation
	(\$ million)	(\$ million)	(\$ million)	(%)
Controlled items				
Controlled assets	195.9	196.1	200.2	2.1
Controlled liabilities	5.2	5.2	5.2	0.0
Net assets	190.7	190.9	195.0	2.1

Source: *Parliamentary Departments' response, to the Committee's 2004-05 Budget Estimates questionnaire, p.15*

The increase in assets in 2004-05 is attributed mainly to funding for depreciation equivalents from increased asset values following a reassessment of asset values in February 2004.³⁹

5.3.4 Carry over funding

The Parliamentary Departments advised that based on estimates as at 1 July 2004, it anticipates that unspent 2003-04 funding of \$1.8 million will be carried forward to 2004-05.⁴⁰ For details of the allocation of the carry over funding to the Parliamentary Departments, see exhibit 5.3.

The Committee noted that the Parliamentary Committees had an estimated carry over unspent funding of \$200,000 (see exhibit 5.3) from 2003-04 which will be applied to new committee inquiries and any overseas travel that committees may need to undertake to obtain expert evidence. The carry over funding will not be applied to inquiries that were carried over to 2004-05.

The Committee points out that the conduct of committee inquiries are similar to the conduct of performance audits undertaken by the Victorian Auditor-General's Office and can cross over different budget periods.⁴¹ The funding arrangements for the Victorian Auditor-General's Office in relation to performance audits is agreed in terms of estimated cost of the audits regardless of timeframes. Where any of these audits are still in progress at the end of a particular financial year, the unexpended portion is carried forward to the next financial year.

³⁹ Presiding Officers' response to the Committee's follow-up questions, p.4

⁴⁰ *ibid.*, p.7

⁴¹ Public Accounts and Estimates Committee, *Report on the 2001-2002 Budget Estimates*, pp.548-549 (Report No. 43) November 2001

Most parliamentary committees undertake inquiries that, for a range of reasons, extend beyond one financial year. For example during 2004-05 this Committee will be reporting on four inquiries that were approved in the previous financial year.

The Committee is strongly of the view there must be a degree of certainty for the funding of parliamentary inquiries and for their completion and reporting.

Accordingly, the Committee recommends that:

Recommendation 23: **The Presiding Officers ensure that the funding approved for carry over for the output group Parliamentary Investigatory Committees also be applied towards the cost of inquiries that were not completed within a financial year and consequently have to report at a later stage.**

5.4 Performance measures

At the estimates hearing, the Committee was advised that the performance measures for the Parliamentary Departments are directly related to activities that are performed and can be controlled by parliamentary staff.⁴² The Committee was also advised that performance measures are not established for Members of Parliament, although the annual reports of the Parliamentary Departments incorporate statistics on Members activities in Parliament.⁴³

The Committee accepts that the new arrangements under the ‘One Parliament’ strategy are designed to improve the overall efficiency of the Parliamentary Departments. However, the Committee believes that it will be important for the Parliament to monitor the new arrangements to determine whether the projected benefits materialise and service delivery improves.

The Parliamentary Library altered six performance measures for 2004-05.⁴⁴ The Committee was advised that the discontinued measures for the Parliamentary Library were replaced by other measures that provided a more accurate identification of the service and the cost of provision of that service.⁴⁵ The Committee also noted the reduction of targets for two established performance measures relating to the quantity and timeliness of services provided (see exhibit 5.6).

⁴² Mrs. J. Maddigan, Speaker of the Legislative Assembly, transcript of evidence, 17 June 2004, p.3 and p.10

⁴³ *ibid.*, p.9

⁴⁴ Budget Paper No. 3, *2004-05 Service Delivery*, p.357

⁴⁵ Parliamentary Departments’ response to the Committee’s 2004-05 Budget Estimates questionnaire, p.6

**Exhibit 5.6: Parliamentary Library
Selected performance measures**

Output	Performance measures	2003-04 Target	2004-05 Target
Information Provision	Service Requests satisfied	9,800	8,500
Research	Requests completed within agreed timeframe	90 per cent	80 per cent

Source: Budget Paper No. 3, 2004-05 Service Delivery, p.253

The Committee was advised that:⁴⁶

- the performance measure *service requests satisfied* measures occasions when users of the library request information directly from Library staff (reference questions, loans and delivery of TV and radio clips). Basic information requests have declined because users of the Library are now able to directly access materials on the Library's intranet. The reduction in the performance target is commensurate with the rise in the number of users of the Library's intranet site, which has increased by nearly four-fold in the last four years; and
- the target for the performance measure *requests completed within agreed timeframe* has decreased because of improvement to the methodology for collecting information for this target. The previous year's figure was based on a sampling technique which related to the timeliness of specific jobs. For 2004-05 information will be collected from a new question in the annual client survey which will measure the overall user perceptions of the timeliness of the service.

The Committee is satisfied with these explanations.

5.5 Human resources issues

5.5.1 Parliamentary Departments workforce

The Parliamentary Departments advised that as at 30 June 2004 it expects to employ 456.49 full-time equivalent staff, inclusive of 240.93 electorate officers⁴⁷ (see exhibit 5.7). The number of staff is estimated to remain unchanged in 2004-05.

⁴⁶ Parliamentary Departments' response to the Committee's follow-up questions, received 21 September 2004, p.1

⁴⁷ Parliamentary Departments' response to the Committee's 2004-05 Budget Estimates questionnaire, p.9

Exhibit 5.7 **Parliamentary Departments**
Equivalent Full Time Staff

	June 2003	June 2004	June 2005
	Actual	Estimate	Estimate
Ongoing staff			
Legislative Assembly (a)	30.55	27.95	27.95
Legislative Council (a)	18.00	19.00	19.00
Parliamentary Library	23.00	23.00	23.00
Parliamentary Debates (b)	20.77	22.55	22.55
Joint Services Department (c)	274.82	277.37	(e) n/a
Parliamentary Services	n/a	n/a	277.37
Joint Investigatory Committees (d)	5.60	7.60	7.60
Sub total	372.74	377.47	377.47
Fixed term staff			
Legislative Assembly	4.00	4.00	4.00
Legislative Council	1.00	-	-
Parliamentary Library	2.00	2.00	2.00
Parliamentary Debates	1.00	1.00	1.00
Joint Services Department (c)	7.60	8.60	(e) n/a
Parliamentary Services	n/a	n/a	(c) 8.60
Joint Investigatory Committees	27.00	39.00	39.00
Sub total	42.60	54.60	54.60
Casual staff			
Legislative Assembly	-	-	-
Legislative Council	-	-	-
Parliamentary Library	0.09	-	-
Parliamentary Debates	-	-	-
Joint Services Department (c)	24.20	24.32	(e) n/a
Parliamentary Services	n/a	n/a	(c) 24.32
Joint Investigatory Committees	0.07	0.10	0.10
Sub total	24.36	24.42	24.42

Exhibit 5.7 – *continued*

	June 2003 Actual	June 2004 Estimate	June 2005 Estimate
Total staff			
Legislative Assembly (a)	34.55	31.95	31.95
Legislative Council (a)	19.00	19.00	19.00
Parliamentary Library	25.09	25.00	25.00
Parliamentary Debates (b)	21.77	23.55	23.55
Joint Services Department (c)	306.62	310.29	(e) n/a
Parliamentary Services (c)	n/a	n/a	310.29
Joint Investigatory Committees (d)	32.67	46.70	46.70
Total	439.70	456.49	456.49

- Notes:
- (a) *excludes Members of Parliament*
 - (b) *includes sessional staff (3.77 full-time equivalent in June 2003 and 4.55 full-time equivalent in June 2004 and June 2005),⁴⁸*
 - (c) *includes catering staff and electorate officers. The number of electorate officers was 238.08 full-time equivalent in June 2003 and 240.93 full-time equivalent in June 2004 and June 2005⁴⁹*
 - (d) *the actual number of staff engaged in committee work is higher as committees are also assisted by staff seconded from Government bodies*
 - (e) *combined with Parliamentary Services*
- n/a not applicable

Sources: *Parliamentary Departments' response to the Committee's 2004-05 Budget Estimates questionnaire, pp.8–11; Parliamentary Departments' response to the Committee's follow-up questions, received 21 September 2004, pp.1–2*

5.5.2 Staffing issues

The Parliamentary Departments are currently implementing the transition to the new non-executive career structure which is intended to provide for a clearer career structure and an orderly progression system.⁵⁰ A key feature of the career structure is its non-overlapping classifications system, which replaced the previous classification system whereby maximum salaries within certain classifications overlapped minimum salary levels in the next higher classification.⁵¹ Parliamentary staff employed under the *Parliamentary Officers Act 1975* and casual employees, are affected by this transition.

⁴⁸ *ibid.*, pp.8–10

⁴⁹ *ibid.*

⁵⁰ Office for Workforce Development, *Careers VPS*, 11 July 2003, p.1

⁵¹ *ibid.*, p.2

While staff expected to be translated into the new structure on the basis of their current classification and salary, for some staff who are currently paid in the overlap between the grade classifications of the previous structure, their translation will be complicated by an overgrade review which will assess whether the affected staff are undertaking work at the level of the higher grade or at their existing grade.⁵² Around 50 per cent of parliamentary staff were identified to come within this overgrade category. The Committee is surprised that such a high percentage of staff were deemed to be overgraded, compared to the Government where only the Department of Justice was identified as having 10.48 per cent of staff (excluding specialist staff) confirmed as being in the overgrade category.⁵³

5.6 Key issues impacting on the Parliamentary Departments

The departments' response to the Committee's 2004-05 Budget Estimates questionnaire and the estimates hearing identified the following issues that will affect the Parliamentary Departments and their budget estimates for 2004-05.

(a) *The One Parliament Project*

Under the 'One Parliament' Project, the number of Parliamentary Departments was reduced from five to three. The service departments comprising of the former departments of Parliamentary Library, Parliamentary Debates and Joint Services were merged to create the new Department of Parliamentary Services.

The Parliamentary Departments indicated that the new structure will:⁵⁴

- enable the Presiding Officers to focus on high level, strategic issues;
- allow the Clerk of the Legislative Assembly and the Clerk of the Legislative Council to focus on running their respective departments without being diverted by operational issues from the service departments;
- support a high level of coordination between the service departments; and
- streamline the integration of policy and service delivery across the Parliament.

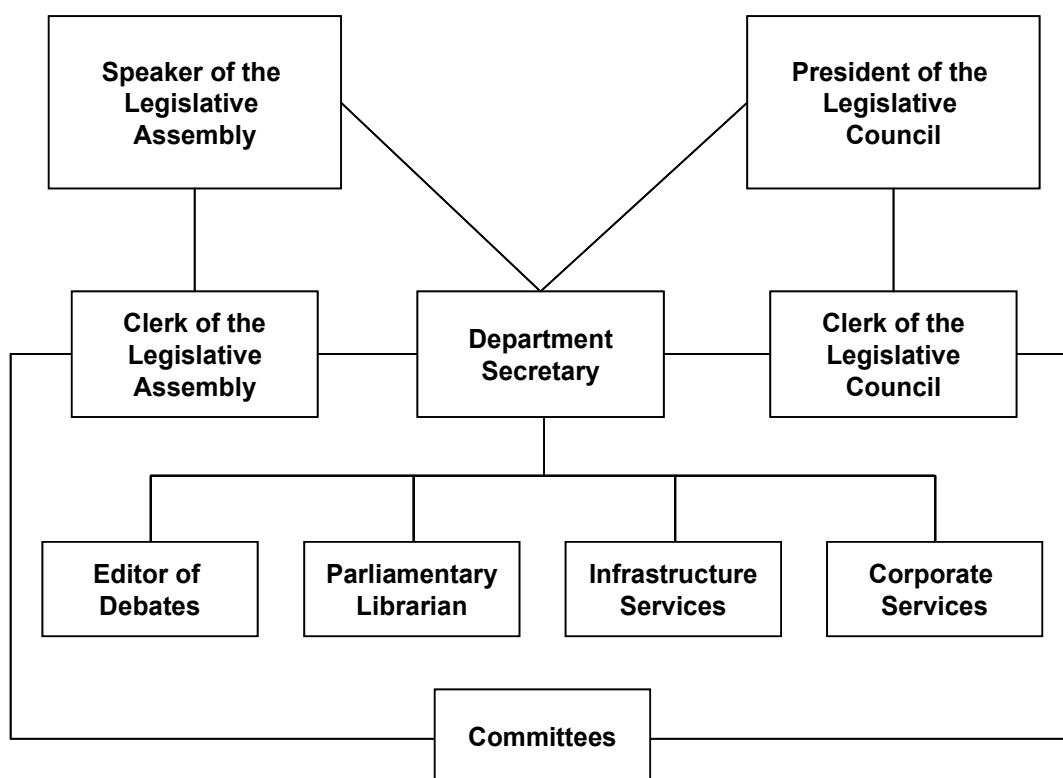
The Committee notes that the new structure is intended to produce a less fragmented and more effectively coordinated administration, which should improve the efficiency of the Parliamentary Departments. Exhibit 5.8 illustrates the new structure.

⁵² Office for Workforce Development, *Careers VPS*, 16 October 2003, p.2

⁵³ Premier of Victoria's response to the Committee's follow-up questions, p.11

⁵⁴ Parliamentary Departments' response to the Committee's 2004-05 Budget Estimates questionnaire, p.2

Exhibit 5.8: New structure of the Parliamentary Departments



Note: The Infrastructure Services and Corporate Services business units were under the Joint Services Department in the old Parliamentary Departments structure

Source: Parliamentary Departments' response to the Committee's 2004-05 Budget Estimates questionnaire, p.3

The heads of the service departments who previously reported to the respective Presiding Officers, now report to the Secretary of the Department of Parliamentary Services, who in turn reports to the Presiding Officers (see exhibit 5.8).⁵⁵ The Committee was advised that other than the creation of the position of Secretary of Department of Parliamentary Services there has been no change to the internal structure of the Parliamentary Departments.⁵⁶ The Committee was informed that the restructure will not result in job losses, but there might be slight changes in terms of realignment of positions.⁵⁷

As shown in exhibit 5.8, the head of the Parliamentary Library who previously reported directly to the President of the Legislative Council will now report to the Secretary, Parliamentary Services under the new structure. The Committee notes the vital importance of the Parliamentary Library to Members of Parliament and consequently the Committee considers it desirable for the Parliamentary Library to retain its autonomy under the new structure.

⁵⁵ Mrs. J. Maddigan, Speaker of the Legislative Assembly, transcript of evidence, 17 June 2004, pp.5-6

⁵⁶ Parliamentary Departments' response to the Committee's 2004-05 Budget Estimates questionnaire, p.2

⁵⁷ Mrs. J. Maddigan, Speaker of the Legislative Assembly, transcript of evidence, 17 June 2004, p.2

Accordingly, the Committee recommends that:

Recommendation 24: **The autonomy of the Parliamentary Library be retained under the Department of Parliamentary Services and that a protocol formalising this independence be signed by the Presiding Officers.**

Recommendation 25: **The autonomy of the Parliamentary Library be reinforced through amendments to the terms of reference for the Library Committee.**

Furthermore, as the Parliamentary Library is a key source of independent information for Members of Parliament and parliamentary investigatory committees, it is essential that the library has sufficient resources to enable it to continue to function effectively.

Accordingly, the Committee recommends that:

Recommendation 26: **The resources and services to be provided to the Parliamentary Library in the amalgamated department be specified in an annual agreement between the Secretary of the Department of the Parliamentary Services and the Parliamentary Librarian, and approved by the Presiding Officers following consideration by the Library Committee.**

At the estimates hearing, the Committee enquired as to whether the Parliamentary Library and the Parliamentary Debates will continue to produce their own annual reports, under the new structure. The Committee was advised that each department will keep producing its own annual report, but these will be consolidated into one volume.⁵⁸ Although the Committee accepts that the production of an annual report under the new restructure is logical, it is important that the same level of information previously provided by the Library in its annual report is retained. It will be important for the Parliament to determine whether the objectives and performance measures developed in the business plan for the Parliamentary Library are achieved. These comments also apply to Parliamentary Debates.

⁵⁸ Mrs. J. Maddigan, Speaker of the Legislative Assembly, transcript of evidence, 17 June 2004, p.19

Accordingly, the Committee recommends that:

Recommendation 27: **The Parliamentary Library and Parliamentary Debates continue to produce detailed information for inclusion in the annual report of the Department of Parliamentary Services in order that Members of Parliament can determine whether business plans and performance measures are achieved.**

Recommendation 28: **The Parliamentary Library and Parliamentary Debates continue to produce detailed information for inclusion in the annual business plan.**

At the estimates hearing, the Committee requested clarification about the structure of the Department of Parliamentary Services, and the position of the Secretary, Department of Parliamentary Services. The Committee was advised that:⁵⁹

in relation to the parliamentary services act, ... the act has not changed since [the head of the previous Department of Parliamentary Services] was appointed. It refers to a structure that was put in place when she was here and it has never been changed. There is a position there that Stephen has gone into, although the structure is slightly different now.

However, the Committee understands that the former position of the head of the previous Department of Parliamentary Services was restructured into two separate positions - Director of Corporate Services, and Director of Infrastructure Services - in the then new Joint Services Department following the departure of the head of the previous Department of Parliamentary Services.

The Presiding Officers advised that they will be reviewing the *Parliamentary Officers Act 1975* during the spring session.⁶⁰

The Committee considers it is essential that this legislative review should be given priority and all Members of Parliament given the opportunity to be consulted about any proposed amendments.

⁵⁹ Mrs. J. Maddigan, Speaker of the Legislative Assembly, transcript of evidence, 17 June 2004, p.7

⁶⁰ Presiding Officers' response to the Committee's follow-up questions, p.2

Accordingly, the Committee recommends that:

Recommendation 29: **The Presiding Officers provide an opportunity for all Members of Parliament to be consulted on proposed changes to the *Parliamentary Officers Act 1975*.**

(b) *Parliamentary research projects*

The previous Presiding Officers sponsored a Monash University research project. The focus of the project was on investigating the reputation and standing of politicians in the community.⁶¹ The motivation for the project arose from opinion poll data showing a declining trend in the reputation of Members of Parliament and a concern that, if the trend continued, it could threaten the legitimacy of the Parliament. The Committee was provided with a preliminary report and advised that the President of the Legislative Council has requested a more comprehensive report.⁶²

At the estimates hearing, the Committee was advised that a '*lot of the information [in the report] is quite out of date*'⁶³ and that some of the recommendations were '*well meaning but perhaps not all that practical*'.⁶⁴ The Committee was informed that to implement the recommendations most of which would require additional staff, would involve significant costs for which the Parliamentary Departments do not have a budget, and that the extent of the implementation of the recommendations would be determined by these financial constraints.⁶⁵

The Presiding Officers subsequently advised the Committee that since the report was produced, there had been a number of developments which had superseded the recommendations of the report including:⁶⁶

- establishing training programs for new Members and staff;
- increasing the number of open days that the public can visit the Parliament;
- refining the existing training and information programs for Members and their staff, and for parliamentary officers; and
- increasing the awareness of parliamentary and electorate officers of the information and support networks that exist.

The Committee was advised that:⁶⁷

⁶¹ Dr. K. Coghill and C. Lewis, Protecting the reputation and standing of the institution of parliament: a study of perceptions, realities and reforms, Briefing for Members of the Parliament of Victoria, 21 April 2004, p.1

⁶² Presiding Officers' response to the Committee's follow-up questions, p.2

⁶³ Mrs. J. Maddigan, Speaker of the Legislative Assembly, transcript of evidence, 17 June 2004, p.23

⁶⁴ *ibid.*

⁶⁵ *ibid.*, pp.23-24

⁶⁶ Presiding Officers' response to the Committee's follow-up questions, pp.2-3

- the project cost \$17,600 per year (including GST) for the duration of the project which was conducted over the years 2001–2003; and
- a request was made to Monash University to return the remaining funds allocated to the project which is '*understood to be \$10,000*'⁶⁸ and provide a statement relating to the funds expended to date.

The Committee recommends that:

Recommendation 30: **The Presiding Officers establish Steering Committees to guide future research projects to ensure that the Parliament receives value for money from these projects.**

(c) *Implementation of Auditor-General's recommendations on the Parliament's information technology system (Parlynet 2)*

The Committee was advised that the Parliamentary Departments have been progressively implementing the Auditor-General's recommendations arising from his review on the Parliament's information technology system upgrade (Parlynet 2) in 2003.⁶⁹ The Parliamentary Departments indicated that the implementations were undertaken within the financial constraints of their budget.⁷⁰ The status of the recommendations as at 30 June 2004 is:⁷¹

- 21 recommendations have been implemented;
- 17 further recommendations are in progress; and
- three further recommendations have been targeted for implementation by 2005.

The Committee sought advice as to whether the Parliamentary Departments intend to undertake an external review to ensure that the issues identified by the Auditor-General have been addressed. The Parliamentary Departments advised that they do not intend to undertake an external review in 2004-05 but intend to conduct a review when the majority of the recommendations have been implemented.⁷² The Parliamentary Departments indicated that as they are not able to implement a number of the recommendations without additional funding, the exact time of the review cannot be determined at this stage.⁷³

⁶⁷ *ibid.*, pp.1–2

⁶⁸ *ibid.*, p.2

⁶⁹ Presiding Officers' response to the Committee's follow-up questions, p.3

⁷⁰ *ibid.*

⁷¹ *ibid.*, Attachment 3

⁷² *ibid.*, p.3

⁷³ *ibid.*

The Committee noted that the Parliamentary Departments have engaged the services of the IT Director from the Department of Justice to act as an independent advisor to the Parliamentary Departments on information technology related matters.⁷⁴ The Committee welcomes the appointment of an independent advisor. The Committee was also advised that the Parliament has re-established the Information Technology Sub Committee of the House Committee.⁷⁵

The implementation of effective information systems is critical to the success of the 'One Parliament' Project, as well as improving the efficiency of the Parliamentary Departments and enhancing services to Members of Parliament. The Committee is concerned that despite \$189,236 being spent in 2003-04⁷⁶ on consultants fees to identify and resolve issues that affect the operations of the IT systems, there are still ongoing problems. The Committee is aware that the Parliamentary Departments have in place management plans to address the issues arising from the Parliament's information systems. The Committee noted the advice of the Presiding Officers that some of the Auditor-General's recommendations cannot be implemented unless additional funding is provided.⁷⁷

The Committee recommends that:

Recommendation 31: The Presiding Officers make representations to the Government for additional funding to enable the implementation of the Auditor-General's outstanding recommendations relating to the Parliament's information technology upgrade (Parlynet 2).

⁷⁴ *ibid.*

⁷⁵ Mrs. J. Maddigan, Speaker of the Legislative Assembly, transcript of evidence, 17 June 2004, p.3

⁷⁶ Presiding Officers' response to the Committee's follow-up questions, Attachment 2

⁷⁷ *ibid.*, p.3

CHAPTER 6: DEPARTMENT OF EDUCATION AND TRAINING

Key Findings of the Committee:

- 6.1 The Department of Education and Training's budget allocation for 2004-05 was \$6,717.1 million, an increase of \$349.9 million from the 2003-04 estimated actual budget. The increase is largely due to the cost of the capital asset charge and depreciation, and employee entitlements.**
- 6.2 At the time this report was prepared, the department was in the process of identifying funding that would be carried over to 2004-05 and could not provide details to the Committee.**
- 6.3 Although 97 per cent of government schools are classified as either primary or secondary schools, the Department of Education and Training is unable to identify the funding allocated separately to each.**
- 6.4 The employment of casual school staff is not recorded centrally by the department which is a detriment to effective long-term workforce planning.**
- 6.5 While there was no overall teacher shortage, there are geographic areas and secondary school subject areas which are experiencing difficulties attracting teachers. The Department of Education and Training is implementing several initiatives to address these specific shortages.**
- 6.6 The Department of Education and Training is upgrading its human resources management system, including improving workforce planning mechanisms for use by school principals.**
- 6.7 Although the Department of Education and Training publishes national benchmarks for numeracy and literacy for primary levels, such benchmarks are yet to be developed for secondary year levels.**
- 6.8 While around \$1.5 billion of departmental funds were handled through trust funds in 2003-04, \$32 million of these funds were subject to an administrative charge by the department which recovered around \$500,000.**
- 6.9 The Department of Education and Training is planning to introduce a new system for funding schools from the 2005 school year. The new school resource allocation model (called the Student Resource Package) will be linked to each school's planning, accountability and performance management mechanisms.**

- 6.10 The Commonwealth Government allocated 2,349 additional university places to Victoria for the 2005-2008 period, 9.4 per cent of the total additional places allocated nationally.**
- 6.11 The details of a certified wages agreement between the Australian Education Union (Victoria) and the Department of Education and Training were not factored into the 2004-2005 Budget Estimates because the agreement was reached too late for the financial consequences to be incorporated into the 2004-05 Budget Papers.**

Departmental review

6.1 Departmental overview

The Department of Education and Training supports the portfolios of Education and Training, and Education Services. The department's objectives outlined in the 2003-04 Budget have been renamed 'goals' in 2004-05.¹ The department has adopted a new set of objectives which are at a higher level than previously.² These are:³

- increase learner participation, engagement and achievement;
- expand options and pathways in education and training;
- strengthen the quality of delivery to clients;
- strengthen a culture of working together;
- develop services in response to community and industry priorities; and
- maintain sound financial management.

The department also provides support to nine statutory bodies and several higher education institutions (including 14 TAFE institutions and five TAFE divisions within universities).⁴

6.1.1 Key challenges for the department in 2004-05

The Ministers highlighted to the Committee five challenges for education in Victoria:⁵

¹ Budget Paper No. 3, *2003-04 Budget Estimates*, p.18 and overheads shown during hearing of Hon. L. Kosky, MP, Minister for Education and Training and Ms J. Allan, MP, Minister for Education Services, 20 May 2004

² Department of Education and Training, 2003-2006 Corporate Plan, p.5

³ *ibid.*, p.12

⁴ Budget Paper No. 3, *2003-04 Budget Estimates*, p.18

- boosting participation and outcomes;
- improving performance of specific groups;
- improving workforce quality;
- improving accountability; and
- providing an environment for excellence and innovation.

The Minister for Education and Training also referred to three challenges facing school education identified in the document *Blueprint for Government Schools*.⁶ These are:

- recognising and responding to diverse student needs;
- building the skills of the education workforce to improve the teacher learning relationship; and
- continuously improving schools.

6.1.2 Key factors influencing the budget estimates

The Committee was informed that the department's budget estimates were shaped by the Government's election policy commitments, the accompanying Labor Financial Statement, and the Government's policy frameworks and ministerial statements for education and training including:⁷

- the *Blueprint for Government Schools*, which outlines future directions for the Victorian government school sector;
- the *Knowledge and Skills for the Innovation Economy* statement, which provides the strategic framework for TAFE and training; and
- the *Teacher Supply and Demand for Government Schools* statement.

The Minister for Education and Training advised that the key themes in the 2004-05 Budget are:⁸

- driving excellence and innovation in education and training;
- increasing access and expanding opportunities; and
- building better schools and community assets.

⁵ Hon. L. Kosky, MP, Minister for Education and Training, overhead presentation at hearing, 20 May 2004

⁶ *ibid.*, transcript of evidence, 20 May 2004, pp.4–5; and Department of Employment and Training, *Blueprint for Government Schools, Future Directions for Education in the Victorian Government School System*, November 2003, pp.2–5

⁷ Department of Employment and Training response to the Committee's 2004-05 Budget Estimates questionnaire, p.3

⁸ Hon. L. Kosky, MP, Minister for Education and Training, transcript of evidence, 20 May 2004, p.3

6.2 Output management framework

A new output structure has been developed for 2004-05. This differs from the previous structure which clearly separated primary schooling from secondary years. The department indicated that the new output structure and associated performance measures have shifted to a client focus based on student progression along the key stages of learning. In addition, the department advised that the new structure provides an increased policy focus on students in the post-compulsory years and associated cross-sectoral initiatives to improve the attainment of a Year 12 or equivalent qualification.⁹

The Minister for Education and Training informed the Committee that the new groupings took the focus away from the provider (that is, primary school, secondary school, etc). An increasing level of funding is to be provided to programs that cut across more than one level of education, largely because of the difficulty in tracking the funds into traditional school types.¹⁰

This situation is reflected in the department's new output structure, the output group, Compulsory Years, has two outputs relating to the provision of school education, namely Early Years and Middle Years. The Middle Years output relates to the provision of education to students in Years 5 to 9. Years 5 and 6 involve attendance at primary schools and Years 7 to 9 involves attendance at secondary schools. Total funding for this output in 2004-05 is \$1,983.8 million.¹¹

The department indicated that it is not possible to provide target expenditure for 2004-05 according to the old structure (that is, separately for primary and secondary schools).¹²

Despite the department altering the output structure so that primary and secondary schooling cannot be distinguished, several indicators appearing under the output Early Years (which relates to Prep-Year 4) cover all primary school years up until Year 6, even though Years 5 and 6 are included in the Middle Years output. The indicators include:¹³

- Koori educators employed;
- new arrival students receiving intensive or targeted support: primary;
- primary school welfare officers employed;

⁹ Department of Employment and Training response to the Committee's 2004-05 Budget Estimates questionnaire, p.2

¹⁰ Hon. L. Kosky, MP, Minister for Education and Training, transcript of evidence, 20 May 2004, p.21

¹¹ Budget Paper No. 3, *2004-05 Service Delivery*, pp.56-57

¹² Department of Education and Training response to the Committee's follow-up questions to the Ministers, July 2004, p.5

¹³ Budget Paper No. 3, *2004-05 Service Delivery*, pp.54-55

- teachers and principals with a notebook computer: primary; and
- teacher-student ratio: primary.

A similar set of performance indicators relating to secondary schools as a whole appear under the outputs Middle Years or Later Years.¹⁴

The Committee understands that 97 per cent of Government schools are classified as either primary school or secondary school.¹⁵

The Committee is concerned that, while the department routinely reports the number of primary schools together with the number of students and teachers, it cannot estimate funding allocated to these schools, despite a totally separate infrastructure and workforce existing for primary schools as distinct from secondary schools. The same situation applies for secondary schools.

The Committee believes that there is a community expectation that the department will provide information that allows funding allocations to primary schools and secondary schools to be separately identified. Such a structure would clearly identify any funding shortfalls in maintaining either system.

Accordingly the Committee recommends that:

- Recommendation 32:** **The Department of Education and Training include in the Budget Papers and its annual report the amount of funding separately allocated to:**
- (a) primary schools; and**
 - (b) secondary schools.**

The Minister for Education and Training and the Minister for Education Services have joint responsibility for three output groups: Compulsory Years, Post-compulsory Years and Portfolio Management. These output groups cover eight outputs. The Minister for Education Services has sole responsibility for the output group: Services to Students (refer to exhibit 6.1).

¹⁴ *ibid.*, pp.56–59

¹⁵ In 2003, there were 1223 primary schools, 261 secondary schools and 49 primary-secondary schools (excluding special schools and language centres). (Source: Department of Education and Training, *2002-03 Annual Report*, Appendix 2)

**Exhibit 6.1: Department of Education and Training
Ministerial responsibilities**

Output	Responsible Minister	
	Education and Training	Education Services
Compulsory Years		
Early	✓	✓
Middle	✓	✓
Post-compulsory Years		
Later	✓	✓
Training and Further Education	✓	✓
Adult and Community Education	✓	✓
Cross-sectoral	✓	
Services to Students		
Services to students		✓
Portfolio Management		
Services to Ministers and Policy	✓	✓
Regulation	✓	✓

Source: Department of Education and Training's response to the Committee's 2004-05 Budget Estimates questionnaire, p. 1

The Ministers share responsibility for seven outputs. In addition to the shared responsibilities, the Minister for Education and Training has specific responsibility for the cross-sectoral output as well as having responsibility for overseeing the following statutory education bodies:¹⁶

- Adult, Community and Further Education Board;
- Registered Schools Board;
- Victorian Curriculum and Assessment Authority;
- Victorian Institute of Teaching;
- Victorian Learning and Employment Skills Commission;
- Victorian Qualifications Authority; and
- Victorian Schools Innovation.

¹⁶ Department of Education and Training response to the Committee's 2004-05 Budget Estimates questionnaire, Attachment 1

The Minister for Education and Training has overall responsibility for the Education and Training portfolio. This includes strategic directions, budget management, service delivery and program implementation within school education, training and further education, adult and community education, and higher education.¹⁷

The Minister for Education Services has specific responsibility for:¹⁸

- teacher workforce supply and demand, including recruitment and retention strategies;
- implementation of capital programs, including buildings, equipment and ICT;
- school councils, except in relation to school educational policy and funding issues;
- asset maintenance and security, including emergency management;
- health and safety issues, including asbestos;
- student welfare services, including students with disabilities, transport and drug education; and
- the Merit Protection Board.

6.3 Budget summary/financial analysis

Exhibit 6.2 shows the output groups for the Department of Education and Training. Departmental output costs are expected to be \$6,717.1 million in 2004-05, up \$349.9 million or 5.5 per cent on the expected outcome for 2003-04. As previously indicated, the department advised that it is not possible to recast costs in previous budget periods according to the new output.¹⁹ Consequently, it is not possible to calculate the expected changes in expenditure for most of the outputs, under the current or previous structure.

¹⁷ *ibid.*, p.2

¹⁸ *ibid.*, p.2

¹⁹ Department of Education and Training response to the Committee's follow-up questions, July 2004, p.5

Exhibit 6.2: Department of Education and Training Output group costs

	Column 1	Column 2	Column 3	Column (3-2)/2
Output group	2003-04 Budget (\$ million)	2003-04 Estimated Actual (\$ million)	2004-05 Budget (\$ million)	Variation (%)
Compulsory Years	n/a	n/a	3,838.9	n/a
Post-compulsory Years	n/a	n/a	2,337.1	n/a
Services to Students	462.2	466.2	494.9	6.2
Portfolio Management Services	n/a	n/a	46.2	n/a
Total	6,258.4	6,367.2	6,717.1	5.5

Note: n/a Not available due to introduction of a new output structure

Sources: Budget Paper No. 3, 2004-05 Service Delivery, pp.54-68; Budget Paper No. 3, 2003-04 Budget Estimates, p.26; Department of Employment and Training's response to the Committee's 2004-05 Budget Estimates questionnaire, p.16; Department of Education and Training's response to the Committee's follow-up questions, July 2004, p.5

The main reasons for the increase in output costs between 2003-04 and 2004-05 were:²⁰

- capital asset charge and depreciation (\$115.8 million);
- employee entitlements (\$111.9 million); and
- supplies and services (\$107.9 million).

6.3.1 Operating performance

In 2004-05, the Department of Education and Training anticipated receiving \$7.2 billion in revenue for its controlled operations, around 2 per cent more than budgeted expenditure and more than 5 per cent higher than the expected outcome in 2003-04 (see Exhibit 6.3). The surplus shown (\$151.6 million in 2004-05) reflects non-appropriation surpluses generated by schools and TAFE institutes from fees and fund raising and are not available for general departmental use.²¹

²⁰ Budget Paper No. 4, 2004-05 Statement of Finances, p.46

²¹ Department of Education and Training response to the Committee's 2004-05 Budget Estimates questionnaire, p.13

**Exhibit 6.3: Department of Education and Training
Statement of Financial Performance**

	Column 1	Column 2	Column 3	Column (3-2)/2
	2003-04 Budget	2003-04 Estimated Actual	2004-05 Budget	Variation (a)
	(\$ million)	(\$ million)	(\$ million)	(%)
Controlled items				
Operating revenue	6,741.9	6,850.9	7,218.7	5.4
Operating expenses	6,590.4	6,712.2	7,067.1	5.3
Net result	151.6	138.7	151.6	9.3
Administered items				
Administered revenue	1,641.0	1,707.8	1,863.4	9.1
Administered expenses	1,640.9	1,707.8	1,863.3	9.1
Surplus/Deficit	0.1	0.1	0.1	0.0

Source: *Budget Paper No. 4, 2004-05 Statement of Finances, pp.44-49*

The Committee noted the following reasons for the major variations between the expected actual expenditure in 2003-04 and the budget estimates for 2004-05:²²

- operating revenue – the flow-through effect of initiatives approved in previous budgets, funding for new initiatives announced in the 2004-05 Budget, increase in appropriations to cover the rise in the capital asset charge, and general inflation-related indexation; and
- operating expenses – most of the increase is related to the increased cost to the department of providing additional education and training services.

6.3.2 Balance sheet performance

Exhibit 6.4 shows that the department's net asset position is expected to improve by around \$220 million from 30 June 2004 to 30 June 2005. This reflects a projected increase in total assets of around \$230 million and an increase in liabilities of around \$10 million over this period.

The Committee noted the following explanations for the budgeted increase in assets between 30 June 2004 and 30 June 2005:²³

²² Budget Paper No. 4, *2004-05 Statement of Finances*, p.44

²³ *ibid.*, p.45

- the Government's ongoing asset investment program in education and training and new initiatives in the 2004-05 Budget which are largely targeted at improving existing schools, building new schools and upgrading TAFE institutes' teaching equipment;
- further investment in IT infrastructure aimed at reducing the human resource management administrative burden on schools, improving schools' internet access and upgrading the Victorian Assessment Authority's assessment system; and
- Commonwealth funded asset initiatives in schools and TAFE institutes.

**Exhibit 6.4: Department of Education and Training
Statement of Financial Position**

	Column 1	Column 2	Column 3	Column (3-2)/2
	2003-04 Budget	2003-04 Estimated Actual	2004-05 Budget	Variation
	(\$ million)	(\$ million)	(\$ million)	(%)
Controlled items				
Controlled assets	10,494.2	10,471.3	10,701.4	2.2
Controlled liabilities	1,252.0	1,241.9	1,252.3	0.8
Net assets	9,242.2	9,229.3	9,449.1	2.4
Administered items				
Administered assets	34.8	35.5	35.5	0.0
Administered liabilities	3.2	3.9	3.9	0.0

Source: Budget Paper No. 4, 2004-05 Statement of Finances, pp.48-49

6.3.3 Carry over funding

The department advised the Committee that it has recently finalised its internal budget management framework for 2004-05 and has put in place internal strategies to ensure a balanced budget outcome. A zero based budget process underpins the development of divisional budgets which were expected to be in place for internal reporting purposes from the start of the 2004-05 financial year.²⁴

At the time this report was prepared, the department was in the process of identifying funding that would be carried over to 2004-05 and could not provide details to the Committee.²⁵

²⁴ Department of Education and Training response to the Committee's follow-up questions to the Ministers, July 2004, p.4

²⁵ *ibid.*

6.4 Human resources issues

6.4.1 Departmental workforce

The department is one of the biggest employers in Victoria with around 50,000 people employed as principals, assistant principals, teachers, and support staff in more than 1,600 government schools.²⁶

Exhibit 6.5 shows that the total number of staff in the department was expected to increase by around 300 in 2003-04. However, this overall rise comprises an increase of almost 550 school based support staff, offset by a reduction of almost 300 public servants. These changes are a result of a restructure aimed at reducing central office staff and boosting resources in regional areas and schools.²⁷

The department advised the Committee that it expects to employ an additional 260 teachers and 60 other school based staff in 2004-05 (see Exhibit 6.5). The 2004-05 Budget allocated \$61.9 million to employ an extra 250 teachers, 200 from the start of 2005 and a further 50 from the beginning of 2006.²⁸ Initiatives funded from the 2003-04 Budget also resulted in an increase in teaching and support staff in the 2004 and 2005 school years.²⁹

²⁶ Department of Education and Training, *2002-03 Annual Report*, pp.10, 135, 136

²⁷ Minister for Education and Training, media release, *Kosky Announces Department Restructure*, 13 August 2003

²⁸ Minister for Education and Training, media release, *\$66.4 million for 250 new teachers and professional development*, 4 May 2004

²⁹ Budget Paper No. 3, *2003-04 Budget Estimates*, p.23

**Exhibit 6.5: Department of Education and Training
Equivalent Full Time Staff**

	June 2003 Actual	June 2004 Estimate	June 2005 Estimate
Ongoing staff			
Teaching	31,937	31,990	32,290
Non-teaching school based	5,334	5,740	5,795
Public service Executive Officer	74	68	68
Other public service	1,770	1,593	1,593
Sub total	39,115	39,391	39,746
Fixed term staff			
Teaching	6,986	6,985	6,945
Non-teaching school based	3,619	3,760	3,765
Public service Executive Officer	1	0	0
Other public service	258	144	144
Sub total	10,864	10,889	10,854
All staff			
Teaching	38,923	38,975	39,235
Non-teaching school based	8,953	9,500	9,560
Public service Executive Officer	75	68	68
Other public service	2,028	1,737	1,737
Total	49,979	50,280	50,600

Source: Department of Education and Training's response to the Committee's 2004-05 Budget Estimates questionnaire, pp.8-11

The department advised the Committee that casual staff employed at the school are not recorded centrally and are therefore not included in the above figures.³⁰ The Auditor-General found that the lack of information on casual teaching staff was a barrier to the department's workforce planning and identified casual relief teachers as a critical part of school staffing.³¹

The Committee agrees that the level of employment of casual staff is an important factor in determining workforce requirements and recruitment strategies.

Accordingly, the Committee recommends that:

³⁰ Department of Education and Training, response to the Committee's 2004-05 Budget Estimates questionnaire, p.9

³¹ Victorian Auditor-General's Office, *Teacher workforce planning*, November 2001, pp.77-79

Recommendation 33: The Department of Education and Training develop a centralised human resources management system that records the employment and cost of casual staff and identifies trends.

6.4.2 Staffing issues

The Minister for Education Services reported that while there was no teacher shortage in Victoria, there are geographic areas and secondary school subject areas which experience some difficulties attracting teachers.³² The Minister outlined five initiatives to address these issues:³³

- non-teaching professionals to undertake teacher education courses while being employed as a trainee teacher;
- financial incentives for student teachers to encourage them to undertake their placements in hard-to-staff schools;
- work with university education faculties to improve pre-service course quality;
- refresher training courses for ex-teachers seeking to return to teaching; and
- assistance for teachers in rural schools to retrain in particular hard-to-fill subject areas.

In the 2004-05 Budget, the last two initiatives were allocated \$2 million and \$2.5 million respectively over three years, starting in 2004-05.³⁴

According to the department, the first initiative will require \$1.3 million over two years and is scheduled to start in 2005.³⁵ The second initiative requires \$250,000 per year and will start in the second half of 2004.³⁶ The department advised that both programs will be funded internally from the department's budget.³⁷

Taking a long-term perspective, the department's forecasts show a teacher labour market broadly in balance over the next three to five years. However, work commissioned by the department predicts a peak shortfall of several hundred teachers in 2007 in a workforce of over 38,800 full-time teachers.³⁸

³² Ms J. Allan, MP, Minister for Education Services, transcript of evidence, 20 May 2004, p.10

³³ These initiatives are also outlined in Department of Education and Training report *Teacher Supply and Demand for Government Schools*, January 2004

³⁴ Budget Paper No. 3, *2004-05 Service Delivery*, p.270

³⁵ Department of Education and Training, *Teacher Supply and Demand for Government Schools*, January 2004, pp.5-6

³⁶ *ibid.*, pp.7-8

³⁷ Department of Education and Training response to the Committee's follow-up questions

³⁸ Department of Education and Training, report on *Teacher Supply and Demand for Government Schools*, January 2004, p.12; and the 2003 workforce analysis by the Boston Consulting Group referred to in this publication

The department indicated that these pressures are increased by the ageing of the teacher workforce, which is more acute in particular subject areas. For example, the proportion of mathematics teachers in the 50–54 age group increased from 10 per cent in 1995 to 24 per cent in 2002.³⁹

The Committee commends the department's initiatives to increase teacher supply, particularly in hard-to-fill subjects and rural schools.

In a review undertaken in late 2003, the Auditor-General found that the Department of Education and Training needed to improve its teacher workforce planning and recommended that a range of enhancements be made to the departmental human resources management system to support workforce planning activities.⁴⁰

According to the Auditor-General, the department developed a business case in 2002 for upgrading its human resource management system including a proposal to include internet-based access by the department's staff for:⁴¹

- recording teacher qualifications and skills;
- workforce analysis and budget planning tools for managers; and
- a management information system and decision making tools.

The Committee is aware that the 2004-05 Budget has allocated \$7 million in 2004-05 to upgrade the department's human resources management system.⁴² The new system will seek to centralise human resource management, increase functionality and provide internet-based options for staff to access teacher profiles.

The department informed the Committee that a component of the \$7 million upgrade aims to improve workforce systems, including workforce planning by school principals.⁴³

³⁹ Department of Education and Training, report on *Teacher Supply and Demand for Government Schools*, January 2004, p.12

⁴⁰ Victorian Auditor-General's Office, *Report on Public Sector Agencies*, November 2003, p.75

⁴¹ *ibid.*, p.69

⁴² Budget Paper No. 3, *2004-05 Service Delivery*, pp.272–273

⁴³ Department of Education and Training response to the Committee's follow-up questions, p.8

The Committee acknowledges that the upgrade of the human resources management system will largely address the issues identified in the department's 2002 business case, with the apparent exception of an on-line database recording teacher qualifications and skills. Given the critical importance of effectively managing a very large workforce where skills and qualifications affect workforce placements, the upgrade needs to encompass all the issues identified in the business case provided they still remain relevant.

The Committee recommends that:

Recommendation 34: **The Department of Education and Training address all outstanding issues identified in the department's 2002 business case for upgrading the human resources management system.**

Review of Portfolios

6.5 Output budget analysis

The output budgets for the Education and Training and Education Services portfolios are presented together. As portfolio responsibilities do not align with output groups it is difficult to identify separate budgets for each portfolio.

Exhibit 6.6 shows that total departmental expenditure is expected to be around \$6.7 billion in 2004-05, of which almost three-quarters relates to school education (target expenditure of just over \$5 billion).⁴⁴

⁴⁴ \$5,002.3 million. Source: Department of Education and Training response to the Committee's follow-up questions, p.5

Exhibit 6.6: Department of Education and Training Output costs

Output Group	Outputs under the responsibility of the Minister for Education and Training and the Minister for Education Services	2004-05 Budget (\$ million)
Compulsory Years	Early Years	1,855.1
	Middle Years	1,983.8
Sub total		3,838.9
Post-compulsory Years	Later Years	1,163.4
	Training and Further Education	1,102.2
	Adult and Community Education	34.9
	Cross-sectoral	36.6
Sub total		2,337.1
Services to Students	Services to Students	494.9
Portfolio Management Services	Services to Ministers and Policy	26.9
	Regulation	19.3
Sub total		46.2
Total		6,717.1

Source: Budget Paper No. 3, 2004-05 Service Delivery, pp.54-68

6.6 Outlook and performance measures

6.6.1 2004-05 outlook for the portfolios

Key risks identified by the department and its agencies for 2004-05 include:⁴⁵

- financial management;
- IT systems recoverability;
- duty of care to students;
- asset management; and
- security arrangements regarding external assessment of the Victorian Certificate of Education.⁴⁶

⁴⁵ Department of Education and Training response to the Committee's 2004-05 Budget Estimates questionnaire, pp.3-4

⁴⁶ Email correspondence from Department of Education and Training, 10 August 2004

The major initiatives for 2004-05 are:⁴⁷

- Education Maintenance Allowance (EMA) (\$14 million in 2004-05 and a total of \$78.1 million over four years). The funding will increase the primary student EMA to \$200 a year (from \$127 a year) and secondary student EMA to \$400 a year (from \$254 a year). Payments will continue to be made to families and schools on a 50-50 basis;
- extra resources for TAFE and training (\$10 million in 2004-05 and a total of \$90 million over four years);
- additional teachers for the Student Resource Package funding model⁴⁸ (\$7.5 million in 2004-05 and a total of \$62 million over four years);
- school maintenance (\$50 million in 2004-05);
- *Building Better Schools*: modernisation (\$44.5 million in 2004-05 and a further \$66.8 million in 2005-06); and new and replacement schools (\$21.3 million in 2004-05 and a further \$24.5 million in 2005-06);
- classroom replacement: relocatable classroom renewal (\$18 million in 2004-05 and a total of \$50 million over three years); and
- other asset initiatives (\$31.4 million in 2004-05 and a total of \$74.7 million over three years).

6.6.2 Performance measures

The Committee was informed that the department uses independent data or audited internal data, where possible, to ensure performance information is accurate and impartial.⁴⁹ In 2003-04, several organisations validated a range of the department's performance outcomes, including the Victorian Auditor-General's Office, Victorian Curriculum Assessment Authority, Australian Bureau of Statistics, and the National Centre for Vocational Education Research.⁵⁰

⁴⁷ Budget Paper No. 3, *2004-05 Service Delivery*, pp.265–274

⁴⁸ Previously known as the "New Resource Allocation Model". Source: Hon. L. Kosky, Minister for Education and Training, media release, *Record investment gives school children a better deal*, 16 September 2004

⁴⁹ Department of Education and Training response to the Committee's 2004-05 Budget Estimates questionnaire, p.7

⁵⁰ *ibid.*

The Committee notes that the department has a total of 145 performance measures: 14 are new since the previous budget and 40 have been discontinued.⁵¹ The department informed the Committee that the new indicators were introduced to improve the current suite of performance measures and to support the new output structure by:⁵²

- providing important information that would otherwise be lost as a result of the replacement of the previous output structure;
- providing more information that aligns with the new output structure; and
- replacing obsolete performance measures that are no longer monitored such as *Briefings prepared for Ministers' and Executive Group's signature* as this has been replaced with *Number of briefings provided following requests from the Ministers*.

While none of the new performance indicators are quality measures, the department uses a large suite of performance measures that are outcome focused and are comparable across states or internationally. For example:⁵³

- *percentage of Year 3 students reaching national benchmarks in numeracy; and*
- *participation rate of 15 to 19 year olds in training and further education in Victoria.*

The Committee was informed that the department supports the compilation of nationally comparable performance and benchmark information. To achieve this the department participates in:⁵⁴

- the Performance Measurement and Reporting Taskforce of the Ministerial Council on Education, Employment, Training and Youth Affairs (MCEETYA);
- the National Education and Training Statistics Unit operated through the Australian Bureau of Statistics;
- committees supporting the production of the Report on Government Services through the Steering Committee for the Review of Government Service Provision; and
- the preparation of Australian National Training Authority performance information.

⁵¹ Budget Paper No. 3 2004-05 *Service Delivery*, pp.54-58, 333-335; Budget Paper No. 3, 2003-04 *Budget Estimates*, pp.27-44

⁵² Department of Education and Training response to the Committee's 2004-05 Budget Estimates questionnaire, p.6

⁵³ Budget Paper No. 3, 2004-05 *Service Delivery*, pp.55, 60

⁵⁴ Department of Education and Training response to the Committee's 2004-05 Budget Estimates questionnaire, pp.7-8

The Committee notes the department is seeking to adopt a more rigorous approach to developing performance measures and using external or audited internal data to ensure the relevance and accuracy of the performance information.

However, the Committee is concerned that, while the department publishes national benchmarks for numeracy and literacy for primary year levels, such national benchmarks are yet to be developed for secondary year levels. This means that basic student outcomes for secondary students in Victoria cannot be compared with those of other states and territories.⁵⁵ The department informed the Committee that it is anticipated that agreement for national benchmarks for Year 7 reading, writing and numeracy benchmarks will be reached later in 2004.⁵⁶ However, the department did not indicate when national benchmarks for later year levels will be developed and published.

The Committee considers the development of benchmarks for secondary year levels at a national level should be given a high priority as student performance at this level will determine opportunities for tertiary education and/or future employment options. In this regard, the ability of Victoria to achieve national benchmarks and compare performance against other states would provide an overall indication as to the effectiveness of the state education system.

The Committee recommends that:

Recommendation 35: **The Department of Education and Training work with other education bodies in Victoria and other states and territories to develop and publish national benchmarks for numeracy and literacy for secondary school year levels.**

6.6.3 *Key issues impacting on the portfolios*

The department's response to the Committee's 2004-05 Budget Estimates questionnaire and the estimates hearing identified several issues that will affect the portfolios and the budget estimates for 2004-05.

(a) *School maintenance*

Maintaining school facilities is important to ensure high quality learning environments in schools that promote student health, safety and wellbeing. Regular maintenance also reduces costs, for both future maintenance and capital expenditure, in the longer term.

⁵⁵ Budget Paper No. 3, *2004-05 Service Delivery*, pp.55-59

⁵⁶ Department of Education and Training response to the Committee's follow-up questions, p.7

As mentioned above, the budget provides an additional \$50 million in 2004-05 for school maintenance works, including roofing, asphaltting and electrical and plumbing upgrades.⁵⁷ The Committee notes that all schools will receive a minimum 22 per cent increase on their maintenance budget allocation compared with 2003-04.⁵⁸

The Minister for Education Services informed the Committee that the department is reviewing the school funding model generally,⁵⁹ including the method used to fund school maintenance.⁶⁰

Prior to the review, maintenance funding was provided annually to schools through the maintenance works component of the annual School Global Budget (SGB) process. Each year, the SGB made available \$27 million to address the maintenance needs of all schools.⁶¹ Half of this funding was allocated to schools on the basis of a triennial stock-take of school maintenance requirements, referred to as the Physical Resource Management System audit (or PRMS audit). The remainder could be spent by schools on maintenance outside the PRMS funding, for example to meet unforeseen maintenance needs.⁶²

In 2003, the Auditor-General reported that the PRMS audit *'provided a sound basis for establishing the physical condition of school facilities. A similar review will need to be conducted regularly in future to ensure that data on the condition of school facilities remains up-to-date and continues to provide useful information for planning and management purposes'*.⁶³

The Minister for Education Services informed the Committee that the triennial PRMS audit will not be conducted in 2004 as the overall school funding process was being reviewed.⁶⁴ The Minister declined to provide details of the department's estimates of the unmet maintenance needs of schools.⁶⁵

While it is acknowledged that it is the responsibility of the department to develop an effective, fair and robust school maintenance funding model, the Committee would be concerned if the database underpinning the model was out-of-date, as the maintenance backlog in Government schools would not be identifiable. This is of particular concern with buildings constructed decades ago. The extent of the maintenance backlog is seen by the Committee as a major factor influencing future funding decisions.

⁵⁷ Budget Paper No. 3, *2004-05 Service Delivery*, pp.270–271

⁵⁸ Ms J. Allan, MP, Minister for Education Services, media release, *\$50 million facelift for Victorian schools*, 10 September 2004

⁵⁹ The new model is called the New Resource Allocation Model and will be implemented in schools in 2005. Source: Department of Education and Training, *Blueprint for Government Schools*, November 2003, p.16

⁶⁰ Ms J. Allan, MP, Minister for Education Services, transcript of evidence, 20 May 2004, p.23

⁶¹ Victorian Auditor-General's Office, *Report on Public Sector Agencies*, June 2003, p.23

⁶² Ms J. Allan, MP, Minister for Education Services, transcript of evidence, 20 May 2004, p.14

⁶³ Victorian Auditor-General's Office, *Report on Public Sector Agencies*, June 2003, p.26

⁶⁴ Ms J. Allan, MP, Minister for Education Services, transcript of evidence, 20 May 2004, p.23

⁶⁵ *ibid.* pp.14–15

The Committee is also concerned that schools that have been identified as requiring urgent maintenance under the previous funding model (and had their expectations raised that their school was next in line for funding), may miss out on funding when the new arrangements are introduced. The department needs to ensure that schools previously identified as requiring maintenance are not prejudiced under the new arrangements.

The Committee recommends that:

- Recommendation 36:** **The Department of Education and Training:**
- (a) provide an estimate of the cost of unmet maintenance needs in government schools in its annual report; and**
 - (b) develop appropriate transition arrangements to ensure that schools previously identified as having urgent maintenance needs under the previous funding model are not disadvantaged under the new maintenance arrangements.**

The Minister for Education Services indicated in June 2003 that the Government's investment in new and upgraded schools has reduced maintenance needs in schools by \$70 million.⁶⁶ The Minister advised the Committee that capital works undertaken at a particular school '*frees up maintenance money that would normally be spent on that school to go to other schools that need it the most*'.⁶⁷ The Committee notes the Minister's assessment that for every \$1 million spent on capital works, future maintenance costs are reduced by up to \$150,000.⁶⁸

While acknowledging the information provided by the Minister for Education Services, the Committee would like to know how the estimate of future savings of maintenance costs was calculated.

⁶⁶ Ms J. Allan, MP, Minister for Education Services, media release, *Capital investment in schools reduces maintenance need*, 5 June 2003

⁶⁷ Ms J. Allan, MP, Minister for Education Services, transcript of evidence, 20 May 2004, p.23

⁶⁸ Ms J. Allan, MP, Minister for Education Services, media release, *Capital investment in schools reduces maintenance need*, 5 June 2003

Accordingly, the Committee recommends that:

Recommendation 37: **The Department of Education and Training include in its annual report details of the method used to calculate the savings in maintenance derived by expending funds on capital works.**

(b) *Allocation of capital works funds*

As mentioned above, the 2004-05 Budget provides asset initiatives of \$281.8 million over three years for capital works in schools.⁶⁹

The Minister for Education and Training advised the Committee that 65 schools would benefit from the Building Better Schools - Modernisation Program.⁷⁰ The Committee was interested in the method used by the department to allocate capital works funds among schools.

The Minister for Education and Training informed the Committee that departmental regional offices develop priority lists of school capital needs based on a range of criteria, such as size of school, enrolment trends and the quality of current facilities.⁷¹ These lists are consolidated by the department. Once the total capital works budget is known, the schools with the highest priority on the consolidated list are allocated funding.⁷²

Accordingly, the Committee recommends that:

Recommendation 38: **With respect to the allocation of school capital funding, the Department of Education and Training include the following information in its annual report:**

- (a) the method used by regional offices to establish the priority list of schools in their region;**
- (b) the process used by the department in determining the merits of each school's capital needs based on the regional lists; and**
- (c) the amount of capital allocation for each school.**

⁶⁹ Budget Paper No. 3, *2004-05 Service Delivery*, pp.272-273

⁷⁰ Hon. L. Kosky, MP, Minister for Education and Training, transcript of evidence, 20 May 2004, p.3

⁷¹ *ibid.*, p.9

⁷² *ibid.*

(c) Administrative charges made on trust accounts

Just over \$1.5 billion of departmental funds was expected to be handled through trust funds in 2003-04.⁷³ During the estimates hearing, the Committee learnt that the department commenced charging a levy against some of these trust funds in 2003-04.⁷⁴ The department informed the Committee that 19 trust accounts have had an administrative charge levied on them in 2003-04. The administration charge is levied on the salary component of the trust fund expenditure and covers staffing overheads including payroll processing, power, computers, telephone and other incidentals.⁷⁵

Exhibit 6.7 shows that just over \$500,000 of administration charges were recovered in 2003-04 from a total of about \$32 million in fund expenditure for the 19 trust accounts.⁷⁶ As a percentage of fund expenditure, the charges ranged from 0.03 per cent (for the Student Wellbeing Drug Education - general trust account) to 9.78 per cent (for the Treasury Trust Language Allowance). Charges recovered ranged from \$13 (for the Student Wellbeing Drug Education - general trust account) to \$264,479 (for the Student Wellbeing - Individual School Drug Education Strategies trust account).

⁷³ Budget Paper No. 4, *2004-05 Statement of Finances*, p.50

⁷⁴ Hon. L. Kosky, MP, Minister for Education and Training, transcript of evidence, 20 May 2004, p.7

⁷⁵ Department of Education and Training response to the Committee's follow-up questions, July 2004, p.1

⁷⁶ The \$32 million figure is calculated by dividing the total administrative charge (\$504,425) by the administrative cost as a percentage of expenditure (1.59%)

**Exhibit 6.7: Department of Education and Training
Trust account charges levied in 2003-04**

Trust account	Administrative charge (\$)	Administrative charge as % of expenditure
Treasury Trust Language Allowance	521	9.78
Primary School Libraries	2,739	0.16
Indigenous Education Strategic Initiatives Program - pre 2003	22,464	6.43
Koorie Middle Years Numeracy	6,203	6.50
Indigenous Education Strategic Initiatives Program - post 2003	60,025	6.66
VET in Schools National Project	3,311	0.09
Student Wellbeing Year 12 Celebrations	1,514	3.78
Truancy Reduction Pilot	21,429	3.66
Student Wellbeing - School Support Special Education (Non-Govt)	16,050	1.19
Language Other than English	12,146	0.36
National Asian Languages and Studies in Australian Schools	15,220	2.26
Student Wellbeing - Individual School Drug Education Strategies	264,479	4.02
Student Wellbeing - Parent Education	339	1.08
School/Community Forums	4,814	0.56
Student Wellbeing - Drug Education - General	13	0.03
Teacher Development - Teaching for Design	9,832	2.65
Aust Govt Quality Teacher Program - Regional Funds Coordination	52,905	1.29
Aust Govt Quality Teacher Program - Central Funds Coordination	6,038	0.09
Discovering Democracy	4,383	0.82
Total	504,425	1.59

Source: Department of Education and Training's response to the Committee's follow-up questions, p.1

The Committee was informed that no charges were levied by the department on funds received as a community donation.⁷⁷

⁷⁷ Department of Education and Training response to the Committee's follow-up questions, p.2

While the Committee accepts that the department may incur some costs in administrating trust funds, it is concerned at the potential for such administration charges to be seen as revenue raising rather than compensation for actual costs incurred. The Committee is aware that across Government individual trust fund activities are not disclosed in annual reports. This issue is the subject of a separate inquiry by the Committee.

Nevertheless, the charging of an administrative levy on trust accounts is a new initiative by the department and the Committee considers that the recoupment of charges from this source should be separately disclosed to promote greater transparency and accountability in financial management.

The Committee recommends that:

**Recommendation 39: The Department of Education and Training
publish in its annual report:**

- (a) the method used to calculate the
administrative charge on trust accounts;**
- (b) the aggregate administrative charges levied
on departmental trust accounts; and**
- (c) the balance of funds held in trust accounts at
the end of the financial year.**

(d) *New resource allocation model (Student Resource Package)*

As previously mentioned, the department is planning to introduce a new system for funding schools from the 2005 school year. The School Global Budget will be replaced with a new resource allocation model that intends to provide for a student-centred funding arrangement which will be linked to schools' planning, accountability and performance management mechanisms.⁷⁸ The new funding model is called the Student Resource Package.⁷⁹

The Committee notes that the 2004-05 Budget provides funding for 250 additional teachers for the new model (\$7.5 million in 2004-05 and a total of \$62 million over four years).⁸⁰ The department plans to issue schools with their new school budgets in September 2004.⁸¹

⁷⁸ Department of Education and Training, *Blueprint for Government Schools*, November 2003, p.16

⁷⁹ Hon. L. Kosky, Minister for Education and Training, media release, *Record investment gives school children a better deal*, 16 September 2004

⁸⁰ Budget Paper No. 3, *2004-05 Service Delivery*, p.270

⁸¹ Department of Education and Training response to the Committee's follow-up questions, p.7

Prior to the commencement of the new arrangements, the department indicated it undertook an extensive consultation and training process with stakeholders, principals, business managers and regional office staff. Following the release of the new schools funding model in the third term of 2004, the department advised the Committee that schools were provided with additional training and support.⁸²

Given the importance of the new funding model in encouraging better budgeting, financial management and performance management in schools, the Committee believes the training programs and support to be provided by the department need to be evaluated after the first full year of implementation in order to determine their effectiveness in communicating the new directions.

The Committee recommends that:

Recommendation 40: **The Department of Education and Training ensure the training programs and support to be provided to schools in readiness for the new resource allocation model (Student Resource Package) are evaluated after the first full year of implementation in order to determine their effectiveness.**

(e) *New student relationship management information system*

The 2004-05 Budget allocates \$1.5 million in 2004-05 to pilot a student relationship management information system in several schools.⁸³ The Committee was informed the system seeks to enable student achievement to be tracked over time at an individual, school and whole-of-system level.⁸⁴ At the student level, it is anticipated that the information collected will provide a comprehensive picture of each learner, and thus aim to provide students, parents and school with useful information about an individual's progress and wellbeing.⁸⁵

The department informed the Committee that the evaluation phase of the pilot will include an assessment of:⁸⁶

- improvement in the ability of schools to track student data over time;
- the ability to observe a measurable change in desired educational and learning behaviour over the pilot period;
- student, parent, teacher and school satisfaction measures;

⁸² *ibid.*, p.6

⁸³ Budget Paper No. 3, *2004-05 Service Delivery*, pp.270–272

⁸⁴ *ibid.*

⁸⁵ Department of Education and Training response to the Committee's follow-up questions, pp.8–9

⁸⁶ *ibid.*, p.9

- a detailed cost benefit analysis; and
- the feasibility of the proposed statewide implementation plan.

The Committee welcomes the pilot of the student management information system and its potential to assist schools to target resources to students with particular needs.⁸⁷ The fact that the department has established an evaluation framework prior to implementing the pilot is particularly pleasing.

The Committee notes the Budget Papers indicate that funding has been committed for only one year.

If the system were to be implemented statewide, it has the capacity to identify student achievements at specific schools which may then need to be provided with more resources or receive special assistance. The Committee envisages the system would provide valuable information that would complement existing data and assist with determining state benchmarks for literacy and numeracy.

However, the Committee has two concerns:

- the fact that funding is committed for only one year may limit the department's capacity to evaluate the success of the system's effectiveness in tracking student achievement over time. Presumably, the focus of the system is to capture student performance on a year-to-year basis, including allowing students to switch between schools; and
- privacy issues concerning who in the school or school community has access to individual student information. This concern may be heightened if the student moves to another school.

Accordingly, the Committee recommends that:

- Recommendation 41:** **In relation to the new student relationship management information system, the Department of Education and Training ensure that:**
- (a) adequate funding for the pilot and subsequent evaluation is provided to allow key objectives of the system to be tested; and**
 - (b) privacy issues with respect to individual student's information are adequately addressed.**

⁸⁷ *ibid.*

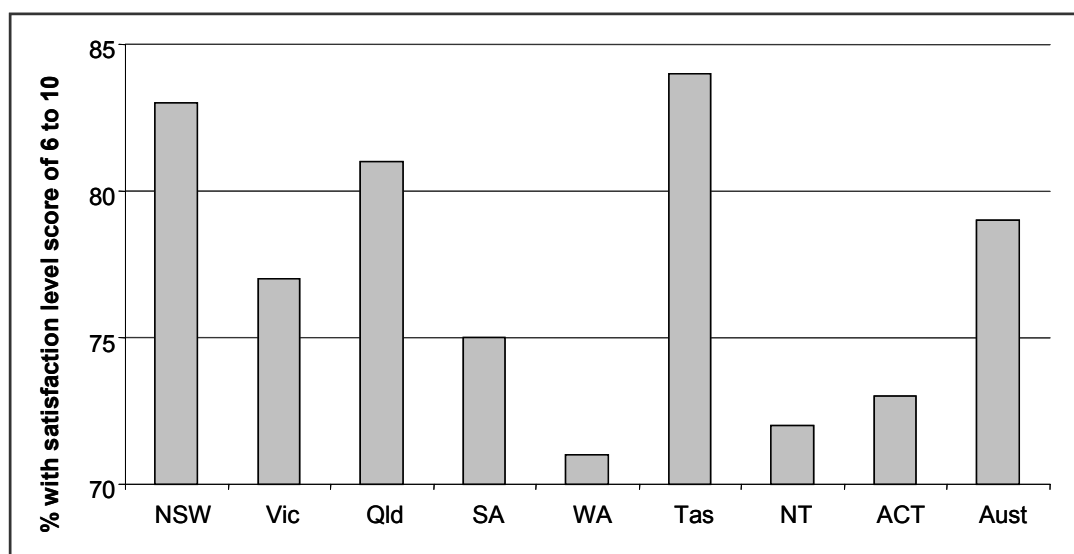
(f) Employers satisfaction with TAFE

The Committee noted that although around \$1.1 billion has been allocated for Training and Further Education in 2004-05, there are no performance indicators regarding employer satisfaction in the Budget Papers.⁸⁸

The department informed the Committee that employer satisfaction with TAFE training for apprentices and trainees is available from an employer satisfaction survey conducted nationally for the Australian National Training Authority. As the survey is undertaken every three years (the last one being in 2001), it is not suitable for inclusion in the Budget Papers.⁸⁹

The department pointed out that the 2001 survey showed 77 per cent of employers with recent vocational education and training (VET) graduates in Victoria were satisfied with VET providers. However, the Committee notes the survey also reveals that Victoria was below the national average of 79 per cent and significantly below NSW employer satisfaction of 83 per cent (refer to exhibit 6.8)

Exhibit 6.8: Overall satisfaction with Vocational Education and Training providers states and territories, 2001



Source: National Centre for Vocational Education Research Ltd, *Statistics 2001, Survey of Employer Views on Vocational Education and Training, National Report, pp.36-40*

⁸⁸ Budget Paper No. 3, *2004-05 Service Delivery*, p.61

⁸⁹ Department of Education and Training response to the Committee’s follow-up questions, p.9

The same 2001 survey also showed that Victorian employers were less satisfied than NSW employers (and the national average) with respect to:⁹⁰

- relevance of course content;
- balance between theory and practice; and
- teacher's experience with industry.

Apart from the commissioned survey, the department informed the Committee that employer and employee industry representatives work collaboratively in the design and development of training products. Training packages and state curriculum are informed by feedback from industry and community about the effectiveness of the training outcomes in meeting the needs of employers, learners and the community.⁹¹ The extent to which these actions are successful will need to be evaluated in the next survey due in 2004.

The Committee is also aware that the Auditor-General found in 2001 that the department sought the views of a narrow range of employers.⁹² For example, employer surveys regarding the learning outcomes of students were directed at apprenticeships and traineeships which received only about 25 per cent of funding allocated to the VET sector. The views of employers of other students, such as those completing certificate or diploma courses, were not sought on a statewide basis.⁹³

While the Committee endorses the approach of having nationally consistent employer data to allow comparisons of performance across states, it is concerned that:

- neither the Budget Papers nor the department's annual report show employer satisfaction with the VET sector;
- the current infrequent survey of employers will not be responsive to change, potentially resulting in a mismatch between skills taught by TAFE and competencies demanded by industry; and
- in several key areas, employers in Victoria are less satisfied with the VET sector compared to the national average.

The Committee notes the finding in its 2002-03 Budget Outcomes report that the level of satisfaction expressed by TAFE graduates with the quality of training provided by TAFE institutes declined in 2002-03. The Committee recommended that the

⁹⁰ National Centre for Vocational Education Research Ltd, *Statistics 2001, Survey of Employer Views on Vocational Education and Training, National Report*, pp.54–55

⁹¹ Department of Education and Training response to the Committee's follow-up questions to the Ministers, July 2004, p.10

⁹² Victorian Auditor-General's Office, *Teaching equipment in the Technical and Further Education sector*, May 2001, p.56

⁹³ *ibid.*

department investigate the underlying factors contributing to declining student satisfaction in these colleges.⁹⁴

The Committee recommends that:

Recommendation 42: **The Department of Education and Training collect, analyse and report in the Budget Papers indicators of employer satisfaction with the training and education courses provided by the Vocational Education and Training sector.**

Recommendation 43: **The Department of Education and Training include in its annual report an assessment of its performance in improving employer satisfaction with Vocational Education and Training outcomes comparative to other states.**

(g) *TAFE governance review*

A review of TAFE governance was completed by the department in May 2003.⁹⁵ The Committee was interested to learn what actions the department had taken to implement the recommendations.

The department informed the Committee that an implementation plan has been developed and best practice documentation is being drafted in consultation with TAFE Institute councils. Implementation of the recommendations will involve development of:⁹⁶

- examples of best practice governance;
- a governance charter; and
- risk management framework for subsidiary companies.

(h) *Commonwealth funding of higher education*

Victorian universities currently enrol over 150,000 domestic students and 40,000 international students.⁹⁷ Access to higher education in Victoria is critical to ensuring

⁹⁴ Public Accounts and Estimates Committee, *Report on the 2002-2003 Budget Outcomes*, April 2004, pp.194–195

⁹⁵ Department of Education and Training, *2002-03 Annual Report*, p.60

⁹⁶ Department of Education and Training response to the Committee's follow-up questions, p.13

⁹⁷ *ibid.*

that Victorians are appropriately skilled and equipped to respond to the increasing challenges of a global economy.⁹⁸

The Minister told the Committee that the number of Victorian applicants failing to receive a university offer at a Victorian university increased significantly from 14,593 in 1997 to 21,695 in 2003.⁹⁹ This resulted in an increased level of unmet demand in Victoria from 28 per cent in 1997 to 37 per cent in 2003.¹⁰⁰ The Minister for Education and Training advised the Committee that Victoria has the highest level of unmet demand of higher education places – 38 per cent of unmet demand across Australia is located in Victoria.¹⁰¹

However, the Committee is aware of a study by the Australian Vice-Chancellors' Committee that puts the level of unmet demand in Victoria in the range of 6.8 per cent to 11.6 per cent in 2004 (compared with a range of 5.4 per cent to 12.1 per cent in 2003).¹⁰² The Vice-Chancellors' figures are lower than those quoted by the Minister for Education and Training as the former discounts the number of applicants to take account of double counting of interstate applicants, the number of preferences expressed by applicants and other factors.¹⁰³

The Committee was told that in the two areas of national priority, nursing and teaching, a substantial pool of eligible applicants currently exists. The Victorian Parliamentary Education and Training Committee found that in 2004, 1,579 Victorian applicants who placed nursing as a first preference and 2,607 applicants who placed teaching as a first preference missed out on a place in these courses.¹⁰⁴ The Minister for Education and Training informed the Committee that of the extra 220 nursing places that were funded by the Commonwealth Government in 2003, Victoria received only 35 places.¹⁰⁵

The 2003 Commonwealth higher education reforms were negotiated and introduced in the context of a sector that was widely held to have been under funded in Victoria for over a decade.¹⁰⁶

The Committee understands that the Commonwealth Government allocated additional places to Australian universities for 2005-2008 through the conversion of marginally funded places into fully funded places. In total, 2,349 converted marginal places were

⁹⁸ Parliament of Victoria, Education and Training Committee, *Inquiry into the impact of the higher levels of unmet demand for places in higher education institutions on Victoria, Final report*, June 2004, p.vii

⁹⁹ *ibid.*

¹⁰⁰ *ibid.*

¹⁰¹ Hon. L. Kosky, MP, Minister for Education and Training, transcript of evidence, 20 May 2004, p.24

¹⁰² Unsuccessful applicants (shown in Table 4) divided by eligible applicants (shown in Table 1). Source: Australian Vice-Chancellors' Committee, *Applications for undergraduate higher education courses, 2004*, pp.2, 4

¹⁰³ *ibid.*, p.13

¹⁰⁴ Parliament of Victoria, Education and Training Committee, *Inquiry into the impact of the higher levels of unmet demand for places in higher education institutions on Victoria, Final report*, June 2004, *ibid.*, p.viii

¹⁰⁵ Hon. L. Kosky, MP, Minister for Education and Training, transcript of evidence, 20 May 2004, p.24

¹⁰⁶ Parliament of Victoria, Education and Training Committee, *Inquiry into the impact of the higher levels of unmet demand for places in higher education institutions on Victoria, Final report*, June 2004, p.xi

allocated to Victoria, representing only 9.4 per cent of the total additional places allocated nationally.¹⁰⁷ The Minister for Education and Training advised the Committee that this allocation is unfair as Victoria has 25 per cent of the student population.¹⁰⁸

Accordingly, the Committee recommends that:

Recommendation 44: **The Department of Education and Training urge the Commonwealth Government to review the allocation mechanism for university funding in an attempt to achieve a more equitable national approach to education.**

(i) *Teachers certified agreement*

The Minister for Education and Training informed the Committee that the details of a certified wages agreement between the Australian Education Union (Victoria) and the Department of Education and Training were not factored into the 2004-05 Budget Estimates because the agreement was reached too late for the financial consequences to be incorporated into the 2004-05 Budget Papers.¹⁰⁹

The Committee notes that under the agreement, staff are expected to receive four 3 per cent salary increases between April 2004 and October 2006, with no further pay claims allowable until December 2007. Two of the salary increases will occur in 2004 (in April and December).¹¹⁰ Other benefits include:¹¹¹

- a career restructure that recognises and aims to retain quality teachers in the system;
- improvements to graduate progression to encourage young enthusiastic teachers to stay teaching;
- a new streamlined expert teacher strategy category; and
- a standards-driven salary progression.

The Committee notes that the Budget Papers allow for a total increase in employee entitlements for the department of 2.8 per cent in 2004-05.¹¹² Further, as previously indicated, the department expects to increase teacher numbers by 0.7 of one per cent over the same period (see exhibit 6.5).

¹⁰⁷ *ibid.*

¹⁰⁸ Hon. L. Kosky, MP, Minister for Education and Training, transcript of evidence, 20 May 2004, p.24

¹⁰⁹ Hon. L. Kosky, MP, Minister for Education and Training, transcript of evidence, 20 May 2004, p.30

¹¹⁰ Hon. L. Kosky, MP, Minister for Education and Training, media release, 30 April 2004, *Teachers to get 3 per cent pay rise: Kosky*

¹¹¹ *ibid.*

¹¹² Budget Paper No. 4, *2004-05 Statement of Finances*, p.46

The Minister for Education and Training advised the Committee that wage increases in excess of three per cent are to be funded through productivity gains.¹¹³ This will be achieved through changes to the classification structure for teachers (where advancement will be based on merit rather than on years of service) and changes to the principal class structure.¹¹⁴

As previously indicated, the Government's funding model introduced for 2004-05, provides funding for wage increases that are consistent with the Government's wages policy of a three per cent wage rise.¹¹⁵ The Committee believes that the department needs to closely monitor the implementation of the certified agreement to ensure that total departmental employee entitlements stay within budget parameters.

The Committee further notes that the certified wages agreement provides for a range of salary packaged benefits including superannuation, a novated lease on a motor vehicle, payment of medical benefits insurance and mobile telephones.¹¹⁶ The agreement states that all costs associated with salary packaging, including administrative costs and any additional tax associated with the employment benefit, are to be met from the salary of the participating employee.¹¹⁷ However, the Committee is aware that employer contributions toward superannuation may rise when new scheme members choose to increase their personal contributions.¹¹⁸

The Committee also notes that funding for the increase in employer contributions appears not to have been taken into account when the certified wages agreement was negotiated. The Committee considers further information is needed to fully assess the budget implications of salary packaging superannuation and other benefits as a result of the certified wages agreement. The Committee will follow-up this issue at next year's estimates hearing.

(j) Performance measures for underperforming schools

The Committee is aware that each Government school is required to prepare a school charter document every three years. A triennial review is conducted by schools at the end of the three year charter period and involves school self assessment, independent verification of this assessment by an external reviewer and development of a new three year charter.¹¹⁹

¹¹³ Hon. L. Kosky, MP, Minister for Education and Training, transcript of evidence, 20 May 2004, p.30

¹¹⁴ *ibid.*

¹¹⁵ Budget Paper No. 2, *2004-05, Strategy and Outlook*, p.92; Hon. S. Bracks, MP, Premier, transcript of evidence, 18 May 2004, p.8

¹¹⁶ *Victorian Government Schools Agreement, 2004*, p.17 (downloaded from Australian Education Union Victoria website, www.aeuvic.asn.au)

¹¹⁷ *ibid.*

¹¹⁸ Information provided by email from the Victorian Auditor-General's Office

¹¹⁹ Victorian Auditor-General's Office, *Schools of the future, valuing accountability*, Special review no. 52, December 1997

The Committee notes that the 2004-05 Budget Papers reported that the triennial review process showed a decrease in the number of schools performing satisfactorily. In particular, the percentage of:¹²⁰

- primary schools identified as performing at or above expected levels is forecast to fall from 96.2 per cent in 2002-03 to a target of 93 per cent in 2004-05; and
- secondary schools identified as performing at or above expected levels is forecast to fall from 91.3 per cent in 2002-03 to a target of 90 per cent in 2004-05.

The Minister for Education and Training advised the Committee that the definition of the performance measure had changed since the 2003-04 Budget. The measure had been made 'harder' to be consistent with the *Blueprint for Government Schools*.¹²¹

The Committee believes that, as a general rule, all changes to the definition of performance measures should be identified in the Budget Papers by an explanatory footnote. Further, to allow meaningful year-on-year comparisons, the Committee suggests that the department's annual report should show data for such indicators for the budget year and the previous year on the basis of both the old and new definitions.

Accordingly, the Committee recommends that:

Recommendation 45: **With respect to any change in definition of performance measures from one budget year to the next, the Department of Education and Training identify any changes in the Budget Papers so that meaningful year-on-year comparisons of performance indicators can be made.**

(k) *Funding for students with disabilities*

The Committee is aware that the department's program for school students with disabilities provides additional resources to either a regular school or one of the various specialist schools for eligible students with disabilities. These resources may be provided in the School Global Budget, through other support services such as visiting teachers, social workers, guidance officers and curriculum consultants, or through specific early identification and intervention programs.¹²²

¹²⁰ Budget Paper No. 3, *2004-05 Service Delivery*, pp.55-57

¹²¹ Hon. L. Kosky, MP, Minister for Education and Training, transcript of evidence, 20 May 2004, p.11; Department of Employment and Training, *Blueprint for Government Schools, Future Directions for Education in the Victorian Government School System*, November 2003, pp.2-5

¹²² Department of Employment and Training, *Program for students with disabilities*, review 2005, p.4

The department advised that eligibility is defined by criteria based on guidelines set by the World Health Organisation designed to identify that group of students with more severe or profound disabilities.¹²³

The Committee notes that the percentage of students funded under the disabilities program in Government schools as a proportion of the total student population is expected to fall from 3.4 per cent in 2003-04 to 3 per cent in 2004-05.¹²⁴ However, departmental funding in services to students with disabilities is expected to increase marginally (from \$291.9 million to \$293.4 million over the period).¹²⁵

The Minister advised that schools are allocated additional funding for students with disabilities based on the level of student need.¹²⁶ Exhibit 6.9 shows the six levels of funding that apply, together with enrolments and total funding for that level.

**Exhibit 6.9: Department of Education and Training
Program funding for students with disabilities, 2004**

Level	Per student allocation (\$)	Enrolment (EFT)	\$ (million)
1	4,030	6,061	24.43
2	9,320	5,932	55.29
3	14,711	3,379	49.71
4	20,078	1,927	38.70
5	25,403	861	21.88
6	30,757	619	19.02
Total		18,779	209.01

Source: Department of Education and Training's response to the Committee's follow-up questions, July 2004, p.14

The Minister for Educational Services informed the Committee that the level of funding provided to a student is determined on the basis of an educational needs questionnaire.¹²⁷ The Committee noted the questionnaire is completed by the school principal in consultation with the student's parents and with the assistance of specialist departmental staff and professional staff who provide an independent assessment of the student's disability.¹²⁸

Additional resources will only be provided if the student meets specified criteria in at least one area of:¹²⁹

¹²³ Ms J. Allan, MP, Minister for Education Services, transcript of evidence, 20 May 2004, p.16

¹²⁴ Budget Paper No. 3, 2004-05 Service Delivery, p.65

¹²⁵ *ibid.*

¹²⁶ *ibid.*

¹²⁷ *ibid.*

¹²⁸ Department of Employment and Training, Program for students with disabilities, review 2005, p.6

¹²⁹ *ibid.*, p.12

- physical disability;
- severe language disorder;
- severe behaviour disorder;
- hearing impairment;
- intellectual disability;
- visual impairment; and
- autism spectrum disorder.

For example, to meet the criteria of physical disability, the student must either have a significant physical disability or significant health impairment. In addition, the student must require regular paramedical support. Evidence of impairment must be provided by a paediatrician and a physiotherapist or occupational therapist.¹³⁰

The level of funding is determined by an assessment of the student's capability with respect to a range of topics such as:¹³¹

- mobility;
- fine motor skills;
- expressive communication;
- challenging (excess) behaviour;
- safety;
- hearing and vision; and
- self-care.

(I) Fire prevention measures in schools

The Committee notes that the 2004-05 Budget provided \$5.2 million of asset initiative funding to rebuild facilities that were damaged by fires in 2003 at Cowes Primary School and Malvern Valley Primary School.¹³²

The Minister for Educational Services advised that the department has a comprehensive plan and strategies in place to provide immediate assistance to schools affected.¹³³

The Minister for Educational Services informed the Committee that the installation of sprinklers in school buildings would not be a cost effective way of dealing with fires

¹³⁰ *ibid.*, p.13

¹³¹ *ibid.*, pp.18–24

¹³² Budget Paper No. 3, *2004-05 Service Delivery*, pp.272–273

¹³³ Ms J. Allan, MP, Minister for Education Services, transcript of evidence, 20 May 2004, p.28

in schools. The cost of installing sprinklers in every school was \$390 million.¹³⁴ The Minister quoted research showing that the annualised costs of installation and ongoing maintenance of sprinklers would be approximately 5 to 7.5 times the potential savings in reduced school fires.¹³⁵

The Committee will follow-up the department's actions with respect to fire prevention in schools at next year's estimates hearing.

¹³⁴ *ibid.*

¹³⁵ Ms J. Allan, MP, Minister for Education Services, media release, *Research project to combat school fires*, 14 June 2004

CHAPTER 7: DEPARTMENT OF HUMAN SERVICES**Key Findings of the Committee:**

- 7.1** The Department of Human Services' budget allocation for 2004-05 is \$9,888.3 million, an increase of \$774.1 million from the expected outcome for 2003-04. Around 60 per cent of the additional funding is allocated to meet a rise in demand for emergency, elective and non-elective patient services at public hospitals and to improve the viability of public hospitals.
- 7.2** The 2004-05 budget allocation for the Department of Human Services includes \$44.9 million of funding carried over from the previous year. This funding will be applied to meet commitments for specific Commonwealth and State programs.
- 7.3** The Department of Human Services' budgeted surplus of \$131 million in 2004-05 largely reflects an additional one-off appropriation received to repay an advance made by the Treasurer during 2002-03 to make up for a shortfall in gambling revenue.
- 7.4** The Department of Human Services received \$2,756.8 million from the Commonwealth Government in Specific Purpose Payment grants in 2004-05 under various agreements covering a range of services including health care, housing and disability services. This is an increase of \$144.3 million (5.5 per cent) compared to the expected outcome in 2003-04.
- 7.5** The Department of Human Services could not provide the Committee with an estimate for employee numbers in 2004-05 at the time the budget was released in May 2004.
- 7.6** In 1999, the Commonwealth Government contributed 48 per cent and the Victorian Government 52 per cent of public hospital funding. The Victorian Government contribution has now grown to 59 per cent.

- 7.7** Increasing numbers of patients, including primary care patients, presenting at emergency departments, have placed additional demand pressures on the state's emergency departments, which have experienced growth of about 30 per cent since September 2000. Since the introduction of the Hospital Demand Management Strategy in 2001-02, the deterioration in the proportion of emergency department patients treated within ideal times and in the level of hospital bypass has reversed or stabilised, but the gap between the level of demand and the numbers of patients admitted to Victorian hospitals, while initially declining over the first two years, has increased during 2003-04.^{1 2}
- 7.8** The Government's \$1.6 billion four year package (\$333.2 million in 2004-05) aims to treat an additional 35,000 hospital patients and 50,000 emergency department patients in 2004-05, employ 900 extra nurses and health staff, and improve the financial sustainability of the hospital system.
- 7.9** There is considerable scope for expanding the quality performance measures contained in the Budget Papers that deal with patient care in the Victorian public hospital system, to enable an informed assessment of the quality of health services delivered, and to provide information that can be further used for budget deliberations,
- 7.10** Notwithstanding the additional funding provided to public hospitals in the 2004-05 Budget, the financial viability of the public hospital system needs to be kept under review.
- 7.11** Funding has been provided in the 2004-05 Budget to increase the number of general practitioners within the community health services system and improve access to primary medical care.

¹ The Committee acknowledges that since 2001-02, approximately 16,000 additional elective surgery operations have been performed and all elective patients classified as urgent have continued to be treated within the ideal treatment time of 30 days. (Source: Information supplied by the Department of Human Services on 29 October 2004).

² Waiting list figures for 2003-04 included for the first time, lists from the Williamstown, Mercy and Werribee Hospitals. (Source: Information supplied by the Department of Human Services on 29 October 2004).

- 7.12** The expected waiting time outcomes for 2003-04 for restorative dental care and for dentures will again exceed targets, despite the introduction of the Dental Workforce Planning Project and the 2003-04 Budget provision of additional funding of \$21 million over four years. The 2004-05 Budget includes the provision of \$58 million over four years towards the Public Dental Health Program to increase the number of people treated and reduce waiting times.
- 7.13** The Committee supports the Minister's view that research is needed to develop better performance measures for evaluating obesity and diabetes prevention programs.
- 7.14** There were 1,161 members of the disabled community who were urgently awaiting accommodation in April 2004. Current measures employed by the department do not appear to sufficiently address the urgent needs of the growing number of people with a disability who are seeking shared supported accommodation.
- 7.15** The Department of Human Services needs to continue to monitor, and evaluate after 12 months of operation, the effectiveness of key initiatives dealing with child protection and placement.
- 7.16** The reduction in child abuse notifications of 7.5 per cent, on average across the Family Support Innovation Project areas is an encouraging development. Nevertheless, an expectation of 36,900 child abuse notifications in Victoria in 2004-05 highlights an ongoing, serious community problem, for which the child protection system has statutory responsibility.
- 7.17** Every effort needs to be made to address the recommendations contained in the *Victorian Child Death Review Committee's Annual Report of Inquiries into Child Deaths - Child Protection 2004*.
- 7.18** In the interests of those children in state care who, according to the Minister for Community Services, have suffered many years of abuse and neglect, the department needs to continue with its monitoring of standards and outcomes. This evaluative framework should measure the effectiveness of initiatives designed to assist and support those children with disturbing and very challenging behaviours.
- 7.19** The department's use of performance measures that incorporate a quantity measure of 'service units' may make year-to-year comparisons difficult, without the provision of additional information.

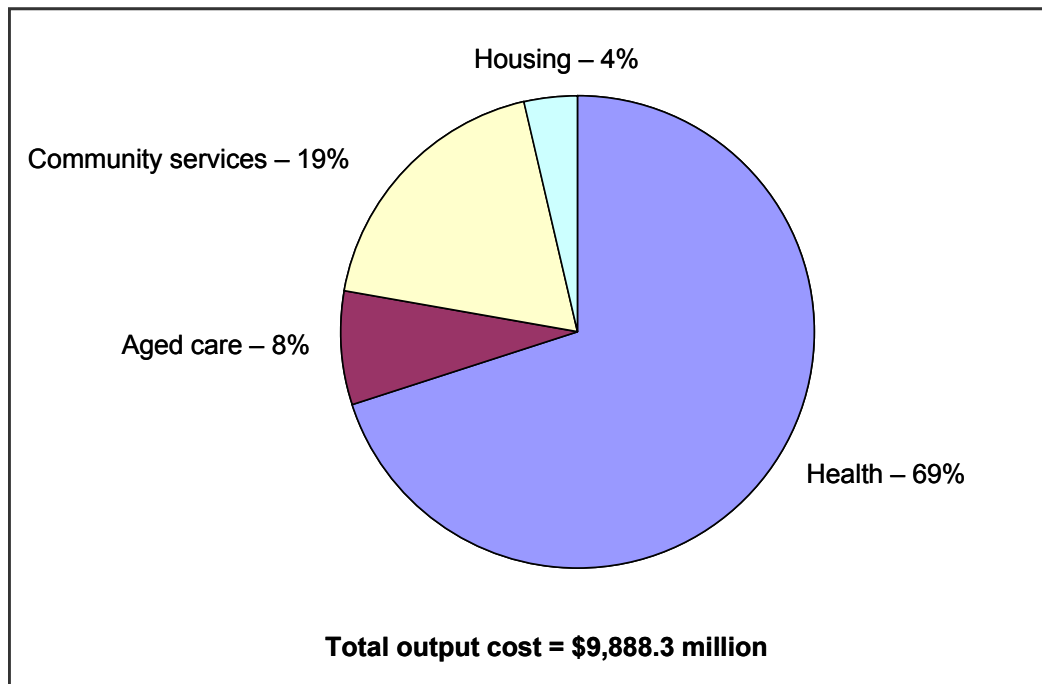
- 7.20** The Minister for Aged Care considers that the major factor restricting the provision of aged care beds are concerns over the financial viability of investing in nursing homes. Other factors highlighted by the Minister as contributing to the shortfall of operational aged care places in Victoria include accessing suitable land, raising capital, obtaining all relevant planning approvals and completing construction.
- 7.21** The Minister for Aged Care believes that the funding increase of 2.1 per cent provided by the Commonwealth Government in 2004-05 for the jointly funded Home and Community Care Program does not meet expected demand growth of 3.9 per cent for services funded under the agreement.
- 7.22** Additional funding of \$40 million in 2004-05 for capital expenditure in public housing has been made available by redirecting Office of Housing payments to the Consolidated Fund to repay debt.
- 7.23** Victoria is providing significant funding for public housing, above the matching requirements required under a funding agreement with the Commonwealth Government. In 2004-05, this additional State Government funding is expected to be \$96.1 million.
- 7.24** The cost of providing services under the jointly funded Supported Accommodation Assistance Program has increased in recent years and there is considerable unmet demand. A new agreement with the Commonwealth Government is currently being negotiated.

Departmental review

7.1 Departmental overview

The Department of Human Services supports the ministerial portfolios of Health; Community Services; Aged Care; and Housing. The Health portfolio outputs account for most of the Department of Human Services' budgeted expenditure in 2004-05 (see exhibit 7.1).

**Exhibit 7.1: Department of Human Services 2004-05
Output cost — by portfolio**



Source: *Budget Paper No. 3, Service Delivery 2004-05, pp.70–110*

7.1.1 Key challenges for the department in 2004-05

The Department of Human Services' 2004-05 departmental plan identified three major challenges that are expected to influence the delivery of services in different ways:³

- managing demand for services – stemming mainly from population increase and its relative ageing as well as increased service use resulting from new treatment technologies;
- improving service viability and productivity – includes efforts to manage financial sustainability, developing a skilled and flexible workforce across Victoria and modernising ageing infrastructure; and
- acting sooner more effectively – addressing changing patterns and inequalities in health and wellbeing, shifting the service focus towards prevention and early intervention, alleviating social pressures, improving social support and examining how services are delivered.

The department is facing these challenges in an environment where the State Government considers that funding provided by the Commonwealth Government under funding agreements with Victoria (including agreements covering hospitals,

³ Department of Human Services, *Departmental Plan 2004-05*, August 2004, pp.8–12

home and community care and public housing) has not kept pace with increases in the demand for services, or the cost of providing services.⁴

The Minister for Health stated that:⁵

The Commonwealth continues to give us less hospital funding than it has in previous years.

The real impact of the lesser amount of indexation in this latest [Australian Health Care Agreement] will be in fact \$350 million less to Victoria than it would be had the current agreement continued with the level of indexation in the previous agreement.

The Minister for Aged Care stated that:⁶

Victoria is receiving the lowest allocation of Commonwealth money in relation to those important aged care programs of any state – well below the national average. Indeed that situation is not about to be corrected by the actions of the Commonwealth Government because one significant component, for instance, is home and community care funding, which is in fact subject to an equalisation formula. That effectively disadvantages the state of Victoria, which has always matched or more than matched its funding requirement for HACC.

..... What has happened from 1990 until now is that in about 2000 there was a crossover and the Commonwealth benchmark of 40 high-care beds per 1000 for older members over the age of 70 actually exceeded the supply of operational beds. That is the trend line that continues to this day and into the future, and we anticipate that we will continue to be short of high-care places.

The Minister for Housing stated that:⁷

The Commonwealth-State Housing Agreement sadly continues to be inadequate and has highlighted the very important contributions the state has made to affordable housing in Victoria, including \$50 million in new funds to the housing budget in 2004-05.

⁴ Hon. B. Pike, MP, Minister for Health, transcript of evidence, 19 May 2004, p.2; Mr G. Jennings, MLC, Minister for Aged Care, transcript of evidence, 24 June 2004, p.2; Ms C. Broad, MLC, Minister for Housing, transcript of evidence, 18 June 2004, p.2

⁵ Hon. B. Pike, MP, Minister for Health, transcript of evidence, 19 May 2004, p.2

⁶ Mr G. Jennings, MLC, Minister for Aged Care, transcript of evidence, 24 June 2004, p.2

⁷ Ms C. Broad, MLC, Minister for Housing, transcript of evidence, 18 June 2004, pp.2-3

A meeting of Commonwealth, state and territory ministers responsible for [Supported Accommodation Assistance Program] agreements will be held in July of this year to consider an evaluation report of the current agreement. It is of concern to Victoria that that evaluation canvasses the option of discontinuing the SAAP arrangements. It would be a very heavy blow indeed to the provision of homelessness support and assistance in this state if Victoria were required to pick up the contribution which is currently being made by the Commonwealth.

7.1.2 Key factors influencing the budget estimates

The 2004-05 Budget includes a number of initiatives that were part of the Government's pre-election commitments contained in *Labor's Financial Statement 2002*. Output initiatives in the 2004-05 Budget arising from these commitments include additional funding for the Hospital Demand Management Strategy (\$132 million in 2004-05) and the recruitment of doctors as General Practitioners (\$2 million in 2004-05).⁸

Asset initiatives relating to the Government's 2002 pre-election commitments with a total estimated investment of \$447.7 million were also allocated funding in the 2004-05 Budget.⁹ The largest single project is the redevelopment of the Royal Women's Hospital, which is expected to cost \$250 million, of which \$60 million will be provided from asset sales, comprising the sale of the former hospital site and a car park.¹⁰

7.2 Output management framework

The Committee noted that there is a clear alignment of ministerial responsibility to individual outputs delivered by the Department of Human Services.¹¹

A new output group – Small Rural Services – covers health services provided in small rural towns, for which funds were previously drawn from the output groups Acute Health Services; Aged and Home Care; and Primary Health.¹²

The Minister for Health has responsibility for two out of the four outputs in the Small Rural Services output group, while the remaining two outputs are the responsibility of the Minister for Aged Care.¹³

⁸ Budget Paper No. 3, *2004-05 Service Delivery*, p.44

⁹ *ibid.*, pp.46-47; Budget Information Paper No.1, 2003-04 Public sector asset Investment Program, p.40

¹⁰ Hon. S. Bracks, MP, Premier of Victoria, media release, *Green light for new Royal Women's Hospital*, 6 October 2003

¹¹ Department of Human Services response to the Committee's 2004-05 Budget Estimates questionnaire, p.3

¹² Budget Paper No. 3, *2004-05 Service Delivery*, pp.70-81

¹³ Department of Human Services response to the Committee's 2004-05 Budget Estimates questionnaire, pp.65-67

One output – Blood Services – was discontinued in the 2004-05 Budget. The Committee noted that this reflected the creation of the National Blood Authority in July 2003, which now purchases blood and blood products on behalf of all states and territories.¹⁴ Under the previous arrangements, blood products were purchased directly from the Australian Red Cross Blood Service.¹⁵ The cost of the former output group is now included in the Admitted Services output, although none of the three performance measures that were previously part of the Blood Services output have been carried over.¹⁶

7.3 Budget summary/financial analysis

The Department of Human Services' budget allocation for 2004-05 was \$9,888.3 million, which was \$774.1 million (8.5 per cent) higher than the expected outcome in 2003-04 (see exhibit 7.2).

The Committee noted that most of the additional expenditure in 2004-05 is directed to the Acute Health Services output group, which accounted for around \$465 million of the increase.¹⁷ The Housing Assistance and Disability Services output groups also received significant additional funding.¹⁸

¹⁴ Budget Paper No. 3, *Service Delivery 2004-05*, p.69; National Blood Authority, *About the National Blood Authority*, www.nba.gov.au, accessed 12 October 2004

¹⁵ Department of Human Services response to the Committee's 2004-05 Budget Estimates questionnaire, p.4

¹⁶ Budget Paper No. 3, *2004-05 Service Delivery*, p.336

¹⁷ *ibid.*, pp.70–110; Department of Human Services, *Victorian Budget 2004-05 Information Kit*, 4 May 2005, p.2

¹⁸ Budget Paper No. 3, *2004-05 Service Delivery*, pp.70–110; Department of Human Services, *Victorian Budget 2004-05 Information Kit*, 4 May 2005, p.2

**Exhibit 7.2: Department of Human Services
Output group costs**

	Column 1	Column 2	Column 3	Column (3-2)/2
Output group	2003-04 Budget	2003-04 Estimated Actual	2004-05 Budget	Variation
	(\$ million)	(\$ million)	(\$ million)	(%)
Acute Health Services (a)	4694.5	4711.6	5177.0	9.9
Ambulance Services	287.8	298.3	318.9	6.9
Mental Health	616.4	624.9	651.7	4.3
Primary Health (a)	141.9	147.8	153.8	4.1
Small Rural Services	269.3	270.1	282.8	4.7
Dental Health	88.8	91.7	117.7	28.4
Public Health	190.9	194.4	203.1	4.5
Drugs Services (a)	97.7	101.4	104.4	3.0
Aged and Home Care (a)	622.4	645.0	683.5	6.0
Disability Services	844.4	854.3	910.4	6.6
Child Protection and Placement	269.8	269.8	294.7	9.2
Juvenile Justice Services	66.1	70.1	73.1	4.3
Early Childhood Services	184.6	183.1	194.8	6.4
Family and Community Support	91.3	(b) 127.7	(b) 132.0	3.4
Concessions to Pensioners and Beneficiaries	218.7	218.5	233.3	6.8
Housing Assistance	306.3	305.5	357.2	16.9
Total (a), (c)	8,990.9	9,114.2	9,888.3	8.5

- Notes:*
- (a) *Adjusted to reflect the creation of the Small Rural Services output group*
 - (b) *The 2003-04 expected outcome and the 2004-05 target include funds for problem gambling and financial counselling, funded from the Community Support Fund. These funds were previously included under the Department for Victorian Communities*
 - (c) *May not add due to rounding*

Sources: Budget Paper No. 3, 2004-05 Service Delivery, pp.70-110; Department of Human Services, Victorian Budget 2004-05 Information Kit, 4 May 2004, p.2

The department advised the Committee that higher funding of \$51.7 million for the Housing Assistance output group reflected initiatives to increase Victoria's social housing stock and funding approved in the 2003-04 Budget to support innovative social housing projects.¹⁹ The Committee noted that greater funding of \$56.1 million for the Disability Services output group would support an increase in respite services, shared supported accommodation and individual support packages.²⁰

¹⁹ Department of Human Services response to the Committee's 2004-05 Budget Estimates questionnaire, p.50

²⁰ Budget Paper No. 3, 2004-05 Service Delivery, pp.94-95

7.3.1 Operating performance

In 2004-05, the Department of Human Services budgeted to receive \$10.7 billion in revenue for its controlled operations, largely in line with budgeted expenditure and 9.4 per cent higher than the expected outcome for 2003-04 (see exhibit 7.3).

The increase in revenue was largely due to:²¹

- funding provided to implement *Labor's Financial Statement 2002* pre-election commitments and other policy commitments including the Hospital Demand Management Strategy, Affordable Housing Growth Strategy and new budget initiatives (\$453.3 million);
- additional funding for wage related costs arising from award adjustments and enterprise bargaining agreements and price escalation (\$228 million) for anticipated cost increases in 2004-05; and
- funding for higher depreciation, amortisation and capital asset charge expenses (\$89 million) associated with the approved asset investment program for 2004-05 and the impact of revaluations on the capital asset charge.

The Committee noted that almost all of the increase in revenue in 2004-05 for the department is a result of a rise in output appropriations, with only a small increase in expected revenue from the sale of goods and services (\$20.4 million). These increases are partly offset by a decline in revenue expected from the treatment of interstate patients (\$37.4 million).²²

²¹ Budget Paper No. 4, *2004-05 Statement of Finances*, p.51

²² Department of Human Services response to the Committee's 2004-05 Budget Estimates questionnaire, pp.43 and 48

**Exhibit 7.3: Department of Human Services
Statement of financial performance**

	Column 1	Column 2	Column 3	Column (3-2)/2
	2003-04 Budget	2003-04 Estimated Actual	2004-05 Budget	Variation
	(\$ million)	(\$ million)	(\$ million)	(%)
Controlled items				
Operating revenue	9,495.8	9,741.9	10,661.1	9.4
Operating expenses	9,502.5	9,724.7	10,530.5	8.3
Net result	-6.7	17.3	130.6	654.9
Administered items				
Administered revenue	2,881.2	2,846.8	2,996.2	5.2
Administered expenses	2,881.2	2,846.8	2,996.2	5.2
Surplus/Deficit	0.0	0.0	0.0	n/a

Note: n/a not applicable

Source: Department of Human Services response to the Committee's 2004-05 Budget Estimates questionnaire, pp.43-44

The Committee noted that the budgeted surplus of \$130.6 million in 2004-05 is primarily attributable to the inclusion in appropriation revenue in 2004-05 of a one-off amount that was received to repay an advance made to the department in 2002-03 of \$107 million.²³ This advance was made under s.37 of the *Financial Management Act* 1994 to compensate the department for a shortfall in gambling revenue paid into the Hospitals and Charities Fund.²⁴

The department's administered revenue in 2004-05 includes funding of \$2,756.8 million (an increase of \$144.3 million from the expected outcome in 2003-04) from the Commonwealth Government as Specific Purpose Payment grants covering various programs including:²⁵

- health care (\$1,903.4 million);
- home and community care (\$201.3 million);
- disability services (\$127.9 million);
- housing (\$115.7 million); and
- highly specialised drugs program (\$100 million).

²³ Department of Human Services response to the Committee's 2004-05 Budget Estimates questionnaire, p.52

²⁴ Public Accounts and Estimates Committee, *Report on the 2002-03 Budget Outcomes*, 56th Report, April 2004, p.122; Department of Human Services response to the Committee's 2004-05 Budget Estimates questionnaire, p.52

²⁵ Budget Paper No. 4, *2004-05 Statement of Finances*, p.142

7.3.2 Balance sheet performance

At 30 June 2005, the Department of Human Services expects to control assets valued at \$7,032.3 million, an increase of \$630 million (9.8 per cent) from the anticipated result in 2003-04 (see exhibit 7.4). The department attributed the increase in assets to the construction of new and upgraded health and community facilities.²⁶

The Committee noted that capital expenditure by the department on major capital projects (TEI greater than \$10 million) in 2004-05 was expected to be \$371.2 million, with further capital expenditure on public housing additions (\$162.2 million) and public housing improvements/redevelopment (\$170.8 million).²⁷

Exhibit 7.4: Department of Human Services Statement of financial position

	Column 1	Column 2	Column 3	Column (3-2)/2
	2003-04 Budget	2003-04 Estimated Actual	2004-05 Budget	Variation
	(\$ million)	(\$ million)	(\$ million)	(%)
Controlled items				
Controlled assets	6,311.8	6,402.3	7,032.3	9.8
Controlled liabilities	2,078.5	2,127.6	2,348.6	10.4
Net assets	4,233.3	4,274.7	4,683.7	9.6
Administered items				
Administered assets	119.7	119.7	119.7	0.0
Administered liabilities	110.7	110.7	110.7	0.0

Sources: *Budget Paper No. 4, 2004-05 Statement of Finances, p.55; Department of Human Services response to the Committee's 2004-05 Budget Estimates questionnaire, p.32*

The department advised the Committee that there were several items for which there were matching assets and liabilities including long service leave entitlements for staff employed in the human services sector (up to \$78 million) and the recognition of a finance lease relating to the Casey Community Hospital (\$74.8 million).²⁸

The Committee noted that the department expected to receive capital Specific Purpose Payment grants from the Commonwealth Government of \$104.3 million in 2004-05, an increase of \$15.5 million compared to the expected outcome in 2003-04.²⁹

²⁶ Budget Paper No. 4, 2004-05 Statement of Finances, p.52

²⁷ Department of Human Services response to the Committee's 2004-05 Budget Estimates questionnaire, pp.54-58

²⁸ *ibid.*, pp.51-52

²⁹ Budget Paper No. 4, 2004-05 Statement of Finances, p.142

7.3.3 Carry over funding

At the time of preparation for the 2004-05 Budget, the Department of Human Services expected to carry forward \$31.3 million of unspent appropriations from the previous year comprising entirely of funds for the provision of outputs.³⁰

In response to follow-up questions from the Committee the department advised that it expected to carry forward \$44.9 million for the provision of outputs to 2004-05, with funding required to complete commitments in 2004-05 for specific Commonwealth and state programs.³¹ The Committee noted that the amounts carried forward included \$10 million for the Government's Affordable Housing Initiative, \$2.2 million for child placement and support services and \$2.1 million for the Home and Community Care Program due to delays in the Commonwealth Government providing approval for the 2003-04 funding allocations.³²

7.4 Human resources issues

The Department of Human Services advised the Committee that it expected to employ 11,021 staff as at 30 June 2004.³³ In May 2004, the department was not able to provide the Committee with forecast staffing information for 2004-05 as it was still working through the implications of the budget on staffing requirements, and whether these requirements will relate to internal or externally delivered services.³⁴

The Committee is surprised that a forecast for the number of departmental employees in 2004-05 was unavailable.

In its 2002-03 Budget Outcomes report the Committee noted that all agencies except the Department of Human Services provided information on the cost of WorkCover premiums and the number and cost of stress related claims for its major portfolio agencies.³⁵ In response to the Committee's request, the department advised that it may take the Victorian WorkCover Authority a few weeks to process this request.³⁶

This information was not provided to the Committee subsequent to the release of the report on the Budget Outcomes. As a result, the Committee again requested this

³⁰ Budget Paper No. 4, *2004-05 Statement of Finances*, p.170

³¹ Minister for Health's response to the Committee's follow-up questions, p.7

³² Minister for Housing's response to the Committee's follow-up questions, p.6; Minister for Community Services' response to the Committee's follow-up questions, p.10; Minister for Aged Care's response to the Committee's follow-up questions, p.6

³³ Department of Human Services response to the Committee's 2004-05 Budget Estimates questionnaire, p.41

³⁴ *ibid.*, p.42

³⁵ Public Accounts and Estimates Committee, *Report on the 2002-03 Budget Outcomes*, 56th Report, April 2004, pp.124-125

³⁶ *ibid.*, p.125

information from the department as part of its review of the 2004-05 Budget Estimates in early June 2004 and was advised that:³⁷

Questions of the WorkCover performance of specific hospitals and associated actions to manage issues such as stress should be addressed to the Minister responsible for Victorian WorkCover Authority.

This information has now been provided and is shown in exhibit 7.5 and 7.6.

**Exhibit 7.5: Department of Human Services
Major portfolio agencies WorkCover premium, 2002-03**

Department of Human Services portfolio agency	WorkCover premium 2002-03 (\$ million)	Premium per equivalent full-time employee (\$)
Southern Health	6.75	1,172
Melbourne Health	4.41	949
Bayside Health	3.34	820
Eastern Health	4.02	1,166
Austin Health	3.64	880
Women's and Children's Health	3.44	1,063
Western Health	3.06	1,213
Peninsula Health	3.94	1,707
Barwon Health	2.25	792
Northern Health	0.52	367
Total	35.37	1,029

Source: Department of Human Services response to the Committee's follow-up questions

As part of its initial request, the Committee also sought further information on the incidence and cost of stress related workers compensation claims for the department's major portfolio agencies (see exhibit 7.6). The department advised that the number of claims as a percentage of equivalent full-time employees had increased from 0.47 per cent in 2001-02 to 0.54 per cent for 2002-03.³⁸

³⁷ Minister for Health's response to the Committee's follow-up questions, p.6

³⁸ Minister for Health's response to the Committee's follow-up questions

**Exhibit 7.6: Department of Human Services
Major portfolio agencies
Incidence and cost of stress related compensation claims**

	Column 1	Column 2	Column 3	Column 4	Column (1+2)/4	Column (3/4)
	Number of stress-related claims lodged in 2002-03	Number of stress-related claims carried over from 2001-02	Total cost of stress related claims in 2002-03 (\$)	EFT staff (as at 30 June 2003)	Number of claims as a percentage of EFT (%)	Cost of claims per EFT (\$)
Southern Health	18	16	543,706	5,761	0.59	94
Melbourne Health	21	18	678,896	4,647	0.84	146
Bayside Health	12	0	310,136	4,072	0.29	76
Eastern Health	17	6	712,317	3,448	0.67	207
Austin Health	9	10	563,176	4,138	0.46	136
Women's and Children's Health	5	11	166,716	3,237	0.49	52
Western Health	5	8	100,360	2,522	0.52	40
Peninsula Health	9	10	448,631	2,308	0.82	194
Barwon Health	n/a	n/a	n/a	2,840	n/a	n/a
Northern Health	6	4	247,486	1,415	0.71	175
Total	102	83	3,771,424	34,389	0.54	110

- Notes: (a) *The department advised the Committee that the Victorian WorkCover Authority noted that the term 'Number of stress related claims carried over from 2001-02' is not a term normally used to measure WorkCover stress performance. Claims are listed as Open or Closed on the VWA database, but being denoted as Closed does not mean that the claim has been finalised. That is, a Closed claim can still have payments for medical and like expenses being made, and these can be quite substantial or, alternatively, the person has returned to work but then subsequently ceases - the claim is then re-opened. Therefore, the Victorian WorkCover Authority recommended that performance be assessed using all claims for the relevant financial years*
- (b) *n/a Not available*

Source: *Department of Human Services response to the Committee's follow-up questions*

The department advised the Committee the Victorian WorkCover Authority has reported to the Senior OHS/WorkCover Round Table (consisting of key Victorian Government departments and public sector employee associations) that:³⁹

- the incidence and cost of stress, particularly in the public sector, is of concern to Government, its departments, and the Victorian WorkCover Authority. Overseas studies show stress is a world-wide phenomenon and will continue due to increased pressures of the modern workplace;

³⁹ Minister for Health's response to the Committee's follow-up questions, p.6

- in the year 1997-98 stress claims represented 1.5 per cent only of total claims lodged. By 2001-02 the number of stress claims lodged had increased to represent 8.8 per cent of total claims lodged. According to the Victorian WorkCover Authority, stress claims are 50 per cent more costly than other claims. Stress claims have the highest average common law payment; and
- in 2003 ComCare (the equivalent to the Victorian WorkCover Authority for Commonwealth employees) reported its concern with a jump in the number of expensive compensation claims for psychological injuries suffered by public servants, with payments of almost \$220 million to Commonwealth employees.

The department advised the Committee that it is addressing concerns over workplace stress in three ways:⁴⁰

- implementing a stress prevention pilot in its Loddon Mallee Region in consultation with the Victorian WorkCover Authority, other departments and unions. The results of the project should be known in early 2005;
- a pilot project aimed at assisting staff suffering distress commenced in two select regions during 2004. Given the positive reception of the pilot by involved staff and unions, this pilot was expanded to include another three regions. Results of a formal evaluation of the pilot are due by December 2004, but the Victorian WorkCover Authority has provided data that show much improved return to work rates for the department; and
- the Department of Human Services, Department of Education and Training and VicPolice will be working with the Victorian WorkCover Authority and its agents to identify suitable strategies to assist staff who have been off work due to stress for less than 52 weeks.

The Committee notes that current requirements relating to reporting on occupational health and safety (OHS) in annual reports are included in Financial Reporting Direction No.22 covering standard disclosures in the Report of Operations, which requires:⁴¹

a statement on occupational health and safety matters, including appropriate performance indicators and how they affect outputs. ... An entity's statement on occupational health and safety matters should identify the performance indicators adopted to monitor such matters, and outline the entity's performance against those indicators.

The Committee also noted current reporting of OHS outcomes by the department's major agencies was limited, with only three providing a general discussion about workers compensation claims and none specifically reporting outcomes for stress

⁴⁰ *ibid.*

⁴¹ Department of Treasury and Finance, Financial Reporting Direction No. 22, Standard Disclosures in the Report of Operations, pp. 1-2

related claims.⁴² The Committee believes that efforts to improve occupational health and safety should be accompanied by a more comprehensive reporting regime than is currently used.

At a minimum, the Committee believes agencies should be reporting against the objectives of the Budget Sector OHS Improvement Strategy initiated in early 2001, which aim to achieve across all agencies a target 20 per cent improvement in the following WorkCover performance indicators:⁴³

- number of reported standard claims;
- claims frequency rate;
- average cost of claims; and
- claims cost ratio.

The Committee is aware that the Department of Human Services and the Victorian WorkCover Authority are currently working on a number of strategies to improve OHS performance by public hospitals.⁴⁴ The Committee believes that OHS reporting by agencies should also include progress by agencies in implementing these strategies, including reporting of 'positive' OHS performance measures, such as those that relate to the development and assessment of OHS management systems.

The Committee recommends that:

Recommendation 46: **The Department of Treasury and Finance provide guidance to the Department of Human Services' major portfolio agencies with developing a more comprehensive reporting framework that allows for consistent reporting of occupational health and safety outcomes by each agency.**

The Committee intends to actively monitor the outcomes of strategies to improve OHS performance in the department's major portfolio agencies.

⁴² 2002-03 Annual Reports of Southern Health; Melbourne Health, Bayside Health; Eastern Health, Austin Health; Women's and Children's Health; Western Health; Peninsula Health; Barwon Health and Northern Health

⁴³ Department of Human Services, *Rural Health: Workforce*, www.health.vic.gov.au/ruralhealth/workforce/, accessed 13 September 2004

⁴⁴ Department of Human Services, *Public Hospital Sector Occupational Health and Safety Management Framework Model*, April 2003; Victorian WorkCover Authority, *Government Sector: Budget Sector Project*, www.workcover.vic.gov.au/vwa/home.nsf/pages/so_government_budget, accessed 13 September 2004

Review of Portfolios

7.5 Health portfolio

The Minister for Health has sole responsibility for seven output groups within the Department of Human Services. Of the four outputs in the Small Rural Services output group, the Minister for Health has responsibility for two outputs — Small Rural Services (Acute Health) and Small Rural Services (Primary Health). The remaining outputs in the Small Rural Services output group are the responsibility of the Minister for Aged Care.⁴⁵

7.5.1 2004-05 outlook for the portfolio

Services delivered in the Health portfolio by the Department of Human Services are facing significant demand and cost pressures. The Committee noted that these pressures arise through a combination of factors that include the ageing of Victoria's population, increasing demand on hospital emergency departments, new clinical practices which enable highly technical treatments for individuals, who would not have been actively treated in the past, and the higher cost of healthcare due to advances in technology.⁴⁶ The Committee also noted that the State Government considers that funding for the public hospital system has also come under pressure because Victoria faces a funding shortfall from the Commonwealth under the renegotiated Australian Health Care Agreement and aged care funding arrangements.⁴⁷

The Department of Human Services identified several consistent themes that have emerged from its key service policy/strategy frameworks including increasing demand for services, increasing complexity of client/patient issues, the need to address ageing infrastructure and changing legislative and regulatory environments, the operational viability of service providers and demand management strategies to best address demand requirements.⁴⁸

Several areas identified by the department that will affect the cost and quality of health services in the future include:⁴⁹

- non-salary costs in hospitals are rising worldwide at rates significantly higher than the general rate of inflation. These costs are being driven by clinical practice improvements, price increases for medical and surgical supplies and

⁴⁵ Department of Human Services response to the Committee's 2004-05 Budget Estimates questionnaire, pp.65-67

⁴⁶ Department of Human Services, Directions for your health system: Metropolitan Health Strategy, 2003, pp.4-5

⁴⁷ Public Accounts and Estimates Committee, *Report on the 2003-04 Budget Estimates*, 54th Report, p.169

⁴⁸ Department of Human Services response to the Committee's 2004-05 Budget Estimates questionnaire, pp.11-12

⁴⁹ *ibid.*, p.9

pharmaceuticals (reflecting supplier costs, particularly in research and development, and supplier markets), and more stringent clinical safety and infection control standards. The casemix hospital funding formula has not kept pace with these cost changes and requires an adjustment to include more adequate indexation of non-salary costs; and

- continuing growth in ambulance services caseload by pensioners and other concession card holders who are exempt from fees. This group represents more than 60 per cent of current patient transports, and is therefore a significant cost growth issue for ambulance services.

The Committee is aware that the public hospital system in Victoria has experienced a significant increase in demand. The number of admitted patients in Victorian public hospitals is expected to increase by 144,000 (14.3 per cent) between 2000-01 and 2003-04,⁵⁰ with an additional 35,000 patients treated in 2004-05.⁵¹ The Department of Human Services is also expecting an additional 50,000 patients to be treated in emergency departments in 2004-05, an increase of 4.8 per cent.⁵²

Output initiatives in the 2004-05 Budget relating to the Health portfolio will cost at least \$378.5 million in 2004-05 (\$1.8 billion over four years to 2007-08).⁵³ Several of these initiatives are shared between the Health portfolio and other areas including aged care and community services. The major initiatives include:⁵⁴

- Hospital Sustainability and Demand Management Strategy (\$333.2 million in 2004-05, \$1.6 billion to 2007-08) – to establish a strong financial and governance base for Victoria’s public hospitals and to continue and extend the implementation of the Hospital Demand Management Strategy commenced in 2001-02;⁵⁵
- loss of public benevolent institution (PBI) status for ambulance services (\$10.2 million in 2004-05, \$42.1 million to 2007-08) – to reimburse the ambulance services for state taxes payable, including payroll and land tax, from 1 April 2004 following the Australian Taxation Office’s revocation of the Victorian ambulance services’ PBI status;⁵⁶
- caring for children (\$14 million in 2004-05, \$50 million to 2007-08) – health related initiatives include: expanding the school dental program to kindergarten children; additional funding for the Centres for Child and Adolescent Health and outpatient services at the Royal Children’s Hospital;⁵⁷ and

⁵⁰ Budget Paper No. 3, *2002-03 Budget Estimates*, p.62; Budget Paper No. 3, *2004-05 Service Delivery*, p.70

⁵¹ Budget Paper No. 3, *2004-05 Service Delivery*, p.14

⁵² *ibid.*, p.71

⁵³ *ibid.*, pp.265 and 275–278

⁵⁴ *ibid.*, p.275

⁵⁵ *ibid.*, p.276

⁵⁶ *ibid.*, p.277

⁵⁷ *ibid.*, p.278

- concessions reform package (\$17.5 million in 2004-05, \$84.9 million to 2007-08) – concessions relate to increasing the regularity of dental checks and services for children and implementing the dental health strategy to boost service capacity.⁵⁸

The 2004-05 Budget included health related asset initiatives with a combined total estimated investment (TEI) of \$518.1 million, with around \$135.4 million expected to be spent in 2004-05.⁵⁹ These asset initiatives add to the Department of Human Services' existing asset investment program, which had a total estimated investment of more than \$1.4 billion in 2003-04.⁶⁰

The major asset initiatives in the 2004-05 Budget for health services include:⁶¹

- \$250 million (TEI) for a new Royal Women's Hospital, which will be built on the Royal Melbourne Hospital site. It is intended that the hospital will be developed in partnership with the private sector under the Partnerships Victoria policy;⁶²
- \$60 million (TEI) to establish a purpose built elective surgery centre at the Alfred Hospital for same-day and multi-day elective surgery and complementary services;⁶³
- \$25 million in 2004-05 to replace, upgrade and add biomedical equipment;⁶⁴
- \$20 million in 2004-05 to upgrade and replace key infrastructure facilities that have reached the end of their useful life;⁶⁵ and
- \$18 million (TEI) to expand radiotherapy services at Geelong Hospital, including an expansion and refurbishment of the existing Andrew Love Cancer Centre to increase service capacity.⁶⁶

The 2004-05 Budget did not allocate specific budgeted expenditure to each financial year for the Royal Women's Hospital project, which is intended to be developed under the Partnerships Victoria policy.⁶⁷ According to the budget, project costing information will be finalised after the completion of the Partnerships Victoria tender process.⁶⁸ In a January 2004 press release, the Minister for Health announced that three groups were shortlisted to tender for the project.⁶⁹ Under the partnership, the

⁵⁸ *ibid.*, pp.265–66

⁵⁹ *ibid.*, pp.279–84

⁶⁰ Department of Human Services response to the Committee's 2003-04 Budget Estimates questionnaire, pp.63–68

⁶¹ Budget Paper No. 3, *2004-05 Service Delivery*, pp.279–80

⁶² *ibid.*, p.283

⁶³ *ibid.*, p.284

⁶⁴ *ibid.*, p.283

⁶⁵ *ibid.*, p.284

⁶⁶ *ibid.*, p.282

⁶⁷ *ibid.*, pp.280, 283

⁶⁸ *ibid.*, p.280

⁶⁹ *ibid.*

private sector will design, build, finance and maintain the facility, while the public health service would be responsible for the day-to-day health services that the public hospital will provide.⁷⁰

The Committee noted that submissions for the Royal Women's Hospital project were due in July 2004. The preferred bidder is expected to be announced by the end of 2004 and the hospital completed by the end of 2007.⁷¹

7.5.2 Analysis of budget

There were several changes to the Health portfolio output group structure in the 2004-05 Budget:⁷²

- the Blood Services output (formerly part of the Acute Services output group) will no longer be reported, as the National Blood Authority now purchases blood and blood products on behalf of all jurisdictions. Funding for these services (\$49 million expected outcome in 2003-04)⁷³ has been transferred to the Admitted Services output in the Acute Health Services output group; and
- a new output group — Small Rural Services — was introduced covering outputs for acute health, aged care, home and community care and primary health. The Department of Human Services advised that the Small Rural Services output group has been introduced to '*reflect the Government's commitment to simplified, flexible funding and accountability, and a focus on responding to the local needs of small rural towns to improve health outcomes*'.⁷⁴

The 2004-05 Budget for the output group for which the Minister for Health has responsibility is \$6,911.7 million (see exhibit 7.7).⁷⁵

The Committee noted that the overall cost of the Health portfolio outputs in 2004-05 was budgeted to be \$566.4 million higher than the expected outcome in 2003-04, with around 82.2 per cent of the increase relating to outputs in the Acute Health Services output group.⁷⁶ Five outputs – Mental Health Services System Capacity Development; Community Health Care; Primary Health Service System Development and Resourcing; Environmental Health and Safety; and Drug Prevention and Control – reported a decrease in funding, with the overall decrease for these outputs amounting to \$10.1 million.⁷⁷ The reductions in funding were largely attributed to a redistribution

⁷⁰ *ibid.*

⁷¹ Hon. B. Pike, MP, Minister for Health, media release, *Shortlist for new Royal Women's Hospital*, 28 January 2004

⁷² Budget Paper No. 3, *2004-05 Service Delivery*, p.69

⁷³ *ibid.*, p.336

⁷⁴ *ibid.*, p.69

⁷⁵ *ibid.*, pp.70–92

⁷⁶ Minister for Aged Care's response to the Committee's follow-up questions, p.8; Department of Human Services, 2004-05 Victorian Budget Information Kit, 4 May 2004, p.2

⁷⁷ - Budget Paper No. 3, *2004-05 Service Delivery*, pp.70–92.

of funds from the introduction of the Small Rural Services output group and the cessation of one-off Commonwealth funding.⁷⁸

The Department of Human Services advised the Committee that the funding for Health portfolio services now part of the Small Rural Services output group in 2004-05 was equivalent to an increase of \$9.9 million (5.7 per cent) from the expected outcome for these two outputs in 2003-04.⁷⁹

Exhibit 7.7: Health Portfolio Output costs

Output group	Outputs under the responsibility of the Minister for Health	2004-05 Budget (\$ million)
Acute Health Services	Admitted Services	3,694.4
	Non-Admitted Services	577.1
	Emergency Services	235.0
	Sub-acute Care Services	493.8
	Acute Training and Development	176.7
Sub total		5,177.0
Ambulance Services	Ambulance Emergency Services	276.6
	Ambulance Non-emergency Services	37.5
	Ambulance Services Training and Development	2.0
	Basic Life Support	2.8
Sub total		318.9
Mental Health	Clinical Inpatient Care	271.4
	Clinical Community Care	284.2
	Psychiatric Disability Rehabilitation and Support Services	60.7
	Mental Health Services System Capacity Development	35.5
Sub total		651.8
Primary Health	Community Health Care	122.2
	School Nursing	14.8
	Primary Health Service System Development and Resourcing	16.8
Sub total		153.8
Small Rural Services	Small Rural Services - Acute Health	173.0
	Small Rural Services - Primary Health	12.0
Sub total		185.0

⁷⁸ *ibid.*

⁷⁹ Minister for Aged Care's response to the Committee's follow-up questions, p.8

Exhibit 7.7 – continued

Dental Health	Dental Services	103.7
	Dental Service System Development and Resourcing	14.0
Sub total		117.7
Public Health	Communicable Disease Prevention and Control	87.3
	Non-Communicable Disease Prevention and Control	48.7
	Public Health Training	1.5
	Research and Ethics	7.9
	Health and Social Development	42.9
	Environmental Health and Safety	8.1
	Food Safety	3.3
	Koori Health and Multicultural Policy	3.4
Sub total		203.1
Drugs Services	Drug Prevention and Control	13.1
	Drug Treatment and Rehabilitation	79.3
	Drug Service System Development and Resourcing	12.0
Sub total		104.4
Total		6,911.7

Source: Budget Paper No. 3, 2004-05 Service Delivery, pp.70–92

7.5.3 Performance measures

The Department of Human Services made several changes to performance measures in the 2004-05 Budget relating to Health portfolio outputs. With the exception of measures that were included in the former Blood Services output, the department discontinued seven performance measures and introduced 18 measures relating to the Health portfolio. Of the new measures, nine were included in outputs for which the Minister for Health had responsibility in the new Small Rural Service output group.⁸⁰

The Committee noted that several of the new performance measures replace discontinued measures. For example, in the Mental Health Services System Capacity Development output group, two new measures relating to assessments conducted according to national protocols replace measures relating to staff attendance and performance at training courses.⁸¹ The Committee considers that the previous measures were more focused on process and the new measures are more suited to assessing the effectiveness of services delivered.

The Committee also noted that the titles of four performance measures were amended to more clearly define what was being measured. In two cases, the refinements related

⁸⁰ Budget Paper No. 3, 2004-05 Service Delivery, pp.69–92 and pp.336–337

⁸¹ *ibid.*, pp.76, 337

to expanding the coverage of a performance measure. For example, in the Ambulance Non-Emergency Services output, the performance measure *Audited cases meeting clinical practice standards* was broadened to include the operations of the Rural Ambulance Service (rather than only the Metropolitan Ambulance Service) and renamed *Audited cases meeting clinical practice standards – state-wide*.⁸²

The Committee welcomes efforts by the department to better define current performance measures, including broadening the coverage of existing measures.

7.5.4 Key issues impacting on the portfolio

The department's response to the Committee's questionnaire and the estimates hearing with the Minister for Health identified the following key issues that will impact on the portfolio and its budget estimates for 2004-05.

(a) Commonwealth funding

The Minister advised the Committee that the Commonwealth continues to provide Victoria with less funding for public hospitals than in previous years.⁸³

As shown in exhibit 7.8, Victoria in 1999 was more closely aligned to a fifty-fifty funding arrangement.⁸⁴ However, in subsequent years the gap has widened with the Commonwealth now contributing 68 cents for every \$1 funded by Victoria.⁸⁵

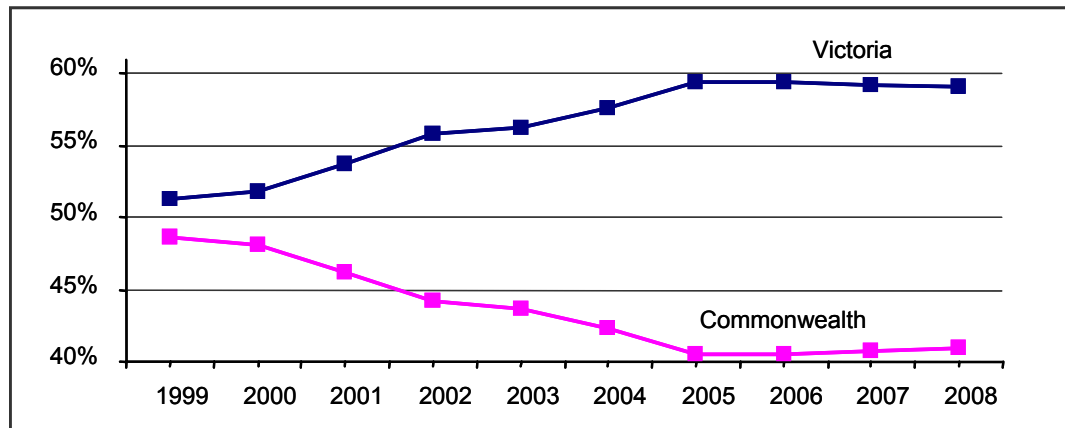
⁸² *ibid.*, p.73–74

⁸³ Hon. B. Pike, MP, Minister for Health, transcript of evidence, 19 May 2004, p.2

⁸⁴ *ibid.*

⁸⁵ *ibid.*

Exhibit 7.8: Commonwealth Government and Victorian Government Funding arrangements for public hospitals



Sources: 1998 to 2001-02 Price Waterhouse data submitted to Commonwealth as part of the AHCA signing precondition, 2002-03 onwards DHS Budget and forward estimates database as quoted by the Minister for Health at the budget estimates hearing held 19 May 2004 (slide No.4)

As indicated earlier, the Minister informed the Committee that the latest Australian Health Care Agreement for the period 2003-2008 will be \$350 million less to Victoria than it would have been if the current agreement continued with the level of indexation provided in the previous agreement.⁸⁶ According to the Minister, the level of indexation over the life of the former agreement was in the order of 28 per cent,⁸⁷ which has been reduced to around 16 per cent, despite the increase in demand for services at Victoria's hospitals.⁸⁸ The Minister also indicated that the Victorian Government provides the entire capital works program for Victoria's hospitals.⁸⁹

The Minister told the Committee that in response to these funding constraints at the Commonwealth level, Victoria's contribution to the public hospital system has increased to 59 per cent, in order to ensure the provision of appropriate services to the community.⁹⁰

(b) Demand pressures

In informing the Committee that health systems worldwide are facing continuing demand pressures arising from issues such as population growth, an aging population, rising expectations of consumers and the availability of new technologies, the Minister emphasised that an important demand pressure concerned the advancement of technological options for dealing with health, and that more people want to utilise that

⁸⁶ *ibid.*, p.2

⁸⁷ Information received from the Department of Human Services, 20 October 2004

⁸⁸ Hon. B. Pike, MP, Minister for Health, transcript of evidence, 19 May 2004, p.6

⁸⁹ *ibid.*, p.2

⁹⁰ *ibid.*, p.7

technology.⁹¹ The Minister stated to the Committee that the incidence of elderly people with chronic illness needing hospital care is also rising, while Victoria continues to have many frail aged people located within its public hospital system when they really need a longer-term care option,⁹² such as nursing home care.

The Minister also argued that the public health system is absorbing greater responsibility for primary care, due to a decline in bulk-billing and after-hours services provided by general practitioners.⁹³ As a result many people who, according to the Minister, should be treated by a general practitioner, are now finding their way into the state's hospital emergency departments, which have experienced an increase in demand of about 30 per cent since September 2000.⁹⁴

The Minister informed the Committee that in order to deal with demand pressures, the 2004-05 Budget provides for a combination of new resources and strategies, as well as continuation of the Hospital Demand Management Strategy.⁹⁵

The Hospital Demand Management Strategy, implemented by the Department of Human Services in 2001-02, is a six year funding strategy to address the increasing demand on the acute health system.⁹⁶ The strategy has three major components which include:⁹⁷

- increasing hospital capacity to accommodate rising demand at emergency departments;
- the diversion of patients to more appropriate care settings thereby alleviating the pressure on acute care beds; and
- the Hospital Admissions Risk Program, which seeks to prevent unnecessary readmissions amongst individuals who are at risk of hospitalisation on a regular basis.

According to the Minister, the intervention of these strategies, particularly the Hospital Demand Management Strategy, has already made a significant impact on performance e.g. as shown in exhibit 7.9, the strategy has had a direct impact on the level of hospital bypass, even though at the same time the volume of hospital admissions is increasing.

Similarly, the first three years of the strategy have, in the view of the Minister, improved the outcomes for emergency department patients and, as demonstrated in

⁹¹ *ibid.*, p.2

⁹² *ibid.*

⁹³ *ibid.*

⁹⁴ *ibid.*

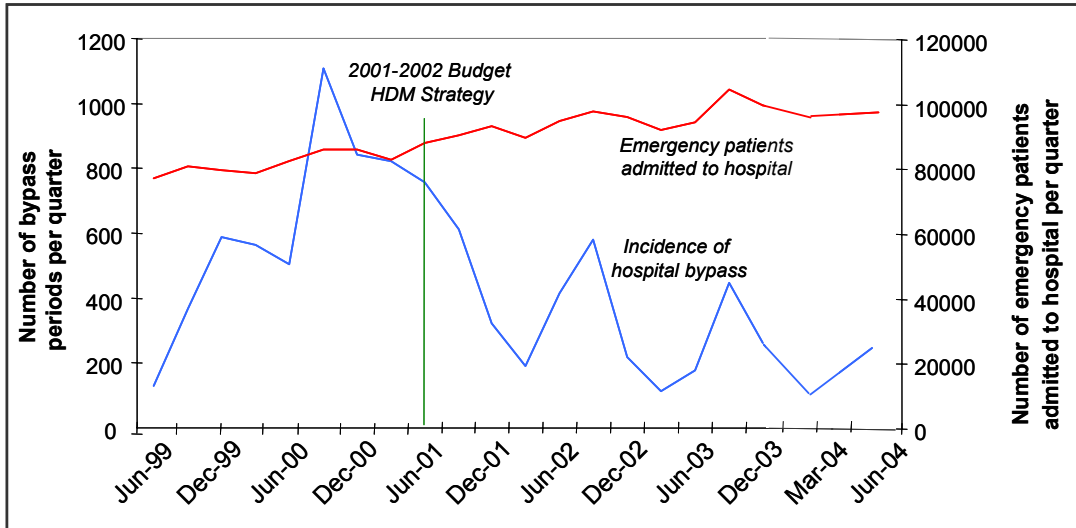
⁹⁵ Hon. B. Pike, MP, Minister for Health, transcript of evidence, 15 May 2003, p.2

⁹⁶ Victorian Auditor-General's Office, *Managing emergency demand in public hospitals*, May 2004, p.3

⁹⁷ *ibid.*

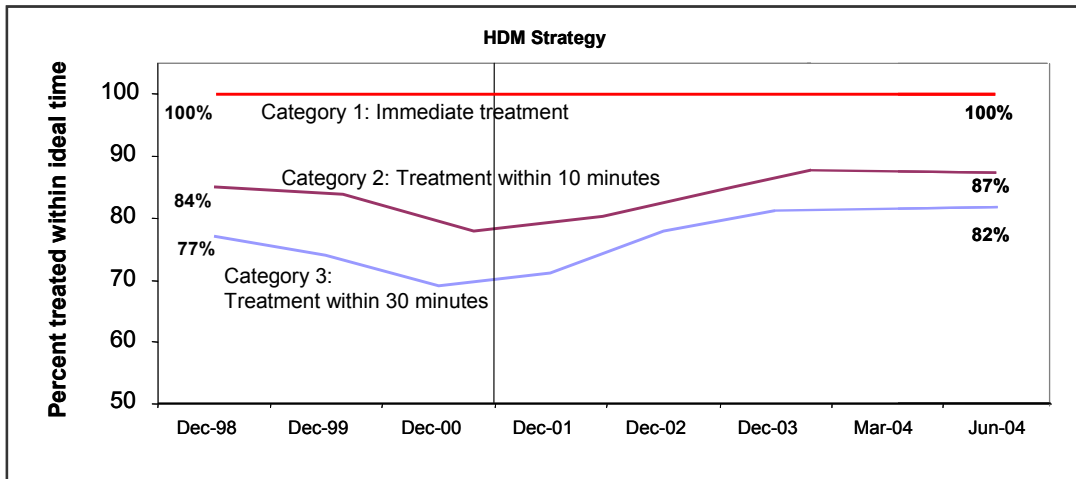
exhibit 7.10, more resuscitation (Category 1), emergency (Category 2) and urgent (Category 3) cases have been treated by emergency departments within ideal times.⁹⁸

Exhibit 7.9: Hospital Demand Management Strategy – Performance June 1999 to June 2004



Sources: Information drawn from the DHS Hospital Services Reports and presented by the Minister for Health at the budget estimates hearing on 19 May 2004 (slide 6), and the DHS, Hospital Services Report for the June quarter 2004, pp.8, 14

Exhibit 7.10: Public Hospitals Proportion of Emergency Department patients treated within ideal times – Dec 1998 to June 2004

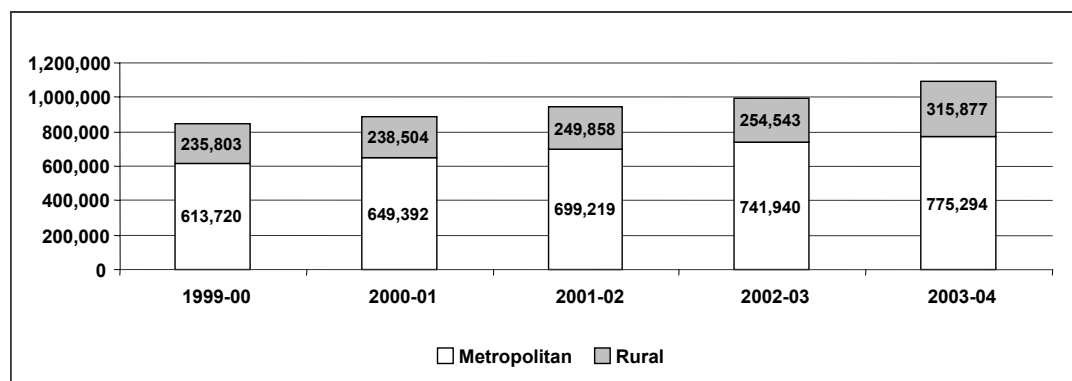


Sources: Information drawn from the Victorian Emergency Minimum Dataset and presented by the Minister for Health at the budget estimates hearing on 19 May 2004 (slide 7), and the DHS, Hospital Services Report for the March and June quarters 2004, pp.12–13

⁹⁸ Hon. B. Pike, MP, Minister for Health, transcript of evidence, 19 May 2004, pp.2–3 and Hospitals Services Report March quarter 2004

The Committee was also interested in the workload of emergency departments in terms of the number of patients presenting in emergency departments for treatment. Information disclosed in exhibit 7.11 shows a steady increase over a five year period.

**Exhibit 7.11: Public Hospitals
Emergency Department presentations
1999-00 to 2003-04**



Source: Victorian Emergency Minimum Dataset (VEMD)

The Department of Human Services advised the Committee that indicators of improved hospital performance included:⁹⁹

- a marked decline in ambulance bypass occurrences;
- a decline in waiting list numbers; and
- a continuing decline in the average length of stay, freeing up beds to enable more patients to be treated.

The Budget includes \$333.2 million in 2004-05 directed at providing additional demand management funding and ensuring the financial sustainability of the hospital system (a \$1.6 billion package over four years).¹⁰⁰ As part of this package, an additional 35,000 hospital patients (3 per cent)¹⁰¹ and 50,000 emergency department patients (4.8 per cent)¹⁰² are to be treated in 2004-05, including the employment of 900 extra nurses and health staff.¹⁰³

In July 2004 the Government released information relating to the distribution of this funding to 85 health services and hospitals, which included the funding increases to the following key health services:¹⁰⁴

⁹⁹ Department of Human Services, response to the Committee's 2004-05 Budget Estimates questionnaire, p.9

¹⁰⁰ Budget Paper No. 3, *2004-05 Service Delivery*, p.275

¹⁰¹ *ibid.*, pp.70 and 82

¹⁰² *ibid.*, p.71

¹⁰³ 2004-05 Victorian Budget Overview - Growing Victoria Together, Putting Families First, p.16

¹⁰⁴ Hon. B. Pike, MP, Minister for Health, media release, *Massive \$333 million boost for hospital bottom line*, 12 July 2004

- Eastern Health, \$33.5 million, a 11.9 per cent increase over 2003-04;
- Melbourne Health, \$15.7 million, 5.5 per cent increase;
- Southern Health, \$53.5 million, 13.3 per cent increase; and
- Barwon Health, \$14.6 million, 8.7 per cent increase.

The Committee noted the conclusion reached in a recent Auditor-General's Report of May 2004 titled *Managing emergency demand in public hospitals* that the work by the Department of Human Services and metropolitan hospitals to manage growing demand, prevent hospital bypass, enhance patient flow within the emergency department and to move patients out of the emergency department (either to an inpatient bed or home) is making a difference.¹⁰⁵ The report, however, identified a number of challenges that will need to be examined, which included the following:¹⁰⁶

- the roles of the emergency department workforce and the physical environment of some emergency departments have not kept pace with changing models of clinical care provided;
- while the number of long staying patients in emergency departments has declined since 2000, a small number of patients still wait for excessively long periods in emergency departments; and
- as models of medical care change, the emergency department plays an increasing role in conducting assessments and complex care planning for patient care which is then delivered in the primary and community care sector. As a result, better linkages with the community health and GP sector need to be developed.

Figures released by the Government for the June 2004 quarter showed that there was a gap between the demand pressures placed on the public hospital system and the numbers of patients treated in the public hospital system that needs to be addressed. Examples of statistics for particular categories of patients are set out in exhibit 7.12.¹⁰⁷ The Committee notes that the waiting list figures for 2003-04 included for the first time, data from the Williamstown, Mercy and Werribee Hospitals.

¹⁰⁵ Victorian Auditor-General's Office, *Managing emergency demand in public hospitals*, May 2004, p.3

¹⁰⁶ *ibid.* p.4

¹⁰⁷ *Department of Human Services' Hospital Services Report - March 2004*

**Exhibit 7.12: Victorian Public Hospital System
Hospital Services Report indicators**

Indicator	June 2004 Quarter (a)
Waiting list numbers for elective surgery	42,120 patients waiting for an operation at 30 June 2004, (40,638 at 31 March 2004, 38,634 at 30 June 2003 and 34,008 at 30 June 1999)
Waiting times for elective surgery	7,356 semi-urgent elective patients were on the waiting list for longer than the ideal time of 90 days at 30 June 2004 (7,015 at 31 March 2004, 5,769 at 30 June 2003 and 3,623 at 30 June 1999)
Waiting times of more than 12 hours for a hospital bed	6,547 people waited in an emergency department for more than 12 hours who were admitted to a ward for the June 2004 quarter (4,784 for the March 2004 quarter, 5,170 for the June 2003 quarter and 2,245 for the June 1999 quarter)

Note (a) The waiting list figures for 2003-04 included for the first time data from the Williamstown, Mercy and Werribee hospitals. As at 30 June 2004, 1048 patients from these hospitals were on the waiting list for elective surgery

Source: DHS, Hospital Services Report June quarter 2004, pp.10, 19, 22, 25

The Committee noted that 1,300 elective surgery beds were closed and 1,224 operations cancelled during 13 days of industrial action by nurses seeking pay rises in April and May 2004.¹⁰⁸ The Committee believes it is essential that workforce management issues need to be carefully examined to assess the numbers of staff being recruited in relation to the increased workload.

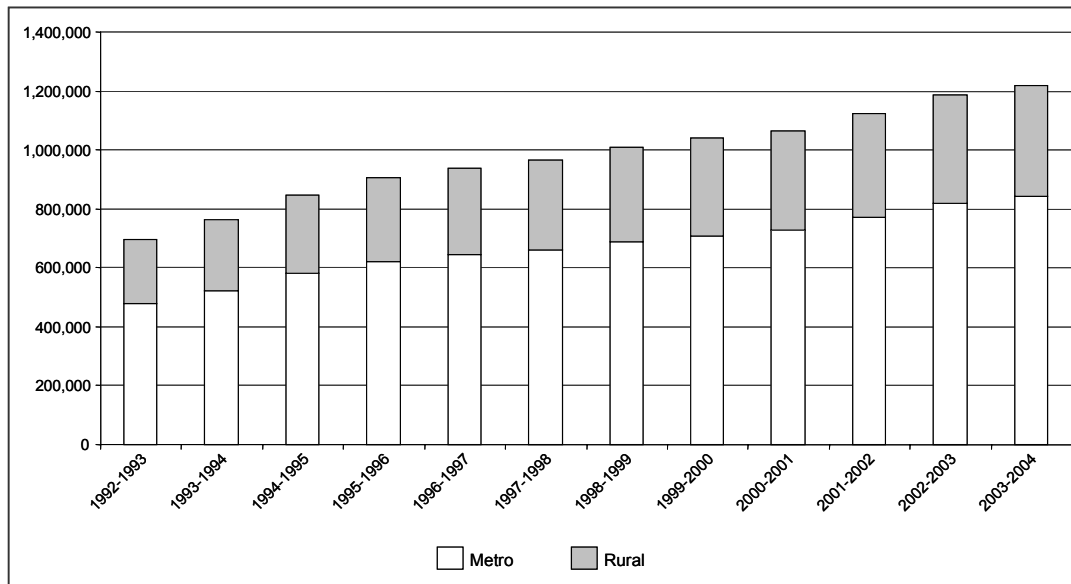
While the Committee acknowledges the measures announced in the budget to try to address the increasing demand pressures placed on Victoria's public hospitals, the Committee also believes that any discussion on elective waiting list figures needs to be considered in the context of how the public hospital system has performed in terms of the numbers of hospital separations, including patients admitted from the elective waiting lists. The information contained in exhibits 7.13 and 7.14 shows that between 1992-93 and 2003-04 there has been a continual increase in the number of hospital separations through the Victorian public hospital system. Information also shown in exhibit 7.15 reveals that, while waiting list admissions initially declined between 1999-2000 and 2000-01, there has been a subsequent increase in the admission of elective patients from the waiting list.

¹⁰⁸ Peter Mickelborough, Surgery crisis looms, *The Herald Sun*, 14 July 2004, p.15

**Exhibit 7.13: Public Hospitals
Total separations (throughput)
1992-93 to 2003-04**

	Metropolitan	Rural	Total
1992-93	447,009	220,653	697,662
1993-94	520,155	242,860	763,015
1994-95	579,950	264,970	844,920
1995-96	619,734	285,887	905,621
1996-97	643,102	293,398	936,500
1997-98	661,917	302,780	964,697
1998-99	688,568	319,009	1,007,577
1999-00	707,713	334,122	1,041,835
2000-01	726,542	339,030	1,065,572
2001-02	769,883	354,514	1,124,397
2002-03	817,964	366,773	1,184,737
2003-04	842,747	374,045	1,216,792

**Exhibit 7.14: Public Hospitals
Total separations (throughput)
1992-93 to 2003-04**



Note: Repatriation General Hospital, Heidelberg integrated in 1994-95. Earlier years data not reported

Unqualified "healthy" newborns admitted from 1995-96 onwards

Source: Information supplied by the Department of Human Services

**Exhibit 7.15: Waiting list admissions
1999-2000 to 2003-04**

Year ended	Waiting list admissions
30 June 2000	116,316
30 June 2001	110,370
30 June 2002	112,309
30 June 2003	117,067
30 June 2004	126,642

Source: Information supplied by the Department of Human Services on 29 October 2004 based on statistical information contained in the Hospital Services Reports

The Committee recommends that:

Recommendation 47: The Department of Human Services continue to monitor the effectiveness of the Hospital Demand Management Strategy, in conjunction with research into further options to meet the demand for services in public hospitals.

Recommendation 48: The Department of Human Services ensure that a sufficient number of health professionals are recruited into the public health system to complement the initiatives introduced to address the demand pressures.

(c) Quality of patient care in the Victorian public hospital system

The Government's vision is that Victoria will be a place where all Victorians have access to the highest quality health services throughout their lives.¹⁰⁹ *Growing Victoria Together* encapsulates the Government's vision and identifies the provision of high quality and accessible health services as one of the key strategic areas that will lead and direct Government decision making.¹¹⁰

In relation to improving service quality and promoting best practice in quality management in the public hospital system, the Victorian Quality Council initiated projects targeting known problem areas in quality and safety.¹¹¹ The projects focused on: medication safety; infection control; the prevention and management of pressure ulcers and falls in hospitals; blood management; pain management and the

¹⁰⁹ Budget Paper No. 3, 2004-05 Service Delivery, p.4

¹¹⁰ *ibid.*, pp.4 and 70

¹¹¹ Department of Human Services, 2002-03 Annual Report, p.27

appropriateness of care.¹¹² All Victorian public health services produced care reports on the quality of services within their hospitals.¹¹³ The mandatory areas for reporting included: infection control; medication errors; falls and pressure wound prevention and management; and continuity of care.¹¹⁴

While the budget for 2004-05 focuses to a large extent on issues connected with access and the treatment of additional hospital and emergency department patients, the Committee believes there is considerable scope for expanding, on a statewide basis, aggregated performance information in the Budget Papers concerning the quality of patient care in the Victorian public hospital system.

Notwithstanding that \$3,694.4 million is the budgeted total output cost for the Admitted Services output of the department for 2004-05, no consolidated information is reported on an individual hospital or category of hospital basis to assess the extent of complications of hospital care that lead to patients requiring additional treatment throughout the public hospital system. These complications, known as adverse events, can include surgical misadventures, medical errors, serious falls and hospital acquired infections. The Committee appreciates that the different characteristics of public hospitals across the state make informed assessments of the advent of adverse events between hospitals difficult.

The Committee recommends that:

Recommendation 49: **To enable an informed assessment to be made of the quality of health services delivered by Victoria’s public hospital system that can also be further utilised for budget deliberations, the range of performance measures contained in the Budget Papers be expanded to include areas currently reported by individual public health services such as infection control, medication errors, falls and pressure wound prevention and management and continuity of care.**

(d) *Financial viability of public hospitals*

In its September 2003 *Report on the 2003-2004 Budget Estimates*, the Committee drew attention to the Auditor-General’s February 2003 *Report on Public Sector Agencies*, which disclosed that nine hospitals in 2001-02 exhibited financial difficulties.¹¹⁵ The Committee recommended the effectiveness of funding

¹¹² *ibid.*

¹¹³ *ibid.*

¹¹⁴ *ibid.*

¹¹⁵ Public Accounts and Estimates Committee, *Report on the 2003-04 Budget Estimates*, pp.175–177

arrangements for hospitals be reviewed and strategies be implemented to improve the short and long term financial viability of public hospitals.¹¹⁶

In re-examining the financial position of public hospitals at 30 June 2003, the Auditor-General reported that the financial position of public hospitals had further deteriorated, with 15 hospitals showing signs of financial difficulties and a further 22 hospitals having unfavourable results.¹¹⁷ The Auditor-General recommended the Department of Human Services work closely with the hospitals identified to ascertain the reasons for the financial difficulties, review its current funding strategy and develop ongoing strategies to improve the financial performance of these hospitals in future.¹¹⁸

In order for a number of public hospitals to be assured that they could operate on a going-concern basis, these hospitals obtained a financial commitment from the Department of Human Services that adequate cash flow support would be provided to enable each hospital to meet its current and future obligations as and when they fell due for a period up to September 2004, should this be required.¹¹⁹

The Department of Human Services advised the Committee that non-salary costs in hospitals were rising worldwide at rates significantly higher than the general rate of inflation.¹²⁰ These costs were driven by clinical practice improvements, price increases for medical and surgical supplies and pharmaceuticals (reflecting supplier costs, particularly in research and development, and supplier markets), and more stringent clinical safety and infection control standards.¹²¹ The department also brought to the attention of the Committee that the case-mix hospital funding formula had not kept pace with these cost changes and required an adjustment to include more adequate indexation of non-salary costs.¹²²

Following an examination of hospital costs conducted as part of the budget process, the price review found the case-mix funding model had not kept pace with the rapid increases in the cost of delivering the latest technology and medical advances.¹²³ In describing the price review, the Minister indicated that a range of procedures were examined within public hospitals, together with various components of funding.¹²⁴ This included funding for staff and the price that was needed to be paid for items in non-wage areas such as pharmaceuticals and medical equipment.¹²⁵ The Committee was informed by the Minister that the outcome of the price review has been reflected in the \$1.6 billion increase in public hospital funding over the next four years.¹²⁶ The

¹¹⁶ *ibid.*

¹¹⁷ Victorian Auditor-General's Office, *Report on public sector agencies*, November 2003, p.8

¹¹⁸ *ibid.*, p.84

¹¹⁹ For example, Bayside Health, *2002-03 Annual Report*, Note 1(x) to the Financial Statements

¹²⁰ Department of Human Services, response to the Committee's 2004-05 Budget Estimates questionnaire, p.9

¹²¹ *ibid.*

¹²² *ibid.*

¹²³ Minister for Health, media release, *More than \$2 Billion to Strengthen Health System*, 4 May 2004

¹²⁴ Hon. B. Pike, MP, Minister for Health, transcript of evidence, 19 May 2004, p.27

¹²⁵ *ibid.*

¹²⁶ *ibid.*

department advised that the outcome of the price review has three elements, namely to:¹²⁷

- increase the base price;
- change the non-salary indexation, recognising particularly that the prices of medical and surgical supplies and pharmaceuticals grow at a higher rate than the consumer price index; and
- abolish the productivity dividend.

The other initiative according to the Minister that will address the financial viability of hospitals involves the governance review, which relates to strengthening financial performance and accountability within hospitals.¹²⁸ The Committee intends keeping under review the financial viability of the public hospital system.

The Committee recommends that:

Recommendation 50:

The Department of Human Services:

- (a) **develop performance measures and targets to assess the effectiveness of the hospital sustainability initiatives. This performance information should be based on key financial indicators that relate to operating results, net cash flows and the working capital position of hospitals at year end.**
- (b) **Undertake a sector-wide analysis of this information and include details in the department's annual report, along with a commentary on the measures taken to address emerging financial shortfalls**

(e) *Access to after hours medical care*

Evidence was given to the Committee regarding the presentation of patients to emergency departments. However, as the issue has been extensively canvassed in the

¹²⁷ *ibid.*, pp. 27–28

¹²⁸ *ibid.*, p.27

recent report of the Family and Community Development Committee, it is not further addressed in this report.¹²⁹

To provide additional bulk-billing and extended hours services to the Victorian communities the Government considers to be most in need, funding of \$2 million in 2004-05 (\$8 million over four years to 2007-08) has been provided in the budget to improve access to primary medical care by increasing by 100 the number of general practitioners working within the community health service system.¹³⁰ The intention of this strategy is to establish after-hours medical clinics within community health services to treat patients who would otherwise present at hospital emergency departments and who are not in need of acute hospital care.

(f) Shortage of doctors

The Family and Community Development Committee identified in its September 2004 *Report on the Impact on the Victorian Community and Public Hospitals of the Diminishing Access to After Hours and Bulk Billing General Practitioners* that the number of practising GPs in Victoria had declined from 6,064 in 1996-97 to 5,878 in 2002-03.¹³¹

The Committee was advised by the Minister that the health sector is facing a large number of workforce challenges and the number of places for trained nurses and doctors has not kept pace with demand.¹³² The Minister stated that the Commonwealth Government in recent years had failed to recognise the need to create more tertiary training places for doctors and, as a result, there was a workforce squeeze that would take a decade to correct.¹³³

The Committee noted that the Commonwealth announced in May 2004, new immigration arrangements to enhance medical services. Medical practitioners, who wish to migrate to Australia under the General Skilled Migration Program, will no longer require a sponsor to migrate to Australia, provided they satisfy state or territory medical board requirements for registration.¹³⁴ To ensure the arrival of these doctors is not delayed, applications for medical practitioner visas will receive priority processing.¹³⁵ Immigration changes have also involved extending the maximum period for the temporary resident medical practitioner's visa from two years to four to enable

¹²⁹ Family and Community Development Committee, *Inquiry on the Impact on the Victorian Community and Public Hospitals of the Diminishing Access to After Hours and Bulk Billing General Practitioners*, September 2004

¹³⁰ Budget Paper No. 3, *2004-05 Service Delivery*, table A.8, pp.275 and 277

¹³¹ Family and Community Development Committee, *Inquiry on the Impact on the Victorian Community and Public Hospitals of the Diminishing Access to After Hours and Bulk Billing General Practitioners*, September 2004., p.162

¹³² Hon. B. Pike, MP, Minister for Health, transcript of evidence, 19 May 2004, p.2

¹³³ Hon. B. Pike, MP, Minister for Health, media release, 2 July 2004

¹³⁴ Minister for Health and Ageing and Minister for Immigration and Multicultural and Indigenous Affairs, media release, *New Immigration Arrangements Enhance Medical Services*, 21 May 2004

¹³⁵ *ibid.*

temporary resident doctors to have additional time to undertake relevant examinations and training.¹³⁶

¹³⁶ *ibid.*

(g) Children's health

The 2004-05 Budget has set aside \$34.5 million (\$128.2 million over four years) to improve health services for children.¹³⁷ As part of this package, the Minister drew to the Committee's attention that the outcome of the paediatric services case-mix price review has resulted in an additional \$10 million to be built into the base of children's health funding each year.¹³⁸

The Committee notes the additional funding allocated to children's health services.

The Committee recommends that:

Recommendation 51: The Department of Human Services monitor the ongoing adequacy of funding for paediatric services to ensure that funding provided under the case-mix formula remains equitable in comparison to the actual costs incurred.

(h) Dental health

The Committee has had a long standing interest in the waiting times for restorative dental care and dentures.¹³⁹

In responding to the matters raised by the Committee in its *Report on the 2003-04 Budget Estimates*, the Government advised that:¹⁴⁰

... Victoria is lobbying the Commonwealth Government through the National Advisory Committee on Oral Health (NACOH) to take up its shared responsibility for funding public dental care. NACOH was established by the Australian Health Ministers' Conference to develop a national oral health plan and is due to report by July 2004. The Government will continue to implement the Victorian Oral Health Promotion Strategy, Dental Workforce Project and Geriatric Dentistry Action Plan.

The Committee was interested to learn about the achievements of the department's Dental Workforce Project. Two key achievements have been a 28 per cent decrease in the Community Dental Program workforce vacancy rate and a 14 per cent increase in

¹³⁷ Hon. B. Pike, MP, Minister for Health, transcript of evidence, 19 May 2004, p.3, and slide 12

¹³⁸ *ibid.*

¹³⁹ Public Accounts and Estimates Committee, *Report on the 2003-04 Budget Estimates*, September 2003, p.180

¹⁴⁰ Government Response to the Recommendations of the Public Accounts and Estimates Committee's 54th *Report on the 2003-04 Budget Estimates*, Recommendation 16(a)

clinicians employed over the last 15 months.¹⁴¹ This includes public dental clinics in community health centres and rural health services.¹⁴² Some of the project's activities have included:¹⁴³

- Certified Agreements for specialists (22 August 2002) and dentists (14 January 2003) have improved remuneration and career structures;
- rural scholarships were awarded to six dental students in 2003;
- a 12 chair clinic has been funded in Shepparton to train undergraduate dental and oral health therapy students;
- a communication strategy has, in the opinion of the department, raised the profile of dental public health, emphasising the positive elements of working in the public sector and promoting oral health therapy to secondary students;
- the University of Melbourne has been funded to increase the intake of first year dental therapy students from 12 in 2003 to 23 in 2004;
- water fluoridation information resources have been produced to inform communities considering this important prevention intervention; and
- waiting list management strategies are under review to ensure people with greatest needs receive priority.

However, despite the introduction of the Dental Workforce Planning Project and the provision of additional funding of \$21 million over four years in last year's budget,¹⁴⁴ the Budget Papers for 2004-05 show that the expected waiting time outcomes for 2003-04 as outlined below will again exceed targets.¹⁴⁵

¹⁴¹ Minister for Health's response to the Committee's follow-up questions, p.10

¹⁴² *ibid.*

¹⁴³ *ibid.*

¹⁴⁴ Public Accounts and Estimates Committee, *Report on the 2003-04 Budget Estimates*, September 2003, p.181

¹⁴⁵ Budget Paper No. 3, *2004-05 Service Delivery*, p.84

Recommendation 52: **In terms of workforce planning, the Department of Human Services ensure that effective arrangements are in place for planning and managing the supply of, and demand for, public dentists and associated support staff in order that services are provided where they are most needed.**

(i) Counter terrorism measures

At the Committee's budget estimates hearing, the Minister advised that \$3.17 million (\$10.5 million over four years) has been provided to the Department of Human Services in the 2004-05 Budget to deal with a potential bio-terrorism incident.¹⁵² Of this amount:¹⁵³

- \$2.2 million has been allocated in 2004-05 to enhance biological response capability; and
- \$970,000 in 2004-05 for capital expenditure to improve counter terrorism capability (with \$5.47 million over four years).

In response to a Committee question at the estimates hearing, the Minister outlined actions being taken by the department to address serious events such as bio-terrorism or pandemic outbreak.¹⁵⁴ In summary, the Minister indicated that the department's focus is particularly on chemical, biological and radiation threats and the development of plans to manage demand on the health sector.¹⁵⁵ This involves reviewing pharmaceutical stocks and developing and implementing disease surveillance systems.¹⁵⁶ The Minister also advised that the department works nationally on these issues within a range of strategies/guidelines covering areas connected with smallpox, anthrax and influenza pandemic planning.¹⁵⁷

Information regarding the coordination of services involving the operation of the Medical Displan Victoria Program was also conveyed to the Committee and included, in part, the following:¹⁵⁸

... the Displan group effectively triages people and ensures they are distributed according to where resources are available ... so you are not having a large number of people arriving simply at one hospital rather than being distributed... There will be issues at hospitals as well, which will be coordinated by Displan through the hospital, because in any

¹⁵² Hon. B. Pike, MP, Minister for Health, powerpoint presentation at the budget estimates hearing on 19 May 2004, p.15

¹⁵³ *ibid.*

¹⁵⁴ *ibid.*, transcript of evidence, 19 May 2004, p.8

¹⁵⁵ *ibid.*

¹⁵⁶ *ibid.*

¹⁵⁷ *ibid.*

¹⁵⁸ *ibid.*, p.9

large-scale disaster event around 60 per cent of people take themselves for treatment – actually being the walking wounded – so the Displan system is highly integrated and coordinated and it links in with other emergency services and with our hospital emergency departments and intensive care units and has the facilities, drugs and skills necessary to deal with almost anything. They have containment suits, self-contained breathing apparatus and a range of drugs and therapies, which they can administer on site or in conjunction with ambulance services and in transport.

The Committee was pleased that funding has been provided in the 2004-05 Budget for security and counter terrorism measures and acknowledges the wide range of activities in progress within the department. Given the potential risk to the state, the Committee believes this is an area that warrants an independent assessment of Victoria's preparedness so that Parliament can be assured as to the adequacy of the state's overall response. In this regard, the Committee will view with interest the conclusions that the Auditor-General may reach from the proposed performance audit titled State Security - Coordination of Response.¹⁵⁹

(j) Obesity and diabetes prevention programs

The Committee was interested to hear from the Minister that:

Rising levels of obesity have the potential to cause, and are already causing, significant poor health outcomes for many people in the community. When we know that very young children can show signs of type 2 diabetes, which has always been associated with older adults, then this is just one indicator of what has been described by some as an epidemic of obesity. All governments need to take this very seriously.¹⁶⁰

As the causes of obesity are very complex, the Minister maintains a whole of government initiative is required to begin to address this issue and better understand the inter-relationship of varying responsibilities between other parts of the community.¹⁶¹ The Minister for Health and the Minister for Sport and Recreation have endorsed a joint strategy to promote healthy and active living that is in the process of development.¹⁶² The funding for this strategy, in excess of \$20 million over four years, will be predominantly drawn from the Department of Human Services (\$10 million available for obesity and diabetes prevention, together with some aged care funding) and the Department for Victorian Communities (\$10 million in relation to a physical activity program).¹⁶³ Other funding amounting to \$1.9 million directed at healthy and

¹⁵⁹ Victorian Auditor-General's Office, *Annual Plan 2004-05*, pp.13 and 47

¹⁶⁰ Hon. B. Pike, MP, Minister for Health, transcript of evidence, 19 May 2004, p.9

¹⁶¹ *ibid.*

¹⁶² *ibid.*

¹⁶³ *ibid.*, pp.9, 20 and Minister for Health's response to the Committee's follow-up questions, p.5

active living for seniors will be contributed by the Office of Senior Victorians.¹⁶⁴ The strategy will involve a range of communication activities and groups from across the community e.g. Bicycle Victoria, VicHealth and Diabetes Australia – Victoria, and be particularly targeted at children and families.¹⁶⁵

The Committee was advised by the Minister that specific initiatives have not yet been finalised.¹⁶⁶ Some projects will be jointly funded while others will be supported by individual departments.¹⁶⁷

In terms of measuring the effectiveness of obesity prevention strategies, the Department of Human Services advised the Committee that, notwithstanding the performance measure outlined in the Budget Papers relating to the *percentage of community agencies in targeted locations participating in community obesity prevention strategies*,¹⁶⁸ the department has accepted the need to develop better measures.¹⁶⁹

While the Committee appreciates the complexities involved in defining measures that are meaningful and appropriate for evaluating obesity and diabetes prevention programs, the Committee supports the view expressed by the Minister of the need to conduct research to develop better performance measures.¹⁷⁰

The Committee recommends that:

Recommendation 53: **The Department of Human Services, in conjunction with the Department for Victorian Communities, develop more appropriate performance measures to monitor the effectiveness of obesity and diabetes prevention strategies.**

¹⁶⁴ Minister for Health's response to the Committee's follow-up questions, p.5

¹⁶⁵ Hon. B. Pike, MP, Minister for Health, transcript of evidence, 19 May 2004, pp.9 and 19

¹⁶⁶ Minister for Health's response to the Committee's follow-up questions, p.5

¹⁶⁷ *ibid.*

¹⁶⁸ Budget Paper No. 3, *2004-05 Service Delivery*, p.87

¹⁶⁹ Hon. B. Pike, MP, Minister for Health, transcript of evidence, 19 May 2004, p.21

¹⁷⁰ *ibid.*

7.6 Community Services portfolio

The Minister for Community Services has responsibility for six output groups within the Department of Human Services.¹⁷¹ These outputs account for around 19 per cent of the department's budget for 2004-05.¹⁷²

7.6.1 2004-05 outlook for the portfolio

The Minister for Community Services informed the Committee that the priorities for the portfolio in 2004-05 included the following:

- Disability Services¹⁷³
 - providing a greater investment in home and community-based living, which will reduce the emphasis on out-of-home care;
 - providing more support to people with a disability earlier in their lives and to their families so that problems like challenging behaviours do not become insurmountable later in life;
 - strengthening the support provided to carers in the form of expanded respite services and aids and equipment; and
 - increasing the range of accommodation and support options to meet more individual needs.
- Community Care¹⁷⁴
 - continuing to roll out the integrated strategy on child protection with a range of new services to reform that system, in particular through new diversion and prevention services to be piloted in 12 selected rural and regional areas and in indigenous communities;
 - injecting new funds towards foster care with a focus on the most vulnerable children; and
 - strengthening early-year services through the implementation of the first stage of the Best Start initiative and the enhancement of preschool services in line with the recommendations of the Kirby report.

¹⁷¹ Department of Human Services response to the Committee's 2004-05 Budget Estimates questionnaire, pp.65-67

¹⁷² Budget Paper No. 3, *2004-05 Service Delivery*, pp.70-110

¹⁷³ Hon. S. Garbutt, Minister for Community Service, transcript of evidence, 21 May 2004, pp.13-14

¹⁷⁴ *ibid.*, p.2

The 2004-05 Budget included output initiatives expected to cost \$79.9 million in 2004-05 (\$459.4 million to 2007-08).¹⁷⁵ The major initiatives included:¹⁷⁶

- funding to support a price index and investment fund to support non-government agencies delivering a range of services under three year funding agreements (\$40.5 million in 2004-05 and \$263 million over four years to 2007-08, which also covers the Health and Housing portfolios);
- a range of measures to assist carers to allow people with a disability and older frail people to live more independently (\$10.8 million in 2004-05 and \$27.1 million to 2007-08);
- increasing the cap on the local government rates concession to pensioners (\$10.4 million in 2004-05 and \$42.8 million to 2007-08);
- increasing amounts reimbursed to foster carers for providing care (\$5 million in 2004-05 and \$20.6 million to 2007-08); and
- expansion of child protection projects focusing on early intervention and prevention of child abuse (\$4.9 million in 2004-05 and \$24.6 million to 2007-08).

Asset initiatives in the 2004-05 Budget that relate to the Community Services portfolio have a total estimated investment (TEI) of up to \$106.5 million over the four years to 2007-08.¹⁷⁷

Almost all this capital funding (\$86.5 million) is allocated to the construction of new housing in the community for Kew residential services residents across Victoria. These capital funds are accompanied by output funding of \$42.3 million over four years to provide a greater level of support and community inclusion for residents.¹⁷⁸

The Committee noted that the remaining capital funds allocated in the 2004-05 Budget (\$20 million) will allow for a program of works to improve the quality and standard residential facilities for children in care and upgrading shared supported accommodation for people with a disability.¹⁷⁹

¹⁷⁵ Budget Paper No. 3, *2004-05 Service Delivery*, pp.275–279

¹⁷⁶ *ibid.*

¹⁷⁷ *ibid.*, pp.279–284

¹⁷⁸ *ibid.*, pp.275–276

¹⁷⁹ *ibid.*, pp.279-284

7.6.2 Analysis of budget

The 2004-05 Budget for the output group for which the Minister for Community Services has responsibility is \$1,838.2 million (see exhibit 7.17).¹⁸⁰

The Committee noted that this is an increase of \$114.8 million (6.7 per cent) compared to the expected outcome for 2003-04, with most of the rise attributed to additional funding for the Individual Support output and the Shared Supported Accommodation output in the Disability Services output group (\$28.1 million); the Municipal Rates and Concessions output (\$13 million) and the Placement and Support Services output (\$16.3 million).¹⁸¹

Only one output reported a decrease in cost in 2004-05. The Committee noted that the \$5.2 million decline for the Community Support Services output was largely due to the cessation of the Problem Gambling Strategy and financial counselling (which were funded from the Community Support Fund) and the inclusion of non-recurrent funding in 2003-04 for the Drought Social Recovery Strategy.¹⁸²

¹⁸⁰ *ibid.*, pp.93–107

¹⁸¹ *ibid.*

¹⁸² *ibid.*, p.105

Exhibit 7.17: Community Services Portfolio – Output costs

Output group	Outputs under the responsibility of the Minister for Community Services	2004-05 Budget (\$ million)
Disability Services	Intake Assessment	15.9
	Planning and Coordination	24.6
	Primary Support	90.6
	Community Participation and Inclusion	172.1
	Individual Support	105.8
	Shared Supported Accommodation	380.9
	Specialist Services	14.1
	Congregate Care	79.8
	Quality	19.4
	Information and Advocacy Services	7.2
Sub total		910.4
Child Protection and Placement	Statutory Child Protection	102.4
	Child Protection Specialist Services	38.1
	Placement and Support Services	154.2
Sub total		294.7
Juvenile Justice Services	Juvenile Justice Custodial Services	46.9
	Juvenile Justice Community Based Services	26.2
Sub total		73.1
Early Childhood Services	Maternal and Child Health Services	32.3
	Preschool and Child Care Services	125.2
	Early Childhood Intervention Services	37.3
Sub total		194.8
Family and Community Support	Support Services for Families	56.5
	Community Support Services	55.1
	Personal Support Services	20.3
Sub total		131.9
Concessions to Pensioners and Beneficiaries	Energy Concessions	92.6
	Water and Sewerage Concessions	66.5
	Municipal Rates Concessions	64.7
	Trustee Services	9.5
Sub total		233.3
Total		1,838.2

Source: Budget Paper No. 3, 2004-05 Service Delivery, pp.93–107

7.6.3 Performance measures

The Committee noted that there were no changes to performance measures relating to the Community Services portfolio in 2004-05.¹⁸³

The Committee is aware that a number of community services outputs include performance measures that are based on national benchmarks.¹⁸⁴ The Committee considers that the use of performance measures based on national benchmarks provides an important insight into the effectiveness of Government programs in Victoria compared to other jurisdictions. The use of such measures can assist policy makers and service providers to determine whether further improvements are achievable, based on the experiences of other jurisdictions and the availability of resources.

The department advised the Committee that it had adopted a continuous improvement approach to benchmarking and would continue its efforts to benchmark performance with other jurisdictions as reported in the *Report on Government Services* issued by the Steering Committee for the Review of Commonwealth-State Service Provision.¹⁸⁵

The Committee noted that benchmarking efforts were progressing with other jurisdictions in the disability services area, where all states and territories are now collecting data on an annual basis rather than on a snapshot day basis, which would enable standardisation of the data collection process and provide meaningful comparisons for performance measures and benchmarks in the future.¹⁸⁶

The department advised the Committee that a national report has been commissioned under the Commonwealth-State and Territory Disability Agreement that will contain comparative information from each jurisdiction, and was scheduled to be available by mid 2004.¹⁸⁷ The Committee was advised by the Australian Institute of Health and Welfare that the report on *Disability Support Services 2002-03: National data on services provided under the Commonwealth-State/Territory Disability Agreement* is scheduled for release in November 2004.¹⁸⁸

The Committee encourages the department to continue to revise its performance measures to ensure that where appropriate, performance measures developed by these benchmarking exercises are included in the Budget Papers.

¹⁸³ *ibid.*, pp.93–107

¹⁸⁴ Department of Human Services response to the Committee's 2004-05 Budget Estimates questionnaire, pp.36–40

¹⁸⁵ *ibid.*, p.38

¹⁸⁶ *ibid.*

¹⁸⁷ *ibid.*

¹⁸⁸ Response provided by the Australian Institute of Health and Welfare's Media and Marketing Manager, 20 September 2004

7.6.4 Key issues impacting on the portfolio

The department's response to the Committee's questionnaire and the estimates hearing with the Minister for Community Services identified the following key issues that will impact on the Community Services portfolio and its Budget Estimates for 2004-05:

(a) Disability services

The department informed the Committee that long-term sustainability of disability services requires greater investment in home and community based living options and family carers, to better match services to individual needs and prevent unnecessary dependence on out-of-home residential care.¹⁸⁹

A key initiative in the 2004-05 Budget involves the provision of \$37 million over four years and \$10 million total estimated asset investment to plan for sustainable disability support services into the future, support people with a disability to live more independently in the community, and support carers.¹⁹⁰

Other initiatives include:

- Kew residential services redevelopment - total estimated investment of \$86.5 million over three years for housing and redevelopment of the current site (\$51.2 million in 2004-05), and \$42.3 million over four years to provide support and promote community inclusion for ex-residents (\$900,000 in 2004-05);¹⁹¹ and
- a price index for the non-government sector introduced as part of the three year service agreements (\$40.5 million in 2004-05, \$289.7 million over five years) to ensure certainty of funding and alleviate administrative requirements allowing organisations, including those providing disability and community care services, to focus on improving services).¹⁹² Under the new package, the Government will increase funding to community sector organisations by 6.9 per cent over the next three years (2.4 per cent, 2003-04; 2.25 per cent, 2004-05; 2.25 per cent, 2005-06).¹⁹³ The Committee was advised by the Minister that in line with clauses that cover exceptional circumstances, the indexation rate for 2004-05 was varied to 2.6 per cent to meet the cost of a safety net outcome determined by the Australian Industrial Relations Commission.¹⁹⁴

¹⁸⁹ Department of Human Services response to the Committee's 2004-05 Budget Estimates questionnaire, p.9

¹⁹⁰ Budget Paper No. 3, *2004-05 Service Delivery*, pp.14, 19-20

¹⁹¹ *ibid.*, pp.20, 275, 276, 279

¹⁹² *ibid.*, pp.275, 277

¹⁹³ www.dhs.vic.gov.au (fact sheet) doc

¹⁹⁴ Minister for Community Services' response to the Committee's follow-up questions, p.7

(i) Home and community based living options – unmet demand

In its *Report on the 2003-04 Budget Estimates*, the Committee expressed concern that the unmet demand for shared supported accommodation and access to HomeFirst services continued to rise, despite ongoing budget increases for Victorian Disability Services.¹⁹⁵

The Victorian Council of Social Service (VCOSS) claims that according to the department's Service Needs Register figures released in April 2004, there were 1,161 people urgently awaiting shared supported accommodation in Victoria, an increase of 16.4 per cent over the situation in April 2002.¹⁹⁶ VCOSS also stated that:¹⁹⁷

- the average waiting time for a shared supported accommodation position to become available was 146 weeks or nearly three years; and
- there were 3,193 people on the waiting list for shared supported accommodation of which approximately 530, or one in six, were cared for by parents aged 75 or more.

The 2004-05 Budget provides that shared supported accommodation will be extended to an additional 30 clients in 2004-05 at a cost of \$17.1 million, with a corresponding decrease in clients in training centres (as shown in the Congregate Care output) due to the Kew redevelopment.¹⁹⁸ Given the size of the waiting list, the Committee asked the Minister to explain the reason why there was not a commensurate increase in shared supported accommodation places relative to the additional expenditure to be incurred in 2004-05.¹⁹⁹ The Minister explained that, only looking at the urgent waiting list will not assist in understanding the wider developments implemented across the board other than just the expansion of shared supported accommodation places.²⁰⁰ Actions contributing to the cost of \$17.1 million for 30 extra shared supported accommodation places included:²⁰¹

- the relocation of 30 people from the Kew Residential Services redevelopment is at a high cost; and
- a general price adjustment for indexation accounted for \$8.2 million of the \$17.1 million increase.

¹⁹⁵ Public Accounts and Estimates Committee, *Report on the 2003-04 Budget Estimates*, p.188

¹⁹⁶ VCOSS, *State Budget 2004-05 Disability Analysis*, 5 May 2004, p.5

¹⁹⁷ *ibid.*

¹⁹⁸ Budget Paper No. 3, *2004-05 Service Delivery*, pp.95-96

¹⁹⁹ Hon. S. Garbutt, MP, Minister for Community Services, transcript of evidence, 21 May 2004, p.16

²⁰⁰ *ibid.*

²⁰¹ *ibid.* p.17

The Minister also explained that:²⁰²

- the department is trying to shift to more options and flexibility concerning accommodation places as an alternative to the more narrowly confined forms of accommodation involving community residential units and shared supported accommodation; and
- as part of the HomeFirst package, 100 people, who elect to move out of shared supported accommodation, will be situated in alternative housing options over the next two years. In turn, this movement will impact favourably on waiting times.

The Committee acknowledges the concept of flexible funding as part of the department's support and choice package in order for people with disabilities to live independently in the community. The Committee also recognises that the advent of residents in community residential units taking up other housing options over the next two years could free up shared support accommodation for some of those urgent cases recorded on the Service Needs Register. Nevertheless, the Committee is concerned the current measures employed by the department do not appear to be sufficiently directed at addressing the urgent needs of the growing number of people with a disability seeking shared supported accommodation.

The Committee recommends that:

Recommendation 54:

The Department of Human Services:

- (a) **in relation to people with disabilities, develop a strategy to specifically address the increasing backlog of unmet critical need for home and community based living options; and**
- (b) **give consideration to:**
 - (i) **creating incentives for a greater involvement by the non-government sector in service provision;**
 - (ii) **investigating innovative home living options to provide alternative housing; and**
 - (iii) **actively seeking further funding from the Commonwealth Government for residential disability care in order to alleviate waiting times.**

²⁰² *ibid.*, pp.16–17

Recommendation 55: The Department of Human Services:

- (a) expand the performance measures in the Budget Papers that relate to accommodation support services provided to groups of clients in community based settings to reflect, not only the quantity of clients in shared supported accommodation, but also the wider choices and support provided under the accommodation umbrella; and**
- (b) give consideration to developing a performance measure linked to waiting times for urgent supported accommodation of a critical nature.**

(ii) Disability Housing Trust

The 2004-05 Budget included an output initiative to establish a Disability Housing Trust.²⁰³ The Government has allocated \$3 million in 2004-05 (\$10 million over three years) to provide more sustainable and cost effective accommodation options for people with a disability.²⁰⁴ Involving partnerships between not-for-profit non-government housing providers, local government and private investors, the trust is expected to deliver at least 100 new housing opportunities to people with a disability.²⁰⁵

At the estimates hearing, the Committee was interested to determine:

- the exact nature of the housing opportunities to be provided to people with a disability from the trust;
- the amount of funding required to enable the trust to provide 100 housing opportunities;
- the specific contributions to the trust to be provided by the non-government and private sectors;
- the purpose of the state funding, as it is shown as an output rather than an asset initiative over three years;
- how the return will be generated for the particular private sector investors; and
- whether the Government will underwrite that return.

²⁰³ Budget Paper No. 3, *2004-05 Service Delivery*, p.275

²⁰⁴ *ibid.*, pp.275-276

²⁰⁵ *ibid.*, p.276

The Minister explained that there will be many options other than the provision of a standard building, and the process will involve a collaborative effort with the Minister for Housing and housing associations and groups.²⁰⁶ Detailed feasibility work was about to commence and it was not expected that the trust would be fully operational until the end of the next financial year.²⁰⁷ The Committee was also informed that, apart from establishment costs, some of the Government funding may be used for capital in this year's budget, and next year's budget will disclose the apportionment of funds to capital over the next three years.²⁰⁸ As such, most of the detail required by the Committee was not yet available.

Accordingly, the Committee recommends that:

Recommendation 56:

- (a) **The 2005-06 Budget Papers disclose summary details of the operations of the Disability Housing Trust, the apportionment to capital over the next three years and financial details concerning partnership arrangements between Government and the non-government and private sectors outlining funding allocations, obligations and returns on investment; and**
- (b) **The Department of Human Services' 2004-05 annual report disclose full particulars of the Disability Housing Trust, including, when fully operational, the effectiveness of the Disability Housing Trust in reducing the number of people with a disability recorded in the Service Needs Register as in urgent need of supported accommodation.**

(iii) Companion card

The introduction of the Companion Card program in November 2003, the first of its type in Australia, is a good example of a Government initiative to encourage the inclusion of people with a disability in community activities.²⁰⁹ Funded through the Community Support Fund, card holders are entitled to take a companion to an event or venue.²¹⁰

²⁰⁶ Hon. S. Garbutt, MP, Minister for Community Services, transcript of evidence, 21 May 2004, p.20

²⁰⁷ *ibid.*

²⁰⁸ *ibid.*, p.21

²⁰⁹ Minister for Community Services' response to the Committee's follow-up questions, p.5

²¹⁰ *ibid.*

The Companion Card is a tool to assist organisations that charge an admission or participation fee to comply with existing anti-discrimination legislation.²¹¹ The card is issued to people with a significant, permanent disability who require a companion for attendant care support in order to participate at most community activities and venues.²¹² Participating organisations will issue the cardholder with a second ticket for their companion at no charge.²¹³

As of 20 June 2004, the Minister informed the Committee that 5,500 Victorians held a Companion Card and over 300 venues and activities had joined the program.²¹⁴ They ranged from all Victorian Public Transport Services; the Australian Football League (including the finals); the Victoria and Moonee Valley Racing Clubs; the Australian Open Tennis Tournament; the Melbourne Commonwealth Games in 2006; Village, Hoyts, Regency and Nova cinemas; Festival Hall; the Royal Botanic Gardens; and the Melbourne Fringe Festival through to over 30 Local Councils and Shires.²¹⁵

The Committee recommends that:

Recommendation 57: **With regard to the implementation of the Companion Card program for people with a disability, the Department of Human Services:**

- (a) encourage more organisations to become involved in the program e.g. across local government bodies and tourism organisations; and**
- (b) acknowledge the participation of those bodies involved in the program in its annual report.**

(iv) Community Services Investment Fund

The Budget Papers disclose that a price index, designed to guarantee future funding increases, was introduced as part of new three year service agreements with the non-government sector (the indexation rate is explained in 7.6.4(a) of this report).²¹⁶ The new funding arrangements apply to non-government agencies providing disability, community care, preschool, palliative care, drug services and housing assistance.²¹⁷ As part of the 2004-05 allocation of \$40.5 million in relation to the price index for the non-government sector, funding has been provided to establish a Community Services

²¹¹ *ibid.*

²¹² *ibid.*

²¹³ *ibid.*

²¹⁴ *ibid.*

²¹⁵ *ibid.*, pp.5-6

²¹⁶ Budget Paper No. 3, *2004-05 Service Delivery*, p.277

²¹⁷ *ibid.*

Investment Fund to improve the capacity of non-government organisations to deliver programs for Victoria's most vulnerable.²¹⁸

The Minister advised \$7 million has been allocated to the Fund, which as previously stated extends beyond the Community Services portfolio.²¹⁹ Its terms of reference are to:²²⁰

- fund sector-specific improvements or innovations that can be applied across the sector;
- support initiatives that enhance a capacity and sustainability of the sector; and
- support workforce development, particularly in relation to recruitment and retention.

The Committee considers that the department needs to be accountable as to how this funding is spent.

The Committee recommends that:

Recommendation 58: **To enable effective monitoring of expenditure from the Community Services Investment Fund, information concerning the activities of the Fund be disclosed in the annual report of the Department of Human Services.**

(b) *Community care services*

(i) *Child protection and placement*

Background

In its review of the budget estimates for 2003-04, the Committee welcomed the Government's initiatives to strengthen early intervention and prevention programs.²²¹ The Committee stressed the importance for the department to closely monitor and evaluate the effectiveness and impact of these initiatives on meeting legislative requirements, as well as re-notification rates to child protection services.²²²

²¹⁸ *ibid.*, pp.275, 277

²¹⁹ Hon. S. Garbutt, MP, Minister for Community Services, transcript of evidence, 21 May 2004, p.25

²²⁰ *ibid.*

²²¹ Public Accounts and Estimates Committee, *Report on the 2003-04 Budget Estimates*, p.193

²²² *ibid.*, pp. 193-194

2004-05 funding initiatives

The Committee was informed by the Minister that the 2004-05 Budget continues to roll out the integrated strategy on child protection with a range of new services to reform that system, in particular through new diversion and prevention services, which are to be piloted in 12 rural and regional areas and in Indigenous communities.²²³ With a focus on the most vulnerable children, the Minister advised that new funds have been provided in the 2004-05 Budget to boost foster care payments, together with a strengthening of early year services.²²⁴ The Committee noted a key strategy in the 2004-05 Budget involves the provision of \$177 million over four years and \$20 million total estimated asset investment in protecting and caring for vulnerable children and boosting children's health.²²⁵ This strategy is designed to build on achievements in the 2003-04 Children First Strategy.²²⁶ The budget for this strategy supports various portfolios including: Community Services, Health, Education and Aboriginal Affairs.²²⁷ Output initiatives, which relate primarily to the Community Services portfolio, account for approximately \$59.1 million, or one third, of the total budget for this strategy and include:

- child protection (\$24.6 million over four years, \$4.9 million in 2004-05);²²⁸
- supporting foster carers (\$20.7 million over four years, \$5 million in 2004-05);²²⁹ and
- indigenous families (\$10.2 million over four years, \$1.8 million in 2004-05).²³⁰

Half of the asset initiative relates to the renewal of residential facilities that provide placement and support for children in care (total estimated investment of \$10 million over three years, \$3 million in 2004-05).²³¹

The Committee recommends that:

Recommendation 59: The Department of Human Services continue to monitor, and evaluate after 12 months operation, the effectiveness of key funding initiatives announced in the 2004-05 Budget dealing with child protection and placement.

²²³ Hon. S. Garbutt, MP, Minister for Community Services, transcript of evidence, 21 May 2004, p.2

²²⁴ *ibid.*

²²⁵ Budget Paper No. 3, *2004-05 Service Delivery*, pp.13, 20-23

²²⁶ *ibid.*, p.21

²²⁷ *ibid.*, pp.275, 277-279

²²⁸ *ibid.*, p.21, 275, 277

²²⁹ *ibid.*, p.21, 275, 279

²³⁰ *ibid.*, p.21, 275, 278

²³¹ *ibid.*, pp.280, 284

Notifications of children at risk

In terms of analysing the trends in notifications of children at risk, the Committee was pleased to see that the situation in Victoria compares favourably to the rest of Australia. Information presented to the Committee by the Minister revealed that over the last five years from 1999 to 2003, notifications have risen for the rest of Australia by 128.5 per cent compared to only 2.3 per cent in Victoria.²³² For this same period, substantiations for the remainder of Australia rose by 90.7 per cent, whereas the situation in Victoria for this key indicator actually showed a reduction of one per cent.²³³ The Committee was also reassured to learn that initial research conducted by the department shows that the Family Support Innovation Projects, funded in last year's budget as part of the Integrated Child Protection Strategy, were working effectively. The Minister advised the Committee that, on average, there has been a 7.5 per cent drop in child abuse notifications across the project areas.²³⁴ Based on the apparent success of the Family Innovation Support Projects, the 2004-05 Budget Papers record a new target of 36,900 notifications in 2004-05, representing a reduction of 500 notifications from the expected outcome of 37,400 for 2003-04.²³⁵

The Committee acknowledges that the drop in child abuse notifications is an encouraging development. Nevertheless, an expectation of 36,900 child abuse notifications in Victoria in 2004-05 highlights an ongoing, very serious community problem, which continues to place Victoria's child protection system under pressure.

Timeliness of investigations into notifications of suspected child abuse

The Minister advised that, in relation to 2003-04, 81.3 per cent of investigations commenced within 14 calendar days of notification,²³⁶ compared to the target of 90 per cent.²³⁷ Although the target was not achieved, the Committee notes that the 2003-04 result was a major improvement from 2002-03, whereby only 72.8 per cent of notifications were investigated within 14 days.²³⁸

In responding to the reasons why the target was not met, the Minister advised that over recent years there has been a significant increase in notifications concerning emotional abuse and neglect, many of which relate to clients that have been previously investigated.²³⁹ As a result, the Minister indicated to the Committee that:²⁴⁰

²³² Hon. S. Garbutt, MP, Minister for Community Services, transcript of evidence, 21 May 2004, p.2

²³³ *ibid.*, slide number 5

²³⁴ *ibid.*, slide number 4

²³⁵ Budget Paper No. 3, *2004-05 Service Delivery*, p.98

²³⁶ Minister for Community Services' response to the Committee's follow-up questions, p.10

²³⁷ Budget Paper No. 3, *2004-05 Service Delivery*, p.98

²³⁸ Minister for Community Services' response to the Committee's follow-up questions, p.10

²³⁹ *ibid.*, p.9

²⁴⁰ *ibid.*, pp.9-10

Regional Child Protection intake teams now spend substantially more time on information gathering, prior to making a decision on whether a direct investigation is required. Information gathering involves contacting key organisations involved with the family such as schools and maternal and child health services. While this often assists in linking many families to other services such as family support, rather than a child protection response, it has also produced performance compliance issues with regard to the 14 day performance measure.

To address this issue, the Committee acknowledges that a number of strategies have been established by the department. These strategies include the Breakthrough Collaborative Initiative that is specifically designed to address the 14 day performance measure.²⁴¹ This initiative involves the establishment of regional teams to examine performance, identification of factors influencing performance, implementation of appropriate strategies and review of performance on an ongoing basis.²⁴²

The Committee acknowledges the efforts of the department in relation to the 14 day performance measure and appreciates the benefits to be derived from the strategies employed by the department, prior to making the decision on whether a direct investigation is required. The Committee supports the efforts of the department to examine performance in this challenging area of its activities.

The Committee recommends that:

Recommendation 60: **The Department of Human Services keep under review the risk factors and outcomes of those cases where investigations into child protection services have not commenced within 14 calendar days of notification and were subsequently substantiated.**

(ii) Deaths of children under protection

Endorsing the Government's focus on early intervention and prevention and strengthening family and community support to minimise the number of deaths of children known to the child protection system, the Committee gave a commitment last year to review the effectiveness of new initiatives during the 2004-05 estimates hearing process.²⁴³

In discussing this issue with the Minister, the Committee noted that:²⁴⁴

²⁴¹ *ibid.*, p.10

²⁴² *ibid.*

²⁴³ Public Accounts and Estimates Committee, *Report on the 2003-04 Budget Estimates*, p.196

²⁴⁴ Hon. S. Garbutt, MP, Minister for Community Services, transcript of evidence, 21 May 2004, pp.5-6

- there was no apparent pattern in the number of child deaths, which fluctuated in each of the past four years (25 in the year 2000, 12 in 2001, 32 in 2002 and 12 in 2003);
- all cases are investigated by the department to assess its own case practice and, secondly, by a fully independent judicial inquiry undertaken by the Coroner's Court; and
- each case is reported publicly.

The Victorian Child Death Review Committee's Annual Report of Inquiries into Child Deaths – Child Protection 2004, in providing information on children known to the Child Protection Service who died in 2003, revealed that:

- there appears to be no way to explain the sharp increase in deaths in 2002 and the equally sharp decrease in 2003;²⁴⁵
- it is not possible to infer that had a different service response been made, the tragedy of a child's death would have been averted;²⁴⁶
- for some cases, there has been premature case closure and inadequate interagency communication, planning and collaboration;²⁴⁷ and
- the Committee would have liked to see greater capacity within the service system to deal with complex and chronic problems exhibited by many adolescents (13-18 years) who have had a long-standing involvement with the department.²⁴⁸

Notwithstanding that the number of child deaths will fluctuate from one year to the next, every effort needs to be made to address the criticisms contained in the *Victorian Child Death Review Committee's Annual Report of Inquiries into Child Deaths Child Protection 2004*, particularly in relation to practice matters such as premature closure of cases. By doing so, and with the implementation of the Government's priorities that focus on early intervention and prevention as well as on strengthening family and community support services, the Committee believes that these measures could have a positive influence on minimising child deaths in future.

²⁴⁵ Victorian Child Death Review Committee, *Annual Report of Inquiries into Child Deaths – Child Protection 2004*, May 2004, p.iii

²⁴⁶ *ibid.*, p.iv

²⁴⁷ *ibid.*, pp.iv, xviii, 47-48, 64

²⁴⁸ *ibid.*, p.v

The Committee recommends that:

Recommendation 61: **The Department of Human Services take steps to address the recommendations contained in the Victorian Child Death Review Committee's *Annual Report of Inquiries into Child Deaths, Child Protection 2004.***

(iii) *Managing young people in care*

The Committee was interested to gain an understanding of the protocols to be followed when the Minister, the department or the carer becomes aware that teenagers in the care of the state are regularly engaged in antisocial or high risk taking behaviour. The Minister brought to the Committee's attention two recent initiatives directed at those children with disturbing and very challenging behaviours, namely:²⁴⁹

- the Take Two Intensive Therapeutic Intervention Service, established in January 2004, to provide children with support and treatment; and
- the extension of the Adolescent Mediation Service, which endeavours to work intensively with children and their families before their relationships break down.

The capacity to admit young people into a facility known as the department's secure welfare facility was also cited by the department as a means of managing those children at severe risk to themselves.²⁵⁰ In describing the operation of this facility to the Committee, the following features were outlined at the estimates hearing:²⁵¹

- judgements as to who should have access to the secure welfare system are made by either the child protection manager or the community care manager in the relevant region;
- it is a secure facility so children are not permitted to leave;
- many have experienced prior periods in secure welfare;
- while only permitted to be there for relatively short periods of time of up to six weeks, many are located there for at least three weeks; and
- during this period, children undergo an intensive work program involving drug treatment services and mental health services, which is continued when they return to the placement that is deemed most appropriate.

²⁴⁹ Hon. S. Garbutt, MP, Minister for Community Services, transcript of evidence, 21 May 2004, p.9

²⁵⁰ Ms. G. Callister, Executive Director, Community Care, Department of Human Services, transcript of evidence, p.10

²⁵¹ *ibid.*

The department has also developed a number of protocols for dealing with high risk situations.²⁵² Relevant standards and guidelines brought to the attention of the Committee comprised the following:²⁵³

- *DHS Management Response to Inhalant Use*, February 2003;
- *Residential Care Services – Substance Abuse Guidelines*, February 2003;
- *Minimum Standards and Outcome Objectives for Residential Care Services*, February 2002; and
- *Minimum Standards and Outcome Objectives for Home-Based Care Services*, November 2003.

According to the Minister, these documents are reviewed on an ongoing basis.²⁵⁴

The Committee recognises that these recent initiatives are in early stages of implementation. In the interests of those children in state care who, according to the Minister, have suffered many years of abuse and neglect,²⁵⁵ it will be important that an ongoing monitoring regime is continued by the department. This evaluative framework should measure the effectiveness of initiatives designed to manage those children with disturbing and very challenging behaviours.

The Committee recommends that:

Recommendation 62: **The Department of Human Services continuously monitor the evaluative framework to measure the effectiveness of initiatives designed to support those children in care with disturbing and very challenging behaviours.**

(iv) Measuring the impact of gambling

The Committee notes that the Budget Papers indicate that the output group Family and Community Support contributes to one of the Government's key outcomes, namely: Building cohesive communities and reducing inequalities.²⁵⁶

The Committee noted that the Community Support Services output, which is part of this output group delivers problem gambling services to the community.²⁵⁷

²⁵² Minister for Community Services' response to the Committee's follow-up questions, p.4

²⁵³ *ibid.*

²⁵⁴ *ibid.*

²⁵⁵ Hon. S. Garbutt, MP, Minister for Community Services, transcript of evidence, 21 May 2004, p.9

²⁵⁶ Budget Paper No. 3, *2004-05 Service Delivery*, p.104

²⁵⁷ *ibid.*

Despite this link, the Committee understands that there are no performance indicators to measure the effect of gaming on communities and to assess the extent of gambling problems across different socio-economic groups.

The Minister for Gaming acknowledged the importance of performance indicators to assess each department's performance in service delivery and to provide clear lines of accountability.²⁵⁸ However, the Minister also highlighted the difficulty in obtaining detailed information on the impact of gambling on the community.²⁵⁹ It was stressed that it is difficult to isolate the impact of gambling alone on people's behaviour as other factors can contribute to adverse outcomes.²⁶⁰ The Minister also advised the Committee that it is equally difficult to measure the benefits received by the majority of gamblers, who enjoy their activity and gamble responsibly.²⁶¹

While acknowledging the difficulties in assessing the affect of gaming on communities, the Committee believes that the development of performance indicators to measure these affects and to report changes over time is important. The Committee considers that developing such indicators could be a project for a research body, such as the Gambling Research Panel or the recently announced ministerial advisory committee on research into problem gambling.²⁶²

The Committee recommends that:

Recommendation 63: **The Department of Human Services develop performance indicators to measure the affect of problem gambling on communities and to assess the extent of the gambling burden across different socio-economic groups and include this information in its annual report.**

7.7 Aged Care portfolio

Funding allocated to aged care services in the 2004-05 Budget includes funding from the Commonwealth Government, which has primary responsibility for funding and regulation of residential aged care services. In 2004-05, almost \$212.9 million was provided for programs either wholly or partly funded by the Commonwealth Government.²⁶³

²⁵⁸ Hon. J. Pandazopoulos, MP, Minister for Gaming's response to the Committee's follow-up questions, p.9

²⁵⁹ *ibid.*

²⁶⁰ *ibid.*

²⁶¹ *ibid.*

²⁶² Hon. J. Pandazopoulos, MP, Minister for Gaming and Hon. S. Garbutt, MP, Minister for Community Services, media release, *\$26.7 million and a new focus for responsible gambling*, 14 October 2004

²⁶³ Budget Paper No. 4, *2004-05 Statement of Finances*, p.142

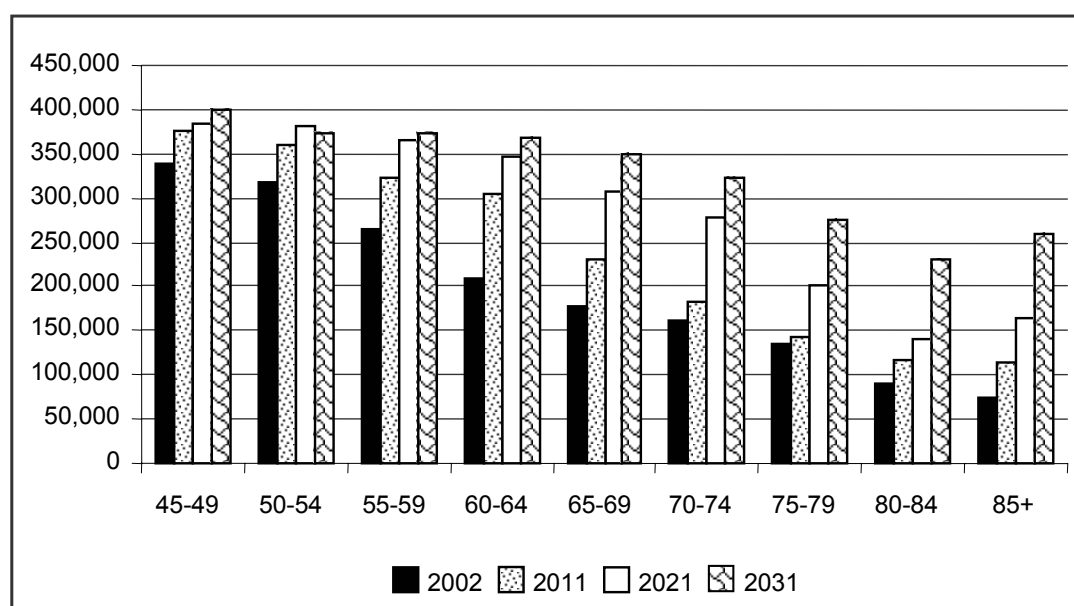
The State Government directly provides a significant share of residential aged care services in Victoria. A number of aged care services are delivered by a range of non-government agencies operating under service agreements with the Department of Human Services.

7.7.1 2004-05 outlook for the portfolio

At the estimates hearing the Minister outlined three significant factors influencing the Aged Care portfolio budget:²⁶⁴

- the changing age profile of the Victorian population, which will result in a sustained increase in the demand for aged care services (see exhibit 7.18);
- Commonwealth expenditure on aged care services per older person is lower in Victoria than other Australian jurisdictions; and
- the shortage of aged care beds in Victoria compared to Commonwealth benchmarks.

Exhibit 7.18: Victoria's changing age profile, 2001-2031



Source: Australian Bureau of Statistics, *Projections of population by age: Victoria*, ABS Cat. No. 3222.0, September 2003, Table B2

The Committee noted that two priority areas for the Aged Care portfolio in 2004-05 are the continuation of rebuilding and upgrading of residential aged care facilities and the development of a positive ageing strategy.²⁶⁵

²⁶⁴ Mr G. Jennings, MLC, Minister for Aged Care, transcript of evidence, 24 June 2004, p.2

²⁶⁵ *ibid.*, p.3

The 2004-05 Budget included output initiatives relating to the Aged Care portfolio costing \$1 million in 2004-05 (\$5.1 million over four years), which is directed to the implementation of the Positive Ageing Strategy.²⁶⁶ The strategy seeks to encourage positive ageing behaviour, change community and workplace attitudes and encourage community participation by older Victorians.²⁶⁷

Asset initiatives included in the 2004-05 Budget relating to the Aged Care portfolio were mainly directed to the redevelopment or upgrading of aged care facilities and had a total estimated investment (TEI) of around \$108.5 million.²⁶⁸ The major asset initiatives include:

- redevelopment of aged care facilities at the Colac Hospital (\$500,000 in 2004-05, TEI \$14 million);
- completion of the remaining fire safety and associated upgrades on metropolitan acute, aged care and mental health services premises to meet fire safety requirements (\$5.5 million in 2004-05, TEI \$9 million);
- completion of the next stage of the 108 bed redevelopment of the Grace McKellar Centre (\$8 million in 2004-05, TEI \$50 million);
- establishment of a new 30 bed residential aged care facility at the Seymour District Memorial Hospital (\$1.5 million in 2004-05, TEI \$5 million);
- continuation of the ongoing investment towards upgrading and replacing key infrastructure facilities within hospitals and aged care facilities (\$20 million in 2004-05); and
- construction at Yarrawonga District Health Service of a new 30 bed high care, aged residential unit and commencement of a staged redevelopment of the acute services building (\$4 million in 2004-05, TEI \$10.5 million).

These aged care asset initiatives are in addition to projects currently underway that were initiated in previous budgets with a total estimated investment of more than \$114.5 million, with \$32.4 million of the remaining \$39 million expected to be spent in 2004-05.²⁶⁹

²⁶⁶ Budget Paper No. 3, *2004-05 Service Delivery*, p.275–280

²⁶⁷ *ibid.*, p.275–280

²⁶⁸ *ibid.*, p.280

²⁶⁹ Department of Human Services response to the Committee's 2004-05 Budget Estimates questionnaire, pp.54–56; Budget Paper No. 2, *2003-04 Budget Statement*, p.217; Budget Paper No. 2, *2002-03 Budget Statement*, pp.183–185, Budget Paper No. 2, *2001-02 Budget Statement*, pp.244–46

7.7.2 Analysis of the budget

The 2004-05 Budget for the output group for which the Minister for Aged Care has responsibility is \$781.4 million (see exhibit 7.19).²⁷⁰

Exhibit 7.19: Aged Care Portfolio — Output costs

Output group	Outputs under the responsibility of the Minister for Aged Care	2004-05 Budget (\$ million)
Aged and Home Care	Positive Ageing	4.9
	Aged Care Assessment	25.6
	Aged Support Services	66.6
	Aged Residential Care	198.2
	Aged Care Service System Development and Resourcing	10.0
	HACC Primary Health, Community Care and Support	350.0
	HACC Service System Development and Resourcing	28.2
Sub total		683.5
Small Rural Services	Small Rural Services - Aged Care	78.8
	Small Rural Services - Home and Community Care	19.1
Sub total		97.9
Total		781.4

Source: Budget Paper No. 3, 2004-05 Service Delivery, pp.77–83

Although the Budget Papers did not provide comparative information for 2003-04 because of the formation of the Small Rural Services output group, the Committee noted that the funding for services that are part of the Aged Care portfolio outputs in 2004-05 was equivalent to an increase of \$41.4 million (5.6 per cent) from the expected outcome for 2003-04.²⁷¹

7.7.3 Performance measures

The most significant change to performance measures relating to Aged Care outputs in the 2004-05 Budget was the creation of a new Small Rural Services output group covering outputs for acute health, aged care, home and community care and primary health.²⁷² The Department of Human Services advised the Committee that the Small Rural Services output group was introduced to:

²⁷⁰ Budget Paper No. 3, 2004-05 Service Delivery, pp.77–79, 82–83

²⁷¹ Minister for Aged Care's response to the Committee's follow-up questions, p.8; Department of Human Services, *Victorian Budget 2004-05 Information Kit*, 4 May 2004, p.2

²⁷² Budget Paper No. 3, 2004-05 Service Delivery, pp.282–283

*reflect the Government's commitment to simplified, flexible funding and accountability, and a focus on responding to the local needs of small rural towns to improve health outcomes.*²⁷³

The two outputs for which the Minister for Aged Care has responsibility in the Small Rural Services output group – Small Rural Services (Aged Care) and Small Rural Services (Home and Community Care) – largely contain performance measures of a quantitative nature.²⁷⁴

The Committee is concerned that there are few performance measures relating to the quality or timeliness of aged care services in Small Rural Towns. The Committee believes that it is important that performance measures provide a balanced assessment of the effectiveness with which services are provided, to enable the Parliament and the community to determine whether the Government's desired outcomes for the new outputs in the Small Rural Services output group are being achieved.

The Committee recommends that:

Recommendation 64: **The Department of Human Services review the performance measures for the Small Rural Services output group to ensure that they provide a more balanced assessment of service delivery, including quality and timeliness of aged care services in small rural towns.**

The Small Rural Services output group includes a number of quantity measures that are defined as 'Rural service units'.²⁷⁵ There are several other instances of performance measures for which the Department of Human Services has responsibility which are defined in terms of a 'service unit' (including the Aged Support Services, Dental Services and Community Health Care outputs).²⁷⁶

The Committee was interested to learn more about how service units (including 'rural service units' in the Small Rural Services output group) are defined and what the implications are for accountability. The Committee noted that the use of 'service units' as a quantity measure for Department of Human Services output measures in the Budget Papers commenced in 1999-2000,²⁷⁷ although a similar concept (Weighted Inlier Equivalent Separations) was used earlier to measure patient stays in hospital.²⁷⁸

The department advised the Committee that the concept of units of service delivery is to give funded agencies and DHS the ability to move funding across different service

²⁷³ Department of Human Services response to the Committee's 2004-05 Budget Estimates questionnaire, p.69

²⁷⁴ Budget Paper No. 3, *2004-05 Service Delivery*, pp.82–83

²⁷⁵ *ibid.*

²⁷⁶ Budget Paper No. 3, *2004-05 Service Delivery*, pp.69–110

²⁷⁷ Budget Paper No. 3, *1999-00 Budget Estimates*, p.17

²⁷⁸ *ibid.*; Budget Paper No. 3, *1998-99 Budget Estimates*, p.103

types while not compromising accountability.²⁷⁹ The level of service delivery at a local or DHS level can be monitored across very different service types.²⁸⁰ The Committee noted that the common unit of service delivery also gives the department a unit for comparison when comparing services that are vastly different (see exhibit 7.20). For example, an hour of physiotherapy cannot be compared to an hour of group health promotion unless both are converted to a common unit (in this example, one hour of health promotion is equivalent to four hours of physiotherapy).²⁸¹

Exhibit 7.20: Example of the calculation of service units

Agency X is funded to deliver 140 hours of allied health (home and centre based) to clients. An hour of this service is worth \$71.77. Therefore:

$$140 \text{ hours} \times \$71.77 = \$10,048 \text{ of funding}$$

The \$10,048 is divided by the value of a community service unit (CSU) (\$55.19) to get the equivalent number of CSUs to be delivered. Therefore:

$$\$10,048 / \$55.19 = 182 \text{ CSUs to be delivered}$$

Agency Y is funded to deliver 1012 hours of Planned Activity Group. An hour of this service is worth \$9.93 per person hour. Therefore:

$$1012 \text{ hours} \times \$9.93 = \$10,049 \text{ of funding}$$

The \$10,049 is divided by the value of a CSU (\$55.19) to get the equivalent number of CSUs to be delivered. Therefore:

$$\$10,049 / \$55.19 = 182 \text{ CSUs to be delivered}$$

In these two examples, agencies are delivering different services in different settings (individual versus group) and yet may be benchmarked according to the delivery of the same number of CSUs.

Source: Minister for Health's response to the Committee's follow-up questions, p.8

The above example records that the volume of service units applicable to a specific type of health service delivered is calculated by dividing the cost of providing an agreed number of hours of service delivery by the cost of a service unit. While the Committee accepts that the use of service units as a performance measure is a common practice in the health sector, their usage can provide potentially misleading results.

For example, if the cost of providing service delivery increases due to factors such as wage rises, and there is not an equivalent increase in the nominal value of service units, dividing the cost of delivery by the value of a service unit would indicate that an increased number of service units were delivered. In reality, the number of hours of service delivery/clients serviced may be stable or even declining.

²⁷⁹ Minister for Health's response to the Committee's follow-up questions, pp.7–8

²⁸⁰ *ibid.*

²⁸¹ *ibid.*

The Committee considers that if the Department of Human Services continues to use service units as a quantity measure in the Budget Papers, then this information needs to be supplemented by other information such as the hours of service provided, numbers of clients and the quantity of services provided in order to present a more balanced performance assessment.

Accordingly, the Committee recommends:

Recommendation 65: **The Department of Human Services include additional performance information alongside existing measures in the Budget Papers and in its annual report to supplement the use of ‘service units’ to allow for a more comprehensive assessment of the quantity and quality of service delivery.**

7.7.4 Key issues impacting on the portfolio

The department’s response to the Committee’s questionnaire and the estimates hearing identified three issues that will impact on the portfolio and its Budget Estimates for 2004-05.

(a) Home and Community Care funding arrangements

The Home and Community Care (HACC) program is Victoria’s principal source of funding for services that support frail aged people and people with disabilities that live at home. The program is designed to support people whose capacity for independent living is at risk, or who are at risk of premature or inappropriate admission to long-term residential care.²⁸²

The Committee notes that funding for the HACC program is drawn from a number of sources including the Commonwealth Government, a State Government contribution that matches 40 per cent of the Commonwealth Government contribution, an additional State Government contribution that is in addition to the matching component, local government and user fees.²⁸³

The Budget Papers do not include contributions from local government and user fees, which were estimated by the Auditor-General to have added an additional \$48 million and \$30.4 million respectively to the overall funding of \$395.4 million for HACC

²⁸² Minister for Aged Care’s response to the Committee’s follow-up questions, p.4

²⁸³ *Auditor-General Victoria, Delivery of home and community care services by local government*, May 2004, p.18

services in 2002-03.²⁸⁴ The following discussion does not include amounts provided by local governments and user fees for HACC services in Victoria.

The Committee noted that the Commonwealth Government's offer of funding for the Victorian HACC program in 2004-05 was \$201.242 million, with a required State Government matching component of \$134.384 million.²⁸⁵ The unmatched State Government contribution to the HACC program in 2004-05 is expected to be \$61.674 million.²⁸⁶ Overall, the total share of State Government funding is 49.3 per cent of the cost of HACC outputs in the budget of \$397.3 million. This compares to the State Government's 40 per cent share of total matched funding under the agreement with the Commonwealth in 2004-05.²⁸⁷ Contributions for HACC services over the past few years are outlined in exhibit 7.21.

Exhibit 7.21: Funding for home and community care services, by source 2000-01 to 2004-05 (\$ million)

	2000-01	2001-02	2002-03	2003-04	2004-05
Commonwealth matched	158	167	179	190	201
State matched	97	104	111	127	134
State unmatched	19	26	27	42	62
Sub total (a)	274	297	317	359	397
Local government	39	43	48	n/a	n/a
User fees	26	29	30	n/a	n/a
Total	339	369	395	n/a	n/a

Notes: (a) Included as part of the State Budget. Contributions from local government and users are not included as part of the Budget

n/a Not available

Sources: Minister for Aged Care's response to the Committee's follow-up questions, p.3; Auditor-General Victoria, *Delivery of home and community care services by local government*, May 2004, p.18; Department of Human Services, *Home and Community Care: Funding of services*, www.health.vic.gov.au/hacc/hacc_victoria/funding.htm, accessed 8 September 2004

The Minister believes the Commonwealth Government's offer does not meet the expected demand growth on HACC services, with the indexation rate implicit in the Commonwealth's offer being 2.1 per cent, as compared to a growth in demand for services of 3.9 per cent.²⁸⁸

The Committee notes the additional funding provided by the State Government on top of its matching commitment under the HACC program. The Committee also notes that the allocation of unmatched funds focuses on addressing inter and intra regional

²⁸⁴ *ibid.*

²⁸⁵ Minister for Aged Care's response to the Committee's follow-up questions, p.3

²⁸⁶ *ibid.*; Budget Paper No. 3, *2004-05 Service Delivery*, pp.77-79, 83

²⁸⁷ Minister for Aged Care's response to the Committee's follow-up questions, p.3

²⁸⁸ *ibid.*

disadvantage and relative pockets of disadvantage as well as improving access to services for members of culturally and linguistically diverse communities.²⁸⁹

The Minister advised the Committee that there was ongoing uncertainty over future funding for the HACC program.²⁹⁰

One of the pressures that the Victorian Government and the Victorian community have to endure at this point of time is that the commonwealth has an intention to equalise funding across the nation. So many states on many occasions over the last decade have not met their matching requirement with the commonwealth, but Victoria has consistently been a state that has at least matched and, during the life of the Bracks Government, more than matched its funding allocation, and because now the equalisation formula is being applied to the quantum in the state of Victoria we are experiencing reduced growth rates compared to other states. It is significantly lower than our counterparts in New South Wales and Queensland as an example.

The Committee noted that a Commonwealth Government review of the current HACC agreement and negotiation of a new agreement is expected to take place during 2004-05, with a new agreement underpinned by the principle of common arrangements across community care programs and aligning the HACC program with other programs in the service continuum.²⁹¹ The Committee believes the department needs to engage in discussions with the Commonwealth Government in an endeavour to ensure that the renegotiated HACC agreement recognises the growth in demand in Victoria for HACC services and the additional funding above matching requirements made by the State Government in recent years.

The Committee recommends that:

Recommendation 66: **The Victorian Government bring to the attention of the Commonwealth Government the need for a renegotiated Home and Community Care Agreement to recognise the growth in demand for these services in Victoria and the additional funding above matching requirements, made by the State Government in recent years.**

²⁸⁹ Mr G. Jennings, MLC, Minister for Aged Care, transcript of evidence, 24 June 2004, p.4

²⁹⁰ *ibid.*, p.3

²⁹¹ Department of Health and Ageing (Commonwealth), *A new strategy for Community Care: The way forward*, August 2004, p.43

(b) Positive ageing strategy

The 2004-05 Budget included funding relating to the implementation of a Positive Ageing Strategy (\$1 million in 2004-05, \$5.1 million over four years).²⁹² The Minister advised the Committee that:²⁹³

The underlying rationale for the government to support the positive ageing agenda is to create a better understanding of that fact within the community and that we do not reduce it to negative stereotypes about ageing but see people as active participants with quality of life.

The development of the Positive Ageing Strategy will be undertaken by the Office of Senior Victorians.²⁹⁴ From 1 July 2004, the Office of Senior Victorians became part of the Department for Victorian Communities.²⁹⁵ The Minister informed the Committee that this was not reflected in the Budget Papers due to timing factors.²⁹⁶

The Positive Ageing output (which in effect comprises the Office of Senior Victorians) will transfer to the Department for Victorian Communities and be incorporated into the People, Community, Building and Information Services output group as a stand-alone output.²⁹⁷ The transfer involves \$4.9 million and 14 staff, with the Minister for Aged Care retaining responsibility for the output.²⁹⁸

The Committee welcomes the development of the Positive Ageing Strategy as a means of providing greater understanding of the needs of all seniors and encouraging seniors to have a greater participation in community life. The extent to which the strategy is successful in achieving these aims will need to be evaluated after implementation. The Committee believes the Department for Victorian Communities should develop at an early stage clearly defined performance measures to track progress against the objectives of the strategy.

The Committee recommends that:

Recommendation 67: The Department for Victorian Communities develop clearly defined performance measures to track progress against the objectives of the Positive Ageing Strategy and report against these performance measures in its annual report.

²⁹² Budget Paper No. 3, *2004-05 Service Delivery*, pp.275–277

²⁹³ Mr G. Jennings, MLC, Minister for Aged Care, transcript of evidence, 24 June 2004, p.6

²⁹⁴ Office of Senior Victorians, Positive Ageing, www.seniors.vic.gov.au, accessed 21 October 2004

²⁹⁵ Department of Human Services, *2004-05 Victorian Budget Information Kit*, 4 May 2004, p.29

²⁹⁶ Mr G. Jennings, MLC, Minister for Aged Care, transcript of evidence, 24 June 2004, p.7

²⁹⁷ *ibid.*

²⁹⁸ *ibid.*

(c) Funding arrangements for aged care beds in Victoria

The Committee noted that the estimated number of bed days in public hospitals in 2003-04 that were occupied by people waiting for placement in an aged care facility was 192,000,²⁹⁹ at an estimated cost of up to \$140 million.³⁰⁰

Private for-profit and religious organisations are the main providers of residential care services in Victoria, providing 37.1 per cent and 22.4 per cent of places respectively as at June 2003.³⁰¹

The State Government is also a significant provider of services, accounting for 15 per cent of residential places,³⁰² with the public sector providing up to 39 per cent of all places in rural Victoria.³⁰³

The Committee noted that the Victorian Government provides more than double the nationwide average of 6.7 per cent of places provided directly by State Governments.³⁰⁴ However, the higher share of places provided directly by the State Government also imposes additional costs to the budget compared to other Australian jurisdictions. This is demonstrated by the \$108.5 million in capital funding provided in the 2004-05 Budget to upgrade existing Government owned aged care facilities.³⁰⁵

One of the major challenges faced by the Government is that Victoria has the lowest number of operational aged care beds (except for the ACT) per thousand persons (as at 30 June 2003) aged 70 plus (81.3 places) compared to the national average of 84.2.³⁰⁶ Funding per capita for residential and community care in 2002-03 was \$2,863 or approximately \$166 below the national average of \$3,029.³⁰⁷

Although the recent Commonwealth budget included measures that appear to lead to an increase in the number of aged care places in Victoria (including the allocation of an additional 6,555 new aged care places over three years),³⁰⁸ the Minister indicated that there are ongoing concerns over the long-term sustainability of aged care funding in Victoria.³⁰⁹ The Minister stated that:³¹⁰

²⁹⁹ Minister for Aged Care's response to the Committee's follow-up questions, p.9

³⁰⁰ *ibid.*, p.5

³⁰¹ Steering Committee for the Review of Government Service Provision, *Report on Government Services 2004*, Productivity Commission, Canberra, January 2004, table12A.4

³⁰² *ibid.*

³⁰³ Department of Human Services, Submission to the Commonwealth Review of Pricing Arrangements in Residential Aged Care, April 2003, p.8

³⁰⁴ Steering Committee for the Review of Government Service Provision, *Report on Government Services 2004*, Productivity Commission, Canberra, January 2004, table12A.4

³⁰⁵ Budget Paper No. 3, *2004-05 Service Delivery*, pp.279-284

³⁰⁶ Steering Committee for the Review of Government Service Provision, *Report on Government Services 2004*, Productivity Commission, Canberra, January 2004, table12A.4., table 12A.10

³⁰⁷ *ibid.*, table 12A.50 and 12A.52

³⁰⁸ Hon. J. Bishop, MP, Minister for Ageing (Commonwealth), media release, *6,555 more aged care places for Victoria*, 28 May 2004

³⁰⁹ Mr G. Jennings, MLC, Minister for Aged Care, transcript of evidence, 24 June 2004, p.12

³¹⁰ *ibid.*

The other difficulty we have is the chronic problem of making sure there is a matching of the allocation of bed licences and their take-up rate. The capital issue is one of the reasons that is not happening. The appropriate allocation for access to capital continues to be a problem. In fact we have spent a lot of time trying to get the Commonwealth Government into a constructive mind-set about sustainable access to capital as being a long-term answer. The benchmarks that were altered in the Commonwealth budget see a reduction in the low-care component in years to come. That is not something that the Victorian Government is necessarily opposed to, because in fact it thought there should have been a higher emphasis on the high-care allocation, but in fact the announcement did not include a change in the high-care allocation.

The Committee noted the Minister considered that a combination of factors contributed to difficulties in operationalising allocated aged care places in Victoria including accessing suitable land, raising capital, obtaining all relevant planning approvals and completing construction.³¹¹

This situation occurs despite the Department of Human Services advising the Committee that all aged care bed licences recently offered in Victoria by the Commonwealth Government would be taken up in the next few years.³¹² This expectation was based on an assessment of the Approvals-in-Principle made by the Commonwealth, after the last Aged Care Approvals Round (ACAR), and the Commonwealth's consistent statement that the ACAR is always fully subscribed.³¹³

The Minister indicated that delays in providing new aged care facilities other than those provided by the state were attributed to a range of factors including:³¹⁴

- concerns as to the viability of investing in nursing homes under the current structural and financial arrangements set by the Commonwealth, particularly in regional areas in Victoria;
- licences granted are expected by the Commonwealth Government to result in aged care beds becoming available within two years as prescribed under the *Aged Care Act 1997* (Cth). However, licence holders often experience difficulty in constructing nursing homes within the two year timeframe for a range of reasons including acquisition of suitable land and obtaining the relevant planning approvals; and
- access to low-cost capital for infrastructure. This aspect can also create difficulty in servicing debt under current funding arrangements.

³¹¹ Minister for Aged Care's response to the Committee's follow-up questions, p.7

³¹² *ibid.*

³¹³ *ibid.*

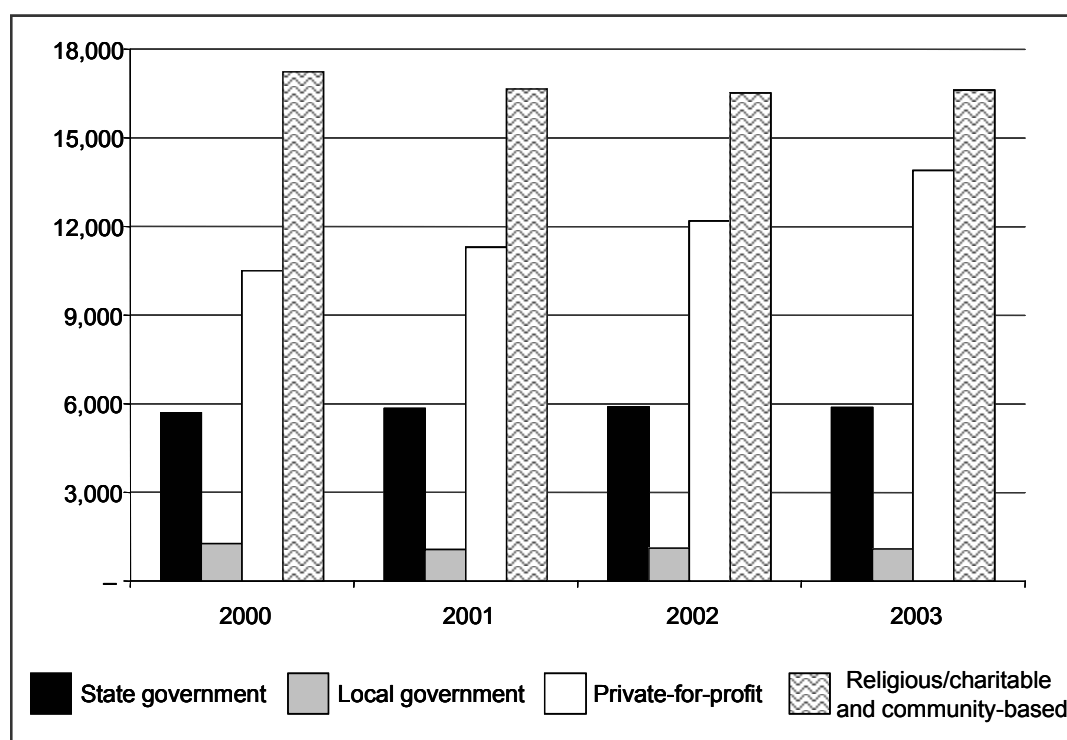
³¹⁴ *ibid.*

The Committee is aware that the two year period to operationalise licences can be extended if the applicant can justify an extension.³¹⁵ The Committee considers that where the construction of new nursing homes within the two year timeframe is delayed other than for legitimate reasons, action should be taken to revoke licences and provide opportunities for other parties to develop facilities.

The Minister advised the Committee that the most significant factor restricting the provision of aged care beds is the ability of nursing home operators to remain financially viable.³¹⁶

Exhibit 7.22 illustrates changes in the numbers of aged care residential places provided by different sectors in Victoria over recent years.

**Exhibit 7.22: Total Victorian operational aged care places
June 2000 to June 2003**



Sources: *Steering Committee for the Review of Government Service Provision, Report on Government Services 2004, Table 12A.4 and previous issues*

The Committee understands that a recent national review of pricing arrangements in residential aged care included a number of recommendations for the Commonwealth Government to strengthen financial viability of aged care service providers over the short and medium term. These included:³¹⁷

³¹⁵ *Aged Care Act 1997 (Cth), Division 16*

³¹⁶ Minister for Aged Care's response to the Committee's follow-up questions, p.7

³¹⁷ W. Hogan, *Review of pricing arrangements in residential aged care: Summary of the report*, February 2004, pp.31-58

- increasing the total amount available for the viability supplement for rural and remote services;
- a small targeted capital assistance program to assist those services experiencing exceptional circumstances be maintained; and
- consideration of increasing the concessional resident supplement (including annual indexation).

The Minister advised the Committee that the shortage of aged care beds in Victoria is not primarily due to insufficient licences being available, but to the environment which is required to encourage private investment in aged care facilities to address bed shortages, including funding arrangements by the Commonwealth.³¹⁸

The Committee was pleased to learn that the Department of Human Services was working with RMIT University to undertake research into town planning processes which could result in earlier planning approvals and the availability of new aged care places, as well as the redevelopment of existing facilities.³¹⁹

While recognising that future funding arrangements by the Commonwealth Government may not lead to improved financial viability for operators in the short to medium term, the Committee believes that the Department of Human Services should explore options to increase the number of places provided by the State Government or religious/charitable organisations. Assessment of these options should consider the annual cost of around \$140 million for nursing home type patients occupying acute care beds in public hospitals waiting for placement in an aged care facility.³²⁰

³¹⁸ Minister for Aged Care's response to the Committee's follow-up questions, p.7

³¹⁹ *ibid.*

³²⁰ *ibid.*, p.5

The Committee recommends that:

- Recommendation 68:** **Given the increased need and use of residential care for aged and frail people, the projected growth in that population and the considerable delay between approvals and building completion of aged care facilities, the Department of Human Services and the Victorian Property Group:**
- (a) assist with identifying and facilitating the sale of State Government sites that are suitable for residential aged care development;**
 - (b) encourage the building of aged care facilities that cater for high and lower levels of need and respite care for people with challenging behaviour;**
 - (c) collect data on the characteristics of the population choosing residential care, particularly related to choice of location, financial contribution and length of stay to assist with long-term planning for these facilities;**
 - (d) regularly review the status of licences allocated in Victoria and bring to the attention of the Commonwealth Department of Health and Ageing circumstances where there do not appear to be legitimate reasons for delays in the construction of new aged care facilities within the two year period; and**
 - (e) continue to make representations to the Commonwealth Government about the need for funding arrangements that will provide for on-going financial viability for existing and prospective aged care facility operators in Victoria.**

7.8 Housing portfolio

The principal agency delivering housing services is the Office of Housing, which is classified as a non budget sector entity. Only funds allocated to the Office of Housing from the budget sector are reported in the Budget Papers. In 2004-05, annual appropriation revenue from the Commonwealth and State Governments accounted for around 25.5 per cent and 22.5 per cent respectively of the Office of Housing's total revenue of \$816 million, with rent from tenants accounting for 52 per cent.³²¹ The State Government's contribution to public housing in 2004-05 over and above the matching requirements of the funding agreement with the Commonwealth, is estimated to be \$96.1 million.³²²

7.8.1 2004-05 outlook for the portfolio

The Minister advised the Committee that a key focus in 2004-05 continues to be major upgrades and improvements to the public housing stock, contributing not only to asset management objectives but also to the achievement of community building outcomes.³²³

The Committee noted that the Department of Human Services had developed an Asset Management Strategy to deal with reduced funding under the current Commonwealth State Housing Agreement which is based on the following five objectives:³²⁴

- ensure that all social housing stock is adequately maintained, at an appropriate level of amenity, and meeting proper standards of environmental sustainability;
- prioritise capital works to support place based improvement initiatives;
- maximise the levels of social housing stock, while re-profiling to better meet individual client needs in strategic locations;
- attract private sector funding to major capital works; and
- improve the quality of the asset management framework and business processes.

³²¹ Minister for Housing's response to the Committee's follow-up questionnaire, p.4

³²² Minister for Housing's response to the Committee's follow-up questionnaire, p.4; Ms C. Broad, MLC, Minister for Housing, Overheads presented to the Public Accounts and Estimates Committee, 18 June 2004, p.2

³²³ Ms C. Broad, MLC, Minister for Housing, transcript of evidence, 18 June 2004, p.2

³²⁴ Department of Human Services response to the Committee's 2004-05 Budget Estimates questionnaire, p.12

The 2004-05 Budget included output and asset initiatives relating to the Housing portfolio which will cost \$50 million in 2004-05.³²⁵ The funding aims to allow further expansion and improvement to the stock of affordable long-term housing in Victoria through strategic partnerships with non-government housing providers and local government.³²⁶

The additional 2004-05 Budget allocation is over and above funding commitments in the Commonwealth State Housing Agreement and the \$70 million funding over four years announced in the 2003-04 Budget to expand the supply of affordable housing.³²⁷

The department advised the Committee that \$10 million allocated to the Affordable Housing Growth Strategy (part of an allocation of \$70 million over four years in the 2003-04 Budget)³²⁸ will be carried forward to 2004-05.³²⁹ The department expected a registration of intent process to identify potential non-government housing associations to be completed in July 2004.³³⁰

7.8.2 Analysis of the budget

The 2004-05 Budget for the output group for which the Minister for Housing has responsibility is \$357.2 million, an increase of \$51.7 million (16.9 per cent) from the expected outcome for 2003-04 (see exhibit 7.23).³³¹

Exhibit 7.23: Housing Portfolio Output costs

Output group	Outputs under the responsibility of the Minister for Housing	2004-05 Budget (\$ million)
Housing Assistance	Homelessness Assistance	107.1
	Long Term Housing Assistance	250.1
	Home Ownership and Renovation Assistance	n/a
Total		357.2

Note: n/a not applicable. This output has been provided by the Office of Housing since 2002-03

Source: Budget Paper No. 3, 2004-05 Service Delivery, pp.108-110

³²⁵ Budget Paper No. 3, 2004-05 Service Delivery, pp.275-280

³²⁶ *ibid.*, p.275

³²⁷ Department of Human Services, *Victorian Budget 2004-05 Information Kit*, 4 May 2004, p.32

³²⁸ Budget Paper No. 2, 2003-04 Budget Statement, p. 209

³²⁹ Department of Human Services response to the Committee's 2004-05 Budget Estimates questionnaire, p.24

³³⁰ *ibid.*

³³¹ Budget Paper No. 3, 2004-05 Service Delivery, pp.108-110

The Department of Human Services advised the Committee that the rise in the cost of the Housing Assistance output group in 2004-05 was primarily due to new initiative funding for increasing Victoria's social housing stock and funding approved in last year's budget to support innovative social housing projects.³³²

The Home Ownership and Renovation Assistance output had been fully funded from Office of Housing internal revenue since 2002-03 and the cost had not been disclosed in the Budget Papers for subsequent years.³³³ In its 2002-03 annual report, the Department of Human Services reported that the cost of the output was \$0, noting that the output was funded from the Office of Housing internal revenue.³³⁴

The Committee notes that while there are many outputs where funding is provided by a mix of appropriations and internally generated revenue, the Home Ownership and Renovation Assistance output is the only output included in the Budget Papers for which no cost is specified.³³⁵

The Department of Human Services advised the Committee that although the Home Ownership and Renovation Assistance output is fully funded from internal revenue, *'the output is shown in [the] Budget Papers in the interests of Budget accountability'*.³³⁶

The Committee questions how the department can differentiate between internally generated funds and appropriated funds in the case of the Home Ownership and Renovation Assistance output when, in a response to the Committee on how funds from different sources were applied to various purposes, the department stated that:³³⁷

There is no direct link between the source of funds (appropriations and internal funds) and their application (ie where they are spent). Internal funds are applied to the operation of public and community housing.

The Committee noted that the relatively small amounts appropriated to the output prior to 2002-03 exclude the vast majority of the funds involved, which were identified as coming from internal sources.³³⁸ Costs provided by the department for 2002-03 onwards identify the entire operating costs (excluding loans granted) for the output (see exhibit 7.24).³³⁹

³³² Department of Human Services response to the Committee's 2004-05 Budget Estimates questionnaire, p.50

³³³ Budget Paper No. 3, 2002-03 Budget Estimates, p.93; Budget Paper No. 3, 2003-04 Budget Estimates, p.102; Budget Paper No. 3, 2004-05 Service Delivery, p.110

³³⁴ Department of Human Services, Annual Report 2002-03, p.62

³³⁵ Budget Paper No. 3, 2004-05 Service Delivery, pp.54-258

³³⁶ Minister for Housing's response to the Committee's follow-up questions, p.9

³³⁷ *ibid.*, p.4

³³⁸ *ibid.*, p.6

³³⁹ *ibid.*

**Exhibit 7.24: Home Ownership and Renovation Assistance
Output costs – 2000-01 to 2004-05**

	2000-01	2001-02	2002-03	2003-04	2004-05
Home Ownership and Renovation Assistance (\$ million)	(a) 0.4	(a) 0.2	10.7	10.5	10.6

Note: (a) Does not include internally generated revenue applied to the output

Sources: Budget Paper No. 3, 2003-04 Budget Estimates, p.102; Budget Paper No. 3, 2002-03 Budget Estimates, p.93; Minister for Housing's response to the Committee's follow-up questions, p.6

The Committee believes that the inclusion of the Home Ownership and Renovation Assistance output in the Budget Papers warrants more detailed disclosure of the costs associated with its delivery than is currently provided in both the Budget Papers and the Department of Human Services' annual report. The Committee believes that improved reporting can be achieved by including details relating to costs in notes provided to the output table in the Department of Human Services' annual report.

The Committee recommends that:

Recommendation 69: The Department of Human Services disclose the costs associated with Home Ownership and Renovation Assistance output in its annual report.

7.8.3 Performance measures

The Department of Human Services continued to refine performance measures in the 2004-05 Budget relating to the Housing portfolio output, with two quantity and one quality performance measures discontinued.³⁴⁰ The expected outcome for each of the discontinued measures in 2003-04 was in line with expectations.³⁴¹

The discontinued measure *Total SAAP periods during year* in the Homelessness Assistance output was replaced with two separate measures, *SAAP and Transitional Housing Management Information or referral occasions of service* and *SAAP support episodes*.³⁴² The department advised the Committee that the new measures provide an indication of the intensity of the assistance, as measured by the length of support.³⁴³ The first measure counts the instances of 'one-off' assistance received by a client from a homelessness assistance agency, with duration of less than one day. The second measure counts the number of episodes of support where a client receives

³⁴⁰ Budget Paper No. 3, 2004-05 Service Delivery, p.337

³⁴¹ *ibid.*

³⁴² *ibid.*, pp.108, 337; SAAP – Supported Accommodation Assistance Program

³⁴³ Department of Human Services response to the Committee's 2004-05 Budget Estimates questionnaire, p.32

accommodation and/or associated support from a homelessness agency for a day or longer.³⁴⁴

The Minister informed the Committee that *'these amendments provide more transparency in the types of increases in homelessness services it wishes to monitor into the future'*.³⁴⁵

The new measure *Total crisis supported and transitional housing properties* in the Homelessness Assistance output replaced the discontinued measure *Additional crisis supported and transitional housing properties during year*.³⁴⁶ The department advised the Committee that the new measure highlights the system's capacity and better reflects the policy position to expand long-term acquisitions while keeping the level of crisis/transitional properties relatively stable.³⁴⁷ Although this is a new measure, the Committee noted that comparable data provided by the Department of Human Services revealed that the total crisis supported and transitional housing stock is expected to increase from 3,362 properties on 30 June 2003 to 3,740 in 2004-05.³⁴⁸

Two new quality measures in the Long Term Assistance output – *Number of dwellings with major upgrade during the year (excluding Neighbourhood Renewal upgrades)* and *Per cent of Neighbourhood Renewal projects that have achieved active resident participation in governance structures* – replace the measure *Number of dwellings with major upgrade during the year (including Neighbourhood Renewal Areas)*.³⁴⁹ The department advised the Committee the inclusion of the first measure avoids double counting of major upgrades in Neighbourhood Renewal areas and the second measure reflects the emphasis on strengthening communities and consultation in Neighbourhood Renewal Areas.³⁵⁰

The Committee believes that the changes made to performance measures in the Housing Assistance output group are an improvement on the measures previously used. The Committee noted that performance targets for most of the performance measures in the output group remained largely unchanged compared to the previous year.³⁵¹

³⁴⁴ *ibid.*, pp.32–33

³⁴⁵ Ms C. Broad, MLC, Minister for Housing, transcript of evidence, 18 June 2004, p.2

³⁴⁶ Department of Human Services response to the Committee's 2004-05 Budget Estimates questionnaire, p.33

³⁴⁷ *ibid.*

³⁴⁸ Minister for Housing's response to the Committee's follow-up questions, p.9; Budget Paper No. 3, *2004-05 Service Delivery*, p.108

³⁴⁹ Department of Human Services response to the Committee's 2004-05 Budget Estimates questionnaire, pp.33–34

³⁵⁰ *ibid.*

³⁵¹ Budget Paper No. 3, *2004-05 Service Delivery*, pp.108–110

7.8.4 Key issues impacting on the portfolio

The department's response to the Committee's questionnaire and the estimates hearing identified three issues that will impact on the portfolio and its Budget Estimates for 2004-05.

(a) Office of Housing debt repayments

In December 2003 the Premier announced that the Office of Housing would spend an additional \$40 million to buy and build 270 affordable homes for lower-income Victorians.³⁵² The funding was made available following a review of the Office of Housing's regular payments to Consolidated Revenue.³⁵³

The Department of Human Services advised the Committee that the Director of Housing is required to make payments to the Treasurer each year under a deed of assumption, whereby the Treasurer agreed to assume the borrowings of the Director of Housing. Payments are also made in respect of former Home Finance borrowings in the form of an interest free advance. Payment amounts are negotiated with the Treasurer each year.³⁵⁴

Payments to the Consolidated Fund by the Director of Housing arise from the transfer of debt from the Office of Housing to the Department of Treasury and Finance in 1997. The Auditor-General noted that at the time the department considered such action would enable the Director of Housing to concentrate wholly on its core business, that is, to maximise the availability of appropriate housing options for its clients and the management of its mortgage and rental assets in the most efficient manner.³⁵⁵ In addition, the department considered that such action would remove the dual management of the state's debt by the Director of Housing and the Department of Treasury and Finance.³⁵⁶

The Committee noted that the debt subject to the proposed centralisation arrangements comprised borrowings associated with the Housing Rental Portfolio (\$1.1 billion of Commonwealth debt) and the Home Finance Portfolio (\$416 million of Commonwealth debt and \$457 million of indexed debt).³⁵⁷

The key features of the deed of assumption entered into between the Director of Housing, the Department of Treasury and Finance and the Treasury Corporation of

³⁵² Hon. S. Bracks, Premier of Victoria, media release, *\$40M boost for affordable housing across Victoria*, 6 December 2003

³⁵³ *ibid.*

³⁵⁴ Minister for Housing's response to the Committee's follow-up questions, p.9

³⁵⁵ Auditor-General Victoria, Auditor-General's *Report on the Victorian Government's Finances 1997-98*, November 1998, pp.139-140

³⁵⁶ *ibid.*

³⁵⁷ *ibid.*

Victoria in June 1998 (with an effective date of 1 July 1997) were noted by the Auditor-General as:³⁵⁸

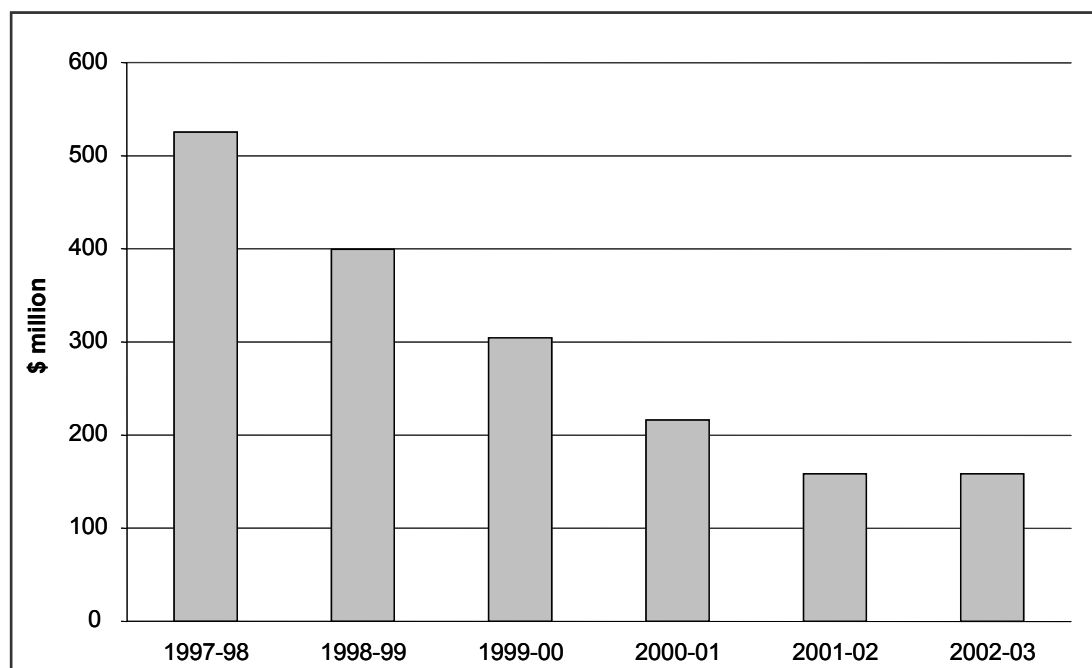
- the Department of Treasury and Finance to assume the liabilities and obligations relating to payments previously made by the Director of Housing to the Treasury Corporation of Victoria in relation to the indexed debt, with this assumption to be treated by the Director of Housing as an interest free advance of \$457 million made by the Treasurer;
- the Department of Treasury and Finance to assume the liabilities and obligations associated with the repayment of debt under the Commonwealth State Housing Agreement and the Emerald Hill Agreement. Under the arrangements, the assumption of the Commonwealth debt which had a book value of \$1.1 billion was required to be treated by the Director of Housing as a capital grant made by the Treasurer, and the amount relating to the Housing Finance Portfolio was required to be regarded as an interest free advance by the Treasurer of \$416 million;
- the Director of Housing to make annual payments to the Treasurer, as determined by the Treasurer after consultation with the Director and Minister for Housing, with a value not exceeding amounts specified in the deed, representing the state's obligations to the Commonwealth associated with the parcel of the debt assumed by the Treasurer relating to the Commonwealth Agreements. These annual payments are to continue to the year 2042; and
- the Director of Housing to repay to the Treasurer the interest free advances totalling \$873 million from surpluses arising over future years from mortgage repayments within the Home Finance Portfolio.

The Committee noted that several repayments made in 1997-98 left an outstanding balance of \$525 million of interest free advances owing to the Department of Treasury and Finance as at 30 June 1998.³⁵⁹ The Office of Housing has made regular repayments to the Treasurer over the past few years, although the rate with which the advance is being repaid has slowed (see exhibit 7.25). The Committee noted that had payments continued at the same rate as over the period 1997-2001, the advance liabilities of the Office of Housing would have been largely extinguished by 2003-04.

³⁵⁸ *ibid.*

³⁵⁹ *ibid.*, p.140

Exhibit 7.25: Office of Housing outstanding debt liabilities, 1997-98 to 2002-03



Source: Department of Human Services, *Summary of Housing Assistance Programs 2002-03, and previous years*

The Auditor-General indicated that the debt repayment arrangements had reduced the transparency associated with the net costs of providing housing rental and finance assistance.³⁶⁰ Because the Office of Housing does not meet the interest cost of the debt, the current repayment arrangements can be likened to a dividend stream that is to be repaid to the Department of Treasury and Finance.

The Committee notes that while the advance to the Office of Housing is interest free, there is an overall cost to the State Budget to service the outstanding borrowings which are now held centrally by the Department of Treasury and Finance.

While the Committee welcomes additional funding of \$40 million over three years for public housing, it believes that the transparency of arrangements relating to the repayment of the advance by the Office of Housing can be strengthened. This improved transparency can be achieved by outlining a schedule of payments over future years, which would also have the benefit of improving the ability of the Office of Housing and community organisations to plan for longer-term public housing needs.

³⁶⁰ *ibid.*, p.140

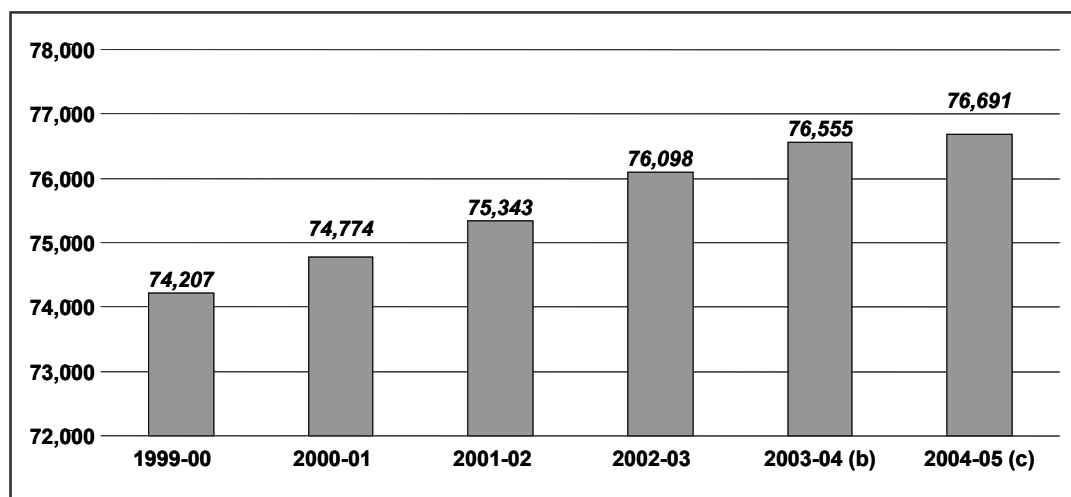
The Committee recommends that:

Recommendation 70: **The Department of Treasury and Finance improve the transparency of arrangements relating to the repayment of advances by detailing a schedule of budgeted repayments by the Office of Housing over the period of the forward estimates.**

(b) *Capital expenditure on public housing*

The Committee noted that the Minister expected the total public housing stock (including community owned sector housing) to increase by 136 in 2004-05, representing a net increase of 2,484 dwellings since 1999-00 (see exhibit 7.26).

**Exhibit 7.26: Office of Housing funded social housing stock (a)
1999-00 to 2004-05**



Notes: (a) *Total housing stock includes: Dwellings under the direct tenure public rental housing program; housing managed by the Aboriginal Housing Board of Victoria; community managed rental housing; leases under the general stock and transitional housing programs; and dwellings under the Community Owned Housing program*

(b) *Preliminary*

(c) *Estimate*

Source: *Minister for Housing's presentation to the Public Accounts and Estimates Committee, 18 June 2004, slide no. 7*

The Office of Housing receives funds from the Commonwealth and State Government and generates its own internal funds. These funds are allocated across operating, investing and financing activities. As previously stated, the department advised the

Committee that there is no direct link between the source of funds and their application.³⁶¹

In 2003, the Minister stated that the Commonwealth Government had withdrawn funding of \$540 million from Victoria over the ten years to 2003.³⁶² The Committee noted that between June 1999 and June 2004 the list for early housing increased from 1,392 to 5,025³⁶³ and over the same period Victoria received a total of \$121.46 million less in real terms than if funding had been maintained at 1999-2000 levels.³⁶⁴

In 2004-05, the Committee noted that the Office of Housing budgeted to receive \$816 million, up from an expected \$759.5 million in 2003-04. The share of the Office's funding contributed by the State Government was expected to increase from 15 per cent in 2003-04 to 22.5 per cent in 2004-05.³⁶⁵

The Committee noted that currently information about capital expenditure on public housing in the future is available from several sources. In the Budget Papers the number of units acquired each year is expressed in the performance measure *Properties acquired during year for long term housing, including leases and joint ventures*, although expenditure on acquisitions, being of a capital nature, is excluded from the cost of the Long Term Assistance output.³⁶⁶

Prior to the 2003-04 Budget, the value of capital expenditure provided through appropriations was included as a cost to the Long Term Housing Assistance output.³⁶⁷ However, following a change in accounting treatment, the Government's contribution is now reported as contributed capital rather than output funding.³⁶⁸

Information relating to capital expenditure on multi-unit public housing developments is included in Budget Information Paper No. 1, which is released in September each year and details both capital expenditure and the number of units acquired.³⁶⁹ At the estimates hearings the Committee was informed that this does not include individual houses purchased by the Office of Housing.³⁷⁰

Detailed information relating to the allocation of funds to different areas of capital expenditure (ie: excluding maintenance) by the Office of Housing is provided *ex-post* in the Department of Human Services' annual publication *Summary of Housing*

³⁶¹ Minister for Housing's response to the Committee's follow-up questions, p.4

³⁶² Ms C. Broad, MLC, Minister for Housing, media release, *Victoria to sign new national housing agreement*, 23 May 2003

³⁶³ Office of Housing, Waiting list information, June Quarter 2004 and previous issues

³⁶⁴ Auditor-General Victoria, *Report of the Auditor-General on the Finances of the State of Victoria 2002-03*, November 2003, p.43

³⁶⁵ Minister for Housing's response to the Committee's follow-up questions, p.4

³⁶⁶ Budget Paper No. 3, *2004-05 Service Delivery*, p.109

³⁶⁷ Budget Paper No. 3, *2003-04 Budget Estimates*, p.102

³⁶⁸ *ibid.*

³⁶⁹ Budget Information Paper No. 1, *2003-04 Public Sector Asset Investment Program*, pp.79-81

³⁷⁰ Dr. O. Donald, Executive Director, Housing and community building, Department of Human Services, transcript of evidence, 18 June 2004, p.6

Assistance Programs.³⁷¹ Information for 2002-03 was published in March 2004 and revealed that expenditure on stock-related capital projects totalled around \$347 million, with around \$151 million directed to acquisitions and \$195 million directed to upgrades and improvements.³⁷²

In linking these various sources of information on capital expenditure on the public housing stock, the Committee noted that reconciliation between budgeted expenditure (as committed in the budget in May) is currently not available until 22 months later (in March of the year following the financial year covered by the budget period).

The Committee sought information at the estimates hearing on links between capital expenditure and the number of public housing units constructed or purchased. Information provided by the department revealed that the correlation between capital expenditure and the number of additions is not uniform over time and that movements in the total stock are also affected by the number of reductions from year-to-year (see exhibit 7.27).

The Committee noted that without making an adjustment for capital expenditure on upgrades and improvements included in the total capital spend on public housing, it is difficult to make a comparison over time on the average cost per acquisition. The department advised the Committee that annual expenditure on upgrades and improvements is in the order of \$150 million or more.³⁷³

Estimation of the average cost of acquisitions is also made difficult because of the different ways public housing is acquired (spot purchase, new construction, redevelopment, short-term leasing and community housing development) as well as changes in the mix of acquisitions from year to year (such as separate houses, medium density housing) and the geographical location of houses acquired.

³⁷¹ Department of Human Services, *Summary of Housing Assistance Programs 2002-03*, March 2004, p.44

³⁷² *ibid.*

³⁷³ Minister for Housing's response to the Committee's follow-up questions, p.5

Exhibit 7.27: Capital expenditure and number of public housing stock additions 2000-01 to 2004-05

Year	No. of additions (a)	Capital spend (\$ million) (b)
2000-01	1,605	340.9
2001-02	1,661	321.9
2002-03	1,613	348.1
2003-04	1,044	(c) 316.1
2004-05	709	(c) 332.8

Notes: (a) Additions includes public housing units acquired through spot purchases, new construction, redevelopment, short-term leases and properties acquired under joint ventures with community organisations

(b) Includes capital expenditure on purchases, upgrades and refurbishments

(c) Includes grant funding for capital purposes of \$32.8 million in 2003-04 and \$57.2 million in 2004-05

Source: Minister for Housing's response to the Committee's follow-up questions, p.5

The Committee intends to follow up the issue of the average cost of additions to the public housing stock as part of its *Report on the 2003-2004 Budget Outcomes*.

The Committee believes that the significant funding committed to public housing stock addition and upgrades in future years warrants a more consolidated reporting arrangement than is currently in place. Such a framework would more closely align intended and actual capital expenditure with additions to the public housing stock as well as separately detailing amounts directed towards improvements and upgrades.

The Committee believes that this could be achieved through more detailed reporting in the Department of Human Services' annual report (which is released up to six months before the annual summary of housing assistance programs) – outlining capital expenditure and acquisitions for the previous year as well as expected expenditure and acquisitions for future years over the forward estimates period.

The Committee recommends that:

Recommendation 71: The Department of Human Services develop a detailed reporting framework for inclusion in its annual report that includes capital expenditure and public housing acquisitions for the previous financial year, as well as expected movements over the forward estimates period.

(c) Supported Accommodation Assistance Program

At the estimates hearings the Committee noted concerns by the Minister that the Commonwealth Government was considering discontinuing funding to the states under the Supported Accommodation Assistance Program (SAAP).³⁷⁴

SAAP is a joint Commonwealth State funded program designed to provide assistance to people who are homeless, at risk of homelessness or escaping domestic violence. The current agreement with the Commonwealth expires on 30 June 2005.³⁷⁵ At the estimates hearings, the Minister advised the Committee that:³⁷⁶

With only a year to go before the agreement runs out, that is a major concern. I am certainly looking to the Commonwealth to not wait until the agreement runs out in June next year to indicate its stance but to clarify right now whether this option, which is canvassed, of discontinuing the SAAP arrangements is really on the table. If that can be clarified, that will be a great relief to the many community agencies out there who deliver these services on behalf of governments and all of the staff that they employ to provide these services to people.

The Committee noted that demand and cost of providing SAAP services has increased in recent years and that there is also considerable unmet demand. For example, the number of SAAP support periods increased by 14.3 per cent between 1999-00 and 2002-03, with average funding per client rising by almost 25 per cent in real terms.³⁷⁷ In terms of unmet demand, the Australian Institute of Health and Welfare found that during a two week period (one week in August 2001 and one week in May 2002), 72 per cent of people making requests for accommodation in Victoria were turned away without being accommodated.³⁷⁸

The Committee was pleased to hear that at a meeting of housing Ministers on 29 July 2004, the Commonwealth Government committed to the extension of the SAAP agreement, although the details of a new agreement are still to be negotiated.³⁷⁹

³⁷⁴ Ms C. Broad, MLC, Minister for Housing, transcript of evidence, 18 June 2004, p.3

³⁷⁵ *ibid.*, p.3

³⁷⁶ *ibid.*

³⁷⁷ Australian Institute of Health and Welfare, *Homeless people in SAAP: SAAP National Data Collection*, Annual Report 2002–03 Victoria supplementary tables, December 2003, pp.43–44

³⁷⁸ Australian Institute of Health and Welfare, *Demand for SAAP Assistance by Homeless People 2001-02: A Report from the SAAP National Data Collection*, October 2003, pp.53

³⁷⁹ Ms C Broad, MLC, Minister for Housing, media release, *Victoria wins commitment for homeless*, 29 July 2004

The Committee encourages the Department of Human Services to work closely with the Commonwealth Government to ensure that the re-negotiated SAAP agreement both recognises and provides adequate funding for current and future needs for people requiring short-term housing assistance.

CHAPTER 8: DEPARTMENT OF INFRASTRUCTURE

Key Findings of the Committee:

- 8.1** The Department of Infrastructure's budget allocation for 2004-05 is \$3,062.9 million, a decrease of \$48.1 million from the 2003-04 estimated actual expenditure.
- 8.2** Up to a maximum of \$40.3 million in Asset Investment and \$21 million in output funding, as well as \$30 million of road funding from the Commonwealth, will be carried over for the Transport portfolio. Output funding of \$4.6 million and funding for additions to the net asset base of \$7.6 million will be carried over for the Information and Technology portfolio and the Energy Industries portfolio will carry forward \$805,000.
- 8.3** In comparison to the level of Commonwealth Government revenue derived from the fuel tax collected in Victoria (25 per cent), this state receives 15 per cent of national road funding from the Commonwealth Government.
- 8.4** The Committee was unable to determine the purposes to which unspent appropriation funding held in the Better Roads Victoria Trust Account and Public Transport Fund at 30 June 2003 has been applied.
- 8.5** While the Government would not disclose to the Committee the nature and amount of claims lodged by two contractors in relation to delays with the Regional Fast Rail Projects on the grounds that this information is commercial in confidence and any disclosure could compromise the Government's negotiations, the Minister for Transport advised that the total amount certified to be paid to contractors for approved claims and variations amounted to \$29 million excluding GST at 31 May 2004.
- 8.6** As a consequence of the withdrawal of the National Express Group from Victorian rail operations in December 2002, anticipated savings relating to maintenance were not realised. In relation to the Regional Fast Rail Project, the Government included a provision for \$25.2 million for this unexpected development over a number of budgets.
- 8.7** The 2004-05 Budget provides funding of \$1.1 billion over five years for the additional cost of the new rail partnerships with Connex and Yarra Trams for operating Melbourne's suburban train and tram networks. These services were not re-tendered before the new partnership agreements were announced in February 2004.

- 8.8** The Government's decision to assume control of the operation of country/interstate rail services resulted in an additional cost of \$28.9 million in 2003-04.
- 8.9** The time required to prepare for, and have the Environmental Effects Statement concluded for the Port of Melbourne channel deepening project was not factored into the early estimate, which resulted in the timeline for progressing the detailed investigations to an agreed stage being extended from August 2003 to June 2004.
- 8.10** It cost \$3.5 million to identify the initial three potential sites for the hazardous industrial waste long-term containment facility. However, the early environmental assessments which took into account issues raised by local communities meant that the sites at Baddaginnie and Pitlong were no longer a consideration. After considering issues raised by the local community, the Tiega site was also subsequently withdrawn.
- 8.11** Although the target for statutory approval to be given for the hazardous industrial waste long-term containment facility is shown as May 2005, the Government now expects this will be the deadline for completion of the Environmental Effects Statement that is needed before the Nowingi site can be made available for statutory approval.
- 8.12** The estimated actual expenditure for 2003-04 for the Melbourne Showgrounds Redevelopment amounted to only \$6 million compared with the budget allocation of \$70.3 million. The completion date for the project has been extended from June 2004 to 2006-07.
- 8.13** The Telecommunications Purchasing and Management Strategy (TPAMS) and Project Rosetta were on schedule to be delivered within the total cost of \$47.7 million as originally announced in the 2002-03 Budget. However, funding has been carried over to 2005-06 because more complex consultation, design specification, tendering and extended negotiation phases are required.
- 8.14** In terms of unmet demand, 18,835 Victorian households and 17,285 businesses located predominantly in rural and regional Victoria could not obtain an Asymmetric Digital Subscriber Line (ADSL) or cable broadband in 2003.
- 8.15** Work is continuing to identify the critical energy infrastructure to be declared under the requirements of the Terrorism (Community Protection) Act 2003.

Departmental review

8.1 Departmental overview

The Department of Infrastructure has the lead responsibility for the policy, strategic planning and delivery of Victoria's energy, transport, major projects and communication technology infrastructure. It supports the four ministerial portfolios of Transport, Major Projects, Energy Industries and Information and Communications Technology.

8.1.1 *Key risks for the department in 2004-05 and strategies developed to address these risks*

The department's corporate plan for 2003-06 identifies the key risks for the department and its agencies and outlines strategies and actions.¹

As a result of the threat of terrorism, the department faces emerging risks in relation to:²

- developing its capacity to assess security risk management practices within the transport and energy sectors; and
- maintaining and developing its capacity to respond to any emergency incident rapidly and flexibly.

Key VicRoads risk mitigating strategies, include:³

- strengthening computer systems and audit programs as well as identifying validation and staff ethics to minimise organised crime in vehicle registration and driver licensing activities, particularly in the areas of stolen and illegally imported vehicles and identity fraud;
- reviewing the risk assessment methodology and site inspection procedures for high risk landslip sites to identify priority works;
- allocating resources to ensure road asset management plans are ready for adoption to enable the proposed Road Management Bill 2004 to be fully operational by January 2005; and

¹ Department of Infrastructure response to the Committee's 2004-05 Budget Estimates questionnaire, p.7

² *ibid.*

³ *ibid.*, p.8

- continuing negotiations with the Commonwealth Government at both the Australian Transport Council and the Workplace Relations Ministerial Council to ensure the Commonwealth's decision to require the National Code of Conduct on all federally funded road projects does not result in these projects being delayed.

8.1.2 Key factors influencing the budget estimates

The department advised of the following factors that influenced the development of the 2004-05 budget estimates:⁴

- outputs have been developed to drive economic growth, strengthen Victoria's competitiveness, create jobs and opportunities for Victorians, provide a safe living and working environment and shape Victoria's future prosperity;
- efforts are being directed towards ensuring that Melbourne's critical economic infrastructure and services function effectively and efficiently, future needs are understood and infrastructure is appropriate for economic and transport needs. This will drive new investment, stimulate the creation of new jobs, lower costs for business and increase exports of goods and services;
- over the next 20 years, the population of Melbourne is expected to grow by about 20 per cent, employment by 25 to 30 per cent, vehicular travel by 30 to 40 per cent and traffic congestion at a much greater rate;
- freight activity is also increasing, with the volume of freight expected to grow by 70 per cent by 2020 and the freight task (tonne-kilometres) by some 80 per cent over the same period. The bulk of freight movements around Melbourne and a high proportion of regional and interstate freight movement are by road. As a consequence, the size of the freight task on Victoria's road network is expected to grow significantly. The biggest growth will be in light commercial vehicles;
- as part of continuing improvements to rail safety, additional safety measures including vigilance and monitoring systems and brake modification will be installed on metropolitan trains, and train protection warning systems will be installed on trains travelling on the Regional Fast Rail corridors to improve the interface between regional and metropolitan services;
- road safety outputs are focused on reducing serious injuries (as well as fatalities) to achieve the *arrive alive!* targets. Specific measures, such as the introduction of random roadside saliva testing for drugs and safer road infrastructure, are being targeted to achieve these outcomes;

⁴ Department of Infrastructure response to the Committee's 2004-05 Budget Estimates questionnaire, pp.5-6

- as an inevitable consequence of outer metropolitan growth, arterials throughout the middle-to-outer suburbs require upgrading. A program of road improvements has been developed, with projects targeted to address high priority deficiencies in the arterial road network and provide for adequate traffic conditions, reduced road congestion, better asset management and essential road safety. Emphasis is also placed on making better use of existing road infrastructure. Carefully selected infrastructure improvements will be introduced to encourage a shift to high occupancy vehicles. Person and freight throughput will be maximised by initiatives to manage freeway traffic flow, and avoid or delay flow breakdown. Outputs also reflect the Government's commitments for bicycle facilities and compliance with the Disability Discrimination Act;
- road and rail systems provide complementary strategic links between Melbourne, the ports and regional areas and connect to national networks. Improving these links is essential to promote regional economic growth through better access to markets, increased transport efficiencies and improved safety;
- significant effort has been undertaken in finalising agreements with Connex and Yarra Trams to stabilise train and tram funding arrangements on a commercially viable basis and achieve the Government's financial and quality of performance criteria, in order to obtain improved services and value for money;
- delivering the Government's infrastructure investment commitments by continuing to complete or significantly progress the major capital projects underway, especially Regional Fast Rail services, the Mitcham Frankston Freeway and Major Projects Victoria projects;
- progressing design and procurement of a new public transport ticketing system;
- advancing analysis, development and planning work for the proposed Port of Melbourne channel deepening project; and
- examining improved access to, and connections between, the Port of Melbourne and rail freight terminals.

8.2 Output management framework

Four Ministers have responsibility for the department's output groups and outputs (refer to exhibit 8.1).

**Exhibit 8.1: Department of Infrastructure
Ministerial responsibilities and 2004-05 budget**

Output Group	Output	Responsible Minister	Portfolio Budget (\$ million)
Infrastructure Planning and Policy	Port Development Strategies	Minister for Transport	1.7
	Infrastructure Strategies	Minister for Transport	1.0
	Travel Management Initiatives	Minister for Transport	8.3
	Energy Policy Services	Minister for Energy Industries	7.6
Sub total			18.6
ICT and MultiMedia	ICT Industry and Community Development	Minister for Information and Communication Technology	17.1
	e-Government and ICT Policy		32.5
Sub total			49.6
Ports and Intermodal Gateways	Ports and Intermodal Freight	Minister for Transport	2.1
	Passenger Interchange Development		17.3
Sub total			19.4
Regional and Rural Transport Services	Country/Interstate Rail Services	Minister for Transport	171.4
	Country Bus Services		51.4
	School Bus Services		152.8
Sub total			375.6
Regional and Rural Transport Infrastructure	Regional Public Transport Passenger and Freight Development	Minister for Transport	68.4
	Regional Road Network Maintenance		161.5
	Regional Road Projects		146.1
Sub total			376.0
Metropolitan Transport Services	Metropolitan Train Services	Minister for Transport	783.2
	Metropolitan Tram Services		369.8
	Metropolitan Bus Services		330.1
Sub total			1,483.1

Exhibit 8.1 – continued

Metropolitan Transport Infrastructure and Public Development Projects	Metropolitan Public Transport Development	Minister for Transport	18.3
	Major Metropolitan Road Projects	Minister for Transport	117.0
	Metropolitan Arterial Road Links	Minister for Transport	157.4
	Metropolitan Road Network Maintenance	Minister for Transport	161.7
	Major Public Construction and Land Development	Minister for Major Projects	1.6
Sub total			456.0
Transport Safety and Accessibility	Taxi, Hire Car and Tow Truck Regulation	Minister for Transport	3.3
	Accessible Transport Initiatives		59.1
	Accident Blackspots and Safer Road Infrastructure		2.1
	Traffic and Road Use Management Improvements		29.7
	Vehicle and Driver Regulation		103.0
	Road Safety Initiatives and Regulation		61.1
	Public Transport Safety Initiatives and Regulation		11.7
	Marine Safety Initiatives and Regulation		14.6
Sub total		284.6	
Total			3,062.9

Source: Department of Infrastructure response to the Committee's 2004-05 Budget Estimates questionnaire, pp.2-3

8.3 Budget summary/financial analysis

Exhibit 8.2 shows the output groups for the Department of Infrastructure. Departmental output costs are expected to be \$3,062.9 million in 2004-05, \$48.1 million or 1.5 per cent less than the estimated actual outcome for 2003-04.

**Exhibit 8.2: Department of Infrastructure
Output group costs**

	Column 1	Column 2	Column 3	Column (3-2)/2
Output group	2003-04 Budget	2003-04 Estimated Actual	2004-05 Budget	Variation (a)
	(\$ million)	(\$ million)	(\$ million)	(%)
Infrastructure Planning and Policy	13.5	15.8	18.6	17.7
ICT and MultiMedia	43.5	50.0	49.6	-0.8
Ports and Intermodal Gateways	24.5	23.7	19.4	-18.1
Regional and Rural Transport Services	334.0	363.3	375.6	3.4
Regional and Rural Transport Infrastructure	324.1	361.9	376.0	3.9
Metropolitan Transport Services	1,128.1	1,526.4	1,483.1	-2.8
Metropolitan Transport Infrastructure and Public Development Projects	436.9	472.0	456.0	-3.4
Transport Safety and Accessibility	262.4	297.9	284.6	-4.4
Total	2,567.0	3,111.0	3,062.9	-1.5

Note: (a) A negative variance indicates that the 2004-05 budget has decreased compared with the 2003-04 estimated actual outcome

Source: Budget Paper No. 3, 2004-05 Service Delivery, pp.111-138

In relation to variances that exceeded 10 per cent, the department provided the following explanations for the forecast change in expenditure between 2003-04 and 2004-05:

- with regard to one of the outputs within the Infrastructure Planning and Policy output group, the 2004-05 Budget for the Travel Management Initiatives output exceeds the estimated actual expenditure for 2003-04 by \$5.1 million due to new funding by the Expenditure Review Committee for TravelSMART Community Program - Demonstration Project funding;⁵ and
- with regard to the Ports and Intermodal Gateways output group, the 2004-05 budget for the Passenger Interchange Development output is less than the estimated actual expenditure for 2003-04 by \$4.1 million largely due to the change in the cashflow for the Spencer Street Station Redevelopment.⁶

⁵ *ibid.*, p.30

⁶ *ibid.*, p.31

8.3.1 Operating performance

**Exhibit 8.3: Department of Infrastructure
Statement of Financial Performance**

	Column 1	Column 2	Column 3	Column (3-2)/2
	2003-04 Budget	2003-04 Estimated Actual	2004-05 Budget	Variation (a)
	(\$ million)	(\$ million)	(\$ million)	(%)
Controlled items				
Operating revenue	2,679.6	3,142.8	3,380.4	7.6
Operating expenses	2,567.0	2,787.0	(b) 3,063.0	9.9
Net result	112.6	355.8	317.4	-10.8
Administered items				
Administered revenue	1,404.9	1,428.0	1,649.6	15.5
Administered expenses	1,373.9	1,395.7	1,613.7	15.6
Surplus/Deficit	31.0	32.3	35.9	11.1

Notes: (a) A negative variance indicates that the 2004-05 budget has decreased compared with the 2003-04 estimated actual outcome

(b) The difference between the Operating expense budget of \$3,063.0 million for 2004-05 (Budget Paper No. 4) and the Output group budget for 2004-05 of \$3,062.9 million shown in exhibit 8.2 (Budget Paper No. 3) is due to rounding

Sources: Budget Paper No. 4, 2004-05 Statement of Finances, pp.60 and 63

The main reasons for the expected increase in operating revenue in 2004-05 compared to the 2003-04 budget are as follows:⁷

- additional funding of \$225 million was provided for the new public transport partnership agreements; and
- additional funding of \$114 million was provided by the Commonwealth Government for road projects.

Operating expenses have increased from the 2003-04 Budget, primarily reflecting the additional funding identified above, while the major items impacting on the 2003-04 revised budget surplus are the transfer of assets and liabilities under the new public transport partnership agreement and VicRoads unfunded superannuation entitlements transferred to the Department of Treasury and Finance.⁸

⁷ Budget Paper No.4, 2004-05 Statement of Finances, p.58

⁸ *ibid.*

8.3.2 Balance sheet performance

Exhibit 8.4: Department of Infrastructure Statement of Financial Position

	Column 1	Column 2	Column 3	Column (3-2)/2
	2003-04 Budget	2003-04 Estimated Actual	2004-05 Budget	Variation (a)
	(\$ million)	(\$ million)	(\$ million)	(%)
Controlled items				
Controlled assets	18,066.1	17,849.3	18,240.6	2.2
Controlled liabilities	914.5	611.7	602.8	-1.4
Net assets	17,151.5	17,237.7	17,637.8	2.3
Administered items				
Administered assets	226.6	226.9	261.8	15.4
Administered liabilities	107.4	106.5	105.6	-0.8

Notes: Some figures do not add up due to rounding

(a) A negative variance indicates that the 2004-05 budget has decreased compared with the 2003-04 estimated actual outcome

Source: Budget Paper No. 4, 2004-05 Statement of Finances, pp.62-63

The increase in controlled assets includes the construction of new roads and other infrastructure, while the decrease in the department's controlled liabilities is principally due to the transfer in 2003-04 of unfunded superannuation liabilities of \$472 million to the Department of Treasury and Finance.⁹

8.3.3 Carry over funding

The department anticipates it will carry forward to 2004-05 the following funding:

- Transport portfolio - up to a maximum of \$40.3 million in asset investment and \$21 million in output funding (in addition, the department is required to carry over in output funding an estimated \$30 million in Commonwealth funds for roads that was not spent in 2003-04);¹⁰
- Information and Communication Technology portfolio - funds relating to provision of outputs (\$4.6 million) and additions to net asset base (\$7.6 million);¹¹ and
- Energy Industries portfolio - \$805,000 relating to various projects.¹²

⁹ *ibid.*, p.59

¹⁰ Minister for Transport's response to the Committee's follow-up questions, p.5

¹¹ Minister for Information and Communication Technology's response to the Committee's follow-up questions, p.11

8.4 Human resources issues

8.4.1 Departmental workforce

Exhibit 8.5 shows the actual number of staff in the department and VicRoads as at June 2003, and estimated numbers as at June 2004 and June 2005.

**Exhibit 8.5: Department of Infrastructure
Equivalent Full Time Staff**

	June 2003 Actual	June 2004 Estimate	June 2005 Estimate
Department of Infrastructure			
Secretary and Executive Officers	63.6	61.6	69.6
Other staff	672.7	759.6	783.3
Sub-total	736.3	821.2	852.9
VicRoads	2,282.0	2,354.0	2,434.0
Total staff	3,018.3	3,175.2	3,286.9

Source: Department of Infrastructure response to the Committee's 2004-05 Budget Estimates questionnaire, pp.18-20

In analysing the movements in workforce numbers, the Committee was advised that:¹³

- as a consequence of machinery of government changes in 2003-04, there was a decrease in Executive Officer-3 positions which were transferred to the Department of Sustainability and Environment and the Department for Victorian Communities;
- the growth in Executive Officer positions between June 2004 and June 2005 is due to the following factors:
 - the filling of vacancies that existed in prior estimates;
 - growth in the number of divisions;
 - increasing complexities of public transport issues and major state infrastructure projects; and
 - the need to ensure the department attracts and retains suitability qualified and experienced managers.
- the anticipated increase in senior technical specialists reflects the increased complexities of major state infrastructure projects, which require the attraction

¹² Minister for Energy Industries' response to the Committee's follow-up questions, p.12

¹³ Department of Infrastructure response to the Committee's additional follow-up questions

of highly specialised skill sets, e.g. highly qualified engineers and scientific staff for various complex projects; and

- the estimated increase in staff numbers from 2002-03 to 2004-05 can be partly attributed to machinery of government changes, with staff transferring out of the department in 2002-03 and new staff transferring into the department in 2003-04. Increases in 2004-05 relate to an increase in contract management requirements, especially in the areas of rail franchising, legal services, infrastructure asset management, public transport safety and Government ICT (Connecting Victoria and associated projects).

Workforce numbers at VicRoads have increased mainly due to the following reasons:¹⁴

- an increase at the ASO-1 level relates to a move from the use of agency staff to permanent VicRoads positions, which was part of VicRoads Enterprise Agreement;
- the increased ASO-4 recruitment of seven over the three year period related to the increased need for TAFE qualified staff at the Surveillance Manager level, due to the increased size of VicRoads program in road areas; and
- the increase in SRCO-I and II positions related to an increased works program, including an additional \$130 million Road Safety Works Program to be funded by the Transport Accident Commission in 2004-05. SRCO I and II classifications are professional engineers and other professionals needed to deliver the increased program in rural and metropolitan areas.

Review of Portfolios

8.5 Transport portfolio

8.5.1 2004-05 outlook for the portfolio

In looking ahead, the Minister for Transport brought to the Committee's notice that the Transport portfolio has to deal with issues that relate to the safe and efficient movement of people and, increasingly, the efficient movement of freight, particularly recognising that Melbourne's population is expected to grow by 20 per cent over the next 20 years and that vehicle travel will rise by some 30 to 40 per cent.¹⁵ These factors, according to the Minister, raise the potential for traffic congestion because the ability to increase road capacity in much of Melbourne to meet these demands is

¹⁴ VicRoads, response to the Committee's additional follow-up questions

¹⁵ Hon. P.Batchelor, MP, Minister for Transport, transcript of evidence, 20 May 2004, p.2

restricted.¹⁶ Freight activity is expected to grow by 70 per cent during that same period.¹⁷

Some of the major initiatives planned for the Transport portfolio for 2004-05 include:¹⁸

- new public transport partnership agreements - refer below at Section 8.5.4(d), for further comments (\$1,137.1 million over five years commencing in 2003-04);
- V/Line Passenger Pty Ltd operating subsidy (\$149.9 million over five years commencing in 2003-04);
- Southern and Eastern Integrated Transport Authority (\$57.8 million over five years commencing in 2003-04);
- Geelong Western Bypass (Total Estimated Investment (TEI) of \$185.9 million over four years from 2004-05);
- Outer metropolitan road program (TEI of \$163.6 million over four years from 2004-05);
- Road safety infrastructure program (TEI of \$130 million covering 2004-05 and 2005-06); and
- Rural roads package (TEI of \$73.2 million over four years from 2004-05).

As part of its commitment to restore stability in the public transport system and improve service to customers, the Government announced new five year public transport agreements with Yarra Trams and Connex.¹⁹ Funding is provided in the 2004-05 Budget for initiatives in the new partnership agreements that include additional customer service staff, additional services and increased security patrols on night trains.²⁰ This includes funding for the “Tram to It” program and New Year’s Eve public transport coverage.²¹

8.5.2 Analysis of the budget

The Minister for Transport has sole responsibility for 26 outputs. Exhibit 8.6 shows that these outputs account for \$3,004.1 million (or 98.1 per cent) of the department’s 2004-05 Budget.

¹⁶ *ibid.*

¹⁷ *ibid.*

¹⁸ Budget Paper No.3, *2004-05 Service Delivery*, pp.285, 287

¹⁹ *ibid.*, p.286

²⁰ *ibid.*

²¹ *ibid.*

**Exhibit 8.6: Transport Portfolio
Output costs**

Output Group	Outputs under the responsibility of the Minister for Transport	2004-05 Budget (\$ million)
Infrastructure Planning and Policy	Port Development Strategies	1.7
	Infrastructure Strategies	1.0
	Travel Management Initiatives	8.3
	Sub total	11.0
Ports and Intermodal Gateways	Ports and Intermodal Freight	2.1
	Passenger Interchange Development	17.3
	Sub total	19.4
Regional and Rural Transport Services	Country/Interstate Rail Services	171.4
	Country Bus Services	51.4
	School Bus Services	152.8
	Sub total	375.6
Regional and Rural Transport Infrastructure	Regional Public Transport Passenger and Freight Development	68.4
	Regional Road Network Maintenance	161.5
	Regional Road projects	146.1
	Sub total	376.0
Metropolitan Transport Services	Metropolitan Train Services	783.2
	Metropolitan Tram Services	369.8
	Metropolitan Bus Services	330.1
	Sub total	1,483.1
Metropolitan Transport Infrastructure and Public Development Projects	Metropolitan Public Transport Development	18.3
	Major Metropolitan Road Projects	117.0
	Metropolitan Arterial Road Links	157.4
	Metropolitan Road Network Maintenance	161.7
	Sub total	454.4

Exhibit 8.6 – continued

Transport Safety and Accessibility	Taxi, Hire Car and Tow Truck Regulation	3.3
	Accessible Transport Initiatives	59.1
	Accident Blackspots and Safer Road Infrastructure	2.1
	Traffic and Road Use Management Improvements	29.7
	Vehicle and Driver Regulation	103.0
	Road Safety Initiatives and Regulation	61.1
	Public Transport Safety Initiatives and Regulation	11.7
	Marine Safety Initiatives and Regulation	14.6
Sub total		284.6
Total		3,004.1

Sources: *Budget Paper No. 3, 2004-05 Service Delivery*, pp.112–138 and *Department of Infrastructure response to the Committee’s 2004-05 Budget Estimates questionnaire*, pp.2–3

8.5.3 Performance measures

The department has introduced 36 new performance measures²² and discontinued 31 in relation to the Transport portfolio.²³ Most of the discontinued indicators relate to projects, or stages of projects, that have been completed.

The Budget Papers reveal that output performance measures relating to the former public transport franchise agreements have been reviewed and amended to reflect the new public transport partnership agreements that came into effect in April 2004.²⁴ These five quality performance measures are contained within the Metropolitan Public Transport Development output.²⁵

With regard to measuring the quality of services delivered by country bus services, the performance measures only cover the proportion of air conditioned buses in service and the number of passengers carried.²⁶ In terms of examining issues connected with quality of service delivery, the department advised that:²⁷

²² Budget Paper No.3, *2004-05 Service Delivery*, pp.112–137

²³ *ibid.*, pp. 338–340

²⁴ *ibid.*, pp.111, 128–129, 132

²⁵ *ibid.*, pp. 128–129, 132

²⁶ Budget Paper No.3, *2004-05 Service Delivery*, p.121

²⁷ Hon. P.Batchelor, MP, Minister for Transport, response to the Committee’s follow-up questions, pp.13–14

With regard to 'routes in the right place', the department's regional staff and regional operators work together to ensure that local services meet the greatest need in an area. Some areas have greater potential to generate revenue due to population density and growth patterns than others.

The department's regional staff are in close contact with councils, schools and local community groups to identify bus service issues. This gives accurate and updated knowledge of how well buses are meeting community needs.

Regional services also take into consideration community service obligations where there may be less ability to generate strong revenue streams by an operator. These types of services typically are provided to ensure that local people are able to access medical or legal appointments in larger regional centres.

The Committee believes additional information should be reported in the Budget Papers to enable an informed assessment of the quality of service provided by country bus services. The department should apply the same monthly process for surveying users and non-users of country/interstate rail services to its country bus operation.²⁸

The Committee recommends that:

Recommendation 72: **The Department of Infrastructure develop a performance measure relating to customer satisfaction with country bus services and report this information in the Budget Papers.**

8.5.4 Key issues impacting on the portfolio

The department's response to the Committee's questionnaire and the estimates hearing with the Minister for Transport identified the following key issues that will impact on the portfolio and the budget estimates for 2004-05.

²⁸ Budget Paper No.3, 2004-05 Service Delivery, p.120

(a) Commonwealth funding for major Victorian road projects

At the estimates hearing, the Minister outlined various examples of major road projects where the Victorian Government was awaiting the outcome of funding decisions by the Commonwealth. Major road projects in this category included the following:

- the Mitcham-Frankston freeway (the Scoresby Freeway);²⁹
- the Geelong Western Bypass;³⁰
- the Calder Highway;³¹
- the Deer Park bypass on the Western Highway;
- the Goulburn Valley Highway; and
- the Pakenham bypass.

The Minister indicated his view that Victoria does not receive a fair share of funding from the Commonwealth commensurate with federal revenue derived from Victoria.³² The Minister advised Victoria only receives 15 per cent of taxes that Victorian motorists pay to the Commonwealth, even though Victorians pay 25 per cent of the fuel tax collected by the Commonwealth and undertakes 28 per cent of the national road freight task.³³

Subsequent to the estimates hearing, the Commonwealth released its new land transport plan, AusLink, which sets out \$11.8 billion in land transport spending.³⁴ Major projects in the plan for Victoria include the following funding commitments:³⁵

- \$422 million for the Scoresby Freeway, provided the Victorian Government reverses its decision to impose tolls;
- \$186 million for the Geelong Bypass;
- \$114 million for the Calder Highway; and
- \$80 million to commence work on the Deer Park Bypass and Leakes Road interchange.

²⁹ Hon. P. Batchelor, MP, Minister for Transport, transcript of evidence, 20 May 2004, pp.8 and 15

³⁰ *ibid.*, pp.3 and 8

³¹ *ibid.*, p.8

³² *ibid.*, p.7

³³ *ibid.*

³⁴ www.dotars.gov.au/auslink

³⁵ *ibid.*

The Committee understands the Government is continuing its negotiations with the Commonwealth to secure additional national road funding for Victoria.³⁶

(b) Application of parliamentary appropriations

In the Auditor-General's November 2003 *Report on Public Sector Agencies*, the Auditor-General reported that:³⁷

- during 2002-03 the Department of Infrastructure received output appropriation funding of \$207 million ahead of service delivery, with the amount subsequently transferred into two trust accounts within the Trust Fund;
- this funding comprised \$151 million that was transferred into the Better Roads Victoria Trust Account and \$56 million that was transferred into the Public Transport Fund Account;
- this funding remained unspent at 30 June 2003;
- the Department of Infrastructure expected to spend these appropriated funds in future years for purposes consistent with the trust accounts, that is, towards the construction and maintenance of roads (the Better Roads Victoria Trust Account) and public transport purposes (the Public Transport Fund Account); and
- the effect of the above transactions was to increase the value of Consolidated Fund payments (and the Consolidated Fund cash deficit) during 2002-03, and to provide funding for future years towards roads and other transport expenditure without impacting on the Consolidated Fund reported result for those years.

The Auditor-General recommended that, given the Victorian parliamentary appropriation framework is based on a purchaser/provider model and a key principle embodied in this framework is that appropriation revenue is only made available to departments once outputs are delivered, any amounts standing to the credit of trust accounts within the Trust Fund at the end of the financial year, which represent funds drawn-down from the Consolidated Fund for services not yet delivered, should be repaid to the Consolidated Fund.³⁸

This recommendation reiterated an earlier recommendation made by the Auditor-General in his April 2003 *Report on Parliamentary control and management of appropriations*, in relation to similar practices at other departments.³⁹

³⁶ Government Response to the Recommendations of the Public Accounts and Estimates Committee's *Report on the 2003-2004 Budget Estimates*, recommendation No.25

³⁷ Victorian Auditor-General's Office, *Report on Public Sector Agencies*, November 2003, p.100

³⁸ *ibid.*

³⁹ *ibid.*

In responding to these findings, the Secretary of the Department of Infrastructure indicated that:⁴⁰

- the department met all the requirements agreed between the department and the Treasurer to receive output funding in accordance with the *Financial Management Act 1994*;
- the Treasurer had certified the outputs and provided the funding to the department;
- funding received related to committed projects, which was held in the Better Roads Victoria Trust Fund and the Public Transport Fund until the cash was required to meet commitments; and
- the Auditor-General's recommendation would be discussed with the Department of Treasury and Finance.

The Committee notes the recommendation made by the Auditor-General concerning the need for funds, drawn down from the Consolidated Fund and credited at year end to trust accounts for services not yet delivered, to be repaid to the Consolidated Fund.

The Committee intends examining, as part of its Report on the 2003-2004 Budget Outcomes, the following matters:

- the purposes for which unspent output appropriation funding held in these accounts within the Trust Fund at 30 June 2003 were applied; and
- the extent to which unspent output appropriation funding held in these trust accounts at 30 June 2004 relate to committed and relevant projects.

(c) Regional Fast Rail Project

On 5 September 2000 the State Government announced the Regional Fast Rail Project to introduce high quality and faster rail services between Melbourne and Ballarat, Bendigo, Geelong and the Latrobe Valley.⁴¹ The project will involve upgrading over 500 kilometres of rail track, the installation of modern signalling systems and the introduction of new trains with a maximum speed of 160 km/hour.⁴² Thirty eight new trains will progressively come into service from mid 2005.⁴³

In the 2003-04 Budget Update, funding amounting to \$23.4 million (\$3.4 million in 2003-04 and \$20 million in 2004-05) was provided to:⁴⁴

⁴⁰ *ibid.*, pp.100–101

⁴¹ Department of Infrastructure internet site

⁴² Hon. P. Batchelor, MP, Minister for Transport, media release, *Local business and jobs to benefit from fast rail project*, 16 August 2001

⁴³ Department of Infrastructure internet site

⁴⁴ Budget Paper No.3, 2004-05 Service Delivery, p.288

- meet the cost of building passing loops on the Bendigo line north of Kyneton;
- improve track at stations along the Bendigo and Latrobe Valley lines;
- shorten the construction shutdown period on the Bendigo line;
- improve the power supply along the Latrobe Valley; and
- cover some higher land acquisition costs on the Ballarat line.

Given the level of funding which has been committed to these projects and the delays that have been experienced, the Committee intends to review the progress of these projects as part of its report on Government outcomes for 2003-04.

(i) Settlement of claims for delays

The Committee was interested to determine what settlements have been reached in relation to delay claims lodged by two contractors, the Thiess ALSTOM Joint Venture and the John Holland Group Pty. Ltd.

The Minister advised the Committee that, while it is normal practice for companies to lodge claims on projects the size of Regional Fast Rail, the nature and amount of these claims cannot be disclosed as they are commercial in confidence and any disclosure could compromise the Government's negotiations.⁴⁵ All claims made by contractors are managed contractually and commercially to protect the Government's position.⁴⁶ The Minister assured the Committee that the Government will not be meeting any claims where delays have been caused by the contractors.⁴⁷

However, in relation to settlements reached, the Minister disclosed that at 31 May 2004, the total amount certified to be paid to contractors for approved claims and variations amounted to \$29 million excluding GST.⁴⁸ The actual amount that will be paid can only be determined once the works on each line have been completed and all claims settled.⁴⁹

The Committee is concerned that ongoing delays to the Regional Fast Rail Project, which have given rise to additional cost claims by contractors, may reflect on the standard of planning and project management within the Department of Infrastructure.

⁴⁵ Minister for Transport's response to the Committee's follow-up questions, p.3

⁴⁶ *ibid.*

⁴⁷ *ibid.*

⁴⁸ *ibid.*

⁴⁹ *ibid.*

The Committee recommends that:

Recommendation 73: **The Department of Infrastructure investigate the reasons for the delays to the Regional Fast Rail Project with a view to minimising the extent of any future contractor claims involving additional costs, which may be attributed to delays beyond the control of contractors.**

(ii) Non-realisation of savings

The Budget Papers for 2004-05 disclose that the total estimated investment for the regional fast rail project is \$616.8 million as a result of additional funding of \$23.4 million, increased project insurance costs of \$11.3 million and the non-realisation of offsetting savings of \$25.2 million.⁵⁰ Given the impact on the budget, the Committee was interested in the composition of the anticipated savings that were now not going to be realised. The Minister explained to the Committee that when the fast rail project was originally announced, the Government expected to achieve certain cost savings because the track would have been recently upgraded.⁵¹ However, following the withdrawal of the National Express Group from Victorian rail operations in December 2002, it became evident that those expected savings, essentially relating to maintenance, would not be delivered and accordingly the Government had to make a budget provision for this unexpected development.⁵²

(iii) Rolling stock contracts

In November 2001 the Government announced a contract for the construction of 29 trains at a cost of \$410 million and, a year later, an additional nine trains at a further cost of \$125 million for the provision of additional services to country Victoria.⁵³ The Minister advised that the cost of the rolling stock upgrade is in addition to the construction costs of \$617 million.⁵⁴

The Committee was interested to determine the cost to the state of the rolling stock contracts in terms of capital contribution and lease cost. Information supplied by the department revealed the following:⁵⁵

⁵⁰ Budget Paper No. 3, *2004-05 Service Delivery*, p.287, Note (a)

⁵¹ Hon. P. Batchelor, MP, Minister for Transport, transcript of evidence, 20 May 2004, p.4

⁵² *ibid.*

⁵³ *ibid.*, p.11

⁵⁴ *ibid.*

⁵⁵ Minister for Transport's response to the Committee's follow-up questions, p.1, question 2

- V/Line Passenger has contracted Bombardier Transportation Australia Pty Ltd. to manufacture 38 two-car VLocity diesel multiple units (DMUs) (29 under the base contract and nine under the option contract) as part of the Regional Fast Rail (RFR) Program; and
- the total investment in the DMUs (the construction cost) is \$274 million. Lease payments for each two car DMU will be \$1,007,757 per annum.

(iv) Local content requirement

In response to the Committee's inquiry concerning the local content requirement in relation to the rolling stock contracts for the regional fast rail project, the Minister advised that local content was not a mandated requirement when the original contracts were entered into by the former Government.⁵⁶ However a minimum requirement of 55 per cent was built into the renegotiated contracts when moving to the faster trains.⁵⁷ Since then, the Department of Innovation, Industry and Regional Development has worked with the contractor, engaged to manufacture and maintain the 38 trains, and local suppliers to achieve 70 per cent local content in the trains' construction.⁵⁸

(v) Standard of fencing

The Committee sought information on whether an additional standard for fencing is going to apply to those sections of track where trains will operate at higher speeds. If this was the case, the Committee was interested to ascertain the fencing requirements outlined in the standard, the costs involved and associated cost sharing arrangements and the location of track where additional costs will apply.⁵⁹ The Minister, in advising that this matter is currently being addressed, indicated that the issue is not so much about speed, as the maximum speed will often occur in the open spaces of the countryside, but is more of an issue in areas adjacent to some of the towns because there will be people nearby.⁶⁰ The Minister indicated that the Government is concerned and will ensure that the system is as safe as possible for those who are using it and in the immediate environment.⁶¹ The Committee will monitor future developments in this important area of public interest.

⁵⁶ Hon. P. Batchelor, MP, Minister for Transport, transcript of evidence, 20 May 2004, p.11

⁵⁷ *ibid.*, p.18

⁵⁸ Hon. T. Holding, MP, Minister for Manufacturing and Export and Hon. P. Batchelor, MP, Minister for Transport, media release, *Victoria's First Fast Train Ready for Testing*, 28 May 2004

⁵⁹ Hon. P. Batchelor, MP, Minister for Transport, transcript of evidence, 20 May 2004, p.17

⁶⁰ *ibid.*

⁶¹ *ibid.*

(d) New public transport partnership agreements

Information setting out a chronological list of public transport arrangements for Victoria's train and tram services since they were franchised in 1999 is shown in exhibit 8.7.

Exhibit 8.7: Public transport agreements for Victoria's train and tram services – 1999-2004

18 April 2004	The new partnership agreements with Connex and Yarra Trams commence.
February 2004	The State Government enters into new partnership agreements with Connex and Yarra Trams for the operation of Melbourne's train and tram services.
May 2003	The State Government announces the establishment of TrainCo and TramCo, which would respectively be responsible for the operation of Melbourne's complete suburban rail and tram networks. Negotiation with Connex and Yarra Trams in relation to operating these entities commence.
December 2002	The State Government assumed responsibility for operating the M>Train, M>Tram and V/Line Passenger businesses following National Express Group's withdrawal from Victoria.
October 2001	National Express replaces the Bayside Trains brand with M>Train and the Swanston Trams brand with M>Tram.
July 2000	Melbourne Transport Enterprises replaces the Hillside Trains brand with Connex.
29 August 1999	Melbourne's tram and suburban train system was privatised along with Victoria's regional rail service: National Express Group Australia takes over Bayside Trains, Swanston Trams and V/Line Passenger Melbourne Transport Enterprises (Connex) takes over Hillside Trains Metlink takes over Yarra Trams

Source: Department of Infrastructure's internet site/transport/managing public transport/the new partnership agreements

The Government, in outlining the new five year public transport partnership agreements with Connex and Yarra Trams in February 2004 for Melbourne's suburban train and tram networks, indicated that *'the new agreements have been based on more conservative passenger growth and cost assumptions, in contrast to the*

previous unsustainable contracts in 1999 that resulted in the withdrawal of National Express from its franchises in December 2002.⁶²

Initiatives secured from these new partnership arrangements include:⁶³

- 100 additional customer service staff, including Safe Travel service staff to travel on all trains after 9pm for at least 80 per cent of the journeys;
- the continued delivery of 46 new trains to be operating by 2005;
- the introduction of the 'Tram to It' tram priority program to target 'red spots' that cause delays to tram travel times;
- 50 additional customer service staff; and
- an additional 25 new trams to be operating by 2005.

Funding of \$1.1 billion over five years commencing 2003-04 has been provided for the additional cost of the new rail partnerships, which includes payments to the new operators, funding requirements of Metlink as well as termination payments associated with the end of the original franchise contract.⁶⁴

The Committee understands that a direct offer approach was adopted by the Government and a competitive process was not applied by the Government before it entered into the partnership arrangements with Connex and Yarra Trams in February 2004 on the basis that:

- these companies were familiar with the Melbourne transport environment; and
- the decision to negotiate directly would avoid the situation experienced in 1999, whereby the Government had to deliberate on bids that proved to be too optimistic and unrealistic.

Given that these rail services were not re-tendered prior to announcing the new partnership agreements, the Committee strongly believes that the Parliament and the community need to be assured that entering into a partnership arrangement with the selected parties has resulted in a cost effective outcome for Victoria. It is essential that arrangements entered into for the operation of Melbourne's suburban train and tram networks have resulted in the acquisition of these services at a competitive price. The Committee also believes that a high standard needs to be achieved in the provision of these services, particularly in terms of safety and reliability and appropriate risk sharing between the various parties involved in the partnering arrangement.

Various matters dealing with the new public transport partnership agreements will be reviewed by the Committee as part of its examination of the 2003-04 budget outcomes.

⁶² Budget Paper No.3, *2004-05 Service Delivery*, p.26

⁶³ *ibid.*, pp.26-27

⁶⁴ *ibid.*, pp.27 and 285

The Committee is aware that the Auditor-General is considering undertaking a review of selected aspects of public transport franchising arrangements.⁶⁵ The proposed review will assess the effectiveness of the oversight of the contractual arrangements by the Government, and the overall costs/benefits and the sustainability of a selected service.⁶⁶

(e) Country/interstate rail services - 2003-04 budget overrun

The Minister advised the Committee that, apart from the two metropolitan train and tram passenger services formerly operated by National Express and now governed by the new partnership arrangements, V/Line passenger services, which were also operated by National Express, has reverted to Government control until such time as the fast rail project has been concluded.⁶⁷

The Minister explained that:⁶⁸

- of the three passenger services formerly operated by National Express, V/Line was the area of business that was losing the most amount of money during that period; and
- the Government is providing financial stability to V/Line under Government management for the continuation of country passenger services in the same way that it is endeavouring to place metropolitan passenger services on a firm financial footing.

Basically, the additional costs to the Government of operating V/Line equates to the shortfall previously borne by National Express between the cost of operating V/Line and the two metropolitan services, as compared to the revenue received by National Express under the franchise agreement, subsidies and passenger revenue. The absorption of these additional costs by Government has necessitated the provision of additional budget capacity for the provision of country/interstate rail services.⁶⁹ The Committee was advised that these developments have contributed to the expected total output cost for country/interstate rail services of \$162.8 million in 2003-04 exceeding the target of \$133.9 million by \$28.9 million.⁷⁰

⁶⁵ Auditor-General Victoria, *2004-05 Annual Plan*, p.46

⁶⁶ *ibid.*

⁶⁷ Hon. P. Batchelor, MP, Minister for Transport, transcript of evidence, 20 May 2004, p.6

⁶⁸ *ibid.*

⁶⁹ *ibid.*

⁷⁰ *ibid.*, and Budget Paper No.3, *2004-05 Service Delivery*, p.120

The Committee recommends that:

Recommendation 74: **The Government ensure that the level of subsidy provided to V/Line is based on sound costing structures and realistic estimates of growth in patronage.**

(f) *New public transport ticketing system - project development*

The budget allocates \$12.9 million in 2004-05 (\$4.5 million, 2003-04) to continue the development of system design and procurement arrangements for extending/renewing the public transport ticketing system beyond 2007 when the current contract expires.⁷¹

The Committee was informed by the Minister that the funds will be used by the Transport Ticketing Authority (TTA) throughout the contract specification and award phase to:⁷²

- develop a strategy for the new ticketing solution's procurement and financing and prepare the commercial and technical business requirements contract documentation for this complex system, including a comprehensive and robust risk management strategy and plan, and an open architecture reference model;
- undertake essential consultation and extensive market research with customers and transport operators to design a new ticketing system that meets their needs;
- evaluate tenders and finalise contract negotiations; and
- develop comprehensive test plans, and monitor and ensure quality assurance compliance to be assured that the Authority's specified requirements are being met at every stage of the process.

In addition, the Committee was advised that the Authority is actively working with the transport operators and the new Metlink organisation to continuously improve the existing Metcard system.

The Committee stresses the importance that key budget initiatives, such as the introduction of the new public transport ticketing system, be delivered to the Victorian community on schedule and in a cost effective manner.

⁷¹ Budget Paper No.3, *2004-05 Service Delivery*, pp.285-286

⁷² Minister for Transport's response to the Committee's follow-up questions, pp.10-11, question 10

(g) Channel deepening for the Port of Melbourne

The Committee, in its *Report on the 2002-2003 Budget Estimates*, acknowledged that the Port of Melbourne is a vital component of the infrastructure in the Victorian economy, facilitating significant movement of cargo and contributing to around six per cent of state domestic product.⁷³ The Committee noted that the channel deepening proposal for the Port of Melbourne has a long lead time that could be from two to three and a half years.⁷⁴

The significance of this project to Victoria is evidenced by the following comment made by the Minister at the estimates hearing:⁷⁵

There is a lot riding on the Environmental Effects Statement because the Port of Melbourne is the key engine for economic activity for Victoria. If we want our farmers and our industry to produce more than we need locally, we have got to provide that to the rest of the world through trade, and 98 per cent of export trade is undertaken through shipping.

Recognising the potential significant economic benefits of the project, the Government has committed funding of \$14.9 million in 2004-05 for the acceleration and completion of detailed design studies for deepening the shipping channels at the Port of Melbourne.⁷⁶

The Channel Deepening Environmental Effects Statement, which the Minister described as '*probably the biggest, most complex and comprehensive ever undertaken in Victoria*',⁷⁷ was made public on 5 July 2004.⁷⁸ Its key findings indicate that the environmental impacts on Port Phillip Bay will be temporary and can be managed sustainably.⁷⁹

The Minister advised the Committee that the reason for extending the timeline for progressing the detailed investigations involved in channel deepening to an agreed stage (from August 2003 to June 2004)⁸⁰ was that the length of time required to prepare for, and have the Environment Effects Statement concluded, was not factored into the early estimate.⁸¹

⁷³ Public Accounts and Estimates Committee, *Report on the 2002-2003 Budget Estimates*, p.286

⁷⁴ *ibid.*

⁷⁵ Hon. P. Batchelor, MP, Minister for Transport, transcript of evidence, 20 May 2004, p.9

⁷⁶ Budget Paper No.3, *2004-05 Service Delivery*, p.264

⁷⁷ Hon. P. Batchelor, MP, Minister for Transport, transcript of evidence, 20 May 2004, p.9

⁷⁸ *ibid.*

⁷⁹ Port of Melbourne Corporation, media release, 5 July 2004

⁸⁰ Budget Paper No.3, *2004-05 Service Delivery*, p.338

⁸¹ Hon. P. Batchelor, MP, Minister for Transport, transcript of evidence, 20 May 2004, p.10

The Committee recommends that:

Recommendation 75: **The Department of Infrastructure ensure that future major projects involving complex environmental considerations take into account the time involved in undertaking Environment Effects Statements.**

On the assumption that the outcome of the Environment Effects Statement is satisfactory, the Committee inquired about cost allocation models and anticipated completion dates for channel deepening.⁸² The Committee was interested to hear from the Minister that:⁸³

- the Government expects the channel deepening to be completed by about the middle of 2007;
- while the total end cost of the project cannot be determined until the environmental effects process is completed, it is expected it will range between \$350 million and \$450 million; and
- when the estimated end cost is determined, the Government will decide how the project will be funded and the apportionment of costs between the various potential contributors.

The Government announced on 5 July 2004 the estimated cost of the project is around \$400 million, which will be primarily recouped by the Port of Melbourne Corporation from port users.⁸⁴ The Government also signalled that it may be prepared to make a contribution to the project subject to its approval.⁸⁵ However, the Minister advised the Committee that the final funding arrangements for the Government and the Port of Melbourne Corporation can only be determined following completion of the environmental assessment and business case stages of the project's development.⁸⁶

The Committee recommends that:

Recommendation 76: **In order for the economic benefits from the channel deepening project for the Port of Melbourne to materialise in a timely manner, the Government give this project a high priority and resolve the outstanding funding arrangements as soon as practicable.**

⁸² *ibid.* p.9

⁸³ *ibid.* pp.9–10

⁸⁴ Port of Melbourne Corporation, media release, 5 July 2004

⁸⁵ *ibid.*

⁸⁶ Minister for Transport's response to the Committee's follow-up questions, p.9, question 7b

8.6 Major Projects portfolio

8.6.1 2004-05 outlook for the portfolio

The Minister for Major Projects has sole responsibility for the Major Public Construction and Land Development output within the Metropolitan Transport Infrastructure and Public Development Projects output group of the department.

Major Projects Victoria provides advice on property development and construction related issues to the Minister for Major Projects and agencies across the Victorian public sector.⁸⁷ It is involved in large scale projects that sit outside programmed capital works (eg. roads, public housing, schools) and significantly contribute to the state's cultural and economic infrastructure.⁸⁸

Projects currently handled by Major Projects Victoria include the redevelopment of arts and sports facilities such as the Victorian State Library refurbishment and the Melbourne Sports and Aquatic Centre (Stage 2); land development and realisation projects at Beacon Cove and Mont Park; and investment projects such as the Docklands Film and Television Studios.⁸⁹

Several projects managed by Major Projects Victoria are being delivered under the Partnerships Victoria policy, which involve private sector participation in the finance, design and construction of public infrastructure facilities. These projects include the redevelopment of the Royal Melbourne Showgrounds (under a joint venture with the Royal Agricultural Society), the Docklands Film and Television Studio and the Commonwealth Games Athletes' Village.⁹⁰

Major Projects Victoria is also managing the selection process for a containment facility for hazardous industrial waste,⁹¹ with a decision on the preferred location to be made in December 2004.⁹²

The 2004-05 budget included asset initiatives with a combined total estimated investment (TEI) of approximately \$2 billion.⁹³ Major projects announced in the *Victoria: Leading the Way* economic statement and 2004-05 Budget include:⁹⁴

⁸⁷ Department of Infrastructure, *2002-03 Annual Report*, p.14

⁸⁸ Department of Infrastructure, Major Projects Victoria, <http://www.majorprojects.vic.gov.au>

⁸⁹ *ibid.*

⁹⁰ Department of Infrastructure, *2002-03 Annual Report*, pp.15–17

⁹¹ *ibid.*, p.17

⁹² Department of Infrastructure, *Industrial Waste Management Community Update 1*, February 2004, p.3

⁹³ 2004-05 Victorian Budget Overview: *Growing Victoria Together*, p.11

⁹⁴ Budget Paper No. 2, *2004-05 Strategy and Outlook*, pp.8–9

- \$367 million (TEI) for the redevelopment of the Melbourne Convention Centre. The project would be developed under the Partnerships Victoria policy, so final Government funding would not be known until a tender process was completed and the contribution of the private sector finalised;⁹⁵
- \$15 million (TEI) for the completion and acceleration of detailed feasibility studies and design plans for the channel deepening project development proposal, with a total project value of between \$350 million and \$450 million; and
- \$4.7 million over two years towards final site analysis and site design for the relocation and redevelopment of the Melbourne Wholesale Markets.

8.6.2 Analysis of the budget

The Minister for Major Projects has responsibility for the major Public Construction and Land Development output within the Metropolitan Transport Infrastructure and Public Development Projects output group. The cost of the output was estimated to be \$1.6 million in 2004-05, a decrease of \$100,000 (5.9 per cent) compared to the 2003-04 expected outcome.⁹⁶ The output accounts for less than one per cent of the Department of Infrastructure's budget for 2004-05.⁹⁷

8.6.3 Performance measures

The Department of Infrastructure advised they continued to refine performance measures in the 2004-05 Budget Papers relating to the Metropolitan Transport Infrastructure and Public Development Projects output. Three of the five new performance measures under this output were quantity measures and related to new improvement works being undertaken through Major Projects Victoria,⁹⁸ whereas performance measures deleted (two timeliness measures and one quantity measure) invariably related to projects completed in prior years.⁹⁹ Most performance measures were either of a timeliness nature reflecting project completion within specified dates or of a quantitative nature reflecting the number of project management assignments to be commenced within the period.¹⁰⁰

Three new quantity performance measures introduced in 2004-05 specify a target of 'per cent complete'.¹⁰¹ This approach to targeting construction schedules where projects extend over more than one year is extremely useful, as is the former approach used – based on a timeliness measure that specified the project end date. However, it

⁹⁵ Hon. S. Bracks, MP, Premier of Victoria, media release, *Convention Centre to spark Southbank redevelopment*, 21 April 2004

⁹⁶ Budget Paper No. 3, *2004-05 Service Delivery*, pp.131–32

⁹⁷ *ibid.*, pp.112–138

⁹⁸ Budget Paper No. 3, *2004-05 Service Delivery*, pp.131–132

⁹⁹ *ibid.*, p.340

¹⁰⁰ *ibid.*, pp.131–132

¹⁰¹ *ibid.*

is unclear on what basis progress for these projects is being assessed (for example, expenditure paid to contractors, project milestones achieved or elapsed time).

The Committee recommends that:

Recommendation 77: **The Department of Infrastructure ensure that performance measures contained in the Budget Papers to supplement project end dates, which relate to the percentage completion of projects, specify on what basis completion is being assessed.**

8.6.4 Key issues impacting on the portfolio

The department's response to the Committee's questionnaire and the estimates hearing with the Minister for Major Projects identified the following key issues that will impact on the portfolio and its budget estimates for 2004-05.

(a) Hazardous industrial waste - long-term containment facility

In November 2003 the Government announced that, given the existing waste management facilities at the Tullamarine and Lyndhurst sites will reach maximum capacity within the next five to ten years, three areas would be considered for the establishment of a containment facility for residual industrial waste in Victoria.¹⁰² Following a rigorous statewide examination undertaken by Major Projects Victoria involving the use of independent experts, the following three areas would be the focus of an Environmental Effects Statement to determine their suitability as a waste management facility.¹⁰³

- Baddaginnie (180 kilometres north-east of Melbourne);
- Pittong (170 kilometres south-west of Melbourne); and
- Tiega (450 kilometres north-west of Melbourne).

While these three sites best met the selection criteria that involved soil type, water resources, buffer zones and transport, the Minister for Major Projects indicated that the final site would be decided by the Government once all environmental, social and economic factors had been considered.¹⁰⁴ The Environment Effects Statement was expected to take about 12 months to complete with local communities having the opportunity to be involved and assist in evaluating the sites.¹⁰⁵

¹⁰² Hon. P. Batchelor, Minister for Major Projects and Hon. T. Holding, Minister for Manufacturing and Export, media release, *Victoria Leads Environmental Management of Waste*, 12 November 2003

¹⁰³ *ibid.*

¹⁰⁴ *ibid.*

¹⁰⁵ *ibid.*

Despite the extensive investigation to identify the potential sites, the Government subsequently announced that early environmental assessments and concerns expressed by local communities had meant that the sites at Baddaginnie and Pittong were no longer a consideration.¹⁰⁶ The Minister then announced withdrawal of the study area at Tiega, after the local community requested that the site for the facility be located in a sparsely populated part of the state and on Crown land.¹⁰⁷ The Government announced that the preferred site for the location of the waste containment facility is a location near Nowingi (40 kilometres from the Tiega study area and 30 kilometres north of Ouyen)¹⁰⁸, which will be the subject of a full Environment Effects Statement to assess the environmental, social and economic effects of the proposal.¹⁰⁹

Inquiries by the Committee revealed that \$3.55 million had been incurred by the Government in identifying the three potential sites, which were subsequently withdrawn from consideration after issues had been raised by the local communities:¹¹⁰

- \$890,000 - siting investigations (consultancies, research, studies and subsequent publicity and other promotional efforts);
- \$660,000 - long-term containment facility project team expenses; and
- \$2 million - cost of the soil recycling project including committee costs, community consultation activities, communications, site studies, research and technical advice.

The Budget Papers reveal that, as part of the Government's commitment to phase out the disposal of hazardous waste to landfill, \$8.5 million (\$1 million, 2003-04; \$6.5 million in 2004-05 and \$1 million in 2005-06)¹¹¹ was allocated to complete the final phase of the hazardous waste siting project. This final stage includes identification, assessment and acquisition of a site.¹¹² The Minister advised the Committee that the Government believes the budget allocation will be sufficient to finalise the Environment Effects Statement on Nowingi and resolve related issues, however the total cost of the project will be dependent on the outcomes of the Environment Effects Statement.¹¹³

The Budget Papers show that the target for lodgement of an application for statutory approval for the long-term containment facility has moved from December 2003 to August 2004, while design and Environment Effects Statement investigations and

¹⁰⁶ Office of the Premier, media release, *Premier announces next step for hazardous waste facility*, 19 May 2004

¹⁰⁷ Hon. P. Batchelor, Minister for Major Projects, media release, *Minister visits Mildura region to discuss containment facility*, 4 June 2004

¹⁰⁸ Office of the Premier, media release, *Premier announces next step for hazardous waste facility*, 19 May 2004

¹⁰⁹ Hon. P. Batchelor, Minister for Major Projects, media release, *Minister visits Mildura region to discuss containment facility*, 4 June 2004

¹¹⁰ Minister for Major Projects' response to the Committee's follow-up questions, question 1, page 1

¹¹¹ Budget Paper No.3, *2004-05 Service Delivery*, p.287

¹¹² *ibid.*, p.288

¹¹³ Hon. P. Batchelor, MP, Minister for Major Projects, transcript of evidence, 20 May 2004, p.6

community consultations are continuing.¹¹⁴ The target in the Budget Papers for statutory approval to be given for the long-term containment facility is shown as May 2005.¹¹⁵ At the estimates hearing the Minister informed the Committee that the Government expects it will take another 12 months from May 2004 for the Environment Effects Statement process to be completed, before it can be made available for statutory approval.¹¹⁶

The Committee is aware that the Government has indicated that there is an urgent need to establish a new hazardous industrial waste site to accommodate the increased needs of industry.

(b) Project management and financial evaluation skills

The Committee was also interested to determine whether contracting arrangements with project feasibility panel firms include arrangements for skills transfer to the staff of Major Projects Victoria.

The Minister informed the Committee that the acquisition of project management skills is a key and important issue.¹¹⁷ It is an issue that the Government has recognised that needs to be upgraded, particularly to accommodate the changed requirements of a Partnerships Victoria approach to the financing of projects.¹¹⁸ According to the Minister, teams that operate in Major Projects Victoria are structured with project directors leading projects, and with other team members supporting different aspects of the project.¹¹⁹ Consultants work closely with the project director or the project manager and, on some occasions, are physically located with the Major Projects Victoria team.¹²⁰

Generally as part of these arrangements involving external consultants, certain skills are transferred on the job to members of the Major Projects Victoria team.¹²¹ For example, if an expert is engaged to undertake project management or conduct commercial arrangements or deal with legal documentation, every effort is made to transfer those skills to project teams where such skills are lacking.¹²²

In addition, the Minister explained that contracts are constructed to ensure that intellectual property developed during a project, through people working with

¹¹⁴ Budget Paper No.3, 2004-05 Service Delivery, p.132

¹¹⁵ *ibid.*

¹¹⁶ Hon. P. Batchelor, MP, Minister for Major Projects, transcript of evidence, 20 May 2004, p.8

¹¹⁷ *ibid.*, p.7

¹¹⁸ *ibid.*

¹¹⁹ *ibid.*

¹²⁰ *ibid.*, p.8

¹²¹ *ibid.*

¹²² *ibid.*

Government, is able to be used by all agencies, and not just by Major Projects Victoria.¹²³

The Committee was also advised by the Minister that, as part of a strategy to enhance the department's skills and resources in managing large and complex projects, a Project Review Committee (chaired by the Deputy Secretary-Capital) was established to oversee all project and planning processes.¹²⁴ The Project Review Committee contributes to the department's management of major projects by imposing a quality assurance regime on the development of major projects to ensure that projects forming part of the department's budget bid to Government have been developed to a high professional standard.¹²⁵

Through a series of formal reviews by senior executives and independent experts at key points in the development of a project proposal, the process seeks to ensure projects have demonstrable strategic and economic merit, and are accurately scoped, costed and planned, prior to formal approval.¹²⁶

In recognising the crucial role the department plays in managing large and complex infrastructure projects that involve billions of dollars, the Committee reinforces the need for the department to constantly review the project management skills of staff in order to ensure the state's major projects are delivered on time, to an appropriate standard and within budget.

The Committee recommends that:

Recommendation 78: **The Department of Infrastructure keep under review the project management skills of staff, supplemented with appropriate training where required, in order to ensure the state's major capital projects are delivered on time, to an appropriate standard and within budget.**

¹²³ *ibid.*

¹²⁴ Department of Infrastructure, *2002-03 Annual Report*, p.18

¹²⁵ Minister for Major Projects' response, received 10 August 2004, to the Committee's follow-up questions

¹²⁶ *ibid.*

(c) Royal Melbourne Showgrounds Redevelopment

The Royal Melbourne Showgrounds are being redeveloped over a three year period in a joint venture arrangement between the Government and the Royal Agricultural Society of Victoria.¹²⁷ Approval to proceed with the Partnerships Victoria approach was obtained in May 2003 and the project is expected to be completed by 2006.¹²⁸ The project is being carried out in partnership between the Department of Infrastructure and the Department of Primary Industries.

The 2004-05 Budget Papers reveal that the principal aim of the redevelopment of the site, which is currently in the market, is to transform the showgrounds land portion of the site into a high quality multipurpose venue for the staging of the annual Royal Melbourne show and other events,¹²⁹ with a focus on growing and promoting Victoria's agribusiness sector.¹³⁰ To stage a bigger and better Royal Melbourne Show, bidders needed to provide at least 63,000 metres square of both new and existing buildings which is equivalent to more than six times the size of the Melbourne Cricket Ground.¹³¹ The Government indicated that the promotion, showcasing and advancement of the Victorian agribusiness sector, a key objective of the redevelopment project, will assist in achieving the Government's \$12 billion export target for agriculture and food product by 2010.¹³²

According to information received from the Department of Primary Industries, estimated actual expenditure for 2003-04 with regard to the Melbourne Showgrounds Redevelopment amounted to only \$6 million compared to the budget of \$70.3 million.¹³³ The department advised the Committee that when funding for the project was approved as part of the 2002-03 budget, implementation details were not known and as a result of having to finalise arrangements relating to the establishment of the joint venture, expenditure in 2003-04 has been much less than budgeted.¹³⁴ The Government has contributed \$101.7 million to secure the most viable and appropriate development plan for the site.¹³⁵ During 2003-04 the Treasurer approved the re-

¹²⁷ Department of Infrastructure, *2002-03 Annual Report*, p.16

¹²⁸ *ibid.*

¹²⁹ Budget Paper No.2, *2004-05 Strategy and Outlook*, pp.57-58

¹³⁰ Minister for Agriculture, media release, *Roll up, roll up - bids called for showgrounds upgrade*, 2 October 2003

¹³¹ Minister for Agriculture and Minister for Major Projects, media release, *Next steps taken in historical showgrounds redevelopment*, 31 March 2004

¹³² Minister for Agriculture, media release, *Roll up, roll up - bids called for showgrounds upgrade*, 2 October 2003

¹³³ Department of Primary Industries response to the Committee's 2004-05 Budget Estimates questionnaire, p.22

¹³⁴ *ibid.*, p.23

¹³⁵ Minister for Agriculture and Minister for Major Projects, media release, *Next steps taken in historical showgrounds redevelopment*, 31 March 2004

phasing of the project and extending the project's completion date from June 2004-05 to 2006-07.¹³⁶

Although the Government announced in March 2004 that the forthcoming comprehensive tender process has meant that no decisions had yet been made on the redevelopment's final appearance,¹³⁷ the Committee was informed by the Minister for Agriculture in July 2004 that *'the project continues to be on schedule and the Joint Venture is satisfied with the progress to date in the procurement phase of the project'*.¹³⁸ The status of the project, as announced by the Government in August 2004, was that the three short-listed consortia invited to submit a proposal in response to the March 2004 'Request for Proposal' had been reduced to two parties.¹³⁹

(d) Spencer Street Station Redevelopment

In July 2002 the Premier announced that the Spencer Street Station would be redeveloped at a cost of \$700 million. The redevelopment involves construction of a new rail transport interchange, a new retail plaza and three office and apartment towers.¹⁴⁰

Features associated with the redevelopment include:¹⁴¹

- track and signalling works;
- an innovative 'wave roof' design spanning across all platforms;
- a 30-bay bus station accommodating terminating and transiting coaches and buses and secure, sheltered parking facilities for 800 cars;
- links to Docklands via the Collins and Bourke Street alignments; and
- a new footbridge that will link Lonsdale Street with Colonial Stadium and connect with a retail plaza.

Construction was planned to commence in September 2002 and be completed by mid 2005 in time for the 2006 Commonwealth Games. The redevelopment is to be delivered in line with the Partnership Victoria policy framework for the provision of public infrastructure.¹⁴² Following a public tender process lasting almost one year,¹⁴³

¹³⁶ Department of Primary Industries response to the Committee's 2004-05 Budget Estimates questionnaire, p.17

¹³⁷ Minister for Agriculture and Minister for Major Projects, media release, *Next steps taken in historical showgrounds redevelopment*, 31 March 2004

¹³⁸ Minister for Agriculture's response to the Committee's follow-up questions, p.19

¹³⁹ Minister for Agriculture and Minister for Major Projects, media release, *Ministers confirm two parties in the race for showgrounds redevelopment*, 12 August 2004

¹⁴⁰ Office of the Premier, media release, *Southern Cross Station to change the face of Melbourne*, July 2, 2002

¹⁴¹ *ibid.*

¹⁴² www.linkingvictoria.vic.gov.au, page 2

¹⁴³ *ibid.*

the winning consortium was announced as Civic Nexus, with Leighton Contractors major consortium member.¹⁴⁴

The Minister for Major Projects has indicated that the state is protected financially from time and cost overruns on the project not caused by, or the result of, Government action.¹⁴⁵

The Committee is aware that some aspects of both the redevelopment and the associated Public Private Partnership (PPP) arrangements have been the subject of critical comment by Leighton Contractors. The Committee will be tabling a report on the broader policy issues associated with Public Private Partnership arrangements later this year, including the Spencer Street Station Redevelopment.

8.7 Information and Communication Technology portfolio

8.7.1 2004-05 outlook for the portfolio

While there are no new major activities planned for 2004-05 listed as initiatives in the Budget Papers, there are a number of strategic programs to be delivered in 2004-05 in the areas of eGovernment infrastructure, industry and community development. These activities include the continued implementation of the Government's agenda as outlined in the Growing Tomorrow's Industries Today Regional Connections and Putting People at the Centre Strategies. A portfolio priority is the continued implementation of the Telecommunications Purchasing and Management Strategy and other telecommunications initiatives, including those directed at improving access to, and the uptake of, broadband.¹⁴⁶

8.7.2 Analysis of the portfolio budget

As shown in exhibit 8.8, the Minister for Information and Communication Technology has responsibility for two outputs that reside in the Department of Infrastructure and one new output in the Department of Premier and Cabinet.

¹⁴⁴ Hon. P. Batchelor, Minister for Major Projects, Minister for Transport, media release, *Victoria gets first glimpse inside Spencer Street Station Redevelopment*, 6 December 2003

¹⁴⁵ Hon. P. Batchelor, Minister for Major Projects, media release, *Taxpayers protected under Spencer Street Station project*, 7 May 2004

¹⁴⁶ Budget Paper No. 3, *2004-05 Service Delivery*, p.116

Exhibit 8.8: Information and Communication Technology Portfolio Output costs

Output Group	Outputs under the responsibility of the Minister for Information and Communication Technology	2004-05 Budget (\$ million)
ICT and Multimedia	Department of Infrastructure	
	ICT Industry and Community Development	17.1
	eGovernment Infrastructure and ICT policy	32.5
Sub total		49.6
Strategic Policy Advice and Projects	Department of Premier and Cabinet	
	ICT Strategy and Services (a)	8.4
Total		58.0

Note: (a) New output established as a result of the newly-formed Office of the Chief Information Officer

Sources: Budget Paper No.3, 2004-05 Service Delivery, pp.116–117, 183

8.7.3 Performance measures

Of the ten new performance measures for the ICT portfolio, seven relate to the new output, ICT Strategy and Services (in the Department of Premier and Cabinet).¹⁴⁷ The three other new measures relate to the ICT Industry and Community Development output and reflect either new programs or stages of program implementation.

Two performance measures discontinued in 2004-05 relate to completed projects.¹⁴⁸

8.7.4 Key issues impacting on the portfolio

The department's response to the Committee's questionnaire and the estimates hearing with the Minister for Information and Communication Technology identified the following key issues that will impact on the portfolio and its budget estimates for 2004-05.

¹⁴⁷ *ibid.*, p.183

¹⁴⁸ *ibid.*, p.338

(a) Telecommunications Purchasing and Management Strategy

The Budget Papers reveal that a priority in 2004-05 will be the continued implementation of the Telecommunications Purchasing and Management Strategy (TPAMS) together with a number of other telecommunications initiatives, including those directed at improving access to, and the uptake of, broadband.¹⁴⁹

TPAMS has been established to provide a strategic framework for the procurement and management of telecommunications services across the whole of the Victorian Government.¹⁵⁰ TPAMS is designed to provide departments and agencies with a better range of telecommunications services, more competitive telecommunications pricing and the ability to access the latest technology to improve their operations.¹⁵¹ The Rosetta project is an associated program to develop a world-leading online directory service that will involve integrating directories for the whole of the Victorian Government.¹⁵² The initiative aims to reduce the task of managing this process, streamlining access to information on Government for staff, business and the public.¹⁵³

Given that the Government's Telecommunications Purchasing and Management Strategy (TPAMS), established in 2002-03, is a large ongoing project, the Committee was interested in following up a number of matters concerning the project's budget, timelines, depreciation and capital assets charge and monitoring arrangements.

Budget

As indicated in exhibit 8.9, the \$47.7 million capital budget reflects the Local Area Network (LAN) upgrade component and the re-scheduling of capital expenditure associated with contract negotiations on Telecommunication Carriage Services and Rosetta tenders.¹⁵⁴

¹⁴⁹ Budget Paper No.3, *2004-05 Service Delivery*, p.116

¹⁵⁰ website: [www.DepartmentofInfrastructure](http://www.DepartmentofInfrastructure.vic.gov.au) of Infrastructure, Multimedia Victoria, accessed 10 August 2004

¹⁵¹ *ibid.*

¹⁵² *ibid.*

¹⁵³ *ibid.*

¹⁵⁴ Department of Infrastructure response to Committee's 2004-05 Budget Estimates questionnaire, pp.42, 44

Exhibit 8.9: Capital Budget for TPAMS/Project Rosetta

Indicative	2002-03	2003-04	2004-05	2005-06	TEI
	(\$ million)	(\$ million)	(\$ million)	(\$ million)	(\$ million)
TPAMS/Rosetta (a)	21.9	25.8			47.7
Approved	2002-03	2003-04	2004-05	2005-06	TEI
	(\$ million)	(\$ million)	(\$ million)	(\$ million)	(\$ million)
TPAMS	3.9	10.7	11.8	3.7	30.1
Rosetta	1.0	1.6	6.3	4.3	13.2
Total DOI Budget					43.3
LAN Upgrade (Expenditure by other departments)					4.4
Total					(b) (c) 47.7

Notes: (a) Budget Paper No. 2, 2002-03, p.195

(b) TEI on target/unchanged

(c) Funding re-phased to meet schedules as a result of more complex consultation, design, specification, tendering and extended negotiation phases

Source: Hon. M.Thomson, MLC, Minister for Information and Communication Technology, transcript of evidence, 15 June 2004, slide no.9

The Committee was informed by the Minister that TPAMS and Project Rosetta were on schedule to be delivered within the total end cost of \$47.7 million as originally announced in the 2002-03 budget.¹⁵⁵

In terms of recurrent expenditure, actual operating expenditure for 2002-03 and the expected budget for 2003-04 to 2005-06 for TPAMS and Project Rosetta are shown in exhibit 8.10:¹⁵⁶

¹⁵⁵ Hon. M. Thomson, MLC, Minister for Information and Communication Technology, transcript of evidence, 15 June 2004, p.3

¹⁵⁶ Minister for Information and Communication Technology's response to the Committee's follow-up questions, p.9

Exhibit 8.10: Operating Budget for TPAMS/Project Rosetta

	2002-03 Actual \$ million	2003-04 Expected Outturn \$ million	2004-05 Budget \$ million	2005-06 Budget \$ million
TPAMS	0.4	7.1	8.1	8.1
Rosetta	0.1	0.7	0.7	0.7
Total	0.5	7.8	8.8	8.8

Notes: Operating figures exclude depreciation and capital asset charge

The expected outturn of \$7.8 million includes carry forward funding of \$500,000¹⁵⁷

Source: Minister for Information and Communication Technology's response to the Committee's follow-up questions, p.9, question 4 (c)

Timelines

In terms of the re-phasing of the project to 2005-06, the Minister informed the Committee that industry and departmental consultations and the design of the request for tender specifications were more complex than originally envisaged.¹⁵⁸ Given the complexity of the responses, this has meant that evaluation and negotiation tasks will also take longer to ensure the best deals are obtained for the Government and users.¹⁵⁹

In discussing the current timelines for the program, the Minister advised the project has been put into tranches in order to ensure that the Government acquires the best technology to meet the needs of Government at the best price.¹⁶⁰

Depreciation and capital assets charge

The department's eGovernment Infrastructure and ICT Policy output funds the major chief technology officer projects such as TPAMS, Project Rosetta and Victoria Online.¹⁶¹ The Budget Papers for 2004-05 reveal that the actual output cost for 2002-03 was \$14.1 million and the target for 2003-04 was \$31.3 million.¹⁶² At the estimates hearing the Minister explained that the \$17.2 million increase in output costs for 2003-04 was due to the following:¹⁶³

¹⁵⁷ Minister for Information and Communication Technology's response to the Committee's follow-up questions, p.2

¹⁵⁸ Hon. M. Thomson, MLC, Minister for Information and Communication Technology, transcript of evidence, 15 June 2004, p.3

¹⁵⁹ *ibid.*

¹⁶⁰ *ibid.*, pp.5, 10-11

¹⁶¹ *ibid.*, p.3

¹⁶² Budget Paper No.3, *2004-05 Service Delivery*, p.117

¹⁶³ Hon. M. Thomson, MLC, Minister for Information and Communication Technology, transcript of evidence, 15 June 2004, slide No.6

- TPAMS/Rosetta operating +\$6.7 million
- TPAMS/Rosetta depreciation/capital asset charge +\$12.8 million
- Victoria Online operating +\$1 million
- Office of the Chief Information Officer funding -\$700,000
- Savings identified -\$700,000
- Reduced corporate overheads -\$900,000
- Reduced carry forward -\$1 million

Given that most of the asset initiatives for TPAMS and Rosetta are not currently in place (i.e. of the total capital budget of \$47.7 million, the approved capital budget for the two projects was only \$12.3 million for 2003-04),¹⁶⁴ the Committee was interested to ascertain the rationale as to why the depreciation charge contained in the budget was so high relative to the capital expenditure incurred in 2003-04.

The Minister explained that, of the increase in the TPAMS/Rosetta depreciation/capital asset charge amounting to \$12.8 million in 2003-04, \$9.5 million relates to depreciation and \$3.3 million relates to the capital asset charge.¹⁶⁵ It was also explained to the Committee that:

- while the \$12.8 million is the relative difference between 2002-03 and 2003-04, the total allocation is \$13.1 million which was created for the 2003-04 budget;¹⁶⁶
- the depreciation and capital asset charge would have been calculated on the assumed two year time frame (2002-03 to 2003-04) associated with the \$47.7 million capital expenditure component of the budget;¹⁶⁷
- since the last budget, the timeframe associated with capital has been revised and, as such, it will be expected that actual expenditure on depreciation and the capital asset charge will be lower than originally planned;¹⁶⁸
- the Department of Treasury and Finance, in recently clarifying the capital asset charge policy in relation to intangible assets, prescribes that these assets are now exempt from the charge and, as such, there will be only minimal capital asset charges associated with the TPAMS asset project in future;¹⁶⁹ and

¹⁶⁴ *ibid.*, slide No.9

¹⁶⁵ Minister for Information and Communication Technology's response to the Committee's follow-up questions, p.2

¹⁶⁶ Mr R. Straw, Executive Director, Multimedia Victoria, Department of Infrastructure, transcript of evidence, 15 June 2004, p.12

¹⁶⁷ Mr B. McDonald, Executive Director, Corporate Resources, Department of Infrastructure, transcript of evidence, 15 June 2004, p.12

¹⁶⁸ *ibid.*

¹⁶⁹ Minister for Information and Communication Technology's response to the Committee's follow-up questions, p.3

- the depreciation rate of 25 per cent (i.e. useful life of four years) is levied on the total cost of the asset once the asset has been commissioned and is in use.¹⁷⁰

The Committee was also concerned that, while depreciation and the capital asset charge will be less in 2003-04, the budget shows a \$200,000 increase between the output cost target and expected outcome for the eGovernment Infrastructure and ICT Policy output without any note explaining the variance.¹⁷¹

The Committee believes the Budget Papers for 2004-05 should have contained a note explaining:

- that for the eGovernment Infrastructure and ICT Policy output, depreciation and the capital asset charge contained in the 2003-04 total output cost target, is based on the assumed timeframe for the TPAMS and Rosetta Projects at the time of preparing last year's budget. Since then, the re-phasing of the projects from two to four years will have the effect of reducing actual expenditure in 2003-04; and
- the projects where the outcomes for 2003-04 were expected to offset the reduced depreciation and capital asset charge relating to the TPAMS and Rosetta projects.

Monitoring and reporting - upgrading local area networks

At the hearing, the Committee was informed that \$5.6 million was transferred directly by the Department of Infrastructure in 2003-04 from the TPAMS' budget to departments to upgrade their local area networks to a set standard.¹⁷² Next financial year, a further \$4.4 million will be provided by the Department of Treasury and Finance from the Department of Infrastructure's budget to departments for the upgrade.¹⁷³ In terms of assigning responsibility for this expenditure, the Minister advised that, while the expenditure will be monitored via TPAMS, the various departments will be responsible for this expenditure and will individually report on their expenditure in 2004-05.¹⁷⁴

As the Department of Infrastructure has established a standard operating environment across Government for local area network upgrades as part of the TPAMS process¹⁷⁵ and will undertake a monitoring role via TPAMS over expenditure incurred by departments, the Committee is of the view that it would be sensible for the

¹⁷⁰ *ibid.*, p.3

¹⁷¹ Budget Paper No.3, *2004-05 Service Delivery*, p.117

¹⁷² Mr R. Straw, Executive Director, Multimedia Victoria, Department of Infrastructure, transcript of evidence, 15 June 2004, p.5

¹⁷³ *ibid.*

¹⁷⁴ Hon. M. Thomson, MLC, Minister for Information and Communication Technology, transcript of evidence, 15 June 2004, p.5

¹⁷⁵ Mr R. Straw, Executive Director, Multimedia Victoria, Department of Infrastructure, transcript of evidence, 15 June 2004, p.5

Department of Infrastructure to report a consolidated summary of this activity in its annual report.

The Committee recommends that:

Recommendation 79: **The Department of Infrastructure publish in its annual report a consolidated summary of expenditure of TPAMS' funds incurred by departments for the upgrade of local area networks.**

(b) *Broadband access*

While telecommunications is a Federal Government responsibility in both a regulatory and infrastructure delivery sense, the Minister informed the Committee it is important for industry and communities to:

*...have access to what broadband will deliver them by way of access to information and knowledge and to ensure that we are managing to give Victorians an opportunity to access some broadband, but, more importantly, to encourage competition among our telecommunication companies.*¹⁷⁶

In alerting the Committee of the need to deal with the broadband infrastructure shortfall in Victoria, the Minister drew attention to the view of a technology research firm that Australia may 'continue as a broadband backwater over the next five years if uptake is not accelerated'.¹⁷⁷ In discussing this issue the Minister stated that:¹⁷⁸

We know there are two things that affect uptake: cost and availability. We do need to get the costs down, and we have seen a bit of a war going on now with ISP providers. We also need to ensure that there is proper content on board so that as we see more and more worthwhile material go on to the Internet, there will be a greater demand for it. Having said that, there are communities that will be struggling on a business case to get access to broadband and we would hope the Federal Government would be looking at initiatives to fill the space. We as a government view telecommunications infrastructure as being as important as any major highway, and we believe that needs to be addressed.

¹⁷⁶ Hon. M. Thomson, MLC, Minister for Information and Communication Technology, transcript of evidence, 15 June 2004., p.6

¹⁷⁷ *ibid.*

¹⁷⁸ *ibid.*

The Committee noted that consultants commissioned by MultiMedia Victoria to examine the telecommunications market in Victoria, reported in June 2004 that unmet demand for broadband services will initially increase rapidly from 36,120 in 2003 to 68,762 by 2007 and unmet demand in the more remote areas will continue to rise until 2008.¹⁷⁹

The consultants reported that only a fraction of potential customers are likely to demand the service at current prices,¹⁸⁰ which is shown in exhibit 8.11. Research shows that the majority of unmet demand is in rural and regional Victoria.¹⁸¹

Exhibit 8.11 ADSL (asymmetric digital subscriber line) and cable unmet demand

	Total	Not covered	Unmet demand from non-covered residences/businesses
Households	1,953,561	435,194	18,835
Businesses	283,298	71,766	17,285
Total unmet demand			36,120

Source: ACIL Tasman and Multimedia Victoria, Spend/demand - Telecommunications in Regional and Rural Victoria, June 2004, pp.33–34

Given this background and the knowledge that improving access to, and the uptake of, broadband is a portfolio priority,¹⁸² the Committee was interested to explore what initiatives were underway to address the issue of unmet demand for these services.

The Minister advised the Committee that the Government is committed to a range of initiatives that are summarised below.¹⁸³

- developing a Broadband Framework to facilitate the delivery of enhanced telecommunications infrastructure, greater take-up, increased competition and lower prices for business and the community;
- extending the Customer Access Network Demonstrations Program, with further funding to support investment in alternative regional and rural communications services in additional locations;
- working with VicTrack to ensure commissioning of optic fibre rollout to regional areas along Regional Fast Rail routes;

¹⁷⁹ ACIL Tasman and Multimedia Victoria, *Spend/demand - Telecommunications in Regional and Rural Victoria*, June 2004, p.vii

¹⁸⁰ *ibid.*, p.33

¹⁸¹ *ibid.*, pp.38–42

¹⁸² Budget Paper No.3, *2004-05 Service Delivery*, p.116

¹⁸³ Minister for Information and Communication Technology's response to the Committee's follow-up questions, p.6

- continuing to assist small Victorian regional communities develop appropriate strategies to improve community access to telecommunications services through the Community Networks Project;
- undertaking additional Information Discovery Projects to reduce costs of information for potential regional telecommunications investors;
- supporting projects through the Broadband Innovation Fund; and
- continuing to make representations for improved regional telecommunications and participation in national broadband and regional telecommunications working groups.

The Committee is pleased that the department has taken an active role in addressing this problem.

The Committee recommends that:

Recommendation 80: **The Government keep under review the level of unmet demand for broadband services, especially in the more remote areas of Victoria, in order to assess the effectiveness of the initiatives introduced by the Department of Infrastructure to address this ongoing issue.**

(c) *Export development projects – accreditation of Australian companies*

With regard to encouraging export development projects, the Minister stressed the importance of Australian companies gaining recognised accreditation if they are to form partnerships with international and multinational companies. The Minister advised that, while the Capability Maturity Model Integration (CMMI) standards are regarded as the global standards that have to be met, not many Australian companies have attained the CMMI standards.¹⁸⁴

The Minister explained that as it is an expensive process for companies to comply with these standards the Government, in conjunction with the Software Engineers Association, has provided \$1 million to obtain a CMMI-accredited program to level 2 to assist companies attain that level of accreditation.¹⁸⁵

¹⁸⁴ Hon. M. Thomson, MLC, Minister for Information and Communication Technology, transcript of evidence, 15 June 2004, p.8

¹⁸⁵ *ibid.*

(d) Chief Information Officer and eGovernment

In last year's estimates report, the Committee reported that funding for the Office of the Chief Information Officer (OCIO) had been appropriated through the Department of Premier and Cabinet (\$33 million over four years) to establish the office.

At the 2004-05 budget estimates hearing, the Committee enquired as to the anticipated outcomes and benefits that the Government expected from the establishment of the OCIO. The Minister explained that it is important to promote the effective use of information technology and examine where savings can be achieved by sharing and standardisation of services.¹⁸⁶

Further comment on the operations of the Office of the Chief Information Officer is included in Chapter 11 on Department of Premier and Cabinet.

8.8 Energy Industries portfolio

8.8.1 2004-05 outlook for the portfolio

The Government's energy statement, *Energy for Victoria* outlines the key objectives of Victoria's energy policy and provides a blueprint for the future. The key objectives are to:¹⁸⁷

- ensure an efficient and secure energy system;
- ensure those supplies are delivered reliably and safely;
- ensure consumers can access energy at affordable prices; and
- ensure our energy supplies and the way we use them are environmentally sustainable and in particular less greenhouse intensive.

The Energy portfolio is supported by the Energy and Security Division of the Department of Infrastructure.¹⁸⁸ The relevant output is Energy Policy Services which is responsible for the provision of policy advice to deliver Government objectives for a secure and cost effective energy supply to the state.¹⁸⁹

¹⁸⁶ Hon. M. Thomson, MLC, Minister for Information and Communication Technology, transcript of evidence, 15 June 2004, p.11

¹⁸⁷ Victoria's energy policy, www.doi.vic.gov.au, accessed 7 June 2004

¹⁸⁸ Department of Infrastructure response to the Committee's 2004-05 Budget Estimates questionnaire, Attachment 1

¹⁸⁹ Budget Paper No.3, *2004-05 Service Delivery*, p.114

The Energy and Security Division of the department works towards achieving the Government's energy policy objectives in a number of ways which include:¹⁹⁰

- taking a lead role in the National Energy Market Reform process;
- facilitating energy supply security through investment in new supplies and improved demand side responses;
- managing the Government's response to energy supply emergencies;
- facilitating effective competition in energy retailing, and maintaining a safety net of consumer protections;
- overseeing the work and governance of market institutions and economic, safety and technical regulators;
- developing integrated policies for energy sustainability with the Department of Sustainability and Environment; and
- approving grants for powerline relocation.

Major contributions in relation to energy policy are also made by the Department of Primary Industries (in facilitating exploration and production of brown coal, oil and gas, and regulating those activities) and the Sustainable Energy Authority of Victoria (in promoting renewable energy and energy efficiency).¹⁹¹

In September 2004, Victoria hosted the 2nd Carbon Sequestration Leadership Forum, which showcased new greenhouse reduction technologies.¹⁹²

8.8.2 Analysis of the budget

The Minister for Energy Industries is responsible for one output, namely Energy Policy Services, which is part of the Infrastructure Planning and Policy output group within the Department of Infrastructure.¹⁹³ The cost of the output was estimated to be 7.6 million in 2004-05, a decrease of \$1.8 million (19 per cent) compared to the 2003-04 expected outcome.¹⁹⁴

¹⁹⁰ Victoria's energy policy, www.doi.vic.gov.au, accessed 10 June 2004

¹⁹¹ Department of Infrastructure, *2002-03 Annual Report*, p.42

¹⁹² Hon. T. Theophanous, MP, Minister for Energy Industry and Resources, media release, '*Victoria to host global summit to tackle greenhouse*', 19 November 2003

¹⁹³ Budget Paper No.3, *2004-05 Service Delivery*, pp.112, 114–115; Department of Infrastructure response, received 12 May 2004, to the Committee's 2004-05 Budget Estimates questionnaire, p.2

¹⁹⁴ Budget Paper No. 3, *2004-05 Service Delivery*, pp.114–115

8.8.3 *Performance measures*

The Committee noted that there are no new performance measures for 2004-05.

The department advised that some of its internal performance indicators and targets are based on measures that would enable meaningful comparisons with similar programs and outputs in other jurisdictions. It gave as an example the Commonwealth's Mandatory Renewable Energy Target, a key driver for investment in renewable energy.¹⁹⁵

8.8.4 *Key issues impacting on the portfolio*

The department's response to the Committee's questionnaire and the estimates hearing with the Minister for Energy Industries identified the following key issues that will impact on the portfolio and its budget estimates for 2004-05.

(a) *Future obligations concerning emission and greenhouse gas reductions*

The Committee was particularly interested in exploring any factors restricting investment certainty, such as issues surrounding the non prescription of greenhouse obligations, and the potential impact on the Government of achieving its objective for a secure and cost effective energy supply.¹⁹⁶

At the hearing the Minister informed the Committee that the Government's goal is to provide low cost and environmentally responsible energy as this is fundamental to Victoria's and Australia's economic future.¹⁹⁷ The manufacturing base of Australia is in Victoria and relies on a cheap and available source of energy.¹⁹⁸ A very significant number of jobs service both directly and indirectly Victoria's energy industry and, consequently the Government is keen to ensure that investment in Victoria's energy sector continues in the future.¹⁹⁹

The Minister drew attention to a number of issues surrounding a lack of certainty among potential investors in the Victorian energy sector with regard to investing in traditional sources of energy supply such as coal and gas.²⁰⁰

According to the Minister, there is a need for investor certainty regarding future obligations in relation to emission reductions and greenhouse gas reductions.²⁰¹

¹⁹⁵ Department of Infrastructure response to the Committee's 2004-05 Budget Estimates questionnaire, p.17

¹⁹⁶ Budget Paper No.3, *2004-05 Service Delivery*, p.114

¹⁹⁷ Hon. T. Theophanous, MLC, Minister for Energy Industries, transcript of evidence, 23 June 2004, p.3

¹⁹⁸ *ibid*

¹⁹⁹ *ibid.*

²⁰⁰ *ibid.*, pp. 3-4

²⁰¹ *ibid.*, p.3

Questions that focus on issues connected with these reductions need clarification to provide a greater level of certainty among potential investors.²⁰² The Minister maintained that the ongoing refusal of Australia to be part of the Kyoto protocol adds significantly to this uncertainty.²⁰³ The Government believes disclosure of information on emission strategies would encourage organisations to invest, thereby providing a basis for a secure and cost effective energy supply for Victorians.

In response to investor uncertainty about future greenhouse gas emission obligations, the Government has initiated a Greenhouse Challenge for Energy Project and participates in an inter-jurisdictional group arising out of the Ministerial Council on Energy.²⁰⁴

The Committee was informed that the Greenhouse Challenge for Energy Project is a process developed by the Government to deliver on a series of its commitments relating to the reduction of greenhouse gases from the energy sector. As part of the project, potential energy sector greenhouse policy measures for Victoria have been subject to economic modelling and analysis by a private sector consortium, to determine their likely impact on Victoria under a range of possible scenarios (Allen Consulting Group Report). A position paper from the Government, as a response to the Allen Report, will be made publicly available in the second half of 2004.²⁰⁵

Victoria together with other states and territories in February 2004 established a inter-jurisdictional working group, to examine emissions trading.²⁰⁶ The Minister advised the Committee that the terms of reference for the inter-jurisdictional group are expected to be made public when participating governments announce decisions on the working group's recommendations.²⁰⁷ The working group is expected to report to relevant Ministers by the end of 2004.²⁰⁸

The Minister explained that a national emission trading scheme should not be seen as a restriction.²⁰⁹ It is a method whereby companies can obtain credits for reducing emissions and be able to trade these in circumstances where the company is more successful than competitors.²¹⁰ Emission trading allows companies to remit in excess of their allocation of allowances by purchasing allowances from the market.²¹¹ Similarly, a company that emits less than its allocation of allowances can sell its surplus allowances.²¹² It is, in the opinion of the Minister, a very successful scheme applied in many other countries and, while it has not resulted in the collapse of their

²⁰² *ibid.*

²⁰³ *ibid.*

²⁰⁴ *ibid.*

²⁰⁵ *ibid.*, p.2

²⁰⁶ Minister for Energy Industries' response to the Committee's follow-up questions, pp.12-13

²⁰⁷ *ibid.*, p.12

²⁰⁸ *ibid.*

²⁰⁹ Hon. T. Theophanous, MLC, Minister for Energy Industries, transcript of evidence, 23 June 2004, p.7

²¹⁰ *ibid.*

²¹¹ www.defra.gov.uk/environment/climate change/trading (Department of Environment, Food and Rural Affairs), accessed 28 July 2004

²¹² *ibid.*

energy systems, it has provided certainty for those energy supply systems around the world.²¹³

The Committee notes the policy developmental work underway at the state level surrounding emission reductions. The Committee appreciates that there are many conflicting and complex issues to be addressed in developing options for reducing the state's greenhouse gases.

(b) The Centre for Energy and Greenhouse Technologies

The Government provided funding of up to \$14.25 million over three years to the Centre for Energy and Greenhouse Technologies in the Latrobe Valley.²¹⁴ The Centre, a first of its kind in Australia, has been established as a private company to encourage industry participation and co-investment in research, development, demonstration and commercialisation of energy-specific technologies.²¹⁵ The Centre will fund energy research and development projects at the new and emerging pre-commercial stage, such as technologies that increase efficiency or reduce greenhouse gas emissions when using fossil fuels for energy supplies.²¹⁶

The Minister advised the Committee that the Centre has received 91 expressions of interest for funding to date across the research, development, demonstration and commercialisation continuum.²¹⁷

The Committee recommends that:

- Recommendation 81:** **The Department of Infrastructure, in conjunction with co-investors, develop a monitoring regime to assess the effectiveness of the Centre for Energy and Greenhouse Technologies, in terms of:**
- (a) developing new sustainable energy and greenhouse gas reduction technologies; and**
 - (b) generating commercial returns by meeting the growing and global demand for these technologies.**

²¹³ Hon. T. Theophanous, MLC, Minister for Energy Industries, transcript of evidence, 23 June 2004, p.7

²¹⁴ Hon. T. Theophanous, MLC, Minister for Energy Industries and Resources and Hon. J. Brumby, MP, Minister for Innovation, media release, *Greenhouse Technology Centre, a first for Australia*, 8 August 2003

²¹⁵ *ibid.*

²¹⁶ *ibid.*

²¹⁷ Minister for Energy Industries' response to the Committee's follow-up questions, p.10

(c) Risk management by Victoria's energy companies

Security of supply

The department initiated a review of the adequacy of security risk management by Victoria's energy companies in 2002-03.²¹⁸ The review considered security risk management in the electricity, gas and liquid fuel industries, primarily from a security of supply perspective and cost \$305,000.²¹⁹

The review found that, although facilities were below international standards in relation to one criterion, namely security risk management preparedness, many of the shortcomings in security risk management could be relatively easily and cost-effectively rectified.²²⁰ All of the owners and operators of the individual critical infrastructure facilities have provided substantive responses to the department, outlining the measures they are taking to rectify the identified deficiencies.²²¹

The Committee was further assured by the Minister that the department is reviewing these responses, as part of an ongoing dialogue with the owners and operators on the adequacy of their security risk management preparedness.²²²

The Minister also advised that a number of the Review findings are still to be implemented, as they will involve consultation with other agencies and/or jurisdictions. Work to progress these findings is being undertaken through a number of processes.²²³

Counter terrorism approach - emergency management for critical infrastructure in the energy sector

The Minister advised the Committee that ongoing work is required to identify the critical energy infrastructure to be declared as per the requirements of the *Terrorism (Community Protection) Act 2003*.²²⁴ As part of this process, declared owners/operators will need to develop a risk management plan that:²²⁵

- assesses the risks of a terrorist attack;
- sets out measures to prevent or reduce the risk of an attack;
- establishes procedures for response and recovery from an attack;

²¹⁸ Department of Infrastructure, *2002-03 Annual Report*, p.43

²¹⁹ Minister for Energy Industries' response to the Committee's follow-up questions, p.3

²²⁰ *ibid.*, p.4

²²¹ *ibid.*

²²² *ibid.*

²²³ *ibid.*, pp.4-5

²²⁴ *ibid.*

²²⁵ *ibid.*

- establishes procedures to provide for the continued safe operation of the essential service;
- requires that a self audit of the plan be conducted on an annual basis; and
- requires the department to participate in at least one exercise a year with Victoria Police to test the plan.

The Committee acknowledges that various processes are in progress for dealing with security over the supply of energy and emergency management for critical infrastructure. However, given the essential nature of services provided by the energy sector to the Victorian community, the Committee emphasises the significance of addressing these outstanding matters in a timely manner.

The Committee recommends that:

- Recommendation 82:** **That the Department of Infrastructure give priority to ensuring that:**
- (a) **the continued supply of energy provided by the electricity, gas and liquid fuel industries is adequately safeguarded; and**
 - (b) **the identification of critical energy infrastructure to be declared under the *Terrorism (Community Protection) Act 2003* and the development of risk management plans are finalised as soon as possible.**

CHAPTER 9: DEPARTMENT OF INNOVATION, INDUSTRY AND REGIONAL DEVELOPMENT

Key Findings of the Committee:

- 9.1** The Department of Innovation, Industry and Regional Development's budget allocation for 2004-05 was \$349 million, a decrease of \$47.3 million from the 2003-04 estimated actual budget. The budget for the Innovation and Policy output group is expected to be lower by \$61.7 million, or 37.8 per cent in 2004-05. This mainly reflects the revised spending profile for \$42.3 million of STI grants in the department's budget estimates.
- 9.2** Based on estimates at 31 May 2004, approximately \$52 million will be carried over from 2003-04 to 2004-05 for the Innovation portfolio, which mainly relates to grants funding. The State and Regional Development portfolio anticipates \$21.5 million will be carried over to 2004-05. These funds will be applied to various programs including trade fairs and missions (\$800,000), the Agenda for New Manufacturing initiative (\$3.4 million) and the Bushfire Recovery Program (\$800,000).
- 9.3** The Department of Innovation, Industry and Regional Development anticipates employing 718.68 staff (equivalent full-time) in 2004-05.
- 9.4** The 2004-05 Budget provided funding of \$5.7 million over three years to implement the second phase of the Make It Happen in Provincial Victoria campaign. Building on the success of the initial campaign, which attracted a strong interest in metropolitan Melbourne, the second phase will focus on providing the information and encouragement to those interested to make the move to relocate to provincial Victoria.
- 9.5** For some of the key initiatives in the State and Regional Development portfolio, the specific program funding and performance indicators were not established prior to budget appropriation.
- 9.6** The number of performance measures for the Small Business portfolio has declined markedly despite a substantial budget increase.
- 9.7** Few of the performance indicators relating to the Manufacturing and Export portfolio measure the success or quality of manufacturing and export activities, with current performance information mainly recording whether or not activities have occurred.

- 9.8 In an effort to address future shortages of skilled staff for the manufacturing sector, the Department of Innovation, Industry and Regional Development has implemented a careers in manufacturing strategy and proposes to establish a Manufacturing Skills and Training Taskforce.**
- 9.9 Despite introducing a range of initiatives for the financial services industry, the Department of Innovation, Industry and Regional Development developed only two new performance measures. Funding for most of the individual initiatives was not specified in the Budget Papers.**
- 9.10 The Government expects the proposed Melbourne Convention Centre to attract international and domestic conventions to Melbourne and result in delegate spending of \$3.3 billion over 25 years (which will increase Gross State Product by \$5 billion over 25 years). The total construction cost of the main convention centre buildings is expected to be \$367 million, and \$24 million is expected to be spent in 2004-05. The City of Melbourne is expected to make a \$43 million contribution to the project, which is planned to be undertaken as a public private partnership under Partnerships Victoria. Expressions of interest will be called for in late 2004, with the centre due for completion by 2008.**

Departmental review

9.1 Departmental overview

The Department of Innovation, Industry and Regional Development supports the ministerial portfolios of:

- Innovation;
- State and Regional Development;
- Small Business;
- Manufacturing and Export;
- Financial Services Industry;
- Tourism; and
- Industrial Relations.

The department also provides administrative support to the Minister responsible for Design. While design is not a Government portfolio, the responsibility has been assigned to the Hon. Lynne Kosky, to assume a leading role in these matters.

9.1.1 Key challenges for the department in 2004-05

At the estimates hearing the Committee was advised that the priorities and challenges for the department in 2004-05 are:¹

- driving the innovation agenda;
- managing the economic impacts from environmental disasters, such as drought, bushfires, etc.;
- continuing progress with investment attraction and tourism; and
- improving investor confidence.

9.1.2 Key factors influencing the budget estimates

The department advised that its 2004-05 budget was framed in the context of the Government's strategic priorities for Victoria, encapsulated in the policy document *Growing Victoria Together*.² The department's budget provides funding for:³

- initiatives from the Government's 2002 pre-election commitments; and
- a range of initiatives from the Government's economic statement.

The department has responsibility for initiatives from the Government's economic statement aimed at:⁴

- increasing international investment in Victoria;
- facilitating export growth opportunities, through the Opening Doors Export Plan, and other related trade development initiatives;
- building an innovative, competitive food industry, through the Next Generation Food Strategy which provides an action plan to achieve the Government's food and fibre export target of \$12 billion by 2010;
- increasing the efficient movement of Victorian goods, through the Better Supply Chain Links Initiative;
- strengthening the financial services industry, through the establishment of a Centre for Financial Studies, among other initiatives;
- promoting Victoria as a leading destination for major events and conventions, by redeveloping the Melbourne Convention Centre to create a world class convention and exhibition facility by 2008;

¹ Hon. J. Brumby, MP, Minister for Innovation, transcript of evidence, 19 May 2004, p.3

² Department of Innovation, Industry and Regional Development response to the Committee's 2004-05 Budget Estimates questionnaire, p.5

³ *ibid.*

⁴ Hon. J. Brumby, MP, Minister for Innovation, transcript of evidence, 19 May 2004, p.2; and presentation slides, pp.4-5

- promoting economic growth in provincial Victoria, through the Make it Happen in Provincial Victoria: Phase 2 Initiative;
- providing businesses with a seamless and enhanced environment for dealing with Government, through the Victorian Business Master Key Initiative; and
- restraining industrial disputes, through changes that enable the Government to intervene in protracted industrial disputes.

9.2 Output management framework

The Department of Innovation, Industry and Regional Development is a matrix-managed department in that ministerial portfolio responsibilities are not strictly aligned with departmental output groups. Exhibit 9.1 illustrates this relationship.

The department advised that as a result of this arrangement the accountability framework for output delivery is complex.⁵ The department also indicated that in many instances the performance targets are directly linked to ministerial portfolios, however, Ministers share responsibility for the major performance targets for investment, jobs and exports.⁶

⁵ Department of Innovation, Industry and Regional Development response to the Committee's 2004-05 Budget Estimates questionnaire, p.2

⁶ *ibid.*

**Exhibit 9.1 Department of Innovation, Industry and Regional Development
Ministerial responsibilities by outputs**

	Ministerial portfolios						
	I	SR	SB	ME	FSI	T	IR
Output group: Innovation and policy							
Strategic Policy (b)	(a) X	X	X	X	X		X
Science Technology and Innovation	(a) X	X					
Output group: Business							
Investment Facilitation and Attraction (c)	X	(a) X		X	X		
Business Development		(a) X	X	X	X		
Small Business Support			X				
Output group: Regional Development							
Regional Strategic Leadership		X					
Rural Community Development		X			X		
Regional Infrastructure Development		X					
Regional Economic Development		X		X			
Output group: Industrial Relations							
Industrial Relations Services							X
Industrial Relations Policy							X
Output group: Tourism							
Tourism						X	

- Notes:
- I* Minister for Innovation
 - SR* Minister for State and Regional Development
 - SB* Minister for Small Business
 - ME* Minister for Manufacturing and Export
 - FSI* Minister for Financial Services Industry
 - T* Minister for Tourism
 - IR* Minister for Industrial Relations
 - (a) indicates the lead Minister for this output
 - (b) the Minister responsible for Design also shares responsibility for this output
 - (c) the Minister for Information and Communication Technology has responsibility under this output in relation to Multimedia Victoria⁷

Source: Department of Innovation, Industry and Regional Development response to the Committee's 2004-05 Budget Estimates questionnaire, pp.1-2

⁷ *ibid.*, p.1

9.3 Budget summary/financial analysis

The Department of Innovation, Industry and Regional Development's output budget allocation for 2004-05 is \$349 million, a decrease of \$47.3 million or 11.9 per cent from the estimated actual budget for 2003-04 (see exhibit 9.2).

**Exhibit 9.2: Department of Innovation, Industry and Regional Development
Output group costs**

	Column 1	Column 2	Column 3	Column (3-2)/2
Output group	2003-04 Budget (\$ million)	2003-04 Estimated Actual (\$ million)	2004-05 Budget (\$ million)	Variation (a) (%)
Innovation and Policy	156.6	163.4	101.7	-37.8
Business (b)	73.6	77.5	91.4	17.9
Regional Development	99.9	102.9	99.0	-3.8
Industrial Relations	11.4	12.3	14.6	18.7
Tourism	38.3	40.2	42.3	5.2
Total	379.8	396.3	349.0	-11.9

Notes (a) a negative variation indicates the 2004-05 budget decreased compared with the 2003-04 estimated actual

(b) 2003-04 includes the Regulation Reform output budget. From 1 July 2004 the Regulation Reform output will be transferred to the Department of Treasury and Finance⁸

Sources: Budget Paper No. 3, 2004-05 Service Delivery, pp.140–151; Department of Innovation, Industry and Regional Development response to the Committee's 2004-05 Budget Estimates questionnaire, p.27

The Government's STI (Science, Technology and Innovation) initiative provides funding for a variety of programs, one of which is the STI grants program which provides competitive grants for research and innovation infrastructure. The Minister advised that a review conducted in 2002 on the STI Initiative (First Generation)⁹ identified that the actual STI expenditure differed significantly from planned, thus leading to significant funding carry overs. The review recommended that the projected funding profile for the initiative be spread over a longer period to align with the spending profile and for the department's expenditure estimates for the STI Initiative to be revised each year to accommodate the changes.¹⁰

⁸ Department of Innovation, Industry and Regional Development response to the Committee's 2004-05 Budget Estimates questionnaire, p.3

⁹ The STI Initiative (First Generation) was launched in 1999. The follow on of this initiative is the STI Initiative (Second Generation) which was launched in 2002. The Government is currently implementing the STI Initiative (Second Generation)

¹⁰ Minister for Innovation's response to the Committee's follow-up questions, pp.3–4

The Innovation and Policy output group is responsible for the STI grants program. Exhibit 9.2 shows the budget for this output group is expected to be reduced by \$61.7 million, or 37.8 per cent in 2004-05. The department advised that this is mainly to reflect the revised spending profile for \$42.3 million of STI grants in the department's budget estimates.¹¹

The budget for the Business output group was increased by \$13.9 million, or 17.9 per cent in 2004-05. This was mainly due to funding provided for various initiatives announced in the Government's economic statement, such as funding for the Victorian Government Business Offices (\$1 million); Better Supply Chain Links (\$1.45 million); Melbourne Centre for Financial Studies (\$903,000); Next Generation Food Strategy (\$1.074 million); Opening Doors Export Plan (\$1 million); and the Victorian Business Master Key (\$2 million).¹² Significant funding is provided for Victoria's participation in the Expo 2005 trade fair to be held in Aichi Prefecture, Japan (\$5 million).¹³

The budget for the Regional Development output group is expected to decrease by \$3.9 million, or 3.8 per cent in 2004-05. The department advised that the key decreases are attributed to the Treasurer's Advances received for 2003-04 associated with funding for the Drought Assistance Program (\$800,000), and the Rural Leadership and Community Events Program (\$250,000). The department also advised of a reduction in the Regional Development Program funding of \$200,000 associated with '*a decrease in employee costs and a reduction in corporate allocations*'.¹⁴

The increase in the Industrial Relations output group budget of \$2.3 million, or 18.7 per cent in 2004-05 is attributed mainly to:¹⁵

- unspent funds carried forward from 2003-04 (\$1.2 million); and
- reallocation of funds from elsewhere in the department (\$700,000).

The budget for the Tourism output group has been increased by \$2.1 million, or 5.2 per cent in 2004-05. Funding of \$2 million was provided for the procurement cost associated with the Melbourne Convention Centre redevelopment.¹⁶

¹¹ *ibid.*, p.4

¹² Department of Innovation, Industry and Regional Development response to the Committee's 2004-05 Budget Estimates questionnaire, p.28

¹³ *ibid.*

¹⁴ *ibid.*; Department of Innovation, Industry and Regional Development response to the Committee's follow-up questions, p.2

¹⁵ Department of Innovation, Industry and Regional Development response to the Committee's 2004-05 Budget Estimates questionnaire, p.29; Minister for Industrial Relations' response to the Committee's follow-up questions, p.2

¹⁶ Department of Innovation, Industry and Regional Development response to the Committee's 2004-05 Budget Estimates questionnaire, p.29; Budget Paper No. 3, *2004-05 Service Delivery*, p.262

9.3.1 Operating performance

In 2004-05, the department budgeted to receive \$300.7 million in revenue for its controlled operations, which is 13.8 per cent lower than budgeted expenditure and 9.2 per cent lower than the 2003-04 estimated actual budgeted revenue (see exhibit 9.3).

Expenditure from controlled operations in 2004-05 is estimated to be \$349 million, a decrease of \$47.3 million, or 11.9 per cent from the 2003-04 estimated actual budget (see exhibit 9.3). Expenditure from grants and other payments is expected to decrease by \$50 million in 2004-05.¹⁷ The department advised that this is mainly due to the impact of the re-phasing of the STI Initiative and the Regional Infrastructure Development Fund funding from 2003-04 to future years, and the cessation of programs with some programs reaching the end of their funding cycle or in a phased reduction of funding, for example Coode Island site remediation work (\$8 million); Bushfire Recovery Fund (\$2.8 million); and drought assistance (\$1.5 million).¹⁸

The department operates a number of trust funds, of which the Regional Infrastructure Development Fund is the most significant.¹⁹ The department advised that the deficit net result (see exhibit 9.3) was a result of the accounting treatment of trust fund receipts for the Fund.²⁰ The accounting treatment requires that trust fund funding be taken up as revenue in the year it is received, whereas disbursements are to be recognised in the year they occur which may be in subsequent years.²¹ This treatment gave rise to a timing mismatch which resulted in the department recording a surplus net result in 2002-03 and offsetting deficits in 2003-04 and 2004-05.²²

¹⁷ Budget Paper No. 4, *2004-05 Statement of Finances*, p.67

¹⁸ Department of Innovation, Industry and Regional Development response to the Committee's 2004-05 Budget Estimates questionnaire, p.25

¹⁹ *ibid.*

²⁰ *ibid.*

²¹ *ibid.*

²² *ibid.*; Budget Paper No. 4, *2004-05 Statement of Finances*, p.65

**Exhibit 9.3: Department of Innovation Industry and Regional Development
Statement of financial performance**

	Column 1	Column 2	Column 3	Column (3-2)/2
	2003-04 Budget	2003-04 Estimated Actual	2004-05 Budget	Variation (a)
	(\$ million)	(\$ million)	(\$ million)	(%)
Controlled items				
Operating revenue	315.3	331.4	300.7	-9.2
Operating expenses	379.8	396.3	349.0	-11.9
Net result	-64.5	-64.9	-48.3	25.6
Administered items				
Administered revenue	2.6	3.6	2.6	-27.8
Administered expenses	2.6	3.6	19.2	433.3
Surplus/Deficit	0.0	0.0	-16.6	n/a

Notes: (a) a negative variance indicates that the 2004-05 budget decreased compared with the 2003-04 estimated actual budget

n/a not applicable

Sources: Department of Innovation, Industry and Regional Development response to the Committee's 2004-05 Budget Estimates questionnaire, p.24; Budget Paper No. 4, 2004-05 Statement of Finances, p.70

Expenses from administered activities are estimated to increase by \$15.6 million to \$19.2 million in 2004-05. Included in this administered expenses are payments into the Consolidated Fund estimated to be \$19.1 million²³ in 2004-05, which relates mainly to the sale/divestment of surplus land/development rights associated with the Melbourne Convention Centre redevelopment.²⁴

9.3.2 Balance sheet performance

Net assets from controlled operations are estimated to increase to \$157.3 million in 2004-05, due mainly to the acquisition of new assets (see exhibit 9.4). Liabilities from controlled operations are estimated to remain unchanged from previous budget.

²³ Budget Paper No. 4, 2004-05 Statement of Finances, p.70

²⁴ ibid. p.66

**Exhibit 9.4: Department of Innovation, Industry and
Regional Development
Statement of financial position**

	Column 1	Column 2	Column 3	Column (3-2)/2
	2003-04 Budget	2003-04 Estimated Actual	2004-05 Budget	Variation
	(\$ million)	(\$ million)	(\$ million)	(%)
Controlled items				
Controlled assets	152.5	162.1	180.5	11.4
Controlled liabilities	23.2	23.2	23.2	0.0
Net assets	129.2	138.8	157.3	13.3
Administered items				
Administered assets	28.2	28.2	28.2	0.0
Administered liabilities	0.0	0.0	0.0	0.0

Sources: Department of Innovation, Industry and Regional Development response to the Committee's 2004-05 Budget Estimates questionnaire, p.30; Budget Paper No. 4, 2004-05 Statement of Finances, p.70

Assets from controlled operations are estimated at \$180.5 million in 2004-05, an increase of \$18.4 million or 11.4 per cent from the estimated actual budget for 2003-04. This variation for assets is mainly due to increases in physical assets attributed mainly to funding for capital works (\$69.2 million).²⁵ Offsetting this significant increase is a \$50.8 million reduction in receivables which is associated mainly with grants funding from the Regional Infrastructure Development Fund.²⁶

9.3.3 Carry over funding

The Department of Innovation, Industry and Regional Development advised that:

- based on estimates at 31 May 2004, approximately \$52 million will be carried forward from 2003-04 to 2004-05 for the Innovation and Policy output group. Most of this funding is related to grant monies and funds that are released only after specified milestones are met;²⁷ and
- the budget estimates for the State and Regional Development outputs include an estimated \$21.5 million of funding to be carried forward to 2004-05. The Committee was advised that these funds will be applied to programs including:

²⁵ Department of Innovation, Industry and Regional Development response to the Committee's 2004-05 Budget Estimates questionnaire, p.30

²⁶ *ibid.*

²⁷ Minister for Innovation's response to the Committee's follow-up questions, p.6

trade fairs and missions (\$800,000); the Agenda for New Manufacturing Initiative (\$3.4 million); and the Bushfire Recovery Program (\$800,000).²⁸

The Committee accepts that in certain circumstances, especially with grants, that it may be appropriate to carry forward unspent appropriations to the subsequent financial year. Nevertheless, the large amount of funding carried forward to 2004-05 again emphasises the need for the department to review its internal budgetary arrangements and management of departmental budgets. While the Committee appreciates that grant expenditure is regulated by contracts that provide for the payments of funds only when conditions are satisfied, it considers there should be a better alignment between the department's internal planning and the allocation of resources.

The Committee recommends that:

Recommendation 83: **The Department of Innovation, Industry and Regional Development review its internal budgeting and business planning processes to ensure that the budget for the Innovation and Policy output group reflects planned expenditure for each financial year.**

At the estimates hearing the Minister for Small Business advised that funding of \$200,000 would be carried forward to 2004-05.²⁹ Subsequent information confirmed that the carry forward to 2004-05 was approximately \$1.3 million and will be used to deliver services and programs.³⁰

9.4 Human resources issues

The department advised the Committee that as at 30 June 2004 it expects to employ 678.68 equivalent full-time staff (see exhibit 9.5). The department advised that this is an estimate of the actual number of staff that would be employed as at June 2004 and was prepared based on the actual number of staff employed plus an estimate of the number of vacancies that would be filled by June 2004 and anticipated staff turnover.³¹

²⁸ Minister for State and Regional Development's response to the Committee's follow-up questions, p.8; Department of Innovation, Industry and Regional Development response to the Committee's follow-up questions, p.3

²⁹ Hon. M. Thomson, MP, Minister for Small Business, presentation slides, p.3

³⁰ Minister for Small Business' response to the Committee's follow-up questions, p.6; Department of Innovation, Industry and Regional Development response to the Committee's follow-up questions, p.4

³¹ Department of Innovation, Industry and Regional Development's response to the Committee's follow-up questions, p.1

The number of staff (equivalent full-time) is estimated to increase to 718.7 in 2004-05 and is inclusive of 51 vacant positions.³² The department advised that the 51 vacancies included 11 vacancies identified as at June 2004 and additional vacancies based on the department's current and future workforce requirements.³³

**Exhibit 9.5: Department of Innovation, Industry and Regional Development
Equivalent Full Time Staff**

	June 2003 Actual	June 2004 Estimate	June 2005 Estimate
Ongoing staff			
Departmental staff	545.10	551.49	583.49
Sub total	545.10	551.49	583.49
Fixed term staff			
Departmental staff	74.60	75.79	80.79
Departmental executive officers	43.80	43.00	46.00
Other (a)	3.40	2.40	2.40
Sub total	121.80	121.19	129.19
Casual staff			
Departmental staff	9.00	6.00	6.00
Sub total	9.00	6.00	6.00
All staff			
Departmental staff	628.70	633.28	670.28
Departmental executive officers	43.80	43.00	46.00
Other	3.40	2.40	2.40
Total (b) (c)	675.90	678.68	718.68

Note: (a) includes the Small Business Commissioner (1 EFT), Commissioner for Italy (0.4 EFT) and the Chairman of the Victorian Building Industry Disputes Board (1 EFT)³⁴

(b) the estimate for 2004-05 is inclusive of 51 vacant positions³⁵

(c) the estimate for 2004-05 excludes the Office of Regulation Reform³⁶

Source: Department of Innovation, Industry and Regional Development response to the Committee's 2004-05 Budget Estimates questionnaire, pp.22-23

³² Department of Innovation, Industry and Regional Development's response to the Committee's 2004-05 Budget Estimates questionnaire, p.23

³³ Department of Innovation, Industry and Regional Development response to the Committee's follow-up questions, p.3

³⁴ Department of Innovation, Industry and Regional Development response to the Committee's 2004-05 Budget Estimates questionnaire, p.22

³⁵ *ibid.*, p.23

³⁶ *ibid.*

9.5 Output budget responsibility

As shown in exhibit 9.1, because of its matrix-management the responsibility for some outputs of the Department of Innovation, Industry and Regional Development are shared between the department's seven Ministers. Exhibit 9.6 illustrates the budget for the department's outputs for 2004-05.

**Exhibit 9.6: Department of Innovation, Industry and Regional Development
Output group costs**

Output group	Outputs	2004-05 Budget (\$ million)
Innovation and Policy	Strategic Policy	7.0
	Science Technology and Innovation	94.7
	Sub total	101.7
Business	Investment Facilitation and Attraction	37.4
	Business Development	39.4
	Small Business Support	14.6
Sub total	91.4	
Regional Development	Regional Strategic Leadership	1.6
	Rural Community Development	6.6
	Regional Infrastructure Development	78.7
	Regional Economic Development	12.1
Sub total	99.0	
Industrial Relations	Industrial Relations Services	8.9
	Industrial Relations Policy	5.7
Sub total	14.6	
Tourism	Tourism	42.3
Total		349.0

Sources: *Department of Innovation, Industry and Regional Development response to the Committee's 2004-05 Budget Estimates questionnaire, p.2; Budget Paper No. 3, 2004-05 Service Delivery, p.151*

The department advised that the Regulation Reform output which was a component of the Business output group in 2003-04, was transferred to the Department of Treasury and Finance, with the creation of the Victorian Competition and Efficiency Commission (effective 1 July 2004).³⁷

³⁷ Department of Innovation, Industry and Regional Development response to the Committee's 2004-05 Budget Estimates questionnaire, p.3

The Innovation and Policy output group comprises two outputs. The budget for this output group represents \$101.7 million, or 29.1 per cent of the department's budget for 2004-05. Ministerial responsibility for this output group rests with:

- Strategic Policy - the budget for this output represents 6.9 per cent of the total budget for the output group. Responsibility is shared by all Ministers, with the exception of the Minister for Tourism; and
- Science Technology and Innovation - the budget for this output represents 93.1 per cent of the total budget for the output group. Responsibility is shared by the Minister for Innovation, and the Minister for State and Regional Development

The Minister for Innovation is the lead Minister for both of these outputs.

The Business output group comprises three outputs. The budget for this output group represents \$91.4 million, or 26.2 per cent of the department's budget for 2004-05. Ministerial responsibility for this output group rests with:

- Investment Facilitation and Attraction - the budget for this output represents 40.9 per cent of the total budget for the output group. Responsibility is shared by the following Ministers:
 - *Innovation;*
 - *State and Regional Development;*
 - *Manufacturing and Export; and*
 - *Financial Services Industry.*

The Minister for State and Regional Development is the lead Minister for this output.

- Business Development - the budget represents 43.1 per cent of the total budget for the output group. Responsibility is shared by the following Ministers:
 - *State and Regional Development;*
 - *Small Business;*
 - *Manufacturing and Export; and*
 - *Financial Services Industry.*

The Minister for State and Regional Development is the lead Minister for this output.

- Small Business Support - the budget for this output represents 16 per cent of the total budget for the output group. The Minister for Small Business has sole responsibility for this output. The Minister for Small Business advised the Committee that the total budget allocation for the Small Business portfolio is the same as that for the Small Business Support output.³⁸

The Regional Development output group comprises four outputs. The budget for this output group represents \$99 million, or 28.4 per cent of the department's budget for 2004-05. Ministerial responsibility for this output group rests with:

- Regional Strategic Leadership - the budget for this output represents 1.6 per cent of the total budget for the output group. The Minister for State and Regional Development has sole responsibility for this output;
- Rural Community Development - the budget for this output represents 6.7 per cent of the total budget for the output group. The Minister for State and Regional Development, and the Minister for Financial Services Industry share responsibility for this output;
- Regional Infrastructure Development - the budget for this output represents 79.5 per cent of the total budget for the output group. The Minister for State and Regional Development has sole responsibility for this output; and
- Regional Economic Development - the budget for this output represents 12.2 per cent of the total budget for the output group. The Minister for State and Regional Development and the Minister for Manufacturing and Export share responsibility for the output.

There is no lead Minister for the Regional Development output group.

The Industrial Relations output group comprises two outputs. The budget for this output group represents \$14.6 million, or 4.2 per cent of the department's budget for 2004-05. The Minister for Industrial Relations has sole responsibility for this output group.

The budget for the Tourism output group represents \$42.3 million, or 12.1 per cent of the department's budget for 2004-05. The Minister for Tourism has sole responsibility for this output group.

The Committee notes that the 2003-04 Budget included two outputs in the Tourism output group; namely Tourism Marketing and Event Facilitation and Tourism Industry and Infrastructure Development.³⁹ The department advised that these outputs were combined in 2004-05 as it was considered that the achievement of all performance measures included in the Tourism output group relied upon a combination of

³⁸ Minister for Small Business' response to the Committee's follow-up questions, p.4

³⁹ Budget Paper No. 3, *2003-04 Budget Estimates*, pp 190-192

marketing, industry development and infrastructure effort.⁴⁰ It was therefore considered artificial to divide these performance measures between two outputs.

Review of Portfolios

9.6 Innovation portfolio

9.6.1 2004-05 outlook for the portfolio

The Minister advised the Committee of the key initiatives in 2004-05:⁴¹

- STI (Science, Technology and Innovation) Second Generation Initiative - \$60 million of grants to be awarded to support leading edge research and innovation infrastructure and other initiatives;
- funding of \$6 million to strengthen Victoria's research and development base in biotechnology development;
- infrastructure support for medical research institutes - funding of \$23 million for essential research infrastructure not otherwise provided under competitive research grants. The Minister advised that this is a continuation of the initiative announced in the 2002-03 Budget; and
- Innovation Economy Advisory Board - the Minister advised that the Advisory Board had secured the Alfred Deakin Innovation Lectures for 2005, for Victoria.

The Minister advised the Committee of the key priorities and challenges in 2004-05 as:⁴²

- driving the innovation agenda;
- managing the economic impacts from environmental disasters, such as drought, bushfires, etc.;
- continuing progress with investment attraction and tourism; and
- improving investor confidence.

⁴⁰ Department of Innovation, Industry and Regional Development response to the Committee's 2004-05 Budget Estimates questionnaire, p.3

⁴¹ Hon. J. Brumby, MP, Minister for Innovation, transcript of evidence, 19 May 2004, p.3; and presentation slides, p.7

⁴² Hon. J. Brumby, MP, Minister for Innovation, transcript of evidence, 19 May 2004, p.3

9.6.2 Performance measures

Five new performance indicators were established for the Science, Technology and Innovation output for 2004-05:⁴³

- the biotechnology sector:
 - the number of international equity investors attracted to Victoria; and
 - a timeliness measure for facilitating a feasibility study on establishing a biotechnology manufacturing facility in Victoria;
- the synchrotron project:
 - a timeframe for implementing the governance and access framework for the synchrotron project; and
 - the number of beamline user groups to be established.
- *VicStart*
 - Program delivery contracts in place and commenced.

The Department of Innovation, Industry and Regional Development has established a STI monitoring and reporting framework to oversee the performance of projects funded from the STI Second Generation Initiative.⁴⁴

Under the framework an outcome monitoring tool was developed to measure the benefits achieved from the projects.⁴⁵ Outcome indicators developed through the outcome monitoring tool include:⁴⁶

- employment of research scientists, engineers and support staff;
- number of science and technology PhD and Masters candidates and students;
- number of commercialisation agreements from Victorian research and patents pending;
- research funding attracted;
- expenditure on research and development funding leveraged;
- refereed journal articles acknowledging STI project; and
- number of researchers accessing STI funded infrastructure.

⁴³ Department of Innovation, Industry and Regional Development response to the Committee's 2004-05 Budget Estimates questionnaire, p.21

⁴⁴ Minister for Innovation's response to the Committee's follow-up questions, p.3

⁴⁵ Department of Innovation, Industry and Regional Development response to the Committee's 2004-05 Budget Estimates questionnaire, p.21

⁴⁶ Minister for Innovation's response to the Committee's follow-up questions, p.3

The Committee welcomes the use of the outcome monitoring tool for evaluating the performance and outcomes of the STI Initiative.

9.6.3 Key issues impacting on the portfolio

The department's response to the Committee's 2004-05 Budget Estimates questionnaire and the estimates hearing identified two issues that will affect the portfolio and its Budget Estimates for 2004-05.

(a) Biotechnology Strategic Development Plan

In June 2004, the Government released the Biotechnology Strategic Development Plan 2004-07, which was an update of the 2001 Biotechnology Strategic Development Plan.⁴⁷ The vision for this plan remains unchanged: *'By 2010 Victoria will be recognised internationally as one of the world's top five biotechnology locations for the vibrancy of its industry and quality of its research'*.⁴⁸

The Government is currently ahead of the targets set in the 2001 Biotechnology Strategic Development Plan, in that:⁴⁹

- 68 new core and related biotechnology start-up companies have been established in Victoria. This compares to the original target of 50 by 2005;
- at least ten new research/investment partnerships have been formed with a combined project value in excess of \$120 million. The original targets were five partnerships and \$25 million respectively;
- investment in clinical trials research is increasing. The target is for a 50 per cent increase by 2005;
- six new manufacturing facilities valued at close to \$200 million have been announced, compared to the original target of three manufacturing facilities by 2010; and
- community groups have been informed and involved in the policy development process through forums; and the Victorian Biotechnology Ethics Advisory Committee, Gene Technology Access Centre and a biotechnology website have been established.

Building on these achievements, the targets in the new Biotechnology Strategic Development Plan 2004-07 provide for the following targets to be achieved by 2007:⁵⁰

⁴⁷ Hon. S. Bracks, MP, Premier of Victoria, media release, *Victoria aims for greater share of billion dollar global biotech market*, 6 June 2004, p.1

⁴⁸ Victorian Government, 2004, *Biotechnology Strategic Development Plan (2004-2007)*, p.7

⁴⁹ Minister for Innovation's response to the Committee's follow-up questions, pp.4-5

⁵⁰ Hon. S. Bracks, MP, Premier of Victoria, media release, *Victoria aims for greater share of billion dollar global biotech market*, 6 June 2004, p.1

- patents - granted US biotechnology patents per annum from Victoria's research and development base to exceed 120;
- infrastructure - establishment of additional bioprocessing facilities for Victorian firms and research sector;
- research and development - corporate biotechnology research and development expenditure to exceed \$500 million per annum;
- venture capital - venture capital investment in Victorian biotechnology to exceed 40 per cent of the national annual venture biotech investment;
- partnerships - the combined project value to exceed \$1 billion in aggregate; and
- international leadership - Victoria is recognised internationally as the leading location for marsupial genomics.

The Committee is pleased that the targets set in the initial biotechnology strategic plan in 2001 have been exceeded and that the Government considers that Victoria is becoming internationally recognised as a leading biotechnology location. The Premier has acknowledged that the latest plan is ambitious and will '*require a commitment by industry research, the community and government to work together*'.⁵¹ The Committee accordingly considers the Government should progressively record the progress towards achieving the targets set for 2007 and take constructive action if the programs identified are not achieving desired outcomes.

(b) Management of intellectual property

Intellectual property results from '*some creative endeavour and because it can have value, can be traded*'.⁵² In the business environment intellectual property represents proprietary knowledge.⁵³

The Government's innovation agenda provides substantial grants funding to the private sector for innovation related research activities. The Committee was interested to know how intellectual property rights are determined for research and development projects that received funding through the Department of Innovation, Industry and Regional Development. The Committee was advised by the Minister for Innovation that:

projects endorsed to receive grant funding are required to articulate their management arrangements for intellectual property in a business plan and business case and submit them to the department for approval.

⁵¹ *ibid.*, p.2

⁵² What is Intellectual Property (IP)?, www.dcita.gov.au//Article/0,,0_11-2_12-3_460-4_14297,00.html, accessed 25 May 2004

⁵³ Introduction to intellectual property, www.ipaustralia.gov.au/ip/introduction.shtml, accessed 10 September 2004

*Prior to commencement of payment, the department ensures that intellectual property arrangements are in place.*⁵⁴

The Committee considers that as the main provider of funds for these research activities, it is important for the Government to be able to participate in the benefits that come from the commercialisation of these activities.

The Committee recommends that:

Recommendation 84: **The management arrangement between the Department of Innovation, Industry and Regional Development (as the provider of the grants funding) and the grant recipients include provisions which would allow the state to participate in the benefits from the commercialisation of Government funded research activities.**

9.7 State and Regional Development portfolio

At the estimates hearing the Committee was advised by the Minister for State and Regional Development that significant progress has been achieved by the Government for regional Victoria. The Minister indicated achievements have been made in:⁵⁵

- facilitated regional investment which has shown a strong growth curve over the period from 1995-96 to 2003-04 (measured to March 2004);
- regional labour force employment has increased significantly over the last four or five years, while the regional unemployment rate has reduced;
- regional population is showing signs of future growth; and
- regional building approvals are increasing at a rate of about 60 per cent higher compared to 2000-01.

The Minister advised the Committee that the projects funded from the Regional Infrastructure Development Fund are spread across Victoria. As at May 2004, the Regional Infrastructure Development Fund had contributed over \$178 million to 88 projects. The total value of these projects was estimated to be more than \$454 million.⁵⁶

⁵⁴ Minister for Innovation's response to the Committee's follow-up questions, p.6

⁵⁵ Hon. J. Brumby, MP, Minister for State and Regional Development, transcript of evidence, 19 May 2004, p.3

⁵⁶ Hon. J. Brumby, MP, Minister for State and Regional Development, presentation slides, 19 May 2004, p.15

The Minister indicated that one of the Government's goals was to encourage innovation activity into regional Victoria.⁵⁷ Targeted funding is provided through the STI program and the Regional Infrastructure Development Fund for this purpose.⁵⁸

The Minister advised the Committee that for the period October 1999 to March 2004 the Government facilitated 218 investments with a total investment value of \$3,200 million, along with the creation of 7,419 jobs.⁵⁹

9.7.1 2004-05 outlook for the portfolio

The Minister advised the Committee of the key initiatives in 2004-05:⁶⁰

- redevelopment of the Melbourne Convention Centre;
- establishment of the Victorian Competition and Efficiency Commission;
- increase the supply chain efficiency of Victorian goods. Funding of \$2.5 million over three years was provided;
- continuation of the Make it Happen in Provincial Victoria (Phase 2) campaign which received funding of \$5.7 million over three years⁶¹;
- continuation of the Next Generation Food Strategy which received an additional \$2.3 million over three years; and
- rollout of the Regional Investment Ready Program. The aim of the program is to assist regional businesses become more 'investment ready' and to assist local councils and regional authorities to develop a prospectus of local projects for investment opportunities.⁶² This program commenced in July 2004 with funding of \$6 million allocated over three years.⁶³

9.7.2 Performance measures

The department advised that:⁶⁴

⁵⁷ Hon. J. Brumby, MP, Minister for State and Regional Development, transcript of evidence, 19 May 2004, p.3

⁵⁸ *ibid.*

⁵⁹ Hon. J. Brumby, MP, Minister for State and Regional Development, presentation slides, 19 May 2004, p.17

⁶⁰ *ibid.*, p.9 and p.18; Hon. J. Brumby, MP, Minister for State and Regional Development, transcript of evidence, 19 May 2004, p.3

⁶¹ Budget Paper No. 3, *2004-05 Service Delivery*, p.260

⁶² Minister for State and Regional Development's response to the Committee's follow-up questions, p.5

⁶³ *ibid.*

⁶⁴ Department of Innovation, Industry and Regional Development response to the Committee's 2004-05 Budget Estimates questionnaire, pp.2-3

- in the Investment Attraction and Facilitation output - all of the performance indicators in this output are shared between the Ministers responsible for the output; and
- in the Business Development output - responsibility for this output is shared by four Ministers, but the responsibility for several performance measures in this output can be attributed to specific Ministers.⁶⁵ Specifically, the Minister for State and Regional Development has sole responsibility for two performance indicators, and shares responsibility for another four performance indicators.

The performance indicators established to measure the achievements of the Make it Happen in Provincial Victoria (Phase 2) Initiative, include:⁶⁶

- number of provincial economic partnerships to be created;
- council satisfaction with the marketing campaign; and
- public awareness of the marketing campaign.⁶⁷

The Committee considers that the inclusion of these measures will provide an indication as to the public awareness of the campaign and the extent to which partnerships have been entered into with municipal councils to assist the councils in promoting economic development. However, none of these measures will determine the success of the program in attracting people and investments to provincial Victoria.

Given the significance of this initiative to the Government's regional revival agenda to drive the economy, employment and population growth in provincial Victoria, the Committee considers additional performance indicators are required to measure the effectiveness of the program in achieving desired Government outcomes.

The Committee recommends that:

- Recommendation 85:** **The Department of Innovation, Industry and Regional Development develop additional performance indicators for the *Make it Happen in Provincial Victoria* (Phase 2) Initiative that measures the effectiveness of the:**
- (a) marketing campaign in attracting people to provincial Victoria; and**
 - (b) provincial economic partnerships in increasing economic and investment opportunities in provincial Victoria.**

⁶⁵ ibid

⁶⁶ ibid., p.15

⁶⁷ Minister for State and Regional Development's response to the Committee's follow-up questions, p.6

9.7.3 Key issues impacting on the portfolio

The department's response to the Committee's 2004-05 Budget Estimates questionnaire and the estimates hearing identified three issues that will affect the portfolio and its budget estimates for 2004-05.

(a) **Make it Happen in Provincial Victoria (Phase 2)**

The 2004-05 Budget provided funding of \$5.7 million over three years (\$1.9 million in 2004-05)⁶⁸ to implement phase 2 of the Make it Happen in Provincial Victoria campaign. At the estimates hearing the Minister advised the Committee that research has indicated that close to 600,000 people in Melbourne have thought of moving to provincial Victoria, hence the focus of this campaign will be to provide information and encouragement to facilitate urban dwellers to move to provincial Victoria.⁶⁹

The funding of \$5.7 million over three years was provided for:⁷⁰

- a targeted three year marketing campaign (\$2.85 million); and
- provincial economic partnerships that will assist local councils to drive new economic and investment opportunities (\$2.85 million).

A total of nine projects have been targeted for the Provincial Economic Partnerships initiative in 2004-05.⁷¹ The Minister advised that this target is likely to be exceeded as the emphasis of the program has been changed to deliver a higher number of smaller projects.⁷² The Committee was advised that projects to be undertaken in 2004-05 had not been confirmed. Evaluation criteria were also being developed between the Government and rural and regional councils.⁷³

The Committee supports strongly the intention of the program to promote provincial growth in Victoria. Nevertheless it would have expected that the programs promoting this aim could be identified prior to the Budget appropriation enabling their implementation.

⁶⁸ Budget Paper No. 3, *2004-05 Service Delivery*, p.260

⁶⁹ Hon. J. Brumby, MP, Minister for State and Regional Development, transcript of evidence, 19 May 2004, p.5

⁷⁰ Victorian Government, Economic Statement April 2004, *Victoria: Leading the Way*, p.15

⁷¹ Budget Paper No. 3, *2004-05 Service Delivery*, p.145

⁷² Minister for State and Regional Development's response to the Committee's follow-up questions, p.6

⁷³ *ibid.*

(b) Next Generation Food Strategy

The Next Generation Food Strategy provides for an action plan to grow Victoria's food sector to reach the Government's target of \$12 billion worth of food and fibre exports by 2010.⁷⁴ Funding of \$2.3 million over three years (\$1.1 million in 2004-05)⁷⁵ was provided in the 2004-05 Budget.

The strategy will fund initiatives aimed at removing obstacles to competitiveness and boosting productivity and efficiency in the state's food sector.⁷⁶ The Committee was advised that the details of this strategy are still being finalised, but it is envisaged that it will comprise programs based around a number of broad areas, including:⁷⁷

- contributing to the sustainability of regional communities;
- raising awareness of the importance of product integrity;
- providing a welcoming business environment to attract investment;
- providing infrastructure to support efficient processing and distribution;
- raising awareness of local capabilities in research and development and improving access to new ideas and technologies;
- maximising industry and regional development to attract new investment and facilitate reinvestment by existing companies;
- growing exports of food and wine;
- building careers, education and training to develop and retain a highly skilled, creative and flexible workforce; and
- raising the profile of the food industry both locally and internationally.

The Committee was also advised that the funding allocation for these programs and performance indicators are currently being developed.⁷⁸

The Committee is aware that in order to expand food exports Victoria's food industry must become more innovative and more internationally competitive. The Next Generation Food Strategy is intended to address these factors. In doing so, there will also need to be a high level of cooperation with other departments which can also influence directly, or indirectly, the capacity for Victoria's food industry to become more efficient. Departments include the Department of Primary Industries

⁷⁴ *ibid.*, p.5

⁷⁵ Budget Paper No. 3, *2004-05 Service Delivery*, p.260

⁷⁶ Minister for State and Regional Development's response to the Committee's follow-up questions, p.5

⁷⁷ *ibid.*

⁷⁸ *ibid.*

(Agriculture portfolio), Department of Sustainability and Environment (Water portfolio) and Department of Infrastructure (Transport portfolio).

The Committee recommends that:

Recommendation 86: **The Government develop a coordinated strategy across Government to identify the resources and responsibilities of the various components of the public sector that can contribute towards improving the ability of the food industry to become more globally competitive.**

(c) *Transport, distribution and logistics*

The Building Better Supply Chain Links Initiative received funding of \$2.5 million over three years (\$1.5 million in 2004-05).⁷⁹ This initiative is delivered by the Office of Services Industries and comprises key programs such as:⁸⁰

- contributing to the establishment of a new Centre of Excellence in Intelligent Transport Systems;
- supporting the adoption of a national accreditation code in cool-chain logistics exports;
- encouraging firms to implement world's best practice supply chain management;
- supporting the Transport, Distribution and Logistics Industry Round Table to undertake projects of state and national significance; and
- promoting Victoria as a freight and logistics hub.

The Committee was advised that the funding allocation to the programs is being finalised.⁸¹ The Committee noted that this initiative will also complement the Next Generation Food Strategy referred to above.

⁷⁹ Budget Paper No. 3, 2004-05 *Service Delivery*, p.260

⁸⁰ Minister for State and Regional Development's response to the Committee's follow-up questions, p.4

⁸¹ *ibid.*

9.8 Small Business portfolio

The main function of the Small Business portfolio is to develop and deliver business information, advisory and referral services through the Victorian Business Line, online services and regional offices operating across rural and metropolitan Victoria, including managing the delivery of initiatives and events to assist and promote small business.⁸²

Since 1 May 2003, the Office of the Victorian Small Business Commissioner has provided advice concerning disputes between retail tenants and landlords and handled complaints from small businesses about unfair market practices, generally by a larger rival competitor.⁸³

9.8.1 2004-05 outlook for the portfolio

The Minister for Small Business advised the Committee of the following priorities and challenges for 2004-05:⁸⁴

- promoting a competitive and fair environment for small business;
- building opportunities for innovative small businesses;
- equipping small business to compete in a global economy;
- improving access to Government services; and
- increasing uptake of e-business.

The Committee noted that the key initiatives for the portfolio in 2004-05 were:

- Victorian Business Master Key (a Victoria: Leading the way Initiative),⁸⁵ to allow businesses to manage all dealings with Government agencies through a personalised on-line filing system (\$2 million per year from 2004-05);⁸⁶
- Koori Business Network, providing support services for existing and potential Indigenous business owners/managers (\$1.3 million in both 2004-05 and 2005-06 and \$1.2 million in 2006-07);⁸⁷
- Under New Management Program, providing information and referral services to businesses and individuals contemplating small business ownership (\$3.7 million over three years with \$1.1 million in 2004-05);⁸⁸

⁸² Budget Paper No. 3, *2004-05 Service Delivery*, p.144

⁸³ Office of the Victorian Small Business Commissioner, Questions for the Commissioner, www.sbc.vic.gov.au/questions.asp

⁸⁴ Minister for Small Business' response to the Committee's follow-up questions, p.4

⁸⁵ Victorian Government, *Victoria: Leading the way*, Economic Statement, April 2004, p.18

⁸⁶ Budget Paper No. 3, *2004-05 Service Delivery*, p.260

⁸⁷ *ibid.*, p.289

- introducing standard fair payments clause for Government contracts;⁸⁹
- meeting the commitment for a 70 per cent small business share of business development expenditure;⁹⁰ and
- business development programs and services.⁹¹

One of the more significant initiatives announced in the 2003-04 Budget which will continue to be delivered in 2004-05 is the appointment of a Small Business Commissioner with a budget of \$2 million.⁹² Priorities for the Commissioner will include working with departments to develop small business service charters.⁹³

The budget allocation for the Small Business portfolio for 2004-05 was \$14.6 million, which represents a large 75.9 per cent increase on the expected outcome for 2003-04.⁹⁴

9.8.2 Performance measures

There are no new performance measures for the Small Business portfolio in the 2004-05 Budget Papers. The Committee noted that 14 measures from the 2003-04 Budget have been discontinued. With regard to the discontinued measures:⁹⁵

- six related to the Regulation Reform output which has transferred to the Department of Treasury and Finance;
- four performance measures concerned the number of public enquiries or website hits with respect to specific programs and are now combined in one measure; and
- four related to programs or stages of programs that are completed.

Given that the budget for the Small Business output has increased substantially in 2004-05, the Committee is surprised that the number of performance measures has declined so markedly (even allowing for the transfer of the Regulation Reform output to another department). The Committee believes that the initiatives or extensions to on-going programs announced in the 2004-05 Budget should have appropriate performance indicators to measure their effectiveness. These initiatives include the Victorian Business Master Key, Koorie Business Network and Under New Management program.

⁸⁸ Minister for Small Business' response to the Committee's follow-up questions, p.4; Hon. M. Thomson, MP, Minister for Small Business, media release, *Getting into business without getting into trouble*, 29 June 2004

⁸⁹ Minister for Small Business, Presentation at the 2004-05 Budget Estimates hearing, 15 June 2004

⁹⁰ *ibid.*

⁹¹ *ibid.*

⁹² Department of Innovation, Industry and Regional Development response to the Committee's 2004-05 Budget Estimates questionnaire, p.8

⁹³ Minister for Small Business, Presentation at the 2004-05 Budget Estimates hearing, 15 June 2004

⁹⁴ Budget Paper No. 3, *2004-05, Service Delivery*, p.144

⁹⁵ *ibid.* and Budget Paper No. 3, *2003-04 Budget Estimates*, pp.183-184

The Committee recommends that:

Recommendation 87: **The Department of Innovation, Industry and Regional Development develop appropriate performance measures relating to the 2004-05 budget initiatives or extensions to programs.**

9.8.3 Key issue impacting on the portfolio

The department's response to the Committee's *2004-05 Budget Estimates questionnaire* and the estimates hearing identified one issue that will affect the Small Business portfolio and its budget estimates for 2004-05.

(a) Government support for small business

The Committee was aware that the Department of Innovation, Industry and Regional Development commissioned Victoria University to examine small business access to Government business assistance programs.⁹⁶ The Victoria University's report found that, of small businesses that had not used Government assistance:

- 56.6 per cent did not think that Government can help them; and
- 37.5 per cent were confused about which level of Government provides services for small business.

The report found that those small businesses that reported having bad experiences using Government assistance programs cited poor service, difficulty in identifying the correct person, frustration hanging on the end of the telephone and confusing websites as the most common problems.⁹⁷

The Minister for Small Business confirmed that dealing with Government agencies can be frustrating for small business, in particular, the need to 'shop around Government' and the confusion caused by duplication of services.⁹⁸

In an effort to address these concerns, the department announced the Victorian Business Master Key Initiative (\$6 million over three years) as one of the 'Action' initiatives in the economic statement released in April 2004.⁹⁹ The Minister informed the Committee that the Victorian Business Master Key aims to provide a 'seamless

⁹⁶ Small Business Research Unit, Victoria University of Technology, *Small business access to government business assistance programs*, draft report, July 2003

⁹⁷ *ibid*, pp.14-15

⁹⁸ Hon. M. Thomson, MP, Minister for Small Business, transcript of evidence, 15 June 2004, pp.6-7

⁹⁹ Government of Victoria, *Victoria: Leading the way*, Economic statement, April 2004, p.29

Government feel to business, so businesses seeking assistance will no longer need to access multiple sources within Government to gain information.¹⁰⁰

The Master Key is designed to allow businesses, particularly new start-ups, to manage all dealings with Government agencies through a personalised on-line filing system. These businesses will receive customised guidance through the regulatory processes required when establishing and then operating a business, including registration, paying fees and taxes, and fulfilling any other obligations on-line. The service will also include integration with regulatory requirements by other levels of Government, such as a Tax File Number and an Australian Business Number.¹⁰¹

The Committee notes that this ambitious initiative is funded for three years with early efforts focusing on start-up businesses. Given that most small businesses must deal with all three levels of Government, the Committee encourages the department to consult widely with all relevant agencies to ensure the Master Key is actually seamless. In time, the initiative will need to be evaluated to ensure that it achieves its objectives.

The Committee recommends that:

- Recommendation 88:** **In developing the Victorian Business Master Key Initiative, the Department of Innovation, Industry and Regional Development:**
- (a) **consult widely with a range of agencies from all three levels of Government to ensure assistance to small business is seamless; and**
 - (b) **include performance targets and milestones so that Government assistance to small business can be monitored and evaluated in the implementation phase.**

9.9 Manufacturing and Export portfolio

The main role of the Manufacturing and Export portfolio is to support the manufacturing industry and export sector by delivering a range of assistance programs, undertaking advocacy support and promoting manufacturing and export opportunities.

¹⁰⁰ Hon. M. Thomson, MP, Minister for Small Business, transcript of evidence, 15 June 2004, p.7

¹⁰¹ Government of Victoria, *Victoria: Leading the way*, Economic statement, April 2004, p.29

9.9.1 2004-05 Outlook for the Portfolio

The Committee was advised of the following major initiatives planned for 2004-05 that will have a significant impact on the Manufacturing and Export portfolio:

- Next Generation Food Strategy (referred to above in the review of the State and Regional Development portfolio);
- Exporting for Growth, a *Victoria: Leading the way* action intended to capitalise on Victoria's strong export growth over the past ten years.¹⁰² This action includes \$1 million each year for the next three years for the Opening Doors Export Plan and funding of \$5 million to ensure maximum exposure for Victorian industry at Expo 2005 to be held in Japan;¹⁰³ and
- Victorian Government Business Offices will receive \$4 million over four years, \$1 million in 2004-05.¹⁰⁴ This initiative is again part of the *Victoria: Leading the way* - promoting Victoria as the destination of choice for international investment, which will be delivered through a new body, Invest Victoria.¹⁰⁵ Invest Victoria also has a role in trade development activities which aim to help establish export targets of \$30 billion and double the number of Victorian companies exporting by 2010.¹⁰⁶

9.9.2 Performance Measures

The department advised the Committee that responsibility for major performance targets relating to investment, jobs and exports is shared by a number of Ministers.¹⁰⁷ Consequently, any review of performance indicators for the Manufacturing and Export portfolio will have implications for other portfolios.

The Committee noted a number of new performance measures in the 2004-05 Budget designed to provide information about the progress of manufacturing and export initiatives. They are:

- Business Development output - *number of participants in Balance Sheet Ready Program; number of firms participating in individual export specific programs; number of trade commissioners appointed to designated target markets; number of export advisors funded*,¹⁰⁸ and

¹⁰² Victorian Government, *Victoria: Leading the way*, Economic Statement, April 2004, p.18

¹⁰³ Budget Paper No. 3, *2004-05 Service Delivery*, pp.260–262

¹⁰⁴ *ibid.* and Victorian Government, *Victoria: Leading the way*, Economic Statement, April 2004, p.16

¹⁰⁵ *ibid.*

¹⁰⁶ Hon. T. Holding, MP, Minister for Manufacturing and Export, transcript of evidence, 22 June 2004, p.2

¹⁰⁷ Department of Innovation, Industry and Regional Development response to the Committee's 2004-05 Budget Estimates questionnaire, p.2

¹⁰⁸ *ibid.*, p.15; Budget Paper No. 3, *Service Delivery 2004-05*, p.143

- Regional Economic Development output - *dollar value of new exports facilitated and announced in regional Victoria.*¹⁰⁹

Few of the performance indicators relating to the Manufacturing and Export portfolio measure the success or quality of manufacturing and export activities, with existing measures basically restricted to recording whether or not activities have occurred.¹¹⁰ The Minister advised the Committee that the nature of export programs is such that quantitative results often take time to be achieved. The results are obtained by follow-up surveys.¹¹¹ For example, an assessment of the success of the four year Agenda for New Manufacturing Initiative will be based on key indicators relating to export and the adoption of innovations and investments in new technologies by manufacturing.¹¹²

While accepting the difficulty in developing measures that focus on outcomes of export programs, the Committee believes that the department should be able to publish indicators such as the amount of export growth associated with each major program and the number of new exporters which can be directly linked to the department's activities. If measures for some programs are unsuitable for inclusion in the Budget Papers (for example, programs that are not expected to achieve results for at least two years), the indicators should be published in the department's annual report

The Committee recommends that:

Recommendation 89: **With respect to all major export-oriented programs, the Department of Innovation, Industry and Regional Development develop and publish indicators such as the amount of export growth associated with each program and the number of new exporters.**

The Committee is aware that the department engaged PricewaterhouseCoopers in 2003 to conduct a study that compares dimensions of Victoria's performance against those of other states. The department informed the Committee the study showed that each state reports the performance of their industry development activities in different ways. As a result it is very difficult to obtain a set of data that is comparable between states.¹¹³

¹⁰⁹ Department of Innovation, Industry and Regional Development response to the Committee's 2004-05 Budget Estimates questionnaire, p.16; Budget Paper No. 3, *Service Delivery 2004-05*, p.146

¹¹⁰ Department of Innovation, Industry and Regional Development response to the Committee's 2004-05 Budget Estimates questionnaire, p.15; Budget Paper No. 3, *Service Delivery 2004-05*, p.143

¹¹¹ Minister for Manufacturing and Export's response to the Committee's follow-up questions, pp.10-11

¹¹² *ibid.*

¹¹³ Department of Innovation, Industry and Regional Development response to the Committee's 2004-05 Budget Estimates questionnaire, p.19

The Committee believes that performance measures and targets that incorporate or use national or international benchmarks are generally a more effective way of judging portfolio performance. The Committee believes there is scope for the department to take a lead role and, jointly with other states, develop indicators that are recognised on a statewide or international basis.

The Committee recommends that:

Recommendation 90: **In consultation with interstate industry development agencies, the Department of Innovation, Industry and Regional Development take a lead role and develop performance measures and targets that incorporate national or international benchmarks with respect to their industry development activities.**

9.9.3 Key issue impacting on the portfolio

The department's response to the Committee's 2004-05 Budget Estimates questionnaire and the estimates hearing identified one issue that will affect the Manufacturing and Export portfolio and its budget estimates for 2004-05.

(a) Developing a skilled workforce for the manufacturing industry

As Victoria's manufacturing industries move into higher value niche markets, more advanced manufacturing, research and development will be needed to support the industry and maintain competitive advantage. Victoria needs to ensure its workforce is capable of providing this kind of support. The Committee is aware of suggestions that there may be a future shortage of trained, skilled staff for the manufacturing sector,¹¹⁴ as a result of reductions in the numbers of apprenticeships, the loss of technical and trade-focused secondary schools and a trend away from trade-based further education towards university degrees.¹¹⁵

The Minister informed the Committee that between August 1999 and May 2004, manufacturing employment increased by 14,000 in Victoria to 341,400 at the end of the period. This was despite some industry sectors operating under increasing pressure where tariff cuts and competition from regions have created a challenging environment.¹¹⁶

¹¹⁴ Thomson J. 'The big lure', *Business Review Weekly*, October 30-November 5, 2003 pp.52-55

¹¹⁵ *ibid.*

¹¹⁶ Minister for Manufacturing and Export's response to the Committee's follow-up questions, pp.9-10

One of the major challenges facing the Manufacturing and Export portfolio identified by the Minister is the development of a vibrant and innovative manufacturing sector, as a source of high skilled employment.¹¹⁷ The Minister informed the Committee that the Careers in Manufacturing Strategy will be developed in the second half of 2004. He stressed that it is an important part of the Government's work to improve the image of manufacturing and to attract bright, young people to manufacturing.¹¹⁸

The Minister advised that the Government proposes to establish a Manufacturing Skills and Training Taskforce as a subcommittee of the Victorian Learning and Employment Skills Commission.¹¹⁹

The Committee notes these developments which seek to boost skilled employment in the manufacturing sector and urges the department to set appropriate performance targets and monitor the implementation of the Careers in Manufacturing Strategy. As part of the manufacturing strategy it will also be necessary for the department to work closely with the Department of Education and Training to conduct research into falling apprenticeship numbers and to devise new strategies to publicly promote apprenticeships, along with consideration of new incentives for employers to engage apprentices.

The Committee recommends that:

Recommendation 91: **The Department of Innovation, Industry and Regional Development develop performance targets for the Careers in Manufacturing Strategy and evaluate the success of the strategy, after an appropriate time.**

Recommendation 92: **The Department of Innovation, Industry and Regional Development set timelines for the Manufacturing Skills and Training Taskforce's activities and report on its achievements.**

¹¹⁷ *ibid.*, p.7

¹¹⁸ Hon. T. Holding, MP, Minister for Manufacturing and Export, transcript of evidence, 22 June 2004, p.2

¹¹⁹ Minister for Manufacturing and Export's response to the Committee's follow-up questions, p.7

Recommendation 93: **The Department of Innovation, Industry and Regional Development in collaboration with the Department of Education and Training:**

- (a) conduct research into trends in apprenticeship numbers;**
- (b) devise new strategies to promote apprenticeships; and**
- (c) in light of the research, consider new incentives for employers to employ apprentices.**

9.10 Financial Services Industry portfolio

The financial services sector is the third largest in the Victorian economy, contributing \$14.6 billion (or 8.8 per cent to total factor income) in 2003. The industry employs around 92,000 people or about four per cent of the total Victorian workforce. In the City of Melbourne alone, there are more than 800 financial service organisations employing nearly 45,000 people. Fifty organisations employ more than two hundred people.¹²⁰

The role of the Financial Services portfolio is to facilitate new financial services investment in Victoria, promote Victoria as a financial services centre and provide strategic leadership for the industry.

9.10.1 2004-05 outlook for the portfolio

The Minister for Financial Services Industry advised the Committee that the major focus of the portfolio in 2004-05 will be the implementation of Investing in Victoria's Future, an action plan for the financial services industry.¹²¹ The Minister informed the Committee of the following key strategic challenges that the implementation of the action plan will address:¹²²

- building on the strengths of the finance sector's research capability;
- strengthening the links between the higher education institutions and industry;
- positioning Victoria internationally as a significant regional financial services centre; and

¹²⁰ Hon. T. Holding, MP, Minister for Financial Services Industry, overhead presentation at hearing, 22 June 2004. p.3

¹²¹ Government of Victoria, *Investing in Victoria's Future, The Victorian Government's Action Plan for the Financial Services Industry*, May 2004, p.29

¹²² Minister for Financial Services Industry's, response to the Committee's follow-up questions, p.8

- exploring new growth opportunities, particularly in new sectors such as trading in electricity, carbon credit and water rights and sustainable finance and investment.

In meeting the above challenges, the following initiatives are planned for 2004-05:¹²³

- supporting the establishment of the Melbourne Centre for Financial Studies to specialise in leading edge finance research and to build links between industry and academic research (\$900,000 in 2004-05 and in 2005-06);
- convening or encouraging the establishment of several forums, including the Australian Investment Research Forum, a higher education forum, the Funds Management Networking Forum and the Finance Industry Consultative Committee (FICC) Working Group (no funding specified);
- encouraging greater industry input into existing VET advisory mechanisms to prioritise training needs and enable effective implementation of the Financial Services Training Package (no funding specified);
- attracting major international financial services events and conferences to Melbourne, including the 2004 Ethical Investment Association Conference (no funding specified);
- supporting Monash University to assist in marketing financial services training to the region (a grant of up to \$150,000, time period unspecified); and
- supporting or extending marketing activities such as the Make it Happen in Provincial Victoria marketing campaign, international marketing communications program, support missions to Asia Pacific, North America and Europe, promote Victoria's education and training sector internationally, and seek joint international promotional activities with the Commonwealth and NSW Governments (no funding specified).

The Committee notes these initiatives which the Government considers are very important for the financial services sector in Victoria, in terms of raising its profile internationally and building on the sector's strengths and capabilities. The Committee understands that the action plan is based on the findings of an audit of the industry conducted by the department in 2003.¹²⁴ The audit identified key profiles and characteristics of the financial services sector, as well as opportunities and challenges facing the industry.

¹²³ Government of Victoria, *Investing in Victoria's Future, The Victorian Government's Action Plan for the Financial Services Industry*, May 2004, pp.5, 29

¹²⁴ Government of Victoria, *Financial Services Industry Strategic Audit Report*, June 2003

9.10.2 Performance measures

The Minister for Financial Services Industry has a shared responsibility for performance targets in the four outputs listed in exhibit 9.1.¹²⁵

Given the number of initiatives announced in Investing in Victoria's Future, the Committee was surprised that there were only two performance measures in the 2004-05 Budget relating solely to the financial services industry.¹²⁶ Both are timeliness measures and concern the establishment of the Melbourne Centre for Financial Studies.¹²⁷

The Minister informed the Committee of two targets for the financial services sector in 2004-05, namely:¹²⁸

- investment in capital expenditure of \$25 million; and
- 850 equivalent full-time net new jobs.

While the Committee welcomes targets with respect to key sectors of the economy, it would prefer that such figures are published in the Budget Papers and the department's annual report.

The Minister for Financial Services Industry undertook to provide additional performance measures relating to the action plan, but this has not occurred.¹²⁹ The Committee believes that the department should have developed and published a range of performance measures for each key initiative, covering quantity, quality, timeliness and cost. Without such performance measures, the department cannot effectively monitor the success of the initiatives, nor can the finance sector or the Parliament assess whether the programs and strategies have achieved their objectives.

The Committee recommends that:

Recommendation 94: **When announcing key initiatives, the Department of Innovation, Industry and Regional Development develop and publish key performance measures for each initiative.**

¹²⁵ Department of Innovation, Industry and Regional Development response to the Committee's 2004-05 Budget Estimates questionnaire, pp.1-2 and Budget Paper No. 3, *2004-05 Service Delivery*, pp.140-144

¹²⁶ Hon. T. Holding, MP, Minister for Financial Services Industry, media release, *Holding launches action plan for financial services industry*, 10 May 2004

¹²⁷ Department of Innovation, Industry and Regional Development response to the Committee's 2004-05 Budget Estimates questionnaire, p.15; Budget Paper No. 3, *Service Delivery 2004-05*, p.143

¹²⁸ Hon. T. Holding, MP, Minister for Financial Services Industry, transcript of evidence, 22 June 2004, p.6

¹²⁹ *ibid.*, p.6; Minister for Financial Services Industry's response to the Committee's follow-up questions, p.3

9.10.3 Key issue impacting on the portfolio

The department's response to the Committee's *2004-05 Budget Estimates questionnaire* and the estimates hearing identified one issue that will affect the Financial Services portfolio and its Budget Estimates for 2004-05.

(a) **Funding for investing in Victoria's future initiatives**

The Committee notes that only one of the initiatives identified in the Investing in Victoria's Future action plan has funding specified in the 2004-05 Budget namely, the Melbourne Centre for Financial Studies (\$1.8 million over two years).¹³⁰ With regard to another initiative, assisting Monash University to market financial services training, the action plan states that up to \$150,000 will be provided but the time period is not specified.¹³¹ The Committee was not subsequently provided with the estimated costs of all the identified initiatives.¹³² The Committee believes that where the department receives global funding for initiatives, it should identify the costs associated with the initiatives in order to support the Budget appropriation.

The Committee recommends that:

Recommendation 95: **Where the Department of Innovation, Industry and Regional Development allocates global funding for initiatives, it should identify in the Budget Papers the costs and timeframe associated with each initiative in order to support the Budget appropriation.**

9.11 Tourism portfolio

The tourism industry contributed \$10 billion to the Victorian economy (5.2 per cent of Gross State Product) in 2002-03 and employs 148,000 people (or 6.2 per cent of the State's workforce). Victoria had 1.2 million international visitors and 5.2 million interstate visitors in 2003.¹³³

¹³⁰ Budget Paper No. 3, *2004-05 Service Delivery*, p.260

¹³¹ Government of Victoria, *Investing in Victoria's Future, The Victorian Government's Action Plan for the Financial Services Industry*, May 2004, p.5

¹³² Hon. T. Holding, MP, Minister for Financial Services Industry, transcript of evidence, 22 June 2004, p.6; Minister for Financial Services Industry's response to the Committee's follow-up questions, p.3

¹³³ Hon. J. Pandazopoulos, MP, Minister for Tourism, Overhead presentation at hearing, 24 June 2004, p.5

The main purpose of the Tourism portfolio is to maximise employment and the longer term economic benefits of tourism to Victoria by developing and marketing the state as a competitive tourist destination for both domestic and international tourists.¹³⁴

The Tourism portfolio includes the agencies Tourism Victoria, the Australian Grand Prix Corporation, the Emerald Tourist Railway Board, the Melbourne Convention and Exhibition Trust, and the Melbourne Exhibition and Convention Centre.¹³⁵

9.11.1 2004-05 outlook for the portfolio

The Minister informed the Committee of the following priorities for 2004-05:¹³⁶

- a strategic approach to marketing which is focused on carefully targeted regions, activities and audiences;
- international marketing, including the development of the Melbourne brand;
- business tourism, with a focus on the new convention centre and Commonwealth Games; and
- improving aviation links with key markets, particularly those with the greatest potential for Victoria.

The following three initiatives planned for 2004-05 were identified in the 2004-05 Budget:

- Melbourne Convention Centre redevelopment (\$366.9 million over four years, commencing in 2004-05);¹³⁷
- major events funding cap (\$35 million over three years, commencing in 2004-05) to increase Victoria's capacity to support major sporting and tourism events of significant economic benefit to Victoria;¹³⁸ and
- statewide booking system for regional visitor information centres (\$300,000 in 2004-05). Investigations will be made of the key areas of booking systems, destination information provision and management, and the networking requirements of visitor information centres.¹³⁹

¹³⁴ Budget Paper No. 3, *2004-05 Service Delivery*, p.150

¹³⁵ Hon. J. Pandazopoulos, MP, Minister for Tourism, Overhead presentation at hearing, 24 June 2004. p.4

¹³⁶ *ibid.*

¹³⁷ A further \$2 million is allocated in 2004-05 for procurement costs. Source: Budget Paper No. 3, *2004-05 Service Delivery*, pp.260-261, 264

¹³⁸ Budget Paper No. 3, *2004-05 Service Delivery*, pp.32, 289

¹³⁹ *ibid.*, pp.289-290

In addition, the Committee notes that \$7.7 million is planned to be allocated over two years towards a package of measures to increase cultural tourism in Victoria and to grow the patronage of cultural and heritage attractions across the state.¹⁴⁰

There are four initiatives from the 2003-04 Budget that continue into 2004-05 and beyond. In terms of total expenditure, the two largest initiatives from 2003-04 are:¹⁴¹

- marketing Victoria (\$10 million spread evenly over four years commencing in 2003-04); and
- regional marketing and regional renewal (\$10 million, as above).

9.11.2 Performance measures

There are 19 performance measures for the Tourism output group in the 2004-05 Budget Papers, comprising:¹⁴²

- 14 quantity indicators (such as the number of overseas visitors and visitor expenditure);
- four quality measures (all relating to public awareness of advertising campaigns); and
- one cost measure (total output cost).

Although most indicators relate to quantity, they mainly focus on the key outcomes of tourist numbers and tourist expenditure. The department provided the Committee with some examples of external data sources used to evaluate the portfolio's performance. These included the Bureau of Tourism Research's National Visitor Survey and Roy Morgan's Holiday Tracking Survey.¹⁴³ The Committee commends the department for seeking independent sources to assess the impact of its programs.

The four quality indicators are new to this budget; however, they replace four similar measures that have been discontinued.¹⁴⁴ The department advised that, following a review undertaken in 2003-04, the new measures are more accurate and robust than the previous measures.¹⁴⁵

¹⁴⁰ Allocation to financial years was not specified. Source: Government of Victoria, *Victoria: Leading the way, Economic statement*, April 2004, p.14

¹⁴¹ Department of Innovation, Industry and Regional Development response to the Committee's 2004-05 Budget Estimates questionnaire, pp.9-12

¹⁴² Budget Paper No. 3, *2004-05 Service Delivery*, pp.150-151

¹⁴³ Department of Innovation, Industry and Regional Development response to the Committee's 2004-05 Budget Estimates questionnaire, p.19

¹⁴⁴ Budget Paper No. 3, *2004-05 Service Delivery*, p.344

¹⁴⁵ Department of Innovation, Industry and Regional Development response to the Committee's 2004-05 Budget Estimates questionnaire, pp.17-18

The Committee is aware that 13 performance measures from the 2003-04 Budget have been discontinued.¹⁴⁶ Apart from four that have been replaced by similar measures, most relate to media campaigns that finished in 2002-03.

The Committee noted that four of Tourism Victoria's objectives relate to the provision or use of tourist facilities.¹⁴⁷ However, there are no performance measures in the 2004-05 Budget (or Tourism Victoria's annual report) which measure the provision of tourist infrastructure, or visitor use or satisfaction with tourist facilities.¹⁴⁸

The Minister advised the Committee that research is undertaken internally to measure the use of tourist attractions, accommodation and related tourist facilities. Measurement of stakeholder satisfaction, including visitors, is undertaken at a local government level. The Minister also informed the Committee that an expansion of the current number of performance measures to include visitor use or visitor satisfaction is considered contrary to the Department of Treasury and Finance's aim to streamline performance measurement.¹⁴⁹ The Committee is disappointed with this response from Treasury.

The Committee recommends that:

Recommendation 96: **The Department of Innovation, Industry and Regional Development and Tourism Victoria develop performance indicators to measure visitor use of, and satisfaction with, tourist facilities and report these in the annual report of Tourism Victoria**

9.11.3 Key issues impacting on the portfolio

The department's response to the Committee's *2004-05 Budget Estimates questionnaire* and the estimates hearing identified two issues that will affect the Tourist portfolio and its Budget Estimates for 2004-05.

(a) Melbourne Convention Centre

The Committee notes the proposal to build a convention centre adjacent to the Melbourne Exhibition Centre and that the absence of a very large convention centre has reduced Victoria's competitiveness. The Committee understands that the redevelopment will include an integrated exhibition and convention centre, with a

¹⁴⁶ Based on comparison of performance measures in 2003-04 and 2004-05 Budget papers. Budget Paper No. 3, *2004-05 Service Delivery*, pp.150-151; Budget Paper No. 3, *2003-04 Budget Estimates*, pp.190-192

¹⁴⁷ Tourism Victoria, *2002-03 Annual Report*, pp.5, 43-44

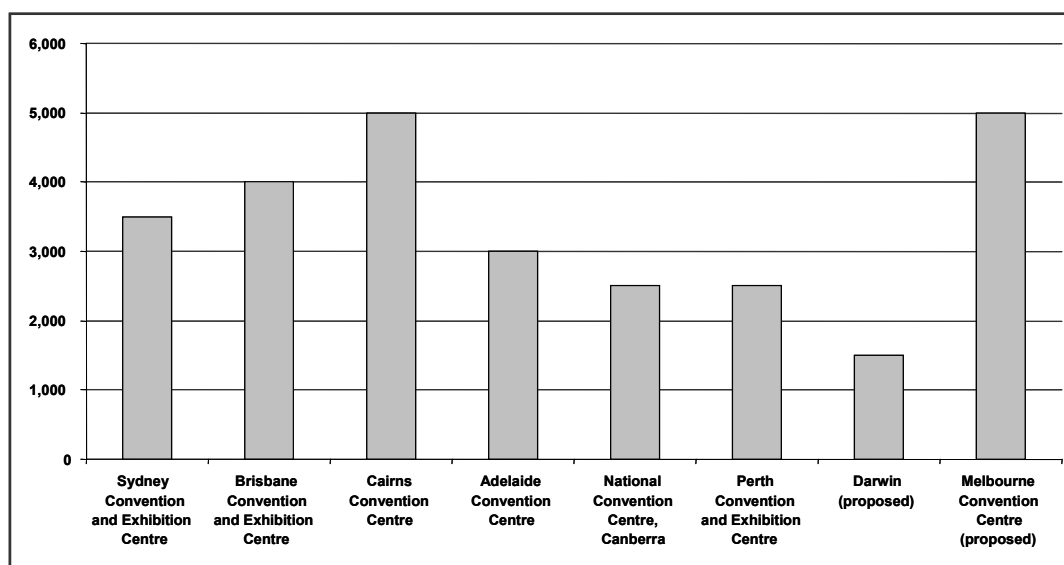
¹⁴⁸ Budget Paper No. 3, *2004-05 Service Delivery*, pp.150-151

¹⁴⁹ Hon J. Pandazopoulos, MP, Minister for Tourism's response to the Committee's follow-up questions, pp.8-9

5000 seat plenary hall and integrated development of the surrounding Southbank site.¹⁵⁰

The Committee notes that the Government expects that the proposed convention centre will attract international and domestic conventions to Melbourne and generate additional delegate spending of \$3.3 billion over 25 years (\$129 million per year), resulting in an increase in Gross State Product of \$5 billion over 25 years (\$197 million per year). The Melbourne Convention Centre will have the equal largest seating capacity of any Australian city (refer to exhibit 9.7).¹⁵¹

Exhibit 9.7: Convention centre seating capacity Australian cities



Source: Department of Innovation, Industry and Regional Development, Melbourne Convention Centre Redevelopment, Questions and Answers document from website, www.iird.vic.gov.au, July 2004

The Committee understands that the total construction cost of the core convention centre buildings is anticipated to be \$367 million, with \$24 million expected to be expended in 2004-05.¹⁵² In addition, the City of Melbourne is expected to make a significant contribution to the project, totalling \$43 million, comprising capital costs (\$20 million), footbridge and road connections (\$17 million) and marketing (\$6 million).¹⁵³

¹⁵⁰ Government of Victoria, *Victoria: Leading the way, Economic statement*, April 2004, pp.12–13

¹⁵¹ Department of Innovation, Industry and Regional Development, *Victoria: Leading the Way – Economic Statement, Melbourne Convention Centre Redevelopment*, accessed on www.iird.vic.gov.au

¹⁵² Budget Paper No. 3, *2004-05 Service Delivery*, p.264

¹⁵³ Website, www.iird.vic.gov.au, Department of Innovation, Industry and Regional Development, Melbourne Convention Centre Redevelopment, Q & A's, July 2004

The project will be delivered under Partnerships Victoria.¹⁵⁴ The scope of services to be delivered by the private sector will include the design, construction, finance and maintenance of the new convention centre, together with the development of the precinct as a whole. Expressions of interest are to be called for in late 2004, with construction to be completed in 2008.¹⁵⁵

Due to the size and complexity of the project and the strategic significance for Victoria, the department needs to develop a risk management plan covering all aspects of the project, including tendering, contract planning and management, financing, construction, and delivery of the project on time.

The Committee recommends that:

Recommendation 97: **The Department of Innovation, Industry and Regional Development ensure that a risk management strategy is developed for the Melbourne Convention Centre Project to make certain that the project is effectively managed and delivered on time and within budget.**

(b) *The affect on regional tourism of Jetstar at Avalon airport*

The Committee is aware that the new low cost Qantas-owned domestic airline Jetstar commenced flights in May 2004 from Avalon airport near Geelong. The Government expects that around 1000 Victorians will be employed directly by the low cost carrier over the next few years and there will be about 3000 indirect jobs.¹⁵⁶

The Minister informed the Committee that Tourism Victoria has committed funding to provide outdoor signage welcoming visitors to Victoria. The Victorian Government has provided funding to alter directional signage in Victoria so there is no confusion regarding Avalon airport and Tullamarine.¹⁵⁷

The Minister advised the Committee that Tourism Victoria and Jetstar have developed a cooperative marketing plan to build tourist visitation to Melbourne, Geelong and the Great Ocean Road through flights into Avalon airport. A Jetstar Tourism Task Force has been established which includes representatives from Tourism Victoria, Jetstar, Geelong Otway tourism and the City of Geelong to discuss and agree on marketing activities. Planned activities include press advertisements, 15-second television advertisements, radio and the Internet.¹⁵⁸

¹⁵⁴ Budget Paper No. 3, *2004-05 Service Delivery*, p.264

¹⁵⁵ Department of Innovation, Industry and Regional Development, Melbourne Convention Centre Redevelopment, Q & A's, July 2004

¹⁵⁶ Invest Victoria, media release, *Qantas low cost carrier to be based in Melbourne*, 4 December 2003

¹⁵⁷ Minister for Tourism's response to the Committee's follow-up questions, pp.10-11

¹⁵⁸ *ibid.*

The Committee notes the approach taken by Tourism Victoria to jointly develop with the private sector and local Government, a strategy designed to enhance tourism particularly in regional Victoria.

The Committee recommends that:

Recommendation 98: **The Department of Innovation, Industry and Regional Development monitor and report on the impact on tourism in the Geelong and Otway region, following the commencement of Jetstar flights at Avalon airport.**

9.12 Industrial Relations portfolio

Victoria does not have a state-based industrial relations system except for some specialist legislation, having transferred most of its industrial relations powers to the Commonwealth Government in 1996. Industrial relations matters in Victoria are regulated through the Commonwealth Government's Workplace Relations Act.¹⁵⁹

The core responsibility of the Industrial Relations portfolio is to create and promote a positive industrial relations environment and build better workplaces.¹⁶⁰

9.12.1 2004-05 outlook for the portfolio

The Minister informed the Committee of the following priorities for the Industrial Relations portfolio in 2004-05:¹⁶¹

- advocating a better industrial relations framework in Victoria;
- helping ensure that all Victorian employees have access to federal award minimum conditions;
- providing advice to potential investors;
- promoting innovative workplace practices; and
- promoting cooperative public sector industrial relations.

No initiatives are listed in the 2004-05 Budget Papers for Industrial Relations Victoria.¹⁶²

¹⁵⁹ Industrial Relations Victoria, Industrial Relations in Victoria, accessed on www.irv.vic.gov.au

¹⁶⁰ Department of Innovation, Industry and Regional Development, *2002-03 Annual Report*, p.5

¹⁶¹ Hon. R. Hulls, MP, Minister for Industrial Relations, Overhead presentation, 16 June 2004, p.6

¹⁶² Budget Paper No. 3, *2004-05 Service Delivery*, pp.289–290

However, the Committee observed that one of the action statements in *Victoria: Leading the way* proposes changes to assist the Government to intervene in significant industrial disputes. The Taking New Directions in Industrial Relations action statement is discussed later in this section.¹⁶³

The Minister advised the Committee that the operations of Industrial Relations Victoria (IRV) were reviewed in 2003-04.¹⁶⁴ The following new tasks have been identified for IRV:¹⁶⁵

- funding the development of model approaches to promoting workplace flexibility;
- sponsoring the development of human resource and industrial relations capacities in the automotive and components industry;
- working to address image, skills and industrial relations issues in the Victorian building and manufacturing industries; and
- developing packages for new investors and smaller investors who do not typically engage Government for assistance with industrial relations issues.

While the Budget Papers did not identify specific funding for the above proposals and tasks, expenditure for the Industrial Relations portfolio is expected to increase by \$2.3 million (or 18.7 per cent) in 2004-05.¹⁶⁶

9.12.2 Performance measures

The Committee notes that there are 11 performance indicators in the Industrial Relations output group, including one new measure. The indicators cover quantity (including the number of programs delivered and number of general enquiries), quality (mainly relating to client satisfaction), timeliness (such as advice delivered in agreed timeframe) and cost of outputs.¹⁶⁷

The new measure is number of responses to general workplace inquiries which has a target of 7,000 in 2004-05. The Minister advised the Committee that this new measure reflects a core responsibility of the portfolio to advise on key industrial relations laws.¹⁶⁸ It replaces the measure *education and communication strategies deployed within agreed timeframe*.

Three indicators from the 2003-04 Budget Papers have been discontinued.¹⁶⁹

¹⁶³ Government of Victoria, *Victoria: Leading the Way*, Economic Statement, April 2004, p.28

¹⁶⁴ Hon. R. Hulls, MP, Minister for Industrial Relations, transcript of evidence, 16 June 2004, p.4

¹⁶⁵ Government of Victoria, *Victoria: Leading the Way*, Economic Statement, April 2004, p.28

¹⁶⁶ Budget Paper No. 3, *2004-05 Service Delivery*, pp.148–149

¹⁶⁷ *ibid.*

¹⁶⁸ Hon. R. Hulls, MP, Minister for Industrial Relations, transcript of evidence, 16 June 2004, p.4

¹⁶⁹ Budget Paper No. 3, *2004-05 Service Delivery*, p.344

The Committee believes that, on the whole, the performance indicators adequately cover the main areas of the portfolio's activities. However, the Committee has two concerns:

- the quantity and quality indicators of program delivery are too aggregated, with all the portfolio's programs combined into both measures; and
- there is no overall measure of Victoria's industrial performance (this issue is discussed below).

The Committee considers that separate performance indicators should be developed and reported for major programs so that the implementation and effectiveness of each program can be assessed.

The Committee recommends that:

Recommendation 99: **The Department of Innovation, Industry and Regional Development develop and report separate performance indicators for each major program in the Industrial Relations portfolio.**

9.12.3 Key issue impacting on the portfolio

The department's response to the Committee's 2004-05 Budget Estimates Questionnaire and the estimates hearing identified one issue that will affect the Industrial Relations portfolio and its Budget Estimates for 2004-05.

(a) New directions in industrial relations

One of the action statements in *Victoria: Leading the way* proposes changes to assist the Government to intervene in significant industrial disputes. The Taking New Directions in Industrial Relations action statement proposes that the Government will:¹⁷⁰

- introduce a new Emergency Powers Act. The new legislation will consolidate Victoria's emergency powers and make specific reference to the use of such powers in circumstances of serious industrial disputation. The legislation will stipulate the terms and conditions under which work shall be performed, pending formal resolution by conciliation and arbitration; and
- seek from the Commonwealth the power to bring applications to the Industrial Relations Commission to terminate bargaining periods in circumstances where industrial action is threatening the health, safety or welfare of Victorians, or causing significant damage to the state's economy.

¹⁷⁰ Government of Victoria, *Victoria: Leading the Way*, Economic Statement, April 2004, p.28

The Minister informed the Committee that there are currently nine separate Acts dealing with emergency situations, the main ones being the Essential Services Act, the Vital State Industries (Works and Services) Act, parts of the Electricity Industry Act and the Gas Industry Act. There are significant inconsistencies and it is confusing to business and employees. Consolidating all the legislation under one Act will improve certainty for business and help attract investment into Victoria.¹⁷¹

The Minister advised the Committee that new Emergency Powers Act will only apply during the period of an emergency where an essential service or industry or vital state project is threatened or affected by industrial action. The new powers would only be used as a last resort, and in circumstances where the wellbeing of the community was at risk because of an industrial dispute and unable to be resolved due to the inadequacies in federal industrial relations legislation.¹⁷²

¹⁷¹ Hon. R. Hulls, MP, Minister for Industrial Relations, transcript of evidence, 16 June 2004, p.5

¹⁷² Hon. R. Hulls, MP, Minister for Industrial Relations, media release, *New directions in industrial relations*, 20 April 2004

CHAPTER 10: DEPARTMENT OF JUSTICE**Key Findings of the Committee:**

- 10.1** The Department of Justice's budget allocation for 2004-05 was \$2,409.4 million, an increase of \$210.2 million from the expected outcome for 2003-04. Almost 50 per cent of the additional funding was allocated to Victoria Police.
- 10.2** The 2004-05 Budget for the Department of Justice includes \$8.5 million carried over from the previous year. The largest single item contributing to the carry over was funding of \$2.5 million for the Home Detention Program.
- 10.3** The Department of Justice's budgeted surplus of \$13.4 million in 2004-05 is almost entirely due to investment returns from trust funds, in particular the Victorian Property Fund.
- 10.4** The number of staff employed by the Department of Justice is expected to increase by more than 570 in 2004-05, with over 400 new staff expected to be employed at two new prisons.
- 10.5** The number of sworn police officers (including police recruits) is expected to increase by 205 by the end of 2004-05. Victoria Police will need to employ a further 192 sworn officers to meet the Government's target of 10,900 police officers by November 2006.
- 10.6** Despite several years elapsing since the Auditor-General raised the issue of auditing the non-judicial functions of courts, a protocol to guide arrangements has yet to be agreed between the key parties.
- 10.7** Construction costs for court complexes at Mildura, Warrnambool, Moorabbin and in the LaTrobe valley have been revised upwards by more than \$30 million, almost 50 per cent more than the initial planned cost for these projects.
- 10.8** Since the release of the 2004-05 Budget in May 2004, the budget of the Office of Public Prosecutions has increased by \$5.5 million (20.8 per cent) to implement a new asset confiscation regime and support the ongoing work of the Office, which had increased substantially as a result of the investigations by Victoria Police taskforces into organised crime. Further funding of \$6.6 million for the Office was announced in October 2004.

- 10.9** Revenue foregone in 2003-04 due to issues associated with a number of fixed safety camera installations has been estimated at around \$194 million, with an anticipated impact on revenue in 2004-05 of \$20.2 million.
- 10.10** During 2001-2003 \$4.5 million in grants has been provided to 108 VicSES units and 119 CFA brigades to assist in the acquisition of ancillary safety and rescue equipment valued at more than \$10 million.
- 10.11** The rate of recidivism in Victoria (the proportion of prisoners returning to corrective services within two years of release or completion of a community based order) declined in 2002-03, after several years of showing an upward trend.
- 10.12** An earlier forecast of prisoner numbers predicted that the prison population would be higher than the actual outcome at April 2004. During 2004-05 the estimated number of prisoners will initially decline before reverting to their former level.
- 10.13** Targeted efforts by Consumer Affairs Victoria to increase awareness and protection of consumer rights for Indigenous Victorians have resulted in a significant increase in the number of contacts between Indigenous consumers and Consumer Affairs Victoria.
- 10.14** The Gambling Research Panel has made slow progress in publishing its research plan and commissioned research reports.
- 10.15** The ongoing integrity and viability of the racing industry in Victoria is under threat from off-shore and cross-border betting activities. In the absence of a unified national approach, it will remain very difficult to attempt to control off-shore betting exchanges which use the Internet.

Departmental review

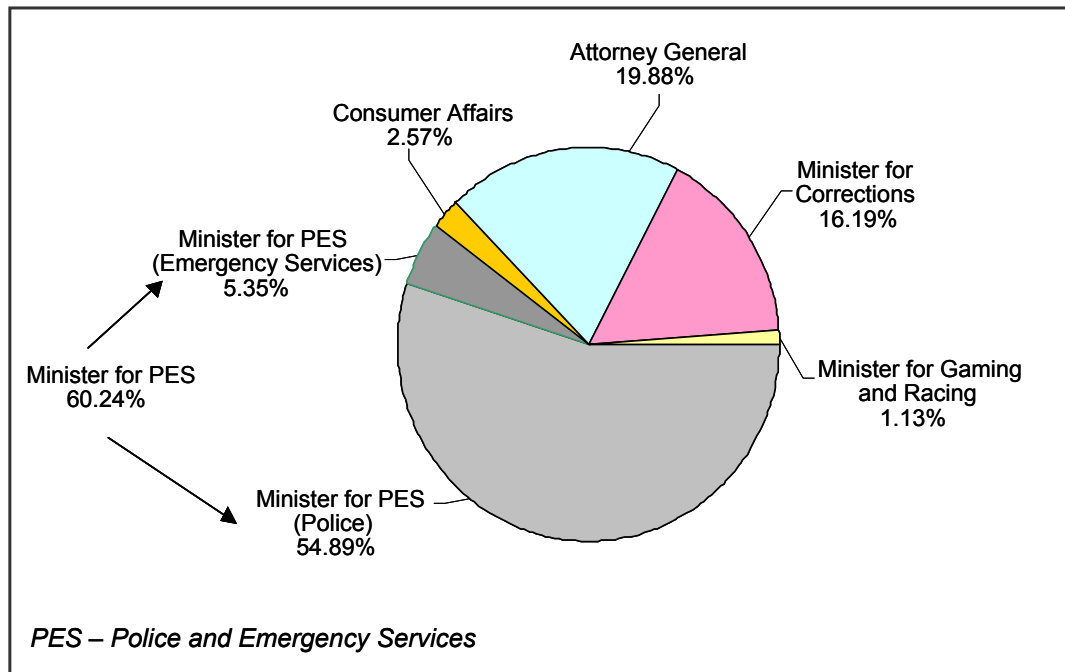
10.1 Departmental overview

The Department of Justice supports the ministerial portfolios of Police and Emergency Services; Corrections; Attorney General; Consumer Affairs; Gaming; and Racing.¹

The Police and Emergency Services portfolio outputs account for most of the Department of Justice's budgeted expenditure in 2004-05 (see exhibit 10.1).

¹ Department of Justice response to the Committee's 2004-05 Budget Estimates questionnaire, pp.2-3

**Exhibit 10.1: Department of Justice
Output costs**



Source: Hon. A. Haermeyer, MP, Minister for Corrections, presentation to the Committee's 2004-05 Budget Estimates hearing, 21 May 2004

10.1.1 Key challenges for the department in 2004-05

The Department of Justice faces a number of major challenges in 2004-05 including implementing strategies to build on recent achievements in lowering reported crime rates and recidivism by former prisoners.

The Committee noted a number of specific risks relevant to the Department of Justice and its portfolio agencies including:²

- implementation of Corrections Long Term Management Strategy – Corrections Victoria must meet a number of targets to reduce the growth in prisoner numbers;
- management of Asset Management Program – significant asset investment programs must be delivered on time and on budget;
- co-ordination of Industrial Relations Issues – industrial agreements outside the Government's wages policies carry significant budget risk for the department;
- resolution of road safety cameras and enforcement revenue matters – delays in resolution of these matters may undermine the achievement of the Government's road safety targets;

² *ibid.*, pp.5-6

- review of Gaming Licenses – requires effective management of all stakeholder expectations and high level analysis of gambling industry developments in the context of the Government’s objectives;
- delivery of services through outsourcing partnerships, including effective delivery of computer aided dispatch and management of major procurements by the Bureau of Emergency Services Telecommunications; and
- unfunded cost pressures – unfunded cost pressures are a risk to future sustainability of priority programs and services.

10.1.2 Key factors influencing the budget estimates

The Committee noted that the Department of Justice’s estimates for the 2004-05 financial year have been influenced by forecasts of changes to demand for services, feedback from community and population surveys, new policy implementation requirements and funding for new programs.³

Areas in which the department has indicated higher levels of demand in 2004-05 include calls for assistance in matters of personal and public safety (9 per cent), moving early offenders away from the criminal justice system into counselling programs (4.9 per cent), matters disposed in the Children’s Court (7.4 per cent) and infringements processed by the PERIN court (6.1 per cent).⁴

The 2004-05 Budget includes an allocation of \$42.1 million in 2004-05 for asset initiatives included as part of the Government’s 2002 pre-election commitments.⁵ Only one pre-election commitment relating to the Department of Justice portfolios – mobile police facilities (total estimated investment \$2.5 million) – is yet to receive funding.⁶

³ *ibid.*, p.5

⁴ Budget Paper No. 3, *2004-05 Service Delivery*, pp.153–178

⁵ *ibid.*, p.47

⁶ *ibid.*, p.49

10.2 Output management framework

Except for the Gaming and Racing Industry Management output, where responsibility is shared between the Minister for Racing and the Minister for Gaming, the Committee notes that there is no other shared ministerial responsibility for Department of Justice outputs.⁷

10.3 Budget summary/financial analysis

The Department of Justice's budget allocation for 2004-05 was \$2,409.4 million, representing an increase of \$210.2 million compared to the estimated actual result for 2003-04 (see exhibit 10.2).

⁷ Department of Justice response to the Committee's 2004-05 Budget Estimates questionnaire, pp.2-3

**Exhibit 10.2: Department of Justice
Output group costs**

	Column 1	Column 2	Column 3	Column (3-2)/2
Output group	2003-04 Budget	2003-04 Estimated Actual	2004-05 Budget	Variation (a)
	(\$ million)	(\$ million)	(\$ million)	(%)
Public Safety Policy	9.7	15.9	20.1	26.4
Emergency Prevention and Response	91.8	92.5	108.7	17.5
Reducing the Crime Rate	572.9	580.0	626.7	8.1
Reducing the Road Toll and Incidence of Road Trauma	119.2	120.7	130.4	8.0
High levels of Community Perceptions of Safety	466.2	472.5	510.1	8.0
High Levels of Customer Satisfaction	50.6	51.1	55.3	8.2
Enforcing Correctional Orders	328.6	323.7	390.1	20.5
Legal Support for Government	43.5	48.0	46.1	-4.0
Dispensing Justice	286.6	287.3	297.5	3.6
Enforcing Court Orders	118.6	115.0	124.2	8.0
Achieving Equal Opportunity	10.5	11.1	11.1	0.0
Protecting Consumers	55.3	54.8	61.9	13.0
Regulating Gaming and Racing	23.7	26.6	27.2	2.3
Total	2,177.2	2,199.2	2,409.4	9.6

Note: (a) A negative variance indicates that the 2004-05 budget has decreased compared with the 2003-04 estimated actual outcome

Source: Budget Paper No. 3, 2004-05 Service Delivery, pp.153–178

Almost 50 per cent of additional funding in the Department of Justice's 2004-05 Budget was allocated to outputs delivered by Victoria Police.⁸ Higher levels of funding to Victoria Police are due to output initiatives costing \$42.3 million in 2004-05⁹ and \$35.1 million in salary funding for Victoria Police arising from the 2001 police enterprise bargain agreement.¹⁰

⁸ *ibid.*, pp.39–44

⁹ Budget Paper No. 3, 2004-05 Service Delivery, p.291

¹⁰ Budget Paper No. 4, *Statement of Finances 2004-05*, p.72

10.3.1 Operating performance

In 2004-05, the Department of Justice budgeted to receive \$2.4 billion in revenue for its controlled operations, largely in line with budgeted expenditure and more than 9 per cent higher than in 2003-04 (see exhibit 10.3). The department advised the Committee that it does not budget for a deficit and has not run a deficit since full accrual accounting was introduced in 1998-99. The surplus budgeted for in 2004-05 arises solely from controlled trust funds (in particular the Estate Agents' Guarantee Fund – now Victorian Property Fund).¹¹

**Exhibit 10.3: Department of Justice
Statement of financial performance**

	Column 1	Column 2	Column 3	Column (3-2)/2
	2003-04 Budget	2003-04 Estimated Actual	2004-05 Budget	Variation (a)
	(\$ million)	(\$ million)	(\$ million)	(%)
Controlled items				
Operating revenue	2,191.7	2,217.5	2,423.1	9.3
Operating expenses	2,177.6	2,199.3	2,409.8	9.6
Net result	14.1	18.2	13.4	-26.4
Administered items				
Administered revenue	2,215.5	1,975.2	2,128.2	7.7
Administered expenses	2,180.7	1,951.4	2,092.9	7.3
Surplus/Deficit	34.7	23.8	35.3	48.3

Note: (a) A negative variance indicates that the 2004-05 budget has decreased compared with the 2003-04 estimated actual outcome

Source: Budget Paper No. 4, 2004-05 Statement of Finances, pp.74, 77

The Department of Justice advised the Committee of the following reasons for major variations between the expected position in 2003-04 and the budgeted position in 2004-05:¹²

- operating revenue – the increase primarily reflects funding for initiatives commenced in previous budgets and the 2004-05 Budget (\$189.6 million) and general cost of living escalation funding under the Departmental Funding Model (\$21.6 million); and
- operating expenses – most of the increase is related to a \$105 million (8.4 per cent) rise in employee benefits, higher payments to suppliers (\$55.3 million) and a \$23.5 million increase in the capital assets charge due to a periodic asset revaluation (adding \$12.2 million), with the remainder resulting

¹¹ Department of Justice response to the Committee's 2004-05 Budget Estimates questionnaire, p.23

¹² *ibid.*, pp.18–20

directly from depreciation associated with increased capital program expenditure in recent years and planned capital program expenditure in 2004-05.

The Committee noted the major movement on the Administered Items Statement for the Department of Justice is an anticipated decrease in revenue of \$87.3 million from the 2003-04 Budget, as a combined result of a decrease in anticipated traffic camera and on-the-spot fines, and a decrease in the level of anticipated revenue from electronic gaming machines.¹³ This results in a corresponding decrease in payments to the Consolidated Fund.¹⁴ The Department of Justice advised the Committee that the restoration of a more normal pattern of infringements is expected in 2004-05, resulting in an increase in 2004-05 fine revenue of \$116.9 million.¹⁵

10.3.2 Balance sheet performance

At 30 June 2005, the Department of Justice expects to control assets valued at \$1.9 billion, an increase of 20.3 per cent from the anticipated result in 2003-04 (see exhibit 10.4).

¹³ Budget Paper No. 4, *2004-05 Statement of Finances*, p.73

¹⁴ *ibid.*

¹⁵ Department of Justice response to the Committee's 2004-05 Budget Estimates questionnaire, p.22

Exhibit 10.4:

**Department of Justice
Statement of financial position**

	Column 1	Column 2	Column 3	Column (3-2)/2
	2003-04 Budget	2003-04 Estimated Actual	2004-05 Budget	Variation
	(\$ million)	(\$ million)	(\$ million)	(%)
Controlled items				
Controlled assets	1,581.7	1,560.5	1,876.6	20.3
Controlled liabilities	510.7	510.5	534.1	4.6
Net assets	1,071.0	1,049.9	1,342.5	27.9
Administered items				
Administered assets	375.9	365.0	400.3	9.7
Administered liabilities	125.4	125.4	125.4	0.0

Sources: *Budget Paper No. 4, 2004-05 Statement of Finances, p.77; Department of Justice response to the Committee's 2004-05 Budget Estimates questionnaire, p.32*

The department advised the Committee of the following reasons for major variations between the expected position in 2003-04 and the budgeted position in 2004-05:¹⁶

- current assets – increase of \$22.6 million in the expected holdings of the Estate Agents' Guarantee Fund (now called the Victorian Property Fund);
- non-current assets – the increase of \$274.7 million in the value of property, plant and equipment. The major projects contributing to the increase include the prison expansion program (\$30 million in 2004-05), the metropolitan mobile radio project (\$24 million in 2004-05), the Latrobe Valley Police and Courts Complex (\$10 million in 2004-05), the police stations construction program (\$17.8 million in 2004-05) and the Mildura Court House (\$7 million in 2004-05);¹⁷ and
- current liabilities – the increase of \$25.2 million largely reflects the impact on superannuation and leave provisions of a net addition of more than 775 employees in 2004-05.¹⁸

¹⁶ *ibid.*, p.33

¹⁷ *ibid.*, p.35

¹⁸ *ibid.*, pp.15–17

10.3.3 Carry over funding

At the time of preparation for the 2004-05 Budget, the Department of Justice expected to carry forward \$17.4 million of unspent appropriations from the previous year, comprising \$2.5 million for the provision of outputs and \$14.9 million for additions to the net asset base.¹⁹

In response to questioning by the Committee during the estimates hearings and in follow-up questions to the Ministers, the carry over funding for the department had been revised down to \$8.453 million,²⁰ with most of this funding relating to the initiatives in the Attorney-General's portfolio including:²¹

- delayed payments for the Integrated Courts Management System (\$1.6 million);
- funding for the development of the asset confiscation computer system and implementation of amendments to the Confiscation Act (\$1.4 million);
- implementation cost of the Wotjabaluk native title agreement (\$600,000); and
- implementation of a computer system for the Sentencing Advisory Council (\$520,000).

The Committee noted that the carry over funding for the Corrections portfolio included provisions for:²²

- home detention (\$2.5 million);
- evaluation of the Corrections Long Term Management Strategy (\$600,000); and
- expansion of the bail support program (\$300,000).

10.4 Human resources issues

The Department of Justice advised the Committee that as at 30 June 2004 it expected to have 5,419 full-time equivalent staff, excluding statutory appointments such as Judges, Magistrates and Members of Tribunals (see exhibit 10.5).

¹⁹ Budget Paper No. 4, *2004-05 Statement of Finances*, p.171

²⁰ Attorney-General's response to the Committee's follow-up questions, pp.6–7

²¹ *ibid.*

²² Minister for Corrections' response to the Committee's follow-up questions, p.4

**Exhibit 10.5: Department of Justice
(excluding Victoria Police) (a)
Equivalent Full Time Staff**

	June 2003 Actual	June 2004 Estimate	June 2005 Estimate
Ongoing staff			
Non-executive departmental staff (b)	n/a	3,197	3,410
Departmental executive officers	n/a	0	0
Custodial officers	n/a	940	1376
Sub total (c)	n/a	4,136	4,786
Fixed term staff			
Non executive departmental staff (b)	n/a	463	437
Departmental executive officers	n/a	73	72
Custodial officers	n/a	172	126
Sub total (c)	n/a	707	634
All staff (c)			
Non-executive departmental staff (b)	3,515	3,658	3,845
Departmental executive officers	69	73	72
Custodial officers	1,094	1,112	1,501
Total (c)	4,677	4,842	5,419

Notes: (a) Excludes statutory appointees such as Judges, Magistrates and VCAT members
 (b) Includes former VPS and new VPS classifications and the department's medical and legal officer classifications
 (c) Total may differ due to rounding
 n/a Not available

Source: Department of Justice response to the Committee's Budget Estimates Questionnaire 2004-05, pp.15-16

The Committee noted that almost 70 per cent of the estimated increase in staffing in 2004-05 is related to the commencement of operations at two new prisons (net of anticipated transfers from the de-commissioning of existing prisons).²³

The department advised the Committee that further additional staff were associated with resourcing for new major projects and an intake of Sheriff and PERIN officers to assist with the delivery of road safety initiatives.²⁴ The Committee noted that of these

²³ Department of Justice response to the Committee's 2004-05 Budget Estimates questionnaire, pp.15-16

²⁴ *ibid.*

additional 180 staff, over 70 per cent were expected to be employed at a classification level below VPS grade 4.²⁵

The Committee noted that staffing levels at Victoria Police were expected to increase from an estimated 12,820 full-time equivalent staff in 2003-04 to 13,018 staff in 2004-05 (see exhibit 10.6).

**Exhibit 10.6: Victoria Police
Equivalent Full Time Staff**

	June 2003 Actual	June 2004 Estimate	June 2005 Estimate
Ongoing staff			
Sworn police officers	n/a	10,338	10,472
Recruits	n/a	0	0
Reservists	n/a	17	15
Protective Security Officers	n/a	138	133
Executive officers	n/a	0	0
Forensic officers	n/a	133	133
Administration	n/a	1,721	1,721
Sub total (a)	n/a	12,348	12,475
Fixed term staff/casual staff (b)			
Sworn police officers	n/a	12	11
Recruits	n/a	153	225
Reservists	n/a	0	0
Protective Security Officers	n/a	0	0
Executive officers	n/a	13	13
Forensic officers	n/a	19	19
Administration	n/a	276	276
Sub total (a)	n/a	472	543

²⁵ *ibid.*

Exhibit 10.6 – continued

All staff			
Sworn police officers	10,277	10,350	10,483
Recruits	91	153	225
Reservists	20	17	15
Protective Security Officers	141	138	133
Executive officers	12	13	13
Forensic officers	141	152	152
Administration	1,993	1,997	1,997
Total (a)	12,675	12,820	13,018

Notes: (a) Total may differ due to rounding

(b) Casual staff are only employed in administration functions. In both 2003-04 and 2004-05, 20 staff are expected to be employed on a casual basis

n/a Not available

Source: Department of Justice response to the Committee's 2004-05 Budget Estimates questionnaire, p.17

The increase in staff numbers for Victoria Police is primarily due to new police recruits. The department advised the Committee that the net result of recruitment and loss through separation and conversion will be 10,503 full-time police and recruits at the end of June 2004.²⁶

The Committee noted that the wages cost for police would be significantly affected by a large number of police officers who are presently at constable rank qualifying for senior constable by June 2005.²⁷ The total number of constables (including those ranked at senior constable) is expected to increase by 228. However, the ratio between those ranked at constable and senior constable is expected to change from about 1:3 to about 1:9 over the year to June 2005.²⁸

The Committee notes the Government met its 1999 election commitment to provide 800 additional police during its first term of office. A commitment to a further 600 additional police was made as part of the 2002 election.²⁹

The Minister advised the Committee that the Government's target was to have a police force of 10,900 sworn officers, on an equivalent full-time basis by the end of this term of Government³⁰ (see exhibit 10.7).

²⁶ *ibid.*, p.17

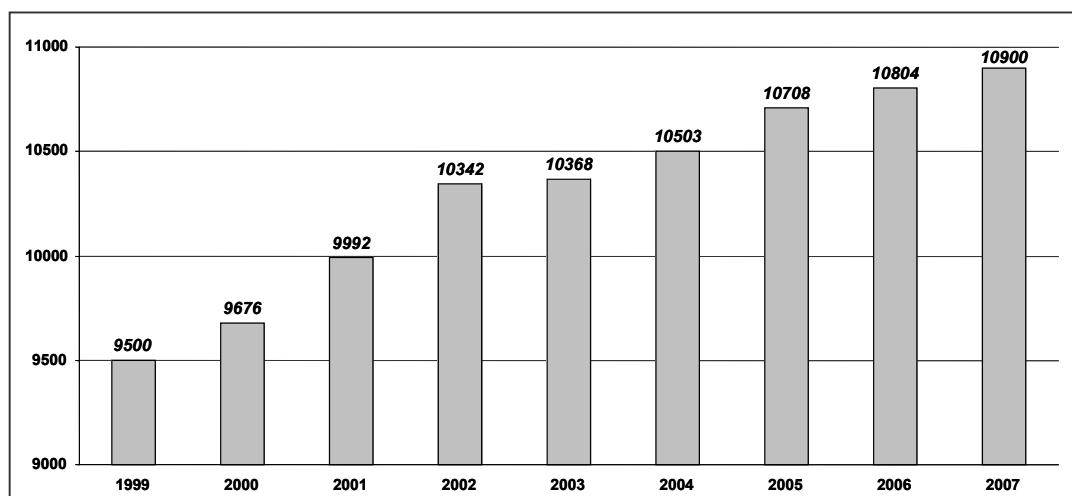
²⁷ *ibid.*

²⁸ *ibid.*

²⁹ Hon. A. Haermeyer, MP, Minister for Police and Emergency Services, transcript of evidence, 21 May 2004, p.8

³⁰ Minister for Police and Emergency Services' response to the Committee's follow-up questions, p.4

**Exhibit 10.7: Police and police recruits
Equivalent Full Time**



Sources: Victoria Police, Annual Report 2002-03 and previous years; Minister for Police and Emergency Services' response to the Committee's follow-up questions, p.3; Department of Justice response to the Committee's 2004-05 Budget Estimates questionnaire, p.17

To meet this target Victoria Police adjusted recruitment intakes to take account of the numbers of departures:³¹

we have to take into account the number who leave the organisation every year, and we were losing somewhere between 800 and 900 a year back in 1999 – that is, nearly 1 in every 10 police officers was leaving the organisation, which is an appallingly high attrition rate. It is now about 1.5 per cent per annum, which is a very low attrition rate. In some of the mid to late months of last year we had as few as 50 police leaving a month, and our projections in terms of attrition were a bit higher than that, so to ensure that our net annual intake was on target we had to slow down our recruiting rates.

Based on current projections, Victoria Police will need to recruit around 190 staff, excluding recruitment to replace police leaving Victoria Police, to meet the Government's target of 10,900 sworn police officers by November 2006.

The Committee noted that Victoria Police's WorkCover premium was \$60.8 million for 2002-03 and \$66 million for 2003-04.³² The Department of Justice advised the Committee that an early estimate for the premium in 2004-05 was \$57 million, which would be dependent on final claims review and remuneration declaration at the end of June/early July 2004.³³

³¹ Hon. A. Haermeyer, MP, Minister for Police and Emergency Services, transcript of evidence, 21 May 2004, p.15

³² Department of Justice response to the Committee's 2002-03 Budget Outcomes questionnaire, p.12; Minister for Police and Emergency Services' response to the Committee's follow-up questions, p.3

³³ Minister for Police and Emergency Services' response, to the Committee's follow-up questions, p.3

The Committee welcomes this anticipated improvement in workers compensation premium costs in 2004-05.

The two most significant categories of workers compensation claims identified by the Police Commissioner were stress related claims and sprains and strains.³⁴ The Minister advised the Committee that the rate of increase of stress related leave for Victoria Police has abated and he expects that proactive strategies to address stress issues will see a decrease in forthcoming years.³⁵ The Committee noted that Victoria Police was currently working on a number of prevention strategies around stress including:³⁶

- supportive leadership training;
- mediation and conflict resolution training;
- implementation of the issue resolution project; and
- prevention and management of psychological injuries.

The Committee noted that reporting of occupational health and safety (OHS) performance in Victoria Police's 2002-03 Annual Report did not provide sufficient information to assess the effectiveness of strategies to address specific types of workplace injuries.³⁷ The Committee believes that Victoria Police should adopt a more detailed OHS reporting framework to specifically identify the effectiveness of current programs in managing claims in its two most significant categories – stress related claims and sprains and strains.

³⁴ Chief Commissioner C. Nixon, transcript of evidence, 21 May 2004, p.14

³⁵ Minister for Police and Emergency Services' response to the Committee's follow-up questions, p.3

³⁶ *ibid.*

³⁷ Victoria Police, *2002-03 Annual Report*, p.59

The Committee recommends that:

Recommendation 100: **Victoria Police adopt a broader Occupational Health and Safety reporting framework that specifically identifies its progress in addressing its most significant areas of workers compensation claims.**

Review of Portfolios

10.5 Attorney-General's portfolio

Several outputs under the Attorney-General are delivered by several agencies, including the Victorian Electoral Commission, Office of the Privacy Commissioner, Victorian Law Reform Commission, Victoria Legal Aid, Office of Public Prosecutions, Equal Opportunity Commission, Victorian Institute of Forensic Medicine, the Office of the Public Advocate and six courts.³⁸

Outputs delivered directly by the Department of Justice account for around 6.7 per cent of expenditure in the Attorney-General's portfolio.³⁹ The operations of the six courts (Supreme Court, County Court, Magistrates' Court, Children's Court, Coroner's Court and the Victorian Civil and Administrative Tribunal) account for 43 per cent of expenditure in the portfolio.⁴⁰

10.5.1 2004-05 outlook for the portfolio

The Attorney-General released a *Justice Statement* on 27 May 2004 detailing the key strategic directions to be pursued by the department over the next ten years, including a specific work program for the next five years.⁴¹

The statement contains 25 major initiatives and a range of minor projects including:⁴²

- reviewing and replacing key legislation such as the *Crimes Act 1958*, *Evidence Act 1958* and the *Bail Act 1977* by 2007;
- implementing recommendations from the Sentencing Review 2002 and investigating the introduction of express statutory discounts for guilty pleas;
- developing agreed models for managing court resources;

³⁸ Department of Justice, *2003-04 Annual Report*, p.128

³⁹ Budget Paper No. 3, *2004-05 Service Delivery*, pp.161–178

⁴⁰ *ibid.*

⁴¹ Department of Justice, *New directions for the Victorian justice system 2004-2014*, Executive Summary, p.2

⁴² *ibid.*, pp.11–14

- developing a strategic facilities plan for the construction of future court houses; and
- working with the courts to overhaul the civil rules of procedure to reduce court delays, streamline litigation processes and improve consistency between jurisdictions.

The Attorney-General advised the Committee that the Justice Statement, when fully implemented, will have a significant impact on the efficiency and effectiveness of the legal and courts system in Victoria.⁴³

The Committee noted that the initiatives outlined in the statement have widely differing impacts and resourcing needs which are currently being assessed in the department's policy development and implementation planning.⁴⁴ The department anticipated that many of the initiatives can be developed and implementation commenced within existing output resource allocations, with resources reprioritised from elsewhere within the department's overall budget, or from other funding sources available to the portfolio.⁴⁵ There are several key initiatives that will require additional funding consideration through the Government's annual expenditure review budget process.⁴⁶

In conjunction with the preparation of the Justice Statement, Victoria's courts developed a Court Strategic Directions Statement, which was released in early September 2004⁴⁷

The Courts Strategic Directions Statement outlined a number of new developments and challenges occurring within and external to the justice system which, in the opinion of the Courts, are likely to have a major bearing on the future workloads and requirements of the court system.⁴⁸ As part of the statement, the Courts also reviewed important judicial reforms within other jurisdictions that could provide opportunities to enhance the efficiency and effectiveness of the court and tribunal system.⁴⁹

The Committee noted that the Courts Strategic Directions Statement contained 27 recommendations including:⁵⁰

- existing court facilities and the facilities for the legal profession and court support agencies should be reviewed and maintained at an appropriate level;
- the Courts and the Victorian Civil and Administrative Tribunal (VCAT) should develop a meaningful set of indicators, which have regard to their respective

⁴³ Attorney-General's response to the Committee's follow-up questions, p.8

⁴⁴ *ibid.*

⁴⁵ *ibid.*

⁴⁶ *ibid.*

⁴⁷ Courts Consultative Council, Courts Strategic Directions Project, 2 September 2004

⁴⁸ *ibid.*, p.2

⁴⁹ *ibid.*

⁵⁰ *ibid.* pp.151–155

roles and functions. Consideration should be given to those developed for the Magistrates' Court in 2001 and the experience of those measures; and

- a working party should be formed to identify complex and uncertain areas of law frequently dealt with by the Courts and VCAT, particularly those which add to the length and cost of litigation, and to develop a strategy and program to enable the problem to be addressed.

Output initiatives in the 2004-05 Budget relating to the Attorney-General's portfolio will cost approximately \$8.4 million in 2004-05 (\$34.1 million over four years to 2007-08).⁵¹ The initiatives are:⁵²

- expansion of the Aboriginal Justice Agreement (\$2.9 million in 2004-05 and a total of \$12.7 million over four years to 2007-08) – to expand the existing Aboriginal Justice Agreement and implement a range of new initiatives including men's diversion and Koori court programs to reduce the over representation of Kooris in the criminal justice system;
- maintaining confidence in the legal system (\$3 million in 2004-05 and a total of \$12.3 million over four years to 2007-08) – additional funding to continue the Court Referral for Evaluation and Drug Intervention Treatment and Criminal Justice Diversion Program; and
- private security reform (\$2.5 million in 2004-05 and a total of \$9 million over four years to 2007-08) – proposed legislation to reform the private security industry is expected to apply to approximately 6,000 additional licensees and registrants.

10.5.2 Analysis of the budget

The 2004-05 Budget for the output group for which the Attorney-General has responsibility is \$478.9 million, an increase of \$17.5 million (3.8 per cent) from the expected outcome for 2003-04 (see exhibit 10.8).

The Committee noted that most of the increased funding for 2004-05 is for the Traffic Fines Processing output (\$9.5 million rise) and the Matters in the Magistrates' Court output (\$8 million rise).⁵³ The increase for the Traffic Fines Process output is mainly related to the expected carry over of approximately \$6 million which will be required to meet costs in 2004-05 following the completion of speed camera rectification.⁵⁴

In relation to the Magistrates' Court, the department advised the Committee that the additional funding comprised:⁵⁵

⁵¹ Budget Paper No. 3, *2004-05 Service Delivery*, pp.291–293

⁵² *ibid.*

⁵³ *ibid.*, pp.161–178

⁵⁴ Department of Justice response to the Committee's 2004-05 Budget Estimates questionnaire, p.30

⁵⁵ *ibid.*, pp.29–30

- \$3 million in additional funding for the Criminal Justice Diversion Program and the Court Referral for Evaluation and Drug Intervention and Treatment Program;
- \$2.4 million in additional depreciation and capital asset charge expenses arising from recent and planned new court construction;
- \$2 million in increased remuneration and employee entitlement costs; and
- \$600,000 for the Family Violence jurisdiction of the Magistrates' Court;

**Exhibit 10.8: Attorney-General's Portfolio
Output costs**

Output Group	Outputs under the responsibility of the Attorney-General	2004-05 Budget (\$ million)
Legal Support for Government	Legal Policy	5.1
	Law Reform	2.1
	Legal Advice to Government	13.5
	Privacy Regulation	1.7
	Native Title Framework	2.9
	State Electoral Roll and Elections	20.8
Sub total		46.1
Dispensing Justice	Public Prosecutions	26.5
	Forensic Evidence	15.0
	Matters in the Supreme Court	36.1
	Matters in the County Court	57.9
	Matters in the Magistrates' Court	77.2
	Matters in the Children's Court	8.7
	Matters in the Coroner's Court	5.9
	Matters in the Civil and Administrative Tribunal	24.4
	Alternative Dispute Resolution	1.4
	Legal Aid	35.2
	Victims Support	9.2
Sub total		297.5
Enforcing Court Orders	Traffic Fines Processing	85.6
	Enforcement of Court Orders and Warrants	36.4
	Asset Confiscation Order Processing	2.2
Sub total		124.2
Achieving Equal Opportunity	Discrimination Prevention and Redress	5.2
	Advocacy and Guardianship	5.9
Sub total		11.1
Total cost		478.9

Source: Budget Paper No. 3, 2004-05 Service Delivery, pp.161–171, 177–178

10.5.3 Performance measures

The Department of Justice refined several performance measures in the 2004-05 Budget relating to the Attorney-General's output groups, with three measures discontinued and eight new measures introduced. The basis for assessing one client satisfaction measure also changed.⁵⁶

Three of the eight new measures were in the Discrimination and Redress output and were intended to replace a single measure of customer satisfaction. The department advised the Committee that the three specific measures based on service type (education services, enquiries and complaint resolution) would enhance analysis of improvement opportunities.⁵⁷ The Committee considers the new measure represents an improvement on the performance information used previously. However, the Committee believes that the Department of Justice needs to continue to report more broadly in its annual report on activities undertaken for its separate areas of responsibility.

The Committee recommends that:

Recommendation 101: The Department of Justice report more broadly in its annual report on the outcomes for the consolidated quality and timeliness performance measures in the 2004-05 Budget for the department.

The Committee noted that the Victims Support output included three new performance measures to reflect the transition from the Victims Referral and Assistance Service to the newly formed Victims Support Agency.⁵⁸ A revised client satisfaction measure was also developed to support the introduction of the new service model.⁵⁹ The Committee supports these changes, which it believes will provide a better basis for assessing the quantity and quality of the different services delivered by the Victims Support output.

⁵⁶ *ibid.*, p.12; Budget Paper No. 3, 2004-05 Service Delivery, pp.345-346

⁵⁷ *ibid.*

⁵⁸ Budget Paper No. 3, 2004-05 Service Delivery, p.169

⁵⁹ *ibid.*

10.5.4 Key issues impacting on the portfolio

The department's response to the Committee's questionnaire and the estimates hearing identified several issues that will impact on the 2004-05 Budget Estimates for the Attorney-General's portfolio.

(a) Assessing the effectiveness of the Aboriginal Justice Agreement

The 2004-05 Budget included an additional \$12.7 million over four years to 2007-08 (\$2.9 million in 2004-05) to expand the existing Aboriginal Justice Agreement and implement a range of new initiatives, including men's diversion and Koori court programs, to reduce over-representation of Kooris in the criminal justice system.⁶⁰

The Aboriginal Justice Agreement was launched by the Premier in May 2000 and sets out a framework to:⁶¹

- address the ongoing issue of Aboriginal over-representation within all levels of the criminal justice system;
- improve Aboriginal access to justice related services; and
- promote greater awareness in the Aboriginal community of their civil, legal and political rights.

Recent data indicated that over the last three years the average annual growth rate for alleged Indigenous offenders processed by Victoria Police is now the same as that for non-Indigenous offenders, sitting at 1.3 per cent.⁶²

The Committee noted that to date, some of the Agreement's initiatives have been evaluated or evaluations are currently underway including a review of the Community Initiatives Program, an evaluation of two Koori Courts and a review of the Aboriginal Community Justice Panels.⁶³ The department is also undertaking a review of the implementation of the recommendations of the 1991 Final Report of the Royal Commission into Aboriginal Deaths in Custody.⁶⁴

The Committee was interested to learn that a full evaluation of the Aboriginal Justice Agreement was being planned for 2004-05.⁶⁵ The evaluation will review the effectiveness of the Agreement in meeting its objectives, summarise the status of all

⁶⁰ *ibid.*, p.291–294

⁶¹ Hon. S. Bracks, MP, Premier of Victoria, media release, *Premier launches Aboriginal Justice Agreement*, 31 May 2000; Department of Justice, *Victorian Aboriginal Justice Agreement*, February 2004 (reprint), p.5

⁶² Attorney-General's response to the Committee's follow-up questions, p.3

⁶³ *ibid.*

⁶⁴ *ibid.*

⁶⁵ *ibid.*

the Agreement's initiatives and make recommendations to enhance the implementation of the Agreement and its objectives.⁶⁶

The Department of Justice advised that an evaluation and monitoring function would be developed in the Indigenous and Diversity Unit of the department in 2004-05.⁶⁷ In conjunction with the evaluation of the Agreement, performance benchmarks and indicators and a monitoring framework for the Agreement would be developed.⁶⁸ The Committee believes that regular public reporting of progress against these benchmarks and indicators will provide an important basis for assessing the effectiveness of initiatives implemented under the Agreement.

The Committee welcomes the department's evidence based assessment of initiatives implemented under the Aboriginal Justice Agreement. The Committee looks forward to reviewing the results of the full evaluation.

(b) Auditing non-judicial functions of Victorian Courts

In 1996, the former Auditor-General decided not to transmit a performance audit report to the Parliament on the Children's Court. The Auditor-General's decision was based on a legal opinion by the Solicitor-General provided by the department of Justice on the evening prior to the intended tabling of the report in Parliament which explicitly stated that, as the scope of the audit was beyond the jurisdiction of the Auditor-General under the *Audit Act* 1994, there was no scope to table the report in Parliament.⁶⁹

The advice of the Solicitor-General to the Auditor-General was largely based on the principle of non-interference by the legislative and executive arms of government with the functioning of the judicial arm, which is derived from the doctrine of separation of powers under the Westminster system.⁷⁰

The Department of Justice believed that a broadening of the Auditor-General's powers to conduct performance audits in the Supreme Court, County Court, Magistrates' Court or the Victorian Civil and Administrative Tribunal had the potential to undermine the principle of the separation of powers.⁷¹

The Committee agrees with the view of the former Auditor-General that the Victorian situation with respect to the audit of non-judicial functions of courts is very much the exception rather than the rule within Australian states and territories.⁷² The Committee noted several examples in other jurisdictions where the Auditor-General had examined non-judicial functions of the courts, for example:

⁶⁶ *ibid.*

⁶⁷ *ibid.*

⁶⁸ *ibid.*

⁶⁹ Auditor-General Victoria, *Report on Ministerial Portfolios*, May 1999, p.208

⁷⁰ *ibid.*, p.209

⁷¹ *ibid.*, p.216

⁷² *ibid.*, p.214

- Commonwealth (May 2004) – performance audit examining client service in the Family Court of Australia and the Federal Magistrates Court;⁷³
- New South Wales (September 1999) – performance audit examining the management of court waiting times;⁷⁴
- Western Australia (November 1996 and October 2002) – performance examination of management in the Magistrates’ Court and the management and effectiveness of restraining orders;⁷⁵ and
- Australian Capital Territory (May 1996 and November 1998) – performance audit reviewing the effectiveness and efficiency of the recording and collection of court fines and a performance audit examining Magistrates Court bail processes.⁷⁶

The current Auditor-General noted in a May 2000 performance audit on State Trustees’ administration of discharging its responsibilities that the issue relating to the audit of non-judicial functions remained unresolved:⁷⁷

In my recent discussions with the Department of Treasury and Finance and the Public Accounts and Estimates Committee regarding the proposed program for implementing legislative changes to the Audit Act, I emphasised the pressing necessity for this long-standing matter concerning my capacity to examine non-judicial matters within courts and tribunals to be resolved. I am seeking the active support of the Parliament in this regard to enact appropriate legislative provisions.

The Committee was interested to learn whether any progress had been made on this issue. The department of Justice advised the Committee that the department of Treasury and Finance and the Auditor-General’s Office have supported a process which would see the implementation of a protocol arrangement with the Courts, which would enable the restricted access of the Auditor-General to the Courts. Although a final protocol has still not been adopted, the matter was still under active consideration of the Courts Consultative Council.⁷⁸

⁷³ Australian National Audit Office, *Client service in the Family Court of Australia and the Federal Magistrates Court*, Audit Report No.46 2003-04, May 2004

⁷⁴ Audit Office of New South Wales, *Order in the Court: Management of Court waiting times*, September 1999

⁷⁵ Office of the Auditor-General Western Australia, *Management of the Magistrates’ Court*, Report No. 8, November 1996; *A Measure of Protection: Management and Effectiveness of Restraining Orders*, Report No. 5 October 2002

⁷⁶ ACT Auditor-General’s Office, *Magistrates Court Bail Processes*, November 1998; *Collection of Court Fines*, May 1996

⁷⁷ Victorian Auditor-General’s Office, *Represented persons: Under State Trustees’ administration*, Performance Audit Report 63, May 2000, p.28

⁷⁸ Attorney-General’s response to the Committee’s follow-up questions, p.9

The Committee strongly believes that the Auditor-General should have total independence in determining the scope and processes required to audit the administrative systems and processes of the courts.

The Committee recommends that:

Recommendation 102: **As a matter of priority, the Department of Justice develop a framework that provides the Auditor-General with total independence to audit the administrative systems and processes of the Courts.**

(c) *Timeliness of annual reporting by the Courts*

All Victorian courts prepare publicly available annual reports on their operations. The requirements for doing so are generally different from other public sector agencies, which are typically derived from the *Financial Management Act* 1994 which require annual reports to be tabled in Parliament within four months following the end of the relevant financial year (or the next sitting day).⁷⁹

Requirements for the preparation of annual reports by the Courts are included in their establishing legislation and typically provide for the annual submission of a ‘review of operations’ to the Governor.⁸⁰ Only the Children’s Court has a specified timeframe for finalising the annual review report, which must be submitted to the Governor as soon as practicable after the end of the financial year, but no later than 31 October.⁸¹

The Committee notes that one exception to providing a review of operations to the Governor is the Victorian Civil and Administrative Tribunal (VCAT), which is required to submit an annual report to the Attorney-General not later than 30 September, after which the Attorney-General must table the report in Parliament within 14 sitting days.⁸²

The department advised the Committee that the annual reports of the various Courts, incorporating the review of operations, are tabled in Parliament when they become available.⁸³ Although there is no legislative requirement for these annual reports to be tabled in Parliament (with the exception of VCAT), following the Governor receiving a report it is sent to the Attorney-General. In accordance with a longstanding convention, the reports are then tabled at the request of the Attorney-General and are not publicly released prior to tabling.⁸⁴

⁷⁹ *Financial Management Act* 1994, Part 7

⁸⁰ *Supreme Court Act* 1986, s.28; *Magistrates’ Court Act* 1989, s.15; *County Court Act* 1958, s.87

⁸¹ *Children and Young Persons Act* 1989, s.14A

⁸² *Victorian Civil and Administrative Tribunal Act* 1998, ss. 37

⁸³ Attorney-General’s response to the Committee’s follow-up questions, p.10

⁸⁴ *ibid.*

A review of the Votes and Proceedings of the Legislative Assembly and Legislative Council by the Committee revealed the timing for the tabling in Parliament of annual reports for several courts over the past two years has varied from year-to-year and between courts:

- Council of Magistrates, Report for 2001-02 – 8 April 2003 (Legislative Assembly);
- Council of Magistrates, Report for 2002-03 – 10 June 2004 (Legislative Council);
- County Court, Report for 2001-02 – 20 April 2004 (Legislative Assembly). The Committee noted that this report was provided to the Governor on 12 May 2003;⁸⁵
- Supreme Court, Report for 2001 – 5 June 2003 (Legislative Assembly);
- Supreme Court, Report for 2002 – 27 November 2003 (Legislative Assembly). The Committee noted that the report was provided to the Governor on 8 September 2003;⁸⁶
- Children’s Court, Report for 2001-02 – 18 March 2003 (Legislative Assembly). The Committee noted that this report was provided to the Governor on 25 October 2002;⁸⁷
- Children’s Court, Report for 2002-03 – 10 June 2004 (Legislative Council). The Committee notes that this was more than 7 months later than the deadline specified for provision of the report to the Governor under s.14A of the *Children and Young Persons Act 1989*;⁸⁸
- Victorian Civil and Administrative Tribunal, Report for 2001-02 – 26 February 2003 (Legislative Assembly); and
- Victorian Civil and Administrative Tribunal, Report for 2002-03 – 20 November 2003 (Legislative Assembly).

As at 22 September 2004, the only Court which did not publish its latest annual report on its website was the Children’s Court, for which the latest annual report available was for 2001-02.⁸⁹ The latest report for the County Court was for 2001-02, which was consistent with the latest report presented to Parliament.⁹⁰

The Committee recognises that the state election in late 2002 may have affected the tabling of some Court annual reports in Parliament. However, the Committee notes that for some Courts a significant period of time elapses between the tabling of the

⁸⁵ County Court of Victoria, *Annual Report 2001-02*, www.countycourt.vic.gov.au, accessed 10 August 2004, p.1

⁸⁶ Supreme Court of Victoria, *Judges Annual Report 2002*, p.2

⁸⁷ Children’s Court, *Annual Report 2001-02*, www.childrenscourt.vic.gov.au, accessed 10 August 2004, p.3

⁸⁸ Victorian Parliament Hansard, 10 June 2004, p.1764

⁸⁹ Children’s Court, *Annual Report 2001-02*, www.childrenscourt.vic.gov.au, accessed 22 September 2004

⁹⁰ County Court of Victoria, *Annual Report 2001-02*, www.countycourt.vic.gov.au, accessed 10 August 2004

report in Parliament and the period to which the report relates. The elapsed time is generally greater than for other Victorian public sector agencies. In the case of the County Court, the review of operations for 2002-03 is not available more than 13 months after the period to which it relates.

While the Committee recognises that the separation of powers principle underpins the relationship between Parliament, the Judiciary and the Government, the Committee believes that reducing the delays in making Court annual reports publicly available will enhance the transparency and accountability for their administrative and financial operations, notwithstanding that the Auditor-General cannot currently provide an opinion on the administrative systems of Courts. Improving the public accountability of Courts is especially important given the significant investments that the Government has made in recent years in information technology to improve the efficiency of court operations.

The Committee encourages the Department of Justice to work with the Courts to improve the annual reporting processes to ensure that the annual review of their operations is publicly available in a more timely manner, including reviewing current arrangements relating to making the reports publicly available on the Internet as soon as an annual report is tabled in the Parliament.

The Committee recommends that:

Recommendation 103: **The Department of Justice liaise with the Courts to improve the timeliness of tabling the annual reports of the Courts in Parliament, with a view to the Courts adopting the same reporting timeframe as public sector agencies.**

(d) Court construction costs

The department advised the Committee in its response to the 2004-05 Budget Estimates questionnaire that the total estimated investment (TEI) for several court construction projects had been revised upwards:⁹¹

- Warrnambool Court House – revised from \$8.8 million to \$15.5 million reflecting increased site acquisition costs due to the negotiation of an 18 month lease to allow the former tenant to leave the site;
- Mildura Court House – revised from \$9.7 million to \$16.7 million resulting from a number of factors including delays in securing and occupying the preferred site, improved court facilities with an emphasis on court support services and a buoyant construction industry, particularly in regional Victoria;
- Moorabbin Court Complex – revised from \$18 million to \$28.2 million. The original cost was for construction only. Additional funding for site acquisition and design was subject to evaluation reports. The revised cost includes the site and design costs based on the approved site; and
- Latrobe Valley Police and Courts Complex – revised from \$27.5 million to \$34 million reflecting higher than expected tenders for the project due to a buoyant local construction market.

The Committee was concerned as to how the additional funds required to complete these projects would be made available. The department advised the Committee that the revised TEI amounts have been approved through the Cabinet Expenditure Review Committee process and the Department of Treasury and Finance has fully funded the additional costs.⁹² The Committee noted that there was no asset initiative in the Budget Papers allocating additional funds to these projects⁹³ and intends to follow-up on how the additional funds were provided (such as via a Treasurer's Advance, transfers between outputs) in its 2003-04 Budget Outcomes report.

The Committee noted the funding for the Warrnambool and Mildura Court house Projects was initially provided in 2000-01, with a forecast completion date of December 2003.⁹⁴ In December 2003, the revised completion date for these two projects was September 2004.⁹⁵ Funding for the LaTrobe Project was allocated in the 2001-02 Budget with an estimated completion date of July 2004, which has been

⁹¹ Department of Justice response to the Committee's 2004-05 Budget Estimates questionnaire, pp.35–36

⁹² Attorney-General's response to the Committee's follow-up questions, p.9

⁹³ Budget Paper No. 3, *2004-05 Service Delivery*, p.294

⁹⁴ Budget Paper No. 2, *2000-01 Budget Statement*, p.272; Department of Justice response to the Committee's 2002-03 Budget Outcomes questionnaire, p.31

⁹⁵ Department of Justice response to the Committee's 2002-03 Budget Outcomes questionnaire, p.31

subsequently revised to December 2005.⁹⁶ The Moorabbin Court Project was funded in the 2003-04 Budget with construction not expected to commence until 2004-05.⁹⁷

While it is acknowledged that each of the court house construction projects is complex, the Committee believes that the extended period of time that has elapsed since some of these projects were announced (and the consequent increases in budgeted costs), reflects poorly on initial project planning by the Department of Justice given that some of the reasons advanced for delays could have been reasonably foreseen.

In its 2002-03 Budget Outcomes report the Committee recommended that the department review the adequacy of existing infrastructure project management frameworks with a view to improving the timelines of its asset investment program.⁹⁸ The Committee will be interested in the department's response to this recommendation, due to be tabled in Parliament later this year, as to what action the department intends to take to improve its project management performance.

(e) Additional resources for the Office of Public Prosecutions

The Office of Public Prosecutions prepares and conducts proceedings in the High Court, Supreme Court, County Court, and Magistrates' Court on behalf of the Director of Public Prosecutions.⁹⁹

In the 2004-05 Budget, the operations of the Office of Public Prosecutions, which are included in the Public Prosecutions output, were estimated to cost \$26.5 million, a \$500,000 rise from the budgeted cost in 2003-04 and \$100,000 higher than the expected outcome in 2003-04.¹⁰⁰

The Committee noted that the workload of the Office of Public Prosecutions had been 12.7 per cent higher than expected in 2003-04, with an additional 6,500 matters prepared for proceedings and attendance at court.¹⁰¹ At the time of preparing the 2004-05 Budget, the workload of the Office was expected to return to levels expected in 2003-04.¹⁰²

Following the release of the 2004-05 Budget on 4 May 2004, the Committee noted that significant additional funding was provided to the Office of Public Prosecutions:

⁹⁶ Budget Paper No. 2, *2001-02 Budget Statement*, p.257; Department of Justice response to the Committee's 2002-03 Budget Outcomes questionnaire, p.32

⁹⁷ Budget Paper No. 2, *2003-04 Budget Statement*, p.237; Budget Information Paper No. 1, *Public Sector Asset Investment Program*, p.51

⁹⁸ Public Accounts and Estimates Committee, *Report on the 2002-03 Budget Outcomes*, 56th Report, April 2004, p.316

⁹⁹ Budget Paper No. 3, *2004-05 Service Delivery*, p.164

¹⁰⁰ *ibid.*

¹⁰¹ *ibid.*

¹⁰² *ibid.*

- \$3 million over three years to implement a new asset confiscation regime;¹⁰³ and
- additional annual funding of \$2.5 million to support the ongoing work of the Office of Public Prosecutions, which had increased substantially as a result of the investigations by Victoria Police taskforces into organised crime.¹⁰⁴

The Committee noted that the Office of Public Prosecutions 2002-03 Annual Report included detailed information relating to its activities.¹⁰⁵ The Committee suggests the Office include appropriate performance indicators in future annual reports to allow an assessment of the outcomes resulting from the additional resources provided.

The Committee noted that in October 2004 the Premier announced that the Office of Public Prosecutions would receive a further \$6.64 million to support major criminal trials.¹⁰⁶

The Committee recommends that:

Recommendation 104: **The Office of Public Prosecutions include in its annual report appropriate indicators to allow an assessment of the outcomes that result from the additional resources provided to the Office.**

(f) *Service demand strategies for the Office of the Public Advocate*

The 2004-05 Budget included additional funding of \$500,000 compared to the 2003-04 Budget (but unchanged from the expected result for 2003-04) to support the Office of the Public Advocate in its role as statutory guardian of last resort for adults with disabilities.¹⁰⁷ The Committee noted the Public Advocate expected a 4 per cent growth in guardianship services in 2004-05 without a corresponding increase in resources.¹⁰⁸

The Department of Justice advised the Committee that the Office of the Public Advocate had a number of diversionary strategies to respond to the expected rise in guardianship cases.¹⁰⁹ These include:¹¹⁰

¹⁰³ Hon. S. Bracks, MP, Premier of Victoria, media release, *New powers to tackle underworld crime*, 25 May 2004

¹⁰⁴ Hon. B. Cameron, MP, Acting Attorney-General, media release, *\$2.5 million funding boost for Office of Public Prosecutions*, 29 June 2004

¹⁰⁵ Office of Public Prosecutions, *Annual Report 2002-03*, pp.20–31

¹⁰⁶ Hon. S. Bracks, MP, Premier of Victoria, Victoria Parliament Weekly Hansard, 6 October 2004, p.706

¹⁰⁷ Budget Paper No. 3, *2004-05 Service Delivery*, pp.177–178

¹⁰⁸ *ibid.*

¹⁰⁹ Attorney-General's response to the Committee's follow-up questions, p.9

¹¹⁰ *ibid.*

- the office provides ongoing information and education to the Victorian community on the appropriate use of guardianship. This occurs through publications, website, speaking to groups and the use of media;
- providing timely advice and assistance to family members, service providers and people with a disability about other ways of resolving issues without having to seek the appointment of a guardian;
- providing advocacy to individuals as a way of improving their life circumstance and minimising the need for a guardian to be appointed before an application is made;
- providing advocacy assistance and advice to parties appearing before VCAT in order to resolve issues without having to appoint a guardian;
- the investigation of applications made to VCAT is another key way in which the office seeks to minimise the inappropriate appointment of guardians; and
- the growth in guardianship cases concerning a person with an acquired brain injury is an area the office will investigate further through a study of these cases.

While these diversionary strategies may limit new applications for statutory guardianship, there will still be an increase in expected workload of the Office of the Public Advocate.

The increase in the number of guardianship cases has put increasing pressure on the capacity of the Office of the Public Advocate to devote sufficient resources to these diversionary strategies. It has also been necessary for the Office to implement more resource management strategies including:¹¹¹

- combining three separate program areas into one. This has required the multi skilling of staff in order for them to respond to a greater diversity of cases, whether they are advocacy, investigations or guardianship. This has broadened the capacity of the Office to respond to a greater number of guardianship cases; and

¹¹¹ *ibid.*

- adopting a case closure strategy to ensure that cases are brought back before the tribunal for revocation promptly once the need for guardianship ceases. The office has an internal closure rate of 50 per cent to ensure that overall case numbers do not reach unmanageable levels.

The Committee is aware that the Office of the Public Advocate's 2002-03 annual report includes a range of indicators that measure the demand for services including advice, guardianship and advocacy services.¹¹² However, the Committee believes that a more balanced reporting framework should be developed that includes the quality and timeliness of services provided.

The Committee acknowledges the efforts that the Office of the Public Advocate has made to prepare for the expected increase in guardianship services in 2004-05. The Committee believes that the office and the Department of Justice need to closely monitor the implementation of the strategies to ensure that service quality and the timeliness of intervention are not compromised.

The Committee recommends that:

Recommendation 105: **The Office of the Public Advocate and the Department of Justice closely monitor and report in their respective annual reports on the effectiveness of strategies to manage increased guardianship caseloads, including the quantity, quality and timeliness of services provided.**

10.6 Police and Emergency Services portfolio

The output groups that the Minister for Police and Emergency Services is responsible for are delivered by several agencies (see exhibit 10.9). The services delivered by Victoria Police account for around 60 per cent of the budget of the Department of Justice.¹¹³

¹¹² Office of the Public Advocate, *Annual Report 2002-03*, pp.12–40

¹¹³ Budget Paper No. 3, *2004-05 Service Delivery*, pp.153–160

**Exhibit 10.9: Police and Emergency Services Portfolio
responsibility for output groups**

Output group	Responsible agency
Public Safety Policy	Department of Justice
Emergency Prevention and Response (Statewide Emergency Services output)	Department of Justice
Emergency Prevention and Response (Metropolitan Fire and Emergency Services output)	Metropolitan Fire and Emergency Services Board
Emergency Prevention and Response (Country Fire Authority output)	Country Fire Authority
Reducing the Crime Rate	Victoria Police
Reducing the Road Toll and Incidence of Road Trauma	Victoria Police
High Levels of Community Perceptions of Safety	Victoria Police
High Levels of Customer Satisfaction	Victoria Police

Source: *Public Accounts and Estimates Committee, Report on the 2002-03 Budget Outcomes, 56th Report, April 2004, pp.322–333*

Statewide management of emergency services is coordinated by the Office of the Emergency Services Commissioner, which is part of the Department of Justice. The Emergency Services Commissioner is also responsible for supporting the Minister for Police and Emergency Services as Co-ordinator in Chief of Emergency Management, and Chair of the Victoria Emergency Management Council.¹¹⁴

10.6.1 2004-05 outlook for the portfolio

The last two budgets have provided significant additional funding to Victoria Police, which has been directed to the settlement of wage agreements, the employment of additional police officers, information technology upgrades and the construction of new police stations.¹¹⁵ In 2004-05, the Department of Justice and Victoria Police will continue to implement a range of initiatives including increasing the number of police officers.

¹¹⁴ Department of Justice, Business Units: Office of the Emergency Services Commissioner, <http://www.justice.vic.gov.au/>

¹¹⁵ Budget Paper, No. 2, *2002-03 Budget Statement*, pp.196–198; Budget Paper No. 2, *2003-04 Budget Statement*, pp.232–236

The 2003-04 Budget included increased funding for government-wide security and counter terrorism initiatives¹¹⁶ and the 2004-05 Budget provides a further \$31.3 million over five years for this purpose.¹¹⁷ Initiatives in 2004-05 include the provision of protective equipment for personnel, mobile lighting towers for emergency service organisations and specialist forensic equipment to assist with post-incident investigations.¹¹⁸

During 2004-05 the Department of Justice and Emergency Services Agencies will also be involved in a range of activities to improve the state's response to bushfires. As well as providing additional funding to replace and upgrade fire fighting equipment,¹¹⁹ the County Fire Authority and the Metropolitan Fire and Emergency Services Board will work with other organisations to improve planning and co-ordination activities.¹²⁰

Output initiatives in the 2004-05 Budget relating to the Police and Emergency Services portfolio will cost \$49.5 million in 2004-05 (\$146 million over four years to 2007-08).¹²¹ The Committee was informed that this does not include funding set aside for new information technology services to Victoria Police. Further details on the cost of these services will be published following a tender process.¹²² The major initiatives include:¹²³

- Victoria Police additional funding (\$39.3 million in 2004-05 and \$112.2 million over four years to 2007-08) – to meet the objectives of its five-year strategic plan : *The Way Ahead*;
- increasing police forensic capacity (\$3 million in 2004-05 and \$14.4 million over four years to 2007-08);
- water safety program (\$2.5 million in 2004-05 and \$10.2 million over four years to 2007-08) – to continue the water safety campaign *Play it Safe by the Water* and to provide support to volunteer lifesaver bodies; and
- upgrade of the State Emergency Service call centre at Tally Ho (\$300,000 in 2004-05 and \$1.2 million over four years to 2007-08) – for operational expenses associated with increasing the number of computer aided dispatch and training workstations.

The 2004-05 Budget included asset initiatives relating to the Police and Emergency Services portfolio with a combined total estimated investment (TEI) of \$22.4 million, with \$16.9 million expected to be spent in 2004-05.¹²⁴ Most of the additional funds

¹¹⁶ Budget Paper No. 2, *2003-04 Budget Statement*, pp.201–203

¹¹⁷ Budget Paper No. 3, *2004-05 Service delivery*, pp.268–269

¹¹⁸ *ibid.*

¹¹⁹ *ibid.*

¹²⁰ Department of Premier and Cabinet, *Victorian Government Response to the Report of the Inquiry into the 2002-2003 Victorian Bushfires*

¹²¹ Budget Paper No. 3, *2004-05 Service Delivery*, pp.291–294

¹²² *ibid.*, p.293

¹²³ *ibid.*, pp.291–294

¹²⁴ *ibid.*

(\$14.8 million in 2004-05 and \$20.4 million to 2007-08) relate to the construction, site acquisition and planning processes for police stations at Carlton/North Melbourne, Cranbourne, Mildura, Springvale, Torquay and 14 rural stations across the State.¹²⁵

These commitments build on an existing asset investment program in the Police and Emergency Services portfolio, which had a total estimated investment of around \$360 million in 2003-04.¹²⁶ Expenditure on this existing program is expected to be \$55.5 million in 2004-05.¹²⁷

10.6.2 Analysis of the budget

The 2004-05 Budget for the output group for which the Minister for Police and Emergency Services has responsibility is \$1,451.3 million, an increase of \$118.6 million (8.9 per cent) from the expected outcome for 2003-04 (see exhibit 10.10).¹²⁸

The Committee noted that most of the \$118.6 million increase in output costs for the Police and Emergency Services portfolio was directed to the Diversion and Community Support Program output (\$32 million), the Investigating Crimes output (\$31 million) and the Police Court and Custody Services output (\$15.7 million).¹²⁹

¹²⁵ *ibid.*

¹²⁶ Department of Justice response to the Committee's 2002-03 Budget Outcomes questionnaire, pp.26–34

¹²⁷ Department of Justice response to the Committee's 2004-05 Budget Estimates questionnaire, p.49

¹²⁸ Budget Paper No. 3, *2004-05 Service Delivery*, pp.153–160

¹²⁹ *ibid.*

**Exhibit 10.10: Police and Emergency Services Portfolio
Output costs**

Output group	Outputs under the responsibility of the Minister for Police and Emergency Services	2004-05 Budget (\$ million)
Public Safety Policy	Crime and Violence Protection	5.1
	Emergency Readiness Support	15.0
Sub total		20.1
Emergency Prevention and Response	Metropolitan Fire and Emergency Services	26.9
	Country Fire Authority	45.9
	Statewide Emergency Services	35.9
Sub total		108.7
Reducing the Crime Rate	Investigating Crimes	416.0
	Police Court and Custody Services	210.7
Sub total		626.7
Reducing the Road Toll and Incidence of Road Trauma	Targeting Driver Behaviour	130.4
	Responding to Calls for Assistance	75.1
High Levels of Community Perceptions of Safety	Diversion and Community Support Programs	435.0
Sub total		510.1
High levels of Customer Satisfaction	Community Confidence in Policing Services	23.7
	Partnership Policing	31.6
Sub total		55.3
Total		1,451.3

Source: Budget paper No. 3, 2004-05 Service Delivery, pp.153–178

10.6.3 Performance measures

In the 2004-05 Budget Papers only minor changes were made to performance measures in the Police and Emergency Services portfolio outputs. These include the rewording of a number of performance measures relating to outputs delivered by Victoria Police, discontinuing two measures and the inclusion of one new measure.

Two performance measures discontinued in the 2004-05 Budget were:¹³⁰

- *SES customer satisfaction* (Statewide Emergency Services output) – The department noted that the methodology used in calculating this measure does not provide a reliable indication of customer satisfaction. Large scale events such as 1 in 10 years or 1 in 100 years are distorted through lower satisfaction levels which are given a lower response priority during such significant events. The department stated that a new measure of overall satisfaction will be developed for 2005-06 to replace both SES customer satisfaction and municipal customer satisfaction levels. The Committee noted that the expected outcome in 2003-04 was 55 per cent against a target of 75 per cent; and
- *Priority 1 calls taken and dispatched within 160 seconds – metro* (Responding to Calls for Assistance output) – The expected outcome in 2003-04 was 90 per cent against a target of 80 per cent.¹³¹ A new timeliness measure for the output – average attendance time for priority one events (minutes) – was included in 2004-05.¹³²

The Department of Justice advised the Committee that the definitions of some performance measures relevant to Victoria Police outputs have been broadened to include whole of police force activity levels.¹³³ This applies to the output – Reducing the Crime Rate (the number of major drug investigations), and the output – Targeting Driver Behaviour output (the number of heavy vehicle operations and alcohol screen tests).¹³⁴ The department indicated that the adjustment to the 2004-05 targets for these measures was attributed to an improved counting methodology which more accurately reflects the level of activity.¹³⁵

In the 2003-04 Budget there were significant changes to the structure of the Police and Emergency Services output structure and performance measures, particularly those relating to Victoria Police.¹³⁶ Changes included discontinuing all non-financial measures and the introduction of measures which were focused on activities.¹³⁷

While no further significant changes were made to Victoria Police's outputs in the 2004-05 Budget, the titles of several measures were refined (see exhibit 10.11). Some of these changes made to matters investigated make it clearer that the measures are related to the incidence of different types of offences, rather than the activity of *investigating* offences as the previous titles for some of these measures suggested.

¹³⁰ *ibid.*, pp.345–347

¹³¹ *ibid.*, p.345

¹³² *ibid.*, p.159

¹³³ Department of Justice response to the Committee's 2004-05 Budget Estimates questionnaire, p.4

¹³⁴ *ibid.*

¹³⁵ Budget Paper No. 3, *2004-05 Service Delivery*, p.158

¹³⁶ Public Accounts and Estimates Committee, *Report on the 2003-04 Budget Estimates*, 54th Report, September 2003, p.322

¹³⁷ Public Accounts and Estimates Committee, *Report on the 2002-03 Budget Outcomes*, 56th Report, April 2004, pp.328–332

**Exhibit 10.11: Police and Emergency Services outputs
Revised performance measures**

2003-04 Output performance measure	2004-05 Revised performance measure
Household burglaries investigated Car thefts investigated Crimes against the person investigated Crimes against the person resolved Crimes against the person resolved within 30 days	Household burglaries recorded Car thefts recorded Offences against the person recorded Offences against the person resolved Offences against the person resolved in 30 days

Sources: *Budget Paper No. 3, 2003-04 Budget Estimates, p.214; Budget Paper No. 3, 2004-05 Service Delivery, p.156*

While some of these changes appear to be subtle, the Committee considers that there is a distinct difference between the *recording* of offences and the activity of *investigating* offences, with the latter clearly related to how police resources are utilised. The Committee intends to further examine this issue as part of its 2003-04 Budget Outcomes report.

The Committee notes that several of the current performance measures include elements that are demand related (such as the measure '*events responded to*' in the Responding to Calls for Assistance output) and some measures that are directly related to pro-active policing efforts (such as the measure '*alcohol screening tests conducted*' in the Targeting Driver Behaviour output).¹³⁸

In some cases there are indirect links between demand driven and pro-active policing efforts. The Minister for Police explained to the Committee that these links exist, particularly in relation to specific types of offences:¹³⁹

¹³⁸ Budget Paper No. 3, *2004-05 Service Delivery*, pp.156–160

¹³⁹ Hon. A. Haermeyer, Minister for Police and Emergency Services, transcript of evidence, 21 May 2004, p.17

In respect to the family violence and sexual assault figures, there is a very high tendency, by women in particular, not to make reports. This is often because of fear, whether it is the fear of loss of financial security, whether it is loss of face or whether it is the fear that they might have to go through the whole ordeal again in the courts. What we are trying to do is firstly to encourage people out in the field to better identify where family violence is taking place – that is, teachers, police officers, and community workers; to better identify – and then to provide ways in which the victims will be more comfortable about reporting the crime that has been perpetrated against them.

The Committee accepts that where there is a high level of under-reporting of crimes such as domestic violence, efforts by police to encourage reporting and provide assistance to victims will most likely result initially in increases in reported offences. In these situations it becomes incumbent upon the police to quantify the impact of efforts to encourage reporting so as to reassure the community that increased reporting of these offences does not translate to an overall increase in domestic violence. Notwithstanding this aspect, there would also be an expectation over time that with concentrated efforts to report domestic violence, the real level of domestic violence in the community should begin to decrease.

The Committee considers that where practical, annual reports of Victoria Police should include figures on the incidence of the various categories of crime over a number of years relative to population increases in order that trends can be better analysed. Some commentary should also be provided about the causes of the trends.

The Committee notes that in a national context, the Productivity Commission in its *2004 Report on Government Services* indicated that ‘*it has proved difficult to develop efficiency indicators due to the absence of agreed output measures*’.¹⁴⁰ The Productivity Commission suggested a number of indicators that may be considered as efficiency indicators for a number of policing activities including:¹⁴¹

- cost of response service/calls received – a measure of the efficiency of communications operations;
- cost of domestic violence/domestic violence victims – a measure of the efficiency of police domestic violence services;
- cost of response service/(weighted) calls attended – a measure of the efficiency in response capability; and
- cost of targeted street patrols/weighted actions – a measure of the efficiency in public order.

¹⁴⁰ Steering Committee for the Review of Government Service Provision, *Report on Government Services 2004*, January 2004, p.5.67–5.68

¹⁴¹ *ibid.*

The Committee sought information from the Department of Justice on Victoria Police's performance in 2003-04 using the hours-based measures discontinued in 2002-03 and was advised that Victoria Police no longer collects data measuring the allocation of police hours to different police activities.¹⁴²

The Committee believes that although the current performance measures used by Victoria Police are a substantial improvement on previous measures, they do not provide a balanced assessment of performance, especially in relation to examining the 'efficiency' aspects of policing services as identified by the Productivity Commission.

The Committee encourages the Department of Justice and Victoria Police to continue to work with other jurisdictions to develop and report on efficiency indicators for policing services. In the longer term, key efficiency measures should be contained in future Budget Papers.

The Committee recommends that:

Recommendation 106:

Victoria Police:

- (a) develop and report on a range of police services efficiency measures;**
- (b) continue to work within national frameworks to develop comparable efficiency indicators for police services; and**
- (c) include in its annual report trend data over several years along with commentary on the various crime categories.**

10.6.4 Key issues impacting on the portfolio

The department's response to the Committee's questionnaire and the estimates hearing with the Minister identified several issues that will impact on the Police and Emergency Services portfolio and the Budget Estimates for 2004-05.

¹⁴² Minister for Police and Emergency Services' response to the Committee's follow-up questions, p.8

(a) Outsourcing of information technology for Victoria Police

In February 1999, Victoria Police entered into an outsourcing contract with IBM Australia Limited for an initial five years, with provision for two optional one year extensions.¹⁴³

The Auditor-General recently highlighted several issues in Victoria Police's management of an information technology outsourcing contract with IBM including:¹⁴⁴

- a more active oversight role for Victoria Police's internal audit function;
- the late appointment of a probity auditor for the tender process and reporting by the auditor to a third party rather than an officer who had overall management responsibility for the outsourcing project;
- full public release of the complete contract with IBM (in accordance with the policy of the Victoria Government Purchasing Board) had yet to occur;
- weaknesses in the performance management framework; and
- the need for procedures for verification of invoiced services submitted to the provider.

The Auditor-General noted that the base value in the 1999 contract for a six year term was \$151.5 million.¹⁴⁵ After including cost variations of \$85 million and a separate \$3 million contract entered into with IBM Australia Limited for the network audit and design project, the estimated costs as at February 2003 were \$239.5 million.¹⁴⁶

In February 2003, after considering a submission from Victoria Police and advice from the Department of Justice, the Minister for Police and Emergency Services approved a one year extension to the contract period from February 2004 to February 2005.¹⁴⁷ A decision to extend the contract was based on advice given to the Minister by Victoria Police (and supported by the Department of Justice), that retendering of the contract could not be done thoroughly within the remaining period of the contract.¹⁴⁸

In March 2004, the Minister for Police and Emergency Services announced that a tender would be issued shortly for Victoria Police's information technology system, which was expected to be finalised by February 2006.¹⁴⁹ The Committee understands that preliminary milestones for the tender included calling for expressions of interest

¹⁴³ Auditor-General Victoria, *Report on Public Sector Agencies: Results of special reviews*, May 2003, p.42

¹⁴⁴ *ibid.*, pp.42–60

¹⁴⁵ *ibid.*, p.55

¹⁴⁶ *ibid.*, p.55

¹⁴⁷ *ibid.*

¹⁴⁸ *ibid.*, p.58

¹⁴⁹ Hon. A. Haermeyer, Minister for Police and Emergency Services, media release, *New police IT contract to be in place in February 2006*, 19 March 2004

in June 2004, undergoing an evaluation process during August 2004 and issuing a request for proposals in September 2004.¹⁵⁰

The Committee is concerned about these developments and believes that this outsourcing contract represents a potential key risk area for Victoria Police – in terms of both cost and quality of service – particularly in light of the importance that it has placed on the use of information technology to support ‘intelligent policing’ as outlined in its strategic plan.¹⁵¹

The Committee raised this matter with the Department of Justice and was advised a three tiered governance structure had been established as part of a joint project between Victoria Police, the Department of Premier and Cabinet and the Department of Treasury and Finance.¹⁵² Strategies adopted include:¹⁵³

- the establishment of an interdepartmental steering committee – including senior representatives from Victoria Police and the two departments, and chaired by Victoria Police;
- the appointment of a project management team – comprising suitably qualified staff and independent contractors/consultants;
- the appointment of a Victoria Police working group – comprising representatives from Victoria Police Department and each region as required; and
- the establishment of specialist working groups as required comprising independent contractors/consultants and/or suitably qualified staff.

The Committee was advised that project management processes at Victoria Police have also improved following the Auditor-General’s recent performance audit and now included.¹⁵⁴

- the appointment of a probity advisor and legal adviser from the outset for the duration of the project, with an independent line of reporting to the steering committee. The probity auditor reports independently to the Victoria Police Audit Committee;
- the project forms part of the Gateway Review process to provide experienced independent experts to review projects at key decision points, ensuring better capital investment outcomes and to improve the procurement process for major asset investment projects;
- lessons learnt from previous projects have been incorporated into the strategies adopted for tracking the progress of new projects; and

¹⁵⁰ *ibid.*

¹⁵¹ Victoria Police, *The Way Ahead: Strategic plan 2003-2008*, p.10

¹⁵² Minister for Police and Emergency Services’ response to the Committee’s follow-up questions, p.6

¹⁵³ *ibid.*, p.7

¹⁵⁴ *ibid.*

- the adoption of a project management framework (Prince2) that was developed by the United Kingdom's Office of Government Commerce.¹⁵⁵

The Department of Justice also advised the Committee that Victoria Police had appointed a Chief Information Officer who is currently reviewing contract management and governance structures to ensure Victoria Police has appropriate management practices in place for more effective ongoing management.¹⁵⁶

The current extension to the original IBM contract expires in February 2005. The Department of Justice reassured the Committee that a project plan with adequate time contingency has been developed to ensure any required transition can take place before the contract with IBM expires.¹⁵⁷

The Committee recommends that:

Recommendation 107: Victoria Police and the Department of Justice closely monitor developments associated with tendering arrangements for information technology outsourcing to ensure that a further extension to the current contract is not required.

The Auditor-General noted that the full public release of the contract had not been finalised by May 2003, with only a one page summary included on the Victorian Government Purchasing Board's contracts publishing system website.¹⁵⁸ A check by the Committee at the end of July 2004 found that this was still the case, despite the Victorian Government Purchasing Board's policies requiring all contracts over the value of \$10 million to be disclosed in full, subject to the application of the exemption criteria in the *Freedom of Information Act 1982*.¹⁵⁹ The Committee believes that the department and Victoria Police need to work with the current contractor to rectify this situation and make these requirements clear to tenderers, in advance of finalising future contract arrangements.

The Committee recommends that:

Recommendation 108: The Department of Justice ensure that the details of the Victoria Police IBM outsourcing contract are released in accordance with the Victorian Government Purchasing Board's policy.

¹⁵⁵ Office of Government Commerce, Introduction to Prince2, www.ogc.gov.uk/prince/about_p2/about_intro.htm#whatis_p2, accessed 23 July 2004

¹⁵⁶ Minister for Police and Emergency Services response to the Committee's follow-up questions, p.7

¹⁵⁷ *ibid.*

¹⁵⁸ Auditor-General Victoria, *Report on Public Sector Agencies: Results of special reviews*, May 2003, p.49

¹⁵⁹ *ibid.*; The relevant website for listing of the Victoria Police IT outsourcing contract is www.contracts.vic.gov.au/major/vicpolice_itoutsourcing.htm, Accessed 29 July 2004

Given the history of the outsourcing contract, whereby the initial cost estimate of \$151.5 million became at least \$240 million primarily due to poor contract management,¹⁶⁰ the Department of Justice has substantially improved the probity and project management processes associated with the outsourcing of large contracts. However, despite the actions taken, the department must closely monitor the new arrangements to ensure that contractual obligations are met in a timely and efficient manner and that the department and Victoria Police do not encounter any further unforeseen or emerging risks, which could potentially delay the achievement of the new directions in ‘intelligent policing’ outlined in the Victoria Police Strategic Plan.

The Committee acknowledges the efforts the Department of Justice and Victoria Police have committed to the tender process. The Committee believes that when the new contract commences it will be essential that the arrangements are monitored to ensure that the services delivered under the contract are in accordance with expectations.

The Committee recommends that:

Recommendation 109: **Victoria Police and the Department of Justice closely monitor the implementation of the new information technology contractual arrangements, including costs to ensure that they meet performance expectations.**

¹⁶⁰ Auditor-General Victoria, *Report on Public Sector Agencies: Results of special reviews*, May 2003, p.42

(b) Speed cameras

In November 2003, Victoria Police responded to public uncertainty over the accuracy of some speed cameras by suspending the processing of fixed camera speeding penalties to allow the entire network to be tested.¹⁶¹ The process of testing the cameras was initially considered to take between four and six weeks.¹⁶²

The Government's response to uncertainty over the continued operation of speed cameras and the reimbursement of fines and demerit points was announced in May 2004. Some of the key aspects included:¹⁶³

- infringements issued up until 12 November 2003 on City Link and the Monash Freeway will stand;
- all infringements on the Western Ring Road, City Link and the Monash Freeway on hold since 12 November 2003 will be withdrawn;
- an allocation of \$13.7 million to reimburse fixed camera fines incurred on the Western Ring Road;
- a \$6 million fund to reimburse motorists with legitimate claims due to losses resulting from licence suspension for fixed camera penalties on the Western Ring Road; and
- the appointment of a Special Investigator (former Auditor-General Mr Ches Baragwanath) to conduct an investigation into the implementation of the fixed digital speed program on the Western Ring Road.

The Committee is aware that the failure to adequately maintain cameras and regularly verify their accuracy has had significant implications on revenue and raised this with the Treasurer and the Minister for Police and Emergency Services at the estimates hearings. The Treasurer informed the Committee that the revenue foregone in 2003-04 due to issues associated with a number of fixed safety camera installations on the Western Ring Road, City Link tunnels and the Monash Freeway has been estimated at around \$194 million, with an anticipated impact on revenue in 2004-05 of \$20.2 million.¹⁶⁴

One of the outcomes of the testing of the speed cameras was that the error rate was very low, and most of the incorrect readings related to motorists who were incorrectly

¹⁶¹ Hon. A. Haermeyer, MP, Minister for Police and Emergency Services, media release, *Government backs suspension of processing of fixed camera speed penalties*, 12 November 2003

¹⁶² *ibid.*

¹⁶³ Hon. S. Bracks, Premier of Victoria, media release, *Government Acts on Fixed Speed Cameras*, 14 May 2004

¹⁶⁴ Treasurer's response to the Committee's follow-up questions, p.2

detected at a lower speed than they were actually travelling.¹⁶⁵ The Minister for Police and Emergency Services confirmed this:¹⁶⁶

the testing process found that 0.55 per cent of readings on the cameras were incorrect; 1.5 million vehicles were checked; 8136 of those readings were incorrect readings and 8064 or 99.1 per cent of the incorrect readings were under-readings. Overwhelmingly these were people who were speeding who should have been picked up by the cameras but were not. The main problem with the cameras, quantity wise is actually that they were not picking up people who were breaking the law who should have been picked up. Seventy-two vehicles or .005 per cent were incorrectly detected at a higher speed than they were really travelling, and 12 of the high-speed readings would have resulted in infringements being issued out of a total 17 infringeable offences.

The Committee noted that the Government anticipated processing 5,000 fewer speeding motorists in 2004-05 compared to the expected 1,030,000 motorists detected speeding in 2003-04.¹⁶⁷ The Committee is pleased that a number of new measures have been taken to restore public confidence in the operation of speed cameras including:¹⁶⁸

- eliminating the fragmentation of responsibility for speed camera operations by transferring responsibility for the operation of all cameras to the Department of Justice. Previously, the responsibility for the operation of speed cameras was split between VicRoads (Western Ring Road) and the Department of Justice (City Link and Monash Freeway); and
- progressively implementing a system that provides a second camera image allowing for verification of the initial camera reading, which is based on a time-over-distance calculation.

The projected costs of implementing a new camera system and maintenance were not available at the time this report was prepared as tenders only closed on 20 June 2004.¹⁶⁹ Some features of the new testing and maintenance program would include:¹⁷⁰

¹⁶⁵ Hon. A. Haermeyer, MP, Minister for Police and Emergency Services, transcript of evidence, 21 May 2004, p.10

¹⁶⁶ *ibid.*

¹⁶⁷ Budget Paper No. 3, *2004-05 Service Delivery*, p.159

¹⁶⁸ Hon. A. Haermeyer, MP, Minister for Police and Emergency Services, transcript of evidence, 21 May 2004, pp.9–11

¹⁶⁹ <http://www.tenders.vic.gov.au/CA256AEA00206A7D/webpages/PublicTendersFrameset?Open>, accessed 8 July 2004

¹⁷⁰ Hon. A. Haermeyer, Minister for Police and Emergency Services, media release, *Government calls for tenders for improved speed camera testing and maintenance regime*, 16 June 2004

- greater accountability for identifying and fixing any system faults;
- implementing a program of proactive routine inspections, including collecting photographic evidence of the condition of camera components;
- managing warranty claims once the new cameras are installed; and
- more thorough reporting to Government of camera condition and reliability.

The Committee acknowledges the department's efforts to improve the management of speed camera operations and believes that regular reporting of the operations of cameras will contribute to improving community confidence in the camera network. The Committee believes that the Department of Justice should regularly report on speed camera operations (including the achievement of planned maintenance and testing) in their annual report.

The Committee recommends that:

Recommendation 110: **The Department of Justice report on the management and operation of speed cameras in their annual report, including the outcomes of planned maintenance and testing.**

(c) *Five year plan and resourcing for Victoria Police*

Victoria Police launched its five-year strategic plan – *The Way Ahead* – in January 2004.¹⁷¹ The 2004-05 Budget allocated an additional \$39.3 million in 2004-05 (and \$112.2 million over four years to 2007-08) to meet the objectives of the strategic plan.¹⁷²

The strategic plan identifies four performance measures and targets that Victoria Police aims to achieve:¹⁷³

- reduce crime by 5 per cent over the period;
- reduce the road toll and incidence of road trauma in accordance with the Government's *arrive alive!* 2002-2007 road safety strategy;
- increase levels of community perceptions of safety; and
- increase levels of customer satisfaction.

The Committee noted that Victoria Police had quantified several of these targets in its 2003-04 business plan.¹⁷⁴

¹⁷¹ Victoria Police, *The Way Ahead: Strategic Plan 2003-2008*

¹⁷² Budget Paper No. 3, *2004-05 Service Delivery*, pp.291–294

¹⁷³ Victoria Police, *The Way Ahead: Strategic Plan 2003-2008*, p.8

¹⁷⁴ Victoria Police, *Delivering a Safer Victoria: Business Plan 2003-04*, p.1

- reduce the road toll and incidence of road trauma by 20 per cent;
- increasing levels of community perceptions of safety by 1.5 per cent; and
- increasing levels of customer satisfaction by 2.6 per cent.

The Committee noted that targets relating to levels of community perceptions of safety and customer satisfaction are no longer included in the 2004-05 business plan and that the target for reducing the road toll and road trauma is for a 20 per cent reduction.¹⁷⁵ If this latter target were to be achieved, it would require at least a reduction of 80 road deaths and 1,300 serious injuries each year (from a baseline of 400 road deaths and 6,500 serious injuries).

The Minister informed the Committee that the number of Victorian road deaths in 2003 was the lowest on record.¹⁷⁶ While the Committee acknowledges the Government has made significant progress in reducing road fatalities, it considers that the number of road deaths should not be taken in isolation as an indicator of road safety trends, as the outcome of road accidents can be influenced by split second events and other circumstances as to whether death, major or minor injuries occur.

The Committee notes that in a submission to the Victorian Parliament Road Safety Committee, VicRoads stated that:¹⁷⁷

The public focus on road safety is the number of deaths that occur. This is the most common public interpretation of the term 'the road toll'. On a daily basis the media report road deaths, typically including a year to date comparison with the previous year. This strongly influences the monitoring of road safety progress and may lead to erroneous short-term conclusions. Statistically, substantial year to year variations in the number of deaths can be expected. A longer-term approach is necessary for the analysis of trends. ... With something like 12-15 serious injuries for every death, an examination of the serious injury data will provide a statistically more reliable picture of trends.

The Committee suggests that more appropriate indicators revolve around the number of major road accidents and the combined totals of deaths and serious injuries.

The Committee was surprised to learn that two agencies involved as partners to the *arrive alive!* strategy – VicRoads and Victoria Police – do not use the same criteria for measuring the baseline for each target. While Victoria Police adopt the 20 per cent target¹⁷⁸ included in the *arrive alive!* strategy (which implies a baseline of 400 road deaths and 6,500 serious injuries), VicRoads adopts a target that uses a three year

¹⁷⁵ *ibid.*, p.5

¹⁷⁶ Hon. A. Haermeyer, MP, Minister for Police and Emergency Services, transcript of evidence, 21 May 2004, p.8

¹⁷⁷ VicRoads, submission to the Road Safety Committee's inquiry into the country road toll, October 2003, p.2

¹⁷⁸ Victoria Police, *Delivering a safer Victoria: Business plan 2004-05*, p.5

average between 1999-2001 to establish a baseline for each measure.¹⁷⁹ The difference between the baseline measures amounts to around 10 road deaths and 50 serious injuries. Although in the overall context of the annual number of road deaths and serious injuries these variances are immaterial, the Committee would have expected that a common baseline for target setting would have been agreed upon between the major agencies concerned with road safety.

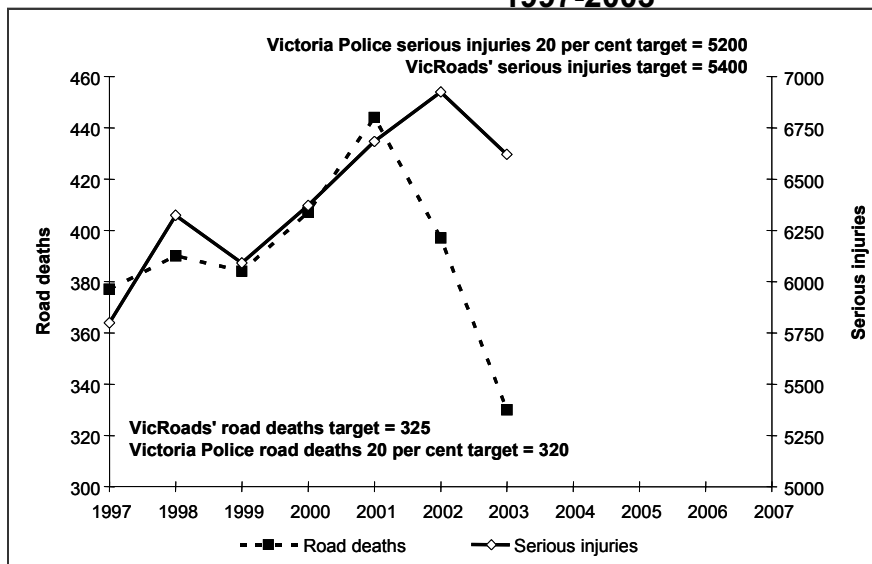
The Committee recommends that:

Recommendation 111: **Victoria Police and VicRoads review current frameworks for measuring the effectiveness of road safety strategies with a view to adopting a common baseline for setting targets.**

Irrespective of the baselines, the Committee believes that there remain significant challenges to meet targets for road deaths and serious injuries (see exhibit 10.12). These challenges are highlighted by year-on-year comparative data for 2004 showing that, as at the end of September, the number of road deaths was 265, 8 per cent higher than in the same period in 2003.¹⁸⁰

The Committee noted that road crashes impose significant social and economic costs on the community. Based on estimates prepared by the Bureau of Transport Economics, the average cost of a fatal crash is approximately \$2 million and the cost of a serious injury crash was \$493,000.¹⁸¹

Exhibit 10.12 Road fatalities and serious injuries 1997-2003



¹⁷⁹ Mr D. Anderson, Chief Executive VicRoads, transcript of evidence, 4 May 2004

¹⁸⁰ Transport Accident Commission, Road Safety Monthly Summary, September 2004, p.3

¹⁸¹ Bureau of Transport Economics, *Road crash costs in Australia*, Report No. 102, May 2000, p.81; Estimates were converted to 2004 dollars using changes in the Melbourne All Groups Consumer Price Index.

Sources: Minister for Police and Emergency Services, presentation to Public Accounts and Estimates Committee, 21 May 2004; Transport Accident Commission, *Road Safety Monthly Summary*, June 2004 (and previous issues)

The Committee observed that the Victoria Police document – *Road Safety Enforcement Strategy 2003-2008*, which complements the Government’s *arrive alive!* 2002-2007 road safety strategy – contains a range of activities to be undertaken by Victoria Police which are designed to address the major road safety challenges. The document identifies 12 challenges, including speed and speeding, drink driving, pedestrian safety, drugs and driving and working with the community.¹⁸² Each of the challenges identified were supplemented by performance measures indicating the context to which activities were successful in improving road safety.¹⁸³

Although there is a public perception that Victoria Police’s road safety activities concentrate on enforcement activities,¹⁸⁴ the Committee is pleased that Victoria Police has identified 12 diverse challenges that collectively contribute to improved road safety outcomes.¹⁸⁵ The Committee considers that Victoria Police should be accountable for the implementation of the road safety strategies as to how effective these strategies are in achieving the Government’s aim of reducing road trauma by 20 per cent. Such information is also important for future funding decisions for Victoria Police.

The Committee recommends that:

Recommendation 112: **Victoria Police include in its annual report summary information, including performance measures, on the implementation of the Victoria Police Road Safety Strategy.**

In relation to other performance measures contained in the Victoria Police five year strategic plan, the Department of Justice advised the Committee that specific targets for levels of community perceptions of safety and customer satisfaction have not been set.¹⁸⁶ However, in addition to the four key performance measures identified in the plan, a series of progress indicators will be used to measure the effectiveness of Victoria Police’s activities including:¹⁸⁷

- reduction in offence rates, with particular targets set for priority areas including violent crime, family violence and volume crime;
- reduction in levels of victimisation;

¹⁸² Victoria Police, *Victoria Police Road Safety Strategy Enforcement Strategy 2003-2008*

¹⁸³ *ibid.*

¹⁸⁴ *ibid.*

¹⁸⁵ *ibid.*

¹⁸⁶ Department of Justice response to the Committee’s follow-up questions, pp.5–6

¹⁸⁷ *ibid.*

- reduction in repeat victimisation for specific offence types;
- improvements in organisational health and employee satisfaction;
- recruitment and retention of under-represented groups and specialists;
- increased proportion of the workforce with tertiary qualifications and other specialist qualifications;
- continuous improvement in the results of the Australian Business Excellence Framework evaluations;
- increased levels of reporting of crime, including measurement of increases in types of crime reported using alternative reporting mechanisms;
- high levels of community confidence in policing services;
- continuously improving performance against published service standards;
- a greater number and diversity of partnerships with government departments, research institutions, industry groups, other social agencies, community groups and experts;
- greater use of non-punitive responses to certain kinds of offending such as diversion, restorative justice and counselling;
- declining cost of crime and road trauma as the incidence and impact of offending is reduced through early intervention and prevention strategies; and
- an increasing proportion of resources and effort being spent on collaborative programs at a local, regional state and national level.

The Committee acknowledges the relevance and importance of the progress indicators developed by Victoria Police to assist in monitoring the implementation of the strategic plan. Nevertheless, the Committee also observed that there were no specific indicators measuring any increase in public perceptions of satisfaction with Victoria Police including perceptions of safety by the community.

Of the four key performance measures contained in the strategic plan two measures relate to this area:¹⁸⁸

- increase levels of community perceptions of safety; and
- increase levels of customer satisfaction.

The Committee is aware that the Victoria Police 2004-05 business plan sets a target of 76.8 per cent for community satisfaction with police services and a target of 83.9 per cent for community satisfaction with police in most recent contact.¹⁸⁹ These

¹⁸⁸ Victoria Police, *Delivering a safer Victoria: Business Plan 2004-05*, pp.19, 21

¹⁸⁹ *ibid.*

targets are consistent with output performance measures included in the Budget Papers.¹⁹⁰

Although these two targets partially address the measurement of customer satisfaction with police, there are no targets set as to community perceptions of safety. In addition, although the target set for community satisfaction with police appears reasonable, it is difficult to determine what level of satisfaction should be regarded as a target taking into account measures set, if available, for other police forces within Australia.

The Committee considers that as community perceptions of safety and satisfaction with police services are regarded as key measures in the five year strategic plan, specific targets should be set as to the optimum levels of community satisfaction and perceptions desired. Progress indicators should also be developed to progressively record the extent to which the targets are being achieved.

¹⁹⁰ Budget Paper No. 3, *2004-05 Service Delivery*, pp.159–160

The Committee recommends that:

Recommendation 113: **Victoria Police set specific targets in its five year strategic plan for community satisfaction with police services and community perceptions of public safety, in conjunction with reporting progress indicators detailing the extent to which the targets are achieved.**

(d) Forensic science resource centre

The 2004-05 Budget included funding of \$3 million in 2004-05 (\$14.4 million over four years to 2007-08) to increase police forensic capacity by providing for the recruitment of 46 additional forensic staff.¹⁹¹ This includes funding of \$8 million over four years announced in April 2004 to employ and equip 23 extra forensic staff to meet increased demand for DNA testing.¹⁹²

The department advised the Committee that the staffing level as at 31 May 2004 for the Victoria Police Forensic Department was 286, which comprised 83 police members and 203 public servants, including 152 specialist forensic officers.¹⁹³ The 46 additional staff will represent a significant addition (16 per cent) to the resourcing of the Forensic Department.

The Committee was advised that the additional 46 staff would be recruited in several stages. After advertising locally, interstate and overseas, the department expected that 23 staff would commence in July 2004.¹⁹⁴ A further 14 positions would be funded in 2004-05.¹⁹⁵

The Committee believes that it is critical that the Victoria Police Forensic Department has adequate resources to maximise the benefits of the DNA testing regime that applies to all Victorian prisoners and from samples collected at crime scenes. The recruitment of these additional staff should have a positive impact on other areas of the justice system including solving crime and minimising delays to court proceedings.

The department advised the Committee that a series of core performance measures had been developed for each of the casework divisions as well as other measures that were specific to certain work areas. For example, in relation to the DNA database,

¹⁹¹ *ibid.*, pp.291–292

¹⁹² Hon. S. Bracks, MP, Premier of Victoria, media release, *Greater powers and resources for Ombudsman*, 8 April 2004

¹⁹³ Minister for Police and Emergency Services' response to the Committee's follow-up questions, p.8; Department of Justice response to the Committee's 2004-05 Budget Estimates questionnaire, p.17

¹⁹⁴ Minister for Police and Emergency Services' response to the Committee's follow-up questions, p.8

¹⁹⁵ *ibid.*

performance measures include the number of samples added to the database and the number of links made in a variety of categories.¹⁹⁶

The Committee welcomes efforts by the Victoria Police Forensic Department to ensure that there is a suitable framework in place to monitor the performance of forensic testing. Although performance measures for Victoria Police and the justice system will indirectly capture the benefits of improvements in the performance of the Forensic Department, the Committee believes that there is merit in separately reporting the performance of the Victoria Police Forensic Department against its targets in Victoria Police's annual report. Such reporting should include performance measures relating to both the number of samples processed as well as the timeliness of testing, particularly where testing is relative to scheduled court appearances of accused persons.

The Committee recommends that:

Recommendation 114: Victoria Police develop performance information for the operations of the Forensic Department and separately report on achievements in its annual report.

The Committee has previously recommended as a potential performance audit that the Auditor-General examine the effectiveness of the operations of the Victoria Police Forensic Department. The Committee intends to revisit this suggestion in the future and will continue to monitor the outcomes achieved with the additional funding provided to the Forensic Department.

(e) *Statewide integrated public safety communications strategy*

The Department of Justice and Victoria Police are currently managing several important multi-year information technology tenders and contracts that are part of the Statewide Integrated Public Safety Communications Strategy. These projects include:

¹⁹⁶ *ibid.*

- mobile data network (MDN) – involves the fitting of mobile data terminals to all metropolitan police and metropolitan ambulance vehicles over a seven year period. A service agreement for the mobile data network was signed with Motorola on 25 June 2003. The contract is valued at \$171 million in net present value terms, with full service payments to commence after the Government’s acceptance of the network;¹⁹⁷
- metropolitan mobile radio – replacement of the existing aged analogue system used by Victoria Police, Metropolitan Ambulance Service and the Metropolitan Fire and Emergency Services Board with a state-of-the art digital radio system. Motorola Australia Pty Ltd was awarded the contract in March 2004, with the project estimated to cost \$120 million in net present value terms;¹⁹⁸ and
- emergency alerting system – a messaging system that will be used to alert emergency personnel from a number of agencies, individually or en masse to any emergency throughout rural and regional Victoria via a personal messaging device. The project was announced in the 2002-03 Budget, and the initial users will be the Country Fire Authority (CFA), Rural Ambulance Victoria and the Victorian State Emergency Service (VICSES). The cost of the project is estimated at \$100 million.¹⁹⁹ On 8 June 2004, the Minister signed a contract for delivery of the emergency alerting system with VEC Network Pty Ltd.²⁰⁰

In a recent examination of the management of the Mobile Data Network Project, the Auditor-General concluded that the project’s governance and project management, and user involvement have been satisfactory, given the complexity of the project.²⁰¹ In particular, project governance was strengthened through the operation of a steering committee comprising senior representatives of key stakeholders.²⁰² However, the Auditor-General questioned parts of the procurement process, including negotiations with a single tenderer for a significantly changed scope over a two year period.²⁰³

The Auditor-General identified that the Mobile Data Network Project faces several risks, which must be managed by the department’s Bureau of Emergency Services Telecommunications and by client agencies.²⁰⁴ Two of these risks are that agencies’

¹⁹⁷ Public Accounts and Estimates Committee, *Report on the 2002-03 Budget Outcomes*, 56th Report, April 2004, p.312; Department of Justice response to the Committee’s 2004-05 Budget Estimates questionnaire, p.37

¹⁹⁸ Hon. A. Haermeyer, MP, media release, *New digital radio network to be up and running for 2006 Commonwealth Games*, 15 March 2004; Department of Justice response to the Committee’s 2004-05 Budget Estimates questionnaire, p.37

¹⁹⁹ Bureau of Emergency Services Telecommunications, *Emergency Alerting System*, www.best.vic.gov.au, accessed 8 July 2004

²⁰⁰ *ibid.*

²⁰¹ Auditor-General Victoria, *Report on Public Sector Agencies: Results of special reviews*, May 2004, p.9

²⁰² *ibid.*

²⁰³ *ibid.*

²⁰⁴ *ibid.*

change management strategies, and the performance management regimes, will not be effective. All agencies affected have already started to manage these risks.²⁰⁵

The Committee noted that the full operation of the Mobile Data Network requires the fit out of 310 ambulances and 700 Victoria Police operational vehicles, including police boats. Communications terminals would also need to be installed at all police stations within the network, plus key regional and metropolitan police and ambulance links and headquarters.²⁰⁶ The Bureau of Emergency Services Telecommunications expected that the Mobile Data Network will begin early in 2005 and would be fully operational by the end of 2005.²⁰⁷

The Committee noted that the Emergency Alerting System was expected to be rolled out progressively during 2004 and 2005, with an expected coverage in excess of 90 per cent of the state by the fire season after this coming summer (see exhibit 10.13).²⁰⁸

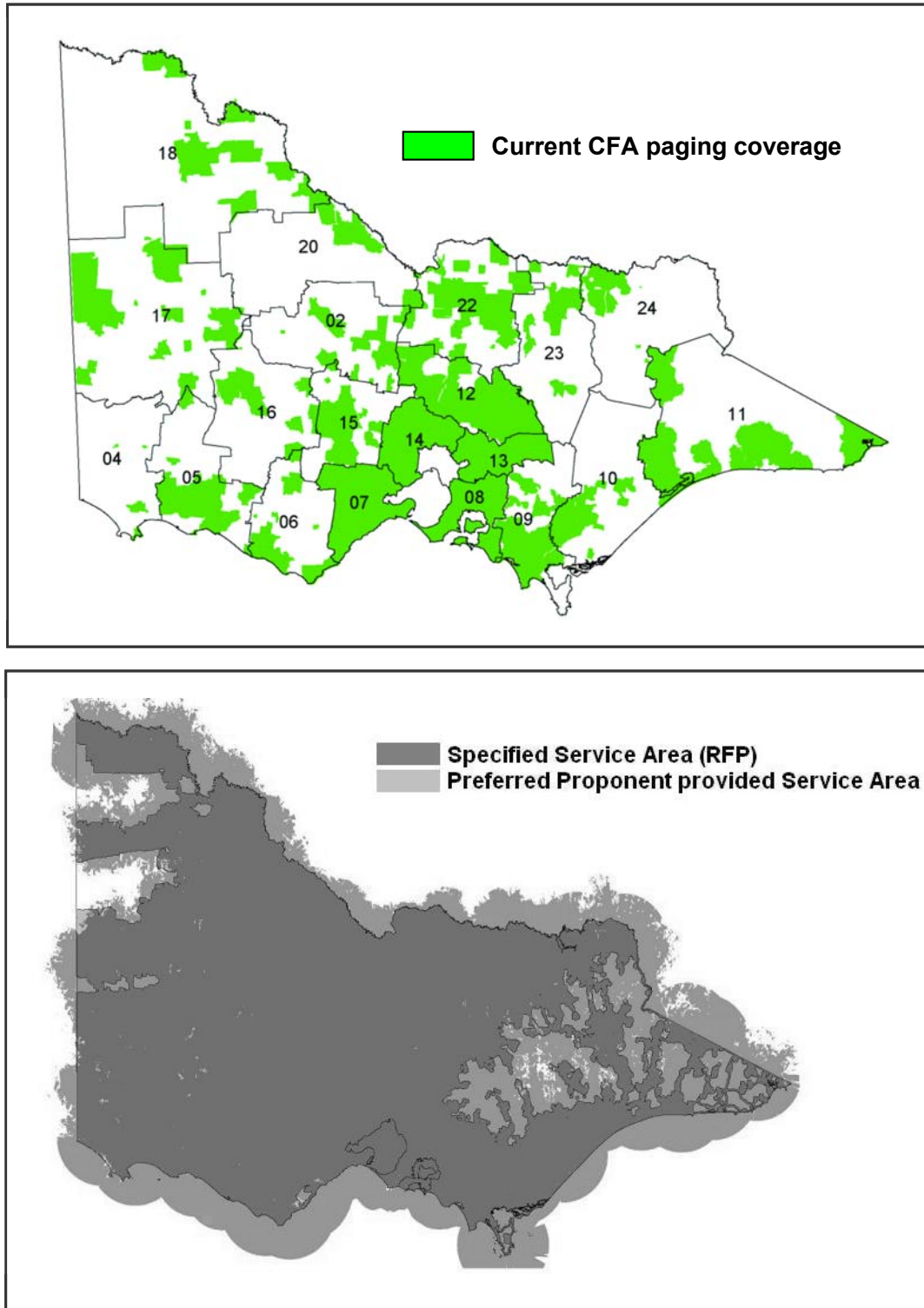
²⁰⁵ *ibid.*

²⁰⁶ Bureau of Emergency Services Telecommunications, Mobile Data Network, www.best.vic.gov.au, accessed 8 July 2004

²⁰⁷ Bureau of Emergency Services Telecommunications, Mobile Data Network status, www.best.vic.gov.au, accessed 8 July 2004

²⁰⁸ Hon. A. Haermeyer, Minister for Police and Emergency Services, record of transcript, 21 May 2004, p.2

Exhibit 10.13: Emergency Alerting System, current coverage and future expected coverage



Source: Minister for Police and Emergency Services, Hon. A. Haermeyer, presentation to the Public Accounts and Estimates Committee, 21 May 2004

The Committee noted that the Bureau of Emergency Services Telecommunications expects the implementation of the Melbourne Metropolitan Radio (MMR) project will begin immediately and the network will be operational by the Commonwealth Games in March 2006.²⁰⁹

The Committee recognises that these projects are complex and will involve a significant effort on the part of the Department of Justice and emergency services agencies to meet planned timelines. The Committee encourages the department and relevant agencies to closely monitor developments that may affect planned implementation of these communication systems.

(f) Comparison of Emergency Communications Victoria and Intergraph - call taking performance

Emergency Communications Victoria (ECV) was established on 4 June 2002 to provide call taking and dispatch services to Victorian emergency services organisations.²¹⁰

At the estimates hearings the Committee requested information relating to ECV's call-taking performance, particularly compared to services previously outsourced to Intergraph. The Minister explained to the Committee that a comparison with Intergraph's performance would be like '*... comparing apples with oranges*'.²¹¹

The Department of Justice advised the Committee that new performance measures have generated improvements to ECV service delivery but have altered baselines and caller mix, which makes meaningful comparison of performance standards misleading. These performance improvements were undertaken in collaboration with Victoria's emergency services.²¹² Another factor identified by the department as affecting the comparisons was that the use of mobile phones to seek assistance now make up 50 per cent of calls to emergency services and require a longer time to establish location of emergencies.²¹³

The department identified three further changes to the process of taking calls:²¹⁴

²⁰⁹ Bureau of Emergency Services Telecommunications, Metropolitan Mobile Radio status, www.best.vic.gov.au, accessed 8 July 2004

²¹⁰ Emergency Communications Victoria, *Annual Report 2002-03*, p.12

²¹¹ Hon. A. Haermeyer, MP, Minister for Police and Emergency Services, transcript of evidence, 21 May 2001, p.7

²¹² Minister for Police and Emergency Services' response to the Committee's follow-up questions, p.2

²¹³ *ibid.*

²¹⁴ *ibid.*

- prior to June 2002 calls to Telstra 000 that did not have any caller response were transferred to Intergraph police call takers. The vast majority of these calls were misdials or hoaxes. This meant Intergraph had high numbers of very short duration calls. The introduction by Telstra 000 of the Caller No Response protocol in June 2002, means that these calls are now directed to a recorded message. The message instructs the caller to use the telephone touch buttons to obtain emergency assistance. If the caller does not respond the call is disconnected. This means ECV receives a higher percentage of genuine calls which result in longer average times to process but a better quality of service to the community and emergency services;
- up until September 2002 Victorians had the option of dialling Telstra 000 or direct Emergency Services Access Numbers (ESAN) for emergency services. A significant number of these ESAN calls, particularly to the Metropolitan Fire and Emergency Services Board, were of very short duration (2–3 seconds) misdialled numbers. Since September 2002, the ESAN numbers have been removed and all calls now have an initial vetting by Telstra 000. These changes have resulted in ECV receiving a higher percentage of genuine calls, which take longer to process, but provide a better quality of service to the community and emergency services; and
- prior to the introduction of the Telstra 75 Second Ring Policy (75SRP) in December 2002, Telstra would continue to hold the call in the queue for nine rings (or 27 seconds) until answered or re-present the call. This meant that no call would be in the queue longer than 27 seconds. ECV's second benchmark of answering 80 per cent of calls within 60 seconds could not be measured because there were no calls to measure. The introduction of the 75SRP enables ECV to report on the second call answer benchmark, which was not able to be undertaken by Intergraph.

The Committee accepts that these changes and various other factors have made it difficult to provide meaningful comparisons between the performance of ECV and the former system operated by Intergraph in relation to call taking performance. However, the Committee believes that the performance of this essential service should be measured and reported on and suggests ECV's call taking performance be benchmarked against the performance of emergency communications services in other Australian jurisdictions.

The Committee recommends that:

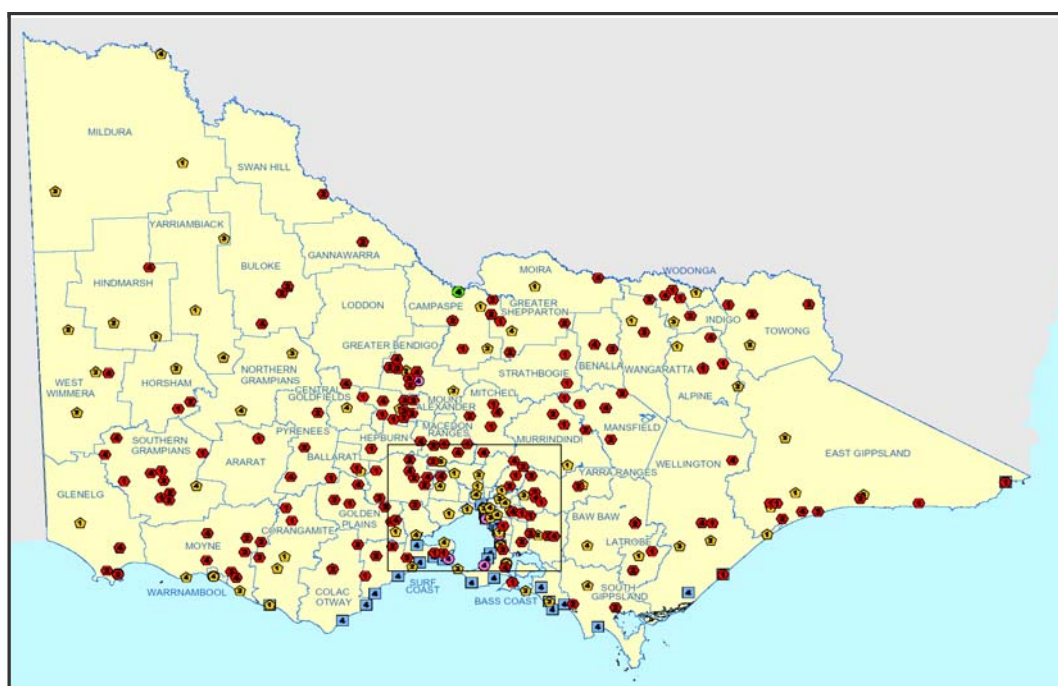
Recommendation 115: **Emergency Communications Victoria include in its annual report, commentary and comparisons with similar emergency communications organisation in other Australian jurisdictions, on its call taking and dispatch time performance.**

(g) Community Safety Emergency Support Program

The Community Safety Emergency Support Program (CSESP) provides funding assistance towards the acquisition of ancillary safety and rescue equipment to complement the existing infrastructure of CFA brigades, VicSES units, Life Saving Victoria clubs and Australian Volunteer Coast Guard flotillas.²¹⁵

In the three year period 2001-03, 108 VicSES units and 119 CFA brigades benefited from CSESP grants of \$4.5 million, which provided funding towards projects of a total value of \$10.3 million.²¹⁶ Grants were provided on a dollar-for-dollar basis for projects valued at greater than \$40,000 (up to a maximum contribution of \$70,000) and a Government contribution on a two-for-one basis for projects valued up to \$40,000.²¹⁷ At the estimates hearings the Minister for Police and Emergency Services provided the following information which indicates grants paid or approved under the program had been allocated throughout the state (see exhibit 10.14)

Exhibit 10.14: Community Safety Emergency Support Program – approved bids



Source: Minister for Police and Emergency Services, Hon. A. Haermeyer, presentation to Public Accounts and Estimates Committee, 21 May 2004

²¹⁵ Department of Justice, Community Safety Emergency Support Program, www.justice.vic.gov.au, accessed 12 July 2004

²¹⁶ Minister for Polices and Emergency Services' response, to the Committee's follow-up questions, p.1

²¹⁷ Department of Justice, Community Safety Emergency Support Program, www.justice.vic.gov.au/, accessed 12 July 2004

In November 2003, the Minister for Police and Emergency Services announced that the program would be extended, with \$2.5 million to be allocated annually over four years.²¹⁸ The Committee noted that CSESP funding is allocated from the Community Support Fund and that grants partly contributed to the expected increase for the Emergency Readiness Support output in 2003-04 and 2004-05.²¹⁹ At the estimates hearings, the Minister indicated that the annual \$2.5 million allocation would be divided into \$1.5 million to be shared between the CFA and SES, \$500,000 to be shared by Life Saving Australia and the Australian Volunteer Coast Guard, with the remaining \$500,000 available to all of these and other emergency services organisations.²²⁰

10.7 Corrections portfolio

Corrections Victoria, a service agency within the Department of Justice, is responsible for the direction, management and operation of Victoria's corrections system, which incorporates prisons and Community Correctional Services.²²¹ Corrections Victoria was formed from a merger of the Office of the Correctional Services Commissioner and the Public Correctional Enterprise during 2003-04.²²²

10.7.1 2004-05 outlook for the portfolio

The cornerstone of the Government's corrections strategy is the Corrections Long Term Management Strategy, which involves a number of initiatives to provide additional prison capacity through the construction of new prisons and the upgrade of some existing prisons, as well as examining rehabilitation programs and establishing diversion initiatives in relation to some of the lower-order offences.²²³ The strategy is in its fourth year of implementation, with most of the funding announced as part of the 2001-02 Budget.²²⁴

²¹⁸ Hon. A. Haermeyer, MP, Minister for Police and Emergency Services, media release, *\$10 million for local emergency services*, 27 November 2003

²¹⁹ Department of Justice response to the Committee's 2004-05 Budget Estimates questionnaire, p.28

²²⁰ Hon. A. Haermeyer, MP, Minister for Police and Emergency Services, transcript of evidence, 21 May 2004, p.6

²²¹ Department of Justice, Business Units: Corrections Victoria, www.justice.vic.gov.au, accessed 6 October 2004

²²² Public Accounts and Estimates Committee, *Report on the 2003-04 Budget Estimates*, September 2003, p.354

²²³ Hon. A. Haermeyer, Minister for Corrections, transcript of evidence, 21 May 2004, p.2

²²⁴ Budget Paper No. 2, *Budget Statement 2001-02*, pp.252-259

The 2004-05 Budget included one major output initiative relating to the Corrections portfolio, which will cost approximately \$4.7 million in 2004-05 (\$19.7 million over four years to 2007-08).²²⁵ The initiative provides funding to maintain flexible prisoner bed capacity for women offenders pending the completion of the women offenders strategy.²²⁶ There were no new asset initiatives included in the 2004-05 Budget relating to the Corrections portfolio.²²⁷

10.7.2 Analysis of the budget

The 2004-05 Budget for the output group for which the Minister for Corrections has responsibility is \$390.1 million, an increase of \$66.4 million from the expected outcome for 2003-04 (see exhibit 10.15).²²⁸

The Committee noted that the increase for the Enforcing Correctional Orders output group was mainly due to additional funding for the expansion of prison capacity (\$25.3 million), higher wage costs and other costs across the portfolio (\$20.2 million) and additional depreciation and capital asset charges expense arising from the construction of new corrections facilities and the periodic revaluation of existing facilities (\$17.6 million).²²⁹

**Exhibit 10.15: Corrections portfolio
Output costs**

Output group	Outputs under the responsibility of the Minister for Corrections	2004-05 Budget (\$ million)
Enforcing Correctional Orders	Correctional System Management	29.3
	Prisoner Supervision and Support	323.7
	Community Based Offender Supervision	37.1
Total		390.1

Source: Budget Paper No. 3, 2004-05 Service Delivery, pp.172–173

²²⁵ Budget Paper No. 3, 2004-05 Service Delivery, p.291–292

²²⁶ *ibid.*, p.292

²²⁷ *ibid.*, p.294

²²⁸ *ibid.*, pp.172–173

²²⁹ Department of Justice response to the Committee’s 2004-05 Budget Estimates questionnaire, p.30

10.7.3 Performance measures

The Department of Justice refined several performance measures in the 2004-05 Budget relating to the Enforcing Correctional Orders output group, with two measures discontinued and one new measure introduced.²³⁰

The performance measure *Average daily utilisation rate of all permanent and temporary prison capacity* in the Corrections System Management output was discontinued.²³¹ This was in line with the Committee's recommendation in its 2003-04 Budget Estimates report.²³² The Committee noted that the measure was discontinued despite the Government rejecting the recommendation in its response to the Committee's 2003-04 Budget Estimates Report.²³³

The second performance measure discontinued was *Offenders inducted within seven working days of the commencement of the order* in the Community Based Offender Supervision output.²³⁴ A new measure – *Supervised offenders inducted within seven working days of the commencement of the order* – was introduced to measure the timeliness of community based offender supervision. The department indicated that this new timeliness measure only recognises induction programs that are compulsory for offenders to attend, and replaces the discontinued measure for offenders with a treatment or personal development plan who may have been referred to the program but attendance was not mandatory.²³⁵

The Committee noted that the target for the measure *Total annual daily average numbers of prisoners* remained unchanged at 3,600-3,800 in 2004-05.²³⁶ This target appears to overstate expected prisoner numbers in 2004-05, with forecast prisoner numbers between 3,500 and 3,600 in 2004-05 (see section 10.74(d)). The Committee encourages the Department of Justice to revise this target to take into account the effectiveness of programs aimed at diverting offenders from correctional facilities and reducing recidivism.

²³⁰ Budget Paper No. 3, 2004-05 Service Delivery, pp.172–173, 345; Budget Paper No. 3, 2003-04 Budget Estimates, pp.233–234

²³¹ Budget Paper No. 3, 2004-05 Service Delivery, p.345

²³² Public Accounts and Estimates Committee, *Report on the 2003-04 Budget Estimates*, September 2003, p.323

²³³ Department of Justice, *Government Response to the Recommendations of the Public Accounts and Estimates Committee's 54th Report on the 2003-2004 Budget Estimates*, p.31

²³⁴ Budget Paper No. 3, 2004-05 Service Delivery, p.345

²³⁵ *ibid.*, p.173

²³⁶ *ibid.*, p.172

10.7.4 Key issues impacting on the portfolio

The department's response to the Committee's questionnaire and the estimates hearing identified several issues that will impact on the portfolio and its Budget Estimates for 2004-05.

(a) Home detention

In June 2003, Parliament enacted legislation enabling the Home Detention Program to commence, with the program starting in January 2004.²³⁷ The Home Detention Program was expected to cost \$1.6 million per year to operate with a capacity of 80 offenders, at an estimated annual cost per offender of \$20,000.²³⁸ This compares to an average annual cost of more than \$65,000 to accommodate offenders in a Victorian prison.²³⁹

The 2001-02 Budget allocated \$4.8 million over three years to the pilot program.²⁴⁰ The Committee noted that the Department of Justice expects to carry forward \$2.5 million of this funding to 2004-05.²⁴¹

The Committee noted that the program was only directed to those prisoners with a very low risk of reoffending.²⁴² The Minister advised the Committee that as at 28 April 2004, 79 cases, including 5 cases from the courts, had been referred to home detention for comprehensive assessment, with 37 referrals subsequently assessed as unsuitable.²⁴³

The Committee notes that the Department of Justice intends to evaluate the program using qualified and independent evaluators after two years operation to determine its success and recommend what improvements, if any, can be made to the program.²⁴⁴

The majority of the Committee consider that new initiatives to reduce prison detention have considerable merit, but also carry risks and must be carefully evaluated as to the community benefits of such programs.

(b) Post release support for offenders

²³⁷ Department of Justice, Home detention: Questions and answers, www.justice.vic.gov.au, accessed 15 July 2004

²³⁸ *ibid.*

²³⁹ Steering Committee for the Review of Government Service Provision, *Report on Government Services 2004*, table 7A.6

²⁴⁰ Budget Paper No. 2, *Budget Statement 2001-02*, pp.252–253

²⁴¹ Minister for Corrections' response to the Committee's follow-up questions, p.4

²⁴² Hon. A. Haermeyer, MP, Minister for Corrections, transcript of evidence, 21 May 2004, p.9

²⁴³ *ibid.*

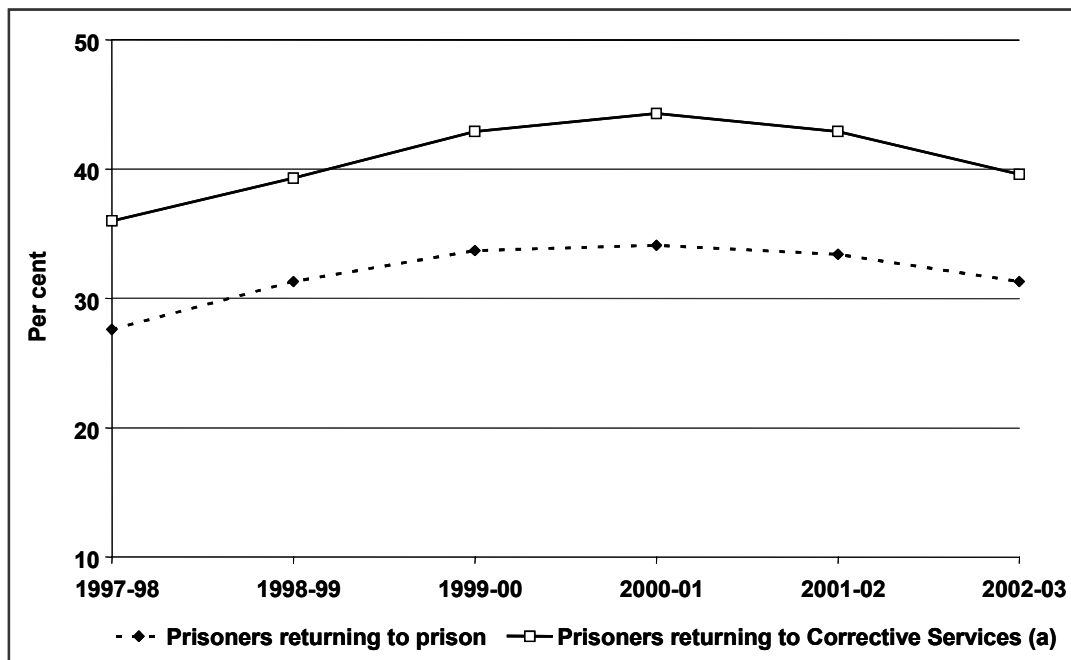
²⁴⁴ Department of Justice, Home detention: Questions and answers, www.justice.vic.gov.au, accessed 15 July 2004

The Bridging the Gap Program was established in 2001 as a two year pilot to provide intensive, statewide, post-release support particularly for high risk and high need offenders.²⁴⁵ In 2003-04, the program had a budget of approximately \$1.6 million.²⁴⁶

The effectiveness of the Department of Justice's prisoner rehabilitation programs has significant implications for future expenditure on prisoner accommodation. An important measure of the overall success of such programs in the next few years will be trends in recidivism (prisoners released subsequently returning to prison). The Committee noted the positive effects that rehabilitation programs had in recent years, with trends in recidivism rates recently showing an improvement in Victoria (see exhibit 10.16).

The Committee noted that a program targeting prisoners who are at high risk of homelessness after release is being independently evaluated by Deakin University.²⁴⁷ The Minister advised the Committee that initial data showed the re-incarceration rate after nine months for participants in the initiative was 70 per cent less than for the comparative group of prisoners discharged from the same three prisons.²⁴⁸

Exhibit 10.16: Recidivism – Prisoners returning to corrective services within two years of release or completion of community-based order



Note: (a) Includes returning to corrective services as a sentenced prisoner; on a community-based order, community work order, parole, etc

²⁴⁵ Hon. A. Haermeyer, MP, Minister for Corrections, transcript of evidence, 21 May 2004, p.11

²⁴⁶ Department of Justice, Request for Tender, Bridging the Gap program, March 2004, p.9

²⁴⁷ Minister of Corrections' response to the Committee's follow-up questions

²⁴⁸ *ibid.*

Sources: Victorian Auditor-General's Office, *Addressing the needs of Victorian prisoners*, November 2003, p.18; Steering Committee for the Review of Government Service Provision, *Review of Government Services 2004*, p.C.15

An evaluation of the Bridging the Gap Program was completed by the University of Melbourne Criminology Research and Evaluation Unit in 2003.²⁴⁹ The Minister advised the Committee that over the 18 month evaluation period, 700 prisoners were screened for eligibility for the Bridging the Gap Program under five service providers. Of the 700 assessed, 464 were assessed as suitable for the program and 319 ultimately agreed to participate.²⁵⁰

The Committee noted the findings of the evaluation that six months post release, 33 per cent of the offenders who participated in the program were assessed as not using drugs, with another 24 per cent using drugs in a manner that did not constitute dependence or abuse.²⁵¹ The Minister did not define what type of drug use did not constitute dependence or abuse.²⁵² The evaluation also found that six months post release, 51 per cent of participants were in stable accommodation. With regard to reoffending, 60 per cent of participants had no episodes of reoffending over the evaluation period.²⁵³

The Committee noted that the department has recently issued a tender for the provision of Bridging the Gap pre- and post-release support services for two years, with the option to extend for a further year. Tenders closed on 8 April 2004.²⁵⁴

The Minister advised the Committee that a number of recommendations arising from the evaluation have been integrated into the development of the contract specifications including:²⁵⁵

- targeting prisoners who have completed intensive prison based drug treatment;
- maintaining a balance between releasees who require short, medium and long-term support through
 - effective engagement with mainstream community services; and
 - by service providers directing no more than 20 per cent of their workload to the support of clients beyond six months post-release;
- including repeat short sentence prisoners in the eligibility criteria.

The Committee noted that service delivery and program outcome measures for the program have been developed using the findings of the evaluation and have also been

²⁴⁹ Melbourne Criminology Research and Evaluation Unit, *Bridging the Gap: A release transition support program for Victorian prisoners: Final evaluation report*, August 2003

²⁵⁰ Hon. A. Haermeyer, MP, Minister for Corrections, transcript of evidence, 21 May 2004, p.11

²⁵¹ *ibid.*

²⁵² *ibid.*

²⁵³ *ibid.*

²⁵⁴ Department of Justice, Reviews and Research, www.justice.vic.gov.au, accessed 27 September 2004

²⁵⁵ Minister for Corrections' response to the Committee's follow-up questions, p.5

informed by the experience and knowledge gained by the program managers in the pilot phase.²⁵⁶ Performance measures include:²⁵⁷

- 80 per cent of program participants are to have access to the same worker pre-and post-release;
- 90 per cent of participants are to be met and assisted on day of release from prison;
- a minimum of four referrals to external agencies should be made to participants during the support period; and
- 100 per cent of prisoners who disengage from the program, post release to be followed up with at least two phone calls and one home visit.

²⁵⁶ *ibid.*, pp.5–6

²⁵⁷ *ibid.*

Outcome measures identified for the program include:²⁵⁸

- 100 per cent achievement of nominated and agreed screening and registration targets;
- 90 per cent engagement (in connection with agency) upon release of participants who prepared a pre-release program;
- 60 per cent retention of post-release participants until structured exit from the program;
- 90 per cent of participants who list drug and/or alcohol treatment as a release goal referred to a community drug and alcohol treatment program;
- 70 per cent of participants who list accommodation as a release goal secure accommodation upon release;
- participants accommodated in transitional housing are successfully established in affordable and secure long-term housing within an average of 22 weeks post-release support for single participants and 26 weeks for participants with families; and
- 50 per cent of participants engaged with approved job-ready/employment programs.

The Committee welcomes the department's rigorous evidence-based approach to evaluating its Bridging the Gap Program. The Committee considers the Department of Justice should report on contractors' progress in meeting the targets specified for the program over the next three years.

The Committee noted that the Auditor-General had planned a performance audit on the management of offenders on community based orders but recently reported that completion of the audit would be deferred to allow time for a range of initiatives in the area to be developed.²⁵⁹

While the Committee acknowledges that the Department of Justice has only recently implemented part of its redevelopment program and has a range of planned initiatives for managing offenders that have yet to be completed,²⁶⁰ the Committee considers that it is important that an evaluation is undertaken as soon as possible of the effectiveness of these initiatives.

²⁵⁸ *ibid.*

²⁵⁹ Victorian Auditor-General's Office, *Report on public sector agencies: Results of special reviews and other studies*, August 2004, p.140

²⁶⁰ *ibid.*, p.139

(c) New prison construction

Two asset investment projects in the Corrections portfolio are being delivered under the Partnerships Victoria policy. These are the 600 bed remand centre in Ravenhall and the 300 bed Correctional Programs Centre in Lara.²⁶¹

Under the contract arrangements, the private sector is responsible for financing, designing, constructing and providing ongoing maintenance for the 25 year life of the project.²⁶² The net present value of the two facilities is \$275 million.²⁶³

The Committee noted that the full contracts for these two facilities are on the internet at the Victorian Government Contracts home page.²⁶⁴

A budget allocation of \$135.9 million was initially provided for the construction of these correctional facilities, which was based on a traditional build-and-construct public service project.²⁶⁵ The difference between the cost of the initial budget allocation and the current contract for the two correctional facilities reflects specified maintenance provisions over the life of the agreement and savings in financing, construction and design costs.

The department advised the Committee that technical completion for the Correctional Programs Centre is scheduled for the end of June 2005 and commercial acceptance in August 2005. Technical completion for the remand centre is scheduled for the end of October 2005, with commercial acceptance in January 2006.²⁶⁶

The Department of Justice advised the Committee that payment of a monthly 'Accommodation Services Charge' to the project developers will commence after commercial acceptance.²⁶⁷ The Committee noted that the estimated payment for the accommodation services charge in 2006-07 (the first year in which both prisons will operate over a full year) is expected to be \$25.8 million in nominal terms, with this figure subject to the following costs being finalised.²⁶⁸

²⁶¹ Department of Justice response to the Committee's 2004-05 Budget Estimates questionnaire, p.37

²⁶² *ibid.*

²⁶³ *ibid.*

²⁶⁴ Victorian Government Purchasing Board, Victorian Government Contracts Publishing System, www.tenders.vic.gov.au, accessed 20 August 2004

²⁶⁵ Mr A. Clayton, Executive Director, Police, emergency services and corrections, Department of Justice, transcript of evidence, 21 May 2004, p.14

²⁶⁶ Department of Justice response to the Committee's 2004-05 Budget Estimates questionnaire, p.37

²⁶⁷ Minister for Corrections' response to the Committee's follow-up questions, p.3

²⁶⁸ *ibid.*

- the final completion dates;
- the final cost of the necessary insurances; and
- adjustments for those elements impacted by indexation.

The Committee intends to consider how maintenance arrangements under the prison contracts compare with traditional procurement processes, as well as a range of other issues, as part of its inquiry into Private Sector Investment into Public Infrastructure.

In its *Report on the 2002-2003 Budget Outcomes*, the Department of Justice advised the Committee that the contract costs for the existing private prisons were commercial in confidence and not available for disclosure, particularly as there are only two private bidders.²⁶⁹

Following the estimates hearing the Committee asked the Minister for Corrections how the disclosure of the contract costs relating to the operation of private prisons would interfere with the proper and efficient performance of Government.²⁷⁰

The Minister's initial response to the Committee's follow-up questions indicated that *'the disclosure of contract costs for private prisons is now under active consideration and will be notified as soon as practicable'*.²⁷¹ On 29 September 2004, the Minister further advised the Committee that:²⁷²

External legal advice on this matter has only just been finalised, which takes into consideration the issue of the forthcoming contractual review process. Information on the matter will be advised to [the Public Accounts and Estimates Committee] once this has been considered by the Department of Justice.

The Committee is concerned at the delay in providing this information. The Committee looks forward to receiving the Minister's final response and intends to further address this issue as part of its Report on the 2003-04 Budget Outcomes.

(d) Prisoner numbers and prison capacity

The number of prisoners in Victoria's correctional system has increased steadily in recent years, with the daily average prison population rising from 2,796 in 1998 to 3,718 in 2003.²⁷³ In November 2003, the Auditor-General noted that, in the absence of

²⁶⁹ Department of Justice response to the Committee's 2002-03 Budget Outcomes questionnaire, p.44

²⁷⁰ *ibid.*

²⁷¹ Minister for Corrections' response to the Committee's follow-up questions, p.6

²⁷² Minister for Corrections' additional response to the Committee's follow-up questions, p.1

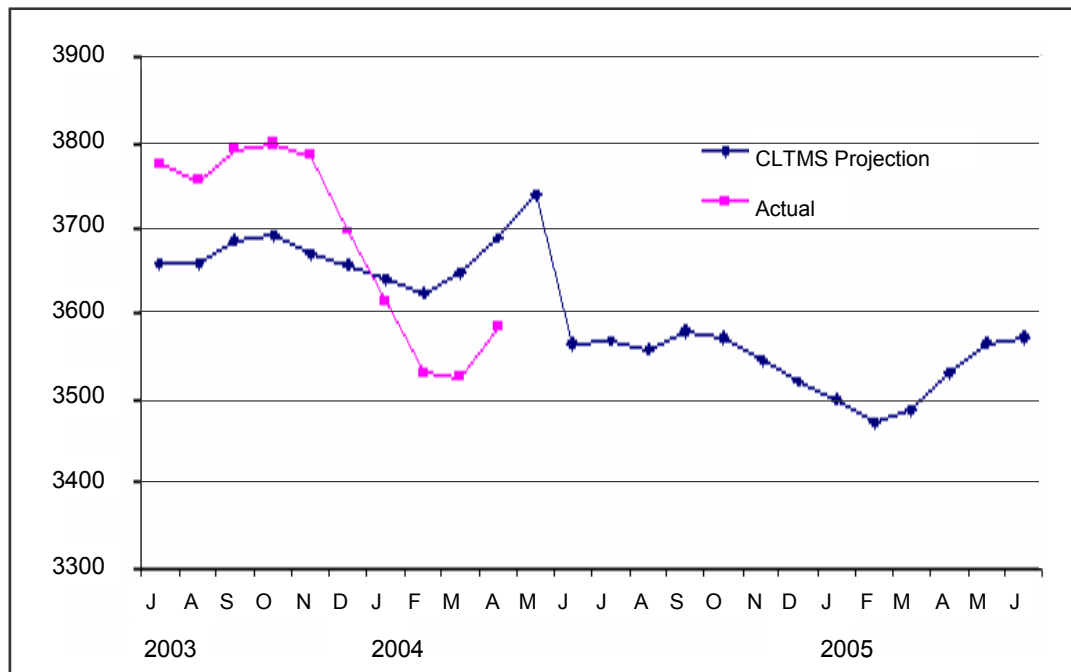
²⁷³ Australian Bureau of Statistics, *Corrective Services*, December quarter 2003, ABS Cat. No. 4512.0 (and previous issues)

policy and program interventions, Corrections Victoria predicted continuing strong growth in prisoner numbers to around 4,220 prisoners by June 2006.²⁷⁴

The Committee noted that, at an average annual cost of \$65,591 per prisoner per year, continued growth in prisoner numbers has significant funding implications for Government.²⁷⁵

The Minister for Corrections provided the Committee with an updated forecast of future prisoner numbers, which predicted that, based on current estimates, prisoner numbers would peak at around 3,720 in May 2004 before declining sharply in June 2004 as diversion strategies are expected take effect (see exhibit 10.17).²⁷⁶

Exhibit 10.17: Number of Victorian Prisoners monthly averages



Note: CLTMS – Corrections long-term management strategy

Source: Hon. A. Haermeyer, MP, Minister for Corrections, presentation to the Public Accounts and Estimates Committee, 21 May 2004

The Committee noted that prison capacity could be influenced in the next few years by decisions over the removal of temporary beds, the commissioning of three new facilities and the timing of the closure of three existing prisons.²⁷⁷

The Minister advised the Committee that the Department of Justice had implemented a flexible bed strategy, which provides 940 temporary beds across the prison system,

²⁷⁴ Auditor-General Victoria, *Addressing the needs of Victorian prisoners*, November 2003, p.17

²⁷⁵ Steering Committee for the Review of Government Service Provision, *Report on Government Services 2004*, table 7A.6

²⁷⁶ Hon. A. Haermeyer, Minister for Corrections, transcript of evidence, 21 May 2004, p.3

²⁷⁷ *ibid.*, pp.3–4

including bunks and relocatable cellular accommodation units (also referred to as demountables).²⁷⁸ The relocatable unit at the Dame Phyllis Frost Centre will be incorporated into the permanent accommodation at that facility. Other relocatable units will be used to facilitate prisoner accommodation while cell rectification and prison redevelopment works are being undertaken. In the longer term the units will provide capacity for the corrections system to meet any significant increase in prisoners temporarily accommodated otherwise in police cells.²⁷⁹

The Committee noted that current planning requires flexible beds to be retired progressively as permanent beds are built.²⁸⁰ However, the feasibility of this strategy will be monitored in the context of prisoner number trends to ensure that extra capacity exists within the prison system to allow for enough flexibility for good management of the system.²⁸¹

The Minister advised the Committee that one of the advantages of flexible (relocatable) units is that they enable the department to meet occasional peak loads or to reconfigure the prison system to meet short to medium term needs.²⁸² The Minister believed that given the lack of predictability of many of the factors that determine the quantum and mix of the prison population, this capacity will prove invaluable in meeting future needs.²⁸³

The Committee recognises that the Department of Justice faces a significant challenge in managing capacity across the Victorian prison network. The Committee encourages the department to continue to develop its forecasting models to ensure that excess temporary accommodation can be taken out of service in a timely manner without compromising service flexibility.

²⁷⁸ Minister for Corrections' response to the Committee's follow-up questions, p.1

²⁷⁹ *ibid.*

²⁸⁰ *ibid.*

²⁸¹ *ibid.*

²⁸² *ibid.*

²⁸³ *ibid.*

The Committee recommends that:

Recommendation 116: **Corrections Victoria review its forecasting models to ensure that it can optimise the capacity and distribution of temporary prison accommodation.**

(e) Lockdowns

Lockdowns – where prisoners are restricted to their cell – occur for a number of reasons including security and emergency management, staff training, special events such as meetings/ceremonies, industrial disputes and to assist in the short-term management of staffing issues.²⁸⁴

At the estimates hearing the Committee sought information on the incidence and duration of lockdowns at Victorian prisons. The Minister advised the Committee that during the past four years they have reduced dramatically:²⁸⁵

You will find that over the last four years they have dropped both in the private and the public system quite dramatically, because we have significantly improved staffing arrangements there. We have one prison where there has recently been an issue where prisoners had been locked down; that is a very temporary issue related not to chronic staff shortages but to staff turnover and our capacity to replace those staff. That is being addressed as a matter of urgency and we have also referred that matter to the prisons inspectorate to investigate, but we take prison lockdowns very seriously. They are significantly down, but at the women's prison there has been an issue which is related to turnover of staff, not chronic staff shortages.

The Committee sought further information from the Minister following the hearing on the incidence and duration of lockdowns at each of Victoria's 13 prisons in each month over the period July 2003 to April 2004. The Minister's initial response to the Committee indicated that:²⁸⁶

the data collected by Corrections Victoria in response to the specific request requires significant validation. The data will be provided to [the Committee] after validation has been completed.

On 29 September 2004 the Minister further advised the Committee that:²⁸⁷

²⁸⁴ *ibid.*, p.2

²⁸⁵ Hon. A. Haermeyer, MP, Minister for Corrections, transcript of evidence, 21 May 2004, pp.7–8

²⁸⁶ Minister for Corrections' response to the Committee's follow-up questions, p.2

²⁸⁷ Minister for Corrections' additional response to the Committee's follow-up questions, p.1

Compilation of the data in the format requested has been a complex and time-consuming task. However, Corrections Victoria has now completed an extensive survey across the prison system, and has produced a provisional response. These data have subsequently been forwarded to the Corrections Inspectorate for validation, and to provide an independent audit of the material.

The validated data on the incidence and duration of prison lockdowns over the identified period will be forwarded to the Chair of [the Public Accounts and Estimates Committee] once the review by the Corrections Inspectorate is completed.

The Committee is surprised at the delay in providing this information. The Committee looks forward to receiving this information soon and intends to address this issue as part of its Report on the 2003-04 Budget Outcomes.

10.8 Consumer Affairs portfolio

Consumer Affairs Victoria, a business unit of the Department of Justice, is responsible for delivering consumer protection services. Some services are provided directly by Consumer Affairs Victoria, whilst others are delivered by contracted non-government agencies, which provide services under service agreements. Services provided by contracted agencies may relate to a specific issue (such as tenancy support services) or the provision of a range of general services to a specific area.²⁸⁸

10.8.1 2004-05 outlook for the portfolio

The Minister outlined eight strategic priorities for the Consumer Affairs portfolio over the period 2003-2006:²⁸⁹

- address current and emerging marketplace issues;
- ensure existing interventions in the marketplace are efficient and effective;
- target issues of concern to vulnerable and disadvantaged consumers;
- provide leadership in alternative dispute resolution;
- strengthen compliance and enforcement;
- strengthen information and education services;
- modernise Consumer Affairs Victoria – 21st century systems and customer service; and
- interjurisdictional cooperation.

²⁸⁸ Consumer Affairs Victoria, *Annual Report 2002-03*, p.48

²⁸⁹ Mr J. Lenders, MLC, Minister for Consumer Affairs, transcript of evidence, 15 June 2004, p.3

Output initiatives in the 2004-05 Budget relating to consumer affairs will cost approximately \$1.4 million in 2004-05 (\$8.8 million over four years to 2007-08).²⁹⁰ The two initiatives are:²⁹¹

- \$1 million in 2004-05 (\$4.7 million over four years to 2007-08) to expand and administer the regulatory framework for bodies corporate and retirement villages. Initiatives may include advice and educational material for consumers and industry members, appropriate dispute resolution mechanisms and prudent management of corporate funds; and
- \$400,000 in 2004-05 (\$4.1 million over four years to 2007-08) to cover increased costs in providing trade measurement services. This has been driven by plans to include utility meters under the trade measurement regime.²⁹²

10.8.2 Analysis of the budget

The 2004-05 Budget for the output group for which the Minister for Consumer Affairs has responsibility is \$61.9 million, an increase of \$7.1 million from the expected outcome for 2003-04 (see exhibit 10.21).²⁹³

Appropriations from the Consolidated Fund account for around \$27.6 million (44.6 per cent) of Consumer Affairs Victoria's budgeted output costs in 2004-05, with trust funds contributing the remainder.²⁹⁴

The Minister advised the Committee that the main trust funds from which funding was drawn included the Victorian Property Fund (formerly Estate Agents' Guarantee Fund – \$16 million), Residential Tenancies Fund (\$11 million), Domestic Building Fund (\$3 million) and the Motor Car Traders' Guarantee Fund (\$3 million).²⁹⁵

The Minister advised the Committee that the increase in output costs in 2004-05 reflected greater activity under the Victorian Property Fund (previously Estate Agents' Guarantee Fund – \$4 million); budget initiatives (\$1.4 million); increased funding to the Domestic Builders Fund (\$800,000) and higher employee costs due to the Victorian Public Sector enterprise agreement (\$600,000).²⁹⁶

10.8.3 Performance measures

The performance measures for the Consumer Protection output were revised for the 2004-05 Budget, with all 14 performance measures included in the 2003-04 Budget

²⁹⁰ Budget Paper No. 3, *2004-05 Service Delivery*, p.291

²⁹¹ *ibid.*, p.291

²⁹² Minister for Consumer Affairs' response to the Committee's follow-up questions, p.4

²⁹³ Budget Paper No. 3, *2004-05 Service Delivery*, p.174

²⁹⁴ Minister for Consumer Affairs' response to the Committee's follow-up questions, p.2

²⁹⁵ Mr J. Lenders, MLC, Minister for Consumer Affairs, transcript of evidence, 15 June 2004, p.11

²⁹⁶ *ibid.*, p.8

Papers being discontinued.²⁹⁷ The expected outcome for all but one of these measures was in line with expectations.²⁹⁸

The 14 discontinued performance measures were replaced by seven new measures, comprising five quantity measures, one quality measure and one timeliness measure.²⁹⁹ At the estimates hearing, the Minister indicated that there was no discontinuity between the old and new measures, with the new measures arranged on a functional basis, covering the wide range of functions carried out by Consumer Affairs Victoria under the 48 Acts for which the Minister has responsibility.³⁰⁰

The Committee considers that Consumer Affairs Victoria should include better explanations and report more broadly in its annual report on the activities undertaken in its areas of responsibility (including compliance activities in residential tenancies, motor vehicle trading, real estate agents, trade measurement and fair trading).

The Committee recommends that:

Recommendation 117: Consumer Affairs Victoria report more broadly in its annual report on the outcomes of activities undertaken in relation to its areas of responsibility.

The Committee intends to follow up on specific aspects of Consumer Affairs' compliance activities as part of its Report on the 2003-04 Budget Outcomes.

10.8.4 Key issues impacting on the portfolio

The department's response to the Committee's questionnaire and the estimates hearing identified several issues that will impact on the portfolio and its Budget Estimates for 2004-05.

(a) Indigenous consumer protection

The Indigenous Consumers Unit at Consumer Affairs Victoria commenced operations in January 2003. The two goals of the Indigenous Consumers Protection Strategy are to increase awareness and protection of consumer rights for Indigenous Victorians and to ensure Consumer Affairs Victoria services are accessible to Indigenous communities across Victoria.³⁰¹

²⁹⁷ Budget Paper No. 3, *2004-05 Service Delivery*, pp.345–346

²⁹⁸ *ibid.*

²⁹⁹ *ibid.*, p.174

³⁰⁰ Mr J. Lenders, MLC, Minister for Consumer Affairs, transcript of evidence, 15 June 2004, p.6

³⁰¹ Consumer Affairs Victoria, *Indigenous Consumers Protection Strategy*, www.consumer.vic.gov.au, accessed 20 July 2004

The Minister advised the Committee that there had been a modest increase in the budget for the Indigenous Consumers Unit in 2004-05.³⁰²

The Committee noted that measures of success for the Indigenous Consumers Protection Strategy are:³⁰³

- an increase in enquiries from Indigenous people;
- monitoring and analysis of new and emerging issues through data collection;
- effectiveness of consumer education resources; and
- reports to the Ministerial Council for Consumer Affairs on the developments and implementation of the strategy.

The Minister advised the Committee that prior to the implementation of the strategy in 2002-03 there were only eight identified enquiries or complaints from Indigenous consumers in the previous year.³⁰⁴ Anecdotal evidence suggested that the main consumer issues affecting Indigenous consumers related to debt and tenancy.³⁰⁵

Data for 2002-03, which included six months operation of the Indigenous Consumers Unit, identified that Indigenous consumers made up a very small proportion of contacts with Consumer Affairs Victoria relative to the general population (see exhibit 10.22).

³⁰² Mr J. Lenders, MLC, Minister for Consumer Affairs, transcript of evidence, 15 June 2004, p.7

³⁰³ Consumer Affairs Victoria, Indigenous Consumers Protection Strategy, www.consumer.vic.gov.au, accessed 20 July 2004

³⁰⁴ Minister for Consumer Affairs' response to the Committee's follow-up questions, p.2

³⁰⁵ Mr J. Lenders, MLC, Minister for Consumer Affairs, transcript of evidence, 15 June 2004, p.7

**Exhibit 10.22: Indigenous consumer contacts
2002-03**

	Total	Indigenous consumers	Indigenous consumer share (per cent)
Enquiries	216,560	91	0.04
Written complaints	12,480	17	0.14
Investigations	1,091	1	0.09
Total	230,131	109	0.05

Source: Minister for Consumer Affairs' response to the Committee's follow-up questions, p.2

More recent information indicates that contact between Consumer Affairs Victoria and Indigenous consumers was increasing, with the Indigenous consumers hotline receiving 350 enquiries in the 12 months to January 2004.³⁰⁶

The Committee also noted that in addition to a range of pro-active education and information activities, the Indigenous Consumers Unit was developing partnerships with relevant Government agencies including the Equal Opportunity Commission, Office of the Public Advocate and the Energy and Water Ombudsman of Victoria.³⁰⁷ These agencies also assist Indigenous people with a range of specific services, including dispute resolution.

Increased awareness is a good indicator of the success of the education and information activities developed by the Indigenous Consumers Unit. The Committee believes that it would be useful for the Indigenous Consumers Unit to monitor the level and nature of contacts between Indigenous consumers and partner agencies so that appropriate strategies can be developed to further improve services. The Committee encourages the Unit in its agreements with partner agencies to include mechanisms that provide a range of quantitative and qualitative information regarding contacts with Indigenous consumers.

The Committee also believes that Consumer Affairs Victoria should separately report on the activities of the Indigenous Consumers Unit in its annual report. The Committee believes that such reporting should also include a range of performance measures that align with the measures of success developed for the Indigenous Consumers Protection Strategy.

³⁰⁶ Consumer Affairs Victoria, *A successful year for CAV's Indigenous Consumers Unit*, CAVLink 2004, Issue No. 1

³⁰⁷ *ibid.*

The Committee recommends that:

Recommendation 118: **Consumer Affairs Victoria separately report on the activities of the Indigenous Consumers Unit in its annual report, including its progress against the measures of success for the Indigenous Consumers Protection Strategy.**

(b) New service delivery model

Contracted community agencies provide a range of consumer services in Victoria, with some agencies providing specialist services, while other agencies focus on more general services in particular geographical areas. In 2002-03, the value of payments to contracted agencies was \$3.7 million,³⁰⁸ with payments expected to decrease to \$3.5 million in 2004-05.³⁰⁹

A review commissioned by the Minister of Consumer Affairs on Victoria's relationship with community agencies was finalised in February 2004.³¹⁰ The review included a number of recommendations relating to reshaping the role of Consumer Affairs Victoria and community agencies in the delivery of information and advocacy services based on a new service delivery model:³¹¹

the thrust of the new model is to shift responsibility for telephone information and enquiries services, the bulk of conciliation services and consumer education to Consumer Affairs Victoria and to provide grants to community based organisations to provide face to face advocacy services to individual consumers, in particular to vulnerable and disadvantaged groups. As well, grants will be offered to community based organisations to deliver specialist services.

The intention of Consumer Affairs Victoria in developing a new service delivery framework is to improve access to consumer protection services, particularly for vulnerable and disadvantaged groups.³¹² The Minister advised the Committee that some of the more vulnerable consumers could not easily find suitable services because of location or 'badging' (promotion of services).³¹³

Mobile pilot programs based on a new service delivery model were due to commence in July 2004 in north eastern Victoria and eastern metropolitan Melbourne. As part of the pilot, an enhanced Consumer Affairs Victoria office will be established in

³⁰⁸ Consumer Affairs Victoria, *Annual Report 2002-03*, pp.102–103

³⁰⁹ Minister for Consumer Affairs' response to the Committee's follow-up questions, p.2

³¹⁰ Hon. J. Scheffer, MP, *Consumer Affairs Victoria Community Program: The Way Forward*, February 2004

³¹¹ *ibid.*, p.10

³¹² *ibid.*, p.3

³¹³ Mr J. Lenders, MLC, Minister for Consumer Affairs, transcript of evidence, 15 June 2004, p.4

Wangaratta with a mobile unit to provide consumer information, face-to-face conciliation and consumer education services.³¹⁴

Community agencies currently providing services in the upper Murray-Wodonga and Goulburn-Shepparton regions and Boronia and Box Hill in Melbourne will be replaced by mobile services to ensure more flexible delivery of services in these regions.³¹⁵

The pilot programs are being implemented in conjunction with changes to service agreements with community agencies, which have been extended by a further 12 months to 30 June 2005.

The Committee noted that from 1 June 2005, the new Consumer Affairs Victoria service model will include the establishment of further permanent offices and mobile units, although a grants program for the provision of specialist consumer services will be retained, including input on consumer policy issues, training initiatives, consumer education and advocacy on a range of consumer issues in the public interest.³¹⁶

The Committee believes that in implementing the new model, it is important for Consumer Affairs Victoria to develop performance information to evaluate the system and identify areas for improvement. The Committee believes that this should cover issues relating to the accessibility of services and the quality of information (including accuracy, service standards and relevance) provided to consumers, especially those considered to be vulnerable. Such an evaluation should also consider community satisfaction with the manner and quality of information delivered under the new model.

The Committee recommends that:

Recommendation 119: **Consumer Affairs Victoria develop an evaluation strategy and performance measures for the new Consumer Services service delivery model that can clearly identify the benefits of the new model and areas for improvement.**

³¹⁴ Consumer Affairs Victoria, *More consumers to benefit from an expanded service*, *CAVLink*, Issue 1 2004

³¹⁵ *ibid.*

³¹⁶ *ibid.*

10.9 Gaming portfolio

10.9.1 2004-05 outlook for the portfolio

The Minister for the Gaming informed the Committee that the main challenges for the portfolio in 2004-05 were:³¹⁷

- continuing to regulate gambling to ensure that lawful gambling opportunities are provided responsibly, fairly and with high levels of probity;
- establishing the new Commission for Gambling Regulation;
- commencing the review of the gaming machine operator, wagering and lotteries licences; and
- engaging stakeholders in a meaningful debate about responsible gambling, led by the Advocate for Responsible Gambling and the Problem Gambling Roundtable.

Two major initiatives are planned for the portfolio for 2004-05, namely:

- commercial gambling licences review (a budget of \$2.9 million has been provided in 2004-05 and \$1.3 million in 2005-06). Victoria's two electronic gaming machine operator licences and the state's single wagering licence expire in 2012. Tattersalls holds licences to conduct lotteries that expire in 2007. Funding will allow for a review of the current licensing arrangements to determine the future structures,³¹⁸ and
- setting up the new Victorian Commission for Gambling Regulation. The announcement to establish this body was made after the budget was released, hence neither the Commission nor the funding of it, is identified in the budget.³¹⁹

With respect to the review of gaming licences, the Department of Justice identified potential inadequate management of the review as a key risk for the agency in 2004-05. The department advised the Committee that stakeholder expectations had to be managed effectively. The risk was being managed through.³²⁰

³¹⁷ Hon. J. Pandazopoulos, MP, Minister for Gaming, response to the Committee's follow-up questions, p.3

³¹⁸ Budget Paper No. 3, *2004-05 Service Delivery*, p.291

³¹⁹ Hon. J. Pandazopoulos, MP, Minister for Gaming, media release, *Government announces Commissioners to head new gambling watchdog*, 1 July 2004

³²⁰ Department of Justice response to the Committee's *Budget Estimates Questionnaire 2004-05*, p.6

- establishment of an interdepartmental committee;
- engagement of a probity adviser; and
- monitoring and reporting to Ministers and Cabinet.

10.9.2 Analysis of the budget

The Minister for Gaming has the sole responsibility for the Regulation of Gambling output and shared responsibility for the Gaming and Racing Industry Management output in the Department of Justice. Exhibit 10.19 shows that these outputs account for \$27.2 million, or about one per cent of the department’s 2004-05 Budget.³²¹

**Exhibit 10.19: Gaming portfolio
Output costs**

Output Group	Outputs under the responsibility of the Minister for the Gaming	2004-05 Budget (\$ million)
Regulating Gaming and Racing	Regulation of Gambling	18.9
	Gaming and Racing Industry Management (a)	8.3
Total (b)		27.2

Notes: (a) This output is the joint responsibility of the Minister for Gaming and Minister for Racing

(b) Data include the output Gaming and Racing Industry Management which is jointly shared with the Minister for Racing

Source: Budget Paper No. 3, 2004-05 Service Delivery, pp.175–176

The Minister for Gaming informed the Committee that the main components of the above funding are:³²²

- \$17.8 million for the new Victorian Commission for Gambling Regulation’s regulatory activities;
- \$2.9 million for the cost of the review of the gaming, wagering and lotteries licences; and
- about \$1.5 million to cover general escalation of operating costs and increased salary costs under the new enterprise bargaining agreement.

³²¹ *ibid.*, p.3

³²² Minister for Gaming’s response to the Committee’s follow-up questions, pp.2–3

10.9.3 Performance measures

The Committee notes that there are 15 performance measures in the Regulating Gaming and Racing output group (which also covers racing).³²³ Most of the performance indicators relate to the outcome of compliance and regulation activity in the gaming and racing industry which is appropriate given the role of these portfolios. However, given that the outputs in these portfolios are to contribute to the key Government outcome of Building Cohesive Communities and Reducing Inequalities,³²⁴ the Committee believes that additional indicators are required to measure the impact of gaming and racing on the community. This matter is dealt with in the key issues section below.

Three measures from the previous budget have been discontinued and there are five new measures.³²⁵ One new measure is a refinement of a discontinued measure. The other two discontinued measures relate to programs that are now complete. Two new measures relate to quality of stakeholder satisfaction and successful appeals.

10.9.4 Key issue impacting on the portfolio

The department's response to the Committee's 2004-05 Budget Estimates questionnaire and the estimates hearing identified two issues that will affect the portfolio and its Budget Estimates for 2004-05.

(a) Gambling Research Panel

The department is responsible for administering the Gambling Research Panel, an independent research body that commissions, monitors and publishes research relating to.³²⁶

- the social and economic impact of gambling; and
- the causes of problem gambling and strategies to minimise harm from gambling.

³²³ Budget Paper No. 3, *2004-05 Service Delivery*, pp.175–176

³²⁴ *ibid.*, p.175

³²⁵ Comparisons between the two Budget years. Source: Budget Paper No. 3, *2004-05 Service Delivery*, pp.175, 176, 346; Budget Paper No. 3, *2003-04 Budget Estimates*, pp.237–238

³²⁶ The Panel's website (www.grp.vic.gov.au) under "What are the functions of the Gambling Research Panel" in FAQ

The Committee is aware that three commissioned research reports were released in 2003-04:³²⁷

- *2003 Victorian Longitudinal Community Attitudes Survey*, which reports on the gambling practices, perceptions and attitudes of a sample of Victorians;
- *Validation of the Victorian Gambling Screen*, which evaluates the measurement qualities and validity of a new problem gambling screen, the Victorian Gambling Screen; and
- *Problem Gamblers, Loved Ones and Service Providers*, which investigates the impact of gambling on the financial, psychological, familial, recreational, legal and employment domains of the problem gambler.

However, the Committee is concerned about the apparent slow progress of the Panel in drafting its research plan and in publishing reports.

As of July 2004, the Committee notes that of the 12 research projects identified in the Panel's 2002-03 and 2003-04 research plans:³²⁸

- no reports have been released;
- one report was at draft stage and was under consideration by the Panel;
- two projects had commenced;
- one project was at the scoping stage; and
- seven had not yet commenced.

The Committee notes that the Gambling Research Panel's research plan for 2003-04 was not released until January 2004.³²⁹ The Minister advised the Committee that the Panel forwarded a draft for his consideration in late July 2003. The Minister has advised the Panel that he would like the opportunity to consider the 2004-05 research plan much earlier.³³⁰

In its 2003-04 Estimates Report, the Committee suggested that more information should be available to monitor the effectiveness and efficiency of the Gambling Research Panel's efforts in identifying suitable research projects and managing their completion in a timely manner.³³¹ The 2004-05 Budget Papers contains the new measure: "[Number of] research reports commissioned by the Gambling Research

³²⁷ Based on an assessment of projects shown on the Panel's website (www.grp.vic.gov.au) under "Research Status"

³²⁸ A further project was identified as an extension of a previous study. Source: the Panel's website (www.grp.vic.gov.au), under "Research Status"

³²⁹ Hon. J. Pandazopoulos, Minister for Gaming, media release, *Victoria continues to lead problem gambling research*, 2 January 2004

³³⁰ Minister for Gaming's response to the Committee's follow-up questions, p.6

³³¹ Public Accounts and Estimates Committee, *Report on the 2003-2004 Budget Estimates*, 54th Report, September 2003, pp.369–370

Panel”.³³² While this new indicator is useful, the Committee believes that it would be preferable to have measures that focus on the effectiveness of the research outcomes and the timeliness of completion of the projects, rather than just the number commissioned.

The Panel has a very important community role in researching problem gambling and recommending strategies to the Government to minimise harm from gambling. In order for the Government to facilitate funding and implement new strategies, it is also critical that it receives timely, high quality advice from the Panel.

The Committee is aware of a Government announcement in October 2004 of a new ministerial advisory committee to advise on research into problem gambling and the establishment of a new expert panel to monitor gambling research.³³³ At the time of preparation of this report, the future of the existing Gambling Research Panel was unclear.

The Committee recommends that:

- Recommendation 120:** **The Department of Justice ensure that:**
- (a) appropriate performance measures and targets are established, which enable an assessment of the project costs, timeliness and implementation outcomes of the Gambling Research Panel or its successor; and**
 - (b) performance information is reported in the annual report of the Gambling Research Panel or its successor.**

³³² Budget Paper No. 3, *2004-05 Service Delivery*, p.175

³³³ Hon. J. Pandazopoulos, Minister for Gaming and Hon. S. Garbutt, Minister for Community Services, media release, *\$26.7 million and a new focus on responsible gambling*, 14 October 2004

10.10 Racing portfolio

10.10.1 2004-05 outlook for the portfolio

The Minister for Racing informed the Committee that the priorities for the portfolio in 2004-05 were:³³⁴

- support the operation of the Racing Museum at Federation Square;
- support the efforts of the Victorian racing industry to gain a fair return from interstate and overseas bookmakers;
- work to protect Victoria's interests in the merger between TABCORP Holdings Ltd and TAB Ltd (NSW);
- continue to work with Country Racing Victoria to improve the tenure of racing clubs located on Crown Land; and
- encourage racing industry's targeting of participation by women and young people in key industry roles.

No new initiatives were announced in the 2004-05 Budget. However, two initiatives were carried over from previous budgets into 2004-05:

- transitional funding to compensate the racing industry from the impact of an additional levy on gaming machines: (\$4 million for each year, from 2001-02 to 2005-06).³³⁵ The Minister advised that compensation will continue to at least 2006.³³⁶ Payments will be directed to Racing Victoria, Harness Racing Victoria and Greyhound Racing Victoria³³⁷; and
- Living Country Racing Program: (\$400,000 for each year, 2003-04 to 2006-07). This initiative will assist in funding facility improvements at country racecourses with a particular emphasis on developing facilities that enjoy wide community use.³³⁸ The department advised that the 2003-04 grants have been announced and guidelines and application forms for 2004-05 have been distributed to racing codes.³³⁹

³³⁴ Hon. J. Pandazopoulos, MP, Minister for Racing, transcript of evidence, 24 June 2004 pp.2–3; Hon. J. Pandazopoulos, MP, Presentation at the 2004-05 Budget Estimates hearing, 24 June 2004

³³⁵ Budget Paper No. 2, 2001-02, *Budget Statement*, pp.264–266; Budget Paper No. 2, 2002-03, *Budget Statement*, p.210

³³⁶ Hon. J. Pandazopoulos, Minister for Racing, transcript of evidence, 24 June 2004 p.3

³³⁷ Hon. J. Pandazopoulos, Minister for Racing, media release, *Government backs Victorian racing industry*, 9 May 2004

³³⁸ Budget Paper No. 2, 2003-04 *Budget Statement*, pp.232, 235

³³⁹ Department of Justice response to the Committee's 2004-05 Budget Estimates questionnaire, p.9

10.10.2 Analysis of the budget

The Minister for Racing shares responsibility for the Gaming and Racing Industry Management output in the Department of Justice. The output provides leadership and strategic policy advice on the management and regulation of the gaming and racing industries. This output accounted for \$8.3 million, or 0.3 of one per cent of the department's 2004-05 Budget.³⁴⁰

10.10.3 Performance measures

Two performance measures relate solely to the Racing portfolio, while a further five measures concern racing and gaming jointly.³⁴¹ The Committee notes that the measures focus on compliance and regulatory activity in the gaming and racing industry which is appropriate given the role of these portfolios.

10.10.4 Key issue impacting on the portfolio

The department's response to the Committee's *2004-05 Budget Estimates questionnaire* and the estimates hearing identified the following issue that will affect the portfolio and its budget estimates for 2004-05.

(a) Off-shore and cross-border betting

The Minister for Racing advised the Committee that racing is an important industry to the economy, generating \$2 billion annually and employing around 60,000 people.³⁴²

The Committee is aware that, over the past forty years or so, the Australian racing industry has grown heavily dependent on revenue streams from off-course totalizator wagering on its product. Industry estimates are that over 70 per cent of total revenue is derived from wagering.³⁴³

The Minister expressed concern over two modes of gambling that pose a threat to the integrity of the industry and the existing wagering operations: betting exchanges and cross-border betting.³⁴⁴ As Victoria cannot regulate these forms of internet betting, there is no contribution to Victorian racing from these wagering activities.

Betting exchanges operate by providing an online brokerage service between two or more bettors on a particular event. The exchange levies a small commission on the

³⁴⁰ *ibid.*, p.3

³⁴¹ Budget Paper No. 3, *2004-05 Service Delivery*, pp.175–176

³⁴² Hon. J. Pandazopoulos, MP, Minister for Racing, transcript of evidence, 24 June 2004, p.2

³⁴³ Both on- and off-course wagering. Source: Australian Racing Board, Press release, *Cross-border remote betting by bookmakers*, 31 July 2002

³⁴⁴ Hon. J. Pandazopoulos, MP, Minister for Racing, transcript of evidence, 24 June 2004 p.2

players' net winnings. With an estimated 90 per cent market share, Betfair is currently the largest global provider of betting exchange services,³⁴⁵ with an estimated turnover of \$150 million derived from racing per week.³⁴⁶ As this service is operated via the Internet, the Minister advised that the Government is unable to control its operations, despite it being against Victorian law. The Committee was informed that the Victorian Government, along with other states, has made a submission to the Federal Government asking it to prohibit betting exchanges. However, in July 2004 the Federal Government decided not to intervene in the matter. The Minister advised that the Victorian Government would review its capacity to ensure the Victorian racing industry is in a position to protect itself from activities of unregulated Internet based wagering providers.³⁴⁷

Cross-border betting is the process where corporate bookmakers, mostly located in the Northern Territory and ACT, operate a wagering service on race meetings in the states. Unlike on-course bookmakers, corporate bookmakers make no direct contribution toward the funding of (metropolitan) racing on which it is understood the bulk of their betting is transacted.³⁴⁸

The Minister informed the Committee that the Australian Racing Board, on behalf of all three racing codes, unsuccessfully attempted to reach a fair and reasonable agreement with the corporate bookmaking industry.³⁴⁹ While there was an in principle agreement among corporate bookmakers about a product licence fee which would be returned to the racing industry, the Minister advised that there was no agreement about what that would entail.³⁵⁰

The Committee acknowledges that the ongoing integrity and viability of the racing industry is under threat from the above activities, which also contribute to revenue shortfalls for the Government. The Committee considers that in the absence of a unified national approach, it will remain very difficult to attempt to control off-shore betting exchanges which use the Internet. However, the department should continue to explore options with other states to control cross-border betting with a view to requiring corporate bookmakers to contribute to the racing industry from which they directly profit.

³⁴⁵ Department of Communications, Information Technology and the Arts, *Review of the operations of the Interactive Gambling Act 2001, Report*, July 2004, pp.7–8

³⁴⁶ Hon. J. Pandazopoulos, MP, Minister for Racing, transcript of evidence, 24 June 2004 p.5

³⁴⁷ Minister for Racing's response to the Committee's follow-up questions, p.5

³⁴⁸ Conference of Australasian Racing Ministers, Report on the cross-border betting taskforce, November 2002, p.iv

³⁴⁹ Minister for Racing's response to the Committee's follow-up questions, p.4

³⁵⁰ Hon. J. Pandazopoulos, MP, Minister for Racing, transcript of evidence, 24 June 2004 p.6

The Committee recommends that:

Recommendation 121:

The Department of Justice:

- (a) provide support to the Victorian racing industry in its endeavours to minimise the negative impact from the activities of unregulated Internet based wagering providers; and**
- (b) explore options with other jurisdictions to control cross-border betting.**

CHAPTER 11: DEPARTMENT OF PREMIER AND CABINET

Key Findings of the Committee:

- 11.1** The Department of Premier and Cabinet's budget for 2004-05 is \$432.3 million, an increase of \$39.6 million from the 2003-04 estimated actual budget. The increase is largely attributed to the establishment of the Office of Information and Communication Technology, and additional financial support for state owned cultural facilities and the Office of the Ombudsman.
- 11.2** \$41 million has been carried over from 2003-04, comprising \$5.6 million for goods and services, and \$35.4 million for additions to assets, mainly relating to the State Library Redevelopment Project.
- 11.3** The Office of the Ombudsman has received additional resources to enable it to meet a wider mandate planned by the Government.
- 11.4** The Department of Premier and Cabinet has developed governance arrangements to monitor and manage security and terrorist threats.
- 11.5** The Department of Premier and Cabinet has not developed a performance measurement and public reporting framework to assess achievements and cost savings generated under the Government's Standard Corporate ICT Infrastructure Strategy.
- 11.6** To avoid repetition of problems that the Auditor-General noted recently with other major IT projects, responsibility needs to be assigned to an appropriate agency for developing guidance standards for project design and management of information and communication technology systems.

Departmental review

11.1 Departmental overview

The Department of Premier and Cabinet has four major roles:¹

- supporting the Premier as head of government and Cabinet;
- providing strategic policy leadership;

¹ Hon. S. Bracks, MP, Premier of Victoria, transcript of evidence, 18 May 2004, p.2

- developing whole of government initiatives; and
- delivering services and programs for government information and communication, and Arts Victoria.

Agencies that report through the department are:²

- the Office of the Governor;
- the Chief Parliamentary Counsel;
- the Commissioner for Public Employment;
- the Ombudsman; and
- seven state owned arts agencies that are administered by Arts Victoria.

11.1.1 Key issues that the department's 2004-05 budget will address

Key themes that the department's 2004-2005 Budget will address are:³

- ensuring the effective management, governance and support of the public sector;
- ongoing development of counter terrorism initiatives and the creation of the security unit within the department to address issues of state security and terrorism;
- maintaining the provision of quality strategic policy advice and leadership by the department and continuous development of policy skill capabilities;
- undertaking longer term policy projects that contribute to the strategic direction of the public sector;
- supporting and implementing the *Growing Victoria Together* Strategy;
- continuing support and development of the Victorian arts and cultural sector; and
- developing and implementing Information and Communication Technology functions to lead and manage the public sector in order to achieve greater access, integration and standardisation.

The Office of the Chief Information Officer (OCIO) was created and the Chief Information Officer appointed in 2003 to establish a new whole of government approach to information and communication technology management. Funding provided over four years consists of \$33 million for output initiatives in the 2003-04

² Department of Premier and Cabinet *2002-2003 Annual Report*, p.67

³ Department of Premier and Cabinet response to the Committee's 2004-05 Budget Estimates questionnaire, p.4

Budget and \$17.5 million for capital funding in the 2004-05 Budget.⁴ Budget allocations in 2004-05 provide \$8.4 million for ICT strategy and service and \$9.3 million in asset initiatives for value for money from ICT investments.⁵

Another key initiative in 2004-05 is support for the Office of the Ombudsman. The department's budget for 2004-05 includes a \$1.3 million⁶ increase in base funding for the Ombudsman. The Premier advised the Committee that the increase in base funding did not cover any particular complex matters for which the Ombudsman may subsequently require funding. If matters being investigated require more resourcing, then the department would expect to receive a request from the Ombudsman. The Ombudsman is aware that this is the case.⁷ The Committee notes that the Premier subsequently announced the Government would provide the Ombudsman with approximately \$10 million in additional funding to employ more staff increasing the resources of that Office to around 100.⁸

The Committee notes that security and counter terrorism are also increasing priorities for the Government and the department.⁹ The budget for 2004-05 provides over five years an additional \$13 million across government with funds allocated to appropriate departments for counter terrorism measures and an additional \$16 million for asset investment to enhance Victoria's capacity for security and counter terrorism.¹⁰

The additional counter terrorism funding initiatives over a five year period will include \$4.9 million to enhance public health laboratory capacity and trauma support programs, \$1.4 million for the state chemical laboratory to test agents and toxins and \$6.6 million in the intelligence and investigation technology package for Victoria Police to assist in disrupting planned terrorist activity.¹¹ The additional counter terrorism capital funding initiatives over five years that will be directed towards security areas and include \$5.4 million on hospital negative pressure isolation rooms and refresher disaster kits; \$600,000 for improvements to the state chemical laboratory capacity for testing agents; \$6.8 million for the intelligence and investigation technology package for Victoria Police; \$2.2 million for the Victorian Institute of Forensic Medicine's computerised equipment; \$850,000 for mobile lighting towers, personal protective equipment and spine boards for the Victoria State Emergency Service; and \$250,000 on further security upgrades to Parliament House.¹²

⁴ Hon. S. Bracks, MP, Premier of Victoria, transcript of evidence, 18 May 2004, p.4

⁵ Budget Paper No.3, *2004-05 Service Delivery*, pp.183, 296

⁶ *ibid.*, p.185

⁷ Hon. S. Bracks, MP, Premier of Victoria, transcript of evidence, 18 May 2004, p.3

⁸ Hon. S. Bracks, MP, Premier of Victoria, Media release, *Ombudsman to receive additional funds and resources*, 3 June 2004

⁹ *ibid.*,

¹⁰ Budget Paper No.3, *2004-05 Service Delivery*, p.24

¹¹ *ibid.*

¹² Hon. S. Bracks, MP, Premier of Victoria, transcript of evidence, 18 May 2004, pp.16-17

The funding for security and counter terrorism initiatives in the 2004-05 Budget is additional to the \$98 million previously committed over five years in the 2003-04 Budget.¹³

11.1.2 Performance measures

The Committee reviewed the department's output structure and performance indicators for the 2004-05 Budget and noted that these have remained essentially unchanged since 2003-04, apart from six new performance indicators introduced for the new ICT Strategy and Services output.¹⁴ The department confirmed that only a small number of performance measures have changed in 2004-05 to reflect the Government's new arts policy.¹⁵

In response to a question from the Committee, the department advised it frequently compares its performance measures to other governments. Performance measures and targets under the Strategic Policy Advice and Projects output group were established after comparisons with other states, and performance measures for other output groups were developed after examining similar functions in other states and territories.¹⁶ However, no specific benchmarking for performance outcomes in 2003-04 was undertaken by the department.¹⁷

The Committee has reservations about the relevance of some performance measures used by the department to assess the achievement of annual outputs and outcomes in an effective and robust manner. For example, performance indicators for the key Strategic Policy Advice output that provides policy advice and analysis to the Premier on all matters affecting his role as Head of Government, support for Cabinet, and Government relationships with Parliament, focus almost exclusively on the provision of policy briefings, particularly the number of briefs provided, ministerial and senior executive satisfaction with the quality of brief provided and timely completion of briefings.¹⁸ The Committee is of the view that the performance information should have indicated how the policy advice had assisted the Government to achieve its medium term strategic directions.

The Committee considers that concerns previously raised regarding gaps in the performance measurement and reporting framework generally have relevance to the framework adopted by the department for its last two budgets, particularly as they relate to:¹⁹

¹³ Budget Paper No.3, *2004-2005 Service Delivery*, p.24

¹⁴ *ibid.*, p.179

¹⁵ Department of Premier and Cabinet response to the Committee's 2004-05 Budget Estimates questionnaire, p.12

¹⁶ Department of Premier and Cabinet response, to the Committee's follow-up question, p.5

¹⁷ *ibid.*

¹⁸ Budget Paper No.3, *2004-05 Service Delivery*, pp.180, 182.

¹⁹ Public Accounts and Estimates Committee, *Report on the 2003-04 Budget Estimates*, pp.564-571

- inadequacies of existing performance indicators for departmental outputs and objectives;
- poor linkages between departmental outputs, resource allocation objectives and desired Government outcomes; and
- lack of measures to report whole of government initiatives.

The Committee considers that the department, in its capacity as a lead agency of Government, should develop a more robust regime of performance indicators to assess achievement of its outputs and outcomes.

The Committee is also of the opinion that comparison and benchmarking against other jurisdictions enhances the accountability processes and adds credibility to performance outcomes published in the department's annual report. The Committee suggests that external annual validation of performance outcomes, where practical, should be incorporated into the departmental output budgeting and reporting regime.

The Committee recommends that:

Recommendation 122: **The Department of Premier and Cabinet review the relevance of its current suite of performance indicators and include in the review benchmarking against other jurisdictions and external validation of performance measures, where possible, and report on these matters in its annual report.**

11.2 Output management framework

The department has three output groups which support the ministerial portfolios of Premier and the Arts.²⁰

The Premier has responsibility for two output groups – Strategic Policy Advice and Projects, and Public Sector Management, Governance and Support.²¹

The department has established within the Strategic Policy Advice and Projects output group a new output, Information, Communication and Technology (ICT) Strategy and Services.²²

The new output was created following the establishment of the Office of the Chief Information Officer (OCIO). Initially, OCIO will remain the responsibility of the

²⁰ Department of Premier and Cabinet response to the Committee's 2004-05 Budget Estimates questionnaire, p.3

²¹ *ibid.*

²² *ibid.*

Premier but will be transferred over time to the Minister for Information and Communications Technology.²³ Performance measures have been developed to measure the activities of the newly created body.²⁴

The Minister for the Arts has responsibility for the Arts and Cultural Development output group which includes oversight of Arts Victoria and the following seven arts agencies:²⁵

- Museum of Victoria;
- State Library of Victoria;
- National Gallery of Victoria (NGV);
- Victorian Arts Centre;
- Geelong Performing Arts Centre;
- Australian Centre for the Moving Image; and
- Film Victoria.

Minor changes have occurred within the Arts and Cultural Development outputs to reflect the Government's arts policy *Creative Capacity +, Arts for all Victorians* released in May 2003. The 2003-04 output Infrastructure and Cultural Facilities has been changed to Creating Place and Space and the Arts Services and Policy output has been changed to Portfolio Services and Policy.²⁶

The Committee was advised by the Premier that the output structure for 2004-05 has been reviewed in light of major issues impacting on the department.²⁷

The Committee's previous report recommended that the department develop a method of tracking or allocating resources, including staff resources, across outputs to improve the accuracy of budget estimates and to facilitate analysis of the costs associated with its outputs.²⁸

In its response, the Government advised it would ensure that the current output structure results in a more efficient allocation of its resources across outputs and will continue to strive to improve resource allocation.²⁹

²³ Hon. S. Bracks, MP, Premier of Victoria, transcript of evidence, 18 May 2004, p.4

²⁴ Budget Paper No.3, *2004-05 Service Delivery*, p.183

²⁵ Organisational chart attached to the Department of Premier and Cabinet response to the Committee's 2004-05 Budget Estimates questionnaire

²⁶ Budget Paper No.3, *2004-05 Service Delivery*, p.179

²⁷ Hon. S. Bracks, MP, Premier of Victoria, transcript of evidence, 18 May 2004, p.4

²⁸ Public Accounts and Estimates Committee 54th *Report on the 2003-2004 Budget Estimates*, September 2003, p.381

²⁹ Government's Response to the Recommendations of the Public Accounts and Estimates Committee, *Report on the 2003-2004 Budget Estimates*, 54th Report, March 2004, p.38

11.3 Budget summary/financial analysis

Exhibit 11.1 shows the department's 2004-05 budget output summary.

Exhibit 11.1: Department of Premier and Cabinet Output costs

	Column 1	Column 2	Column 3	Column 3-2/2
Output Group	2003-04 Budget (\$ million)	2003-04 Estimated Actual (d) (\$ million)	2004-05 Budget (d) (\$ million)	Variation (%)
Arts and Cultural Development	307.6	307.6	341.1	(a) 10.9
Strategic Policy Advice and Projects	67.5	67.5	72.6	(b) 7.6
Public Sector Management, Governance and Support	17.6	17.6	18.6	(c) 5.7
Total	392.7	392.7	432.3	10.1

- Notes:
- (a) Increase reflects sustainability funding for the States cultural institutions and patronage initiatives
 - (b) Increase reflects the creation of the Office of Information and Communication Technology in 2004
 - (c) Increase reflects additional funding provided to the Office of the Ombudsman
 - (d) The output structure for both periods remains essentially unchanged

Sources: Budget Paper No.3, 2004-05 Service Delivery, pp.179–190 and the Department of Premier and Cabinet response to the Committee's 2004-05 Budget Estimates questionnaire, p.18

The department's budget allocation for outputs in 2004-05 is \$432.3 million, representing a \$39.6 million (or 10.1 per cent) increase over the estimated actual for 2003-04.

11.3.1 Operating performance

The department has budgeted in 2004-05 for an increase of 7.8 per cent in both revenue and expenses derived from ordinary activities. The anticipated net result for operating activities in 2004-05 is \$3.6 million – a variation of \$300,000 from the revised 2003-04 result. Administered revenue is expected to equal administered expenses resulting in a zero result in 2004-05. There are substantial variations between administered revenue and expenses for 2004-05 compared with the 2003-04 revised budget (see exhibit 11.2). The department provided the following explanation for the variations.

**Exhibit 11.2: Department of Premier and Cabinet
Statement of Financial Performance**

	Column 1	Column 2	Column 3	Column 3-2/2
	2003-04 Budget (\$ million)	2003-04 Estimated Actual (\$ million)	2004-05 Budget (\$ million)	Variation (a) (%)
Controlled items				
Operating revenue	404.5	412.4	444.5	7.8
Operating expenses	401.2	409.1	440.9	7.8
Net Result	3.3	3.3	3.6	9.1
Administered items				
Administered revenue	22.4	21.9	5.6	(b) -74.4
Administered expenses	2.7	2.1	5.6	166.7
Net Result	19.7	(c) 19.7	0.0	-100

Note: (a) A negative variance indicates that the 2004-05 budget has decreased compared with the 2003-04 estimated actual

(b) Appropriation revenue - payments made on behalf of the state of \$19.7 million in 2003-04 were discontinued in 2004-05

(c) Reported net result adjusted for rounding purposes

Sources: Budget Paper No.4, 2004-05 Statement of Finances, Table 2.6.1, p.81 and Table 2.6.4, p.84

The increase in budgeted revenue from controlled activities (\$32.1 million, or 7.8 per cent) for 2004-05 is due to the following factors:

- an increase in appropriations of \$28.2 million to fund additional expenditure on output initiatives,³⁰ and
- an increase in revenue from the sale of goods and services of \$3.9 million, principally due to the first full year of the operation of the National Gallery since its re-opening in October 2003.³¹

The increase in expenses from controlled activities (\$31.8 million, or 7.8 per cent) is also largely due to additional funding provided to the arts agencies.³²

³⁰ Budget Paper No.4, 2004-05 Statement of Finances, p.81

³¹ Department of Premier and Cabinet response to the Committee's 2004-05 Budget Estimates questionnaire, p.15

³² Budget Paper No.4, 2004-05 Statement of Finances, p.79

The department advised that the surplus from controlled activities in 2004-05 arises mainly from monies held in trust for future capital works.³³ The reduction in administered revenue in 2004-05 represents the discontinuation in 2004-05 of payments of \$19.7 million toward the Ambulance Royal Commission in 2003-04.³⁴ The increase in administered expenses represents additional private, philanthropic contributions received towards the Yarra Precinct Arts Integration and paid into the Consolidated Fund in 2004-05.³⁵

11.3.2 Balance sheet performance

Exhibit 11.3 shows that the department's controlled net asset position is expected to improve by \$70.2 million by 30 June 2005, comprising mainly a \$32.3 million increase in receivables³⁶ representing a build up of recoverable unfunded depreciation charges incurred by the arts agencies³⁷ and an increase of \$43.5 million in the department's property, plant and equipment holdings.³⁸ The expected decrease in controlled liabilities mainly represents a \$1.7 million partial repayment of a loan to the National Gallery of Victoria.³⁹

Exhibit 11.3: Department of Premier and Cabinet Statement of Financial Position

	Column 1	Column 2	Column 3	Column (3-2)/2
	2003-04 Budget	2003-04 Estimated Actual	2004-05 Budget	Variation
	(\$ million)	(\$ million)	(\$ million)	(%)
Controlled items				
Controlled assets	3,665.6	3,661.3	3,730.4	1.9
Controlled liabilities	62.0	62.0	60.9	-1.8
Net assets	3,603.6	3,599.3	3,669.5	2.0
Administered items				
Administered assets	-8.6	-8.6	-8.6	0
Administered liabilities	-8.8	-8.8	-8.8	0

Source: *Budget Paper No.4, 2004-05 Statement of Finances, pp.83-84*

³³ Department of Premier and Cabinet response to the Committee's 2004-05 Budget Estimates questionnaire, p.16

³⁴ Budget Paper No. 4, *2004-05 Statement of Finances*, p.85

³⁵ Department of Premier and Cabinet response to the Committee's 2004-05 Budget Estimates questionnaire, p.17

³⁶ Budget Paper No. 4, *2004-05 Statement of Finances*, p.83

³⁷ Department of Premier and Cabinet response to the Committee's 2004-05 Budget Estimates questionnaire, p.20

³⁸ Budget Paper No. 4, *2004-05 Statement of Finances*, p.83

³⁹ Department of Premier and Cabinet response to the Committee's 2004-05 Budget Estimates questionnaire, p.20

The budgeted financial statement for 2004-05 includes a fixed asset category ‘other fixed asset’ with expected holdings of \$2.5 billion.⁴⁰ The department advised these assets comprise buildings and collections associated with the state’s cultural institutions and the building and other assets of Government House.⁴¹ The National Gallery of Victoria and State Library of Victoria account for \$2.1 billion of these holdings.

Administered items comprise negative amounts for both assets and liabilities for both 2003-04 and 2004-05 periods.⁴² In view of this, administered assets and liabilities for the department will be examined in detail during the Committee’s review on Budget Outcomes for 2003-04.

11.3.3 Carry over funding

Details of funds carried over from 2003-04 to 2004-05 are set out below at exhibit 11.4.

**Exhibit 11.4: Department of Premier and Cabinet
Unspent Appropriation Carried Forward**

	Column 1	Column 2	Column -2/1
Appropriation Source	2003-04 Budget (\$ million)	2003-04 Carry over (\$ million)	Percentage (%)
Provision of outputs	346.90	5.57	1.6
Additions to net asset base	33.12	35.37	106.8
Total	380.02	(a) 40.93	

Source: *Budget Paper No 4, 2004-05 Statement of Finances, p.171*

Note: (a) Total may not add up due to rounding

The carry over funding for the provision for outputs principally represents monies received and held in trust for future capital works.⁴³ The carry over funding for additions to net assets from 2003-04 to 2004-05 mainly relates to the State Library and State Crisis Centre Redevelopment Projects.⁴⁴

⁴⁰ *ibid.*, p.83

⁴¹ Department of Premier and Cabinet response, to the Committee’s follow-up questions, p.5

⁴² Budget Paper No.4 *2004-05 Statement of Finances*, p.84

⁴³ *ibid.*, p.16

⁴⁴ Budget Paper No. 4, *2004-05 Statement of Finances*, p.80

11.4 Human resources issues

The department provided the following information on staffing levels.

Exhibit 11.5: Department of Premier and Cabinet Equivalent Full Time Staff, 30 June 2004 (a)

Divisions	Ongoing	Fixed Term	Casual	Total
Department of Premier and Cabinet	252.6	60.1	20.0	332.7
Office of Chief Parliamentary Counsel	27.6	5.0	-	32.6
Office of Public Employment	14.2	5.0	-	19.2
Office of the Governor	22.0	4.0	43.0	69.0
Office of the Ombudsmen	23.5	9.0	13.0	45.5
Total	339.9	83.1	76.0	499.0

Note: (a) Comparative details for 2003 not provided as a new career structure was implemented during the period

Source: Departmental response to the Committee's 2004-05 Budget Estimates questionnaire, p.13

The Committee was advised that the number of staff is expected to remain relatively constant in 2004-05,⁴⁵ but this was prior to the Premier's announcement in June 2004 that the Ombudsman would be allocated an additional \$10 million to employ 55 professional and other specialist staff.⁴⁶

The department did not provide details to the Committee of staffing numbers at 30 June 2003 and estimates of staffing numbers at 30 June 2005. The absence of comparative details on staffing numbers inhibits the Committee's analysis of the department's budget estimates

⁴⁵ Department of Premier and Cabinet response to the Committee's 2004-05 Budget Estimates questionnaire, p13

⁴⁶ Hon. S. Bracks, MP, Premier of Victoria, media release, *Ombudsman to Receive Additional Funds and Resources*, 3 June 2004

Review of Portfolios

11.5 Premier's portfolio

11.5.1 2004-05 outlook for the portfolio

The Premier advised the Committee that the Government's priorities for the next decade will focus on three important goals:⁴⁷

- providing decent and responsible government;
- getting the balance right – good schools, quality health care; more jobs, safe streets; and
- leading the way to a better Victoria with education and lifelong learning as the key.

The Premier further advised that the key themes of the 2004-05 budget are, first, to minimise cost pressure issues while maximising economic benefits for Victoria and, second, to respond to growing service demand by the expanding population.⁴⁸

11.5.2 Analysis of the budget

Exhibit 11.6 outlines the 2004-05 budget estimates for the output groups that are the responsibility of the Premier.

⁴⁷ Hon. S. Bracks, MP, Premier of Victoria, transcript of evidence, 18 May 2004, p.2

⁴⁸ *ibid.*, p.3

**Exhibit 11.6: Premier's Portfolio
Output costs**

Output Group	Outputs under the responsibility of the Premier	2004-05 Budget (\$ million)
Strategic Policy Advice and Projects	Strategic Policy Advice	23.5
	Strategic Policy Projects	4.0
	Government Information Services and Support	31.5
	Workforce Development	3.5
	Protocol and Special Events	1.7
	ICT Strategy and Services	8.4
Sub total		72.6
Public Sector Management, Governance and Support	Advice and Support to the Governor	8.0
	Public Sector Employment and Conduct Services	1.9
	Ombudsman Services	4.8
	Chief Parliamentary Counsel Services	4.0
Sub total		18.7
Total		91.3

Source: *Budget Paper No.3 2004-05 Service Delivery, pp.180–190*

A new output, ICT Strategy and Services, has been introduced in 2004-05 with an allocation of \$8.4 million to reflect an increased focus on a whole of government approach to Information and Communication Technology developments across agencies and to selected ICT infrastructure projects.⁴⁹

The Committee noted that additional funding of \$1.3 million⁵⁰ was provided for the Ombudsman Services output in 2004-05. This additional funding partly addresses the Committee's concerns expressed in last year's report that the operations of the Ombudsman's Office needed to be closely monitored by the department to determine whether, in the absence of a funding increase, the Ombudsman is able to function effectively and discharge all his statutory responsibilities.

⁴⁹ Hon. S. Bracks, MP, Premier of Victoria, transcript of evidence, 18 May 2004, p.4

⁵⁰ Budget Paper No.3, *2004-05 Service Delivery*, p.185

11.5.3 Performance measures

The Committee observed that no increase has occurred to the target levels for services provided for the Ombudsman Services output compared to the levels set for 2003-04⁵¹, particularly in relation to the number of complaints finalised and the number of issues monitored under the Ombudsman's legislative requirements. The Committee considers that the performance levels for the number of complaints resolved/finalised should have shown some increase in 2004-05 following a funding increase of 37 per cent for base operations compared with 2003-04.

The Committee noted that the Premier announced in June 2004 that the Government would provide an additional \$10 million to the Ombudsman to increase staff to around 100.⁵²

The Committee notes that the new responsibilities proposed for the Ombudsman substantially redefines his role, functions and resourcing requirements. The Committee will monitor whether the funding allocated will be adequate for the Ombudsman to discharge his wider mandate as a range of forensic accountants, lawyers, investigators and other specialists will now have to be employed and have access to specialist information and communication technology.

The Committee recommends that:

Recommendation 123: **The Office of the Ombudsman review its performance information to ensure it reflects the dimensions of the Office's expanded role and services and to enable an assessment of the outcomes.**

⁵¹ ibid.

⁵² Legislation will be introduced in the spring session of Parliament to grant the Ombudsman royal commission type powers. Hon. S. Bracks, Premier of Victoria, Media release, *Ombudsman to Receive Additional Funds and Resources*, 3 June 2004

11.5.4 Key issues impacting on the portfolio

The department's response to the Committee's 2004-05 Budget Estimates questionnaire and the estimates hearing identified three issues that will have an impact on the portfolio and its budget estimates for 2004-05.

(a) Security and counter terrorism

The Premier advised the Committee that security and counter terrorism are increasing priorities of the Government and the Department of Premier and Cabinet.⁵³

The 2003-04 Budget provided an additional \$60 million over five years to enhance the state's whole of government approach to managing security and emergency matters, and to deal with chemical, biological and radiology issues.⁵⁴ The 2004-05 Budget provided a further whole of government funding of \$29 million over five years with a specific focus on terrorist prevention, response and post incident investigation.⁵⁵

In response to the budgetary measures and other policy and legislative developments, a number of governance arrangements have been implemented for the oversight of security and counter terrorism.⁵⁶

The Premier further advised the Committee that terrorist threat assessments of either a general or specific nature are not developed unilaterally by the state as no state or territory is in a position to undertake its own assessment of what constitutes a threat.⁵⁷ The states rely on the intelligence received from the Commonwealth and its associated security agencies.

(b) Information and Communication Technology

Information and Communication Technology (ICT) is integral to the operations and services of modern government. A key Government objective is to deliver its eGovernment strategy through the provision of authoritative advice and strong leadership on ICT matters across the public sector.⁵⁸

The Committee notes that substantial public resources are dedicated to the state's ICT activities, for example, the 2004-05 Budget included \$108 million for new initiatives.⁵⁹

⁵³ Hon. S. Bracks, MP, Premier of Victoria, transcript of evidence, 18 May 2004, p.3

⁵⁴ Budget Paper No.2, *2003-04 Budget Statement*, p.79

⁵⁵ Budget Paper No.3, *2004-05 Service Delivery*, p.24

⁵⁶ Hon. S. Bracks, MP, Premier of Victoria, transcript of evidence 18 May 2004, p.16

⁵⁷ *ibid.*, p.18

⁵⁸ Minister for Information and Communications Technology, media release, *\$108 million To Improve Government ICT Services*, 4 May 2004

⁵⁹ *ibid.*

Costs of ICT resource usage across the Victorian Government are estimated at \$500 million annually.⁶⁰

The Government has recognised that a whole of government approach to ICT management is essential if the state's ICT programs and resources are to be used efficiently and effectively. The 2003-04 Budget provided funding for an *eGovernment* Implementation Plan to improve ICT systems integration and support better service delivery, along with the establishment of a Chief Information Officer to monitor and coordinate ICT investment.⁶¹ Funding from the 2003-04 Budget was also used to develop a Standard Corporate ICT Infrastructure Strategy to define whole of government ICT governance and ICT infrastructure investment standardisation.⁶²

The respective roles, responsibilities and arrangements for whole of government oversight of ICT currently are:

- a new Cabinet Sub-committee for information communication technology has been established to give extra emphasis to ICT across the whole of government;⁶³
- the Office of the Chief Information Officer (OCIO) has been established within the Department of Premier and Cabinet to drive the Government's ICT reform agenda.⁶⁴ The role of the Chief Information Officer is to:⁶⁵
 - drive the ICT reform agenda by identifying and developing opportunities for more integrated service delivery to Victorians through the innovative use of ICT;
 - ensure ICT expenditure is well spent by providing a whole of government view of ICT investment;
 - improve planning and coordination of ICT projects by creating an architecture for Government ICT; and
 - increase the sharing and reuse of standard ICT infrastructure.
- the location of the OCIO within the Department of Premier and Cabinet is an interim arrangement while functions and processes are established. The Minister for Information and Communication Technology retains responsibility for ICT and is supported by the Chief Information Officer;⁶⁶

⁶⁰ Multimedia Victoria website, www.mmv.vic.gov.au, *Government IT&T Policies* 1-20,

⁶¹ Budget Paper No. 2, *2003-04 Budget Statement* p.96

⁶² Boston Consulting - Final Report of the Standard Corporate ICT Infrastructure Strategy , 31 January 2003, p.1

⁶³ Hon S. Bracks, MP, Premier of Victoria, transcript of evidence, 18 May 2004, p.9

⁶⁴ Department of Premier and Cabinet web site, www.dpc.vic.gov.au, *Office of the Chief Information Officer*

⁶⁵ Department of Premier and Cabinet response to the Committee's follow-up questions, pp.6, 7

⁶⁶ *ibid.*, p.7

- the position of the Chief Technology Officer has been established within the Department of Infrastructure⁶⁷ with responsibility for the management and delivery of whole of government ICT contracts and projects such as the Telecommunications Purchasing and Management Strategy, Project Rosetta and Victoria Online⁶⁸; and
- MultiMedia Victoria will continue to grow the ICT sector in Victoria by increasing the uptake of ICT by Victorian businesses and using ICT to transform the way Government delivers its services.⁶⁹

The Committee was advised that the funding provided to OCIO comprises:

- output funding of \$33 million over four years for an *eGovernment* Implementation Plan to improve ICT systems integration and support better service delivery across Government;⁷⁰ and
- asset funding of \$17.5 million provided in the 2004-05 Budget over three years for implementing the whole of government Standard Corporate ICT Infrastructure Strategy.⁷¹

Output funding will be directed to projects for:⁷²

- development of a whole of government strategic plan for ICT and a strategic planning framework to support developing a whole of government capacity;
- education programs aimed at increasing executive awareness and understanding of the potential of ICT to transform service delivery; and
- investigating and mobilising new opportunities to use ICT within Government in an innovative and creative manner.

Asset funding will be directed at projects which ensure improved value for money for ICT investment and consistency across government in ICT matters.⁷³ First phase projects will include consolidation of computing rooms and data centres in order to reduce duplication and costs, implementation of a whole of government system to manage escalating volumes of documents and records stored in digital and web formats, and establishing shared, high capacity server infrastructure.⁷⁴

The Committee was interested to learn that the Government estimated that net financial benefits of up to \$138 million over five years could arise from the

⁶⁷ Minister for Information and Communication Technology, media release *Victorian Government Announces New CIO and CIO*, 25 November 2003

⁶⁸ Department of Infrastructure *Annual Report 2002-03*, p.32

⁶⁹ Department of Premier and Cabinet web site, www.dpc.vic.gov.au, *Office of the Chief Information Officer*

⁷⁰ Department of Premier and Cabinet response to the Committee's follow-up questions, p.7

⁷¹ *ibid.*, p.8

⁷² *ibid.*, pp.7, 8

⁷³ Budget Paper No.3, *2004-05 Service Delivery*, p.297

⁷⁴ Department of Premier and Cabinet response to the Committee's follow-up questions, p.8

implementation of a whole of government regime for ICT governance and infrastructure standardisation.⁷⁵

The Committee observed that the final report of the Government's Standard Corporate ICT Infrastructure Strategy provides for an implementation plan, timetable and a responsibility register for the strategy but not an accountability, performance measurement and reporting framework to assess whether the vision for ICT is achieved.⁷⁶ The Committee suggests that the strategy would be substantially enhanced by such a framework.

In addition, given the substantial expenditure already committed by the Government in 2003-04 as well as expenditure proposed in the 2004-05 Budget and beyond, there needs to be accountability for what has been achieved to date with the ICT infrastructure strategy, including the extent to which estimated savings have been realised.

Accordingly, the Committee recommends that:

Recommendation 124: **A performance measurement and reporting framework be developed to monitor and publicly report on achievements and cost savings generated from the Standard Corporate ICT Infrastructure Strategy.**

The Committee was also advised that the focus of OCIO is on driving whole of government ICT objectives and strategic investment but it will not be possible for OCIO to be involved in every ICT project across the public sector.⁷⁷ Accordingly, the Committee believes that responsibility needs to be assigned to a designated body to provide guidance to agencies on project management standards for new ICT systems in order to avoid the types of problems and issues reported by the Auditor-General⁷⁸ during 2003-04 relating to the implementation and management processes for a number of major ICT systems.

⁷⁵ Boston Consulting Group - Final Report of the Standard Corporate ICT Infrastructure Strategy, January 2003, p.7

⁷⁶ *ibid.* p.3

⁷⁷ Department of Premier and Cabinet response to the Committee's follow-up questions, pp.8, 9

⁷⁸ *Report on Public Sector Finances*, February 2003, pp. 58–88 and *Report of the Auditor-General on RMIT's Finances*, June 2003

The Committee recommends that:

Recommendation 125: **In order to avoid the recurrence of the substantial costs and disruptions to information technology services that have arisen in the past from poorly managed IT systems design and development, the Government's Information and Technology Strategy clearly define responsibilities and accountabilities for specific projects.**

(c) *Victorian Public Service workforce developments*

(i) *VPS non-executive career structure agreement and VPS Agreement 2004*

The Committee notes that the career structure and terms and conditions of employment for non-executive employees in the Victorian Public Service have been significantly impacted by two major agreements recently negotiated between the Government and the Community and Public Sector Union (CPSU):

- the VPS Non-Executive Career Structure Framework Agreement, provided for a new salary classification and progression regime for non-executive employees in the Victorian Public Service⁷⁹ and arose as a variation to the Victorian Public Sector (Non-Executive Staff) Agreement 2001; and
- the Victorian Public Service Agreement 2004,⁸⁰ certified by the Australian Industrial Relations Commission on 2 June 2004,⁸¹ is an enterprise bargain agreement that provides for annual salary rate increases to 2007 and the consolidation and enhancement of conditions of employment.

The VPS Non-Executive Career Structure Framework Agreement took effect from 1 November 2003 and fulfilled a commitment made by the Government to undertake a career structure and work organisation review to support the development of a modern public service.⁸²

The Government anticipates that both agreements should ensure an orderly industrial relations environment in the Victorian Public Service, improve budgetary management for employee costs and provide opportunities for career development and progression for non-executive employees.

⁷⁹ VPS Non Executive Career Structure – Framework of Agreement, p.1

⁸⁰ Victorian Public Service Agreement 2004

⁸¹ CPSU, SPSF Group Victorian Branch Article, 7 June 2004,

⁸² *Careers VPS* produced by the Office of Workforce Development, Department of Premier and Cabinet, 27 October 2003

The Committee was informed that the translation of non-executive VPS staff to the new career structure can result in the over-grading of positions and in these circumstances the Agreement provides for a review to be undertaken.⁸³ The Committee sought details of the extent of over-grading by departments, the processes used to resolve over-grading issues and the time frames to complete reviews.

The department advised that:⁸⁴

- the translation process to the new career structure has been completed for all staff other than a number of unresolved specialist categories;
- the Government hopes to have resolved specialist categories disputes by September 2004 but achievement of this timetable is subject to the Australian Industrial Relations Commission deliberations;
- only the Department of Justice had an over-grade rate in excess of 10 per cent being 10.5 per cent; and
- the proportion of over-grades will change as the issue of the number of staff in specialist categories within the Justice portfolio is resolved.

Further, the department advised that disputes arising from over-grade reviews are resolved in the following manner:⁸⁵

- work value dispute panels have been created in departments to consider cases in dispute over-grade review outcomes;
- panels consist of representatives from the CPSU, a departmental nominee and an agreed independent chairperson; and
- alternatively, where a department has unsuccessfully attempted to expand work required to match salary, staff may request a review through departmental grievance processes; and
- staff subject to an over-grade review had between April and June 2004 to lodge a work value dispute while staff advised that their roles could not be expanded had six months to appeal the decision.

The department informed the Committee that under the new departmental funding model, each department has the responsibility to cost and factor in the estimated financial impact of future EBAs into the 2004-05 budget and forward estimates. Because of this, details of increased salary costs arising from EBAs negotiated in 2004 and beyond are not recorded centrally. The Committee was advised that departmental budgets will be increased over time by an approved inflation escalation rate.⁸⁶

⁸³ Hon S. Bracks, MP, Premier of Victoria, transcript of evidence, 18 May 2004, p.25

⁸⁴ Department of Premier and Cabinet response to the Committee's follow-up questions, pp.10-11

⁸⁵ *ibid.*

⁸⁶ *ibid.*, p.11, 12

(ii) Review of executive remuneration

The bi-annual review of executive remuneration was completed in 2002-03.⁸⁷

The department advised the Committee that the outcomes from the review were:⁸⁸

- executive remuneration budgets were increased from 1 July 2003 operative for 2003-04 and 2004-05 financial years by 3 per cent, consisting of 2.25 per cent based on the biennial review and 0.75 per cent for service enhancements;
- reductions in the funded bonus pool were applied allowing a one-off conversion equivalent to 3 per cent of total remuneration from executive bonuses to recurrent salaries. The equivalent adjustment for departmental Secretaries was 8 per cent;
- a reduction in the executive bonus maximum from 20 to 17 per cent. The Secretary bonus opportunity was reduced from 20 per cent to 12 per cent;
- establishment of a Secretary level classification; and
- adjustment to executive remuneration bands by 9 per cent with an additional adjustment at the base of Band 3 to \$110,000.

Actual remuneration increases to individual executives were determined by departmental Secretaries on 28 January 2004. From 1 July 2005, reviews of executive salaries will be conducted annually and each department must convene a Departmental Remuneration Committee with at least one external member. departments must audit and report on annual leave usage by executives.⁸⁹

To ensure there is adequate accountability and transparency about the outcomes of the reviews of executive salaries and how they will be funded, the Committee believes that details should be included in the annual reports of Departments and Agencies.

⁸⁷ Department of Primary and Cabinet, *Annual Report 2002-03*, p.36

⁸⁸ Department of Premier and Cabinet response to the Committee's follow-up questions, p.10

⁸⁹ *ibid.*

The Committee recommends that:

- Recommendation 126:** **Departments include in their annual reports, in a format that facilitates transparency, details of the outcomes of annual reviews of executive remuneration including:**
- (a) the composition and decisions of the Departmental Remuneration Committees;**
 - (b) the amount of annual increase in executive remuneration pay and bonus rates and performance payments; and**
 - (c) a statement indicating how these costs will be met.**

The Government's policy for performance bonuses provides that payment is to be made only where performance is exceptional or substantially above performance criteria for the executive position.⁹⁰ The Committee has previously expressed its surprise that the Department of Premier and Cabinet paid performance bonuses to 100 per cent of its EO2 classifications and 71 per cent of its EO3 classifications in 2002-03.⁹¹

The Committee considers it be timely for a review of processes for the assessment and approval of exceptional or substantial performance across departments. Such a review may provide opportunities to better assess performance, or highlight anomalies, inconsistencies and inequities in the present system.

The Committee recommends that:

- Recommendation 127:** **The Office for Workforce Development undertake a review of departmental processes used to assess exceptional or substantial performance as the basis of payment of performance incentive payments to Executive Officers to ensure that a consistent and fair approach is adopted across government.**

⁹⁰ *Executive Employment Handbook*, p.2

⁹¹ Public Accounts and Estimates Committee, *Report on the 2002-2003 Budget Outcomes* p.355

11.6 Arts portfolio

11.6.1 2004-05 outlook for the portfolio

A high priority of the department over the last two years has been to ensure the state's key cultural institutions remain sustainable and viable in the future,⁹² and in May 2003, the Premier and the Minister for the Arts launched the Government's policy framework for the arts for the next decade.⁹³

The 2004-05 Budget provides significant funding in the arts and cultural areas:⁹⁴

- continuation of operational and development of funding of \$31.3 million in 2004-05 for the state's key cultural institutions;⁹⁵
- \$5.2 million provided in 2004-05 to encourage patronage of the state's cultural and heritage attractions and \$2.6 million in 2005-06;⁹⁶
- \$35.5 million in new initiatives over four years of which \$6 million will be funded in 2004-05;
 - \$12.5 million to support the Melbourne International Arts Festival,⁹⁷ \$3 million of which will be funded in 2004-05;⁹⁸
 - \$15.5 million for sustainable funding for the Australian Centre for the Moving Image, commencing in 2005-06;⁹⁹
 - \$6 million to refresh and redevelop new exhibits at Museum Victoria, \$3 million will be provided in 2004-05;¹⁰⁰ and
 - \$1.5 million for the reallocation of Film Victoria, commencing in 2005-2006.¹⁰¹

Increase of net assets within the Arts portfolio will include \$24.3 million for the ongoing redevelopment of the State Library¹⁰² and \$8.6 million for asset maintenance and upgrades at selected arts institutions.¹⁰³

⁹² Hon S. Bracks, MP, Premier of Victoria, transcript of evidence, 18 May 2004, p.3

⁹³ Hon M. Delahunty, MP, Minister for the Arts, transcript of evidence, 16 June 2004, p.3

⁹⁴ *ibid.*

⁹⁵ Budget Paper No.4, *2004-05 Statement of Finances*, p.79

⁹⁶ Budget Paper No.3, *2004-05 Service Delivery*, p.260

⁹⁷ *ibid.*, p.38

⁹⁸ *ibid.*, p.295

⁹⁹ *ibid.*

¹⁰⁰ *ibid.*, pp.38, 295

¹⁰¹ Budget Paper No.3, *2004-05 Service Delivery*, p.295

¹⁰² Department of Premier and Cabinet response to the Committee's 2004-05 Budget Estimates questionnaire, p.21

¹⁰³ Budget Paper No.4, *2004-05 Statement of Finances*, p.80

11.6.2 Analysis of the budget

The Arts and Cultural Development output group budget allocation for outputs in 2004-05 is \$341.1 million representing \$33.5 million (or 10.9 per cent) increase over the estimated actual outcome for 2003-04 of \$307.6 million.

Exhibit 11.7: Arts Portfolio Output costs

Output Group	Outputs under the responsibility of the Minister for the Arts	2004-05 Budget (\$ million)
Arts and Cultural Development	Arts Development and Access	32.8
	Creating Place and Space (a)	86.9
	Portfolio Services and Policy (b)	3.0
	Arts Portfolio Agencies	218.4
Total		341.1

Note: (a) Previously Infrastructure and Cultural Facilities
(b) Previously Arts Services and Policy

Sources: Budget Paper No.3, 2004-05 Service Delivery, pp.179,187-190

The department has advised that increases in output funding in 2004-05 compared with the revised 2003-04 outcome relate to the provision of additional funding for the Melbourne International Art Festival, Museum Victoria Exhibitions and Cultural Patronage Program as well as additional funding from the previous year's budget.¹⁰⁴ Additional funding has been provided for the following outputs:¹⁰⁵

- \$5.8 million for the Arts Development and Access output including \$3 million provided for the Melbourne International Arts Festival and \$1.2 million for the Australian Film Event;
- \$11.2 million for the Creating Place and Space output including \$5.2 million for measures to grow patronage of cultural and heritage attractions and a \$5.3 million increase in capital asset charge for arts agencies;
- \$16.4 million in the Arts Portfolio Agencies output including \$8.5 million for opening of the National Gallery Victoria and increased visitations at all arts facilities, \$3 million for Museum Victoria to maintain and renew exhibitions and \$5.4 million for additional operational funding at various state owned cultural faculties.

¹⁰⁴ Office of the Minister of Arts response to the Committee's follow-up questions, p.3

¹⁰⁵ *ibid.*

11.6.3 Key issues impacting on the portfolio

The department's response to the Committee's 2004-05 Budget Estimates questionnaire and the estimates hearing identified two issues that will have an impact on the Arts portfolio and its budget estimates for 2004-05.

(a) Visitors to Victoria's cultural institutions

Trends in patronage levels to Victoria's cultural institutions and facilities have been an area of interest to the Committee over a number of years.

The Committee noted that the Economic Statement April 2004, *Victoria: Leading the Way*¹⁰⁶ provided funding of \$7.7 million over two years for a range of initiatives to increase cultural tourism in Victoria and grow the patronage of cultural and heritage attractions across the state. Funding was provided for:¹⁰⁷

- a market innovation fund to develop new exhibition displays;
- implementation of a comprehensive industry market research program;
- a feasibility study into consolidated electronic, industry wide ticket distribution;
- scoping and market testing a web based 'experience organiser'; and
- development of a brand mark to complement the Tourism Victoria brand.

The Committee notes that there has been a progressive increase in visitors to the state's cultural facilities. Anticipated visitor numbers in 2003-04 have been advised as 8,453,000 compared with 8,220,072 in 2002-03, and visitor targets for 2004-05 are 8,915,000.¹⁰⁸ The Committee acknowledges efforts by the Government to increase visitor levels and intends to monitor the impact of the patronage initiatives and report on this matter in the Budget Outcomes report.

(b) Policy framework for the Arts

The Committee notes the release of the Government's 10 year policy framework for the arts, *Creative Capacity +: Arts for all Victorians*¹⁰⁹ and notes the extra financial support provided in the 2004-05 Budget for \$25.4 million over four years.¹¹⁰

¹⁰⁶ Economic Statement April 2004: *Victoria Leading The Way*, p.14

¹⁰⁷ *ibid.*

¹⁰⁸ Minister for Arts response to the Committee's follow-up questions, p.6

¹⁰⁹ Arts Victoria, *Creative Capacity + Arts for all Victorians*

¹¹⁰ Hon M. Delahunty, MP, slide presentation, no. 6, to the Public Accounts and Estimates Committee, 16 June 2004, p.1

The policy comprises three goals and four strategies. These strategies and goals are to develop artists, ideas and knowledge; engage creative communities; build creative industries; and create place and space.¹¹¹

While measures of progress are set for each goal and priority actions are set for each strategy, specific performance targets and measures are not provided to assess progress towards goals.¹¹²

The Committee is aware that under the *Arts Victoria Act 1972*, Arts Victoria is obliged, among other things, to continually survey and assess the position of the arts in Victoria and report annually to Parliament on the condition of the arts.¹¹³

The Committee believes that the performance orientation of goals and strategies prescribed in *Creative Arts +*, the beginning of the new policy framework 2004-05, together with the statutory reporting responsibilities imposed on Arts Victoria creates a unique opportunity for more comprehensive reporting on the outcomes achieved by arts agencies.

The Committee recommends that:

Recommendation 128: **The annual report of the Department of Premier and Cabinet include a comprehensive commentary on the outcomes achieved by implementing the *Creative Arts + Arts for all Victorians* policy.**

¹¹¹ Arts Victoria, *Creative Capacity + Arts for all Victorians*, p.3

¹¹² *ibid.*, p.12–24

¹¹³ *Arts Victoria Act 1972*, section 4(d)

CHAPTER 12: DEPARTMENT OF PRIMARY INDUSTRIES

Key Findings of the Committee:

- 12.1** The Department of Primary Industries' budget allocation for 2004-05 is \$342.8 million, a decrease of \$900,000 from the 2003-04 estimated actual expenditure.
- 12.2** The department has applied to carry forward \$30.3 million to 2004-05. This amount will be used to meet contractual obligations with external parties, and fund initiatives that commenced later than anticipated, and capital projects.
- 12.3** The State Government contributed \$61.7 million in 2003-04 to agriculture related research projects, which represented approximately half of the funding received from all sources for these projects.
- 12.4** Research funds are generated through the undertaking of specific projects, so there is no direct output funding to Primary Industries Research Victoria, which is the division responsible for drawing together the majority of the department's scientific research and development capability.
- 12.5** Returns on intellectual property generated by the department cover items such as canola production, with the department having bred 70 per cent of canola varieties grown in Australia.
- 12.6** Royalty income generated on behalf of the Department of Primary Industries and joint equity holders from patents and plant breeders rights for 2002-03 and 2003-04 amounted to \$1.81 million and \$1.78 million respectively. Given the significant investment made by the Government in Victoria's agricultural research and development program, the Committee believes that there could be scope for generating a greater return in royalty income.
- 12.7** A reporting framework needs to be developed to improve accountability for moneys directed at research. The framework should also cover the commercial arm of research in the form of the state's intellectual property interests.
- 12.8** The Government considers that its \$12 billion target for food and fibre exports by 2010 can be achieved, provided drought recovery continues and foreign exchange rates remain stable.

- 12.9 Industry has made a significant injection of funds to find new sources of oil and gas, and to finance petroleum related projects, with approximately \$400 million invested in exploration over the past two years. The Government estimates that \$8 to \$10 billion will be invested in projected developments over the next ten years.**
- 12.10 A major issue confronting the Resources portfolio is the request by International Power Hazelwood to gain access to 92 million tonnes of new coal deposits. If approval is not forthcoming and no additional works are undertaken by Hazelwood, coal resources at the power station would be exhausted by 2009 and the Government would have to make decisions regarding alternative power sources. The Committee considers that it is in the state's interest to resolve this matter in a timely manner.**
- 12.11 There is an urgent requirement for the development of new technologies to reduce greenhouse gas emissions so projects can be both economically viable and more environmentally safe.**

Departmental review

12.1 Departmental overview

The Department of Primary Industries supports the ministerial portfolios of agriculture and resources. The department's objectives focus on achieving:¹

- strong economic activity evidenced by jobs, investment and exports;
- a high quality natural resource base for the long-term; and
- resilient industries and communities.

12.1.1 Key challenges for the department in 2004-05

The Minister for Agriculture informed the Committee that the challenges in 2004-05 include intense market competition, increasing consumer demands and issues that centre on natural resource management and increased competition for natural resources.² With regard to the agrifood sector, the Minister brought to the Committee's notice that recent developments in trade reform and developments in, for example, Thailand, are challenges that the department needs to address.³

¹ Department of Primary Industries, *2002-03 Annual Report*, p.1

² Hon. R. Cameron, MP, Minister for Agriculture, transcript of evidence, 22 June 2004, p.3

³ *ibid.*, p.5

The Minister for Resources advised that the goals and challenges relate to:⁴

- protecting the environment;
- operating on a triple bottom line approach whereby projects need to be economically viable, ensure real community benefits and minimise the effect on the environment;
- reducing greenhouse gas emissions;
- improving health and safety within the community; and
- working with the community on a range of projects.

The department identified the following key risks in 2004-05:⁵

- destruction/disaster leading to loss of production and resulting in financial compensation;
- destruction/disaster leading to fatalities; and
- unsustainability due to disease contamination or overuse.

Strategies developed by the department to address the above risks are:⁶

- enhanced biosecurity and market assurance: development of an enhanced disease surveillance system and response manual for emergency situations;
- defending farms against disease: appointment of a senior quarantine and biosecurity officer and improvements to the department's plant biosecurity capability;
- drought assistance: monitoring drought conditions and response needs; and
- bushfire recovery assistance: provision of practical and financial assistance for farmers, communities and industries, including development of the bushfire recovery call centre.

12.1.2 Key factors influencing the budget estimates

The department indicated that the specific factors and projects that influenced the development of its budget estimates for 2004-05 focus on the sustainable development of primary industries for the benefit of all Victorians.⁷ Major projects that had an impact on the development of the estimates include the following:

⁴ Hon. T. Theophanous, MLC, Minister for Resources, transcript of evidence, 23 June 2004, pp.1, 3

⁵ Department of Primary Industries, response to the Committee's 2004-05 Budget Estimates questionnaire, p.4

⁶ *ibid.*

⁷ *ibid.*, pp.2-3

- Melbourne Wholesale Markets Redevelopment;
- National Eradication Program for Red Imported Fire Ants; and
- FarmBis 111.

12.2 Output management framework

Two Ministers have responsibility for the department's output groups and outputs (refer to exhibit 12.1).

Exhibit 12.1: Department of Primary Industries Ministerial responsibilities

Output group	Output	Responsible Minister/s	2004-05 Budget (\$ million)
Agriculture	Biosecurity and Market Access	Minister for Agriculture	57.4
	Sustainable Agriculture and Food Sector Development		224.3
Sub total			281.7
Fisheries	Sustainable Fisheries Utilisation Services	Minister for Agriculture	21.5
	Industry and Community Compliance Services		17.7
	Aquaculture and Fishing Industry Development		3.6
Sub total			42.8
Minerals & Petroleum	Minerals and Petroleum Regulation Services	Minister for Resources	8.2
	Minerals and Petroleum Industry Development and Information		10.1
Sub total			18.3
Total			342.8

Source: Department of Primary Industries, response to the Committee's 2004-05 Budget Estimates questionnaire, p.1

12.3 Budget summary/financial analysis

Exhibit 12.2 shows the output groups for the Department of Primary Industries. departmental output costs are expected to be \$342.8 million in 2004-05, down \$900,000 or 0.3 per cent of the expected outcome for 2003-04.

**Exhibit 12.2: Department of Primary Industries
Output group costs**

	Column 1	Column 2	Column 3	Column (3-2)/2
Output group	2003-04 Budget	2003-04 Estimated Actual	2004-05 Budget	Variation (a)
	(\$ million)	(\$ million)	(\$ million)	(%)
Agriculture	239.7	285.1	281.7	-1.2
Fisheries	40.3	40.7	42.8	5.2
Minerals and Petroleum	17.3	17.9	18.3	2.2
Total	297.3	343.7	342.8	-0.3

Note: (a) A negative variance indicates that the 2004-05 budget decreased compared with the 2003-04 revised estimated actual outcome

Source: Budget Paper No. 3, 2004-05 Service Delivery, pp.111–138,192–200

12.3.1 Operating performance

The Statement of Financial Performance, summarised in exhibit 12.3, shows that the department is forecasting a surplus of \$900,000 in 2004-05.

**Exhibit 12.3: Department of Primary Industries
Statement of Financial Performance**

	Column 1	Column 2	Column 3	Column (3-2)/2
	2003-04 Budget	2003-04 Estimated Actual	2004-05 Budget	Variation (a)
	(\$ million)	(\$ million)	(\$ million)	(%)
Controlled items				
Operating revenue	296.8	344.2	343.8	-0.1
Operating expenses	297.3	343.8	(b) 342.9	-0.3
Net result	(c) -0.5	0.4	0.9	125.0
Administered items				
Administered revenue	74.6	110.5	93.5	-15.4
Administered expenses	74.6	114.3	93.2	-18.5
Surplus/Deficit	0.0	(c) -3.8	0.3	107.9

Notes: (a) A negative variance indicates that the 2004-05 budget has decreased compared with the 2003-04 revised estimated actual outcome

(b) The difference between the Operating expense budget of \$342.9 million for 2004-05 (Budget Paper No. 4) and the Output group budget for 2004-05 of \$342.8 million shown in exhibit 12.2 (Budget Paper No. 3) is due to rounding

(c) Net result is different to the result included in the Budget Papers due to rounding

Source: Budget Paper No. 4, 2004-05 Statement of Finances, pp.87, 90

The main components of the operating revenue budget for 2004-05 relate to output appropriations (\$305.4 million) and sale of goods and services (\$29.3 million), while

the main categories within the 2004-05 budget for operating expenses are employee benefits (\$140.7 million), supplies and services (\$133.9 million) and grants and other payments (\$32 million).⁸

In 2003-04, total revenue was expected to increase by \$47.4 million from the published budget, with a corresponding increase in total expenses by \$46.5 million. These increases were due to additional funding for the Exceptional Circumstances Drought Assistance Program, the State's contribution to the national eradication program for red imported fire ants and increased external funding towards scientific research.⁹

While operating revenue and expenses are expected to decrease slightly in 2004-05 due to the winding down of the Exceptional Circumstances Program, this reduction is largely offset by new Government initiatives such as the relocation and redevelopment of the Melbourne Wholesale Markets.¹⁰ The 2004-05 budget has allocated \$3.7 million towards this initiative in 2004-05 with a further \$1.1 million in 2005-06.¹¹

The department also receives funds from the Commonwealth Government that are reflected in the administered items, which were expected to decrease in 2004-05 due to the winding down of drought assistance.¹² The Committee understands that a number of Victorian farmers did not apply for the drought assistance and, as a result, some of the Commonwealth and state funding was not expended.¹³

12.3.2 Balance sheet performance

Exhibit 12.4 shows that the department's net asset position is expected to improve by \$15.4 million from 30 June 2004 to 30 June 2005. This increase is mainly attributable to capital contributions received by the department to fund the redevelopment of the Melbourne Showgrounds.¹⁴

⁸ Department of Primary Industries, response to the Committee's 2004-05 Budget Estimates questionnaire, pp.15-16

⁹ Budget Paper No. 4, 2004-05 Statement of Finances, p.86

¹⁰ *ibid.*

¹¹ Budget Paper No. 3, 2004-05 Service Delivery, p.260

¹² Budget Paper No. 4, 2004-05 Statement of Finances, p.87

¹³ Minister for Agriculture's response, to the Committee's additional follow-up question

¹⁴ Budget Paper No. 4, 2004-05 Statement of Finances, p.86

**Exhibit 12.4: Department of Primary Industries
Statement of Financial Position**

	Column 1	Column 2	Column 3	Column (3-2)/2
	2003-04 Budget	2003-04 Estimated Actual	2004-05 Budget	Variation
	(\$ million)	(\$ million)	(\$ million)	(%)
Controlled items				
Controlled assets	391.1	334.5	349.9	4.6
Controlled liabilities	55.5	55.5	55.5	0.0
Net assets	335.6	279.0	294.4	5.5
Administered items				
Administered assets	30.6	26.7	26.9	0.7
Administered liabilities	6.6	6.6	6.5	-1.5

Note: (a) A negative variance indicates that the 2004-05 budget has decreased compared with the 2003-04 estimated actual outcome

Source: Budget Paper No. 4, 2004-05 Statement of Finances, pp.89-90

12.3.3 Carry over funding

In relation to the Agriculture portfolio, the Department of Primary Industries has applied to carry forward \$21.4 million of output appropriation to 2004-05, of which \$12.7 million relates to administered revenue required to meet contractual obligations with external parties in 2004-05.¹⁵ The remaining \$8.7 million relates to initiatives that commenced later than anticipated or have encountered delays in implementation.¹⁶

A capital carry over of \$8.9 million has also been requested to complete the Primary Industries Research Victoria's Modernisation Project, the marine and freshwater resources site redevelopment and the Laverton information technology and document management centre projects.¹⁷

12.4 Human resources issues

Exhibit 12.5 shows that the total number of staff in the department in June 2004 was 2,633.8 (on an equivalent full-time basis).

¹⁵ Minister for Agriculture's response, to the Committee's follow up questions, p.20

¹⁶ *ibid.*

¹⁷ *ibid.*

**Exhibit 12.5: Department of Primary Industries
Equivalent Full Time Staff**

Classification	June 2003 Actual	June 2004 Estimate	June 2005 Estimate
Secretary	1.0	1.0	1.0
Executive Officers	13.0	19.0	19.0
Principal Scientists	36.6	46.1	46.1
Field Officers	68.8	72.6	73.6
Other (VPS 1 to 5 as at 30 June 2003 and Grade 1 to 6 as at 30 June 2004 and 2005)	2,437.7	2,495.1	2,522.1
Total	2,559.1	2,633.8	2,661.8

Source: *Department of Primary Industries' response to the Committee's 2004-05 Budget Estimates questionnaire, pp.14-15*

The Committee was interested to determine the reason for the size of the department's executive service showing an increase of almost 50 per cent from 30 June 2003 to 30 June 2004. The factors that have led to this increase are:¹⁸

- the 30 June 2003 actual figure of 13 Executive Officers did not include three vacant positions, whereas the estimated figure at 30 June 2004 of 19 included three vacant positions. The Minister for Agriculture explained that, all Executive Officers are employed on contract and the estimated figures provided in response to the PAEC questionnaire assumed the current four vacant positions (including the Secretary) would be all filled by the 30 June 2004 which did not eventuate; and
- the actual figure as at 30 June 2004 includes three new positions, two of which have been transferred from two other departments and the other new position has been approved by the Department of Premier and Cabinet.

12.5 Agriculture portfolio

12.5.1 2004-05 outlook for the portfolio

The Minister for Agriculture informed the Committee that the priorities for the portfolio in 2004-05 are to:¹⁹

- promote primary industries and attract investment;
- improve productivity;
- protect Victoria from disease and pests;

¹⁸ *ibid.*, pp.12-13

¹⁹ Hon. R. Cameron, MP, Minister for Agriculture, transcript of evidence, 22 June 2004, p.3

- work in partnership with communities and think strategically;
- plan effectively and develop regulations to safeguard Victoria's resources and the environment.

Some of the major activities planned for 2004-05 include:²⁰

- Drought: exceptional circumstances funding - \$5.3 million (\$10.8 million over two years to 2004-05);
- FarmBis 111 - \$2.5 million (a total of \$5.5 million over three years to 2006-07);
- National eradication program for red imported fire ants - \$4 million (a total of \$8.4 million over four years to 2006-07); and
- Victoria: Leading the Way - \$3.7 million for the relocation of the Melbourne Wholesale Markets (\$4.8 million over two years to 2005-06).²¹

12.5.2 Analysis of the budget

The Minister for Agriculture has sole responsibility for the Agriculture and Fisheries output groups. Exhibit 12.6 shows that these outputs account for \$324.5 million (or 94.7 per cent) of the department's 2004-05 Budget.

Exhibit 12.6: Agriculture Portfolio Output costs

Output Group	Outputs under the responsibility of the Minister for Agriculture	2004-05 Budget (\$ million)
Agriculture	Biosecurity and Market Access	57.4
	Sustainable Agriculture and Food Sector Development	224.3
Sub total		281.7
Fisheries	Sustainable Fisheries Utilisation Services	21.5
	Industry and Community Compliance Services	17.7
	Aquaculture and Fishing Industry Development	3.6
Sub total		42.8
Total		324.5

Sources: *Budget Paper No. 3, 2004-05 Service Delivery*, pp.192–198; *Department of Infrastructure's response to the Committee's 2004-05 Budget Estimates questionnaire*, p.1

²⁰ Budget Paper No. 3, 2004-05 Service Delivery, p.297

²¹ *ibid.*, p.260

12.5.3 Performance measures

In relation to the Agriculture portfolio, of the 51 performance measures²² covering the department's outputs for 2004-05, there are two new performance measures dealing with the delivery of services to the forestry sector, which reflect the transfer of responsibility for the Private Forestry Program from the Department of Sustainability and Environment.²³ These relate to the selection of areas for the development of an integrated catchment scale approach to test commercial environmental forestry as part of implementing the Plantation Investment Strategy and the completion of the West RFA sawlog farming project.

Within the Sustainable Fisheries Utilisation Services output, one performance measure has been discontinued since 2003-04 that related to the completion of a survey of under-exploited areas for harvesting abalone.²⁴

The Committee maintains that the Department of Primary Industries should include additional outcome focused measures in the Budget Papers. The existing performance measures are focused on activities, which are not accompanied by measures to assess achievements. For example, there are no performance measures to assess whether:

- the number of animal pest, disease and residue control plans assisted industry to access markets;²⁵
- the number of extension groups that promoted sustainable farming systems;²⁶
- technical publications in international and peer review journals that promoted productivity and sustainable farming systems;²⁷ and
- the number of additional management plans completed that contributed to the sustainable utilisation of commercial and recreational fisheries.²⁸

The Committee recommends that:

Recommendation 129: **The Department of Primary Industries expand the performance measures contained in the Budget Papers covering the Agriculture portfolio.**

²² *ibid.*, pp.192–198

²³ Department of Primary Industries, response to the Committee's *2004-05 Budget Estimates questionnaire*, p.10

²⁴ Budget Paper No. 3, *2004-05 Service Delivery*, p.348

²⁵ *ibid.*, p.192

²⁶ *ibid.*, p.193

²⁷ *ibid.*

²⁸ *ibid.*, p.195

The Committee was interested to find that the department had been proactive in utilising internal audit in 2003 to:²⁹

- understand the processes and systems in place to collect and report against the performance measures; and
- verify the accuracy of data contained in these reports.

The finding that 98 per cent of the 67 performance measures reviewed had appropriate collection systems provided an assurance that the department had appropriate processes and systems to collect and report performance information to major stakeholders.³⁰

In order to provide assurance that information reported against performance measures is reliable, the Committee supports the undertaking of internal assessments to verify the adequacy of collection and reporting systems and maintains that this practice should be extended across agencies.

The Committee recommends that:

Recommendation 130: **All Government agencies, in the context of reporting accurate information on performance, utilise their internal audit capability to examine whether collection and reporting systems are reliable.**

12.5.4 Key issues impacting on the portfolio

The department's response to the Committee's questionnaire and the estimates hearing with the Minister for Agriculture identified the following key issues that will impact on the portfolio and its budget estimates for 2004-05:

(a) Research activities

Research programs – operational arrangements and expenditure

Primary Industries Research Victoria (PIRVic), a division within the Department of Primary Industries, draws together the majority of the department's scientific research and development capability previously held by the Department of Natural Resources and Environment.³¹ The two exceptions are the Forest Science Centre and the Arthur

²⁹ Department of Primary Industries, response to the Committee's 2004-05 Budget Estimates questionnaire, p.11

³⁰ *ibid.*

³¹ Minister for Agriculture's response to Committee's follow up questions, p.8

Rylah Institute, which are located within the Department of Sustainability and Environment.³²

The department's research activities cover the scientific disciplines of: animal genetics and genomics; animal health sciences; animal production sciences; environmental health and chemistry; landscape systems; marine and freshwater systems; plant genetics and genomics; plant health sciences; plant production sciences; soil and water sciences.³³

The Minister advised the Committee that all research is funded through particular projects.³⁴ Apart from funding received from rural industry research corporations, the State Government and industry sources, funding is also derived from commercial sources where the department:³⁵

- undertakes contract research for the private sector; or
- receives a return where the State holds the intellectual property rights over various project work, and these moneys are then reinvested in research related activity.

The Commonwealth indirectly provides research funding to Victoria through the provision of funding to rural industry research corporations, which in turn provide funding for various research projects in Victoria.

The Committee noted that, as research funds are generated through the undertaking of specific projects, there is no direct output funding to Primary Industries Research Victoria.³⁶ Priorities are formulated through strategies developed by the policy divisions, in consultation with relevant industry sectors.³⁷

A breakdown of funding for the year ended 30 June 2004, according to the various funding sources, is outlined in exhibit 12.7.³⁸

³² *ibid.*

³³ Department of Primary Industries, *2002-03 Annual Report*, p.39

³⁴ Hon. R. Cameron, MP, Minister for Agriculture, transcript of evidence, 22 June 2004, p.13

³⁵ *ibid.*, p.12

³⁶ *ibid.* p.13

³⁷ *ibid.*

³⁸ Minister for Agriculture's response to the Committee's follow up questions, p.8

**Exhibit 12.7: Department of Primary Industries and
Department of Sustainability and Environment
Sources of research funding for 2003-04**

Department	Commercial \$000	Rural industry research corporations \$000	Industry \$000	State \$000	Total \$000
Department of Primary Industries – Agriculture	23,003	21,152	6,188	(a) 50,640	100,983
Department of Primary Industries – Fisheries	828	2,199	1,295	(a) 5,915	10,237
Department of Sustainability and Environment (b)	774	365	4,524	(a) 5,157	10,820
Total	24,605	23,716	12,007	(a) 61,712	122,040

Note: (a) Includes \$13.5 million for depreciation and capital assets charge across funding sources

(b) Includes the Forest Science Centre and the Arthur Rylah Institute

Source: Minister for Agriculture's response to the Committee's follow-up questions, p.9

Commercial activities – intellectual property

The Committee was interested to learn about the commercial nature of the department's research activities and the organisational structure in place for managing this function.

The Committee was advised that returns on intellectual property generated by the department cover items such as the growing of canola, whereby 70 per cent of canola varieties grown in Australia were bred by the department.³⁹ In holding the intellectual property over those varieties (i.e. the department holds in the public interest the base variety - base germ plasm, which can be accessed for breeding), income generated for the state can be used on enhancing Victoria's research capability.⁴⁰

The Committee was informed that Agriculture Victoria Services Pty. Ltd., a wholly owned Government entity and subsidiary of the Department of Primary Industries, is responsible for registering, managing and commercialisation of patents and plant breeders rights generated from the department's research programs.⁴¹ Primary Industries Research Victoria generates the patents, while Agriculture Victoria Services Pty. Ltd. hold the patents and undertake the commercial negotiations.⁴²

³⁹ Dr C.Noble, Executive Director, Primary Industries Research Victoria, transcript of evidence, 22 June 2004, p.12

⁴⁰ *ibid.*, p.13

⁴¹ Minister for Agriculture's response, to the Committee's follow up questions, p.9

⁴² Hon. R. Cameron, MP, Minister for Agriculture, transcript of evidence, 22 June 2004, p.14

While Agriculture Victoria Services Pty. Ltd. is the department’s commercial arm, the Committee was informed by the Minister that there are two other companies involved in the commercialisation process.⁴³ Relevant details concerning these government owned companies are listed below.⁴⁴

**Exhibit 12.8: Department of Primary Industries
agricultural research programs – some participating companies**

Phytogene Pty. Ltd	Commonwealth funds were provided to establish a company in relation to a gene discovered by the department that deals with slowing down the rate of senescence in plants. It has potential application in a very broad range of crops, for example, in slowing the rate at which vegetables might break down once they are on the shelf and delaying the onset of flowering in grasses. Further research is required to prove that this particular gene is effective.
AgGenomics Pty. Ltd.	This company provides genetic testing of primarily plant material.

Source: Hon. R. Cameron, MP, Minister for Agriculture, transcript of evidence, 22 June 2004, p.14

In response to the Committee’s questions, the Minister advised that royalty income generated on behalf of the Department of Primary Industries and joint equity holders from patents and plant breeders rights for 2002-03 and 2003-04 was \$1.81 million and \$1.78 million respectively.⁴⁵ The Committee believes the department should maintain information that discloses the amount of funding from all sources that is used in development work as distinct from research. This information could be used by the Parliament and interested stakeholders to assess whether the state is generating an appropriate return in the form of royalty income from agriculture research that involves the development of intellectual property. Based on the aggregate level of funding for Victoria’s research and development program, the Committee is of the view that there could be scope for generating a greater return to the state from royalty income.

The Committee acknowledges the importance of scientific research and development in creating an environment that fosters sustainable, profitable production and industries that export to the world and promote economic growth.⁴⁶ Given the prime role that research plays in stimulating exports and the importance of exports to the economic performance of the state, there is a need for of a reporting framework to enhance accountability for moneys directed at research. The Committee believes it is essential that research activities of the state be linked to funding, Government outcomes and research objectives. It is also important that benefits, in terms of achievements and income generated for the state, be transparent to the Parliament and the public. The department’s reporting framework should also cover the commercial

⁴³ *ibid.*

⁴⁴ *ibid.*

⁴⁵ Minister for Agriculture’s response, to the Committee’s follow up questions, p.9

⁴⁶ Budget Paper No. 3, 2004-05 Service Delivery, p.192

arm of research in the form of intellectual property interests of the state. Disclosure of this type of material would facilitate the making of judgements about whether:

- commercial opportunities for the state emanating from research activities are maximised; and
- the commercialisation process is undertaken in an effective manner.

The Committee reiterates its recommendation made in the *Report on the 2002-2003 Budget Outcomes* for performance measures and targets to be published for research activities undertaken by the research institutes, which would complement a more expansive form of reporting.⁴⁷

The Committee recommends that:

Recommendation 131:

- (a) **The Department of Primary Industries prepare an annual research report card on its agricultural research activities. This document should include a consolidation of relevant information concerning Victoria's agricultural research and development program, and the benefits potentially available to the private sector from participation in state research activities;**
- (b) **A synopsis of this report be included in the Department of Primary Industries' annual report; and**
- (c) **The commercialisation activities of the Department of Primary Industries relating to agricultural research activities that involve the development of intellectual property should have a greater focus on maximising financial returns to the state.**

(b) *Export development*

The Committee enquired about the progress made in achieving the Government's \$12 billion target for food and fibre exports by 2010.⁴⁸ The Minister advised that provided drought recovery continues and the dollar remains stable, the Government

⁴⁷ Public Accounts and Estimates Committee, *Report on the 2002-03 Budget Outcomes*, p.383

⁴⁸ Budget Paper No. 3, *2004-05 Service Delivery*, p.31

believes the target for 2010 can be achieved.⁴⁹ The Minister indicated that if the state can continue to experience growth in its processed food sector by stimulating interest, then Victoria will have to be more productive.⁵⁰ The Minister explained that trade development work, regulatory activity, research and development and extension activities will provide a framework to make industries more competitive and expand export markets.⁵¹

The Minister brought to the Committee's attention the following Government programs which are directly relevant to stimulating exports and attributed successful outcomes to these programs:

- the International Market Development Program,⁵²
- the Naturally Victorian Initiative.⁵³

Other export focused Government programs where the Department of Primary Industries has an involvement are:⁵⁴

- the Opening Doors Export Plan
- the Next Generation Food Strategy

The Committee was pleased to hear from the Minister that the Government is still committed to the 2010 target⁵⁵ and that good outcomes are flowing from the Government's food and fibre export initiatives. The Committee recognises that various external factors, such as those that relate to environmental and economic conditions affecting exports, are beyond the control of the Victorian Government. It is for these reasons that the Government will need to assess on an ongoing basis whether the \$12 billion food and fibre export target to be achieved by 2010 is in fact realistic and attainable, given the Minister's comment that *'in terms of food and fibre we hit \$8 billion two years ago and that has dropped back to \$6 billion'*.⁵⁶

(c) Recreational Fishing Licence Trust Account

At the estimates hearing, the Committee was informed that based on a survey in 2003, around \$400 million was expended by the public on fishing related products and services in 2000-01 and that about 230,000 recreational fishing licences are sold each year.⁵⁷

⁴⁹ Hon. R. Cameron, MP, Minister for Agriculture, transcript of evidence, 22 June 2004, p.10

⁵⁰ *ibid.*, p.11

⁵¹ *ibid.*

⁵² Minister for Agriculture's response to the Committee's follow-up questions, p.1

⁵³ *ibid.*, p.2

⁵⁴ Minister for Agriculture's response to the Committee's follow-up questions, pp.7-8

⁵⁵ Hon. R. Cameron, MP, Minister for Agriculture, transcript of evidence, 22 June 2004, p.10

⁵⁶ *ibid.*

⁵⁷ Mr P. Mainey, Acting Executive Director, Fisheries Victoria, transcript of evidence, 22 June 2004, p.4

The Minister informed the Committee that fishing licence fees are credited to the Recreational Fishing Licence Trust Account.⁵⁸ Funds are disbursed on projects for the benefit of recreational fishing activities in Victoria.⁵⁹ The Government has established a fisheries revenue allocation committee, comprising representative stakeholders, to provide advice to the Minister on disbursements of the funds.⁶⁰ The revised 2003-04 revenue budget for the Recreational Fishing Licence Trust Account was \$4.1 million (\$4.2 million for 2004-05).⁶¹

The Committee noted that the balance of the trust account at 2 July 2004 was \$1.8 million.⁶² Proposed disbursements are as follows:⁶³

- 41 proposed recreational fishing grant program projects are intended to commence during 2004-05;
- eight previously approved projects that commenced in 2003-04 have been extended into 2004-05;
- recreational fishing licence sales commissions payable to retailers (6 per cent of face-value of licences sold) for 2003-04; and
- repayment of an internal borrowing to finance compensation payments (and related items) emanating from the cancellation of commercial fishery access licences at Lake Tyers and Mallacoota Inlet.

As part of the estimates process, the Committee was interested in the accountability arrangements in place for disclosing collections and disbursements from the trust account. The Minister brought to the Committee's notice that a report on the receipts and disbursements from the Recreational Fishing Licence Trust Account, audited by the Victorian Auditor-General, is tabled in Parliament in October each year.⁶⁴ Information regarding these disbursements is included in the annual Recreational Fishing Guide of which 300,000 copies are available at no charge to the public.⁶⁵ Information is also included in a Fisheries Victoria's fortnightly newsletter – 'Fishfax', which is distributed to approximately 1,800 individuals/organisations, and posted on the Internet.⁶⁶

The Committee believes that there is a strong level of accountability to the recreational fishing community, the Parliament and the public on licence fees collected and disbursements met from the trust account. It was pleasing to see that the Government is committed to ensuring recreational fishers are told what their licence fees are spent on and are given a say in determining that expenditure. The Committee

⁵⁸ Hon. R. Cameron, MP, Minister for Agriculture, transcript of evidence, 22 June 2004, p.3

⁵⁹ Mr P. Mainey, Acting Executive Director, Fisheries Victoria, transcript of evidence, 22 June 2004, p.4

⁶⁰ *ibid.*

⁶¹ Minister for Agriculture's response to the Committee's follow-up questions, p.11

⁶² *ibid.*, p.1

⁶³ *ibid.*

⁶⁴ Minister for Agriculture's response to the Committee's additional follow-up questions, p.2

⁶⁵ *ibid.*

⁶⁶ *ibid.*

is of the view that, given the limited disclosure of the transactions relating to trust accounts in the Budget Papers and, to some extent, annual reports, the Government should consider applying the accountability arrangements that apply to the Recreational Fishing Licence Trust Account to other major trust accounts that are of public interest.

The Committee recommends that:

Recommendation 132: **The Government undertake a review of the major trust accounts within the trust fund to determine whether there is scope for applying the accountability arrangements in place for the Recreational Fishing Licence Trust Account to other major trust accounts.**

(d) *Free Trade Agreement between Australia and the United States*

The Committee was interested to learn about the potential impact of the Free Trade Agreement between Australia and the United States on the Victorian agricultural industry and the achievement of Government outcomes. The Minister explained the Agreement's effect on Victoria and its Agriculture portfolio:⁶⁷

The position of the Government on the US/Australia Free Trade Agreement (FTA) is one balanced on the total impact on the State and measures taken to deal with any negative impacts in certain sectors – including those potential impacts on agriculture. To extract agriculture only is to give a false impression of the total picture. With that in mind, the following comments can be made:

The main features of the FTA of relevance to Victorian agriculture are:

- *the volume of dairy product currently imported (by America) under tariff rate quotas that can be sent duty free will be nearly trebled, but the over-quota tariff level will remain unchanged;*
- *two thirds of agricultural tariffs, including lamb, sheep meat, and most horticultural products, will be eliminated immediately, and a further 9% within four years, but the canned fruit industry must wait 18 years for full tariff elimination;*
- *the beef quota of 378,000 tonnes to increase by 18% over an 18 year period;*
- *single desk marketing arrangements (including the Australian Wheat Board) are preserved; and*
- *quarantine and food safety arrangements are not affected by the agreement, but new consultative mechanisms should ensure improved understanding of each country's situation.*

⁶⁷ Minister for Agriculture's response to the Committee's follow-up questions, p.17–18

However, these comments need to be taken as indicative only as there are a number of mechanisms of review available to the USA to review these access arrangements.

Should there be no review by the US, which cannot be guaranteed, Victorian agriculture is likely to be a modest net beneficiary of the FTA, and the increase in Gross State Product from agriculture has been recently estimated in economic modelling work for the Commonwealth at \$11.5 million.

The Agreement limits gains in the most sensitive agricultural areas where gains were potentially greatest, i.e. sugar, dairy products and beef. However, the immediate or eventual elimination of other tariffs produces minor gains in other agricultural areas (e.g. lamb), which could become more significant over time. The Agreement may make a modest contribution to the achievement of Victoria's food and fibre export target of \$12 billion by 2010.

The Committee believes that disclosing the impact of the Free Trade Agreement, between the United States and Australia, on budget sector outputs and new initiatives across Victoria's portfolio sectors in future Budget Papers would constructively contribute to the improvement of information conveyed to the Parliament and the community.

The Committee recommends that:

Recommendation 133: **The Government publish a report that contains an assessment of the total impact of the Free Trade Agreement between the United States and Australia on Victoria, including the Agriculture portfolio, after the Agreement has been in operation for a sufficient period of time.**

(e) *PrimeSafe – seafood safety scheme*

The Minister briefed the Committee on the following key features of the seafood safety scheme:⁶⁸

- PrimeSafe is an independent statutory authority. Its mission is to improve the quality and safety of meat and seafood processed and marketed in Victoria, through a regulatory environment;
- PrimeSafe is responsible for determining and administering the seafood safety scheme;

⁶⁸ Minister for Agriculture's response to the Committee's follow-up questions, pp.3-4

- the seafood safety scheme covers the chain from wild catch and aquaculture to retail;
- PrimeSafe provided an estimate of \$550,000 per annum for the total cost of administering the seafood safety scheme. The estimate was based on a number of factors, which included the following:
 - a significant part of the seafood industry was unregulated for food safety with, for example, wild catch harvest not regulated by local government;
 - a significant proportion of licensees in the seafood industry do not have fixed premises i.e. boats. Regulatory management costs are anticipated to be higher per business as a result; and
 - PrimeSafe will have to develop suitable standards and guidelines for seafood, particularly at the wild catch end of the chain, as there are no national standards at present that can be adopted; and
- the costs of the seafood safety scheme are funded by industry; and
- PrimeSafe is required to consult with industry prior to establishing licence fees.

The Committee is of the view that the department needs to ensure that the costs borne by the seafood industry for the administration of the seafood safety scheme are kept to a minimum.

The Committee recommends that:

Recommendation 134: **The Department of Primary Industries monitor the costs incurred by PrimeSafe in administering the regulatory environment to ensure that the funding contributed by the seafood industry towards the seafood safety scheme are fair and reasonable.**

12.6 Resources portfolio

12.6.1 2004-05 outlook for the portfolio

The Resources portfolio is supported by the Minerals and Petroleum Division of the Department of Primary Industries.⁶⁹

According to a ministerial statement issued by the Minister for Energy Industries and Resources in December 2003, the Government intends to:⁷⁰

⁶⁹ Department of Primary Industries, *2002-03 Annual Report*, pp.32–37

- continue to invest in geology to attract exploration and development;
- maintain and improve a transparent and streamlined regulatory regime, developing electronic business practices;
- ensure long-term secure supplies of low cost resources and energy to all Victorians;
- support and encourage sustainable exploration and development practices;
- harness innovative techniques to find and use untapped resources;
- further encourage community participation in decision making; and
- improve environmental and occupational health and safety outcomes in partnership with industry.

The Victorian Initiative for Minerals and Petroleum (VIMP) is the Government's major program to support and promote mineral and petroleum exploration in Victoria. Through the VIMP geophysical survey data, ground gravity data and GIS (geographic information system) geological data have been captured in a database. The geological data enhances the understanding of the state's mineral and petroleum exploration potentials. Some of the successful exploration activities include the new gas fields in the Otway Basin; mineral sands in northwest Victoria; and new gold minings throughout Victoria.⁷¹

Some of the major initiatives contained in the 2004-05 budget include:

- \$9.8 million over seven years from 2005-06 to provide research funding to explore ways to grow a sustainable coal industry;⁷²
- funding of \$900,000 to the Greenhouse Gas Technologies Cooperative Research Centre for a period of three years to 2006-07 (\$300,000 in 2004-05);⁷³ and
- \$400,000 to pilot new approaches to natural resource allocation that will involve the running of a pilot to demonstrate the recent innovation in auction design and electronic bidding in allocating natural resources to provide maximum returns to the community.⁷⁴

Ongoing initiatives funded from previous budgets include:⁷⁵

⁷⁰ Hon. T. Theophanous, MP, Minister for Energy Industries and Resources, media release *A bright future for Victorian resources*, 3 December 2003

⁷¹ Department of Primary Industries, Victorian Initiative for Minerals and Petroleum, www.dpi.vic.gov.au, accessed 8 June 2004

⁷² Budget Paper No. 3, *2004-05 Service Delivery*, p.33

⁷³ *ibid.*, p.260

⁷⁴ *ibid.*, pp.34, 297-298

⁷⁵ Department of Primary Industries, 2003-04 Budget fact sheet, *Minerals and Petroleum - an overview*, May 2004

- the fourth year of a \$4 million investment over four years for the Victorian Initiative for Minerals and Petroleum; and
- the fourth year of a \$3.5 million investment over four years support responsible industry development.

12.6.2 Analysis of the budget

The Minister for Resources has responsibility for two outputs in the department. Exhibit 12.9 shows that these outputs account for \$18.3 million (or 5.3 per cent) of the department's 2004-05 Budget.

**Exhibit 12.9: Resources Portfolio
Output costs**

Output Group	Outputs under the responsibility of the Minister for Resources	2004-05 Budget (\$ million)
Minerals and Petroleum	Minerals and Petroleum Regulation Services	8.2
	Minerals and Petroleum Industry Development and Information	10.1
Total		18.3

Sources: *Budget Paper No. 3, 2004-05 Service Delivery, pp.199–200; Department of Infrastructure's response to the Committee's 2004-05 Budget Estimates questionnaire, p.1*

12.6.3 Performance measures

With regard to the Resources portfolio, there are no new performance measures in the Budget Papers for 2004-05 and none have been discontinued.

As is the case with the Agriculture portfolio, performance measures published in the Budget Papers are primarily process orientated and do not provide sufficient information to adequately assess the achievement of outcomes.

The department advised the Committee that, where possible, broader indicators are used to judge the competitiveness of Victoria.⁷⁶ The department cited as an example, the level of exploration expenditure incurred within Victoria compared to the national level of exploration expenditure which is used as an indicator to assess how well Victoria is performing in the area of attracting investment.⁷⁷ The department indicated

⁷⁶ Department of Primary Industries, response to the Committee's 2004-05 Budget Estimates questionnaire, p.13

⁷⁷ *ibid.*

that Victoria has lifted this rate to above 6 per cent over recent years, a result which reflects positively on the performance of the department.⁷⁸

The department also advised that its Minerals and Petroleum Division continues to monitor and improve its performance.⁷⁹ The Regulation Branch regularly reviews comparable data that is available to assess its performance relative to other areas.⁸⁰ Assessments are regularly made in terms of how other states are providing minerals and petroleum information to industry relative to the department's efforts (e.g. on-line delivery) and through appropriate forums, staff continually seek feedback from key stakeholders as to the quality of the information and products provided by the department.⁸¹ The Committee was pleased to hear from the department that feedback indicates that the quality of the geological work undertaken in Victoria is of a very high standard.⁸²

12.6.4 Key issues impacting on the portfolio

The department's response to the Committee's questionnaire and the estimates hearing with the Minister for Resources identified the following key issues that will impact on the resources portfolio and its budget estimates for 2004-05.

(a) Minerals and petroleum sector

The 2004-05 budget provides \$18.3 million to the minerals and petroleum output group.⁸³

At the estimates hearing the Minister informed the Committee that the minerals and petroleum outputs from the Resources portfolio assist industry by attracting and facilitating investment, by encouraging and developing technologies to minimise the impact on the environment and by developing and enforcing a regulatory framework for health, safety and environmental management.⁸⁴

The Committee was interested to learn about the magnitude of the return generated for Victoria from the budget funding provided by the Government. The Minister brought to the Committee's attention that petroleum exploration in Victoria was now nearing record levels.⁸⁵ The following exhibit illustrates that there has been a significant injection of funds by industry to find new sources of oil and gas in Victoria and to finance petroleum related projects.

⁷⁸ *ibid.*

⁷⁹ *ibid.*

⁸⁰ *ibid.*

⁸¹ *ibid.*

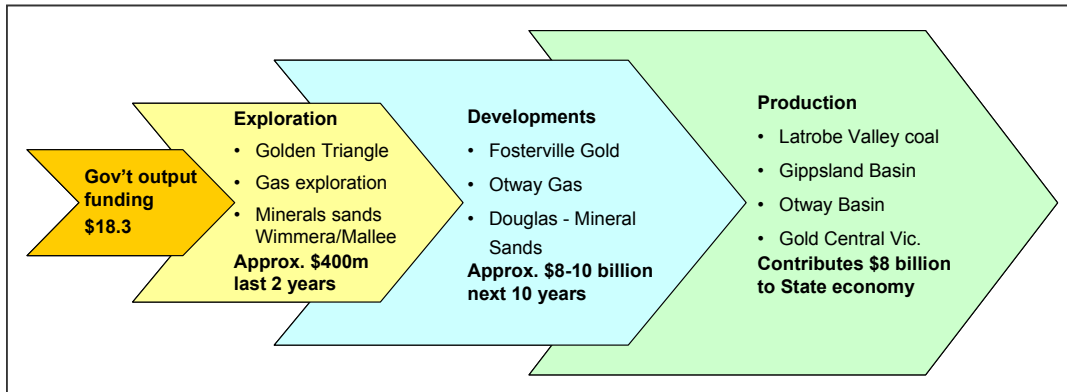
⁸² *ibid.*

⁸³ Budget Paper No. 3, *2004-05 Service Delivery*, pp.199–200

⁸⁴ Hon. T. Theophanous, MLC, Minister for Resources, transcript of evidence, 23 June 2004, p.2

⁸⁵ *ibid.*, p.8

Exhibit 12.10: Minerals and Petroleum Sector – Government investments and returns to Victoria



Source: Power point presentation (slide 4) by Minister for Resources at the 2004-05 Budget Estimates hearing, 23 June 2004

At the request of the Committee, the Minister provided the following summary of petroleum related projects under development or consideration, the estimated project cost and benefits to Victoria.

Exhibit 12.11: Summary of petroleum related projects under development or under consideration

Project Description	Estimated Project Cost	Benefits to Victoria
Minerva – Gas field development in the Otway Basin (in construction)	\$250 million	<ul style="list-style-type: none"> • Supply of gas to regional and interstate markets • Ensures greater diversity of the supply of gas – enhances supply security • 600 people will be involved in the construction phase and 25-30 permanent staff employed when fully operational
BassGas – Gas field development located offshore near Inverloch (in construction)	\$400 million	<ul style="list-style-type: none"> • 1,000 people will be involved in the construction phase and approximately 45 people employed permanently • Increases gas supply security and provides an alternative to the Longford facility
Sole – Gas field development in the Gippsland Basin (on hold pending market)	\$165 million	<ul style="list-style-type: none"> • Will increase gas supply security from non Esso/BHP gas production
Otway Gas – Gas field development in the Otway Basin (pending approval)	\$1.1 billion	<ul style="list-style-type: none"> • Enhances gas supply security to Victoria • Supply of gas to interstate markets • Project with over a 10 year life and can supply over 10% of South Eastern Australia's current gas demand • 1,300 people employed during construction and 30 permanent roles during operation
Casino – Gas field development in the Otway Basin (pending approval)	\$200 million	<ul style="list-style-type: none"> • Increase gas supply security and diversity • Positive impact on regional Victoria
Other possible gas projects that may proceed in the future include: <ul style="list-style-type: none"> • Golden Beach (Gippsland Basin) • Kipper (Gippsland Basin) • La Bella (Otway Basin) 		

Source: Minister for Resources' response to the Committee's follow up questions, pp.2–3

The Minister further informed the Committee that investment in exploration and development directly affects businesses in rural Victoria, with up to \$63 million spent

in 2002-03 by the oil and gas industry on goods and services purchased from local businesses.⁸⁶

(b) Hazelwood power station – access to new coal deposits

The Minister advised the Committee that the vision for the Resources portfolio is for a safe, sustainable and dynamic minerals and petroleum industry that contributes to the wealth and wellbeing of Victorians.⁸⁷ The Minister indicated that, in order to realise this vision, new projects need to be economically viable, ensure real community benefits and protect the environment.⁸⁸

The Committee was informed by the Minister that a major issue confronting the Resources portfolio concerns the request by International Power Hazelwood, which owns the Hazelwood power station, to gain access to 92 million tonnes of new coal deposits by developing the West Field mine.⁸⁹ According to articles in the media, negotiations between the Government and Hazelwood, which have extended over more than a year, relate to the greenhouse gas emission levels to which Hazelwood would have to commit, before obtaining Government approval to develop the West Field mine.⁹⁰ Hazelwood emits the highest greenhouse gas levels of the state's electricity generators.⁹¹ The Committee understands that:⁹²

- the Government is calling for Hazelwood to install new technology, capable of reducing greenhouse gas emissions by 30 million tonnes of carbon dioxide between 2009 and 2031, in return for a mining permit;
- if approval is not forthcoming for the development of the West Field mine, coal resources at the Hazelwood power station would be exhausted by 2009;
- apart from the environmental impost, development of the West Field mine would cost International Power Hazelwood \$380 million and would involve moving the Strzelecki Highway, the Morwell River, two creeks, the town of Driffield and 11 families;
- International Power Hazelwood will close down the power station in 2009 if a satisfactory deal is not reached and, if this was to occur, this action would leave Victoria without 20 per cent (or 1600 megawatts) of its baseload power capacity. Electricity regulators believe a further 1000 megawatts of baseload power would need to be built to sustain Victoria's future needs.

⁸⁶ *ibid.*

⁸⁷ *ibid.*, p.2

⁸⁸ *ibid.*

⁸⁹ *ibid.*, p.3

⁹⁰ R.Myer, 'Victoria may set Hazelwood coal deal deadline', *The Age*, 10 June 2004, p.3

⁹¹ R.Myer, 'Hazelwood chiefs turn to Brumby', *The Age*, 23 June 2004

⁹² R.Myer, 'Victoria may set Hazelwood coal deal deadline', *The Age*, 10 June 2004, p.3

- If Hazelwood were to close, the Government would have to make decisions regarding alternative power sources, with possible options including:⁹³
 - a large gas fired power station;
 - larger interconnect lines to New South Wales to tap into power surpluses in the northern States; or
 - re-tendering the brown coal lease at Hazelwood.

In discussing this matter with the Minister, the Committee was informed that:

- the Government wishes to apply the same formula for the brown coal tender,⁹⁴ which would require reduced emissions from the use of the new coal in order to make it available. However, the Government was prepared to offer a concession allowing Hazelwood to spread the reduced emissions over the life of the entire mine in order for the Government's demand to become an achievable objective for the power station and allowing for the Government to be seen as environmentally responsible;⁹⁵
- if no additional steps were taken by Hazelwood such as shifting the river or building the roadworks, then 2009 would probably be the date beyond which they would be struggling to access further coal;⁹⁶ and
- Hazelwood is the dirtiest of Victoria's power stations. For every 1 megawatt of electricity it produces, it also produces 1.55 tonnes of CO² into the atmosphere. Accordingly, the Government's view is that, in return for providing additional coal to the power station, a reduction in greenhouse emissions should be required from the operator.⁹⁷

The Committee appreciates that the economic focus of investors and community expectations in terms of safe and environmentally responsible behaviour may at times differ. In relation to the commencement of large scale projects, this conflict can lead to protracted negotiations with regulating bodies. Despite such conflicts and competing agendas, the Committee is of the view that it is in the state's interest for a resolution to be reached in a timely manner with regard to Hazelwood's application for access to new coal fields.

The Committee recognises the urgent requirement for the development of new and advanced technologies to reduce greenhouse gas emissions into the atmosphere, so that projects can be both economically viable and environmentally safe. The

⁹³ *ibid.*

⁹⁴ Minister for Energy and Resources, media release, 17 July 2002, which indicated that in announcing the outcomes of the successful Brown Coal Tender, the Minister for Energy and Resources stated that *'for projects to proceed to mining stage, they will need to meet specific greenhouse emission targets that are 33 to 79 per cent better than current Victorian best practice and 24 to 76 per cent better than international best practice.'*

⁹⁵ Hon. T. Theophanous, MLC, Minister for Resources, transcript of evidence, 23 June 2004, p.3

⁹⁶ *ibid.*, p.4

⁹⁷ *ibid.*, p.6

Government is aware that it cannot demand emission levels that cannot be met with existing technology. This situation can also impact on future investment in Victoria by companies using coal fire energy. The Committee was interested in the outcomes achieved to date and the technologies being trialled or planned by the:

- Cooperative Research Centre for Clean Power from Lignite that came into existence on 1 July 1999,⁹⁸ and
- Cooperative Research Centre for Greenhouse Gas Technologies, which commenced operation in July 2003.⁹⁹

On the issue of geosequestration (i.e. the injecting and storing carbon dioxide (CO²) in permanent deep underground rock structures), which is a potential solution to greenhouse gas emissions, a research program is under development by the Cooperative Research Centre for Greenhouse Gas Technologies.¹⁰⁰ The Minister informed the Committee that, although geosequestration is an important process, there are also other technologies under development which can reduce emissions.¹⁰¹ The Minister advised that:¹⁰²

- geosequestration is a new technology that will be applied to future power stations in 20–30 years time and is not relevant to existing power stations;
- with regard to Victoria's existing infrastructure, it is important to examine technologies such as coal drying technologies and super critical boilers aimed at reducing the amount of emissions at the present time;
- the 2004-05 budget provided funding of \$750,000 over three years for greenhouse abatement research to be undertaken by the Cooperative Research Centre for Greenhouse Gas Technologies; and
- while it is worth investing in geosequestration, it is a technology that may or may not work and is not the only answer to the emission reduction problem.

The Minister also advised that the Cooperative Research Centre for Greenhouse Gas Technologies is proposing the commencement of a major geosequestration pilot project in early 2005, with the site likely to be located in Victoria.¹⁰³

The Minister informed the Committee that the Government does not accept that carbon sequestered underground is the only long-term solution to emission reduction as it believes that:¹⁰⁴

⁹⁸ Minister for Resources' response to the Committee's follow-up questions, p.5

⁹⁹ *ibid.*, p.6

¹⁰⁰ Budget Paper No. 3, *2004-05 Service Delivery*, p.263

¹⁰¹ Hon. T. Theophanous, MLC, Minister for Resources, transcript of evidence, 23 June 2004, pp.10–11

¹⁰² *ibid.*

¹⁰³ Minister for Resources' response to the Committee's follow-up questions, p.6

¹⁰⁴ Hon. T. Theophanous, MLC, Minister for Resources, transcript of evidence, 23 June 2004, p.10

- Victoria should adopt the international target under the Kyoto Protocol for greenhouse gas emissions; and
- there should be national leadership in relation to an emission trading or emission reduction scheme.

The Committee supports the adoption of a triple bottom line approach noting that the projects need to be economically viable, ensure real community benefits and, importantly, minimise the effect on the environment.

The Committee recommends that:

Recommendation 135: **The Department of Primary Industries disclose in its annual report details of any variations from the requirements of the Brown Coal Tender agreed to by the Government, to enable the Hazelwood power station to have access to new coal fields.**

CHAPTER 13: DEPARTMENT OF SUSTAINABILITY AND ENVIRONMENT

Key Findings of the Committee:

- 13.1** The Department of Sustainability and Environment's budget allocation for 2004-05 is \$864.1 million, a decrease of \$97.8 million from the 2003-04 estimated actual budget. This decrease is largely due to substantial variances in carry over funding, the finalisation of bushfire recovery funding and the completion of the Our Forests Our Future and Pride of Place initiatives.
- 13.2** The 2004-05 budget includes \$10.8 million of funding carried over from last year. This funding will be applied to the Victorian Greenhouse Strategy, bushfire recovery activities, the Natural Heritage Trust, and the National Action Plan for Salinity and Water Quality Initiatives.
- 13.3** Funding for the Office of the Environmental Sustainability Commissioner is spread across a number of outputs in the Department of Sustainability and Environment, and the 2004-05 Budget Papers contain no performance indicators that relate directly to the Commissioner's Office.
- 13.4** A draft sustainability strategy is currently being developed following the release of the document *Our Water, Our Future: Securing Our Water Future Together*. However, there are no performance measures in the 2004-05 Budget Papers relating to the quality and timeliness of this strategy.
- 13.5** A major water reform package, *Our Water, Our Future: Securing Our Water Future Together*, is expected to raise \$225 million through the water authorities over four years. The Government has made a commitment that these funds will be used on water conservation measures and to maintain and upgrade water infrastructure.
- 13.6** The Department of Sustainability and Environment issued guidelines to Catchment Management Authorities to help them prepare corporate plans. The guidelines cover performance monitoring and the development of performance indicators.
- 13.7** The Government has allocated \$3.1 million to reduce the time taken for planning decisions by up to 50 per cent. Performance information relating to this target is being developed.

Departmental review

13.1 Departmental overview

The Department of Sustainability and Environment supports the portfolios of Environment, Water and Planning. The department's vision is to provide a future in which all Victorians are living sustainably within their natural and built environments. To achieve this, the department has identified six objectives:¹

- leadership in environmental sustainability;
- an effective greenhouse response;
- water for the future;
- improved stewardship of public and private land;
- sustainable communities; and
- service and organisational excellence.

13.1.1 Key challenges for the department in 2004-05

Each portfolio separately reported their key challenges to the Committee.

Environment

The department informed the Committee that the strategic challenges for the Environment portfolio are:²

- continuing forest reform, including implementation of the new *Sustainable Forest (Timber) Act 2004*;
- new public land fire initiative, including fire risk management approach;
- continuing to implement the Victorian Greenhouse Strategy, and to build on the actions contained in the strategy; and
- developing practical strategies in relation to the Environmental Sustainability Framework Initiative.

Water

The department informed the Committee that the strategic challenges for the Water portfolio are set out in the White Paper, *Our Water, Our Future: Securing Our Water Future Together*. The action plan covers six main policy areas:³

¹ Department of Sustainability and Environment, *2002-03 Annual Report*, p.11

² Minister for Environment's response to the Committee's follow-up questions, p.4

- water allocation;
- restoring our rivers and aquifers for future generations;
- smarter use of irrigation water;
- smarter use of urban water;
- pricing for sustainability; and
- an innovative and accountable water sector.

Planning

The department informed the Committee that the strategic challenges for the Planning portfolio are:⁴

- Growth Area Planning - finalising revised growth area plans for each of the five growth areas around the edges of Melbourne and settling the Urban Growth Boundary;
- Activity Centre Planning - arising from the Melbourne 2030 Strategy, completion of the program of structure planning and facilitation of investment and development;
- Better Decisions Faster - implementation of a range of initiatives to cut red tape in the planning system; and
- Land Exchange - continued development of the land exchange initiative where parties can exchange land related information and perform transactions on line.

13.1.2 Key factors influencing the budget estimates

The department advised the Committee of the following factors that influenced the development of the 2004-05 budget estimates:⁵

- a new funding model was used to determine employee entitlements, superannuation, grants and transfer payments and supplies and services;
- strong land property market activity is expected to increase land registry revenue;
- increased marketing is expected to attract more Landata customers resulting in additional fee revenue in 2004-05; and

³ Minister for Water's response to the Committee's follow-up questions, p.3

⁴ Minister for Planning's response to the Committee's follow-up questions, p.3

⁵ Department of Sustainability and Environment response to the Committee's 2004-05 Budget Estimates questionnaire, pp.4-6

- a reduction in sawlog volumes and subsequential residual log volumes following the Licence Renewal Program will lead to a forecast fall in revenue in royalties and fees paid for native forest logging roads and contractor logging.

13.2 Output management framework

Three Ministers have responsibility for the department's output groups and outputs (refer to exhibit 13.1).

Exhibit 13.1: Department of Sustainability and Environment Ministerial responsibilities

Output group and output	Responsible Minister		
	Environment	Water	Planning
Catchment and water			
Sustainable Water Management and Supply		✓	
Sustainable Catchment Management		✓	
Land stewardship and biodiversity			
Services for the Management and Governance of Victoria's Parks	✓		
Services for Biodiversity Conservation, Ecosystems, Heritage Recreation and Tourism	✓		
Fire Prevention, Operations and Planning Environment	✓		
Public Land and Sustainable Forest Management Services	✓		✓
Sustainable policy and programs			
Sustainability and Greenhouse Policy	✓		
Urban and Regional Strategies and Programs			✓
Planning and land services			
Sustainable Cities, Regions and Heritage Conservation			✓
Land Information			✓
Environment protection			
Policy Frameworks, Regulations and Services to Protect the Environment	✓		

Source: Department of Sustainability and Environment response to the Committee's 2004-05 Budget Estimates questionnaire, p.2

13.3 Budget summary/financial analysis

Exhibit 13.2 shows the output groups for the Department of Sustainability and Environment. Departmental output costs are expected to be \$864.1 million in 2004-05, down \$97.8 million or 10.2 per cent on the estimated actual outcome for 2003-04.

**Exhibit 13.2: Department of Sustainability and Environment
Output group costs**

	Column 1	Column 2	Column 3	Column (3-2)/2
Output group	2003-04 Budget	2003-04 Estimated Actual	2004-05 Budget	Variation (a)
	(\$ million)	(\$ million)	(\$ million)	(%)
Catchment and water	223.7	267.6	190.6	-28.8%
Land stewardship and biodiversity	444.7	458.5	436.8	-4.7%
Sustainable policy and programs	50.7	51.6	41.2	-20.2%
Planning and land services	123.9	125.7	134.3	6.8%
Environment protection	58.0	58.5	61.1	4.4%
Total	901.0	961.9	(b) 864.1	-10.2%

Notes: (a) A negative variance indicates that the 2004-05 budget has decreased compared with 2003-04 estimated actual budget

(b) variance relates to rounding error

Sources: Budget Paper No. 3, 2004-05 Service Delivery, pp.202–217

The department advised the Committee of the following reasons for the forecast change in expenditure between 2003-04 and 2004-05:⁶

- finalisation of bushfire recovery funding (resulting in a reduction of \$10.9 million in 2004-05) and reduction of \$6.5 million of National Action Plan for Salinity funding by the Commonwealth Government in 2004-05. These changes affect the Catchment and Water output group;
- cessation of the *Our Forests Our Future* program (resulting in a reduction of \$29 million in 2004-05), which affects the Land Stewardship and Biodiversity output group;
- completion of the *Pride of Place* initiative (resulting in a reduction of \$4 million in 2004-05) and cessation of the Development and Sustainability Strategy and solar hotwater conversion (resulting in a reduction of \$4.5 million in 2004-05). These changes affect the Sustainable Policy and Programs output group; and

⁶ Department of Sustainability and Environment response to the Committee's follow-up questions, Budget Paper No. 3, 2004-05 Service Delivery, p.299

- increased funding of \$6.9 million in 2004-05 for the Victorian on line titles system (discussed in the Planning portfolio section below). This affects the Planning and Land Services output.

In relation to the Catchment and Water output group, the Minister for Environment advised the Committee that budgeted expenditure variations for 2004-05 were due to a ‘very large carry over’ from 2002-03. In contrast, the 2004-05 figure did not have a large carry over as the funds are expected to be spent in 2003-04. The Minister for Environment advised that the amount of carry over varies annually, largely depending on the timing of Commonwealth funding under the National Action Plan for Salinity and the National Heritage Trust.⁷

13.3.1 Operating performance

In 2004-05, the Department of Sustainability and Environment anticipated receiving \$866.7 million in revenue for its controlled operations, fractionally greater than budgeted expenditure and more than 8 per cent lower than in 2003-04 (see exhibit 13.3). The forecast drop in revenue and expenses during 2004-05 is largely due to variances in carry over funding and completion of programs in 2003-04.

**Exhibit 13.3: Department of Sustainability and Environment
Statement of Financial Performance**

	Column 1	Column 2	Column 3	Column (3-2)/2
	2003-04 Budget	2003-04 Estimated actual	2004-05 Budget	Variation (a)
	(\$ million)	(\$ million)	(\$ million)	(%)
Controlled items				
Operating revenue	890.6	946.4	866.7	-8.4%
Operating expenses	901.0	955.3	864.1	-9.5%
Net result	-10.4	-8.9	2.6	-129.2%
Administered items				
Administered revenue	316.1	308.8	323.5	4.8%
Administered expenses	316.1	308.8	323.5	4.8%
Surplus/Deficit	-0.1	-0.1	0.0	

Note: (a) A negative variance indicates that the 2004-05 budget has decreased compared with the 2003-04 estimated actual budget

Source: Budget Paper No. 4, 2004-05 Statement of Finances, pp.94–97

The source of most of the operating revenue is appropriations. For example, in 2004-05, operating revenue of \$866.7 million is derived mainly from output appropriations (\$729.6 million), taxes (\$120.4 million), sales of goods and services

⁷ Hon. J. Thwaites, MP, Minister for Environment, transcript of evidence, 17 June 2004, pp.5–6

(\$9.3 million) and fees and fines (\$6.6 million). The taxes category includes the metropolitan parks charge and landfill levies.⁸

The administered revenue figures include Commonwealth Specific Purpose Payment grants. In 2004-05, this comprised \$22.4 million for National Action Plan - salinity and water quality initiatives and \$12.1 million for National Heritage Trust grants.⁹

13.3.2 Balance sheet performance

Exhibit 13.4 shows that the department's net asset position is expected to improve by about \$47 million from 30 June 2004 to 30 June 2005. This increase is mainly attributable to the revaluation of roads.¹⁰

**Exhibit 13.4: Department of Sustainability and Environment
Statement of Financial Position**

	Column 1	Column 2	Column 3	Column (3-2)/2
	2003-04 Budget	2003-04 Estimated actual	2004-05 Budget	Variation
	(\$ million)	(\$ million)	(\$ million)	(%)
Controlled items				
Controlled assets	3,592.9	3,577.2	3,627.6	1.4%
Controlled liabilities	91.7	91.7	95.6	4.3%
Net assets	3,501.2	3,485.5	3,532.0	1.3%
Administered items				
Administered assets	30.8	30.8	30.8	0.0%
Administered liabilities	7.8	7.8	7.8	0.0%

Source: Budget Paper No. 4, 2004-05 Statement of Finances, pp.96-97

13.3.3 Carry over funding

The 2004-05 budget includes \$10.8 million of funding carried over from the previous year. The department advised that this funding will be applied to the following programs:¹¹

- Victorian Greenhouse Strategy: \$4.5 million to implement energy efficiency improvements;
- bushfire recovery: \$2.5 million for a range of activities; and

⁸ Budget Paper No. 4, 2004-05 Statement of Finances, pp.92-94

⁹ *ibid.*, pp.147-148

¹⁰ *ibid.*, p.93

¹¹ Minister for Environment's response to the Committee's follow-up questions, p.9

- Natural Heritage Trust and National Action Plan for Salinity and water quality initiatives: \$3.75 million for a variety of projects funded jointly by state and federal governments and those managed by Catchment Management Authorities.

13.4 Human resources issues

13.4.1 Departmental workforce

Exhibit 13.5 shows that the total number of staff in the department in June 2004 was 2,347.6 (on an equivalent full time basis). This represented a fall of about 250 staff (almost 10 per cent) compared to the June 2003 figures. The department informed the Committee that the main contributors to this change are the expected:

- loss of 50 positions in the Catchment and Water output group;¹²
- transfer of up to 220 staff from the department to a new entity, VicForests, established by the Government to undertake commercial forestry business;¹³ and
- employment of an additional 65 staff to undertake new fire management roles and a further 40 for direct fire management and suppression duties.¹⁴

The department advised the Committee that its workforce is supplemented during the summer fire season with up to 800 field staff who are employed on fire management and fire suppression activities. The exact number depends on seasonal conditions.¹⁵

The department informed the Committee that their June 2005 workforce numbers are the same as for June 2004 except for the addition of 40 fire crew (shown under field staff) expected to be employed in 2004-05.¹⁶

¹² Department of Sustainability and Environment response to the Committee's 2004-05 Budget Estimates questionnaire, pp.37-38

¹³ Department of Sustainability and Environment response to the Committee's 2004-05 Budget Estimates questionnaire, p.23

¹⁴ *ibid.*

¹⁵ *ibid.*, p.24

¹⁶ *ibid.*

**Exhibit 13.5: Department of Sustainability and Environment
Equivalent Full Time Staff**

	June 2003 Actual	June 2004 Estimate	June 2005 Estimate
Ongoing staff			
Executive Officer	0.0	0.0	0.0
Field staff	192.8	163.2	203.2
Other (includes VPS Grade 1 to 6)	1,998.8	1,778.8	1,778.8
Sub total	2,191.6	1,942.0	1,982.0
Fixed term staff			
Executive Officer	49.0	49.0	49.0
Field staff	58.0	43.8	43.8
Other (includes VPS Grade 1 to 6)	298.8	312.8	312.8
Sub total	405.8	405.6	405.6
All staff			
Executive Officer	49.0	49.0	49.0
Field staff	250.8	207.0	247.0
Other (includes VPS Grade 1 to 6)	2,297.6	2,091.6	2,091.6
Total	2,597.4	2,347.6	2,387.6

Note: In each year, 15 field staff are employed as casuals and have been included under 'Fixed term'

Source: Department of Sustainability and Environment response to the Committee's 2004-05 Budget Estimates questionnaire, pp.23-24

13.4.2 Staffing issue

A major task of the department in 2004-05 is the recruitment of staff for VicForests. Staff will be located in the department's head office in Melbourne and three country centres. VicForests, a state business corporation that manages commercial timber harvesting in state forests, commenced operations in August 2004.¹⁷ Most of the positions are expected to be filled by transfer of existing departmental staff via expressions of interest.¹⁸

¹⁷ VicForests Information Kit, downloaded from website www.linkrecruitment.com.au on 20 July 2004 and VicForests, media release, *VicForests launched: balancing communities, jobs and the environment*, 5 August 2004

¹⁸ CPSU SPSF Group Victorian Branch, *Forestry Update*, 1 June 2004

Review of Portfolios

13.5 Environment portfolio

13.5.1 2004-05 outlook for the portfolio

The Minister for Environment informed the Committee that the priorities for the portfolio in 2004-05 were:¹⁹

- creating a strong environmentally sustainable framework;
- developing a new forest stewardship management system;
- preparing of waste strategies;
- delivering on the greenhouse challenge for energy strategy; and
- developing additional greenhouse gas emission reduction strategies.

Some of the major initiatives planned for the Environment portfolio for 2004-05 include:²⁰

- increasing Victoria's fire fighting capabilities (\$168 million over five years). Funding is provided for additional fire-fighters, additional aircraft, fire preparedness and response;
- enhancing the metropolitan parks system (\$32.4 million over four years). Funding is provided to meet increased costs and further develop and manage the network of parks, gardens, trails, waterways, bays and other significant recreation and conservation assets; and
- timber salvage harvesting (\$4 million in 2004-05). Funding is to continue the two year timber salvage harvesting program in the forest management areas of eastern Victoria that were affected by the 2003 bushfires. This program will trial new approaches to managing, pricing and allocating state forest timber resources.

13.5.2 Analysis of the budget

The Minister for Environment has sole responsibility for five outputs and shared responsibility for one output in the department. Exhibit 13.6 shows that these outputs account for \$528.6 million (or 61.2 per cent) of the department's 2004-05 Budget.

¹⁹ Hon. J. Thwaites, MP, Minister for Environment, overheads presented at the estimates hearing, 17 June 2004, p.7

²⁰ *ibid.* and Budget Paper No. 3, 2004-05 Service Delivery, pp.268 and 299

**Exhibit 13.6: Environment Portfolio
Output costs**

Output Group	Outputs under the responsibility of the Minister for Environment	2004-05 Budget (\$ million)
Land Stewardship and Biodiversity	Services for the Management and Governance of Victoria's Parks	145.4
	Services for Biodiversity Conservation, Ecosystem, Heritage Recreation and Tourism	43.0
	Fire Prevention, Operations and Planning Environment	92.7
	Public Land and Sustainable Forest Management Services (a)	155.7
Sub total		436.8
Sustainable Policy and Programs	Sustainability and Greenhouse Policy	30.7
Environment Protection	Policy Frameworks, Regulations and Services to Protect the Environment	61.1
Total (b)		528.6

Note: (a) This output is the joint responsibility of the Minister for Environment and Minister for Planning
 (b) Data includes the output Public Land and Sustainable Forest Management Services which is jointly the responsibility of the Minister for Environment and Minister for Planning

Sources: Budget Paper No. 3, 2004-05 Service Delivery, pp.206–217; Department of Sustainability and Environment response to the Committee's 2004-05 Budget Estimates questionnaire, p.2

13.5.3 Performance measures

The department has attempted to identify and develop appropriate benchmarks for use in measuring performance and improving outcomes. However, with the exception of some corporate applications, the department advised the Committee that the development and identification of benchmarks in environmental resource management are inconsistent and difficult to apply.²¹

The Committee was informed that the department did not undertake any internal or external reviews of departmental outputs or undertake any external validation of performance outcomes in 2003-04. The Department of Treasury and Finance conducted a price review of the metropolitan parks charge which funds an element of

²¹ Department of Sustainability and Environment response to the Committee's 2004-05 Budget Estimates questionnaire, p.20

the output: Services for Management and Governance of Victoria's Parks. As a result, the parks charge (metropolitan improvement levy) increased in 2004-05.²²

The Committee notes that there are 64 performance measures for the Environment portfolio, covering quantity (20 indicators), quality (24), timeliness (14) and cost (6).²³

Three measures are new since the previous budget and 22 have been discontinued.²⁴ The department informed the Committee that the new indicators were introduced as a result of new initiatives in the 2004-05 Budget and to reflect the Government's policy direction for the department.²⁵

Of the discontinued measures:²⁶

- 14 relate to forest production activities. These activities have been transferred to the Department of Primary Industries. Twelve indicators have been discontinued as the *Our Forests, Our Future* initiatives have been finalised; and
- the remainder mainly relate to programs that are due to be completed by 30 June 2004.

The Committee observed that a significant proportion of the performance measures are process orientated and related to quantifying activities. For example, a quality measure in the Public Land and Sustainable Forest Management Services output is: *Parks Management Plans completed and reviewed (per cent)*.²⁷ The Committee believes that a performance measure which gave an indication of the quality or condition of Victoria's parks would be more informative.

The Committee was informed that the target for the performance measure, *State forest with a sustainable forest management framework in place* was expected to be 80 per cent in 2004-05 (the figure of 64 per cent in the 2004-05 Budget Papers is a typographical error).²⁸

²² *ibid.*, p.19

²³ Budget Paper No. 3, *2004-05 Service Delivery*, pp.206–214

²⁴ Based on comparison of 2003-04 Budget Papers with the 2004-05 Budget Papers

²⁵ Department of Sustainability and Environment response to the Committee's 2004-05 Budget Estimates questionnaire, p.19

²⁶ *ibid.*, p.4, and Budget Paper No. 3, *2004-05 Service Delivery*, p.350 and Budget Paper No. 3, *2003-04 Budget Estimates*, pp. 328–329

²⁷ Budget Paper No. 3, *2004-05 Service Delivery*, p.211

²⁸ Minister for Environment's response to the Committee's follow-up questions, p.7

13.5.4 Key issues impacting on the portfolio

The department's response to the Committee's *2004-05 Budget Estimates questionnaire* and the estimates hearing identified several issues that will affect the Environment portfolio and its budget estimates for 2004-05.

(a) **Transfer of funds to bushfire activities**

Over one million hectares of state forest and national parks were effected by the fires that occurred in the North-East, Gippsland and Mallee areas of Victoria during the summer of 2002-03.²⁹ The 2004-05 Budget allocates \$130 million over five years and an asset investment of \$38 million to increase the state's fire-fighting and fire management resources.³⁰

The Committee was interested to know what funds were diverted from environmental management activities as a result of the 2002-03 fires, where the funds were diverted from (in terms of activities, specific parks and amount of funds) and the bushfire activities that the funds were diverted to.

The Committee was informed that the wildfires have, and will continue to have, a major impact on programs and service delivery of the department and Parks Victoria. Many of the scheduled programs of these bodies were unable to be delivered in 2002-03 as their priorities shifted toward delivery of fire recovery services.³¹

The department informed the Committee that wildfire recovery activities have focused on: extensive site assessments of extent of damage, restoration of access, repair and replacement of damaged assets, control of pest plants and animals in high value areas, habitat restoration and water quality management.³²

However, the department was unable to state which scheduled programs or activities could not be delivered and advised that the funding redirection from specific programs cannot be calculated.³³ The Committee believes that an agency should be able to identify the activities that could not be delivered due to a change in priorities and the associated redirection in funding.

²⁹ *ibid.*, p.2

³⁰ Budget Paper No. 3, *2004-05 Service Delivery*, pp.34, 268

³¹ Minister for Environment's response to the Committee's follow-up questions, p.2

³² *ibid.*

³³ *ibid.*

The Committee recommends that:

- Recommendation 136:** **When funds of \$5 million or more are re-allocated due to a change in departmental priorities, the Department of Sustainability and Environment ensure that it has systems in place to:**
- (a) be able to explain the re-allocation of funds; and**
 - (b) identify the extent to which programs and activities could not be delivered or were reduced.**

(b) *Environmental Sustainability Commissioner*

Victoria's first Commissioner for Environmental Sustainability was appointed in October 2003. The Commissioner's roles are to measure, audit and report on the environment and ecologically sustainable development. The Commissioner has three important functions:³⁴

- to conduct annual audits of government departments' implementation of environmental systems;
- to audit public education programs on ecologically sustainable development; and
- to prepare the state of the environment report.

In relation to the last function, the Committee was advised that the Commissioner is required to prepare a state of the environment report every five years (the first must be submitted no later than January 2009).³⁵

The Committee was informed that funding for the Commissioner's Office is through the Department of Sustainability and Environment. The Commissioner's current annual budget is \$1 million.³⁶

The Committee was advised that, as funding is spread across a number of outputs, there are no performance indicators in the 2004-05 Budget Papers relating directly to the Commissioner's Office.³⁷ Given the major role of the Commissioner in measuring and reporting on the environment and ecologically sustainable development, the Committee believes that annual performance measures should be developed to ensure

³⁴ Hon. J. Thwaites, Minister for Environment, media release, *Environmental Sustainability Commissioner appointed*, 14 October 2003

³⁵ Minister for Environment's response to the Committee's follow-up questions, p.4

³⁶ *ibid.*, p.5

³⁷ *ibid.*

the Commissioner's Office is achieving its objectives. The need for timely performance measures is reinforced by the fact that the state of the environment report is required every five years.

The Committee recommends that:

Recommendation 137: The Department of Sustainability and Environment develop and publish annual performance measures for the Commissioner for Environmental Sustainability.

(c) *Development of a sustainability strategy*

The Committee noted that the 2003-04 Budget allocated \$1.5 million to develop and implement a sustainability strategy.³⁸ The strategy would enable the delivery of best practice environmental management techniques across a range of industry sectors including water, energy, urban development and land management.

At last year's estimates hearing, the Minister for Environment advised that a draft sustainability strategy would be completed in 2003-04.³⁹ However, the Committee has since been informed that a draft sustainability strategy may not be available for public comment until 30 June 2005.⁴⁰

The Committee notes that there are no performance measures in the Budget Papers relating to the quality or timeliness of this strategy. The department advised that adequate agreement on the scope and purpose of the project had not been fully finalised at the time Budget Papers were due for publication.⁴¹

The Committee is concerned at the delay in developing a draft sustainability strategy and lack of accountability in terms of performance targets.

³⁸ Budget Paper No. 2, *2003-04 Budget Statement*, p.245

³⁹ Public Accounts and Estimates Committee, *Report on the 2003-04 Budget Estimates*, 54th report, September 2003, p.426

⁴⁰ Minister for Environment's response to the Committee's follow-up questions, p.5

⁴¹ *ibid.*

The Committee recommends that:

Recommendation 138: **When funds are allocated for the implementation of significant new Government strategies, the relevant department develop and publish appropriate performance measures for the strategy particularly relating to quality and timeliness, in order that intended outputs and outcomes are disclosed in future Budget Papers.**

(d) *Progress in implementing recommendations of the Inquiry into the 2002-2003 Victorian Bushfires*

In its response to the Report of the *Inquiry into the 2002-2003 Victorian Bushfires*, the Victorian Government accepted recommendations that the Department of Sustainability and Environment:⁴²

- provide further training and/or field staff for the routine acquisition and reporting of geographic data (maps of fire extent for prescribed and unplanned fires) and fuel-array data (quantity, type, condition and arrangement before and after fire as in the Overall Fuel Hazard Guide);
- report routinely and explicitly on measures of the effectiveness of the prescribed burning program;
- measure the total area subject to prescribed burning treatment in each fire management zone each year along with the average proportion of that area successfully burned; and
- develop an explicit, routine system of evaluation, analysis and reporting of the effects of prescribed burning in relation to environmental outcomes such as conservation of flora and fauna and water quality.

In relation to the department's progress in implementing these recommendations, the Committee was advised that:⁴³

- additional seasonal workers were engaged in spring and autumn to conduct fuel reduction burns;
- measures of total area subject to prescribed burning treatment in each fire management zone in recent times have been regularly published on the department's external website;

⁴² State of Victoria, Victorian Government response to the report of the inquiry into the 2002-03 Victorian bushfires, undated, Recommendation no. 11.71

⁴³ Minister for Environment's response to the Committee's follow-up questions, pp.5-6

- a review of the prescribed burning manual is expected to be completed by the end of September 2004. This review will include explicit requirements for reporting of prescribed burning outcomes and effects;
- guidelines and procedures for ecological burning (a component of prescribed burning) were recently published; and
- a project to improve and review performance reporting and monitoring of prescribed burning will be undertaken in 2004-2005.

In terms of funding, the department informed the Committee that:⁴⁴

- in 2003-04, the department was allocated an additional \$6.2 million to complete additional prescribed burning; and
- a further \$168 million was allocated for the department and the CFA over 5 years to implement fire management reforms, including prescribed burning.

In relation to performance measures, the department advised the Committee that:⁴⁵

- performance indicators currently published for prescribed burning relate to the areas burnt within fuel management zones and the number of burns conducted; and
- performance measures that are more closely aligned to hazard reduction and risk mitigation will be developed as part of the performance review project.

The Committee welcomes the department's project to improve and review performance monitoring of prescribed burning. The Committee believes the project should include the development of a system of monitoring, evaluating and reporting the effects of prescribed burning in relation to environmental outcomes such as conservation of flora and fauna and water quality.

The Committee recommends that:

Recommendation 139: **The Department of Sustainability and Environment, as part of the performance review project, develop a system of monitoring, evaluation and reporting of the effects of prescribed burning in relation to environmental outcomes such as conservation of flora and fauna and water quality.**

⁴⁴ *ibid.*

⁴⁵ *ibid.*

(e) Viability of management boards of the smaller alpine resorts

The Committee notes the finding of the Auditor-General that the financial performance of the three smaller alpine resort management boards (Mount Baw Baw, Lake Mountain and Mount Stirling) is marginal, and that the ongoing viability of these entities is uncertain.⁴⁶ Since the Auditor-General's report, the boards of Mount Stirling and Mount Buller have merged.⁴⁷

Regarding the management boards of Lake Mountain and Mount Baw Baw, the Committee was informed of a range of measures that the Government has implemented to ensure the financial viability of the resorts.

The department advised that:⁴⁸

- in August 2003 the Government announced the Alpine Resorts Reform Package, an integrated package of measures that address financial and structural issues; and
- in June 2004 the Government released the Alpine Resorts 2020 Strategy, a strategy to adapt to the impacts of climate change, focusing on long-term planning and management and year round use.

Lake Mountain

With respect to Lake Mountain, the Committee was informed that funding was provided to construct a visitors' centre and supporting infrastructure and to forgive debt. The Board now operates all resort management and commercial facilities at the resort as an integrated operation. The department expects the new facilities will result in improved dollar yield per visitor during winter and the balance of the year, sufficient to enable it to establish a snow drought reserve to cope with poor snow seasons.⁴⁹

Mount Baw Baw

At Mount Baw Baw, the Committee was advised that funding was provided to construct a visitors' centre and supporting infrastructure. Previous funding had enabled the Board to purchase ski lift assets at the resort. Further funding in 2003 also resulted in the Board purchasing the resort's only hotel and meeting facility. The Board now operates the key resort management and commercial services at the resort as an integrated operation. There has been a gradual improvement in visitation and financial

⁴⁶ Victorian Auditor-General's Office, *Report on public sector agencies, Results of special reviews and financial statement audits for agencies with 2003 balance dates other than 30 June*, May 2004, p.54

⁴⁷ Hon. J. Thwaites, Minister for Environment, media release, *Mount Sterling's future assured*, 20 April 2004

⁴⁸ Minister for Environment's response to the Committee's follow-up questions, pp.9-10

⁴⁹ *ibid.*, p.10

performance, to the extent that the Board anticipates achieving a balanced cash position in 2003-04.⁵⁰

The Committee is pleased that the department and the Board have commenced a strategic planning process which will be supported by a business model that intends to achieve financial viability in the longer term. The strategy will be based around the need to manage the impact of climate change, which will mean that non-winter visitation will become increasingly important.

The Committee understands that the financial viability of the above resorts has been dependent upon both recurrent and capital funds from the department and the Regional Infrastructure Development Fund. The ongoing availability of funding from these sources remains in doubt.

(f) Bicycle paths projects

The department advised the Committee of the following off-road bicycle projects:⁵¹

- \$750,000 from Parks Victoria over three years, beginning in 2003-04, to complete the Bay Trail gap at Brighton; and
- \$600,000 to complete Metropolitan Trail Network Projects in 2004-2005 with matching funding from local government agencies.

Priority will be given to critical gaps as identified in the Government's strategy for open space, *Linking People and Spaces* (2002).

The Committee notes the Government's efforts to promote off-road bicycle paths in the broader context of promoting health and fitness in the community and the use of alternative modes of transport.

13.6 Water portfolio

13.6.1 2004-05 outlook for the portfolio

The Minister for Water informed the Committee that the priorities for the portfolio in 2004-05 were:⁵²

- release of the Water White Paper and delivery of initiatives;
- introduction of phase two of the *Our Water, Our Future* behavioural change campaign; and

⁵⁰ Year ending 31 October 2004

⁵¹ *ibid.*, p.11

⁵² Hon. J. Thwaites, MP, Minister for Water, Overheads presented at the estimates hearing, 17 June 2004

- implementation of the Victorian Water Trust Projects.

Two major initiatives planned for the Water portfolio for 2004-05 are:⁵³

- Victorian Water Trust (\$67.5 million over four years). These funds are in addition to those earmarked in the previous Budget. The funding will form part of Victoria's contribution to the Living Murray Initiative and will be used for improvement in water supplies and sewerage treatment in rural towns, the upgrading of irrigation and water supply systems, and for the reduction in severity and occurrence of algal blooms; and
- Murray Darling Basin Commission (MDBC) (\$4 million in 2004-05 only). Supplementary funding is provided for Victoria's contribution to the MDBC. One of the main functions is to advise the MDBC Ministerial Council in relation to planning, development and management of the Basin's natural resources.

Subsequent to the budget, the Premier released the White Paper, *Our Water, Our Future: Securing Our Water Future Together*, in June 2004. This document sets out initiatives to manage Victoria's water, funded by raising \$225 million through water authorities over four years.⁵⁴ This funding is not included in the budget analysis below (since no allowance was made for it in the Budget Papers). The range of initiatives outlined in the action plan is discussed below.

13.6.2 Analysis of the budget

The Minister for Water has sole responsibility for two outputs. Exhibit 13.7 shows that these outputs account for \$190.6 million (or 22.1 per cent) of the department's 2004-05 Budget.

⁵³ Budget Paper No. 3, *2004-05 Service Delivery*, pp.299-301

⁵⁴ Hon. J. Thwaites, Minister for Water, media release, *New Pricing Structure to Reward Water Savers*, 23 June 2004

**Exhibit 13.7: Water Portfolio
Output costs**

Output Group	Outputs under the responsibility of the Minister for Water	2004-05 Budget (\$ million)
Catchment and water	Sustainable Water Management and Supply	90.4
	Sustainable Catchment Management	100.2
Total		190.6

Source: Budget Paper No. 3, 2004-05 Service Delivery, pp.202–205

13.6.3 Performance measures

The Committee notes that there are 45 performance measures for the Water portfolio in the 2004-05 Budget, covering quantity (30 indicators), quality (6), timeliness (7) and cost (2).⁵⁵

There are 13 new performance measures; 46 have been discontinued.⁵⁶ Most of the discontinued measures relate to projects that finished in 2002-03 or stages of projects that are expected to be completed in 2003-04.

The Committee was advised that the department has attempted to identify and develop appropriate benchmarks for use in measuring performance and improving outcomes. With respect to the water sector, a *Farm Water Use Efficiency Technical Reference* booklet has been developed which allows consistent reporting of on-farm water use efficiency. The booklet is based on the nationally accepted framework developed by Land and Water Australia through the National Program for Sustainable Irrigation. The department advised the Committee that a statewide farm water use efficiency benchmarking exercise will be undertaken in 2004-05, the results of which will allow comparison with other states.⁵⁷

The Committee undertook an analysis of the portfolio's set of performance measures for 2004-05 against the corresponding measures in 2003-04, and found that two measures appeared to have been deleted but were not listed as discontinued measures in the 2004-05 Budget Papers. However, the department informed the Committee that both measures were renamed in the 2004-05 Budget to reflect changes in Government initiatives.⁵⁸ The measures were previously:⁵⁹

⁵⁵ Budget Paper No. 3, 2004-05 Service Delivery, pp.202–205

⁵⁶ Based on comparison of 2003-04 Budget Papers with 2004-05 Budget Papers

⁵⁷ Department of Sustainability and Environment response to the Committee's 2004-05 Budget Estimates questionnaire, p.20

⁵⁸ Minister for Water's response to the Committee's follow-up questions, pp.4–5

⁵⁹ Budget Paper No. 3, 2003-04 Budget Estimates, p.312; and Budget Paper No. 3, 2004-05 Service Delivery, pp.202–203

- implementation of proposed regional irrigation efficiency targets (renamed as *Implementation of works program to meet statewide efficiency targets developed in 2003-04 (Smart Farms)*); and
- number of pensioner rebates approved (renamed as *Water Conservation Assistance rebates approved*).

While the Committee agrees that measures may need to change to reflect changes to Government priorities and programs, this process should be transparent and documented in the Budget Papers (for example, via a footnote) and the departmental annual report.

The Committee recommends that:

Recommendation 140: **The Department of Sustainability and Environment ensure that all changes to performance indicators between budgets are appropriately documented in the Budget Papers and in its annual report.**

13.6.4 Key issues impacting on the portfolio

The department's response to the Committee's *2004-05 Budget Estimates questionnaire* and the estimates hearing identified several issues that will affect the portfolio and its budget estimates for 2004-05.

(a) Water reform package

The Committee notes that the Government released the White Paper, *Our Water, Our Future, Securing Our Water Future Together*, in June 2004. The paper proposes a range of initiatives based on five fundamental principles of sustainable water management:⁶⁰

- the management of water will be based on an understanding that a healthy economy and society is dependent on a healthy environment;
- the Government will maintain overall stewardship of all water resources irrespective of source, on behalf of all Victorians;
- water authorities will be retained in public ownership;
- users of the water system should, wherever practical, pay the full cost, including infrastructure, delivery and environmental costs associated with that service; and

⁶⁰ Government of Victoria, White Paper, *Our Water, Our Future, Securing Our Water Future Together*, June 2004, p.12

- the water sector, charged with managing Victoria's water systems, will be capable, innovative and accountable to the Victorian community.

The initiatives to manage Victoria's water are funded by raising \$225 million through water authorities over four years.⁶¹ The package of reforms includes:⁶²

- pricing for sustainability - the Government will introduce a tiered pricing system for domestic customers that discourages excessive use, resulting in an average five per cent price rise for urban water users and two per cent for rural water users;
- a range of water saving measures, including a move to permanent water restrictions, extension and expansion of the water rebate scheme, mandatory water efficient shower roses and taps, and mandatory water efficiency labelling for appliances, fixtures and fittings;
- conservation targets set by all regional urban water authorities;
- smart urban water use through projects such as storm water reuse, third pipe schemes for toilets and gardens, and use of recycled water on sporting fields and parks;
- increasing water flow to key rivers; and
- projects to upgrade dams and irrigation channels.

The Government has given a commitment that all funds raised through the increase in water charges will be used for projects to conserve water, increase recycling, upgrade water infrastructure and protect and repair water sources.⁶³

The Committee believes the Department of Sustainability and Environment should develop performance indicators to monitor the progress of initiatives and ensure that the funds are expended for the purposes for which they were raised. It will also be important for the department to monitor the impact of the water conservation initiatives against long-term projections for water consumption.

⁶¹ Hon. J. Thwaites, MP, Minister for Water, media release, *New Pricing Structure to Reward Water Savers*, 23 June 2004

⁶² Hon. S. Bracks, MP, Premier of Victoria, media release, *Bracks Government Announces Major Water Reform*, 23 June 2004

⁶³ *ibid.*

The Committee recommends that:

Recommendation 141: The Department of Sustainability and Environment:

- (a) develop and report performance indicators to monitor the progress of initiatives announced in *Our Water, Our Future: Securing Our Water Future Together*;**
- (b) develop and report financial indicators that indicate whether the funds raised by Water Authorities are expended on water conservation measures or are used to maintain and upgrade water infrastructure; and**
- (c) monitor the impact of the water conservation initiatives against long-term projections for water consumption.**

(b) *Take-up rate for water saving appliances*

The Minister for Water told the Committee that water management was the most pressing environmental issue for Victoria.⁶⁴ In relation to households, key targets to reduce water consumption are:⁶⁵

- to reduce by 15 per cent by 2010 Melbourne's drinking water use per capita; and
- to recycle by 20 per cent by 2010.

Consequently, the Committee noted progress on the Water Smart Gardens and Homes Rebate Scheme to encourage Victorians to buy water saving appliances.⁶⁶ The Government committed \$10 million over four years to provide rebates to households that are water smart in their gardens and their homes.⁶⁷ The Minister for Water informed the Committee that over 68,000 rebates had been approved in the 18 months to June 2004 with an estimated total water saving of 722 megalitres per year (see exhibit 13.8).

⁶⁴ Hon. J. Thwaites, MP, Minister for Environment, transcript of evidence, 17 June 2004, p.2

⁶⁵ Hon. J. Thwaites, MP, Minister for Water, Overheads presented at the estimates hearing, 17 June 2004

⁶⁶ Hon. J. Thwaites, MP, Minister for Environment, transcript of evidence, 17 June 2004, p.3

⁶⁷ Minister for Water's response to the Committee's follow-up questions, p.1

**Exhibit 13.8: Water Saving Appliances – rebate uptake
1 January 2003 to 24 June 2004 (Phases 1 and 2)**

Product	Rebate amount	Rebates approved	Water saving
	\$	Number	Megalitre
AAA dishwashers	100	5,815	17.4
AAAA washing machines	150	13,770	220.3
AAA shower rose	10	2,277	29.6
Dual-flush toilet	50	2,144	27.9
Grey water permanent tank system	500	159	4.0
High pressure cleaning device	30	21,040	27.4
Rainwater tank to toilet system	150	143	4.9
Rainwater tank	150	6,644	111.6
Water conservation audit	30	50	0.5
Rebate when purchasing \$100 of goods (\$20 for Phase One)	30	16,698	83.5
Flow control valves (Water Saver kits)	Nil	50,000	(a) 195.0
Total		68,740 (b)	722.0

Notes: (a) Assumes 30 per cent installation rate of flow control valves (which have been provided free of charge)

(b) Excludes flow control valves

Source: Minister for Water's response to the Committee's follow-up questions, Attachment 1

(c) Eastern Irrigation Scheme

The Committee is aware that in January 2004, the Minister for Water approved the Eastern Irrigation Scheme, a \$20 million project to provide recycled water to farmers and businesses in Melbourne's south-eastern suburbs.⁶⁸ It is estimated that the project will save 4,400 megalitres of water per year by 2010 by reducing reliance on surface and ground water.⁶⁹

⁶⁸ Hon. J. Thwaites, MP, Acting Premier, *Recycled water project will drought-proof Werribee*; and Melbourne Water, Communities Liaison Committee, Eastern Treatment Plant, *Newsletter*, Winter 2004, 8 January 2004

⁶⁹ Government of Victoria, White Paper, *Our Water, Our Future: Securing our Water Future Together*, June 2004, p.108

The department advised the Committee that the first stage of the scheme is constructed and delivers class C water to the Sandhurst Club (golf course). Class A recycled water is currently scheduled to be supplied by the end of December 2004.⁷⁰

The Committee understands that if these projects are successful in providing sustainable supplies of class A recycled water at a viable price, it creates an environment for the undertaking of similar activities elsewhere in Victoria.

(d) Salinity

In referring to the department's salinity management framework, the Auditor-General reported in June 2003:⁷¹

Relevant and appropriate performance information (based on tangible rather than aspirational measures) and good practice program management guidelines (strategy development though monitoring, reporting and re-design) now need to be developed by the Department of Sustainability and Environment to enable better monitoring and reporting of progress and conduct of future evaluations.

The department informed the Committee that, except with engineering intervention like salt interception, salinity management (eg tree planting) does not have an immediate significant impact on the environment. Salinity benefits only become realised in the longer term and performance indicators need to reflect this timeframe.⁷²

The department advised the Committee of the following initiatives involving the development of performance information:⁷³

- the Department of Sustainability and Environment in partnership with the Department of Primary Industries has released *Farm Water Use Efficiency Technical Reference Booklet*. This provides a basis for establishing water use efficiency performance indicators for irrigation which are related to salinity;
- the department has also produced Victoria's Annual Report on Implementing the Murray-Darling Basin Salinity Management Strategy. The annual report demonstrates Victoria's compliance with the strategy and Schedule C of the Murray-Darling Basin Agreement. It also highlights Victoria's performance in implementing salinity management in the Victorian Murray-Darling Basin;

⁷⁰ Minister for Water's response to the Committee's follow-up questions, p.1

⁷¹ Victorian Auditor-General's Office, *Report on public sector agencies, Results of special reviews and financial audit statements for agencies with balance dates other than 30 June 2002*, June 2003, p.96

⁷² Minister for Water's response to the Committee's follow-up questions, pp.3-4

⁷³ Department of Sustainability and Environment response to the Committee's 2004-05 Budget Estimates questionnaire, pp.20-21

- in the irrigation areas the Catchment Management Authorities (CMAs), particularly in the Shepparton Irrigation Region, continue to map water table depth which is a key indicator of salinity. Also, outfalls on drains are continually monitored for salinity and this information is made available to the Murray-Darling Basin Commission (key requirement for Victoria's compliance); and
- the CMAs are in the process of revising their salinity management plans and some CMAs have completed this over 12 months. The revised plans indicate the current extent of salinity and provide resource condition targets to be achieved in the medium and long term.

The Committee acknowledges the efforts of the department in developing performance information to measure the long-term success or otherwise in addressing salinity problems in Victoria. As previously discussed, performance information should be included in annual reports of the department in order to provide accountability for strategies implemented.

(e) *Strategies if the drought continues*

Victoria has experienced several years of below average rainfall. The Committee was concerned about the impact on farmers, businesses, industry and households if the drought continued into 2004-05 and beyond. The Committee was informed of the progress in three departments to prepare for such a situation.

Department of Primary Industries has re-established a Dry Seasonal Conditions Management Team which has:⁷⁴

- established a regional network of information input to allow regular assessment of the impact of conditions;
- refocused extension programs to provide information on managing dry conditions;
- started work with local councils to ensure that areas of Victoria that have access to Exceptional Circumstances (Commonwealth) drought assistance will have these declarations rolled-over where required; and
- re-established informal networks with other agencies to ensure any further responses required are coordinated in an effective and integrated manner.

The Department of Human Services has extended the Drought Social Recovery Strategy (\$1.4 million over 9 months) providing funding to the 16 councils that presently have this program. Funding for community training programs is focused on

⁷⁴ Minister for Water's response to the Committee's follow-up questions, p.6

the affects of stress on communities and families; and \$200,000 in food relief (parcels and vouchers) is to be distributed through existing channels.⁷⁵

The Department of Sustainability and Environment has responsibility to ensure:⁷⁶

- urban and rural water authorities continue to manage their supplies to ensure efficient use of available resources, with the sharing of available resources being undertaken according to established procedures for allocating and sharing resources in drought times;
- urban water authorities continue to manage the supply systems under their control in accordance with the Drought Response Plans developed for each system;
- in irrigation districts, water authorities continue to manage supplies in accordance with established procedures for allocating resources. Systems will continue to minimise operational losses to ensure that resource availability is maximised;
- in southern Victoria, alternative supply arrangements have been negotiated for irrigators on the Werribee system (where a ban on groundwater extractions from the Deutgam aquifer is in place). Deliveries from the emergency potable supply continue and recycled supplies are expected to be available from late October 2004;
- with the assistance of Rural Water Authorities and Local Shires, 226 emergency water supply points were established across the state; and
- all water authorities are required to submit monthly reports to the Department of Sustainability and Environment on the status of their supplies and actions taken to manage the situation. The department will continue to monitor the status of surface and groundwater resources and supplies across the state and make monthly status reports available on the Victorian Resources Online website.

(f) Performance information for the Catchment Management Authorities

The Committee notes the Auditor-General's finding in November 2003 in relation to Catchment Management Authorities that *limited information regarding the performance of authorities against key performance indicators is provided to authority Boards*.⁷⁷ The Committee endorses the Auditor-General's view that, to manage effectively, the authorities need to assess their performance against pre-established indicators and use the information gained to implement changes where appropriate.

⁷⁵ *ibid.*, p.7

⁷⁶ *ibid.*

⁷⁷ Victorian Auditor-General's Office, *Report on public sector agencies*, November 2003, p.211

The department advised the Committee that development of performance indicators in the natural resource management sector is made challenging by the diverse, interconnected and often long-term nature of the objectives involved.⁷⁸

The department issued to the authorities ministerial guidelines for the preparation of corporate plans for the 2004–2009 period in February 2004. The Committee is pleased that this document includes guidelines for performance monitoring and the development of performance indicators.⁷⁹

The Committee believes that this performance information should be publicly reported.

Accordingly, the Committee recommends that:

- Recommendation 142: The Department of Sustainability and Environment ensure that each Catchment Management Authority:**
- (a) develop appropriate financial and non-financial performance indicators;**
 - (b) include these indicators in each Authority’s planning documents and annual report; and**
 - (c) is annually assessed against these pre-established performance indicators.**

(g) Water smart farms

The Committee inquired about the success of the Water Smart Farms Initiative and whether or not performance indicators for the initiative are being developed.

The department informed the Committee that the aims of the Water Smart Farms Initiative are to:⁸⁰

- improve the security of irrigators’ water needs;
- reduce the adverse impacts of irrigation; and
- address the ‘Legacy of History’ (referring to out-dated irrigation practices).

⁷⁸ Minister for Water’s response to the Committee’s follow-up questions, p. 8

⁷⁹ *ibid.*; and Attachment 2 in the Minister’s response to the Committee’s follow-up questions, Catchment Management Authorities, *Ministerial Guidelines and Specifications for Corporate Plan 2004-05* (which were prepared by the Minister for Water and Minister for Environment and covers the period 2004 to 2009)

⁸⁰ Minister for Water’s response to the Committee’s follow-up questions, additional question no. 10

Funding approval for the Water Smart Farms Initiative was given in February 2004. The 2003-04 approved projects are anticipated to result in on-farm water savings of around 3,880 megalitres and 5,670 hectares of whole farm plans.⁸¹ These projects will lead to on-farm water use benefits as irrigators are able to make their irrigation entitlements go further; and off-farm benefits as more efficient irrigation practices reduce the adverse impacts that irrigation can have.⁸²

In 2004-05 as part of the Water Smart Farms Initiative, the department is undertaking a statewide irrigation water use efficiency benchmarking project. This will be done in accordance with the *Farm Water Use Efficiency Technical Reference Booklet*, which provides the foundations for the systematic and regular assessment and reporting of on-farm water use efficiency from an economic and bio-physical perspective across irrigation industry sectors and geographic regions, as well as for the irrigation industry as a whole. This project will enable comparisons of the performance of different irrigation industry sectors and geographic regions across Victoria, in relation to on-farm water use efficiency.⁸³

The benchmarking project will provide valuable information on where different irrigation regions and sectors are at with respect to water use efficiency, and will provide another tool to guide investment in improving on-farm water use efficiency. Future benchmarking assessments of water-use efficiency will then be able to demonstrate how the irrigation industry is progressing.⁸⁴

The Minister informed the Committee that depending on measurement of performance under the Water Smart Initiative, future budgets could allow extension of successful projects to irrigators still using out-dated irrigation practices.

⁸¹ A whole farm plan, also known as property management plan, is a map showing the recommended layout of a property based on “Best Management Practices” for the region and industry, and taking into account the physical and ecological constraints of the land. Whole farm plans are usually a precursor to receiving Government financial assistance for on farm works. (Source: Department of Sustainability and Environment and Department of Primary Industries, *Farm Water Use Efficiency Technical Reference booklet*, First Edition - February 2004, p.49)

⁸² Minister for Water’s response to the Committee’s follow-up questions, pp.8–9

⁸³ *ibid.*

⁸⁴ *ibid.*

13.7 Planning portfolio

13.7.1 2004-05 outlook for the portfolio

Two major initiatives of the Planning portfolio for 2004-05 are:

- Victorian on line titles system and document imaging and search services. This includes outsourced ICT facilities management requirements. Funding of \$28.5 million has been allocated to this initiative over four years.⁸⁵
- *Better Decisions Faster* - Implementation. Funding of \$3.1 million over three years to implement *Better Decisions Faster*, a package of programs as part of the *Victoria: Leading the Way* statement to speed up the planning permit process and reduce the cost to business and the community of urban planning regulations.⁸⁶

13.7.2 Analysis of the budget

The Minister for Planning has sole responsibility for three outputs and shared responsibility for one output. Exhibit 13.9 shows that these outputs account for \$300.5 million (or 34.8 per cent) of the department's 2004-05 Budget.

⁸⁵ Budget Paper No. 3, *2004-05 Service Delivery*, p.299

⁸⁶ *ibid.*, p.41

Exhibit 13.9: Planning Portfolio Output costs

Output Group	Outputs under the responsibility of the Minister for Planning	2004-05 Budget (\$ million)
Land Stewardship and Biodiversity	Public Land and Sustainable Forest Management services (a)	155.7
Planning and Land Services	Sustainable Cities, Regions and Heritage Conservation	33.2
	Land Information	101.1
Sub total		134.3
Sustainable Policy and Programs	Urban and Regional Strategies and Programs	10.5
Total (b)		300.5

Notes: (a) This output is the joint responsibility of the Minister for Environment and Minister for Planning
 (b) Data include the output Public Land and Sustainable Forest Management Services which is jointly the responsibility of the Minister for Environment

Sources: Budget Paper No. 3, 2004-05 Service Delivery, pp.210, 213–215

13.7.3 Performance measures

The Committee notes that there are 53 performance measures for the Planning portfolio in the 2004-05 Budget, covering quantity (23), quality (13), timeliness (13) and cost (4).⁸⁷ There are 11 new performance measures; 26 have been discontinued.⁸⁸ Six of the new measures relate to changes in the planning system arising from initiatives associated with: *Better Decisions Faster: Improving the planning system in Victoria -The way forward*.⁸⁹

Seventeen of the discontinued performance measures were in the former Sustainable cities and programs output group.⁹⁰ Most of these discontinued measures relate to the now completed, *Pride of Place* initiative or pilots and other stages of projects that are expected to be concluded in 2003-04.

The Committee was informed that the department has attempted to identify and develop appropriate benchmarks for use in measuring performance and improving

⁸⁷ Budget Paper No. 3, 2004-05 Service Delivery, pp.210–217 and Department of Sustainability and Environment response to the Committee's 2004-05 Budget Estimates questionnaire, p.3

⁸⁸ Based on comparison of 2003-04 Budget Papers with the 2004-05 Budget Papers

⁸⁹ Department of Sustainability and Environment, Discussion Paper, *Better Decisions Faster: Improving the planning system in Victoria, The way forward*, April 2004

⁹⁰ Based on comparison of 2003-04 Budget Papers with the 2004-05 Budget Papers

outcomes. With respect to the Planning portfolio, the main activities of the department in this regard were:⁹¹

- *Transit cities* - establishing baseline data for 13 transit cities to enable comparisons over time on the performance of the centres;
- National Heritage Chairs and Officials Forum - participating in national benchmarking surveys;
- *Better Decisions Faster* registers - developing a monitoring package including benchmarks so councils can provide regular activity reports to the Minister for Planning;
- Land Victoria - benchmarking a range of products, services and costs against other states;
- Survey services - implementing recommendations of a review of the survey and spatial information which includes some comparisons of survey and spatial activities in other Australian jurisdictions; and
- Victorian Geospatial Information Strategy - implementing the strategy which was developed according to the principles of the US Federal Geographic Data Committee.

13.7.4 Key issues affecting the portfolio

The department's response to the Committee's *2004-05 Budget Estimates questionnaire* and the estimates hearing identified several issues that will affect the portfolio and its the budget estimates for 2004-05.

(a) Better Decisions Faster

Better Decisions Faster is an initiative to streamline and improve the planning process in Victoria. It aims to:⁹²

- reduce timelines on decision-making;
- improve the quality of planning permit applications when they are submitted;
- strengthen enforcement to deter planning scheme or planning permit breaches; and
- enhance the strategic justification for planning scheme amendments earlier in the process.

⁹¹ Department of Sustainability and Environment response to the Committee's 2004-05 Budget Estimates questionnaire, pp.21–22

⁹² Department of Sustainability and Environment, 2004-05 Victorian Budget Fact Sheet, *Better Decisions Faster*, May 2004

The 2004-05 Budget allocates \$3.1 million in funding to implement *Better Decisions Faster*. These funds will be spent on the following initiatives:⁹³

- reporting regular permit activity and process auditing (\$1.95 million over three years);
- ensuring pre-lodgement certification in all councils (\$350,000 over three years);
- reducing referral requirements (\$150,000 over three years); and
- respond to pressure on the Planning List by providing additional funding for the Victorian Civil and Administrative Tribunal (\$600,000 for 2004-05).

The Committee notes the ambitious target in the April Economic Statement that:⁹⁴

As a result of the Better Decisions Faster package, the time taken for planning decisions to be made will be cut by up to 50 per cent...

The Committee is aware of the major role of local government in coordinating the planning process. Therefore, most of the time savings achieved in improving the planning system will need to be the result of actions by local councils. To demonstrate progress towards these efficiency gains, the Committee believes that the department should work in consultation with local government to develop performance indicators to measure the progress of the implementation of *Better Decisions Faster*, including the average change in time taken for planning decisions to be made.

Accordingly, the Committee recommends that:

Recommendation 143:

The Department of Sustainability and Environment:

- (a) work in consultation with local government to develop performance indicators to measure the progress of the implementation of *Better Decisions Faster*, including the average time taken for planning decisions; and**
- (b) publish these indicators in the department's annual report.**

⁹³ *ibid.*

⁹⁴ Government of Victoria, *Victoria: Leading the way*, Economic Statement, April 2004, p.27

(b) Victorian Online Titles System

The Victorian Online Titles System (VOTS) replaced the manual paper-based titles system in December 2001. The VOTS computer system holds a complete record of property holdings in Victoria and includes electronic images of more than three million titles.⁹⁵

The 2004-05 Budget allocated \$28.5 million over four years to VOTS to meet ongoing IT management costs.⁹⁶

The Committee was advised by the Minister of the following benefits of VOTS:⁹⁷

- access to titles information is fully automated. Customers across Victoria can directly access the millions of titles and other documents remotely via the internet;
- continued high level land registration services for Victorian property transactions to ensure ongoing confidence in the land and property economy; and
- registration of most property transactions in 24 hours and immediate registration of those lodged over-the-counter. This compares with up to three weeks for processing prior to the introduction of VOTS.

The Committee notes the advantages to customers of VOTS compared with the former paper based system. In particular, the fact that VOTS provides the necessary technical platform to deliver an ‘Australia first’ electronic conveyancing system, scheduled for completion in 2005, is a very worthwhile initiative for Victoria.⁹⁸

The department informed the Committee of three indicators to measure the performance of the system; namely:

- VOTS IT system availability;
- number of land dealings registered; and
- number of title searches supplied.

Given the importance of VOTS to the property transfer system, the Committee believes the department should initially monitor very closely the performance of VOTS to ensure that the advantages of an electronic system are realised by customers.

⁹⁵ Department of Sustainability and Environment, 2004-05 Victorian Budget Fact Sheet, *Victorian Online Titles System Fact Sheet*, May 2004

⁹⁶ Budget Paper No. 3, *2004-05 Service Delivery*, p.299

⁹⁷ Minister for Planning’s response to the Committee’s follow-up questions, pp.4-5

⁹⁸ Department of Sustainability and Environment, 2004-05 Victorian Budget Fact Sheet, *Victorian Online Titles System Fact Sheet*, May 2004

In this regard, major clients of the system could be surveyed by the department as to whether VOTS is working satisfactorily.

Accordingly, the Committee recommends that:

Recommendation 144: **The Department of Sustainability and Environment closely monitor the performance of the Victorian Online Titles System, for example through client satisfaction surveys, to ensure that the advantages of the electronic system are realised.**

(c) *Implementation of Melbourne 2030 Strategy*

Melbourne 2030 Planning for Sustainable Growth a 30 year plan to manage growth and change across metropolitan Melbourne and the surrounding region, was released in October 2002. In 2004-05, the department allocated \$4.6 million to continue the delivery of Melbourne 2030. In addition, the 2004-05 Budget includes a range of infrastructure projects which supports the delivery of Melbourne 2030. These include:⁹⁹

- \$3.1 million for *Better Decisions Faster*;
- \$3 million for *Transit Cities* implementation and capital works;
- \$15.2 million for *Transit Cities* infrastructure in Dandenong;
- \$15.6 million for public transport safety;
- \$163.6 million over four years for outer metropolitan roads; and
- \$32.4 million (estimated) over four years for Melbourne's metropolitan network of parks, gardens, trails, waterways, bays and other significant recreation and conservation assets.

In response to an enquiry from the Committee about the implementation costs of Melbourne 2030, the Minister advised that an assessment of the costs was discussed in documents submitted to Cabinet during the preparation of the strategy. Accordingly, the implementations costs are Cabinet-in-Confidence and not available to the Committee.¹⁰⁰

The Committee notes that the Minister did not provide an explanation as to why disclosure would be harmful to the commercial or other interests of the state or why it would be contrary to the public interest.

⁹⁹ Minister for Planning's response to the Committee's follow-up questions, p.1

¹⁰⁰ *ibid.*

It is necessary to ensure that public funds are expended for the purposes for which they are appropriated.

Accordingly, the Committee recommends that:

Recommendation 145: **The Government, when considering the withholding of information on the grounds of Cabinet-in-Confidence, should observe the general principle that information should be made public unless there is a justifiable reason not to do so.**

(d) Melbourne 2030 - activity centres

Melbourne 2030 Planning for Sustainable Growth included a list of over 100 designated activity centres.¹⁰¹ There are three types of activity centres:¹⁰²

- principal activity centre (there are 25 centres chosen for their size and location);
- major activity centre (about 80 centres which have similar characteristics to principal activity centres but serve smaller catchments); and
- specialised activity centre (10 such centres, including major university campuses and Melbourne airport).

The Committee was informed that these designations were based on an analysis of existing centres against the criteria for activity centres listed in *Melbourne 2030*. Submissions on *Melbourne 2030* were accepted until February 2003.¹⁰³

Following an assessment of almost 1,500 submissions, the *Response to Submissions* report was released in November 2003. Submissions focused largely on the need for better planning system tools, State Government leadership, and managing the impacts of development in and around activity centres.¹⁰⁴ Some submitters requested changes to the list of activity centres.¹⁰⁵

The Minister for Planning advised the Committee that individual submissions would not be made public due to privacy considerations:¹⁰⁶

¹⁰¹ Department of Sustainability and Environment, *Melbourne 2030 Planning for Sustainable Growth*, p.51

¹⁰² *ibid.*, pp.46–49

¹⁰³ Minister for Planning's response to the Committee's follow-up questions, pp.1–2

¹⁰⁴ Department of Sustainability and Environment, *Melbourne 2030 Response to submissions*, November 2003, p.vi

¹⁰⁵ Minister for Planning's response to the Committee's follow-up questions, pp.1–2

¹⁰⁶ Hon. M. Delahunty, MP, Minister for Planning, transcript of evidence, 16 June 2004, p.4

... under privacy laws we are not able to provide individual submissions to be made public. However, if those individual submitters would like to make their submissions public, they are quite free to do so. We have listed on the web site the full list of the organisations which made detailed submissions on Melbourne 2030.

The Committee is aware that the department's response to submissions on Melbourne 2030 notes that individuals who made submissions cannot be named due to the *Information Privacy Act 2000*.¹⁰⁷

However, the Committee understands that the *Information Privacy Act 2000* allows for individual submissions to be made public provided that at or before the time the information is collected, the individual is made aware of various factors.¹⁰⁸

The Committee notes that the public submission process in relation to Melbourne 2030 was structured in a way that did not allow submissions to be made public. The Committee believes that, in the future, every effort should be made to maximise the amount of information available to the public while still protecting privacy considerations, including compliance with the *Information Privacy Act 2000*. The administration of the system for making information public should be as simple as possible.

Accordingly, the Committee recommends that:

Recommendation 146: **The Department of Sustainability and Environment structure the public submissions process to allow maximum information to be made public while taking account of privacy considerations, including compliance with the *Information Privacy Act 2000*, and ensure the administration of the system is as simple as possible.**

The Committee was informed that a letter was sent to municipal councils in December 2003 outlining the specific changes to the list of centres in Melbourne 2030 as a result of the analysis submissions.

The Minister for Planning advised the Committee that \$5.6 million was made available to metropolitan councils to assist in implementing Melbourne 2030.¹⁰⁹ This funding comprises a base grant of \$100,000 (available to all metropolitan councils)

¹⁰⁷ Department of Sustainability and Environment, *Melbourne 2030 Response to submissions*, November 2003, p.2

¹⁰⁸ *Information Privacy Act 2000*, pp.72-72

¹⁰⁹ *ibid.*, p.3

and a share in a total of \$2.5 million for specific projects relating to Melbourne 2030.¹¹⁰

The Committee was provided with a list of the specific projects and notes that they mainly related to plans to guide future use and sustainable development in activity centres and green wedge and development of local urban design guidelines.¹¹¹

The implementation of Melbourne 2030 is intended to include consultation with local government, including offers of partial reimbursement for the costs incurred.

The Committee notes that the purpose of the following initiatives is to provide practical assistance to local government in preparing structure plans:

- release of a *Practice Note* on structure planning for activity centres in December 2003;¹¹²
- the development of Activity Centre Design Guidelines to guide strategic planning for activity centres and the development of local planning policies and controls (due for release later in 2004);¹¹³ and
- development of integrated performance criteria for activity centres to assess the performance of each centre and provide a benchmark for determining the direction and magnitude of changes required to improve the network of centres (timeline unspecified).¹¹⁴

The Committee is pleased that practical assistance is available to planning authorities in preparing plans for activity centres. The Committee believes that performance indicators to establish benchmarks and measure the performance of activity centres are essential and encourages the department to develop these as soon as possible.

Accordingly, the Committee recommends that:

Recommendation 147: **The Department of Sustainability and Environment, as soon as practicable, develop and report performance indicators to establish benchmarks and measure the performance of Melbourne 2030 Activity Centres.**

¹¹⁰ Minister for Planning's response to the Committee's follow-up questions, question 1

¹¹¹ *ibid.*, Attachment 1

¹¹² Department of Sustainability and Environment, General Practice Note, *Structural Planning for Activity Centres*, December 2003 (accessed from www.dse.vic.gov.au/melbourne2030/structureplanning)

¹¹³ Department of Sustainability and Environment, *Melbourne 2030 Response to submissions*, November 2003, p.vii

¹¹⁴ *ibid.*

CHAPTER 14: DEPARTMENT OF TREASURY AND FINANCE

Key Findings of the Committee:

- 14.1** The Department of Treasury and Finance's budget in 2004-05 is \$185.7 million, an increase of \$10.3 million from the 2003-04 estimated actual budget. The increase is largely attributed to the establishment of the Victorian Competition and Efficiency Commission in 2004, and higher output prices for services within Strategic Policy Advice and Financial Management Services output groups.
- 14.2** \$380,000 has been carried over from 2003-04, comprising \$300,000 for infrastructure projects, and \$80,000 for improvements to business management systems.
- 14.3** The department's administered liabilities are forecast to rise by \$1 billion due to the discontinuation of the Smelter Reduction Amount following a decision to indemnify the State Electricity Commission of Victoria for its liability under Electricity Supply Agreements with aluminium smelters at Point Henry and Portland.
- 14.4** Under present Commonwealth-State arrangements for the collection and distribution of GST, Victoria is estimated to generate \$8.8 billion in GST revenue but will receive only \$7.07 billion in GST grants.
- 14.5** The Parliament and the Public Accounts and Estimates Committee have not been formally advised of amendments to the Budget Papers, including details relating to GST subsidies paid to other states and territories.
- 14.6** To remedy anomalies in the Commonwealth Grants Commission's GST tax distribution methodology, Victoria was instrumental in bringing about a review of some aspects of these arrangements, which will be conducted by Heads of Treasuries in all Australian jurisdictions.
- 14.7** Victoria receives significantly less than it would receive on a per capita distribution of Commonwealth Specific Purpose Payments grants.
- 14.8** The development of formal protocols could assist with ensuring that advice from the Victorian Competition and Efficiency Commission would be independent and rigorous.

- 14.9** The Department is seeking to ensure the adoption of Australian equivalents to International Financial Reporting Standards by public sector agencies on 1 January 2005. Funding of \$1.5 million in 2004-05 has been provided for training and development of staff.
- 14.10** Good governance within the Victorian Public Service would be enhanced by full and comprehensive public reporting on the outcomes of the compliance and certification reporting process under the Financial Management Compliance Framework.
- 14.11** The Department of Treasury and Finance Financial Management Knowledge Centre website should be made accessible to the public.
- 14.12** Under revised whole of government vehicle lease arrangements, appropriate risks associated with vehicle fleet operations will be transferred to departments.
- 14.13** Actuarial advice obtained by the Victorian WorkCover Authority indicated that following the WorkCover premium reductions, the Scheme will achieve full funding by June 2006.
- 14.14** Performance measures used by WorkCover to assess the effectiveness of farm safety strategies need to focus on outcomes.

Departmental review

14.1 Departmental overview

The Department of Treasury and Finance provides services to three portfolios: Treasury, Finance and WorkCover. The department provides the Government with economic, financial, commercial and resource management advice and performs a monitoring role to ensure the state's financial, accounting and reporting obligations are met.¹

The department is responsible for the operation of three agencies:

- the State Revenue Office (SRO), the Government's main tax collection agency;²

¹ Department of Treasury and Finance, About us: Structure and functions, www.treasury.vic.gov.au, accessed 19 October 2004

² State Revenue Office, About SRO, www.sro.vic.gov.au, accessed 10 October 2004

- the Essential Services Commission, an independent economic regulator which regulates essential utility services;³ and
- the Victorian Competition and Efficiency Commission, reviews regulatory impact statements, undertakes inquiries into matters referred to it by the Government, and operates Victoria's Competitive Neutrality Unit.⁴

14.1.1 Key challenges for the Department in 2004-05

The Department of Treasury and Finance is implementing several initiatives in 2004-05 including the establishment of the Victorian Competition and Efficiency Commission and stewardship for the whole of government changes to the Australian accounting framework.⁵ Other additional expenditure and activities include:⁶

- on-going funding of \$4 million for the State Revenue Office land rich team to ensure compliance with duty legislation involving land rich companies and trusts (\$1 million in 2004-05);
- purchase by the State Revenue Office from local councils of land valuation details over two years at an estimated cost of \$18 million (\$15.7 million in 2004-05);
- increased funding of \$13 million over four years (\$5.7 million in 2004-05) for information and communication technology for the Department of Treasury and Finance and the Department of Premier and Cabinet; and
- the administration of the \$5000 first home bonus grant (\$128 million in 2004-05).

The Committee was advised that there are a number of risks relevant to the Department of Treasury and Finance and its portfolio agencies including:⁷

- changes to accounting standards which could result in incorrect budget and financial information;
- unsuccessful implementation of the whole of government compliance framework and tax compliance framework;
- slowness by departments to implement new vehicle fleet financing or management arrangements;

³ Essential Services Commission, Establishment of the Essential Services Commission, www.esc.vic.gov.au, accessed 19 October 2004

⁴ Victorian Competition and Efficiency Commission, About us, www.vcec.vic.gov.au, accessed 19 October 2004

⁵ Mr I. Little, Secretary, Department of Treasury and Finance, transcript of evidence, 19 May 2004, p.3

⁶ Budget Paper No. 3, *2004-05 Service Delivery*, pp.301–302

⁷ Department of Treasury and Finance response to the Committee's 2004-05 Budget Estimates questionnaire, p.5

- privacy legislation limiting the State Revenue Office's ability to use databases for SRO's compliance and targeting functions with consequent revenue risk;
- land rich provisions not well understood by the public; and
- the impact on the core business of the Essential Services Commission of undertaking two major price determinations in 2004-05.

14.1.2 Key factors influencing the budget estimates

The Committee was informed that the department's estimates for 2004-05 were initially developed to ensure continuation of core services but that additional funding was required as a result of external factors or new policy directions and initiatives, for example:⁸

- establishing the Victorian Competition and Efficiency Commission to create a more efficient and effective regulatory environment;
- recognising the need for additional resources in budget advice and financial reporting in the current economic climate to ensure the benefits of the new funding model would be realised and the international accounting standards implemented;
- ensuring that accounting skill levels are enhanced to implement the new international accounting standards and harmonisation between Government Finance Statistics (GFS) and Generally Accepted Accounting Principles (GAAP);
- upgrading information, communication and technology infrastructure across the Department of Treasury and Finance and the Department of Premier and Cabinet; and
- additional resources for the Insurance Policy output.

14.2 Output management framework

The 20 outputs delivered by the Department of Treasury and Finance in 2004-05 are arranged into six output groups. Responsibility for outputs is sometimes shared between Ministers (see exhibit 14.1).

⁸ *ibid.*, p.4

**Exhibit 14.1: Department of Treasury and Finance
Ministerial responsibilities**

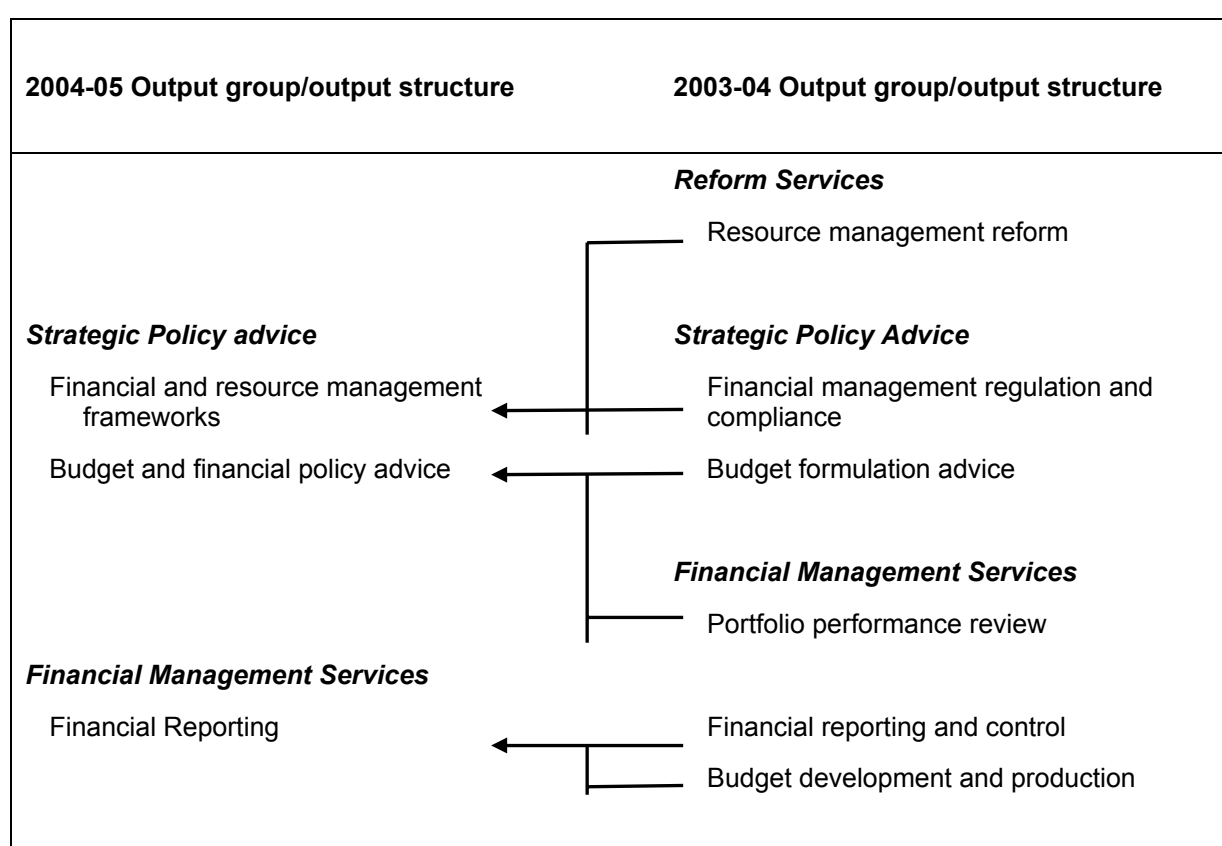
Output group and output	Responsible Minister		
	Treasurer	Finance	WorkCover
Strategic Policy Advice			
Financial and Resource Management Frameworks	✓	✓	
Budget and Financial Policy Advice	✓	✓	
Strategic Policy and Research	✓		
Financial and Risk Management Policy Advice	✓	✓	
Economic, Social and Environmental Policy Advice	✓	✓	
Inter-government Financial Relations Policy Advice	✓		
Taxation (State Revenue) Policy Advice	✓		
Insurance Policy Advice		✓	✓
Financial Management Services			
Financial Reporting	✓	✓	
Taxation (State Revenue) Monitoring and Forecasting Services	✓		
GBE Performance Monitoring Services	✓		
Risk Management Services			
Commercial and Infrastructure Project Management	✓		
Prudential Supervision and Financial Asset/Liability Management	✓	✓	
Resource Management Services			
Procurement Services		✓	
Government Accommodation Services		✓	
Government Land and Property Services		✓	
Management of Motor Vehicle Leases		✓	
Regulatory Services			
Economic Regulatory Services		✓	
Business Environment Policy Advice	✓		
Revenue Management Services			
Revenue Management Services to Government	✓		

Source: Department of Treasury and Finance response to the Committee's 2004-05 Budget Estimates questionnaire, pp. 1-2

14.2.1 Output structure

The department introduced several changes in 2004-05 to its output structure. The Committee noted that six outputs in the 2003-04 Budget Papers related to the State budget and financial management were merged into three outputs for 2004-05, with the new framework intended to better reflect the services to Government in areas of financial management reporting and advice.⁹ The changes are summarised in exhibit 14.2.

Exhibit 14.2 Restructure of the Financial management, reporting and policy advice output



Sources: *Budget Paper No. 3, 2004-05 Service Delivery, p.218; Budget Paper No. 3, 2003-04 Budget Estimates, pp.352-369*

The Committee noted that a new output – Business Environment Policy Advice – was established in 2004-05 as part of the Regulatory Services output group.¹⁰ The output will reflect the work of the Victorian Competition and Efficiency Commission (see section 14.5.3(b)).

⁹ Budget Paper No. 3, 2004-05 Service Delivery, pp.218-219

¹⁰ Budget Paper No. 3, 2004-05 Service Delivery, p.218

Several minor changes were also made to the names of two outputs, with the Statutory Insurance Advice output changing to Insurance Policy Advice and the Economic, Regulatory, Environmental and Social Policy Advice output changing to Economic, Social and Environmental Policy advice.¹¹ The Committee noted that despite these changes, the activities undertaken within these outputs has not altered.¹²

14.2.2 Performance measures

The delivery of the department's 20 outputs is assessed using 134 performance measures covering quantity (60 measures), quality (32 measures) and timeliness (42 measures).¹³ Of these, the department advised the Committee that 17 were new performance measures, including three measures that were combined as a result of output mergers.¹⁴

The Committee noted that two of the new performance measures were included in the Financial and Resource Management Frameworks output relating to the introduction of the international accounting framework across government.¹⁵ The Committee welcomes the inclusion of these measures, which provide an important indicator of the Government's progress in meeting the timelines for the introduction of new accounting standards (see section 14.6.3 (a) (i)).

As previously discussed, the Business Environment Policy Advice output was established as a new output in 2004-05 within the Regulatory Services output group.¹⁶ The effectiveness of the new output will be assessed by four performance measures covering the number of public enquiries and reviews of regulatory impact statements, the quality of advice provided to Ministers and the completion of the assessment phase of regulatory impact reviews within five days of receipt.¹⁷

The Department of Treasury and Finance discontinued 34 performance measures in 2004-05.¹⁸ The Committee noted that 14 of these discontinued measures were formerly part of the six outputs that were merged into three outputs for 2004-05.¹⁹ A further five measures related to projects or initiatives that were completed.²⁰

The Committee noted that due to the overlap of ministerial responsibility across some outputs, some of these measures are shared across portfolios. For example, several

¹¹ *ibid.*

¹² *ibid.*

¹³ Budget Paper No. 3, 2004-05 *Service Delivery*, pp.220–236

¹⁴ Department of Treasury and Finance response to the Committee's 2004-05 Budget Estimates questionnaire, p.7, 36

¹⁵ Budget Paper No. 3, 2004-05 *Service Delivery*, pp.220–221

¹⁶ *ibid.*, p.218

¹⁷ *ibid.*, p.234

¹⁸ *ibid.*, pp.352–354

¹⁹ *ibid.*

²⁰ *ibid.*

outputs have the quality measure *Service provision rating (Ministerial survey data)*, which relates to all Ministers who have responsibility for an output.²¹

The Committee noted that the expected outcome in 2003-04 for the performance measure *Briefing on insurance policy matters* was 220, compared to a target of 60 in both 2003-04 and 2004-05.²² No explanation was included in the Budget Papers for this variation, or variations of a similar magnitude for two other measures in this output group. This was despite the Department of Treasury and Finance including notes within the same output group to explain differences for four other performance measures.²³

The Committee believes that where there are significant differences between targeted and actual performance information, the department should provide an explanation in the Budget Papers.

The Committee recommends that:

Recommendation 148: **The Department of Treasury and Finance provide an explanation for significant differences between targeted and expected performance information in the Budget Papers.**

14.3 Budget summary/financial analysis

As shown in exhibit 14.3, the department's budget allocation for 2004-05 is \$185.7 million, representing an increase of \$10.3 million (or 5.9 per cent) compared to the 2003-04 estimated actual budget.

²¹ *ibid.*, pp.220–236

²² *ibid.*, p.224

²³ *ibid.*, pp.224–225

**Exhibit 14.3: Department of Treasury and Finance
Output costs**

	Column 1	Column 2	Column 3	Column (3-2)/2
Output Group	2003-04 Budget	2003-04 Estimated Actual	2004-05 Budget	Variation (a)
	(\$ million)	(\$ million)	(\$ million)	(%)
Strategic Policy Advice	(b) 28.5	(b) 29.7	(c) 41.3	39.1
Financial Management Services	19.9	21.6	(c) 16.8	-22.2
Regulatory Services	13.0	12.6	15.0	19.0
Resource Management Services	44.5	40.0	41.8	4.5
Risk Management Services	11.1	11.7	12.7	8.5
Revenue Management Services	61.4	59.8	58.1	-2.8
Total	178.4	175.4	185.7	5.9

- Notes:
- (a) A negative variance indicates that the 2004-05 budget has decreased compared with the 2003-04 estimated actual budget
 - (b) Includes costs associated with the former Reform Services output group, which was merged into the Strategic Policy Advice output group in 2004-05
 - (c) Not directly comparable to previous years because of a consolidation of outputs within and across the Strategic Policy Advice and Financial Management Services output groups

Source: Department of Treasury and Finance's response to the Committee's 2004-05 Budget Estimates questionnaire, p.20

The Committee noted that most of the additional \$10.3 million allocated to the department's outputs in 2004-05 relates to additional resources provided to services delivered under the Strategic Policy Advice and Financial Management Services output groups, with the department advising that:²⁴

... output prices have further changed for the Strategic Policy Advice and Financial Management Services output groups as a result of: \$1.5 million of internal funding reallocation to further enhance the achievement of core output deliverables; \$1.2 million of funding resulting for employee costs under the enterprise bargaining agreement; \$1.7 million effect of funding received for information and communication technology initiatives that impact upon all outputs; and \$1.5 million for the whole of government stewardship of changes to the Australian Accounting framework.

²⁴ Department of Treasury and Finance response to the Committee's 2004-05 Budget Estimates questionnaire, pp.20-21

The department advised the Committee that an additional \$2.8 million was allocated to the Regulatory Services output group to reflect the establishment of the Victorian Competition and Efficiency Commission (see section 14.5.3(b)).²⁵

14.3.1 Operating performance

In 2004-05, The Department of Treasury and Finance anticipated receiving \$238.8 million in revenue for its controlled operations, 3 per cent less than its budgeted expenditure and 1.4 per cent less than in 2003-04 (see exhibit 14.4). The forecast reduction in the budget deficit to \$7.3 million in 2004-05 is largely due to the change in financing arrangements for the whole of government motor vehicle lease arrangements.²⁶

Given the department's role as a tax collection agency and as administrator of the State's superannuation schemes, administered revenue and expenses are substantially higher than controlled items.²⁷

**Exhibit 14.4: Department of Treasury and Finance
Statement of Financial Performance**

	Column 1	Column 2	Column 3	Column (3-2)/2
	2003-04 Budget	2003-04 Estimated Actual	2004-05 Budget	Variation (a)
	(\$ million)	(\$ million)	(\$ million)	(%)
Controlled items				
Operating revenue	228.9	242.3	238.8	-1.4
Operating expenses	255.4	260.3	246.1	-5.5
Net Result (b)	-26.5	-18.0	-7.3	-59.4
Administered items				
Administered revenue	18,591.1	19,269.6	20,062.1	4.1
Administered expenses	19,042.3	19,895.1	20,757.5	4.3
Surplus/Deficit (b)	-451.2	(c) -625.6	-695.4	11.2

Notes: (a) A negative variance indicates that the 2004-05 budget has decreased compared with the 2003-04 revised budget

(b) A negative dollar value indicates a deficit

(c) Reported result adjusted for rounding purposes

Source: Budget Paper No. 4, 2004-05 Statement of Finances, pp.101, 104

²⁵ *ibid*, p.21

²⁶ Budget Paper No. 4, 2004-05 Statement of Finances, p.99

²⁷ *ibid.*, pp.100-101, 104

The department informed the Committee of the following reasons for major variations in terms of administered revenue between the estimated actual budget estimates for 2003-04 and the budget estimates for 2004-05 of \$792.5 million:²⁸

- an increase of \$773.4 million for payments made on behalf of the state, providing for the inclusion of the Treasurer's Advance of \$474 million, receipt of \$139 million to fund the First Home Owner Grant scheme and \$181 million to fund the new Vehicle Leasing Trust;
- an increase of \$231.4 million for additional GST related Commonwealth grants;
- an increase in other revenue of \$573 million providing for:
 - higher dividend revenue of \$176.9 million due to the re-commencement of dividend payments from the Transport Accident Commission offset by lower water industry dividends due to water restrictions, reduced consumption, and less land development activity;
 - higher capital assets charges revenue of \$210.7 million paid by departments due to growth in capital asset stocks and the revaluation of existing assets; and
 - revenue transfer between funds of \$181 million;
- less reductions in special appropriation revenue of \$734.7 million due mainly to bringing forward superannuation payment obligations in 2003-04, and a decline in tax revenues of \$50 million due to reduction of land transfer and mortgage duties collections.

The department explained that the increase in administered expenses between the estimated actual budget estimates for 2003-04 and the budget estimates for 2004-05 of \$862.4 million is mainly due to:²⁹

- an increase in expenses on behalf of the state of \$1,041.3 million to provide outgoings from revenue received as payments made on behalf of the state (which include payments from Treasurer's Advance of \$474 million, together with payment of \$138.9 million to fund the First Home Owner Grant scheme, \$181 million to fund the new Vehicle Leasing Trust, and \$124 million to fund unfunded superannuation liabilities);
- an increase of \$875.7 million in payments into the Consolidated Fund; and
- less a reduction in grants and other payments of \$1.2 billion due to a decision in 2003-04 to cease collection of the Smelter Reduction Amount from 30 June 2004 and assume liability for obligations under Electricity Supply Agreements with aluminium smelters at Point Henry and Portland at a cost of \$1.4 billion.

²⁸ Department of Treasury and Finance response to the Committee's 2004-05 Budget Estimates questionnaire, pp.13-14, pp.18-19, 24

²⁹ *ibid.*, pp.12-14, 18-19

The cumulative result of the above changes in revenue and expenditure is a projected deficit for administered transactions of \$695.4 million in 2004-05, an increase of \$69.8 million above the revised deficit for 2003-04.

In response to a request from the Committee on details of how the deficit arising from administered transactions is funded, the department provided the following comments:³⁰

The administered items statement is constructed on an accrual basis and covers those items that are administered by relevant departments on behalf of the State, which do not directly reflect the operations of the Department. Items contained in the administered statement are usually on-passed or administered by the State. In DTF, they mainly relate to payments for interest, superannuation and the Treasurer's Advance contingency. The table in 2004-05 Budget Paper No 4 on page 104 provides details of the administered items for the 2003-04 Budget, 2003-04 Revised and 2004-05 Budget.

The main reason for the deficits recorded in the table on page 104, is the impact of movements in the unfunded superannuation liability. The unfunded liabilities of the State's superannuation schemes represent the present value of future benefits that members have already accrued that are not covered by fund assets. When this liability is re-valued under generally accepted accounting principles it results in an expense being recorded. This expense may result in an administered deficit, however, as there is no cash required it does not have to be funded until the liability crystallises in some future time period. When the cash is required to pay members their accrued benefits, appropriation authority will be provided.

In the case of 2003-04 Revised, DTF has also recorded a once-off expense relating to the cessation of the Smelter Reduction Amount. This expense is recorded to enable the recognition of a future liability that will be paid out over a number of years. As such, the revenue will be appropriated on an annual basis as required.

The Committee notes the department's response. In view of the magnitude of administered revenue and expenses being in excess of \$20 billion in 2004-05, the Committee intends to separately report on this matter as part of its review of the management and control of parliamentary appropriations.

³⁰ Department of Treasury and Finance response to the Committee's follow-up questions

14.3.2 Balance sheet performance

Exhibit 14.5 shows that the department's net asset position is expected to improve by about \$13 million from 30 June 2004 to 30 June 2005. This increase reflects the winding down of the whole of government motor vehicle lease facility (which decreases both the value of assets and interest bearing liabilities).³¹

The value of administered assets is expected to rise by \$290.1 million between 30 June 2004 and 30 June 2005 due to general increases in investment balances as a result of the improvement in the Government cash holding position.³² However, administered liabilities are forecast to rise by \$1 billion mainly due to the discontinuation of the Smelter Reduction Amount.

**Exhibit 14.5: Department of Treasury and Finance
Statement of Financial Position**

	Column 1	Column 2	Column 3	Column (3-2)/2
	2003-04 Budget	2003-04 Estimated Actual	2004-05 Budget	Variation (a)
	(\$ million)	(\$ million)	(\$ million)	(%)
Controlled items				
Controlled assets	552.0	508.9	424.8	-16.5
Controlled liabilities	326.2	276.3	179.1	-35.2
Net assets	225.8	(b) 232.7	245.7	5.6
Administered items				
Administered assets	849.4	785.4	1,075.5	36.9
Administered liabilities	19,698.0	19,808.3	20,829.5	5.2

Notes: (a) A negative variance indicates that the 2004-05 budget has decreased compared with the 2003-04 estimated actual budget

(b) Reported result adjusted for rounding

Source: Budget Paper No. 4, 2004-05 Statement of Finances, pp.103–104

14.3.3 Carry over funding

The 2004-05 Budget includes \$380,000 of funding carried over from the previous year. The department advised that this funding will be applied to the following programs:³³

³¹ Department of Treasury and Finance response to the Committee's 2004-05 Budget Estimates questionnaire, pp.21–22

³² *ibid.*, p.23

³³ Treasurer of Victoria's response to the Committee's follow-up questions, p.5

- \$200,000 for Partnerships Victoria enhancements - infrastructure project management;
- \$100,000 for Gateway infrastructure reviews - infrastructure project management; and
- \$80,000 for enhancements to Business Management Systems - financial reporting and control.

14.4 Human resources issues

Exhibit 14.6 shows that the total number of estimated staff in the department in June 2004 was 503.1 (on an equivalent full time basis). This represents an increase of 22.7 staff (about five per cent) compared to June 2003.

The department's staffing numbers provided to the Committee exclude the Essential Services Commission (42 staff as at 30 June 2003) and the State Revenue Office.³⁴ The department informed the Committee that their June 2005 workforce numbers are likely to increase by 16 compared with June 2004,³⁵ and the increase in staff numbers is primarily the result of the Government's decision to establish the Victorian Competition and Efficiency Commission.³⁶ While the number of executive officers is expected to rise by four over this period, the Committee notes the department's annual report shows that there were six executive officer vacancies in June 2003.³⁷

³⁴ Department of Treasury and Finance, *Annual Report 2002-03*, p.98; Essential Services Commission, *Annual Report 2002-03*, p.65; Department of Treasury and Finance response to the Committee's follow-up questions

³⁵ Department of Treasury and Finance's response to the Committee's 2004-05 Budget Estimates questionnaire, p.11

³⁶ Department of Treasury and Finance response to the Committee's follow-up questions

³⁷ Department of Treasury and Finance, *Annual Report 2002-03*, p.97

**Exhibit 14.6: Department of Treasury and Finance
Equivalent Full Time Staff**

	June 2003 Actual	June 2004 Estimate	June 2005 Estimate
Ongoing staff			
Executive Officer	72.0	74.0	78.0
Other (includes VPS Grade 1 to 6)	376.3	395.1	407.1
Sub total	448.3	469.1	485.1
Casual staff (a)			
Executive Officer	0.0	0.0	0.0
Other (includes VPS Grade 1 to 6)	6.0	4.0	4.0
Sub total	6.0	4.0	4.0
Fixed term staff			
Executive Officer	0.0	0.0	0.0
Other (includes VPS Grade 1 to 6)	26.1	30.0	30.0
Total	26.1	30.0	30.0
All staff			
Executive Officer	72.0	74.0	78.0
Other (includes VPS Grade 1 to 6)	408.4	429.1	441.1
Total	480.4	503.1	519.1

Note: (a) The Department of Treasury and Finance advised the term casuals has been defined as staff employed to cover short term peaks in work demand

Source: Department of Treasury and Finance response's to the Committee's 2004-05 Budget Estimates questionnaire, pp.10, 11

Exhibit 14.7 indicates staffing for the State Revenue Office as at 30 June 2004 and 30 June 2005 on a equivalent full time basis and shows a reduction of 2.9 positions is expected over this period.

**Exhibit 14.7: State Revenue Office
Equivalent Full Time Staff**

	June 2004 Actual	June 2005 Estimate
Ongoing staff		
Executive Officer	6.0	7.0
Other (includes VPS Grade 1 to 6)	377.0	381.0
Sub total	383.0	388.0
Casual staff		
Executive Officer	0.0	0.0
Other (includes VPS Grade 1 to 6)	0.0	0.0
Sub total	0.0	0.0
Fixed term staff		
Executive Officer	0.0	0.0
Other (includes VPS Grade 1 to 6)	28.0	20.0
Sub total	28.0	20.0
All staff		
Executive Officer	6	7.0
Other (includes VPS Grade 1 to 6)	405.0	401.0
Total	411.0	408.0

Source: Department of Treasury and Finance's response to the Committee's follow-up questions

Review of Portfolios

14.5 Treasury portfolio

The Treasurer is directly responsible for several outputs delivered by the Department of Treasury and Finance and also shares responsibility for some of these outputs with the Minister for Finance. The Treasurer is responsible for the oversight of the State Revenue Office.³⁸

³⁸ State Revenue Office, About SRO, www.sro.vic.gov.au, accessed 10 October 2004; Department of Treasury and Finance response to the Committee's 2004-05 Budget Estimates questionnaire, pp.2-3

14.5.1 2004-05 outlook for the portfolio

Key tasks to be undertaken within the Department of Treasury and Finance that are specific to the responsibilities of the Treasurer during 2004-05 include:

- driving financial issues regarding Commonwealth-State relations;³⁹
- releasing to Parliament Budget Papers for the general government sector and whole of government;⁴⁰
- major policy reviews and refinements, documented case studies on Management Reform Program principles, the National Tax Equivalent Regime and correspondence relating to Federal tax issues;⁴¹
- policy advice on the prudential framework for public sector investments;⁴²
- Expenditure Review Committee (ERC) briefs and the delivery of budget formulation advice through Cabinet and sub committees;⁴³ and
- ensuring taxation compliance for duty on high value land transfers.⁴⁴

The Government announced the following initiatives as part of the 2004-05 Budget relating to the Treasury portfolio:⁴⁵

- the \$5,000 First Home Bonus for first home owners until June 2005 (\$149.3 million over two years concluding 2004-05 of which \$128 million will be incurred in 2004-05);
- establishing a dedicated unit within the State Revenue Office to ensure compliance with stamp duty legislation in transactions involving land rich trusts and companies (\$4 million to 2007-08 of which \$1 million will be incurred in 2004-05);
- establishing the Victorian Competition and Efficiency Commission to provide advice to the Treasurer on the economic impact of legislation, undertake inquiries on matters referred to it and operate Victoria's Competitive Neutrality Unit (\$11.6 million to 2007-08 of which \$2.8 million will be incurred in 2004-05);

³⁹ Department of Treasury and Finance response to the Committee's 2004-05 Budget Estimates questionnaire, pp.2-3

⁴⁰ *ibid.*

⁴¹ *ibid.*

⁴² *ibid.*

⁴³ *ibid.*

⁴⁴ Hon. J. Brumby, MP, Treasurer, transcript of evidence, 19 May 2004, p.12

⁴⁵ Budget Paper No. 3, *2004-05 Service Delivery*, pp.260-263, 301-302

- upgrading information and communications technology and implementing an enhanced electronic document management system in the Department of Premier and Cabinet and Department of Treasury and Finance (\$13 million total estimated investment of which \$5.7 million will be incurred in 2004-05); and
- additional funding for the State Revenue Office to purchase land valuations from municipal councils to ensure that land tax assessments are consistent with price movements in property markets (\$18 million total estimated investment of which \$15.7 million will be incurred in 2004-05).

14.5.2 Analysis of the budget

The 2004-05 Budget for the output groups for which the Treasurer is either fully or partly responsible is \$123.5 million. Details of allocations for full or partial output responsibilities are show in exhibit 14.8.

**Exhibit 14.8: Treasurer's Portfolio
Output costs**

Output Group	Outputs under the responsibility of the Treasurer	2004-05 Budget (\$ million)
Revenue Management Services	Revenue Management Services to Government	58.1
Strategic Policy Advice	Strategic Policy and Research	3.3
	Taxation (State Revenue) Policy Advice	1.7
	Inter-Governmental Financial Relations Policy Advice	1.6
	Budget and Financial Policy Advice (a)	11.1
	Financial and Resource Management Framework (a)	8.9
	Economic, Social and Environmental Policy Advice (a)	5.3
	Financial and Risk Management Policy Advice (a)	1.2
Sub total		33.1
Financial Management Services	GBE Performance Monitoring Services	1.6
	Taxation (State Revenue) Monitoring and Forecasting Services	0.7
	Financial Reporting (a)	14.5
Sub total		16.8
Regulatory Services	Business Environment Policy Advice	2.8
Risk Management Services	Commercial and Infrastructure Project Management	10.2
	Prudential Supervision and Financial Asset & Liability Management (a)	2.5
Sub total		12.7
Total (b)		123.5

Notes: (a) Responsibility for output shared with the Minister for Finance

(b) The total outputs for which the Treasurer has joint responsibility is \$43.5 million

Sources: Department of Treasury and Finance response to the Committee's 2004-05 Budget Estimates questionnaire, pp.1-2; Budget Paper No. 3, 2004-05 Service Delivery, pp.220-236

14.5.3 Key issues impacting on the portfolio

The department's response to the Committee's 2004-05 Budget Estimates questionnaire and the estimates hearing identified several issues that will impact on the portfolio and its Budget Estimates for 2004-05 and these are detailed below.

(a) Commonwealth-State financial relations

(i) GST revenue

The Committee notes that the budget provides for \$7.08 billion,⁴⁶ equivalent to 24.4 per cent of the Victorian Government's estimated revenue in 2004-05 of \$28.98 billion,⁴⁷ which is derived as GST grants from the Commonwealth.

The Committee notes that the arrangements existing between the Commonwealth and the states for the collection and distribution of GST revenue basically are,⁴⁸

- GST is collected by the Commonwealth through the Australian Taxation Office on behalf of the states and territories;
- GST collected nationally in 2004-05 is estimated at \$34 billion;
- no GST revenue is retained by the Commonwealth;
- GST revenue (and Health Care Grants⁴⁹) are shared between the states and territories on a basis of grants determined by the Commonwealth Grants Commission (CGC) under the principle of horizontal fiscal equalisation (HFE), which seeks to equalise the financial capacity of all states and territories based on their revenue raising capacities and the cost of providing a full range of state services;
- the HFE methodology used by the CGC is reviewed every five years;⁵⁰ and
- the latest review, recently completed in 2004 (the 2004 Report),⁵¹ will be used to distribute grants in 2004-05 and, in normal circumstances, remain in place until 2009.⁵²

⁴⁶ Budget Paper No. 4, *2004-05 Statement of Finances*, p.137

⁴⁷ *ibid.*, p.8

⁴⁸ Budget Paper No. 2, *2004-05 Strategy and Outlook*, pp.73–74

⁴⁹ Commonwealth Grants Commission, media release, *Report on State Revenue Sharing Relativities Review 2004*, 3 March 2004, p.1

⁵⁰ Budget Paper No. 2, *2004-05 Strategy and Outlook*, p. 74

⁵¹ *ibid.*

⁵² Budget Paper No 2. *2003-04 Budget Statement*, p.110

Details of Victoria's share of GST revenue and distribution relative to other states and territories for 2004-05 as set out in the Budget Papers are at exhibit 14.9.

Exhibit 14.9: Estimated GST Revenue and Distribution to states and territories, 2004-05

	Estimated GST raised (a)	GST revenue CGC distribution (b)	Redistribution compared with GST raised	Redistribution compared with GST raised
	(\$ million)	(\$ million)	(\$ million)	(\$ per capita)
NSW	11,885.6	9,549.5	-2,336.1	-343.0
Vic	8,811.8	7,078.6	-1,733.2	-346.0
Qld	6,250.2	7,098.9	848.7	215.1
WA	3108.0	3,494.4	386.4	193.4
SA	2459.1	3,181.5	722.4	477.6
Tas	683.1	1,395.0	711.9	1,454.0
ACT	648.9	657.6	8.7	18.3
NT	273.2	1,664.4	1,391.2	6,919.9
Total	(c) 34,120.0	(c) 34,120.0		

- Notes:
- (a) *The Department of Treasury and Finance has advised that GST raised in each State is based on each State's share of national household final consumption expenditure and other items that attract GST. This data is sourced from ABS Cat. No. 5206.0*
 - (b) *Relativities as recommended by the Commonwealth Grants Commission's Report on State Revenue Sharing Relativities Review 2004*
 - (c) *Reported result adjusted for rounding purposes*

Source: *Budget Paper No. 2, 2004-05 Strategy and Outlook, Amended version, p.77*

The Committee has noted that the electronic version of the Budget Papers differs in several places from the printed version, including page 77 of Budget Paper No. 2. A list of these amendments can be found at the 2004-05 Victorian Budget website, www.budget.vic.gov.au - Amendments. Further comment on this matter is contained at Chapter 4, section 4.1 of this report.

Based on estimates prepared at the time the 2004-05 Budget was formulated, Victoria will generate \$8.5 billion⁵³ in GST in 2004-05. However, based on relativities recommended by the Commonwealth Grants Commission in its *Report on State Revenue Sharing Relativities Review 2004*, Victoria expects to receive back from the Commonwealth only \$7.08 billion in the form of GST grants, effectively subsidising all other states and territories other than New South Wales to around \$1.73 billion.⁵⁴

⁵³ *ibid.*, p.76; Australian Bureau of Statistics, *Australian National Accounts: National Income, Expenditure and Product*, Cat. No. 5206.0, September 2004

⁵⁴ Budget Paper No 2. *2004-05 Strategy and Outlook*, p.76

Furthermore, on an equal per capita basis, the redistribution of GST to other states increased by a further \$287 million between 2003-04 and 2004-05.⁵⁵

The Treasurer advised the Committee that while Victoria supports the principles of equalisation and redistribution to needier states, the present GST distribution system is considered a “*bizarre, outmoded, clapped-out system, and so we want to change it*”.⁵⁶

The Commission in its 2004 Report stated that “*we have made it clear that we are supportive of a far reaching review of equalisation, including its underlying purposes and objectives.*”⁵⁷ Subsequently, at the March 2004 meeting of the Ministerial Council for Commonwealth State Financial Relations, Victoria took the lead in proposing a review of the Commonwealth Grants Commission methodology.⁵⁸ This was agreed to by a majority of states and territories,⁵⁹ and supported by the Commonwealth.⁶⁰

This review will be undertaken by Heads of Treasuries, and will draw on the expertise of the Commission. The review will consider whether the present approach, based on an assessment of virtually all receipts and expenses, is appropriate and necessary; the size and trend of the redistributions; simplification; and data issues. This work program will not, however, be examining the underlying principles of horizontal fiscal equalisation.⁶¹

The Victorian Government considers the terms of reference for the review are too narrow in view of the fundamental flaws in the present arrangements, but considers the review is a first step to reforming Commonwealth-State financial relations.⁶² The Government believes the review will confirm that the current system is overly complex, open to manipulation and produces perverse outcomes, thereby exposing the need for a more comprehensive reform.⁶³

The Committee considers the proposed review of Commonwealth-State financial relations is a positive development that may lead to real financial benefits to the state through a more efficient and equitable sharing of GST tax revenue and other grants determined by the Commonwealth Grants Commission equalisation methodologies. The Committee looks forward with interest to the outcome of the review in addressing inequities in Commonwealth-State financial relationships.

⁵⁵ *ibid.*, p.77

⁵⁶ Hon. J. Brumby, MP, Treasurer, transcript of evidence, 19 May 2004, p.12

⁵⁷ Commonwealth Grants Commission’s *Report on State Revenue Sharing Relativities Review* March 2004, pp.87–88

⁵⁸ Budget Paper No. 2, *2004-05 Strategy and Outlook*, p.79

⁵⁹ Hon. J. Brumby, MP, Treasurer, transcript of evidence, 19 May 2004, p.12

⁶⁰ The Hon. P. Costello, MP, Treasurer, Commonwealth of Australia, Media release *Meeting of the Ministerial Council for Commonwealth State Financial Relations and outcomes of the Australian Loan council*, 26 March 2004, p.1

⁶¹ *ibid.*, p.2

⁶² Budget Paper No. 2, *2004-05 Strategy and Outlook*, p.79

⁶³ *ibid.*

The Committee notes the comments by the Commonwealth and the Victorian Government in September 2004 over the merits of GST taxing and distribution arrangements for state and territories finances.

The Commonwealth Government claimed that:⁶⁴

- at the inaugural meeting of the Ministerial Council for Commonwealth-state Financial Relations in March 2000, the projected impact of the GST on state and territory finances over the period 2002-03 to 2007-08 was that they would receive windfall gains of \$3.7 billion compared with the previous Commonwealth revenue sharing and state taxing arrangements. Of this gain, Victoria's entitlement was estimated at \$195 million;⁶⁵
- data as at September 2004 indicates that over the same period, the revised cumulative gain to the states and territories compared with previous arrangements is now estimated at \$11.8 billion. Of this gain, Victoria's entitlement is estimated at \$2.1 billion⁶⁶ or an increase of \$1.9 billion compared with initial estimate in March 2000; and
- Victoria is estimated to collect \$32.9 billion⁶⁷ in GST revenue over the period 2004-05 to 2007-08.

The Victorian Government claimed that:⁶⁸

- while GST is finally delivering a modest gain compared with earlier estimates, subsidies by Victoria to other states and territories over the next four years are estimated at more than \$7 billion;
- annual GST subsidies to other states and territories around \$1.8 billion are unsustainable; and
- these arrangements demonstrated the urgency of the review of the method of GST distribution to be undertaken by Treasury officials around Australia.

The Committee considers that informed analysis and discussion of GST revenue issues will be inhibited until both the Commonwealth Government and the Victorian Government have agreed to an updated method of GST distribution which recognises both the state's entitlement to an equitable share of GST tax revenue coupled with a further recognition of the state's obligations to assist other states and territories.

⁶⁴ The Hon. P. Costello, MP, Treasurer, Commonwealth of Australia, Media release *GST revenue windfall to the States and Territories*, 17 September 2004

⁶⁵ *ibid.*, Attachment B

⁶⁶ *ibid.*

⁶⁷ *ibid.*, Attachment A

⁶⁸ The Hon. J. Brumby, MP, Treasurer, Media release, *GST carve up costs Victoria up \$7 billion over four years*, 17 September 2004

(ii) Specific Purpose Payments grants

Specific Purpose Payments grants (SPPs) are Commonwealth grants paid to the states under section 96 of the Commonwealth Constitution and form an important component of state funding for vital community services such as health, education, housing, roads and community services.

The Committee notes SPPs will provide revenues in 2004-05 of about \$5.6 billion⁶⁹ equivalent to 19.3 per cent of the state revenue of \$28.98 billion.⁷⁰ However, the Government calculates this is \$300 million less than if the grants had been distributed on a per capita basis and, as a result, Victoria receives the lowest SPPs per capita of any state or territory.⁷¹ For example, the Department of Treasury and Finance advised that there were shortfalls compared with equal per capita funding of \$36.1 million in regard to the Health Care grant, \$17 million for the Assistance to Government Schools grant and \$11.8 million for the Disability Services grant.⁷²

The Committee notes that SPP arrangements are complex.⁷³ SPPs are distributed with very specific Commonwealth policy objectives and there are over 100 different SPPs. The payments are costly to administer at both Commonwealth and state levels and often blur accountability between levels of Government. Non or partial indexation of SPPs over time can lead to considerable cost shifting from the Commonwealth to the state. The inherent inflexibility in some programs can also hamper efficient delivery of services.

In view of the complexities associated with SPPs, the Committee considers that, as a matter of priority and as part of the discussions between the State Government and the Commonwealth on Commonwealth-State financial relations, SPP funding arrangements should be the subject of an on-going review with the Commonwealth to ensure the best possible equity and transparency in funding provided under this source.

The Committee therefore recommends:

Recommendation 149: The Government review the Specific Purpose Payment grants arrangements and continue discussions with the Commonwealth Government to seek the best possible equity and transparency in funding provided from this source.

⁶⁹ Budget Paper No. 4, *2004-05 Statement of Finances*, p.137

⁷⁰ *ibid.*, p.8

⁷¹ Budget Paper No. 2, *2004-05 Strategy and Outlook*, pp. 80–81

⁷² Department of Treasury and Finance response to the Committee's follow-up questions

⁷³ Budget Paper No. 2, *2004-05 Strategy and Outlook*, pp. 80–81.

(b) Victorian Competition and Efficiency Commission

The Victorian Competition and Efficiency Commission (VCEC) was established on 1 July 2004 as a State Body under the *State Owned Enterprises Act 1992*.⁷⁴

The formation of VCEC was flagged by the Government as part of the April 2004 Economic Statement *Victoria: Leading the Way*,⁷⁵ with the 2004-05 Budget allocating \$11.6 million over four years (\$2.8 million in 2004-05) for its operating costs.⁷⁶

The establishment of VCEC brings together the functions of regulation review (previously the responsibility of the Department of Innovation, Industry and Regional Development) and competitive neutrality assessment (previously carried out by the Competitive Neutrality unit of the Department of Treasury and Finance).⁷⁷ Another function assigned to the Commission is undertaking inquiries into specific matters referred to it by the Government.⁷⁸

The Committee notes that the inquiry function assigned to VCEC allows for a more open basis for consultation with the community on some issues. This can be achieved by specifying particular requirements relating to the conduct of inquiries, which may involve holding public hearings, receiving public submissions and preparing a draft report.⁷⁹

The Committee notes that the VCEC model is similar to that used at the Commonwealth level, where the three functions are carried out by the Productivity Commission.⁸⁰ Alternative models are used in other Australian jurisdictions (see exhibit 14.10), where these functions are usually carried out by more than one agency and have differing governance arrangements to those proposed for the Victorian Competition and Efficiency Commission.

⁷⁴ Victoria Government Gazette, *State Owned Enterprises (State Body – Victorian Competition and Efficiency Commission) Order 2003*, 1 July 2004, pp.1862–1866

⁷⁵ Department of Treasury and Finance, *Victoria: Leading the Way*, Economic Statement April 2004, p.26

⁷⁶ Budget Paper No. 3, *Service Delivery 2004-05*, pp.260, 263

⁷⁷ Victorian Competition and Efficiency Commission, About us, www.vcec.vic.gov.au, accessed 19 October 2004

⁷⁸ Hon. J. Brumby, Treasurer, media release, *Efficiency Commission to make it easier and cheaper to do business in Victoria*, 20 April 2004

⁷⁹ Victoria Government Gazette, *State Owned Enterprises (State Body – Victorian Competition and Efficiency Commission) Order 2003*, 1 July 2004, s.4

⁸⁰ Productivity Commission, *Annual Report 2002-03*, pp.24–25

Exhibit 14.10 Review processes in selected Australian jurisdictions

Jurisdiction	Competitive neutrality	Regulation review	Public Inquiries
Victoria	Victorian Competition and Efficiency Commission	Victorian Competition and Efficiency Commission	Victorian Competition and Efficiency Commission (a) Essential Services Commission (b)
Commonwealth	Productivity Commission	Productivity Commission	Productivity Commission
New South Wales	Independent Pricing and Regulatory Tribunal	Cabinet Office	Independent Pricing and Regulatory Tribunal (c)
Queensland	Queensland Competition Authority	Department of State Development and Innovation (d)	Queensland Competition Authority (e)
Western Australia	Department of Treasury and Finance (f)	Small Business Development Corporation (g)	Economic Regulation Authority (h)
Tasmania	Government Prices Oversight Commission	Department of Treasury and Finance (i)	Government Prices Oversight Commission (j)

- Notes:
- (a) *The Commission may conduct an inquiry into any matter referred to it by the Treasurer under s. 3 of the Order in Council establishing the Commission*
 - (b) *Relates mainly to reviews conducted in respect of regulated industries (s. 10(g) and Part 5 of the Essential Services Commission Act 2001)*
 - (c) *The range of inquiry is limited to any matter with respect to pricing, industry or competition matters under s.12A of the Independent Pricing and Regulatory Tribunal Act 1992 (NSW)*
 - (d) *Carried out within the Business Regulation Reform Unit*
 - (e) *The range of inquiry is limited to any matter relevant to the implementation of competition policy under section 10(e) of the Queensland Competition Authority Act 1997*
 - (f) *Carried out by the Complaints Secretariat*
 - (g) *Small business impact statements only*
 - (h) *The range of inquiry appears to be limited to regulated industries under s. 32A of the Economic Regulation Authority Act 2003 (WA)*
 - (i) *Carried out within the Regulation Review Unit*
 - (j) *May carry out consulting activities under s. 11 of the Government Prices Oversight Act but the range of activities may be limited to activities related to monopoly or near monopoly government service providers*

Exhibit 14.10 – continued

Sources: *Victorian Competition and Efficiency Commission, About us*, www.vcec.vic.gov.au, accessed 19 October 2004; *Essential Services Commission Act 2001*, s. 10(g) and Part 5, *Productivity Commission, 2002 03 Annual Report*, pp.19–26; *Independent Pricing and Regulatory Tribunal, What do we do?*, www.ipart.nsw.gov.au, accessed 15 September 2004; *Department of Premier and Cabinet (NSW), About us*, www.cabinet.nsw.gov.au/about.html, accessed 19 October 2004; *Queensland Competition Authority, How we can help you*, www.qca.org.au, accessed 19 October 2004, *Queensland Competition Authority Act 1997 (Qld)*, s.10(e); *Department of State Development and Innovation, Licences and Regulation: Regulation reform*, www.sd.qld.gov.au, accessed 19 October 2004; *Economic Regulation Authority, Water Division: Inquiry on Water and wastewater pricing*, www.era.wa.gov.au, accessed 15 September 2004; *Department of Treasury and Finance (WA), Western Australia’s Report to the National Competition Council, May 2004*, p.83; *Small Business Development Corporation, Government Regulation and the Regulation Review Panel*, www.sbdc.com.au, accessed 19 October 2004; *Government Prices Oversight Commission, Welcome to the Government Prices Oversight Commission*, www.gpoc.tas.gov.au, accessed 19 October 2004; *Government Prices Oversight Act 1995*, s.11; *Department of Treasury and Finance (Tasmania), The Legislation Review Program and the Role of the Regulation Review Unit*, www.treasury.tas.gov.au, accessed 19 October 2004

The Order-in-Council establishing VCEC states that the Commission must be as efficient as possible in pursuing its undertakings and act in accordance with the following principles:⁸¹

- the provision of analysis and advice that is independent and rigorous; and
- an overarching concern for the well-being of the community as a whole, rather than the interests of particular industries or groups.

The Committee is concerned that there are several provisions contained in the Order-in-Council establishing VCEC that may create tensions in providing advice to the Government that is independent and rigorous. In this regard, the Committee notes that the independence of VCEC is potentially affected by several provisions including:⁸²

- suspension of a Commissioner from Office by the Governor in Council without any specified reasons;
- not requiring public release of inquiry reports or annual reports (the Order states that the Treasurer ‘should’ publicly release these reports within six months and three months respectively);
- the Treasurer may withdraw or amend a reference at any time before receiving the final report;

⁸¹ *State Owned Enterprises (State Body – Victorian Competition and Efficiency Commission) Order 2003*, 1 July 2004, s.3

⁸² *ibid.*, ss.3, 4 and 7

- requiring the Commission to operate in a framework consistent with the Victorian Government's social, economic and environmental policies and priorities; and
- unable to employ staff directly, with the Commission supported by a secretariat located within the Department of Treasury and Finance.

The Committee believes that the development of formal protocols to guide the relationship between key parties, would assist to establish clear expectations on factors affecting the capacity of VCEC to develop independent and rigorous advice.

The Committee notes that there appears to be some confusion by VCEC on some of the subtle distinctions included in the Order. For example, the VCEC website states that:⁸³

*The Government is **required** to release the final report of an inquiry within six months of the Treasurer receiving that final report from the Commission [emphasis added].*

This is contrasted with the requirements specified in the Order, which state that:⁸⁴

*The Treasurer **should** publicly release the final report within six months of receiving it from the Commission [emphasis added].*

The Committee therefore recommends that:

Recommendation 150: **The Treasurer and the Department of Treasury and Finance develop formal protocols with the Victorian Competition and Efficiency Commission relating to staffing, resourcing and reporting arrangements.**

⁸³ Victorian Competition and Efficiency Commission, The Inquiry process, www.vcec.vic.gov.au, accessed 30 August 2004

⁸⁴ *State Owned Enterprises (State Body – Victorian Competition and Efficiency Commission) Order 2003*, 1 July 2004, s.4(5)

14.6 Finance portfolio

14.6.1 2004-05 outlook for the portfolio

Tasks to be undertaken within the Department of Treasury and Finance that are specific to the responsibility of the Minister for Finance during 2004-05 include:⁸⁵

- the implementation and coordination of the International Financial and Reporting Standards regime for financial reporting at whole of government, departmental and agency level;
- the provision and management of the financial management framework under the Financial Management Act, the regulations and bulletins;
- administration of government leased and owned assets for land, property, accommodation and motor vehicles;
- public sector superannuation policy management; and
- oversight of the Victorian Managed Insurance Authority which provides insurance and risk management services for departments and other participating bodies.

Other key services funded from the Finance portfolio in 2004-05 are:⁸⁶

- quarterly output performance certifications and output evaluation and price reviews;
- provision to the Parliament of quarterly financial reports and compliance assurance reports;
- annual review of the whole of government compliance framework and of the Financial Management Act; and
- oversight of the Essential Services Commission.

There was one initiative relevant to the Finance portfolio announced in the 2004-05 Budget. This relates to the funding of \$1.5 million to provide guidance, education and training across the Victorian public sector on the preparation and presentation of financial information pending changes to the Australian accounting framework arising from the adoption of International Financial Reporting Standards for reporting periods on or after 1 January 2005.⁸⁷

⁸⁵ Mr J. Lenders, MLC, Minister for Finance, transcript of evidence, 15 June 2004, pp.2-3

⁸⁶ Department of Treasury and Finance response to the Committee's 2004-05 Budget Estimates questionnaire, pp.2-3

⁸⁷ Budget Paper No. 3, *2004-05 Service Delivery*, p.301-302

14.6.2 Analysis of the budget

The Minister for Finance has either full or partial responsibility for twelve outputs in five output groups in the Department of Treasury and Finance (see exhibit 14.11). Expenditure in 2004-05 for these outputs is expected to be \$105.7 million equivalent to 56.9 per cent of the total departmental budget allocation of \$185.7 million.⁸⁸

**Exhibit 14.11: Finance Portfolio
Output costs**

Output Group	Outputs under the responsibility of the Minister for Finance	2004-05 Budget (\$ million)
Resource Management Services	Government Accommodation Services	28.1
	Government Land and Property Services	6.1
	Procurement Services	5.0
	Management of Motor Vehicle Lease	2.6
Sub total		41.8
Regulatory Services	Economic Regulatory Services	12.2
Strategic Policy Advice	Budget and Financial Policy Advice (a)	11.1
	Financial and Resource Management Framework (a)	8.9
	Insurance Policy Advice (b)	8.2
	Economic, Social and Environmental Policy Advice (a)	5.3
	Financial and Risk Management Policy Advice (a)	1.2
Sub total		34.7
Financial Management Services	Financial Reporting (a)	14.5
Risk Management Services	Prudential Supervision and Financial Asset & Liability Management (a)	2.5
Total (c)		105.7

Notes: (a) Responsibility for output shared with the Treasurer
 (b) Responsibility for output shared with the Minister for WorkCover
 (c) The total outputs for which the Minister for Finance has joint responsibility is \$51.7 million

Sources: Department of Treasury and Finance response to the Committee's 2004-05 Budget Estimates questionnaire, pp.1-2; Budget Paper No. 3, 2004-05 Service Delivery, pp.220-236

⁸⁸ Budget Paper No. 3, *Service Delivery 2004-05*, pp.220-236

14.6.3 Key issues impacting on the portfolio

The department's response to the Committee's 2004-05 Budget Estimates questionnaire and the estimates hearing identified a number of issues that will affect the Finance portfolio and its Budget Estimates for 2004-05.

(a) Public sector financial reporting

The Minister for Finance has responsibility for promoting sound financial management practices in the Victorian Public Sector and providing advice on whole of government reporting. Two significant issues are currently being considered within the portfolio in relation to financial reporting, namely the adoption of international accounting standards for financial reporting purposes and the implementation of the Financial Management Compliance Framework. At the estimates hearing, the Minister briefed the Committee on the progress in implementing these initiatives.⁸⁹

(i) Adoption of international financial reporting standards

The Committee is aware that Australia is committed to the adoption of International Financial Reporting Standards (IFRS) for external financial reporting purposes.⁹⁰ The Australian Accounting Standards Board (AASB), the national body that sets accounting standards in Australia, announced that all Australian reporting entities would adopt accounting standards issued by the International Accounting Standards Board by 2005.⁹¹

The Committee notes that the AASB had issued 40 Australian equivalents of International Financial Reporting Standards by June 2004.⁹² The completed set of Australian standards are known individually as AASB standards and collectively are referred to as Australian International Financial Reporting Pronouncements (AIFRP), and are applicable to all reporting entities for the reporting period commencing 1 January 2005.⁹³

The implications are that:⁹⁴

- for entities with a financial year ending 31 December, AIFRP will apply to financial reports prepared for the period commencing 1 January 2005;

⁸⁹ Mr J. Lenders, MLC, Minister for Finance, transcript of evidence, 15 June 2004, pp. 2–3

⁹⁰ Department of Treasury and Finance, IFRS Bulletin, Edition 1 May 2004, p.1

⁹¹ Department of Treasury and Finance, *Financial Reporting Update*, Edition 5, January 2004, Attachment 2, p.14

⁹² website: aasb.com.au/pronouncements/aasb/standards

⁹³ Department of Treasury and Finance, *Financial Reporting Update*, Edition 5, January 2004, p.3

⁹⁴ *ibid.*

- for entities with a financial year ending 30 June, AIFRP will apply to financial reports for the period commencing 1 July 2005; and
- prior year comparative financial details including the financial reports for both reporting periods will require recasting under the new standards.

The Minister for Finance advised the Committee that the biggest issue for financial management for 2004 is the adoption of the International Financial Reporting Standards.⁹⁵ The Department of Treasury and Finance has responsibility for coordination of the implementation of the new financial reporting framework in the Victorian Public Sector.⁹⁶ About 590 Victorian public sectors agencies⁹⁷ will be affected by the change, and forward estimates of departments for the 2005-06 Budget will be prepared under the new framework.⁹⁸

The Committee notes that action taken in relation to the adoption of AIFRP within the Victorian Public Sector to date consists of:

- the department, through its membership of the Heads of Treasuries Accounting and Reporting Advisory Committee, is contributing significantly to the international harmonisation of Australian Accounting Standards (as well as the GAAP - GFS convergence project);⁹⁹
- amendments to the *Financial Management Act 1994*;¹⁰⁰
- development of a suite of Financial Directions for issue by the Minister for Finance to VPS reporting entities to ensure consistency in the application of the AIFRP, particularly where optional accounting treatments are provided under new accounting standards;¹⁰¹
- creation of an Internet based Financial Management Knowledge Centre to provide information, advice and guidance for VPS entities on AIFRP adoption;¹⁰² and
- provision of funding of \$1.5 million in the 2004-05 Budget for training and development of accounting staff within the public sector on AIFRP adoption.¹⁰³

The Committee understands that it is not presently possible to estimate the financial impact of the AIFRP regime on the key financial policies, operating results or balance sheets of Government or individual agencies. However, significant financial adjustments may arise under the new accounting standards due to changes in the

⁹⁵ Mr J. Lenders, MLC, Minister for Finance, transcript of evidence, 15 June 2004, p.3

⁹⁶ Department of Treasury and Finance, *IFRS Bulletin*, Edition 1, May 2004, p.1

⁹⁷ Auditor-General Victoria, *Annual Report 2002-03*, p.1

⁹⁸ Department of Treasury and Finance, *IFRS Bulletin*, Edition 1, May 2004, p.2

⁹⁹ Department of Treasury and Finance, *Financial Reporting Update* Edition 5 January 2004, p.1

¹⁰⁰ Mr J. Lenders, MLC, Minister for Finance, transcript of evidence, 15 June 2004, pp.2, 3

¹⁰¹ Department of Treasury and Finance, *IFRS Bulletin*, Edition 1, May 2004, p.1

¹⁰² *ibid.*, p.2

¹⁰³ Budget Paper No. 3, *2004-05 Service Delivery*, p.301

manner assets are valued, liabilities are recognised or existing obligations are measured.

The Committee believes that departments should assess the financial impact of adopting the new IFRS financial reporting. This assessment should include an analysis of key changes in financial recognition, measurement and valuation policies and practices and their likely impact on financial performance and financial positions in 2005 and beyond. Departments should also provide for performance reporting in their annual reports of their progress in adopting, managing and implementing the new IFRS financial reporting regime.

Accordingly, the Committee recommends that:

Recommendation 151: **The Department of Treasury and Finance ensure departments provide details in their annual reports on the progress made with adopting the International Financial Reporting Standards and highlighting the major changes and potential impact of the new arrangements.**

(ii) Financial Management Compliance Framework

The Committee sought details of the implementation of the Financial Management Compliance Framework (the Framework) from the Minister for Finance.¹⁰⁴

The Minister for Finance has responsibility for ensuring the Government meets its obligations under the *Financial Management Act 1994* and for issuing Standing Directions of the Minister for Finance (The Directions). The Directions form the basis of financial management for the state and are designed to supplement the *Financial Management Act 1994* by prescribing mandatory elements that must be complied with across the Victorian public sector.¹⁰⁵

The Framework came into effect on 1 July 2003 and is aimed at providing a mechanism through which the Government can effectively monitor and review compliance with the Directions, obtain assurance that VPS entities have appropriate systems to ensure compliance with the Directions, and to aid in discharging the Minister for Finance's accountability to Parliament that public resources are managed in a financially responsible manner.¹⁰⁶ Key features include:¹⁰⁷

¹⁰⁴ Mr J. Lenders, MLC, Minister for Finance, transcript of evidence, 15 June 2004, p.4

¹⁰⁵ Department of Treasury and Finance, *Whole of Government Financial Compliance Management Framework- Explanatory Framework Document*, June 2003, pp 8,10

¹⁰⁶ *ibid.*, pp.2-5

¹⁰⁷ *ibid.*

- it is based on Australian Standard AS3806 *Compliance Programs*, a major benchmark for the development of compliance programs for both public and private sectors;
- allocates primary accountability for compliance to individual VPS agencies, while departments have a portfolio assurance role and the Department of Treasury and Finance has a whole of government assurance role; and
- requires an annual certification of compliance with the Directions by individual agencies.

The Minister for Finance advised the Committee that a range of documents have been released with the launch of the Framework and comprising:¹⁰⁸

- Standing Directions of the Minister for Finance;
- Whole of Government Financial Management Compliance Framework - Explanatory Document;
- Financial Management Compliance Framework - an Overview; and
- Financial Management Compliance Framework - Frequently asked questions.

Additionally, the Department of Treasury and Finance has provided a range of other documentation to assist with compliance with the Standing Directions and the Framework that includes checklists, other tools to assess compliance levels, and compliance newsletters.¹⁰⁹

Documents comprising the Financial Management Compliance Framework package and the additional range of other documentation produced by the department to assist in compliance are available on the department's Financial Management Knowledge Centre website.¹¹⁰ This information includes:¹¹¹

- **The Library:** Contains the Financial Management Package, which consists of the *Financial Management Act 1994*, *Audit Act 1994*, Financial Management Regulations, Standing Directions of the Minister for Finance and Financial Reporting Directions;
- **Compliance:** Contains the Financial Management Compliance Framework including the checklists and tools, frequently asked questions, newsletters and other guidance; and
- **Compliance Monitoring System:** Contains further material to assist entities in completing the annual Financial Management Compliance Certification process.

¹⁰⁸ Minister for Finance's response to the Committee's follow-up questions, p.2

¹⁰⁹ *ibid.*

¹¹⁰ www.fmkc.dtf.vic.gov.au

¹¹¹ *ibid.*

While the Committee believes that it is helpful that all the relevant documents associated with the Financial Management Compliance Framework are deposited in a central electronic register which facilitates easy access and clear identification of these documents, the Committee notes that access to the website is restricted to VPS entities.

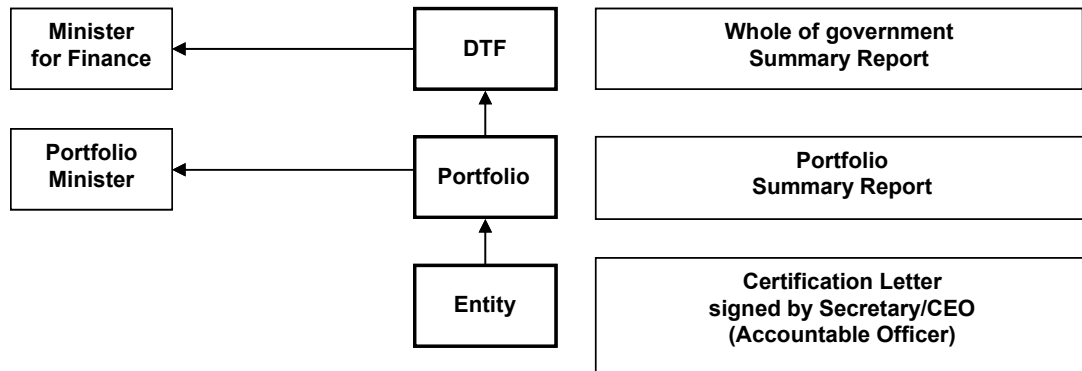
The Committee believes the website should be made publicly available, so that it can be accessed by members of the community with an interest in matters relating to the governance and management of the financial interests of the state.

The Committee recommends that:

Recommendation 152: **The Department of Treasury and Finance provide for the Financial Management Compliance Framework website to be accessible by the public.**

The Framework provides for a three tier certification and reporting hierarchy depicted at exhibit 14.12.

Exhibit 14.12: Financial Management Compliance Framework Certification and Reporting Arrangements



Source: Department of Treasury and Finance, *Whole of Government Financial Management Compliance Framework - Explanatory Framework Document*, June 2003, p.18

Under these arrangements, individual VPS entities (including departments) will address their annual certification letter to the relevant Minister, supported by the relevant department. Each department would then forward a portfolio summary report to the Minister for Finance through the Department of Treasury and Finance.¹¹²

The entity certification will be a statement that the Directions have been observed and will highlight areas of non-compliance with any element of the Directions. The

¹¹² Department of Treasury and Finance, *Whole of Government Compliance Framework – Explanatory Framework Document*, June 2003, p.18

certification letter must be signed by the Secretary/Chief Executive Officer as the Accountable Officer of each agency including departments.¹¹³

Departments will then need to exercise judgment as to which areas of non-compliance are raised in the portfolio summary report to Department of Treasury and Finance.¹¹⁴

The Committee notes that departments may need to take action on non-compliance matters which are of particular relevance to a portfolio and the Department of Treasury and Finance will work with departments to resolve systemic whole of government non-compliance issues.¹¹⁵

Portfolio summary reports should be completed and submitted to the Department of Treasury and Finance by 30 September each year. Agencies' certification letter should be forwarded to the portfolio department by 31 August each year, to enable portfolios to meet the 30 September deadline. Some flexibility will be provided in 2004 given that it is a transitional year.¹¹⁶ The Department of Treasury and Finance has the responsibility to collate and summarise portfolio summary.¹¹⁷

The Committee will monitor the outcomes of the first year of compliance with the Financial Management Compliance Framework giving particular attention to areas of non-compliance, arrears in reporting, validation of compliance certifications and the extent of exemptions, if any, granted from certification and reporting obligations.

The Department of Treasury and Finance has advised that as there is no legislative requirement for the Minister for Finance to publish a report on the results of the operation of the Framework, it is not intended to publish a report on the first year's results on compliance.¹¹⁸

The Committee notes the department's comments but considers that the objectives of the Financial Management Compliance framework initiative and good governance within the Victorian public service would be enhanced by full and comprehensive public reporting on the outcomes of the compliance and certification reporting process.

¹¹³ *ibid.*

¹¹⁴ *ibid.*

¹¹⁵ *ibid.*

¹¹⁶ *ibid.*

¹¹⁷ *ibid.*

¹¹⁸ Department of Treasury and Finance's e-mail response to the Committee's follow-up questions

The Committee therefore recommends:

Recommendation 153: **The Department of Treasury and Finance ensure public reporting on compliance and certification outcomes generated annually under the Financial Compliance Management Framework.**

(b) *Whole of government vehicle leasing arrangements*

The Minister for Finance advised the Committee that new arrangements have been provided for leasing of government vehicles.¹¹⁹ In February 2004,¹²⁰ VicFleet, a unit within the commercial division of the Department of Treasury and Finance, replaced the Commonwealth Bank of Australia (CBA) as the owner and lessor of government vehicles. Previous vehicle leasing arrangements were developed in 1997 following the sale and lease of the Victorian Government fleet to CBA.¹²¹

The new arrangements for vehicle leasing are:

- VicFleet replaces CBA as the owner and operator of future government vehicle acquisitions;
- existing CBA vehicle leases with departments and agencies will continue until lease expiry dates, to avoid penalties for early termination and losses on vehicle disposals, but replacement vehicles will be subsequently leased from VicFleet;
- VicFleet will be funded from loan facilities provided by Treasury Corporation Victoria;
- VicFleet will lease vehicles to departments and agencies under finance lease arrangements;
- a trust account will be set up within VicFleet to account for its leasing vehicle financial operations including vehicle acquisitions and disposals, billing and recovery of lease charges under direct debit arrangements; and
- VicFleet will develop new contracts with vehicle manufactures.

VicFleet has developed a new organisational structure with a focus on risk based vehicle cost and policy management. It provides a whole of government vehicle budget forecasting model to departments and agencies to assist with the management of their vehicle costs. The operations of VicFleet will be oversights by an Advisory and Governance Committee to monitor and assess whole of government vehicle fleet management and performance.

¹¹⁹ Mr J. Lenders, MLC, Minister for Finance, transcript of evidence, 15 June 2004, p.2

¹²⁰ *ibid.*

¹²¹ Public Accounts and Estimates Committee, *Report on the 2002-2003 Budget Outcomes*, 56th Report, April 2004, p.443

The Minister advised the Committee that the new leasing arrangements have resulted in lower leasing rates to lessees saving \$66 per month per car compared to the previous arrangement.¹²² Other associated benefits of the new arrangements are the ability to manage vehicle cost containment and benchmarking of vehicle cost and performance.¹²³

Budgetary impacts arising in 2004-05 from the new vehicle leasing arrangements are:

- the leasing facility outstanding with the CBA is estimated at \$230 million;
- \$180 million will be provided to VicFleet under a loan facility provided by Treasury Corporation Victoria;
- \$150 million in vehicle assets will be transferred to those vehicle user departments and agencies; and
- depreciation and amortization costs associated with the whole of government operation of vehicles will be reassigned to user departments and agencies.

The Committee supports the appropriate transfer of the risks associated with vehicle usage to users of vehicles to encourage transparency, accountability and efficiency of the state's vehicle fleet. Notwithstanding this, the Committee believes that a whole of government assessment of vehicle fleet operations and costs should be provided, and for this purpose, the Department of Treasury and Finance through VicFleet should develop appropriately benchmarked performance measures and targets for vehicle usage by Victorian Government agencies and provide comprehensive annual reporting on outcomes under the new vehicle leasing arrangements.

The Committee therefore recommends:

- Recommendation 154:** **The Department of Treasury and Finance:**
- (a) develop performance indicators to assess the efficiency and effectiveness of whole of government vehicle fleet operations under the revised leasing arrangements; and**
 - (b) include in its annual report details of achievements against those indicators.**

Previous reports of the Committee have referred to the Profit and Loss Adjustment Account, a liability arising to the state from the loss on sale of leased vehicles under the previous leasing arrangement with the CBA, due mainly to the loss of tax

¹²² Mr J. Lenders, MLC, Minister for Finance, transcript of evidence, 15 June 2004, p.14

¹²³ Minister for Finance's response to the Committee's follow-up questions, p.4

advantages on vehicle re-sale through the replacement of wholesale tax on cars with GST.¹²⁴ At 30 June 2003 the liability was \$57.2 million.¹²⁵

The Committee sought details of the balance of the Profit and Loss Adjustment Account at 30 June 2004, action proposed for 2004-05 and whether any other contingent liabilities exist with the CBA.¹²⁶

The Minister advised the Committee that at May 2004 the balance of the account had been reduced to \$37.1 million. Also, policies adopted in the past to manage the liability for losses arising from vehicle disposals would continue in 2004-05. These include more realistic assessment of residual sales values for new vehicles, continued central funding to reduce the account and better vehicle retention policies.

The Profit and Loss Adjustment Account does not include a contingent liability of \$16.3 million payable on the termination of the lease facility in 2006-07. The contingent liability is still being negotiated with the bank.

The Committee notes the action to reduce these liabilities and will review developments and monitor contingent liabilities as part of its review of 2003-04 Budget Outcomes.

(c) Government Superannuation Office - administrative costs and service performance levels

The Committee notes that Government Superannuation Office's (GSO) annual report for 2002-03 reported:

- administrative costs of \$15.5 million;¹²⁷ and
- some areas of poor service delivery to members. For example, up to 30 per cent of telephone calls were answered after 30 seconds, while 30 per cent of correspondence had taken more than 10 days to be responded to.¹²⁸

The Committee's perception is that administrative costs are very high in comparison with other funds given the number of active, non-active and pensioner members.¹²⁹

The Committee questioned the Minister for Finance as to what benchmarking has been done of the performance levels of the Government Superannuation Office for administrative expenses and queried what action the department is planning to take to improve the performance of the Government Superannuation Office.¹³⁰

¹²⁴ Report of the Public Accounts and Estimates Committee, *Report on the 2002-2003 Outcomes*, pp. 443-445

¹²⁵ *ibid.*

¹²⁶ Minister for Finance's response to the Committee's follow-up questions, p.7

¹²⁷ Government Superannuation Office, *Annual Report 2003*, p.40

¹²⁸ *ibid.*, p.3

¹²⁹ Public Accounts and Estimates Committee, transcript of evidence, 15 June 2004 p.12

¹³⁰ *ibid.*

The Minister provided a written response to the Committee that:¹³¹

- the Department of Treasury and Finance monitors GSO's service delivery and costs;
- administrative costs reported in the GSO's financial report for 2003 include costs for secretariat, policy, legal, medical and actuarial services;
- administration costs of GSO reflect the costs associated with managing a defined benefits fund of the complexity of the State Superannuation; and
- performance indicators for service levels have been set following feedback from the members of the Fund.

The Minister further advised that:¹³²

- GSO's costs and services are examined annually¹³³ through an independent, international benchmarking study¹³⁴ involving national and international comparisons with costs and services of similar complex defined benefit funds¹³⁵; and
- the latest study disclosed GSO's costs were 15 per cent lower than the median of its eight Australian peers while providing the second highest level of services.¹³⁶ Compared to international peers, GSO was rated at the median from a total cost perspective while providing above median levels of service.¹³⁷

The Minister advised that a separate study was undertaken in 2003 to examine costs involved in outsourcing the administration of the State Superannuation Fund and it concluded that existing GSO costs were reasonable and that, on balance, there appeared to be a lower degree of risk to the state and members of GSO by retaining the administration of the Fund.¹³⁸ Given the comparative performance of GSO, the Department of Treasury and Finance is satisfied with the existing arrangements for the service delivery and management of the State Superannuation Fund.

The Committee notes the advice provided by the Minister and intends to follow up this matter in its review of 2003-04 Budget Outcomes. The Committee considers that improved disclosure in the GSO's financial report would provide transparency for key cost components representing administrative costs. Additionally, enhanced reporting in the annual report on all benchmarking actions and outcomes for service delivery levels and costs would provide members and other stakeholders with a greater level of

¹³¹ Minister for Finance's response to the Committee's follow up questions, p.3

¹³² *ibid.*

¹³³ Government Superannuation Office, *Annual Report 2003*, p.23

¹³⁴ *ibid.*

¹³⁵ *ibid.*

¹³⁶ *ibid.*

¹³⁷ *ibid.*

¹³⁸ Minister for Finance's response to the Committee's follow-up questions, p.3

comfort concerning the comparative performance of the State Superannuation Fund with other relevant organisations.

The Committee therefore recommends that:

- Recommendation 155: The Government Superannuation Office:**
- (a) provide greater disclosure of component items of administrative expenses in its financial reports; and**
 - (b) include in its annual report the results of benchmarking studies showing comparative costs and service delivery outcomes of the State Superannuation Fund relative to other similar funds.**

(d) Victorian Managed Insurance Agency

The Committee is aware that the Victorian Managed Insurance Agency's (VMIA) financial performance and financial position has deteriorated between 2000-01 and 2002-03. During this period:¹³⁹

- the annual operating losses averaged \$19 million; and
- net assets declined from \$81.3 million to \$34.3 million.

The Committee notes that a deficit existed in the desired capital position of the Authority at 30 June 2003 of \$68.2 million. This is based on a policy¹⁴⁰ of a net asset position equivalent to 10 per cent of outstanding claims liabilities of \$525 million plus a catastrophe reserve of \$50 million compared with actual net assets at 30 June 2003 of \$34.3 million.¹⁴¹

The Committee understands that VMIA's operating losses have arisen from:¹⁴²

- acceptance of liabilities previously insured by HIH;
- negative investment returns over the years;
- unanticipated growth in pre-1985 public sector workers compensation claims and increases in the actuarial assessment of these claims; and
- the impact of the decision to phase in premium increases over several years.

¹³⁹ Victorian Managed Insurance Authority, *Annual Report, 2001*, pp.18–19, *Annual Report 2002*, pp.16–17, *Annual Report 2003*, pp.18–19

¹⁴⁰ Victorian Managed Insurance Authority, *Annual Report, 2001*, p.6

¹⁴¹ Victorian Managed Insurance Authority, *Annual Report 2003*, pp.18–19

¹⁴² Victorian Managed Insurance Authority, *Annual Report 2001*, p.6, *Annual Report 2002*, p.6, *Annual Report 2003*, pp.6–8.

The Minister advised the Committee that VMIA:¹⁴³

- expects to achieve a positive return on both underwriting and investment results for 2003-04 and will be budgeting for similar results in future years;
- has a more than positive working capital ratio to meet current liabilities; and
- will be provided with additional capital to meet medical indemnity underwriting.

The Committee notes the expected financial improvement of VMIA and will continue to monitor its financial performance and position as part of its review of the 2003-04 Budget Outcomes.

VMIA manages claims on behalf of former SECV entities that have now been privatised and certain other government agencies covered under the cost plus policies. As all such policies have been transacted on a 'pay as you go' basis, the entities covered under this arrangement reimburse VMIA for claims paid plus administration expenses. While no provision for these outstanding claims is included in VMIA's financial report, an indemnity has been given by the Treasurer of Victoria on behalf of the State Government in relation to all liabilities arising from these policies. The net claims paid on these policies amounted to \$99,000 in 2002-03. This amount has been repaid or is payable by the relevant entities under the 'pay-as-you-go' arrangements. Actuarial assessment of the present value of these claims at 30 June 2003 was \$9.29 million for an undiscounted amount of \$16.45 million.¹⁴⁴

VMIA, at the Minister's direction, has provided public liability insurance to a number of non-government entities, being heritage tourist railways and adventure tourist operators. Commercial coverage is being sought for adventure tourist operators while discussions are being held with an overseas underwriter. Claims have been minor.

14.7 WorkCover portfolio

The Minister for WorkCover is responsible for the Transport Accident Commission and the Victorian WorkCover Authority and receives advice and analysis relating to their operations, including advice on the economic and social impacts of insurance issues on business and the community.¹⁴⁵

¹⁴³ Minister for Finance's response to the Committee's follow up questions, p.9

¹⁴⁴ Victorian Managed Insurance Authority, *Annual Report 2003*, p.25

¹⁴⁵ Department of Treasury and Finance response to the Committee's 2004-05 Budget Estimates questionnaire, p.3

14.7.1 2004-05 outlook for the portfolio

The Committee noted that one of the major activities relating to the WorkCover portfolio in 2004-05 will be responding to a review of the *Occupational Health and Safety Act 1985*, which was presented to the Government in March 2004.¹⁴⁶ At the estimates hearing, the Minister indicated that extensive consultation with stakeholders on the Review's recommendations was underway and consultations would conclude shortly, with the intention of announcing the Government's response in the 2004 spring session of Parliament.¹⁴⁷

14.7.2 Analysis of the budget

The Minister for WorkCover has joint responsibility with the Minister for Finance for the Insurance Policy Advice output within the Strategic Policy Advice output group.¹⁴⁸ The 2004-05 budget allocation for the output is \$8.2 million, compared to the anticipated 2003-04 outcome of \$8.8 million.¹⁴⁹

14.7.3 Key issues impacting on the portfolio

The department's response to the Committee's questionnaire and the estimates hearing identified three issues that will impact upon the portfolio and its Budget Estimates for 2004-05.

(a) Victorian WorkCover Authority – premium reductions

The Committee noted that the April 2004 Economic Statement provides for a 10 per cent reduction in the average WorkCover premium, resulting in savings to Victorian employers of \$180 million per year.¹⁵⁰ The Minister advised the Committee that the decision to reduce premiums from an average rate of 2.22 per cent to 1.998 per cent was made on the advice of the Victorian WorkCover Authority Board, which in turn was based on an independent analysis by the scheme's actuaries.¹⁵¹

The Committee noted that the reduction consolidates Victoria's WorkCover scheme as the provider of the second lowest average premium rate in Australia, and 25 per cent below New South Wales.¹⁵²

¹⁴⁶ C. Maxwell, *Occupational Health and Safety Act Review*, March 2004

¹⁴⁷ Hon. R. Hulls, MP, Minister for WorkCover, transcript of evidence, 16 June 2004, p.3

¹⁴⁸ Department of Treasury and Finance response to the Committee's 2004-05 Budget Estimates questionnaire, p.2

¹⁴⁹ Budget Paper No. 3, *2004-05 Service Delivery*, p.225

¹⁵⁰ Department of Premier and Cabinet, *Victoria: Leading the Way*, April 2004, p.24

¹⁵¹ Hon. R. Hulls, MP, Minister for WorkCover, transcript of evidence, 16 June 2004, p.2; Minister for WorkCover's response to the Committee's follow-up questions, p.5

¹⁵² Department of Premier and Cabinet, *Victoria: Leading the Way*, April 2004, p.24

The Committee notes that the Victorian WorkCover Authority's financial performance can be assessed in several different ways by including or excluding a range of transactions and changes to assumptions impacting on investment earnings and future claim liabilities (see exhibit 14.13).

**Exhibit 14.13 The Victorian WorkCover Authority's
financial performance 2002-03**

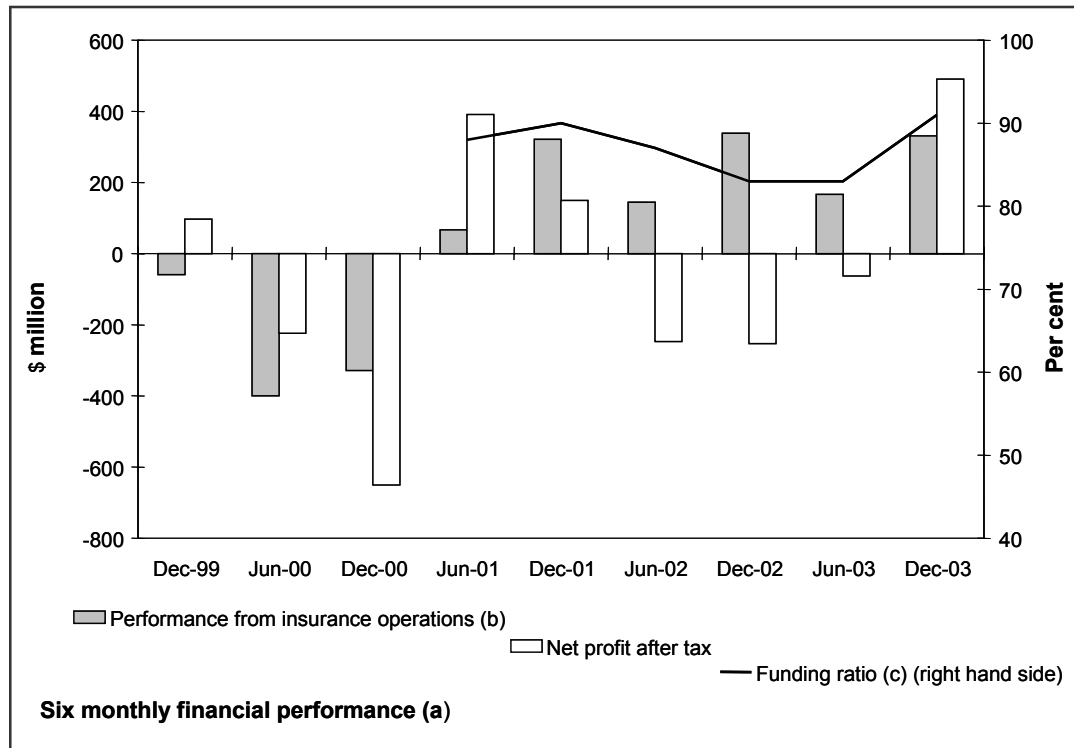
	(\$ million)
Performance from insurance operations (impact on result from internal factors)	504.5
Impact on result from external factors	
Difference between actual returns and long-term expected returns (a)	-437.4
Change in inflation assumptions and discount rates (b)	-383.0
Impact from legislative changes (c)	0.0
Net profit/(loss) (d)	-315.9

- Notes:
- (a) *Continued adverse international equity market conditions in 2002-03 produced an investment return well below long-term expectations*
 - (b) *Impact of unfavourable changes in economic assumptions (ie: reduction in discount rates due to falling interest rates) used to determine claims liability*
 - (c) *Relates to legislative changes external to the governing Acts of the Victorian WorkCover Authority*
 - (d) *Includes all revenue and expense items which must be taken into account under Australian accounting standards. This is the 'headline' profit/loss result as reported in the audited statement of financial performance for 2002-03*

Source: *Victorian WorkCover Authority, Annual Report 2002-03, p.32*

The Minister advised the Committee that since June 2003, the Victorian WorkCover Authority had reported a sound financial result for the half year ended December 2003, which was its sixth consecutive half-yearly positive performance from insurance operations (see exhibit 14.14).¹⁵³

¹⁵³ Hon. R. Hulls, MP, Minister for WorkCover, transcript of evidence, 16 June 2004, p.2; Hon. R. Hulls, MP, Minister for WorkCover, transcript of evidence, 16 June 2004, p.2

Exhibit 14.14: Victorian WorkCover Authority

- Notes:
- (a) Six monthly financial performance is not subject to audit by the Auditor-General
 - (b) Performance from insurance operations excludes the impact of external factors on the financial results including short-term volatility in the investment market, movements in key economic factors such as interest rates, and legislative changes external to WorkCover
 - (c) The funding ratio is calculated as net assets divided by net liabilities multiplied by 100

Sources: Victorian WorkCover Authority, media release, *WorkCover's record sixth successive positive insurance result boosts net profit*, 27 February 2004; Presentation by the Minister for WorkCover to the Public Accounts and Estimates Committee, 16 June 2004, p.2

The Committee was further advised that independent actuarial advice provided to the Victorian WorkCover Authority considered a 10 per cent reduction in the average premium rate was sustainable, with the Minister indicating that good management and successive half yearly positive operational results in the last few years delivered an opportunity for employers to share in the benefit of a better scheme through a reduction in the average premium rate.¹⁵⁴

The Minister advised the Committee that in the valuation for the WorkCover scheme as at 31 December 2003, the scheme's external actuary projected that full funding will be reached by December 2005.¹⁵⁵ With the 10 per cent reduction in the average

¹⁵⁴ Hon. R. Hulls, MP, Minister for WorkCover's response to the Committee's follow-up questions, p.5

¹⁵⁵ *ibid.*, p.6

premium rate, the scheme's actuary projected that full funding would now be achieved by June 2006.¹⁵⁶

In light of these financial results, the Committee sought details from the Minister for WorkCover on the reductions in premiums for 2004-05 and the extent to which premium revenue is reliant upon increased premiums payable by employers with a claims history.

The Minister advised that an independent review of the previous premium scheme identified deficiencies including lack of transparency in pricing of premiums and weak incentives for employers to improve OHS and work return outcomes.¹⁵⁷ Responding to this review, the Victorian WorkCover Authority gave a commitment to make the premium system fairer by rewarding employers who improve occupational health and safety performance.¹⁵⁸ The Minister indicated that the new premium model strengthens the link between an employer's health and safety claims experience and actual premium paid.¹⁵⁹

The Committee understands that the 10 per cent reduction in the average premium rate will be applied in the following manner:¹⁶⁰

- of 518 industry classifications, 18 high risk classifications will experience an industry rate increase, while the remaining 500 industries will experience industry premium rate decreases;
- increases or decreases in industry rates will depend on health and safety performance of an industry as a whole; and
- regardless of industry classification, employers who have annual remuneration below \$200,000 will receive a 10 per cent reduction on their own premium rates.

The Committee is supportive of efforts to provide incentives to employers to improve occupational health and safety performance by linking premiums with claims experience. The Committee believes that these benefits need to be clearly communicated to employers if desired behavioural changes are to be achieved.

(b) Farm safety

At the estimates hearing, the Minister advised the Committee that the total number of workplace fatalities in Victoria during 2003 was 27, which was a reduction of 12 compared to 1999.¹⁶¹ The Committee noted that as at 3 September 2004, the total

¹⁵⁶ *ibid.*

¹⁵⁷ *ibid.*, pp.5, 6

¹⁵⁸ *ibid.*

¹⁵⁹ *ibid.*

¹⁶⁰ *ibid.*

¹⁶¹ Hon. R. Hulls, MP, Minister for WorkCover, transcript of evidence, 16 June 2004, p.2

number of workplace fatalities in Victoria since the start of the year had reached 27, equivalent to the total number of fatalities recorded for the whole of 2003.¹⁶²

The Committee noted that farm related fatalities represent a proportionately large share of workplace fatalities in Victoria, with the Minister advising that a total of 126 farm related fatalities were reported to WorkCover between 1993 and 2002.¹⁶³ This constituted more than one-third of all reported deaths despite the industry having only approximately five per cent of the State's workforce.¹⁶⁴

The Committee noted that farm related deaths can be reported using a number of different criteria, with reported farm related fatalities sometimes defined on an industry basis (for example, agriculture and other related operations such as forestry and transport), sometimes defined to include the deaths of children in work related farm accidents and sometimes restricted to employees only (ie: excluding self-employed workers).¹⁶⁵

The Committee was informed that as at 30 June 2004, there had been 12 fatalities in the agriculture sector in 2003-04.¹⁶⁶ The Minister advised that of these deaths:¹⁶⁷

- seven were owners (or principals);
- three were employees (one of these occurred in the logging industry);
- one was a friend of the owner; and
- one was a contractor.

The Minister explained that in response to the number of fatalities in the agricultural sector, WorkSafe (a division of the Victorian WorkCover Authority) had intensified efforts and implemented an integrated strategy involving key farming sector organisations.¹⁶⁸ This included conducting high profile targeted media education campaigns such as tractor safety and, more recently, local country football clubs have been used to help improve attitudes and promote the safety message in farming communities.¹⁶⁹

The Committee noted that WorkSafe's farm safety initiatives during 2003-04 were guided by a business plan covering the manufacturing and agriculture industries.¹⁷⁰ This plan included a range of specific tasks to be undertaken during the year as well as

¹⁶² Victorian WorkCover Authority, *Work-related deaths: Total of reported fatalities by year*, www.workcover.vic.gov.au/vwa/home.nsf/pages/so_fatalities_total, accessed 30 September 2004

¹⁶³ Hon. R. Hulls, MP, Minister for WorkCover, transcript of evidence, 16 June 2004, p.5

¹⁶⁴ *ibid.*

¹⁶⁵ Department of Human Services, submission to the Rural and Regional Services and Development Committee's inquiry into the cause of fatality and injury on Victorian farms, January 2004

¹⁶⁶ Hon. R. Hulls, MP, Minister for WorkCover's response to the Committee's follow-up questions, p.1

¹⁶⁷ *ibid.*

¹⁶⁸ Hon. R. Hulls, MP, Minister for WorkCover, transcript of evidence, 16 June 2004, p.5

¹⁶⁹ *ibid.*

¹⁷⁰ WorkSafe Victoria, *Manufacturing and Agriculture Industries Program: Business Plan 2003-04*, October 2003

accompanying performance measures to assess progress in implementing major tasks.¹⁷¹ The Committee noted that many of these performance measures were based on establishing whether activities would be undertaken, with only one measure – the number of fatalities and claims frequency rate in the agricultural sector – assessing the outcome of these activities.¹⁷² There were no performance measures included to assess the effectiveness of educational or information activities.

WorkSafe's progress report against its 2003-04 business plan was published in July 2004 and revealed that WorkSafe had met many of the performance measures set for 2003-04 including:¹⁷³

- 1,088 field visits conducted under the hazardous substances project (target – 800 field visits);
- 60 roll over protection system compliance visits conducted with 19 notices issued (no numeric target was specified, with the target expressed as 'field visits conducted to maintain vigilance on compliance'); and
- field projects for farming being carried out in accordance with project plans.

The Committee noted that although the general outcomes were reported for the combined manufacturing and agricultural industry sectors for claims frequency rate and fatalities, there was no information relating specifically to the agriculture sector.¹⁷⁴ Further, there was no outcome reported for the performance measure *Number of field visits to raise awareness on the prevention of falls from heights regulations* (target – 200 field visits).¹⁷⁵

While the Committee welcomes the early release of WorkSafe's progress against its business plan for 2003-04, the Committee believes that the range of performance measures used to assess specific efforts to improve farm safety do not focus sufficiently on outcomes. The Committee believes that WorkSafe needs to revise its business planning arrangements to ensure that appropriate performance measures are developed to assess the effectiveness with which information campaigns and educational activities are being delivered, as well as developing separate performance measures on farm related fatalities and injury outcomes including those relating to self-employed workers and their children.

¹⁷¹ *ibid.*, p.11

¹⁷² *ibid.*

¹⁷³ WorkSafe Victoria, *Manufacturing and Agriculture Industries Program: Business Plan 2003-04 Full Year Progress Report*, July 2004, p.8

¹⁷⁴ *ibid.*, p.3

¹⁷⁵ *ibid.*, p.8

The Committee therefore recommends that:

Recommendation 156: **WorkSafe Victoria revise its business planning framework relating to the farm safety strategies to ensure the framework includes performance measures that reflect the effectiveness of educational, informational and compliance activities undertaken to improve farm safety outcomes as well as clearly defined injury and fatality measures.**

The Committee is aware that another Parliamentary Committee – the Rural and Regional Services and Development Committee – is currently undertaking an inquiry into farm safety, which is due to report by 30 June 2005.¹⁷⁶ The Committee awaits this report with interest.

(c) AFL sponsorship

The Committee noted that the Transport Accident Commission is currently a major sponsor of two Australian Football League (AFL) clubs, with the sponsorships part of a multi-pronged accident prevention strategy used to help activate the ‘Drink, drive, bloody idiot’ and ‘Wipe off 5’ speed messages respectively.¹⁷⁷ These contracts both expired at the conclusion of the 2004 season.¹⁷⁸

At the estimates hearings, the Committee sought information from the Minister on the value of these sponsorship arrangements and some of the criteria used to assess the effectiveness of the sponsorship.¹⁷⁹ The Minister took on notice the following question relating to the level of sponsorship for each AFL club from the Committee:¹⁸⁰

Please advise the level of sponsorship for each AFL football club which was provided by WorkCover and the Transport Accident Commission in 2003-04. What criteria is used to assess the effectiveness of the sponsorship? Is it intended that the two authorities will continue to sponsor AFL football teams?

¹⁷⁶ Rural and Regional Services and Development Committee, *Cause of fatality and injury on Victorian farms*, Contents, www.parliament.vic.gov.au, accessed 31 August 2004; Victoria Government Gazette, G36, 2 September 2004, p.2466

¹⁷⁷ Minister for WorkCover’s response to the Committee’s follow-up questions, p.1

¹⁷⁸ *ibid.*

¹⁷⁹ Hon. B. Forwood, MLC, Deputy Chair, Public Accounts and Estimates Committee, transcript of evidence, 16 June 2004, p.6

¹⁸⁰ Public Accounts and Estimates Committee’s follow-up questions for the Minister for WorkCover, Attachment 1

The Minister advised the Committee that sponsorships (and potential sponsorships) are evaluated against a series of criteria including:¹⁸¹

- message exposure among targeted at risk population groups;
- message quality;
- community activation; and
- message recognition.

In relation to the value of these sponsorship arrangements, the Minister advised that:¹⁸²

Consistent with the established Transport Accident Commission practice and given the highly competitive nature of the football sponsorship market, details of the sponsorship contracts remain commercial-in-confidence.

The Committee is disappointed that the Minister did not provide the information on the value of sponsorship arrangements. It was unclear to the Committee, whether the response provided by the Minister implies that restrictions are imposed by the sponsorship contract on revealing this information, or whether this information was considered by the Transport Accident Commission to be commercial in confidence although there is no agreement with sponsors relating to the release of this information.

While the Committee appreciates that there may be significant benefits through the use of sponsorship of AFL teams to deliver road safety messages to the community, it believes that expenditure by publicly-owned and operated entities should be subject to the same scrutiny as other areas of Government and there should be no barrier to disclosing the value of the sponsorship arrangements to the Parliament. Without the release of such information, it is difficult for the Committee and the community to determine whether the benefits associated with the current sponsorship arrangements exceed the current costs and also whether there may be other opportunities that yield greater benefits than those currently provided under existing sponsorship arrangements.

Where existing arrangements preclude the disclosure of this information, the Committee believes that any new sponsorship contracts entered into by the Transport Accident Commission or the Victorian WorkCover Authority should not limit the release of this information to this Committee.

The Committee therefore recommends that:

¹⁸¹ Minister for WorkCover's response to the Committee's follow-up questions, p.2

¹⁸² *ibid.*

Recommendation 157: **The Department of Treasury and Finance, the Transport Accident Commission and the Victorian WorkCover Authority ensure that future AFL sponsorship arrangements do not limit their capacity to publicly disclose the cost of these arrangements.**

The Committee will seek to clarify the confidential nature of the Transport Accident Commission's sponsorship arrangements as part of its Report on the 2003-2004 Budget Outcomes.

CHAPTER 15: DEPARTMENT FOR VICTORIAN COMMUNITIES

Key Findings of the Committee:

- 15.1** The Department for Victorian Communities' budget allocation for 2004-05 is \$441.2 million, an increase of \$109.3 million from the 2003-04 estimated actual outcome. This increase is largely due to higher expenditure on Commonwealth Games Projects.
- 15.2** The 2004-05 Budget for the Department for Victorian Communities includes \$29.6 million for Commonwealth Games projects carried over from last year. This funding relates to the Melbourne Sports and Aquatic Centre redevelopment (\$21.3 million) and the Athletes' Village (\$8.3 million).
- 15.3** The timing of payments to local government has resulted in an underspend of \$2.5 million in the Jobs for Young People Program in 2003-04 because the program's implementation did not match the budget cycle of local government. This has now been addressed.
- 15.4** While the Office of Youth issued a whole of government report which was intended to demonstrate progress in achieving milestones established in 2002, the report did not show progress on most milestones.
- 15.5** Although the Victorian Office of Multicultural Affairs published a whole of government report purporting to show achievements in multicultural affairs in 2002-03, the report actually only lists activities that occurred and shows few outcomes.
- 15.6** The performance measures relating to the Work and Family Balance Initiative should allow for an assessment of the outcomes.
- 15.7** The department did not meet its target in 2003-04 in tabling a whole of government report on Aboriginal Affairs.
- 15.8** A new funding model developed by the department to allocate grant funding to public libraries, along with additional funds allocated in the 2004-05 Budget, should assist public libraries to maintain the quality of services, despite rising costs and higher demand for services in areas experiencing population growth.

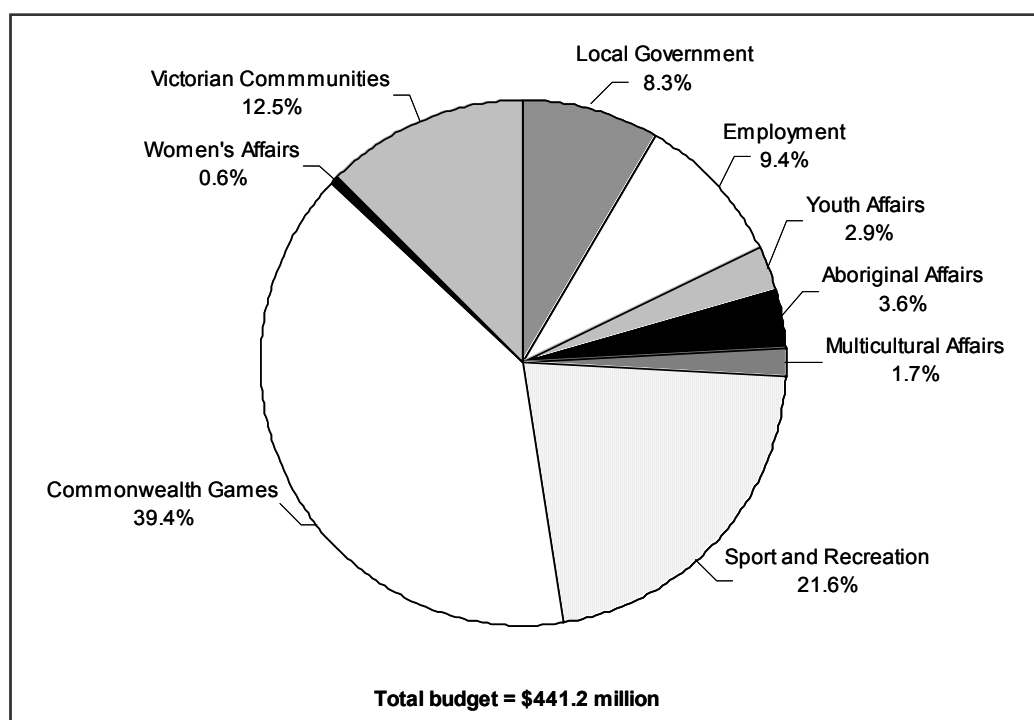
Departmental review

15.1 Departmental overview

The Department for Victorian Communities supports nine ministerial portfolios: Local Government; Employment; Youth Affairs; Aboriginal Affairs; Sport and Recreation; Commonwealth Games; Multicultural Affairs; Victorian Communities; and Women's Affairs.¹

The Commonwealth Games portfolio outputs accounted for the largest share of the department's budget in 2004-05 (see exhibit 15.1).

Exhibit 15.1: Department for Victorian Communities portfolio budget



Sources: *Budget Paper No. 3, 2004-05 Service Delivery, pp.237-249; Department for Victorian Communities response to the Committee's 2004-05 Budget Estimates questionnaire, pp.1-2*

¹ Department for Victorian Communities response to the Committee's 2004-05 Budget Estimates questionnaire, pp.1-2

15.1.1 Key challenges for the department in 2004-05

The Department for Victorian Communities was established in December 2002.² The department faced significant challenges in establishing corporate systems and structures for its diverse range of portfolios, with \$25.5 million allocated in the 2003-04 Budget to support the policy and risk management activities of the new department.³

Progress made to date included consolidating departmental accommodation at a central CBD location and developing shared services agreements with several other departments to support its information technology, human resources and financial systems.⁴

The department advised it was in the process of developing a wide ranging strategy to fully catalogue the current and emerging risks and develop preventative and mitigatory strategies to address these risks.⁵ The department anticipated that the Risk Management Strategy will identify a potential risk in the administration and management of grants.⁶ Accordingly, the department had already taken preventative steps by implementing a whole of department Grants Management Unit to centralise the administration and financial management functions and through the trial of an interim grants management system.⁷

15.1.2 Key factors influencing the budget estimates

The department advised the Committee that new initiatives funded within the 2004-05 Budget have been developed to support the department's focus on 'people and place' – supporting communities across Victoria to increase their capacity to create new opportunities, secure jobs and investments and have healthy, safe and attractive places to live and work.⁸

The department advised that another major influence on the budget estimates for 2004-05 is the changed timing of payments in relation to Commonwealth Games funding.⁹ The Committee noted that in relation to the Commonwealth Games Athletes' Village, the Project Development Agreement was finalised and signed with Village Park Consortium on 22 December 2003.¹⁰ The department advised that

² Department for Victorian Communities, *Annual Report 2002-03*, p.4

³ Budget Paper No. 2, *2003-04 Budget Statement*, pp.252–258

⁴ Department for Victorian Communities, *Annual Report 2002-03*, pp.13–14

⁵ Department for Victorian Communities response to the Committee's 2004-05 Budget Estimates questionnaire, p.4

⁶ *ibid.*

⁷ *ibid.*

⁸ *ibid.*, p.3

⁹ *ibid.*

¹⁰ *ibid.*

following extensive public consultation and negotiation of the Agreement, the cash flow for the social housing component of the village development has been substantially amended from that anticipated when the Whole of Games Budget was announced in March 2003.¹¹ The department indicated that cash flows for some of the other Commonwealth Games asset initiatives have also been changed to reflect additional planning undertaken, and the operating budget has been increased in line with the anticipated Whole of Games Budget.¹²

15.2 Output management framework

The Department for Victorian Communities advised the Committee that there was no shared responsibility for all of the department's outputs except for the Multicultural Affairs portfolio.¹³ In this portfolio, the Premier (who also acts as the Minister for Multicultural Affairs) is supported by the Minister assisting the Premier on Multicultural Affairs.¹⁴

15.3 Budget summary/financial analysis

The department for Victorian Communities' budget allocation for 2004-05 was \$441.2 million, representing an increase of \$109.3 million compared to the expected result for 2003-04 (see exhibit 15.2). The Committee noted that most of the increase was related to higher expenditure on Commonwealth Games projects.¹⁵

**Exhibit 15.2: Department for Victorian Communities
Output group costs**

	Column 1	Column 2	Column 3	Column (3-2)/2
Output group	2003-04 Budget	2003-04 Estimated Actual	2004-05 Budget	Variation
	(\$ million)	(\$ million)	(\$ million)	(%)
Supporting Local Government	33.0	33.0	36.6	10.9
People, Community Building and Information Services	166.5	134.1	135.3	0.9
Sport, Recreation and the Commonwealth Games	158.1	164.8	269.3	63.4
Total	357.6	331.9	441.2	32.9

Source: Budget Paper No. 3, 2004-05 Service Delivery, pp.238-249

¹¹ *ibid.*

¹² *ibid.*

¹³ *ibid.*, pp.1-2

¹⁴ *ibid.*, pp.1-2

¹⁵ Budget Paper No. 3, 2004-05 Service Delivery, pp.238-249

15.3.1 Operating performance

In 2004-05, the Department for Victorian Communities budgeted to receive \$540.6 million in revenue for its controlled operations, \$104.1 million (23.8 per cent) higher than the estimated actual outcome in 2003-04 (see exhibit 15.3). The Committee noted that the projected increase in operating revenues and expenses is largely due to an increase in estimated expenses associated with the Commonwealth Games as well as other new budget initiatives.¹⁶

The department advised the projected deficit for 2003-04 of \$38.4 million results from the drawdown of accumulated balances in the Community Support Fund (CSF) to fund community projects.¹⁷ The Committee noted that the difference between expenditures and revenues for 2003-04 will be met from the accumulated CSF reserves and will not put the Fund into deficit at 30 June 2004.¹⁸ The estimated deficit in 2004-05 of \$17.9 million will be financed in a similar manner.¹⁹

In its review of the 2002-03 Budget Outcomes, the Committee noted that the balance of Community Support Fund (a trust fund controlled by the department) as at 30 June 2003 was \$121.7 million, with outflows from the Fund of \$131.2 million exceeding revenues of \$111.6 million.²⁰ The department has advised the Committee that expected revenues and expenses for the Fund in 2004-05 are \$113.2 million and \$131.2 million respectively.²¹

The method applied to determine the cost of the Community Building output (discussed in section 15.5.4(b)) and the accounting treatment of moneys allocated to the CSF (in particular the recognition of 'administered' and 'controlled' revenue) contribute to the large differences between the output costs and the revenue and expenses recorded by the department.

The Committee intends to examine in detail some of the issues relating to financial reporting for the CSF as part of its review of the 2003-04 Budget Outcomes. Some of the issues the Committee intends to examine include:

- the flow of funds into and out of the Fund and how surpluses and deficits for the Fund and the department are reconciled;
- the method for determining the cost of the Community Building output; and

¹⁶ Budget Paper No. 4, *2004-05 Statement of Finances*, p.106

¹⁷ Department for Victorian Communities' response to the Committee's 2004-05 Budget Estimates questionnaire, p.13

¹⁸ *ibid.*

¹⁹ *ibid.*

²⁰ Department for Victorian Communities' response to the Committee's 2002-03 Budget Outcomes questionnaire, p.16

²¹ Minister for Victorian Communities' response to the Committee's follow-up questions, p.10

- the reporting of funds applied from the CSF to outputs within the Department for Victorian Communities and other departments. For example, the department advised the Committee that \$69.5 million had been applied from the CSF to a range of outputs in the Department of Human Services, the Department of Justice and the Department of Education and Training for gambling and drug services and education programs.²²

**Exhibit 15.3: Department for Victorian Communities
Statement of financial performance**

	Column 1	Column 2	Column 3	Column (3-2)/2
	2003-04 Budget	2003-04 Estimated Actual	2004-05 Budget	Variation (a)
	(\$ million)	(\$ million)	(\$ million)	(%)
Controlled items				
Operating revenue	416.3	436.5	540.6	23.8
Operating expenses	479.7	474.9	558.6	17.6
Net result	-63.4	-38.4	-17.9	-53.4
Administered items				
Administered revenue	493.2	487.6	554.2	13.7
Administered expenses	493.2	487.6	554.2	13.7
Surplus/Deficit	0.0	0.0	0.0	n/a

Note: (a) A negative variance indicates that the 2004-05 budget has decreased compared with the 2003-04 estimated actual budget

Source: Budget Paper No. 4, 2004-05 Statement of Finances, p.107

15.3.2 Balance sheet performance

At 30 June 2005, the Department for Victorian Communities expects to control assets valued at \$369.3 million, an increase of 10.6 per cent from the anticipated result in 2003-04 (see exhibit 15.4).

²² Minister for Victorian Communities' response to the Committee's follow-up questions

**Exhibit 15.4: Department for Victorian Communities
Statement of financial position**

	Column 1	Column 2	Column 3	Column (3-2)/2
	2003-04 Budget	2003-04 Estimated Actual	2004-05 Budget	Variation
	(\$ million)	(\$ million)	(\$ million)	(%)
Controlled items				
Controlled assets	295.8	333.8	369.3	10.6
Controlled liabilities	15.9	15.9	15.9	0.0
Net assets	279.9	317.8	353.3	11.2
Administered items				
Administered assets	1.5	1.5	1.5	0.0
Administered liabilities	0.3	0.3	0.3	0.0

Source: Budget Paper No. 4, 2004-05 Statement of Finances, pp.109–110

The reason for the increase in assets of \$35.5 million in 2004-05 was due to an increase of \$49.7 million in the value of property, plant and equipment.²³ This increase was partly offset by a decrease of \$12.5 million in the department's holdings of cash and other financial assets.²⁴

15.3.3 Carry over funding

At the time the 2004-05 Budget was prepared, the Department for Victorian Communities expected to carry forward funding of \$30.1 million of unspent appropriations from the previous year, comprising \$7 million for the provision of outputs and \$23.1 million for additions to the net asset base.²⁵

The Committee was advised that more recent estimates of carry over funding included:

- Victorian Communities – \$1.9 million relating mainly to capital funding for a digital archive project at the Public Record Office;²⁶
- Youth Affairs and Employment – \$2.9 million of unspent grants (including FReeZA Central);²⁷
- Aboriginal Affairs – \$3.8 million relating mainly to unexpended grants;²⁸

²³ Budget Paper No. 4, 2004-05 Statement of Finances, p.109

²⁴ *ibid.*

²⁵ *ibid.*, p.172

²⁶ Minister for Victorian Communities' response to the Committee's follow-up questions, p.4

²⁷ Minister for Employment and Youth Affairs' response to the Committee's follow-up questions, p.2

²⁸ Minister for Aboriginal Affairs' response to the Committee's follow-up questions, p.8

- Sport and Recreation – \$5.3 million relating mainly to sports programs and grants;²⁹ and
- Commonwealth Games – \$29.6 million involving construction of the Melbourne Sports and Aquatic Centre (\$21.3 million) and the Athletes' Village (\$8.3 million). The department advised that the carry forward funding is in line with the negotiated construction plans and cash flows for each project.³⁰

15.4 Human resources issues

The Department for Victorian Communities advised that as at 30 June 2005 it expected to have 625 equivalent full-time staff, an increase of 36 employees (6.1 per cent) compared to the expected outcome at 30 June 2004 (see exhibit 15.5). Although the number of executive officers increased by five in 2003-04, the department did not expect any further increases at these levels during 2004-05.³¹

²⁹ Minister for Sport and Recreation's response to the Committee's follow-up questions, p.3

³⁰ Minister for the Commonwealth Games' response to the Committee's follow-up questions, p.8

³¹ Department for Victorian Communities response to the Committee's 2004-05 Budget Estimates questionnaire, p.18

**Exhibit 15.5: Department for Victorian Communities
Equivalent Full Time Staff**

	June 2003 Actual	June 2004 Estimate	June 2005 Estimate
Ongoing staff			
Non-Executive departmental staff	347	454	480
Sub total	347	454	480
Fixed term staff			
Non-Executive departmental staff	178	97	111
Executive Officers	23	28	28
Sub total	201	125	139
Casual staff			
Non-Executive departmental staff	10	11	6
Sub total	10	11	6
All staff			
Non-Executive departmental staff	536	561	597
Executive Officers	23	28	28
Total (a)	559	589	625

Note: (a) Totals may not add due to rounding

Source: Department for Victorian Communities' response to the Committee's 2004-05 Budget Estimates questionnaire, pp.10-11

The Committee noted that of the additional 36 staff expected to be employed in 2004-05, 26 were departmental staff employed in an ongoing capacity at a classification level between grade 3 and 6.³² At the same time, the department expected to reduce the number of casual staff employed from 11 to 6.

³² *ibid.*

Review of Portfolios

15.5 Victorian Communities portfolio

The Minister for Victorian Communities is responsible for implementing a range of activities which are aimed at strengthening the capacity of communities, delivered through the following business units:³³

- government and community information (includes Information Victoria);
- the Public Record Office of Victoria;
- the Registry of Births, Deaths and Marriages;
- the Community Support Fund;
- the Office of Community Building; and
- the Rural Women's Network.

15.5.1 2004-05 outlook for the portfolio

The Minister informed the Committee that the portfolio will be focused on the following activities in 2004-05:³⁴

- developing links between Government agencies and Indigenous community organisations;
- streamlining grants administration procedures to create a single entry point for people seeking grants information and to make an application;
- developing local hubs to better connect volunteers with organisations seeking support and creating a statewide reward and recognition system for volunteers; and
- ensuring the Commonwealth Games deliver lasting economic, social and environmental benefits for Victorians.

In relation to the Victorian Communities portfolio, the 2004-05 Budget provided funding of:³⁵

- \$1 million over three years towards the Indigenous community capacity building program;

³³ Department for Victorian Communities, *Annual Report 2002-03*, pp.53, 57

³⁴ Hon. J. Thwaites, MP, Minister for Victorian Communities, Presentation at the 2004-05 Budget Estimates hearing, 17 June 2004; Department for Victorian Communities, Corporate Plan, 2003-2006 (released 2003), pp.6-7

³⁵ Budget Paper No. 3, *2004-05 Service Delivery*, pp.303-305

- \$10 million over four years to implement shared services arrangements with other departments and other providers. Further details of this arrangement are provided below;
- \$4.1 million over four years to continue the development and implementation of the Victorian Electronic Records Strategy (VERS) across Government;
- \$5.2 million over two years (asset initiative funding) for the development of an electronic grant management system; and
- \$8.8 million over four years (asset initiative funding) to the Public Record Office of Victoria for the purchase of new plant and equipment, additional shelving and IT infrastructure.

15.5.2 Analysis of the budget

The Minister for Victorian Communities has sole responsibility for the Information Services and Community Building outputs of the People, Community Building and Information Services output group.³⁶ As shown in exhibit 15.6, expenditure in 2004-05 is expected to be \$55.1 million, which is 12.5 per cent of the department's budget. Expenditure in 2004-05 is \$2.5 million (or 4.3 per cent) less than the expected outcome in 2003-04 of \$57.6 million.³⁷

Exhibit 15.6: Victorian Communities portfolio Output costs

Output group	Output	2004-05 Budget (\$ million)
People, Community Building and Information Services	Information services	34.6
	Community building	20.5
Total		55.1

Source: Department for Victorian Communities' response to the Committee's 2004-05 Budget Estimates questionnaire, p.2

15.5.3 Performance measures

The Committee notes that there are 19 performance measures for the Victorian Communities portfolio in the 2004-05 Budget, covering quantity (nine indicators), quality (three), timeliness (five) and cost (two).³⁸

³⁶ Department for Victorian Communities response to the Committee's 2004-05 Budget Estimates questionnaire, p.2

³⁷ Budget Paper No. 3, 2004-05 Service Delivery, pp.245-246

³⁸ *ibid.*, pp.244-246

There are three new performance measures in the 2004-05 Budget. These are quantity measures in the Information Services output relating to the Victorian Electronic Records Strategy and the number of records stored or preserved in the Public Record Office of Victoria.³⁹

Two performance indicators were discontinued in 2004-05. These were both quality measures:⁴⁰

- *electronic records maintained in accordance with Public Record Office of Victoria standards; and*
- *projects delivered against performance benchmarks.*

The Committee is concerned that these indicators were dropped and believes that there are insufficient measures to adequately assess the portfolio's outcomes. In particular, given the funding commitment in the 2004-05 Budget, the Committee would like to see indicators to measure progress on initiatives.

Accordingly, the Committee recommends that:

- Recommendation 158:** **The Department for Victorian Communities develop and report performance indicators to measure progress on the following initiatives:**
- (a) Indigenous Community Capacity Building Program;**
 - (b) implementation of shared services arrangements with other departments and other providers; and**
 - (c) development of an electronic grant management system.**

15.5.4 Key issues impacting on the portfolio

The department's response to the Committee's 2004-05 budget estimates questionnaire and the estimates hearing identified three issues that will affect the Victorian Communities portfolio and its Budget Estimates for 2004-05.

³⁹ *ibid.*, pp.244–245

⁴⁰ Budget Paper No. 3, *2003-04 Budget Estimates*, pp.409–410; Budget Paper No. 3, *2004-05 Service Delivery*, pp.244–246

(a) Arrangements for shared services with other departments

The Committee was aware that when the Department for Victorian Communities was established in December 2002 it did not have core corporate systems in place, in that the department operated from ‘*six separate financial management systems, IT networks and payroll systems*’.⁴¹ The Minister indicated that the most efficient way in which to establish a new department was to leverage off networks and systems already established by existing departments, rather than for the department to create its own systems.⁴²

The 2004-05 Budget provides funding of \$10 million over four years for the implementation of shared services.⁴³ The Department for Victorian Communities has outsourced:⁴⁴

- IT services from the Department of Infrastructure; and
- financial services from the Department of Primary Industries.

The Minister advised the Committee that setting up shared services gave the department the opportunity to establish itself quickly on a proven IT network and finance system. The shared services arrangements have been established as a possible model that can be applied across Government and therefore minimise the cost of service delivery.⁴⁵

In relation to accountability arrangements, the Minister advised there are committees of management for both services, and service level agreements between departments have been developed.⁴⁶

The Committee notes that the linking with other departments to provide shared services seems promising and the Committee intends to watch with interest the outcomes of this approach.

(b) Community Support Fund – funding arrangements

The Committee notes that expenditure in the Community Building output for 2003-04 is expected to be 61.3 per cent below the figure published in the 2003-04 Budget Papers (see exhibit 15.7). The department informed the Committee that this reflects the impact of timing changes for grant payments on the drawdown of funding from the Community Support Fund.⁴⁷

⁴¹ Department for Victorian Communities, *Annual Report 2002-03*, p.13

⁴² Minister for Victorian Communities’ response to the Committee’s follow-up questions, p.12

⁴³ Budget Paper No. 3, *2004-05 Service Delivery*, p.303

⁴⁴ Minister for Victorian Communities’ response to the Committee’s follow-up questions, p.12

⁴⁵ *ibid.*, p.13

⁴⁶ *ibid.*

⁴⁷ Department for Victorian Communities response to the Committee’s *Budget Estimates Questionnaire*, p.16

**Exhibit 15.7: Community building output
Output costs**

	Column 1	Column 2	Column 3	Column (2-1)/1
Output	2003-04 Budget	2003-04 Estimated Actual	2004-05 Budget	Variation
	(\$ million)	(\$ million)	(\$ million)	(%)
Community building	65.2	25.2	20.5	-61.3

Source: Budget Paper No. 3, 2004-05 Service Delivery, p.246

The Minister further advised that the output cost disclosed in the Community Building output is, apart from a small level of appropriation, the net result of the expected expenditure from the Community Support Fund (CSF) less the revenue paid into the trust fund.⁴⁸ For example, the revised output cost in 2003-04 of \$25.2 million comprises revenue of \$104.6 million less expenditure of \$127.9 million and an appropriation of \$1.9 million.

The Committee has provided a reconciliation between the revenue and expenses of the CSF and the cost of the Community Building output in exhibit 15.8.

The Committee is concerned that the netting off of revenue and expenditure for this output to disclose a net cost distorts the real cost of providing this output and prevents meaningful comparisons between years. For example, expenditure from the CSF will actually increase in 2004-05, yet the output cost records a reduction (see exhibit 15.8).

**Exhibit 15.8: Community building output
Components of the Output costs**

Revenue	2003-04 Budget	2003-04 Estimated Actual	2004-05 Budget
	(\$ million)	(\$ million)	(\$ million)
Revenue	119.6	104.6	113.2
Expenditure	182.9	127.9	131.2
Net result	63.3	23.3	17.9
Appropriation	1.9	1.9	2.6
Output cost (as disclosed in the Budget Papers)	65.2	25.2	20.5

Source: Minister for Victorian Communities' response to follow-up questions, p.10

⁴⁸ Minister for Victorian Communities' response to the Committee's follow-up questions, p.9

The Minister explained to the Committee that the variances in costs between years are driven by the estimates of revenue and likely expenditure from the CSF.⁴⁹ At the time of preparing the 2003-04 Budget, it was envisaged that there would be a substantial rundown in CSF balances as additional funds were applied to new grant commitments. While additional approvals were made in 2003-04, this was not reflected in payments made from the Fund in response to claims from grant recipients.⁵⁰

The Committee sought an explanation about why the number of grant applications received by the CSF was expected to decrease from 235 in 2002-03 to 90 in 2003-04.⁵¹ The Minister advised that a large number of applications were deferred pending the release of revised guidelines in April 2004.⁵² The number of grant applications is expected to increase from a target of 90 in 2003-04 to 200 in 2004-05 because of an anticipated larger number of smaller value grants, particularly for feasibility studies for projects with multiple partners.⁵³

At last year's estimates hearing, the Minister reassured the Committee that an expected fall in the number of applications in 2003-04 would not result in a reduction in expenditure.⁵⁴ The Committee is concerned that a departmental review of funding guidelines can significantly delay the approval of grant applications and result in a significant revision of expenditure for an output.

The Committee was advised that the department has taken steps to improve the quality of forecasting and monitoring expenditure of grants, including:⁵⁵

- establishing a central Grants Administration Unit to standardise procedures and improve existing processes; and
- developing an electronic grants management system to improve accountability and assist grant applicants.

The Committee intends to monitor the timeliness of the grant application process and the payment of grants from the CSF. As discussed earlier, the Committee will examine as part of its 2003-04 Budget Outcomes report some of the issues relating to the accounting treatment applied to the CSF and the method for determining the output cost for the Community Building output.

⁴⁹ Ibid.

⁵⁰ *ibid.*

⁵¹ Budget Paper No. 3, *2004-05 Service Delivery*, p.245

⁵² Minister for Victorian Communities' response to the Committee's follow-up questions, p.1

⁵³ *ibid.*, pp.1-2

⁵⁴ Hon. J. Thwaites, MP, Minister for Victorian Communities, transcript of evidence, 27 May 2003, p.298

⁵⁵ Minister for Victorian Communities' response to the Committee's follow-up questions, pp.8-9

(c) Electronic Grants Management System

The Committee notes that the 2004-05 Budget provided asset initiative funding of \$5.2 million for the development of an electronic grants management system (EGMS) over two years. It is intended that the system will support and streamline grants making activities in the department and provide a single information gateway for the community to access grant information.⁵⁶

The Minister indicated that a productivity improvement of 5 per cent can be achieved by implementing this new system.⁵⁷ It is expected that the initiative may provide the opportunity to reorganise resources.⁵⁸

The Committee welcomes the department's efforts to streamline grants administration both from a departmental and end user perspective. As with any IT project, the Committee is aware of a number of risks that are associated with the development and implementation of the project. The department needs to ensure that these risks are identified and managed and the projected productivity savings are realised.⁵⁹

15.6 Employment portfolio

The core activities of the Employment portfolio are the:⁶⁰

- delivery of the *Jobs for Victoria* suite of employment and training initiatives; and
- management of the Overseas Qualifications Unit and the Overseas Qualified Professionals Program to assist with the transition of recently arrived migrants into the Australian workplace.

These activities are delivered by the Employment Programs Division of the Department for Victorian Communities, the Department of Education and Training, and the Department of Innovation, Industry and Regional Development (Regional Development Victoria).

The Government's key employment initiative - *Jobs for Victoria* - provides employment programs that target disadvantaged job seekers, young people not in education and training, people from culturally and linguistically diverse backgrounds, mature age and Indigenous people.⁶¹ *Jobs for Victoria* has three aims:⁶²

⁵⁶ Budget Paper No. 3, *2004-05 Service Delivery*, p.304

⁵⁷ Minister for Victorian Communities' response to the Committee's follow-up questions, p.12

⁵⁸ *ibid.*

⁵⁹ Based on the approach outlined in: Victorian Auditor-General's Office, *Electronic procurement in Victorian Government*, June 2003, pp.47-48

⁶⁰ Department for Victorian Communities, Employment programs website: www.dvc.vic.gov.au/employment

⁶¹ Department for Victorian Communities, *Annual Report 2002-03*, p.33

- to increase the engagement and participation of people in their communities and in the workforce – this aim is delivered through the Community Jobs Program (CJP) initiative;
- to assist young people to gain paid work experience, training and qualifications that lead to sustainable employment – delivered through the following initiatives:
 - Youth Employment Scheme (YES);
 - Jobs for Young People (JYP); and
 - Youth Employment Link (YEL); and
- to assist communities to meet future skills and employment needs, and support the growth of sustainable industries and jobs – delivered through the following initiatives:
 - Community Regional Industry Skills Program (CRISP) – the Department of Innovation, Industry and Regional Development is responsible for the delivery of one component of this initiative;
 - Skilled Migration;
 - Parents Returning to Work (delivered by the Department of Education and Training); and
 - Skill Up (delivered by the Department of Education and Training).

15.6.1 2004-05 outlook for the portfolio

The Minister informed the Committee of the following priorities for the *Jobs for Victoria* employment and training initiative in 2004-05:⁶³

- focus on supporting the most disadvantaged in the community to access employment building stronger and more resilient communities;
- contribute to whole of government initiatives such as Neighbourhood Renewal and the Indigenous Community Capacity Building Initiative;
- address skill shortages in local labour markets creating sustainable jobs; and
- develop innovative strategies to ensure that Victoria has a highly skilled and adaptive labour supply that meets the needs of business and industry.

⁶² Department for Victorian Communities, *Jobs for Victoria 2003-2007* diagram, from website www.employment.vic.gov.au

⁶³ Ms J. Allan, MP, Minister for Employment and Youth Affairs, Presentation at the 2004-05 Budget Estimates hearing, 18 June 2004, p.12

No new initiatives are listed in the 2004-05 Budget Papers or the April 2004 Economic Statement for the Employment portfolio. However, the Committee was informed of the following funding allocation in 2004-05 for major labour market and training programs:⁶⁴

- Community Jobs Program, \$12.4 million;
- Youth Employment Scheme, \$7.5 million;
- Jobs for Young People, \$5.1 million;
- Community Regional Industry Skills Program, \$2.9 million;
- Skilled and Business Migration Program, \$3.2 million; and
- Private Sector Skills Development Program, \$4.1 million.⁶⁵

In addition, the Parents Returning to Work Program (\$2.8 million in 2004-05) and the Skill Up Program (\$1.4 million) are funded from the budget of the Department of Education and Training.⁶⁶

15.6.2 Analysis of the budget

The Minister for Employment is responsible for the Employment Programs output of the People, Community Building and Information Services output group.⁶⁷ Expenditure in 2004-05 is expected to be \$41.4 million, which is 9.4 per cent of the department's budget. Expenditure in 2004-05 is 11.6 per cent greater than the expected outcome in 2003-04.⁶⁸

15.6.3 Performance measures

The Committee notes that there are 15 performance measures for the Employment portfolio in the 2004-05 Budget, covering quantity (seven indicators), quality (six), timeliness (one) and cost (one).⁶⁹ There are a further two performance measures for the Skill Up and Parents Returning to Work Programs.⁷⁰

⁶⁴ Includes funds carried forward into 2004-05. Sources: Department for Victorian Communities response to the Committee's 2004-05 Budget Estimates questionnaire, pp.6-7; Acting Minister for Employment and Youth Affairs' response to the Committee's follow-up questions, p.2

⁶⁵ The Private Sector Skills Development Program provides incentives to employers for each year an apprentice or trainee is employed. The target for the number of apprenticeship and traineeship commencements was met in January 2002. However, payments will still be made to employers up until June 2006. Source: Minister for Employment's response to the Committee's request for additional information

⁶⁶ Department of Employment and Training's response to the Committee's 2004-05 Budget Estimates questionnaire, p.5

⁶⁷ *ibid.*, p.1

⁶⁸ Budget Paper No. 3, *2004-05 Service Delivery*, p.241

⁶⁹ *ibid.*, pp.240-241

⁷⁰ *ibid.*, p.60

Four Employment portfolio performance indicators were discontinued in 2004-05.⁷¹ Three of these relate to labour market programs that have been completed. The other discontinued indicator measured the timeliness of the preparation and distribution of labour market information reports within three working days. A more general measure replaces this indicator.

There are no new performance measures in the 2004-05 Budget for the Employment portfolio.

The Committee believes that the performance measures for four of the department's main labour market programs provide sufficient information to adequately assess the outcomes achieved. However, in relation to the Jobs for Young People Program and the CRISP initiative, the performance indicators relate only to the number of training positions or number of projects commenced. There are no measures to indicate whether the intended outcomes of the two programs have been realised.

The Committee recommends that:

Recommendation 159: **The Department for Victorian Communities develop and report performance measures for the Jobs for Young People Program and Community Regional Industry Skills Program that will provide sufficient information to adequately assess outcomes.**

The Committee notes that three of the priorities for *Jobs for Victoria* relate to addressing issues of skilled labour supply or assisting disadvantaged people find employment.⁷² However, none of the department's performance indicators measure the incidence of labour market shortage nor the labour force situation of disadvantaged groups. The Committee is aware of statistics on skill shortages, such as the *National Skills Shortage List* produced annually by the Commonwealth Department of Employment and Workplace Relations, and of data on labour force status for disadvantaged groups, such as the Australian Bureau of Statistics Labour Force survey monthly statistics.

While recognising that several labour market and training programs are funded by other departments, the Committee notes that the Employment portfolio is the lead agency on employment matters. For this reason, the Committee believes that it is appropriate for the Department for Victorian Communities' annual report to provide indicators to demonstrate the success of the Government's employment and training initiatives in addressing skill shortages and assisting disadvantaged groups find work.

⁷¹ Budget Paper No. 3, *2003-04 Budget Estimates*, pp.403–404; Budget Paper No. 3, *2004-05 Service Delivery*, pp.240–241

⁷² Ms J. Allan, MP, Minister for Employment and Youth Affairs, Presentation at the 2004-05 Budget Estimates hearing (Employment portfolio), 18 June 2004, p.12

Accordingly, the Committee recommends that:

Recommendation 160: **The Department for Victorian Communities develop and report performance measures in its annual report that demonstrate the outcomes of the Government's employment and training initiatives in addressing skill shortages and assisting disadvantaged groups find work in metropolitan and regional areas.**

15.6.4 Key issues impacting on the portfolio

The department's response to the Committee's 2004-05 Budget Estimates questionnaire and the estimates hearing identified two issues that will affect the Employment portfolio and its budget estimates for 2004-05.

(a) Jobs for Young People Program

The Committee acknowledges the department's commitment to increasing employment and training outcomes for young people. However, the Committee is concerned that only \$100,000 of the \$2.6 million allocated for this program in 2003-04 was expended in that period.⁷³ As a result, the target for this initiative, 275 young people commencing apprenticeships or traineeships in 2003-04, was not met (only 175 were expected to commence in 2003-04).⁷⁴

The department informed the Committee that the timing of payments to local government has resulted in an underspend of \$2.5 million.⁷⁵ The Minister advised that the timing of the implementation of the program in 2003-04 did not match the budget cycle of local government.⁷⁶ This problem was being addressed for the roll out of the program in 2004-05, with the Minister expecting that the four year target of 1,100 apprenticeship or traineeship commencements would be met through higher than targeted commencements in future years.⁷⁷

⁷³ Department for Victorian Communities' response to the Committee's 2004-05 Budget Estimates questionnaire, p.5

⁷⁴ Budget Paper No. 3, *2004-05 Service Delivery*, p.240

⁷⁵ Department for Victorian Communities' response to the Committee's 2004-05 Budget Estimates questionnaire, p.5

⁷⁶ Ms J. Allan, MP, Minister for Employment and Youth Affairs, transcript of evidence, 18 June 2004, p.12

⁷⁷ *ibid.*

(b) Administration of programs across agencies

Jobs for Victoria is a package of 11 employment and training initiatives. Five employment initiatives are administered through the Department for Victorian Communities, with the Department of Innovation, Industry and Regional Development responsible for implementing the Community Regional Industry Skills Program. Six training initiatives are administered through the Department of Education and Training.⁷⁸

The Minister advised the Committee that oversight of these initiatives is shared, with the Minister for Employment, the Minister for Education and Training and the Minister for State and Regional Development each responsible for implementing the initiatives within their respective portfolios.⁷⁹

The Committee notes that nine initiatives are funded from the Employment Programs output, while the Skill Up and Parents Returning to Work Programs are funded from the Training and Further Education output in the Department of Education and Training.⁸⁰

The Minister for Employment indicated that the Department for Victorian Communities works closely with the Department of Education and Training and the Department of Innovation, Industry and Regional Development to ensure consistent and complementary delivery of employment and training programs. For example, Regional Development Victoria has input into the assessment of Community Regional Industry Skills Program applications through their participation on the Employment Advisory Panel. The panel assesses all grant applications and provides recommendations for funding.⁸¹

The Committee believes that these arrangements are appropriate and an example of departments working in cooperation to deliver key programs.

The Committee is aware that performance measures for some of the *Jobs for Victoria* initiatives are reported in the Budget Papers under the appropriate portfolio (for example, number of individuals assisted through the Skill Up program is reported in the Post-compulsory Years output group in the Department of Education and Training).⁸² However, for most employment and training initiatives there are no performance indicators reported in the Budget Papers. Given that the Employment portfolio is the lead agency on employment issues, the Committee believes that the Department for Victorian Communities should report performance indicators in its annual report that measure the effectiveness of employment and training initiatives.

⁷⁸ Minister for Employment and Youth Affairs' response to the Committee's follow-up questions (additional information), p.4

⁷⁹ *ibid.*

⁸⁰ Budget Paper No. 3, *2004-05 Service Delivery*, pp.60, 240

⁸¹ *ibid.*

⁸² Budget Paper No. 3, *2004-05 Service Delivery*, p.60

Accordingly, the Committee recommends that:

Recommendation 161: **The Department for Victorian Communities develop and include in its annual report performance measures that demonstrate the outcomes from the *Jobs for Victoria* initiatives.**

15.7 Youth Affairs portfolio

The main activities for the Office of Youth are:⁸³

- development and coordination of whole of government information and advice on issues of youth policy; and
- development and management of targeted programs and services for young people aged between 12 and 25 years.

The Department for Victorian Communities also funds the key peak youth bodies, Youth Affairs Council of Victoria and the Centre for Multicultural Youth Issues, which provide advice to the Minister and the Government on issues affecting young people.⁸⁴

15.7.1 2004-05 outlook for the portfolio

The Minister for Employment and Youth Affairs informed the Committee of the following priorities for the Youth Affairs portfolio for 2004-05:⁸⁵

- further exploring programs where young people support each other, such as the mentoring demonstration projects;
- implementing the Office for Youth's consultation strategy and providing more opportunities for a diverse range of young people to have their views heard by Government;
- developing a new youth website;
- supporting young parents; and
- developing a strategic framework for mentoring.

⁸³ Budget Paper No. 3, *2004-05 Service Delivery*, p.242

⁸⁴ Ms J. Allan, MP, Minister for Employment and Youth Affairs, transcript of evidence, 18 June 2004, p.1

⁸⁵ Ms J. Allan, MP, Minister for Employment and Youth Affairs, Presentation at the 2004-05 Budget Estimates hearing, 18 June 2004, p.9; Email from Department for Victorian Communities, 24 August 2004, which clarified the department's priorities

No new initiatives are listed in the 2004-05 Budget Papers or the April 2004 Economic Statement for the Youth Affairs portfolio. The main youth programs, together with their funding allocations in 2004-05 are:⁸⁶

- Advance Youth Development Program (\$3 million recurrent funding plus \$1.2 million from the Community Support Fund);
- Youth Services Program (\$4.1 million);
- FReeZA (Drug and alcohol free zone) (\$2 million); and
- FReeZA Central (\$500,000).

15.7.2 Analysis of the budget

The Minister for Employment and Youth Affairs has sole responsibility for the Youth Affairs output of the People, Community Building and Information Services output group.⁸⁷ Expenditure on this output in 2004-05 is budgeted to be \$12.8 million, which is 2.9 per cent of the department's budget. This is 2.4 per cent greater than the expected outcome for 2003-04 of \$12.5 million.⁸⁸

In addition, \$1.2 million is allocated in 2004-05 from the Community Support Fund for the Advance Youth Development Program.⁸⁹

15.7.3 Performance measures

There are 14 performance measures for the Youth Affairs portfolio in the 2004-05 Budget Papers, covering quantity (nine indicators), quality (three), timeliness (one) and cost (one).⁹⁰

The performance indicator relating to Ministerial Youth Round Tables was discontinued in 2004-05⁹¹ as the conferences no longer take place.⁹²

There are no new performance measures in the 2004-05 Budget for the Youth Affairs portfolio.⁹³

⁸⁶ Acting Minister for Employment and Youth Affairs' response to the Committee's follow-up questions, p.3

⁸⁷ Department for Victorian Communities' response to the Committee's 2004-05 Budget Estimates questionnaire, p.1

⁸⁸ Budget Paper No. 3, *2004-05 Service Delivery*, p.243

⁸⁹ Ms J. Allan, MP, Minister for Employment and Youth Affairs, transcript of evidence, 18 June 2004, p.3; Ms J. Allan, MP, Minister for Employment and Youth Affairs, Presentation at the 2004-05 Budget Estimates hearing, 18 June 2004, p.6

⁹⁰ Budget Paper No. 3, *2004-05 Service Delivery*, pp.242-243

⁹¹ Budget Paper No. 3, *2003-04 Budget Estimates*, pp.406-407; Budget Paper No. 3, *2004-05 Service Delivery*, pp.242-243

⁹² Ms J. Allan, MP, Minister for Employment and Youth Affairs, transcript of evidence, 18 June 2004, p.6

⁹³ Budget Paper No. 3, *2003-04 Budget Estimates*, pp.406-407; Budget Paper No. 3, *2004-05 Service Delivery*, pp.242-243

The Committee is of the view that the performance measures are predominantly process orientated (for example, that an agency was funded or that an event took place) and do not provide sufficient information to adequately assess the outcomes.

Accordingly, the Committee recommends that:

Recommendation 162: **The Department for Victorian Communities and the Office for Youth develop and report performance measures for youth programs that provide sufficient information to adequately assess the outcomes.**

15.7.4 Key issues impacting on the portfolio

The department's response to the Committee's 2004-05 Budget Estimates questionnaire and the estimates hearing identified three issues that will affect the Youth Affairs portfolio and its Budget Estimates for 2004-05.

(a) Whole of government reporting

The Committee is aware of a directive from the Premier which mandates a whole of government reporting approach in relation to cultural diversity, women, youth and Indigenous affairs.⁹⁴ Under this arrangement, each department is required to report on its responsiveness to the four community areas over the preceding financial year. The directive advises that reports should include, among other things, a performance assessment based on quantitative and qualitative performance measures. In the case of young people, reporting requirements are required to be based around the themes contained in *Respect: The Government's Vision for Young People*.⁹⁵

Consistent with this directive, the Minister informed the Committee that the Office for Youth has focused on a whole of government approach in measuring the progress of the Government's efforts to assist young people.⁹⁶ These achievements are measured against the milestones identified in *Respect*, which was released in August 2002.

Respect is organised around the four themes of Involvement; Learning and Working; Support and Celebrate.⁹⁷

⁹⁴ Department of Premier and Cabinet, Premier's circular 2003/3, *Whole of Government Reporting on Responsiveness to Cultural Diversity, Women, Youth and Indigenous Affairs*, downloaded from the Victorian Government intranet

⁹⁵ *ibid.*

⁹⁶ Ms J. Allan, MP, Minister for Employment and Youth Affairs, transcript of evidence, 18 June 2004, p.1

⁹⁷ Department of Education and Training, *Respect: The Government's Vision for Young People*, August 2002, p.6

In June 2004, the Office of Youth issued a report, *Young Victorians @ the Centre*, outlining the progress in implementing *Respect*. The Minister for Employment and Youth Affairs advised that the report marks the first year of reporting on progress against the themes and goals established in *Respect*.⁹⁸ The Committee notes that the department expects that the report for the 2003-04 period will be finalised in December 2004.⁹⁹

In its analysis of the progress measures in *Young Victorians @ the Centre*, the Committee expected to see measures (or milestones) that were similar to those that appeared in *Respect*. Exhibit 15.9 shows a summary of the Committee's assessment of milestones against the progress indicators.

While the milestones and progress indicators are arranged around similar themes, the Committee was disappointed that progress on 19 of the 28 milestones was not reported in *Young Victorians @ the Centre*. In the case of one theme, *Supporting positive health and wellbeing*, no progress towards any of the milestones in *Respect* is reported in *Young Victorians @ the Centre*.

**Exhibit 15.9: Reporting on achievements in *Respect*
Summary assessment of milestones
and progress indicators**

Theme (a)	No. of milestones in <i>Respect</i>	No. of progress measures in <i>Young Victorians@ the Centre</i>	PAEC assessment of relevance of progress measure to milestone		
			Relevant	Partly relevant	Not relevant
Involvement (Expanding opportunities for young people's real and active participation in communities)	6	4	2	2	2
Learning and working (Developing sustainable pathways in education and employment)	7	8	2	2	3
Support (Supporting positive health and wellbeing outcomes)	11	5	0	0	11
Celebrate (Celebrating and promoting young people's involvement in decision making and community building)	4	4	0	1	3
Total	28	21	4	5	19

Note: (a) Theme in *Respect* is shown first; theme in *Young Victorians @ the Centre* is in brackets

Sources: Department of Education and Training, *Respect: The Government's Vision for Young People*, August 2002; Department for Victorian Communities, Office for Youth, *Young Victorians @ the Centre*, June 2004

⁹⁸ Department for Victorian Communities, Office for Youth, *Young Victorians @ the Centre*, p.1

⁹⁹ Acting Minister for Employment and Youth Affairs' response to the Committee's follow-up questions, p.7

For example, one milestone in *Respect* is: ‘A decrease in waiting times for services to assist young people with drug problems’.¹⁰⁰ Two progress indicators shown in *Young Victorians @ the Centre* that could be related to this milestone are:¹⁰¹

- During the previous 12 months, over 95 per cent of young people leaving drug treatment services have successful outcomes from their treatment; and
- During the previous 12 months, 90 per cent of young people were satisfied to very satisfied with services provided by community health centres and with their access to medical care.

However, neither of these progress indicators shows whether the milestone (of decreased waiting times for drug services) has been achieved.

As the *Young Victorians @ the Centre* document is subtitled: ‘Reporting on achievements in 2003 ...’, the Committee expected that the period of review for each measure would be 2001-02 compared with 2002-03 (or 2002 compared with 2003 for data available on a calendar year basis). These periods roughly coincide with the first year of implementation of the *Respect* framework. However, the Committee was disappointed that over half the progress measures relate to one point in time (or the time period is not specified) making an assessment of the change since the *Respect* framework was implemented impossible. For example:¹⁰²

During the previous 12 months, 83% of young Victorians reported feeling safe in their daily lives.

The Committee is concerned that this information does not demonstrate whether young people feel more safe or less safe since the *Respect* framework was implemented. Further, it is not clear what period ‘the previous 12 months’ is referring to.

The Committee also notes that four of the progress indicators shown in *Young Victorians @ the Centre* do not quantify the changes that have occurred. For example:¹⁰³

Young people’s access to information about education, training and employment pathways improving through ‘one-stop-shops’ and website information provided by Local Learning and Employment Networks.

The Committee believes that all indicators need to be measurable so the degree of change can be demonstrated.

¹⁰⁰ Department of Education and Training, *Respect: The Government’s Vision for Young People*, August 2002, p.18

¹⁰¹ Department for Victorian Communities, Office for Youth, *Young Victorians @ the Centre*, p.8

¹⁰² *ibid.*

¹⁰³ *ibid.*, p.6

The Committee recommends that:

Recommendation 163: **The Department for Victorian Communities and the Office for Youth ensure that reports that measure the milestones specified in the *Respect: The Government's Vision for Young People* document contain indicators that are:**

- (a) comprehensive, such that progress against all milestones is reported or an explanation provided (for example, the milestone is no longer relevant due to a change in policy direction);**
- (b) reported over a consistent time period, with the base period corresponding to the implementation date; and**
- (c) quantifiable.**

(b) Office of Youth website

The Minister for Employment and Youth Affairs advised the Committee at the 2003-04 estimates hearings that the Office for Youth has been requested to revamp the youth website.¹⁰⁴ The Committee notes that this upgrade did not occur in 2003-04 and that it remains a priority for the Office for Youth in 2004-05.¹⁰⁵ The Minister further advised that the website is under development and will be made more interactive.¹⁰⁶ The Committee observed that the number of hits on the youth website is expected to fall from recorded hits of 247,953 in 2002-03 to a target of 230,000 in 2004-05, which indicates the diminishing value of the site since it has not been updated.¹⁰⁷ Given that the internet is an important medium for young people, the Committee is anxious to see the youth website revamped as soon as possible.

¹⁰⁴ Ms J. Allan, MP, Minister for Employment and Youth Affairs, transcript of evidence, 16 May 2003, p.215

¹⁰⁵ Ms J. Allan, MP, Minister for Employment and Youth Affairs, Presentation at the 2004-05 Budget Estimates hearing, 18 June 2004, p.9; Ms J. Allan, MP, Minister for Employment and Youth Affairs, transcript of evidence, 18 June 2004, p.7

¹⁰⁶ Ms J. Allan, MP, Minister for Employment and Youth Affairs, transcript of evidence, 18 June 2004, p.7

¹⁰⁷ Budget Paper No. 3, *2004-05 Service Delivery*, p.243

The Committee recommends that:

Recommendation 164: **As a matter of priority, the Department for Victorian Communities and the Office for Youth upgrade the Youth website to make it more interactive, informative and user friendly to the target audience.**

15.8 Multicultural Affairs portfolio

The Premier, as Minister for Multicultural Affairs, is responsible for the Multicultural Affairs output which is delivered through:¹⁰⁸

- the Victorian Office of Multicultural Affairs (VOMA), a unit within the Department for Victorian Communities. The VOMA coordinates policy advice and the whole of government approach to multicultural affairs and monitors departments' responsiveness to non-English speaking communities; and
- the Victorian Multicultural Commission. The Commission provides independent advice to Government on multicultural affairs and grants to community organisations.

15.8.1 2004-05 outlook for the portfolio

The Minister informed the Committee of the following priorities for the Multicultural Affairs portfolio in 2004-05:¹⁰⁹

- develop a whole of government performance reporting framework;
- continue with the implementation of the language services strategy; and
- develop Multicultural Victoria legislation.

There was one new initiative listed in the 2004-05 Budget Papers for the Multicultural Affairs portfolio. Funding is provided for the Victorian Multicultural Commission's Community Grants Program to continue to support ethnic and community-based organisations to more adequately resource the ethnic community (\$700,000 in both 2004-05 and 2005-06).¹¹⁰

¹⁰⁸ Budget Paper No. 3, *2004-05 Service Delivery*, pp.243–244

¹⁰⁹ Hon. S. Bracks, MP, Minister for Multicultural Affairs, Presentation at the 2004-05 Budget Estimates hearing, 18 May 2004, p.4

¹¹⁰ Budget Paper No. 3, *2004-05 Service Delivery*, pp.303–304

Other output initiatives announced in the 2003-04 Budget to be delivered in 2004-05 are:¹¹¹

- language services strategy - \$500,000 is allocated in 2004-05 to improve the level of supply and quality of interpreters;¹¹² and
- skilled migration program - \$1.5 million is provided in 2004-05 to increase Victoria's share of Australia's skilled and business migrants by 2006-07 and attract skilled migrants to regional Victoria.¹¹³

15.8.2 Analysis of the budget

The Minister for Multicultural Affairs has sole responsibility for the Multicultural Affairs output of the People, Community Building and Information Services output group.¹¹⁴ Expenditure in 2004-05 is expected to be \$7.7 million, which is less than two per cent of the department's budget. This is fractionally more than the expected outcome for 2003-04 of \$7.6 million.¹¹⁵

15.8.3 Performance measures

The Committee notes that there are 11 performance measures for the Multicultural Affairs portfolio in the 2004-05 Budget, covering quantity (four indicators), quality (four), timeliness (two) and cost (one).¹¹⁶ There are no new performance measures and none have been discontinued from the previous Budget.

The Committee notes that the performance measures are predominantly process orientated (for example, number of language services projects implemented) and do not provide sufficient information to adequately assess the outcomes achieved.

The Committee has previously recommended that the department expand and enhance its performance measures for this portfolio.¹¹⁷ However, the department advised that, as the outputs of the portfolio are directly delivered by other departments and agencies (whose performances and outcomes are separately measured and assessed), the performance information for this output is focused on measuring processes.¹¹⁸ Nevertheless, the Committee remains of the view that more outcome focused

¹¹¹ Hon. S. Bracks, MP, Premier of Victoria, and Hon. J. Pandazopoulos, MP, Minister assisting on Multicultural Affairs, media release, *Supporting Victoria's Multicultural Communities*, 4 May 2004

¹¹² Budget Paper No. 2, *2002-03 Budget Statement*, pp.207-208

¹¹³ Budget Paper No. 2, *2003-04 Budget Statement*, pp.252-254

¹¹⁴ Department for Victorian Communities response to the Committee's 2004-05 Budget Estimates questionnaire, p.1

¹¹⁵ Budget Paper No. 3, *2004-05 Service Delivery*, p.244

¹¹⁶ *ibid.*, pp.243-244

¹¹⁷ Public Accounts and Estimates Committee, *Report on the 2002-2003 Budget Estimates*, 52nd Report, April 2004, p.473

¹¹⁸ Government response to the recommendations of the Public Accounts and Estimates Committee, *Report on the 2002-2003 Budget Estimates*, 52nd Report, tabled in the Legislative Assembly on 31 March 2004, p.76

performance measures are essential for those activities that are funded out of the Multicultural Affairs output.

Accordingly, the Committee recommends that:

- Recommendation 165:** **The Department for Victorian Communities and the Victorian Office of Multicultural Affairs develop and report performance measures that provide sufficient information to adequately assess the outcomes achieved of programs such as:**
- (a) Victorian Multicultural Commission Community Grants Program;**
 - (b) Skilled Migration Strategy;**
 - (c) Language Services Projects; and**
 - (d) other programs funded out of the Multicultural Affairs output.**

In response to a previous recommendation by the Committee's that the Victorian Multicultural Commission develop an evaluation strategy around the Commission's Community Grants Program, the Committee noted that the Commission had:

... committed to undertaking an evaluation process of its core activities, assessing those activities against community and stakeholder expectations.¹¹⁹

The evaluation process was part of the Commission's forward planning activities and expected to be completed by the end of August 2004.¹²⁰

The Committee welcomes the department's commitment to evaluate its core activities and expects this process to lead to the development of appropriate performance indicators for the Community Grants Program. These indicators should be used as a basis for on-going reporting.

¹¹⁹ Government response to the recommendations of the Public Accounts and Estimates Committee, *Report on the 2003-2004 Budget Estimates*, 54th Report, tabled in the Legislative Assembly on 31 March 2004, p.54

¹²⁰ *ibid*

15.8.4 Key issues impacting on the portfolio

The department's response to the Committee's 2004-05 Budget Estimates questionnaire and the estimates hearing identified two issues that will affect the Multicultural Affairs portfolio and its Budget Estimates for 2004-05.

(a) Whole of government reporting

The Committee is aware of whole of government reporting arrangements in relation to cultural diversity, women, youth and Indigenous affairs.¹²¹ Under these arrangements, each government department is required to report on its responsiveness to the four community areas over the preceding financial year. The Premier has advised departments that reports should include, among other things, a performance assessment based on quantitative and qualitative performance measures.¹²²

The *Whole of Government Report, Victorian Office of Multicultural Affairs*, outlines government activities (described as 'achievements') to improve opportunities and services for ethnic communities in 2002-03. The report consolidates information provided by departments in their annual reports.¹²³

The Committee welcomes the whole of government approach to reporting achievements for various groups in the community. The Committee notes that the *Whole of Government Report* lists activities in 2002-03 under each of the four principles. Exhibit 15.10 gives examples of these activities.

¹²¹ Department of Premier and Cabinet, Premier's circular 2003/3, *Whole of government reporting on responsiveness to cultural diversity, women, youth and Indigenous affairs*, downloaded from the Victorian Government intranet

¹²² *ibid.*

¹²³ Department for Victorian Communities, *Whole of Government Report*, Victorian Office of Multicultural Affairs, June 2004, p.5

Exhibit 15.10: Multicultural Affairs Activities outlined in the *Whole of Government Report*

Principle	Example of activities
Valuing diversity	<p>Since enacting the <i>Racial and Religious Tolerance Act</i> (2001) we have implemented a comprehensive community action campaign, including:</p> <ul style="list-style-type: none"> launched the <i>Valuing Cultural Diversity</i> policy outlining achievements for 2002 and future priorities for all nine government departments; consulted with young people on the special challenges faced by culturally and linguistically diverse youth.
Reducing inequality	<p>Supported interpreting and translating services: Funded interpreter awareness training programs in Victorian hospitals.</p> <p>Supported through information: Released the 2002-03 Victorian Multicultural Resources Directory.</p>
Encouraging participation	<p>Piloted three language-specific neighbourhood watch programs.</p> <p>Increased funding for multicultural arts activities.</p>
Promoting the social, cultural and economic benefits of cultural diversity for all Victorians	<p>Supported international cultural partnerships and exchanges.</p> <p>Celebrated and supported Cultural Diversity Week.</p>

Source: *Whole of Government Report, Victorian Office of Multicultural Affairs, pp.8–14*

In its analysis of the *Whole of Government Report*, the Committee expected to see a range of key performance measures and an indication of the degree of change in those measures over 2002-03. The Committee was disappointed that almost none of the activities in the *Whole of Government Report* are quantifiable measures. As a result, the report does not allow the reader to make an assessment of whether the principles (which are similar to outcomes) have been achieved.

The Committee believes the *Whole of Government Report* should include additional information so an assessment of the Government's achievements in Multicultural Affairs can be made. For example, information in the *Whole of Government Report* should show whether, as a result of the Government's efforts in 2002-03, the multicultural community:

- feels more respected than they did in 2001-02 (Valuing diversity);
- has greater access to Government programs and services without impediment due to language or other barriers compared to 2001-02 (Reducing inequality); and
- engages in public and civic life to the same extent as Victorians in general (Encouraging participation).

Accordingly, the Committee recommends that:

Recommendation 166: **The Department for Victorian Communities and Victorian Office of Multicultural Affairs consider revising the *Whole of Government Report*, by:**

- (a) developing outcomes based on the four ‘principles’ as well as establishing appropriate and quantifiable performance indicators; and**
- (b) ensuring that other departments provide information that supports the new performance management framework.**

(b) *Multicultural Victoria Act*

The Minister for Multicultural Affairs indicated that a major strategic project in 2004-05 is a review of the *Victorian Multicultural Commission Act 1996*. The Minister informed the Committee that the proposed Multicultural Victoria Act would foster a common understanding of the importance of cultural diversity and how it enriches Victoria.¹²⁴ As part of this process, the Victorian Office of Multicultural Affairs released a discussion paper in May 2004, *Multicultural Victoria Act, Many cultures - One future*, to seek community input. Submissions closed 16 July 2004. It is the Government’s intention to have a Bill before the Victorian Parliament in its current term of office.¹²⁵

15.9 Women’s Affairs portfolio

The Minister for Women’s Affairs is responsible, through the Office of Women’s Policy, for the Women’s policy output. The Office of Women’s Policy provides strategic policy advice to the Victorian Government on issues of concern to women. By working collaboratively across departments, the Office coordinates and monitors Government policies and programs that affect women and their families.¹²⁶

¹²⁴ Hon. S. Bracks, MP, Minister for Multicultural Affairs, transcript of evidence, 18 May 2004, p.3

¹²⁵ Department for Victorian Communities, Victorian Office of Multicultural Affairs, *Multicultural Victoria Act, Many cultures - One future*, A discussion paper, May 2004, p.21

¹²⁶ Department for Victorian Communities, Office of Women’s Policy, About us, www.women.vic.gov.au

The Office of Women's Policy provides information to Victorian women, and consults with women and women's organisations. The Office also conducts research and identifies emerging trends and issues on the needs of women and effective methods to address those needs.¹²⁷

15.9.1 2004-05 outlook for the portfolio

The Minister informed the Committee of the following priorities for the Women's Affairs portfolio in 2004-05:¹²⁸

- progressing the Women Safety Strategy;
- supporting women's leadership through Women's community leadership grants, appointments on Government boards and committees, and *Our Community* training forums;
- implementing the action agenda for work and family balance;
- supporting Indigenous women;
- developing a forward plan for women, 2004-2007; and
- progressing works relating to the Queen Victoria Women's Centre.

There were no new initiatives included in the 2004-05 Budget relating to the Women's Affairs portfolio.

15.9.2 Analysis of the budget

The Minister for Women's Affairs has sole responsibility for the Women's Policy output of the People, Community Building and Information Services output group.¹²⁹ Expenditure in 2004-05 is expected to be \$2.6 million. This represents an increase of 8.3 per cent on the expected outcome for 2003-04.¹³⁰

15.9.3 Performance measures

The Committee notes that there are eight performance measures for the Women's Affairs portfolio in the 2004-05 Budget, covering quantity (two indicators), quality (two), timeliness (three) and cost (one).¹³¹ There are two new performance measures in 2004-05, both relating to timeliness:

¹²⁷ *ibid.*

¹²⁸ Hon. M. Delahunty, MP, Minister for Women's Affairs, Presentation at the 2004-05 Budget Estimates hearing, 16 June 2004, pp.7-8

¹²⁹ Department for Victorian Communities response to the Committee's 2004-05 Budget Estimates questionnaire, p.1

¹³⁰ Budget Paper No. 3, *2004-05 Service Delivery*, p.244

¹³¹ *ibid.*

- *action agenda for Work and family balance report card* (jointly with Industrial Relations Victoria) which has a target delivery date of March quarter 2005; and
- *women's safety strategy delivered against performance targets*, a target of 80 per cent.¹³²

One performance measure has been discontinued from the previous budget which relates to an aspect of a program which has been completed.¹³³

The Committee notes that the performance measures are predominantly process orientated (for example, number of women attending consultation forums and summits) and do not provide sufficient information to adequately assess the outcomes achieved.

15.9.4 Key issues impacting on the portfolio

The department's response to the Committee's 2004-05 Budget Estimates questionnaire and the estimates hearing identified three issues that will affect the Women's Affairs portfolio and its Budget Estimates for 2004-05.

(a) Whole of government reporting

The whole of government report on women is required to be based around the themes contained in *Valuing Victoria's Women: Forward Plan 2000-03*.¹³⁴

The Minister advised the Committee that the report *Gaining Ground for Victoria's Women*, sets out the achievements of the Government against the first three years of the forward plan.¹³⁵ The *Gaining Ground* report provides both an account of the developments in regard to the Government's commitments outlined in the forward plan, new initiatives that have arisen since the forward plan was prepared and performance measures.¹³⁶

The Committee welcomes the approach of reporting progress on a range of performance measures under main themes.

In its analysis of the performance measures in *Gaining Ground*, the Committee expected to see measures that were similar to those that appeared in *Valuing Victoria's Women: Forward Plan 2000-03*. The Committee was pleased that for three of the four themes, most of the performance measures that appeared in the Forward

¹³² *ibid.*

¹³³ *ibid.*, p.355

¹³⁴ Department of Premier and Cabinet, Premier's circular 2003/3, *Whole of Government Reporting on Responsiveness to Cultural Diversity, Women, Youth and Indigenous Affairs*, downloaded from the Victorian Government intranet

¹³⁵ Hon. M. Delahunty, MP, Minister for Women's Affairs, transcript of evidence, 16 June 2004, p.3

¹³⁶ Department for Victorian Communities, Office of Women's Policy, *Gaining Ground for Victoria's Women*, p.5

Plan are reported in the *Gaining Ground* report. In several cases, additional performance measures have been developed and are reported. Therefore, with respect to most of the key issues, the performance measures allow an adequate assessment of the outcomes achieved.

However, the Committee believes that the Office of Women's Policy needs to develop performance measures relating to:

- consultation with women, media portrayal of women, and information and awareness (under the representation and equity theme); and
- work and family responsibilities and economic independence (under the education, work and economic independence theme).

Performance measures concerning work and family responsibilities are discussed as a separate issue in section 15.9.4(c).

The Committee notes that the time periods shown for some performance measures are quite dated and relate to a period prior to the Forward Plan (2000). For example, the performance measure for support for carers is based on a 1998 survey. While acknowledging that this may be the latest survey on the subject, the Committee believes that the Office of Women's Policy should work with the responsible agency (in this case, the Department of Human Services) to develop more recent performance information.

Accordingly, the Committee recommends that:

- Recommendation 167:** **The Department for Victorian Communities and the Office of Women's Policy work collaboratively with other agencies to:**
- (a) develop performance measures for:**
 - (i) consultation with women, media portrayal of women, and information and awareness; and**
 - (ii) work and family responsibilities and economic independence.**
 - (b) ensure the performance information allows for meaningful comparisons over time.**

(b) Implementation of the Women's Safety Strategy

The five year Women's Safety Strategy was announced in October 2002.¹³⁷ The aim of the strategy is to reduce the level and fear of violence against women in all its forms.¹³⁸ The strategy has three parts:¹³⁹

- a policy framework setting out the principles and policy directions for addressing violence against women;
- specific initiatives to reduce violence against women; and
- personal experiences of violence in women's own words.

The Minister informed the Committee that 53 initiatives are being implemented under the Women's Safety Strategy, 44 in the first year and 9 in the second year of the strategy.¹⁴⁰ The Minister advised, as part of the \$5.6 million devoted to the Women's Safety Strategy:¹⁴¹

- \$1.8 million has been provided to the Department of Human Services to increase housing options for women and children. The program has been offered in six locations across Victoria, and is assisting 340 women per year;
- \$1.6 million has been allocated to the Department of Justice for an innovative pilot program under which men on family violence orders can be directed by a Magistrate to undertake a behavioural change program; and
- \$1.5 million has been directed to the Department of Human Services to support family violence networkers in the community.

The Committee notes that \$5.6 million was earmarked for the strategy in October 2002 and \$5 million of this amount was to be allocated over three years.¹⁴²

¹³⁷ Hon. M. Delahunty, MP, Minister for Women's Affairs, media release, *Bracks Government's plan to protect women*, 21 October 2002

¹³⁸ Hon. M. Delahunty, MP, Minister for Women's Affairs, speech notes, Annual Women's safety strategy, *Stop the violence* forum, 11 December 2003, p.3

¹³⁹ Government of Victoria, *Women's safety strategy: a policy framework*, October 2002, p.1

¹⁴⁰ Minister for Women's Affairs' response to the Committee's follow-up questions, p.4

¹⁴¹ Hon. M. Delahunty, MP, Minister for Women's Affairs, transcript of evidence, 16 June 2004, p.6; Minister for Victorian Communities' response to the Committee's follow-up questions, p.6

¹⁴² Hon. M. Delahunty, MP, Minister for Women's Affairs, media release, *Bracks Government's plan to protect women*, 21 October 2002

The Minister informed the Committee that the key implementation mechanisms of the strategy are three statewide steering committees that are co-chaired by the Office of Women's Policy and Victoria Police.¹⁴³ These are statewide steering committees to:¹⁴⁴

- reduce family violence;
- reduce sexual assault; and
- reduce violence against women in the workplace.

The Minister advised that these committees bring together Government, the police, courts, services for women and children, offending programs and non-government organisations. A Women's Safety Executive Co-ordinating group supports the work of the committees within Government.¹⁴⁵

The Committee understands that the Office of Women's Policy chairs an annual forum on women's safety. The first forum was held on 11 December 2003. At the forum, the Minister identified one of the main priorities for 2004 as the '*development of a framework that will measure the outcomes of the Women's Safety Strategy*'.¹⁴⁶

The following key performance measures will assess outcomes under the strategy:¹⁴⁷

- a new performance measure relating to the *percentage of Women's Safety Strategy projects delivered against performance targets* has been included in the 2004-05 Budget (referred to above under 'Performance Measures');
- *Women's Safety Strategy Progress Reports are submitted to Ministers at the annual meeting of Ministers responsible for the implementation of the strategy.* The first meeting took place on 10 December 2003;
- *an interim report to be publicly released in Year 2 of the strategy (2004);*
- *a final report to be released in the final year of the strategy (2007); and*
- *a whole of government evaluation framework to be developed to assess the overall impact and outcomes of the strategy.*

¹⁴³ Minister for Women's Affairs' response to the Committee's follow-up questions, p.4

¹⁴⁴ Department for Victorian Communities, Corporate Plan 2003-2006, p.14

¹⁴⁵ Minister for Women's Affairs' response to the Committee's follow-up questions, p.4

¹⁴⁶ Hon. M. Delahunty, MP, Minister for Women's Affairs, speech notes, Annual Women's safety strategy, *Stop the violence* forum, 11 December 2003, p.6

¹⁴⁷ Minister for Women's Affairs' response to the Committee's follow-up questions, p.4

At the time of preparation of this report, the interim report on progress of the strategy (Year 2) had not been released. The next public report is scheduled to be prepared at the conclusion of the strategy (after Year 5).¹⁴⁸ The Committee is concerned at the limited public information available on these initiatives and believes key information should be reported annually in order to determine whether the Women's Safety Strategy is achieving its objectives.

Accordingly, the Committee recommends that:

Recommendation 168: **The Department for Victorian Communities and Office of Women's Policy publish in the department's annual report a list of individual programs within the Women's Safety Strategy, showing the:**

- (a) agency responsible for implementation;**
- (b) funding allocation in each year;**
- (c) progress of the strategy and main achievements; and**
- (d) output measures to assess the outcomes.**

(c) *Action agenda for work and family balance*

On 21 November 2003, the Premier launched the Action Agenda for Work and Family Balance at the Annual Women's Summit in Bendigo.¹⁴⁹

The Action Agenda outlines proposals over a two year period to raise greater awareness of work and family balance issues; promote the adoption of family friendly work policies and practices in Victorian workplaces; and to work with business, employees, unions and the community to encourage innovative policies and practices that help employees reconcile work and family commitments.¹⁵⁰

In response to a previous Committee recommendation that the Office of Women's Policy develop appropriate performance measures around the work and family balance strategy, the department gave a commitment to release a report card after 12 months to demonstrate progress made in implementing initiatives and the major outcomes that have been achieved.¹⁵¹

¹⁴⁸ Government of Victoria, *Women's Safety Strategy: A policy framework*, October 2002, p.57

¹⁴⁹ Hon. S. Bracks, MP, Premier of Victoria, media release, *Premier puts Victorian families on the agenda*, 21 November 2003

¹⁵⁰ Industrial Relations Victoria, *Work and Family in Victoria*, from website: www.irv.vic.gov.au

¹⁵¹ Government response to the recommendations of the Public Accounts and Estimates Committee's 54th *Report on the 2003-04 Budget Estimates*. p.54

The Committee notes that the performance measures relating to work and family balance in the *Gaining Ground for Victoria's Women* report are inadequate. These measures relate to employment and unemployment of women and the participation of children in preschool (kindergarten) programs.¹⁵² The Committee considers that the report card should include relevant and appropriate performance measures and targets to assess the achievement of stated outcomes.

For example, measures could be developed to assess the following matters and track changes over time:

- satisfaction with cost and availability of child care or before/after school care;
- female average earnings compared with male average earnings;
- flexibility of working arrangements, including flexible hours and ability to work from home;
- access to training, promotion and other opportunities for part-time workers (compared with full-time employees); and
- job opportunities for women from culturally diverse backgrounds.

These performance indicators should be used as a basis for on-going reporting.

Accordingly, the Committee recommends that:

Recommendation 169: **The Department for Victorian Communities and the Office of Women's Policy ensure that the report card on the Work and Family Balance Strategy:**

- (a) include relevant and appropriate performance measures and targets to assess the achievement of stated outcomes; and**
- (b) is used as a basis for on-going reporting.**

15.10 Aboriginal Affairs portfolio

Aboriginal Affairs Victoria – a business division of the Department for Victorian Communities – is responsible for coordinating policies and programs benefiting Victoria's Indigenous communities. Whole of government policy and planning accounts for around 7 per cent of the portfolio budget.¹⁵³

¹⁵² Department for Victorian Communities, Office of Women's Policy, *Gaining Ground for Victoria's Women*, pp.14–15

¹⁵³ Mr G. Jennings, MLC, Minister for Aboriginal Affairs, transcript of evidence, 24 June 2004, p.4

15.10.1 2004-05 outlook for the portfolio

The Minister advised the Committee that the priorities in the Aboriginal Affairs portfolio in 2004-05 include:¹⁵⁴

- develop new Victorian cultural heritage legislation and an associated strategy;
- negotiate land and natural resource management outcomes with Indigenous communities;
- support the Stolen Generations organisation;
- implement an Indigenous family violence strategy and partnership agreement;
- strengthen the Victorian Koori leadership projects; and
- community resource models for strengthening Aboriginal organisations.

The Committee noted that the 2004-05 Budget included funding for the Department for Victorian Communities for three initiatives relating to the Aboriginal Affairs portfolio:¹⁵⁵

- \$300,000 in 2004-05 to further negotiate land and resources management outcomes with Indigenous communities in Victoria;
- \$1 million in 2004-05 (\$3 million to 2006-07) to increase the reliability, standards and functioning of Victoria's 26 Indigenous community organisations through the provision of training, support and grant funding for local initiatives and the delivery of community-based services; and
- \$500,000 over two years to 2005-06 to construct a significant public site to acknowledge Victoria's Aboriginal culture and history and celebrate Indigenous reconciliation.

15.10.2 Analysis of the budget

The 2004-05 Budget for the output for which the Minister for Aboriginal Affairs has responsibility is \$15.7 million, a decrease of \$1.2 million from the expected outcome for 2003-04.¹⁵⁶ It consists of one output and accounts for 3.6 per cent of the Department for Victorian Communities budget in 2004-05.

The Minister advised the Committee that the decrease in 2004-05 largely reflects funds carried over from the previous year which were fully expended in 2003-04, relating to the Indigenous Community Capacity Building Program (\$900,000), the

¹⁵⁴ Mr G. Jennings, MLC, Minister for Aboriginal Affairs, Presentation at the 2004-05 Budget Estimates hearing, 24 June 2004, pp.7-8

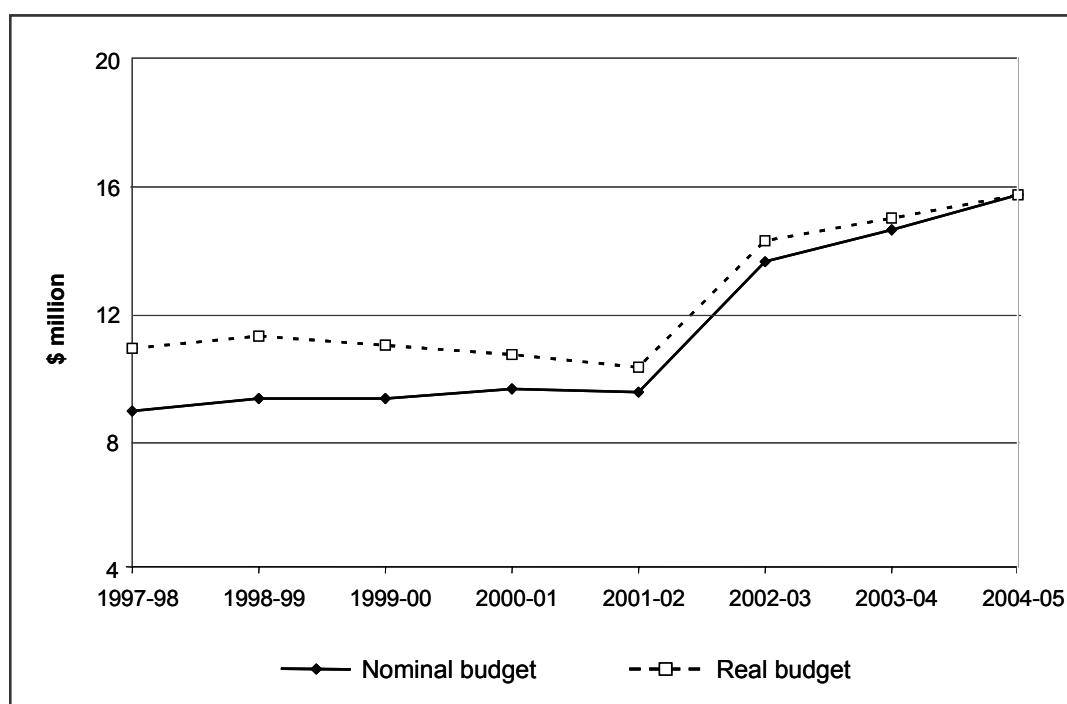
¹⁵⁵ Budget Paper No. 3, *2004-05 Service Delivery*, pp.303-304

¹⁵⁶ *ibid.*, pp.241-242

Indigenous Family Violence Strategy (\$700,000) and the response to the Bringing them Home Report (\$600,000).¹⁵⁷

The Committee was informed that there had been a significant growth in funding allocated to Aboriginal Affairs Victoria in recent years (see exhibit 15.11).¹⁵⁸

**Exhibit 15.11: Aboriginal Affairs portfolio
Output costs – 1997-98 to 2004-05**



Note: Real budget values expressed in 2004-05 dollars. Nominal values for previous years were inflated using the average annual change in the Melbourne-All Groups consumer price index

Sources: Mr G. Jennings, MLC, Minister for Aboriginal Affairs, presentation to the Public Accounts and Estimates Committee, 24 June 2004, p.6; Australian Bureau of Statistics, Consumer Price Index, Australia, ABS Cat. No. 6401.0, July 2004

15.10.3 Performance measures

The Committee noted that the 2004-05 Budget Papers indicate that two performance measures were discontinued.¹⁵⁹ One of these measures – *Proportion of Indigenous Family Violence Community Initiatives Fund grants endorsed by Indigenous Family Violence Taskforce* – is no longer relevant because the Family Violence Taskforce has ceased operation.¹⁶⁰

¹⁵⁷ Mr G. Jennings, MLC, Minister for Aboriginal Affairs, transcript of evidence, 24 June 2004, pp.4–5

¹⁵⁸ Mr G. Jennings, MLC, Minister for Aboriginal Affairs, presentation to the Public Accounts and Estimates Committee, 24 June 2004, p.6

¹⁵⁹ Budget Paper No. 3, *2004-05 Service Delivery*, p.355

¹⁶⁰ Minister for Aboriginal Affairs' response to the Committee's follow-up questions, p.2

The Committee noted the Budget Papers indicated that the outcome for one measure in 2003-04 was not expected to be met.¹⁶¹ The Minister advised the Committee that the target for the measure *Meetings of the Premier's Aboriginal Advisory Council supported* was incorrectly stated as '10' in the 2003-04 Budget Papers, whereas the target for the measure should have been '3' to reflect only the planned meetings of the Premier's Aboriginal Advisory Council.¹⁶²

While this mistake was recognised by the department and disclosed to the Committee during the 2003-04 estimates process, the Committee was surprised that there was nothing in the 2004-05 Budget Papers to indicate that the target for 2003-04 was incorrectly stated. The Committee believes that where errors are detected in the Budget Papers these should be disclosed by the inclusion of an appropriate footnote to each output group.

The Committee recommends that:

Recommendation 170: **The Department for Victorian Communities ensure that where adjustments are made to targets set in previous years, appropriate notes are included in the Budget Papers to inform readers that this has occurred.**

15.10.4 Key issues impacting on the portfolio

The department's response to the Committee's questionnaire and the estimates hearing identified several issues that will impact on the portfolio and its Budget Estimates for 2004-05.

(a) Whole of government reporting on Indigenous affairs

It is widely acknowledged that Indigenous Australians may experience significant disadvantage. A recent summary on the extent of relative disadvantage experienced by Indigenous Australians noted that in Victoria:

- in 2001 64.3 per cent of Indigenous students in year 3 achieved the reading benchmark compared to 89 per cent of all year 3 students;¹⁶³
- in 2002-03 the imprisonment rate for Indigenous prisoners per 100,000 population was 1,108.2 compared to a rate of 95.6 for all prisoners;¹⁶⁴

¹⁶¹ Budget Paper No. 3, *2004-05 Service Delivery*, pp.241–242, 355

¹⁶² Mr G. Jennings, MLC, Minister for Aboriginal Affairs, transcript of evidence, 24 June 2004, p.6

¹⁶³ Steering Committee for the Review of Government Service Provision, *Report on Government Services 2004: Indigenous Compendium*, April 2004, p.23

¹⁶⁴ *ibid.*, Table 7A.11

- over the period 1999-2001 the mortality rate per 1,000 people (age standardised for all causes) was 14.9 for Indigenous people compared to 6.7 per cent for the total population,¹⁶⁵ and
- in 2002-03 the rate of notifications to child protection authorities per 1,000 children aged 0-16 years was 136.6 for Indigenous children compared to a rate of 26 for all children.¹⁶⁶

At the estimates hearings the Committee was interested to learn about the development of the whole of government policy framework for Aboriginal Affairs Victoria. The Minister advised that:¹⁶⁷

We have spent a lot of time within government in the last year trying to give some sense and meaning to this whole of government talk, because it has been around for a long time. In fact members of the community have seen trickles of it in the past, and we want to see it come out as being the major method that can be understood by members of the Victorian community. In fact that goes to the heart of the establishment of the Department for Victorian Communities and why Aboriginal Affairs Victoria is part of the Department for Victorian Communities. We see it as one of our core objectives and our core rationale for living to make sure we make those lateral connections across whole of government, joining up programs from disparate parts of government to make it a reality. We have made sure that we work this through senior management within the public sector, through the appropriate processes with my cabinet colleagues, to actually have an agreed view on how we will get our act together to achieve those responsive, integrated outcomes.

In October 2002, the former Minister for Aboriginal Affairs tabled a whole of government report in Parliament that intended to report on the status of the Victorian Indigenous community and the Government's commitment to acknowledging Indigenous culture and addressing disadvantage.¹⁶⁸ The Committee noted that this report is not required to be tabled in Parliament.

The whole of government report summarised the policy initiatives implemented by the Government, the challenges ahead and some of the key outcomes experienced by Indigenous communities relative to their non-Indigenous counterparts.¹⁶⁹ Although further work was being undertaken to develop an effective methodology for estimating total departmental expenditure on Indigenous programs which is inclusive of internal departmental and program based costs, the Committee noted that estimated

¹⁶⁵ *ibid.*, p.62

¹⁶⁶ *ibid.*, Table 15A.1

¹⁶⁷ Mr G. Jennings, MLC, Minister for Aboriginal Affairs, transcript of evidence, 24 June 2004, p.8

¹⁶⁸ Department for Victorian Communities, *The Victorian Government Indigenous Affairs Report: November 1999-October 2002*, p.5

¹⁶⁹ *ibid.*, p.4

expenditure in 2001-02 on Indigenous programs across departments totalled almost \$84 million, most of which was incurred by the Department of Human Services and the Department of Education and Training.¹⁷⁰

The 2003-04 and 2004-05 Budget Papers indicated that whole of government reporting on the Government's Indigenous programs was intended to occur annually, as evidenced by the inclusion of a performance measure *Annual Aboriginal Affairs report tabled in Parliament*.¹⁷¹ The Committee noted that despite the expectation that a whole of government report would be tabled in 2003-04, as outlined in the Budget Papers, this did not occur.

While there is no legislative requirement to table the report in Parliament and hence no deadline for the report to be made publicly available, the Committee believes that the regular annual release of this report provides an important basis for reporting to Parliament and the community on the Government's progress in improving outcomes for Indigenous communities.

The Committee recommends that:

Recommendation 171: The Department for Victorian Communities finalise its Annual Aboriginal Affairs Report as soon as possible and publicly release the document.

The Committee notes that whole of government reporting is also carried out across departments in accordance with a circular issued by the Department of Premier and Cabinet. Under this arrangement, each department is required to report on its responsiveness to four community areas – cultural diversity, women, youth and Indigenous affairs – over the preceding financial year.¹⁷²

The reporting template involves two requirements from departments. Each department is required to report annually to the Department for Victorian Communities on items specified in a standard reporting template, which broadly covers the following categories:¹⁷³

- key departmental commitments;
- links to *Growing Victoria Together*;
- community consultation/engagement;
- specific key projects/initiatives;

¹⁷⁰ *ibid.*

¹⁷¹ Budget Paper No. 3, *2004-05 Service Delivery*, p.241

¹⁷² Department of Premier and Cabinet, Premier's circular 2003/3, *Whole of government reporting on responsiveness to cultural diversity, women, youth and Indigenous affairs*, downloaded from the Victorian Government intranet

¹⁷³ *ibid.*

- performance assessment; and
- forward priorities.

The second reporting requirement specified for departments for external reporting is their annual report. The circular states that, in broad terms, the annual report must contain:¹⁷⁴

- a statement on responding to cultural diversity, women, youth and Indigenous affairs and strategies proposed for the following year; and
- the provision of appropriate performance measures regarding responses to cultural diversity, women, youth and Indigenous affairs.

Guidelines prepared for departments by Aboriginal Affairs Victoria require them to report against specific strategies. The guidelines also state that:¹⁷⁵

Departmental Reports should reflect those Performance Indicators as previously reported on within the 'Victorian Government Indigenous Affairs Report 1999-2002', particularly within Chapter Two - 'Indigenous Community Profile'. If Departments have developed further Indigenous performance indicators relating to specific departmental policies over the past twelve months these should be added to the report.

In a review of the annual reports of the Department of Justice; the Department of Human Services; and the Department of Education and Training, the Committee noted that none of these departments reported on the key outcome measures for Indigenous communities relating to health, community care, education and justice that were included in the *Indigenous Affairs Report November 1999-October 2002*. Where information was disclosed, this tended to be a summary of activities conducted rather than an analysis of their effectiveness.

The Committee believes that the quality of reporting by departments relating to their responsiveness to, and strategic relationships for, Aboriginal affairs needs to be significantly improved.

The Committee recommends that:

Recommendation 172: **Aboriginal Affairs Victoria review the whole of government reporting guidelines for Indigenous affairs with a view to ensuring that departments report on their progress against the key outcomes identified in the Victorian Government's Indigenous Affairs Report November 1999-October 2002.**

¹⁷⁴ ibid.

¹⁷⁵ ibid.

(b) *War-cum barra – Victorian Public Sector Indigenous Employment Strategy*

War-cum barra, the Victorian Public Sector Indigenous employment strategy was launched by the Premier in July 2002 with the target of employing an additional 230 Indigenous staff in the Victorian Public Sector by July 2005.¹⁷⁶ The strategy establishes a whole of government framework for coordinating and sustaining government efforts to achieve greater representation for Indigenous people within all areas and all levels of the Victorian Public Sector.¹⁷⁷ Achievement of the public service-wide target is the primary responsibility of the Premier.¹⁷⁸

The Committee noted that the strategy would be phased in over two years:¹⁷⁹

- the first phase (May 2002 to July 2003) was to involve the implementation of the strategy within departments and agencies; and
- the second phase (July 2003 onwards) was to involve implementation of the strategy with other Victorian Public Sector organisations (public authorities).

The Committee also noted that Aboriginal Affairs Victoria would provide secretariat services to the strategy coordination committee to undertake regular meetings and progress work on key data, monitoring and government wide projects.¹⁸⁰ The intention was to review and re-develop the strategy for a further three years by July 2005.¹⁸¹

The Committee's review indicated that there was limited information included on the implementation of the strategy in the 2002-03 annual reports of key agencies such as the Office of Public Employment, Department for Victorian Communities and the Department of Premier and Cabinet.

The Committee was informed that up to March 2004, 59 Indigenous staff had been employed on a fixed term basis and 33 Indigenous full-time positions had been created.¹⁸² The Minister also advised that:¹⁸³

Beyond that we have provided opportunities where we want to create full-time jobs. There have been 14 traineeships and the bushfires, which we described as a spontaneous event, created opportunities for 8 people to be employed and we are hoping to use their expertise. So we have identified a total of another 22 positions that we hope will lead to ongoing positions.

¹⁷⁶ Hon. S. Bracks, MP, Premier of Victoria, media release, *Major initiative to create 230 jobs for Kooris*, 8 July 2002

¹⁷⁷ Department of Natural Resources and Environment, *Wur-cum barra: Creating employment opportunities in the Victorian Public Sector for Indigenous people*, July 2002, pp.7–9

¹⁷⁸ *ibid.*, p.33

¹⁷⁹ *ibid.*, p.9

¹⁸⁰ *ibid.*, p.31

¹⁸¹ *ibid.*, p.9

¹⁸² Mr G. Jennings, MLC, Minister for Aboriginal Affairs, transcript of evidence, 24 June 2004, p.13

¹⁸³ *ibid.*

While the Committee notes that progress has been made in implementing the Indigenous employment strategy, another 138 staff will need to be employed in ongoing full-time positions to reach the Government's target of an additional 230 staff by July 2005.

While the release of the Annual Aboriginal Affairs report discussed in the previous section may address the current shortcomings of progress reporting against the strategy's objectives, the Committee believes that the previous recommendation relating to enhancing whole of government reporting guidelines should also be inclusive of reporting against the Indigenous employment strategy at a departmental level.

The Committee recommends that:

Recommendation 173: **Aboriginal Affairs Victoria review the whole of government reporting guidelines for Indigenous affairs with a view to ensuring that departments report on their progress in implementing the Victorian public sector Indigenous employment strategy, since its commencement in July 2002.**

(c) *Indigenous Community Capacity Building Program*

The Indigenous Community Capacity Building Program aims to develop whole of government policy to strengthen the operational effectiveness of Victoria's locally based Aboriginal community organisations.¹⁸⁴ The program has four key components:¹⁸⁵

- Chief Executive Officer Network – that will focus on building awareness amongst Aboriginal community organisation managers of Victorian Government policy, programs and services and developing best practice approaches in community development and organisational management.
- Training and Support – to provide a range of management support programs including a CEO Mentor Program, an Aboriginal Community Organisation - Officer Exchange Program, an on-line management resource data base and training services.

¹⁸⁴ Department for Victorian Communities, Indigenous Community Capacity Building Program, <http://intranet.vic.gov.au/aav/planning/capacity/>, accessed 24 August 2004

¹⁸⁵ *ibid.*

- Internet Portal – a dedicated Internet site for Victorian Aboriginal community organisation managers. The site will consolidate Victorian Government sites, directories, reports, policies, planning data and related on-line resources through a new portal. The site will include all training and support materials for the program, host on-line forums and play a key role in the provision of direct support to staff in the community organisation sector.
- Local Community Capacity Building Fund – to provide flexible operating grants to Aboriginal community based organisations. The grants will be available to assist organisations undertake local initiatives that enhance their capacity to work in partnership with Government and deliver community based services.

The Minister advised the Committee that the budget for the program in 2004-05 was \$1.48 million.¹⁸⁶

The Committee was interested to learn about the activities carried out in each component of the program. The Minister advised that the 2003-04 grants round (\$523,000) is in the final stages of processing and successful applicants are about to be notified and grants will be disbursed shortly thereafter.¹⁸⁷ The budget for the grants program in 2004-05 was \$600,000.¹⁸⁸

The Committee noted that the CEO Network services were delivered by the Victorian Aboriginal Community Controlled Health Organisation and funded for 18 months (April 2003-September 2004) at a cost of \$240,000.¹⁸⁹ The budget for these services in 2004-05 is \$200,000.¹⁹⁰

The training and support component of the Internet Portal Program was included in the CEO Network for 2002-04.¹⁹¹ The Minister advised the Committee that the creation of the Department for Victorian Communities in December 2002 meant that the demand for an Internet Portal was satisfied through a different process.¹⁹² As a result, the focus has been directed towards developing a funding program to meet the IT needs of the community, with possible infrastructure funding. To date three pilot projects were funded in 2003-04 on enhancing the effectiveness of IT infrastructure within the Victorian Indigenous community:¹⁹³

- Aboriginal Community Elders' Service – \$70,069 for the installation of an IT network server, optical network, work stations and customer support agreement;

¹⁸⁶ Mr G. Jennings, MLC, Minister for Aboriginal Affairs, transcript of evidence, 24 June 2004, p.4

¹⁸⁷ Minister for Aboriginal Affairs' response to the Committee's follow-up questions, p.4

¹⁸⁸ *ibid.*, p.5

¹⁸⁹ *ibid.*, p.4

¹⁹⁰ *ibid.*, p.5

¹⁹¹ *ibid.*

¹⁹² *ibid.*

¹⁹³ *ibid.*

- Koorie Diabetes Service Victoria – \$18,000 for the development of a website providing information about diabetes to Aboriginal community members, home and community care workers and health care agencies; and
- Aborigines Advancement League – \$32,155 for the installation of a touch screen and the development of a website.

The Committee welcomes the department's efforts to strengthen the operational effectiveness of Victoria's locally based Aboriginal community organisations. The Committee encourages the department to continue to regularly evaluate the effectiveness of these efforts.

15.11 Local Government Portfolio

Local Government Victoria – a business division of the Department for Victorian Communities – is responsible for the administration of the Local Government Act. In undertaking this function, Local Government Victoria's role is:¹⁹⁴

Through Local Government Victoria, the Department for Victorian Communities aims to achieve a whole of government approach from the State in relation to the local government sector. Within State Government the Department acts as an advocate for local government issues and roles.

The Committee notes that Victorian Government funding to Local Government Victoria is relatively minor in comparison to grants from the Commonwealth Government to local government of \$367 million for operating purposes and National Competition policy payments of \$17.8 million, which are passed on to local government by the Department for Victorian Communities.¹⁹⁵

15.11.1 2004-05 outlook for the portfolio

The Minister advised the Committee that priorities for the Local Government portfolio in 2004-05 include:¹⁹⁶

- implementing new funding arrangements and allocating grants for capital projects to public libraries;
- implementing the *Local Government (Democratic Reform) Act 2003* including oversighting the model code of conduct for councillors, revising local government election regulations and general regulations;

¹⁹⁴ Department for Victorian Communities, About local government, <http://www.doi.vic.gov.au/doi/internet/localgov.nsf/>, accessed 25 August 2004

¹⁹⁵ Minister for Local Government's response to the Committee's follow-up questions, p. 1

¹⁹⁶ Ms C. Broad, MLC, Minister for Local Government, presentation to the Public Accounts and Estimates Committee, 18 June 2004

- carrying out activities to support restoring municipal responsibility for the Docklands precinct to the City of Melbourne; and
- considering mechanisms for integrated planning and management of Fishermens Bend and the dock, rail and market precincts.

The Committee noted that the 2004-05 Budget included one initiative relating to the Local Government portfolio, which provided additional funding of \$8.5 million over four years to upgrade library facilities to address future population growth and higher operating costs (see section 15.11.4(a)).¹⁹⁷

15.11.2 Analysis of the budget

The 2004-05 Budget for the output for which the Minister for Local Government has responsibility is \$36.6 million, an increase of \$3.6 million from the expected outcome for 2003-04.¹⁹⁸ It consists of one output and accounts for 8.3 per cent of the Department for Victorian Communities' budget in 2004-05.

The department advised that the increase in the Local Government Sector Development output in 2004-05 is due to indexation, the transfer of funding for local libraries to the Department for Victorian Communities from the Department of Premier and Cabinet (\$1.5 million) and the Government's *Living Libraries* initiative (\$1 million).¹⁹⁹

The Minister advised the Committee that grants to libraries were expected to be \$28.8 million in 2004-05, accounting for 78.7 per cent of the cost of the Local Government Sector Development output.²⁰⁰ Grants to libraries by Local Government Victoria in 2004-05 are expected to be approximately four per cent higher than 2002-03.²⁰¹ The remaining funds for the output mainly comprised payments to employees (\$3.3 million), operating expenses (\$2.2 million) and corporate overheads (\$2.2 million).²⁰²

¹⁹⁷ Budget Paper No. 3, *2004-05 Service Delivery*, p.303

¹⁹⁸ *ibid.*, pp.238–239

¹⁹⁹ Department for Victorian Communities response to the Committee's 2004-05 Budget Estimates questionnaire, p.15

²⁰⁰ Minister for Local Government's response to the Committee's follow-up questions, p.1

²⁰¹ *ibid.*; Department for Victorian Communities, *Annual Survey of Victorian Public Libraries 2002-03*, July 2004, pp.56–57

²⁰² Minister for Local Government's response to the Committee's follow-up questions, p.1

15.11.3 Performance measures

There were no changes made to performance measures in the Local Government Sector Development output in 2004-05.²⁰³ The Committee noted that only two of the 12 measures included in the output related to public library services, despite grant funding to libraries accounting for almost 80 per cent of the output's costs.²⁰⁴

15.11.4 Key issues impacting on the portfolio

The department's response to the Committee's questionnaire and the estimates hearing identified several issues that will impact on the portfolio and its Budget Estimates for 2004-05.

(a) Library funding

The Committee noted that the 2004-05 Budget included additional funding of \$8.5 million over four years (\$900,000 in 2004-05) to build on funding announced in 2003-04 to assist in the building and upgrading of libraries in outer metropolitan growth corridors and rural Victoria, with contributions from recipient councils where appropriate.²⁰⁵

The Committee noted that this funding was split into two components, with \$4.5 million allocated to the *Living Libraries* initiative to build and upgrade libraries and \$4 million contributing towards expected increases in costs and population growth.²⁰⁶

The Committee understands that additional library funding in 2004-05 builds on a \$12 million three year public library infrastructure program ('Living libraries') launched in 2000.²⁰⁷ Under the library infrastructure program, councils wishing to improve their existing public library building infrastructure could apply for a grant of up to \$500,000. Funds were directed towards the construction of replacement library buildings and the extension, renovation or refurbishment of existing library buildings.²⁰⁸

²⁰³ Budget Paper No. 3, *2004-05 Service Delivery*, pp.238–239

²⁰⁴ *ibid.*

²⁰⁵ *ibid.*, p.303

²⁰⁶ Department for Victorian Communities, Funding for local government partnerships, 2004-05 Victorian Budget Factsheet, 4 May 2004

²⁰⁷ Hon. B. Cameron, MP, Minister for Local Government, media release, *Public libraries for the 21st century*, 2 June 2000

²⁰⁸ Department of Infrastructure, Living Libraries, www.doi.vic.gov.au/DOI/Internet/localgov.nsf/AllDocs/, accessed 1 June 2004

As at 30 August 2003, grants valued at \$12.2 million had been approved for 45 projects under the library infrastructure program. The total value of library infrastructure projects supported by the grants (i.e.: including contributions from councils) was valued at almost \$50 million.²⁰⁹

The Minister advised the Committee that under the program new libraries have been built in a number of locations including Ararat, Maryborough, Kerang, Lakes Entrance and Dingley, and there have been very substantial upgrades to libraries in a range of locations, including Box Hill, Portland, Wodonga and Watsonia.²¹⁰

The Committee was interested to learn how additional funding for libraries would be allocated to take into account inflation and population growth. The Committee noted that although Victoria's 14 regional library corporations reported an aggregate operating surplus of \$2.66 million in 2002-03, three individual corporations recorded operating deficits, which were attributed to unanticipated increases in superannuation liabilities.²¹¹ It is important that libraries are able to generate surpluses in order to provide for capital improvements and increase their collections.

The Minister advised that recurrent funding for public library grants for 2004-05 increased by 3.76 per cent, covering both the inflation and population growth movement.²¹² The Committee noted that of this increase, 1.3 percentage points was attributed to population growth, with the remaining increase due to inflation.²¹³

The Committee noted that this new initiative would allow all library services to receive an annual increase in recurrent funding of at least the rate of inflation, even if the population they are serving is falling.²¹⁴ The Minister indicated that, as a result of the new formula, recurrent funding to a number of library services in country Victoria increased significantly in 2003-04, for example to the Wimmera Regional Library Corporation (11.6 per cent), West Gippsland Regional Library (5.71 per cent) and East Gippsland Shire Council (4.76 per cent).²¹⁵

The Committee notes the department's approach to allocating additional funding to libraries and believes that this funding is important to maintain the quality of library facilities and services delivered by regional library corporations. The Committee encourages the department to continue to monitor the effect of this additional funding on the financial sustainability of regional library corporations.

²⁰⁹ *ibid.*

²¹⁰ Ms C. Broad, MLC, Minister for Local Government, transcript of evidence, 18 June 2004, p.10

²¹¹ Minister for Local Government's response to the Committee's follow-up questions, p.3

²¹² *ibid.*, p.2

²¹³ *ibid.*

²¹⁴ *ibid.*

²¹⁵ *ibid.*, p.3

(b) Improving local government accountability

A key change resulting from amendments to the Local Government Act in 2003 was the introduction of a number of reporting requirements that seek to improve the accountability of local government.²¹⁶

At the estimates hearings, the Committee was interested in how advanced councils were in preparing Council Plans, which were due by 30 June 2004.²¹⁷ The Minister advised the Committee that as at 30 June 2004, 68 of Victoria's 79 councils had adopted and submitted their 2004–2008 Council Plans to the Minister.²¹⁸

The Committee noted that four councils were granted an extension to submit their Council Plan, with the reasons provided by councils in support of their requests generally relating to the adoption of the Council Plan either concurrently with the annual budget or at the next scheduled council meeting.²¹⁹

The councils are also now required to include a standard set of statements in their annual reports.²²⁰ These standard statements cover financial performance, financial position, cash flow and capital works and are required to use the same accounting bases in the strategic resource plan, budget, revised budget and annual report.²²¹ The Committee noted that two of these statements covering financial position and capital works were not required to be prepared for the financial year ending 30 June 2004.²²²

The Minister informed the Committee that the Auditor-General would report annually on the standard statements of each council and the Department for Victorian Communities would follow up on any recommendations from the Auditor-General.²²³

While the implementation of the new arrangements present challenges for the Department for Victorian Communities to ensure that they are adopted by all of Victoria's 79 local government authorities in a consistent and timely manner, the Committee encourages the department to continue to monitor the introduction of the new arrangements to identify areas in which councils require further assistance.

²¹⁶ Department for Victorian Communities, *The Local Government (Democratic Reform) Bill: A Guide*, October 2003

²¹⁷ Hon. B. Baxter, MLC, transcript of evidence, 18 June 2004, p.11

²¹⁸ Minister for Local Government's response to the Committee's follow-up questions, p.2

²¹⁹ *ibid.*

²²⁰ *Local Government Act 1989*, s.131

²²¹ *Local Government (Finance and Reporting) Regulations 2004*, ss.5-6

²²² *ibid.*

²²³ Minister for Local Government's response to the Committee's follow-up questions, p.5

15.12 Sport and Recreation portfolio

Sport and Recreation Victoria – a business unit of the Department for Victorian Communities – is responsible for the administration of most of the funding appropriated to the Sport and Recreation portfolio. Some of this funding is passed on to two entities involved in the promotion of major sporting events in Victoria for which the Minister for Sport and Recreation has responsibility – the Australian Grand Prix Corporation and the Victorian Major Events Company Limited.

15.12.1 2004-05 outlook for the portfolio

The Minister advised the Committee that the priorities for 2004-05 included:²²⁴

- working in partnership with other agencies and external stakeholders to shape new initiatives under the physical activity strategy;
- delivering major events including the Deaflympics [sic] and World Artistic Gymnastic Championships;
- setting the strategic directions strategy for the next five years for the sport and recreation sector in Victoria;
- overseeing the planning and development of several Commonwealth Games related capital projects, the National Ice Sports Centre and Kardinia Park; and
- working with the Office of Commonwealth Games Coordination to develop strategies to maximise the legacy of hosting the Games.

The only output initiative announced in the 2004-05 Budget relating to the Sport and Recreation portfolio is funding of \$4.5 million in 2004-05 (\$9.6 million over three years to 2006-07), which represents the Government's contribution to the construction of an international standard ice sports centre.²²⁵ The Centre will comprise two international standard rinks, recreational ice areas and associated amenities and infrastructure to support ice hockey, figure skating, and curling.²²⁶

The Department for Victorian Communities is managing a number of capital projects relating to the Sport and Recreation portfolio. Several of these projects will be venues for the 2006 Commonwealth Games. The most significant is the Melbourne Sports and Aquatic Centre redevelopment (total estimated investment (TEI) \$51.5 million).²²⁷ Expected expenditure on the project in 2003-04 was \$18 million, 33.1 per cent lower than budget due to changes to the facilities and design following extensive public

²²⁴ Hon. J. Madden, MLC, Minister for Sport and Recreation, presentation to the Public Accounts and Estimates Committee, 23 June 2004, pp.12–13

²²⁵ Budget Paper No. 3, *2004-05 Service Delivery*, pp.303–304

²²⁶ *ibid.*

²²⁷ Department for Victorian Communities response to the Committee's 2004-05 Budget Estimates questionnaire, p.19

consultation.²²⁸ The department is also managing a range of recreation camp upgrades (TEI \$4.1 million) at Anglesea, Rowsley, Falls Creek, Mt Eliza and Mt Evelyn.²²⁹

15.12.2 Analysis of the budget

The 2004-05 Budget for the output for which the Minister for Sport and Recreation has responsibility is \$95.5 million, an increase of \$10.6 million from the expected outcome for 2003-04.²³⁰

The Department for Victorian Communities advised that the increase in 2004-05 is a result of indexation and an increase in the allocation of funding for major events, offset by the reversal of the previous year's carry overs.²³¹

Information requested by the Committee revealed that funding for the Major Events Program increased by \$10.8 million, employment costs increased by \$500,000 and new funding for the national ice sports centre contributed \$4.1 million.²³² These increases were offset by reduced funding of \$2.8 million for the Access all Abilities Program (for which a new three year funding agreement is being negotiated) and approved carry overs of \$1.8 million that were included in 2003-04.²³³

The Committee noted that the cost of the Sport and Recreation Development output in 2004-05 would be partly met by funds from the Community Support Fund (CSF). The department advised that CSF funding to the output's cost was estimated to be \$31.9 million in 2004-05, with the major contributions allocated towards the Better Pools Program (\$8 million), the Kardinia Park development (\$6.3 million) and grants to suburban sporting facilities (\$5 million) and regional sporting facilities (\$3.5 million).²³⁴

15.12.3 Performance measures

The Department for Victorian Communities continued to refine performance measures in the 2004-05 Budget relating to Sport and Recreation portfolio outputs, with nine measures discontinued and two new measures added.²³⁵

Of the nine measures discontinued, six were timeliness measures that related to projects that were completed.²³⁶ Of the six new measures, four relate to the

²²⁸ *ibid.*

²²⁹ Budget Information Paper No. 1, *2003-04 Public Sector Asset Investment Program*, p.65

²³⁰ Budget Paper No. 3, *2004-05 Service Delivery*, pp.247-248

²³¹ Department for Victorian Communities' response to the Committee's 2004-05 Budget Estimates questionnaire, p.15

²³² Minister for Sport and Recreation's response to the Committee's follow-up questions, p.1

²³³ *ibid.*

²³⁴ *ibid.*, p.2

²³⁵ Department for Victorian Communities' response to the Committee's 2004-05 Budget Estimates questionnaire, pp.8-9

²³⁶ Budget Paper No. 3, *2004-05 Service Delivery*, pp.355-356

achievement of milestones for four specific projects (Kardinia Park, Melbourne and Olympic Park, National Ice Sports Centre and the State Volleyball Centre).²³⁷ The department advised the Committee that the new performance measures were introduced to *'better assess new budget initiatives and core business activities, as well as track the progression of existing projects'*.²³⁸

The remaining three discontinued measures are quantity measures relating to the funding of sporting facilities.²³⁹ These discontinued measures were replaced by two new measures that provide a regional focus for grant funding.

The Committee considers that the performance measures for the Sport and Recreation Sector Development output in 2004-05 are appropriate. However, the Committee believes that the Department for Victorian Communities should include additional measures that reflect efforts to build cohesive communities (see section 15.12.4(c)).

15.12.4 Key issues impacting on the portfolio

The department's response to the Committee's questionnaire and the estimates hearing identified several issues that will impact on the portfolio and its Budget Estimates for 2004-05.

(a) National Ice Sports Centre

As discussed earlier, the 2004-05 Budget included funding of \$9.6 million over three years to 2006-07 as the Government's contribution to the construction of an international standard ice sports centre.²⁴⁰

At the estimates hearings, the Committee noted that the business plan for the centre had been developed over several years, with reviews undertaken during the project planning phase in September 2003 recommending that the project continue to procurement stage.²⁴¹ The Minister advised the Committee that early in 2004 a consultant undertook a detailed premarket analysis to review a range of issues including patronage, demand and commercial viability issues; the depth of investor developer market interests in the project; the risk landscape; the potential commercial arrangements option between the developer, the builder, financier, operator and the Government; and the recommended transaction process.²⁴² The Minister advised the Committee that:²⁴³

²³⁷ Department for Victorian Communities response to the Committee's 2004-05 Budget Estimates questionnaire, pp.8-9

²³⁸ *ibid.*

²³⁹ Budget Paper No. 3, *2004-05 Service Delivery*, p.355-356

²⁴⁰ *ibid.*, pp.303-304

²⁴¹ Hon. J. Madden, MLC, Minister for Sport and Recreation, transcript of evidence, 23 June 2004, p.4

²⁴² *ibid.*

²⁴³ *ibid.*

On the strength of the advice, we as a government decided we would conduct a tender process over the next 12 months with the aim of securing a consortia that would build, own and operate the centre.

The Minister advised the development could be part of a broader development such as a shopping centre, a retail precinct or other recreational-commercial facility.²⁴⁴

The following timelines had been established for the project:²⁴⁵

- expressions of interest – closed 19 August 2004;
- call for tenders as soon as possible, subject to the nature of submissions to the expression of interest;
- close tender period prior to Christmas 2004; and
- project completion some time in 2006.

The Minister indicated a small part of the \$4.5 million allocated in 2004-05 will be used to cover the costs of the project team that will prepare the tender, review the submissions and prepare the commercial and legal documentation, with the remaining funds to be allocated towards the cost of the project.²⁴⁶ The Committee noted the commercial arrangements could take any number of forms, from an up-front capital investment or a capital contribution over the life of the project to an availability payment each year the service is provided.²⁴⁷

The Minister emphasised to the Committee that irrespective of the final form of the arrangements, the private sector is to be responsible for the development, construction and operational risks of the proposed centre.²⁴⁸ The Committee considers that particular attention must be given in the final contract to ensuring that all risks with the project are appropriately allocated.

(b) Management of the major events funding cap

The Committee understands that the annual major events funding cap is \$40 million, which applies to all major events, including sport and recreation, entertainment, arts and business event facilitation.²⁴⁹

The Committee noted that the 2004-05 Budget included an additional \$35 million over the period 2004-05 to 2006-07 to provide flexibility for the Government in supporting

²⁴⁴ *ibid.*

²⁴⁵ Department for Victorian Communities, *National Ice Sports Centre: Invitation for Expressions of Interest*, 16 July 2004; Hon. J. Madden, MLC, Minister for Sport and Recreation, transcript of evidence, 23 June 2004, p.5

²⁴⁶ Hon. J. Madden, MLC, Minister for Sport and Recreation, transcript of evidence, 23 June 2004, p.5

²⁴⁷ *ibid.*

²⁴⁸ *ibid.*, pp.4–5

²⁴⁹ Hon. J. Madden, MLC, Minister for Sport and Recreation, transcript of evidence, 23 June 2004, pp.9–10

events of significant economic benefit to Victoria.²⁵⁰ This additional funding brings the total allocation for the major events cap announced in the Budget Papers since May 2001 to \$151.7 million.²⁵¹

The Committee was interested to learn how funding was allocated to new events within the existing cap. The Minister advised that Cabinet approved new events and then funding is provided by the Department of Treasury and Finance from the overall cap and allocated to the relevant output.²⁵²

In the Sport and Recreation portfolio, the estimated allocation to major events in 2004-05 is \$28.6 million, an increase of \$10.8 million from 2003-04.²⁵³ The Minister advised the Committee that:²⁵⁴

The estimate included in the sport and recreation output provided each year in the Budget Papers represents the precommitments approved by the Government for the following year at the time the state budget is delivered. The estimate also does not include the final approved budget for the Australian Grand Prix Corporation, which is not settled until July in each year, and as a result the estimate is generally below the agreed cap. The final expenditure depends on what events are approved during the course of the year as well as the final approved budget for the Australian Grand Prix Corporation.

The Minister informed the Committee that the major events to be held in 2004-05 included:²⁵⁵

- Commonwealth Youth Games;
- IDSF 10 Dance World Championships;
- Women's World Cup Cycling;
- FIG World Artistic Gymnastics Championships;
- FINA Swimming World Cup; and
- Australian Formula One Grand Prix.

The Minister estimated the economic impact of major events to Victoria to be over \$1.08 billion for 2003-04.²⁵⁶ This included an estimated benefit of \$168.9 million to Victoria from hosting seven matches in the recent rugby union world cup.²⁵⁷

²⁵⁰ Budget Paper No. 3, *2004-05 Service Delivery*, p.289

²⁵¹ Budget Paper No. 2, *2001-02 Budget Statement*, pp.263–264; Budget Paper No. 2, *2003-04 Budget Statement*, p.227; Budget Paper No. 3, *2004-05 Service Delivery*, p.289

²⁵² Hon. J. Madden, MLC, Minister for Sport and Recreation, transcript of evidence, 23 June 2004, p.9

²⁵³ Minister for Sport and Recreation's response to the Committee's follow-up questions, p.1

²⁵⁴ Hon. J. Madden, MLC, Minister for Sport and Recreation, transcript of evidence, 23 June 2004, p.9

²⁵⁵ *ibid.*, p.6

²⁵⁶ *ibid.*

The Minister for Sport and Recreation advised the Committee, during its review of the 2003-04 Budget Estimates, how the Government determines estimated economic impacts:²⁵⁸

To determine expected economic impact of major events (pre-event), historical data is collected from previous editions of the event and/or from the event owner. An assessment is then made regarding likely visitation, length of stay and expected expenditure for the event in question.

A determination of the economic impact of an event (post-event) is conducted using similar information as for the pre-event assessment, however a professional survey company (usually at the event venue) collects data directly from event patrons and utilises information such as ticket sales and event budget expenditure. This data is analysed and assessed using a recognised methodology.

Professional firms, such as Ernst and Young, the National Institute of Economic and Industry Research or Victoria University, undertake all estimated and actual assessments of economic impact from major high-profile events. The Victorian Major Events Company or the State Government undertakes the estimate and actual assessment of smaller events using a recognised methodology.

The Committee noted that the estimated economic benefits of \$168.8 million on the Victorian economy for the Rugby World Cup were based on a study commissioned by the Department for Victorian Communities and the Victorian Major Events Company based primarily on spectator surveys.²⁵⁹ The economic benefits highlighted by this study included:²⁶⁰

- increase in direct expenditure of \$92.7 million;
- increase in GDP of \$168.8 million;
- increase in state taxes \$10.8 million; and
- an estimated 32,117 interstate visitors and 53,021 international visitors providing an estimated total of 85,138 visitors to Victoria.

This economic impact estimate of \$168.9 million for the rugby world cup from the study commissioned by the Department for Victorian Communities contrasts with the estimate of \$40 million in a study undertaken by economic consultants URS Finance

²⁵⁷ *ibid.*, p.2

²⁵⁸ Minister for Sport and Recreation's response to the Committee's 2003-04 Budget Estimates follow-up questions, p.1

²⁵⁹ URS Finance and Economics, *Economic Impact of the Rugby World Cup 2003 on the Australian Economy, Post Analysis*, Report prepared for the Department of Industry, Tourism and Resources, June 2004, p.C.3

²⁶⁰ *ibid.*

and Economics commissioned by the Commonwealth Department of Industry Tourism and Resources.²⁶¹ This latter estimate was made using a general equilibrium economic model of the Australian economy developed by the Centre for Policy Studies at Monash University.²⁶²

Although the URS Finance and Economics study included data that was also used to calculate the benefits in the study commissioned by the Department for Victorian Communities, the Committee noted instances where adjustments had been made. For example, in the view of URS, the estimates of the number of international visitors to Victoria used for the department's study may be inflated given that some international travellers could already have been in Australia with or without the rugby world cup or would have come to Australia anyway.²⁶³

The Committee is aware that there is considerable academic debate over the methodology and assumptions used to calculate the economic benefits associated with hosting major events. While the Committee is not in a position to comment on the merits of these arguments, it believes that the public release of economic impact studies would make transparent the range of assumptions and methodologies used and their potential affect on estimates of the economic benefits of major events.

The Committee notes that studies examining the economic benefits of major events in Victoria are not usually publicly available. Where these studies are available, they are usually released in a summary form, without a full discussion of the assumptions and methodology used to estimate economic benefits.²⁶⁴ This situation contrasts with the public release of the URS study commissioned by the Commonwealth Department of Industry, Tourism and Resources into the rugby world cup.²⁶⁵

The Committee believes it is important that the Department for Victorian Communities continue to evaluate the economic and social impact of contributions made to hosting major events to ensure that the benefits of hosting these events match expectations. However, the Committee believes that an important element of conducting these evaluations is publicly releasing the evaluation reports, including the underlying assumptions.

²⁶¹ *ibid.*, p.4.4

²⁶² *ibid.*, p.ES.2

²⁶³ *ibid.*, p.C.18

²⁶⁴ See for example, Racing Victoria, *Spring Racing Carnival 2003: Economic benefit*, available at www.racingvictoria.net.au; Department for Victorian Communities, *The Contribution of Major Events and Elite Sports*, www.sport.vic.gov.au/web/srv/srvsite.nsf/pages/research_bussport3?OpenDocument, accessed 24 August 2004

²⁶⁵ URS Finance and Economics, *Economic Impact of the Rugby World Cup 2003 on the Australian Economy – Post Analysis, Report prepared for the Department of Industry, Tourism and Resources*, June 2004

The Committee recommends that:

Recommendation 174: The Department for Victorian Communities:

- (a) continue to measure the economic benefits associated with hosting major events; and**
- (b) publicly release all studies commissioned to determine the economic impact of major events in Victoria.**

(c) Sport and recreation facilities for the community

Sport and Recreation Victoria is responsible for the administration of several grant programs including the Better Pools program, Community Facilities Planning program and the Community Facilities programs.²⁶⁶ In 2004-05, 165 grants from the major grants programs totalling almost \$17 million will be funded.²⁶⁷

The Minister informed the Committee that in the previous five years the value of grant funding distributed to regional and rural areas had averaged just under 60 per cent and was 57 per cent in 2003-04.²⁶⁸ The Minister stated that:²⁶⁹

A key reason for the high percentage being allocated to regional and rural Victoria, and this is also worth reinforcing, is the changed funding ratios that we introduced when we came into government. Those funding ratios have made funding more accessible to rural and regional Victoria. For instance, in the minor facilities rural councils are funded on a \$2 from the State Government to \$1 local arrangement, whereas in metropolitan councils it is \$1 State Government to \$1 local on average. There are slightly different ratios for the other metropolitan areas. In the Better Pools programs rural councils receive \$1 for \$1, whereas metropolitan councils receive \$1 per \$3.

The Committee noted that although a major element of these grant programs was the upgrade or construction of sporting facilities, the process of involving communities in applying for grants was also an important aspect of building cohesive communities, which is regarded as a key Government outcome for the portfolio.²⁷⁰ The Minister informed the Committee that:²⁷¹

²⁶⁶ Department for Victorian Communities, Sport and Recreation Victoria funding, www.sport.vic.gov.au, accessed 20 August 2004.

²⁶⁷ *ibid.*

²⁶⁸ Hon. J. Madden, MLC, Minister for Sport and Recreation, transcript of evidence, 23 June 2004, p.3

²⁶⁹ *ibid.*

²⁷⁰ Budget Paper No. 3, *2004-05 Service Delivery*, p.247

²⁷¹ Hon. J. Madden, MLC, Minister for Sport and Recreation, transcript of evidence, 23 June 2004, p.3

We bring funds to the projects but it is certainly the project funds that come from within the community that validate what the community does. While that is part of the process and part of the funding model it is also particularly important to appreciate that that partnership also builds upon and reflects the capacity of those respective communities, so it is worth appreciating that the formula in itself and the process of delivering on that formula are as much part of the outcome as is the actual facility.

The Committee welcomes the Government's commitment to improving community sporting facilities throughout Victoria.

The Committee notes that the promotion of physical activity and community participation and engagement directly links to one of the key Government outcomes for the Sport, Recreation and the Commonwealth Games output group, which is to build cohesive communities and reduce inequalities.²⁷² However, the Committee notes that there are no performance measures included in the Sport and Recreation Sector Development output that measure the output's contribution to building cohesive communities.²⁷³ The Committee acknowledges the difficulty in developing performance measures that measure this aspect, but considering the amount of funding directed towards achieving this key Government outcome, the department should develop performance information to assess the benefits to the communities.

The Committee recommends that:

Recommendation 175: **The Department for Victorian Communities develop appropriate performance measures for the Sport and Recreation Sector Development output to assess the contribution of the output towards building cohesive communities.**

15.13 Commonwealth Games portfolio

Administrative responsibility for the organisation of the Commonwealth Games rests with the Office of Commonwealth Games Coordination – a division of the Department for Victorian Communities – and the Melbourne 2006 Commonwealth Games Corporation.

The Melbourne 2006 Commonwealth Games Corporation was established as a statutory authority by the *Commonwealth Games Arrangements Act* 2001 in October 2003, to take over the functions of the Melbourne 2006 Commonwealth Games Pty Ltd. The Corporation reports to the Minister for Commonwealth Games, who makes

²⁷² Budget Paper No. 3, 2004-05 Service Delivery, p.247

²⁷³ *ibid.*, pp.247–248

recommendations on board appointments and may, with the approval of the Treasurer, give directions to the Corporation's board.²⁷⁴

15.13.1 2004-05 outlook for the portfolio

The Committee noted that planning for the Commonwealth Games had progressed to the detailed planning phase (see exhibit 15.12).

Exhibit 15.12: Planning stages for the Commonwealth Games

April 02	Dec 03	Dec 04	Nov 05	Mar 06	Dec 06
Phase 1 Set up					
	Phase 2 Strategy and Planning				
		Phase 3 Detailed planning			
			Phase 4 Testing and operational readiness		
				Phase 5 Operational	
					Phase 6 Wind up

Source: Hon. J. Madden, MLC, presentation to the Public Accounts and Estimates Committee, 23 June 2004

The Minister advised the Committee that the priorities for the Melbourne 2006 Games Corporation, the Office of Commonwealth Games Coordination and other government agencies over the forthcoming year include:²⁷⁵

- program launches – schools education program, community involvement;
- strategy launches – Respecting Indigenous Communities Strategy; Industry Strategy; Regional Strategy; Communities Strategy; Employment, Training and Volunteering Strategy;
- progressing capital projects (see section 15.13.4(a)); and
- planning activities – public domain operational planning, master security orders and competition schedule.

²⁷⁴ Commonwealth Games Arrangements Act 2001, s.4M, s.4J

²⁷⁵ Hon. J. Madden, MLC, Minister for Commonwealth Games, transcript of evidence, 23 June 2004, pp.2–3

15.13.2 Analysis of the budget

The 2004-05 Budget for the output for which the Minister for the Commonwealth Games has responsibility is \$173.8 million, an increase of \$93.9 million from the expected outcome for 2003-04.²⁷⁶ The output accounts for 39.4 per cent of the Department for Victorian Communities budget in 2004-05.

The Department for Victorian Communities advised the Committee that the increase in 2004-05 is due to the phase up of expenses relating to the 2006 Commonwealth Games.²⁷⁷ The \$93.9 million increase in 2004-05 is allocated to the Melbourne 2006 Corporation (\$41.9 million), the Athletes' Village (\$12.1 million), and payments to the Office of Commonwealth Games Coordination and other departments and organisations (\$39.9 million).²⁷⁸

15.13.3 Performance measures

Performance measures for the Commonwealth Games output were substantially revised in 2004-05, with two of the four performance measures from the 2003-04 Budget discontinued and 15 new measures introduced.²⁷⁹ The department advised the Committee that the introduction of the new performance measures reflects the shift from conceptual to operational planning for the Games.²⁸⁰

Included among the 15 new performance measures are 11 timeliness measures. Most of these measures relate to specific activities that are associated with the planning for the Games, although some relate to the staging of events. Almost all of these timeliness targets are expressed as a date – although the target specified is expressed as a particular quarter of the 2004-05 financial year.²⁸¹

The Committee welcomes the additional performance measures for the Commonwealth Games output, which is reflective of the increased efforts and resources that are now dedicated to planning for this event. The Committee believes that the Department for Victorian Communities should continue to review the appropriateness of existing measures and as planning for the Games progresses develop new measures, particularly those that relate to the quality of services, for inclusion in future Budget Papers.

²⁷⁶ Budget Paper No. 3, *2004-05 Service Delivery*, pp.248–249

²⁷⁷ Department for Victorian Communities response to the Committee's 2004-05 Budget Estimates questionnaire, p.16

²⁷⁸ Hon. J. Madden, MLC, Minister for the Commonwealth Games, presentation at the 2004-05 Budget Estimates hearing, 23 June 2004, p.13

²⁷⁹ Budget Paper No. 3, *2004-05 Service Delivery*, pp.248–249, p.356

²⁸⁰ Department for Victorian Communities response to the Committee's 2004-05 Budget Estimates questionnaire, p.8

²⁸¹ Budget Paper No. 3, *2004-05 Service Delivery*, pp.248–249

15.13.4 Key issues affecting the portfolio

The department's response to the Committee's questionnaire and the estimates hearing identified several issues that will impact on the Commonwealth Games portfolio and its Budget Estimates for 2004-05.

(a) Progress on Commonwealth Games capital projects

The Committee noted that the Commonwealth Games capital works program is being funded by the Department for Victorian Communities and the Department of Infrastructure as well as a number of other sources, with budget allocations of \$121.1 million in 2004-05 (see exhibit 15.13).²⁸²

Exhibit 15.13: Capital projects for the Commonwealth Games Budget allocations

Capital projects	2003-04 Budget (\$ million)	2003-04 Expected Expenditure (\$ million)	2004-05 Budget (\$ million) (a)	Total estimated investment (\$ million)
Athletes' Village social housing	9.0	(b) 2.0	18.1	35.1
Melbourne Sports and Aquatic Centre	27.0	(b) 18.0	30.0	51.5
Yarra Precinct pedestrian link	6.2	6.2	18.0	27.8
MCG athletics track	2.0	0.5	11.0	18.5
MCG redevelopment contribution	38.5	38.5	38.5	77.0
Other capital works	1.8	n/a	7.0	n/a
Total	84.5	n/a	121.1	n/a

Notes: (a) Includes carry forward estimates

(b) Details of the amount of carry over funding is identified in section 15.3.3

n/a not available

Sources: Hon. J. Madden, MLC, Minister for the Commonwealth Games' presentation to the Public Accounts and Estimates Committee, 23 June 2004, p.14; Department for Victorian Communities response to the Committee's 2004-05 Budget Estimates questionnaire, p.19; Department of Infrastructure response to the Committee's 2004-05 Budget Estimates questionnaire, p.42; Minister for the Commonwealth Games' response to the Committee's follow-up questions, p.9; Budget Information Paper No. 1, 2003-04 Public Sector Asset Investment Program, p.45

As noted earlier, budgeted expenditure in 2004-05 on these capital projects includes \$29.6 million carried forward from 2003-04.²⁸³

²⁸² Minister for Commonwealth Games' response to the Committee's follow-up questions, p.3; Hon. J. Madden, MLC, Minister for the Commonwealth Games, presentation to the Public Accounts and Estimates Committee, 23 June 2004, p.14

²⁸³ Minister for Commonwealth Games' response to the Committee's follow-up questions, p.8

The department advised the Committee that performance measures for a number of these projects are included in the Budget Papers and that progress of all construction projects is reviewed quarterly by the Government against anticipated timelines.²⁸⁴ The current status of projects is set out in exhibit 15.14.

The Committee noted that the planned completion dates for several projects was scheduled for the third quarter of 2005-06 (i.e.: between January and March 2006), which is very close to the commencement of the Games on 15 March 2006. The department will need to closely monitor progress on these capital projects to ensure they are completed on time and within budget, without compromising the quality of the facilities.

²⁸⁴ *ibid.*, p.3

**Exhibit 15.14: Capital projects for the Commonwealth Games
Construction progress status as at 23 July 2004**

Capital project	Start date	Finish date	Current status
Athletes' village	Qtr 2 2003-04	Qtr 2 2005-06	Civil works and services infrastructure commenced. Display houses to frame stage.
MCG redevelopment	Qtr 2 2002-03	Qtr 3 2005-06	Stages 1 and 2 – operational Stage 3 – Basement level 1 and level 2 slabs progressing Stage 4 – Demolished
MCG athletics track	Qtr 2 2004-05	Qtr 3 2005-06	
MSAC stage 2 development	Qtr 2 2003-04	Qtr 2 2005-06	Bulk excavation completed. Piling commenced
State lawn bowls centre	Qtr 2 2002-03	Qtr 1 2004-05	3 greens released for club use. 4 th green re-sown due to poor germination
Mountain bike course	Qtr 3 2004-05	Qtr 2 2005-06	Lysterfield site announced. Completion course alignment approved, detailed planning commenced
Olympic Park athletics track	Qtr 2 2004-05	Qtr 2 2004-05	Project manager appointed. Installation for Deaflympics (January 2005)
State netball and hockey centre	Qtr 2 2004-05	Qtr 3 2004-05	
Melbourne International Shooting Club	Qtr 1 2004-05	Qtr 2 2005-06	Confirmed as Games venue. Negotiations for upgrade with club underway
Yarra precinct pedestrian link	Qtr 1 2004-05	Qtr 2 2004-05	Design finalised. Project being tendered
Jolimont Station	Qtr 2 2004-05	Qtr 4 2004-05	Tenders being assessed
Yarra precinct lighting	Qtr 2 2004-05	Qtr 3 2005-06	Development report and implementation plan submitted to the City of Melbourne

Source: Minister for the Commonwealth Games' response to the Committee's follow-up questions, pp.3-4

(b) Commonwealth Games contingency funding

The Minister informed the Committee that the budgeted cost for the Commonwealth Games output of \$173.8 million in 2004-05 included \$21.8 million for contingencies.²⁸⁵ The Minister stated that:²⁸⁶

In terms of the delivery of the games, the contingency is quite a significant component of the overall budget, given that while there is a budget allocation for many of the issues around the games, some of these matters are fluid and require substantial negotiation, either external from government or internal with government; and that just provides for a significant degree of contingency in the overall games budget. Each of the elements is capped, and that also relates to the ability to manage cash flows in any given year; so the contingency is predominantly for cash flows to be relied upon in certain financial years but it is also built into the overall games budget.

At the estimates hearing, the Minister undertook to provide the Committee with a detailed breakdown of the contingency funding. The Minister's response indicated that:²⁸⁷

All anticipated costs associated with delivering the Games have been explicitly budgeted for. The \$21.8 million Whole of Games contingency allocated in the 2004-05 financial year ensures adequate cashflow coverage in a critical year for the Games from an operational planning point of view. If it is not required in 2004-05 to manage revenue and expense cashflow variations which may arise, the \$21.8 million will be carried forward to 2005-06.

The Minister also indicated that adequate amounts have been provided for contingencies in the Whole of Games budget, but given that these issues are the subject of commercial negotiations it would be inappropriate to release details of the budgeted amounts at this stage.²⁸⁸

While the Committee adopts a general position that withholding information from the Parliament on the grounds of commercial confidentiality is undesirable, the Committee acknowledges that in this circumstance, the provision of information on contingency funds may compromise commercial negotiations for the specific Commonwealth Games projects.

²⁸⁵ Hon. J. Madden, MLC, Minister for the Commonwealth Games, transcript of evidence, 23 June 2004, p.4

²⁸⁶ *ibid.*

²⁸⁷ Minister for the Commonwealth Games' response to the Committee's follow-up questions, p.1

²⁸⁸ *ibid.*, p.5

The Committee notes that the Budget Papers currently recognise a contingent liability relating to an obligation by the state to underwrite any shortfall between revenue and expenditure for the organisation of the Games.²⁸⁹ While the Committee acknowledges that part of the contingency funding for Commonwealth Games projects relates to managing cash flow issues, the Committee believes that the Department for Victorian Communities needs to carefully monitor the outcomes of negotiations on Games related projects to ensure that any further quantifiable and non-quantifiable contingent liabilities are recognised.

The Committee recommends that:

Recommendation 176: The Government include in the Budget Papers details of any further quantifiable and non-quantifiable liabilities associated with Commonwealth Games related projects, in particular the nature of the types of potential liabilities that the Government faces such as further guarantees made and legal action pending.

(c) *Ticket allocation and distribution*

The Committee was interested in learning what steps were being taken to avoid the ticket allocation and distribution problems that arose with the Olympic Games in Sydney.

The Minister advised the Committee that the Sydney ticketing problems primarily revolved around a lack of transparency relating to what tickets were available, the manner in which they could be purchased, and the manner in which tranches of tickets were released to the market.²⁹⁰

The Committee was advised that Melbourne 2006 Corporation has analysed the process that occurred in Sydney and the key lessons from that process are forming the foundation for planning activities for the Commonwealth Games ticketing program.²⁹¹ Planning is focused upon delivering a ticket delivery model which places an emphasis on affordability and accessibility and maximising spectator attendances at all sessions whilst meeting the financial objectives of the Corporation and fulfilling obligations under agreements with key parties.²⁹² The Minister also advised the Committee that ticket prices will include free public transport for Games spectators.²⁹³

²⁸⁹ Budget Paper No. 2, *2004-05 Strategy and Outlook*, pp.102–103

²⁹⁰ Minister for the Commonwealth Games' response to the Committee's follow-up questions, p.6

²⁹¹ *ibid.*

²⁹² *ibid.*

²⁹³ *ibid.*

(d) Cost of Athletes' Village costing

The Committee noted that the contractual arrangements for the development of the athletes' village are complex, involving the state making the Parkville site available for development, including the Games Village, together with a state contribution towards:²⁹⁴

- the Village Park Consortium (VPC) acting as the developer with the responsibility to plan, design, finance, construct, market and sell the development;
- provision of the athletes' village during the Games period;
- estate management during the Games period; and
- land payments for individual dwellings.

The state will also receive a share of any project surplus, subject to certain performance hurdles being met.²⁹⁵

At the estimates hearing, the Committee sought details of the financial costings and arrangements for the athletes' village and how these compared to the original tender bid submitted by the successful tenderer VPC (see exhibit 15.15).²⁹⁶

²⁹⁴ Department for Victorian Communities, Summary Athletes' Village Project Delivery Agreement, http://www.dvc.vic.gov.au/ocgc/village/Summary_PDA.pdf, accessed 17 August 2004

²⁹⁵ *ibid.*

²⁹⁶ Hon. G. Rich Phillips, MLC, transcript of evidence, pp.12–14

Exhibit 15.15: Costings for the Athletes' village

	VPC tender bid (\$ million)	Heads of Agreement (\$ million)	Variance (\$ million)
State contribution	41.6	50.6	9.0
Environmental initiatives	-	15.6	15.6
Social Housing	16.0	35.1	19.1
Less revenue	15.0	59.0	44.0
Net cost to Government	42.6	42.3	0.3
Land		33.0	
Project costs		10.0	
Total cost including land and enduring assets		85.3	
Total cost including land and excluding enduring assets		34.6	

Source: Minister for the Commonwealth Games' response to the Committee's follow-up questions, p.1

The department advised the Committee that during the tender bid assessment phase, adjustments were necessary to ensure that proponent's bids could be analysed on a comparable basis and that they met the requirements specified in the request for proposals.²⁹⁷ The Committee noted that the state's contribution had been adjusted to include the Government's environmental initiatives for the athletes' village and changes to the proposed development negotiated during the parallel negotiation phase.²⁹⁸ This involved removing the cost allowance for environmental initiatives from each proponent's bid and adding the Government's budget for village environmental initiatives to facilitate a like for like comparison.²⁹⁹

The Committee noted that during the parallel negotiation phase, both developers bidding for the project prepared changes to their proposals to provide refinements. Changes made by VPC included a greater number of houses and a smaller number of apartments.³⁰⁰ The department advised the Committee that it was always anticipated that changes to proposals would be made during this phase and the changes made by VPC improved deliverability.³⁰¹

The department advised the Committee that as a consequence of the increase in the number of houses being developed, VPC's original bid of an 80 bed hostel and 32 social housing units costing \$16 million needed to be increased to comply with the minimum 20 per cent social housing component specified in the expression of

²⁹⁷ Minister for the Commonwealth Games' response to the Committee's follow-up questions, p.2

²⁹⁸ *ibid.*

²⁹⁹ *ibid.*

³⁰⁰ *ibid.*

³⁰¹ *ibid.*

interest.³⁰² The Committee noted that the social housing component had been increased to a 100 bed hostel and 100 social housing units at a cost of \$35.1 million.³⁰³

Revenue from the project is based on a sliding scale percentage of the sales price for each dwelling sold.³⁰⁴ The Committee noted that the revenue estimate of \$59 million provided to the Committee on 23 July 2004 is lower than the \$62 million identified by the department in a recent summary for the project.³⁰⁵

While the Committee is pleased that the net cost to Government has not increased despite considerable enhancements to the project, it is incumbent on the department to closely monitor the contractor's progress in meeting construction milestones and review assumptions used to estimate project revenues.

(e) Economic impact of the Commonwealth Games

At the estimates hearings the Minister advised the Committee an economic impact study for the Games will be conducted and measured.³⁰⁶ The Minister explained that:³⁰⁷

The New South Wales government estimated the economic benefit of the 2000 Sydney Olympics to be 2.5 times the total cost of the games, and Cambridge Policy Consultants estimated the economic benefits from the 2002 Manchester Commonwealth Games to be 2.4 times the total cost of the games. Bearing that in mind, with a total budget in the order of \$1.1 billion for our Commonwealth Games, the economic impact has been conservatively estimated at \$2 billion. That was an appropriate way to estimate the likely economic benefits when the games budget was announced in advance of the detailed economic assessment which we have undertaken to conduct.

The Committee noted that the Department for Victorian Communities had commissioned an economic impact study for the Melbourne 2006 Commonwealth Games, with the objectives of evaluating the direct and indirect economic impact of Melbourne hosting the Commonwealth Games for both Victoria and Australia.³⁰⁸ The tender brief specified that a final report for the consultancy would be required no later than 20 June 2004.³⁰⁹

³⁰² *ibid.*

³⁰³ *ibid.*

³⁰⁴ Department for Victorian Communities, Summary Athletes' Village Project Delivery Agreement, <http://www.dvc.vic.gov.au/ocgc/village/Summary>, accessed 17 August 2004

³⁰⁵ *ibid.*

³⁰⁶ Hon. J. Madden, MLC, Minister for Commonwealth Games, transcript of evidence, 23 June 2004, p.17

³⁰⁷ *ibid.*

³⁰⁸ Department for Victorian Communities, *Request for quote: Melbourne 2006*, April 2004, p.2

³⁰⁹ *ibid.*

The Committee welcomes the commissioning of the study, which will provide for a better assessment of the economic benefits associated with hosting the Games. In line with the Committee's recommendation regarding studies evaluating the economic benefits of hosting major events (see section 15.12.4(b)), the Committee believes that the study should be publicly released.

(f) Whole of games reporting and budget

As discussed in the Committee's 2003-04 Budget Estimates report, the Government's financial commitment to hosting the Commonwealth Games is capped at \$474 million for operating expenses and \$223 million for capital projects.³¹⁰ The Minister advised the Committee that these commitments were unchanged, with the overall cost of hosting the Games still expected to be \$1.1 billion (see exhibit 15.16).³¹¹

**Exhibit 15.16: Commonwealth Games
Whole of Government Budget update 2004-05**

Budget item	Original Budget (\$ million)	Estimated Budget (\$ million)
Operating	474	474
Capital projects	223	223
MCC redevelopment	77	77
Games Village	35	35
MSAC	52	52
Yarra precinct improvements	31	31
Other projects	28	28
Sub total costs	697	697
Revenue		
Television	TBA	TBA
Sponsorships	TBA	TBA
Commonwealth Grant	100	(a) 100
Other revenues	TBA	TBA
Sub total revenues	TBA	TBA
Cost plus revenue (cost of Games)	1,100	1,100

Note: (a) Net direct financial contribution after deducting the allowance for Commonwealth Government services being provided for the Games

TBA To be announced

Source: Minister for the Commonwealth Games' response to the Committee's follow-up questions, p.9

³¹⁰ Public Accounts and Estimates Committee, *Report on the 2003-2004 Budget Estimates*, 54th Report, September 2003, pp.527-528

³¹¹ Minister for the Commonwealth Games' response to the Committee's follow-up questions, p.9

The Committee noted that the \$1.1 billion cost included a Commonwealth grant of \$100 million announced on 11 May 2000, which means that revenue from television, sponsorships, ticketing and other sources will need to be at least \$303 million to avoid any further Government contribution.³¹²

The Committee is aware the first whole of Games special purpose financial report for 2002-03 was included in the annual report of the Department for Victorian Communities.³¹³ Information in the special purpose report is extracted from audited financial reports of the various departments and agencies involved in the Games. The definition for the Commonwealth Games costs used to identify expenses is:³¹⁴

the net costs directly related to the Commonwealth Games event and include only additional costs incurred by the Government in hosting the event over and above expenditure to which Government would have otherwise been committed. Costs in relation to the bid process are not included.

A separate definition for capital contributions has also been adopted for the purposes of the special purpose statement:³¹⁵

Capital contributions to facilities and infrastructure comprises the funding provided by the Government to develop infrastructure and facilities related to the Games. In most cases, this will be in the form of non-reciprocal capital grants to the entities developing the relevant facility or infrastructure. These contributions are disclosed in the Statement of Capital Contributions and are not recognised as costs from ordinary activities of the Games.

The Committee welcomes the efforts of the Government to compile the whole of Games special purpose statement as it will enable a better understanding of the resources consumed and benefits derived from hosting the Games. The Committee acknowledges that compiling the special purpose statement is not straightforward due to complex contractual arrangements and the different methods with which venues and services are being delivered.

The Committee understands that while the concepts used in the preparation of the whole of Games special purpose statement are similar to those used to develop the Government's contribution cap of \$697 million (which are based on appropriations by Parliament), it is difficult to compare whole of Games reporting in the special purpose financial report with the whole of government Games budget.

³¹² *ibid.*, p.6

³¹³ Department for Victorian Communities, *Annual Report 2002-03*, pp.150–158

³¹⁴ *ibid.*, p.153

³¹⁵ *ibid.*, p.154

The Committee believes that whole of Games reporting can be improved by providing a comparison of funds expended to date on preparing for the Games against the Government's commitment to cap its contribution at \$697 million.

The Committee recommends that:

Recommendation 177: **The Department for Victorian Communities include in its annual report for 2004-05, 2005-06 and 2006-07, a reconciliation of expenditure and revenue for that year in a format consistent with the Government's whole of Games funding commitments.**

This report was adopted by the Committee at its meeting on 27 October 2004 in Meeting Room 4 at Parliament House.

