



PARLIAMENT OF VICTORIA
Public Accounts and Estimates Committee

**Report on the 2016-17
Budget Estimates**

Parliament of Victoria
Public Accounts and Estimates Committee

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Committee functions

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.

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

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

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

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

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Acronyms and terms

(Asset) investment through other sectors	'Asset investment' funded through another sector (most commonly funded by the 'general government sector' and through the 'public non-financial corporations sector') for an asset that becomes part of that other sector. May be reported as gross inflows, gross outflows or net cash flows.
AASB	Australian Accounting Standards Board
Agency	Government entities which generally receive their funding through 'departments' and for which 'departments' are responsible for reporting. Examples include Victoria Police, hospitals and TAFEs. Agencies, like 'departments', are directly accountable through one or more ministers to Parliament.
AIHW	Australian Institute of Health and Welfare
Appropriation	The authority to withdraw funds from the Consolidated Fund. This may be a once-off authority (as provided in the annual Appropriation acts) or a standing authority (a special appropriation provided by another act).
Asset initiative	A new program or project ('initiative') that delivers assets. See 'asset investment'.
Asset investment	Expenditure on assets (generally infrastructure such as roads or hospitals) as opposed to expenditure on the delivery of products and services ('outputs').
Budget estimates	Forecasts for future years made in the budget papers about matters such as revenue, expenditure, assets, liabilities and goods and services to be delivered.
Budget papers	The set of documents released with the annual budget. These normally include the Treasurer's speech and volumes on: strategy and outlook; service delivery; capital investment; and the estimated financial statements. The set also includes the annual financial report, published after the end of the budget period.
Consolidated Fund	The Government's primary bank account. This account receives all revenue raised by the State or received in grants from other parties. It does not receive funds received for specific purposes, for which trust accounts have been set up. The Consolidated Fund, together with the 'Trust Fund', form the 'Public Account'.
Contingencies/contingency provisions	Amounts included in a budget for expenses that have not been determined at the time of the budget. These provisions are for both predictable expenditure (such as dealing with population growth and initiatives to be released in future budgets) and unpredictable expenditure (such as unforeseen natural disasters).

Department	<p>Large government entities. Funding for most ‘agencies’ is generally provided through departments and departments are required to report on the financial and performance results of the agencies for which they are responsible. Departments, like ‘agencies’, are directly accountable through one or more ministers to Parliament.</p> <p>At 1 June 2016 there were seven departments in Victoria, plus Court Services Victoria and the Parliamentary Departments.</p>
Depreciation	<p>The amount of money it would require to keep the State’s assets in the same condition as they were in last year. This amount is listed as an expense on the operating statement, and the cash equivalent to that amount is usually used to partially fund ‘asset investment’.</p>
Direct (asset) investment	<p>‘Asset investment’ by the ‘general government sector’ managed by an ‘entity’ within that sector for an asset that becomes part of that sector.</p>
DTF	Department of Treasury and Finance
Entity	Either a ‘department’ or an ‘agency’.
Expenditure reduction initiative	<p>Changes in the provision of ‘outputs’ that result in reductions to the cost of the ‘output’. This may be done by reducing the services provided or providing the same services more efficiently. Expenditure reduction initiatives are only one factor affecting ‘output expenditure’. Thus, they may not reduce a department’s total ‘output expenditure’ compared to the previous year if other factors (such as ‘output initiatives’) are greater in value. Expenditure reduction initiatives are usually perpetual.</p>
FIRB	Foreign Investment Review Board
Forward estimates period	<p>The period for which estimates are made in the budget papers. This includes the budget year and the following three financial years.</p> <p>The forward estimates period for the 2016-17 Budget was 2016-17 to 2019-20 inclusive.</p>
Funds outside the Public Account	Funds held by entities that are in separate bank accounts and not in a ‘Trust Fund’ or the Consolidated Fund.
General government sector	Government ‘entities’ which provide services either with no charge to the user or with charges significantly below the cost of providing the services. This includes all ‘departments’ and many ‘agencies’.
General-purpose (GST) grants	Grants from the Commonwealth Government to the State Government sourced from GST revenue. There are no restrictions imposed by the Commonwealth Government on how the funding can be spent.
GFC	Global financial crisis
Government infrastructure investment	<p>A measure of ‘general government sector’ expenditure on infrastructure which includes: ‘direct asset investment’ (net of proceeds from asset sales); ‘investment through other sectors’; and estimates of investment expenditure (made by the private sector) for ‘public private partnerships’. This last component also includes any other unpublished expenditure on asset investment projects.</p>

GSP/gross state product	The total value of goods and services produced by the state in a year. This includes the goods and services delivered by the Government and the private sector.
GST	Goods and Services Tax
ICT	Information and Communications Technology
IMF	International Monetary Fund
Income tax equivalent revenue	Revenue received from Government-owned corporations in payments that are levied to ensure the corporations operate on a competitively neutral basis with the private sector.
Initiative	A specific program or project detailed in the budget papers. Budget papers can include ‘asset initiatives’, ‘output initiatives’, ‘revenue initiatives’, ‘revenue foregone initiatives’ and ‘expenditure reduction initiatives’.
Investment through other sectors	‘Asset investment’ funded through another sector (most commonly funded by the ‘general government sector’ and through the ‘public non-financial corporations sector’) for an asset that becomes part of that other sector. May be reported as gross inflows, gross outflows or net cash flows.
Investments in financial assets for policy purposes	See ‘investment through other sectors’.
Liabilities	Amounts that an organisation is obliged to pay in future years. Examples include borrowings and defined benefits superannuation plans.
NDIS	National Disability Insurance Scheme
Net borrowings	New interest bearing liabilities raised from public borrowings during the year (less interest bearing liabilities repaid). Not to be confused with ‘Net lending/borrowing’.
Net debt	A calculation based on the difference between the value of selected categories of financial assets and financial liabilities. Essentially, the difference in value between what the Government owes and assets that it could easily convert to cash. Not all financial assets and liabilities are included.
Net lending/borrowing	A measure of financial performance in a year. This indicator is similar to ‘operating surplus/deficit’, but also includes some asset investment transactions, including some PPPs. A negative figure indicates a net borrowing position, and a positive figure indicates a net lending position. The indicator does not take investments through other sectors into account.
Net operating balance	See ‘operating surplus/deficit’.

Net result	A measure of an entity's financial performance in a year which is calculated by taking the 'net result from transactions' and then adding other economic flows, such as changes in the values of financial assets and liabilities. The net result is different to the 'net result from transactions' (see below). 'Asset investment' is not included in either the net result or the 'net result from transactions'.
Net result from transactions	See 'operating surplus/deficit'.
Non-financial public sector (NFPS)	The 'general government sector' and 'public non-financial corporations sector' consolidated together.
Operating deficit	See 'operating balance'.
Operating result/operating balance	<p>A measure of an entity's financial performance in a year. This is calculated by subtracting the entity's expenses in the year from its income. A positive result is referred to as an operating surplus; a negative result is an operating deficit.</p> <p>Also known as the 'net result from transactions' or 'net operating balance'. 'Asset investment' is not included in the operating balance.</p>
Operating surplus	See 'operating balance'.
Output	An aggregate of goods and services (such as health care or policing services) delivered by a 'department' or its 'agencies'. Outputs are identified in the budget papers.
Output expenditure	Expenditure on 'outputs' (that is, goods and services). This is distinct from 'asset investment', although it includes some expenditure on 'public private partnerships'.
Output initiative	A new program or project ('initiative') that delivers goods and services (part of a department's 'outputs'). Output initiatives are usually for a limited period of time, although they are sometimes perpetual.
Own-source revenue	See 'State-sourced revenue'.
PAEC	Public Accounts and Estimates Committee
PFC	Public financial corporation. See 'public financial corporations sector'.
PFIO	Performance from Insurance Operations
PNFC	Public non-financial corporation. See 'public non-financial corporations sector'.
PPP infrastructure investment	An estimate of the amount invested each year by the private sector on behalf of the State on PPP projects under construction.
PPP/Public private partnership	An arrangement in which the private sector delivers an asset on behalf of the Government. Ownership of the asset usually passes to the Government after a defined period of time.

Public Account	The Government's principal bank account. The Public Account includes the 'Consolidated Fund' and the 'Trust Fund'.
Public financial corporations (PFC) sector	Government 'agencies' which provide financial services, such as the Treasury Corporation of Victoria or the Transport Accident Commission.
Public non-financial corporations (PNFC) sector	Government 'agencies' which provide goods or services with charges that recover most of the cost of producing them, such as water authorities and trusts administering certain facilities. Does not include 'agencies' providing financial services (see 'public financial corporations sector').
Public sector as a whole	The 'general government sector', 'public non-financial corporations sector' and 'public financial corporations sector' consolidated together. Referred to in the budget papers and Annual Financial Report as the 'State of Victoria'.
Purchase of non-financial assets	See 'direct investment'.
RBA	Reserve Bank of Australia
Revenue	Income received by the Government, mostly from State taxes and grants from the Commonwealth Government.
Revenue initiative	Changes in policy which result in an increase in 'revenue'. Examples include new taxes or increasing existing taxes. Revenue initiatives are usually perpetual.
Specific-purpose grants	Grants from the Commonwealth Government to the State Government with restrictions on how the funding can be spent.
SRO	State Revenue Office
State of Victoria	See 'public sector as a whole'.
State-sourced revenue	Revenue raised by the Government using its own powers, such as taxes, fees, sales, fines and dividends. Contrasts to grants received from the Commonwealth Government.
TAC	Transport Accident Commission
TEI/Total estimated investment	An estimate of the total amount of expenditure required to deliver an 'asset investment' project.
Trust Fund	Trust accounts within the Trust Fund are set up to receive and distribute funds for specific purposes. The Trust Fund, together with the 'Consolidated Fund', form the 'Public Account'.
VMIA	Victorian Managed Insurance Authority

Chair's foreword

I am pleased to present the Public Accounts and Estimates Committee's *Report on the 2016-17 Budget Estimates*. This report represents the Committee's findings on the assumptions, plans and estimates set out by the Government in the 2016-17 Budget and over the forward estimates period to 2019-20.

The report examines the 2016-17 Budget strategy, and analyses the major aspects of the Budget, including the plans for revenue, output expenditure, debt, and asset investment against the Government's long term financial management objectives, financial measures and targets.

The report also contains a discussion of Victoria's economic outlook, the status of the Government's election commitment funding and changes made to departmental performance measures for 2016-17. The treatment of the Port of Melbourne lease in the 2016-17 budget papers is also examined extensively.

The evidence this report is based on includes the budget papers, departmental questionnaires, statements made by witnesses at the public inquiry hearings as well as responses provided by the witnesses to questions taken on notice.

While the Victorian budget is normally handed down in the first week in May, this year it was announced a week earlier than usual due to the rescheduling of the Commonwealth budget. The Committee notes the efforts of the departments, and particularly the Department of Treasury and Finance, in compiling the 2016-17 budget papers within the shortened timeframe.

I wish to thank the ministers, departmental secretaries and other senior officials who appeared as witnesses at the public inquiry hearings held in May 2016. This year the Committee introduced new procedures for the inquiry hearings, including timing the Committee members' questions and the ability to call witnesses from the gallery. These changes ensured that the hearings ran smoothly, allowing the witnesses more time to answer the questions and with fewer interruptions. This new format would not have been a success without the positive approach of my fellow Committee members, and I would particularly like to thank the Deputy Chair of the Committee, Mr David Morris, for his assistance in introducing the new system.

I would also like to thank Dr Rachel Carling-Jenkins, who recently resigned from the Public Accounts and Estimates Committee. Dr Carling-Jenkins was an attentive and helpful Committee member, and provided very interesting and thoughtful questions across the various Committee inquiry hearings held over 2015 and 2016.

Once again I would also like to express my gratitude to the Committee's secretariat for their support throughout the inquiry. The administrative support required to run the public hearings in May is considerable, and the well-organised planning and assistance provided by Committee staff ensured that this year's

hearings were run smoothly. I also thank the Secretariat staff who provided the essential technical knowledge of budgets and state finances, without which the compilation of this report would not have been possible.

Finally, I thank my fellow Committee members for their collegiate attitude throughout the course of this inquiry. I believe the spirit of co-operation in which they conducted the Committee's deliberations is evident in this report, and I commend it to all Members.

A handwritten signature in black ink, consisting of a stylized 'D' followed by a horizontal line that extends to the right.

DANNY PEARSON MP
Chair

Findings and recommendations

2	Economic overview	page
	FINDING 1: Initiative and project funding in the 2016-17 Budget is intended to improve Victoria’s productivity per capita across the areas of infrastructure, education, health, labour market participation and economic inclusion.	12
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FINDING 11: The main market for Victorian exports of both goods and services is China. While the continuing depreciation of the Australian dollar has the potential to assist Victorian exporters, the possibility of an economic slowdown in China, as outlined in the international outlook contained in the budget papers, is also a potential risk to future levels of growth and value of Victoria’s exports. 27

FINDING 12: The budget papers anticipate a moderate correction in the Victorian property market in 2016-17. However, a more pronounced market correction would have a negative impact on elements of the Victorian economy such as consumption and overall growth. 29

FINDING 13: The recent property boom in Victoria has been driven mostly by apartment construction in inner Melbourne, with foreign investors playing a significant role. 31

3 Key aspects of the 2016-17 Budget page

FINDING 14: The budget papers indicate that output expenses for the general government sector are expected to grow at a faster rate (2.6 per cent) than revenue (2.3 per cent) between 2016-17 and 2019-20. 34

FINDING 15: The Government intends infrastructure investment to grow to provide for a growing population. The Government has also set a limit on net debt (expressed as a percentage of gross state product), which supports a competing objective of sound financial management. 37

FINDING 16: The definition of ‘sustainability’ for net debt given in the budget papers is not clear, as it does not specify the years it refers to. Using the years specified by the Department of Treasury and Finance, net debt estimated for 2019-20 satisfies the Government’s definition of ‘sustainable’. 37

RECOMMENDATION 1: When defining a target such as ‘a sustainable level of net debt’ with a reference to a time period, future budget papers identify the time period as specific years rather than using relative terms. 37

FINDING 17: The Government has not changed its long-term financial management objectives and its financial measures and targets, which it introduced in the 2015-16 Budget. 37

FINDING 18: The Government expects to increase the general government sector’s operating surplus by \$981.1 million to \$2.9 billion in 2016-17. Additionally, the Government expects to increase the amount of cash resources available by 21.3 per cent (\$1.1 billion) compared to the previous year’s estimate to fund its asset investment program. 39

FINDING 19: General government sector net debt is expected to decrease by \$3.9 billion in 2016-17. If realised, it would be the first time that net debt for this sector has decreased since 2005-06.....	39
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FINDING 24: Net direct investment for the general government sector is expected to be \$6.7 billion in 2016-17, an increase of \$2.8 billion or 72.7 per cent over the previous year. Net direct investment is anticipated to be above \$6.0 billion between 2016-17 and 2018-19, before decreasing to \$5.3 billion in 2019-20.	49
FINDING 25: In relation to investment through other sectors, the budget papers indicate that more cash will flow in to the general government sector than will flow out over the next four years. The available cash is expected to be \$391 million in 2016-17 and rise to \$1.6 billion in 2019-20.....	50
FINDING 26: The overall expenditure on public private partnership projects is expected to increase over the next four years, from an estimate of \$1.1 billion in 2016-17 to \$3.5 billion in 2019-20.	51
FINDING 27: As indicated by depreciation, the level of general government sector asset investment is expected to be more than required to maintain the infrastructure base over the next four years. However, for the public non-financial corporations sector, the level of asset investment is expected to be less than required to maintain the asset base in three of the last four estimates over the same time period.	52

- FINDING 28:** The core budget papers in 2016-17 present only a small number of changes compared to the 2015-16 budget papers. Notable additions include:
- A discussion of the Government’s implementation of the recommendations from the *Royal Commission into Family Violence*
 - Additional commentary throughout the budget papers on the Government’s asset, infrastructure and investment strategy
 - A section outlining the public private partnership projects greater than \$5 million that are expected to be contracted in the 2016-17 financial year. 61

4 Revenue page

FINDING 29: The budget papers do not use consistent time frames when calculating growth rates over the forward estimates period. 65

FINDING 30: The average annual revenue growth rate of 3.4 per cent reported in the budget papers is calculated from 2015-16 to 2019-20. If the average annual revenue growth rate were calculated from 2016-17 to 2019-20, it would be 2.3 per cent. 65

FINDING 31: The average annual expenditure growth rate of 3.3 per cent reported in the budget papers is calculated from 2015-16 to 2019-20. If the average annual expenditure growth rate were calculated from 2016-17 to 2019-20, it would be 2.2 per cent. 65

FINDING 32: The Government meets its sustainability objective of ‘expenditure growth no greater than revenue growth, on average, over the budget and forward estimates’ using a calculation of average annual growth starting from 2015-16 to 2019-20. If the calculation of average annual growth had started in 2016-17 (the budget year) to 2019-20, expenditure growth would be greater than revenue growth and the Government would not meet this sustainability objective. 65

RECOMMENDATION 2: The Department of Treasury and Finance use a consistent time frame to calculate average annual growth rates over the forward estimates period. 65

FINDING 33: Revenue per Victorian is expected to be \$9,810 for 2016-17 and fall to \$9,275 by 2019-20. 66

FINDING 34: At the national level, just under half of the \$194.6 billion in foreign investment approvals for 2014-15 were for the real estate sector. China accounted for the largest number and proportion (65.7 per cent) of approvals nationally and over half of these approvals were for real estate. 68

FINDING 35: Victoria attracted the highest level of foreign investment for residential real estate of all the Australian states in 2014-15. 68

FINDING 36: Risks to the budget revenue estimates for the <i>Land Transfer Duty Surcharge on Foreign Buyers of Residential Property</i> include any increase in the value of the Australian dollar, increases in interest rates and any possible considerable fall in inner Melbourne property prices.	70
FINDING 37: The <i>State Revenue Office Land Tax Compliance Program</i> initiative is estimated to raise \$45.1 million in 2016-17 and \$163.5 million over the forward estimates period.	71
FINDING 38: Two revenue foregone initiatives relating to payroll tax were included in the 2016-17 Budget. Together they are expected to lower revenue by \$29.0 million in 2016-17 and \$283.0 million over the forward estimates period.	72
FINDING 39: Total taxation revenue for 2016-17 is expected to be \$21.6 billion. Payroll tax and land transfer duty are each estimated to raise \$5.7 billion or 26.3 per cent of the taxation revenue total. Following these, motor vehicle taxes are expected to raise \$2.3 billion, land tax is expected to raise \$2.2 billion and gambling taxes are expected to raise \$1.9 billion. Other taxation revenue streams include insurance taxes (\$1.3 billion) and the fire services property levy (\$673.6 million).	74
FINDING 40: Land transfer duty is expected to be \$5.7 billion in 2016-17 and \$18.5 billion over the forward estimates period. This represents a 6.4 per cent decrease from the 2015-16 revised estimate for land transfer duty. The 2015-16 land transfer duty estimate was revised upwards from \$5.0 billion in the 2015-16 Budget to \$6.1 billion in the 2016-17 Budget, driven by the positive state of the Victorian property market.	75
FINDING 41: Estimates made by the Department of Treasury and Finance regarding property-related revenue could change considerably in the event of any of the following developments which may affect house prices:	
<ul style="list-style-type: none"> • an increase in interest rates made by the Reserve Bank of Australia • a fall in investor demand • global financial market volatility as a result of a sharp economic slowdown in China, or a slowdown in other global economies. 	75
FINDING 42: Payroll tax is expected to be \$5.7 billion in 2016-17 and \$18.7 billion over the forward estimates. This is an increase of \$285.5 million or 5.3 per cent over the revised 2015-16 estimate.	76
FINDING 43: Risks to payroll tax estimates include subdued full-time employment growth and continuing low wage increases.	76
FINDING 44: Motor vehicle taxes are expected to raise \$2.3 billion in 2016-17, an increase of 4.6 per cent over the 2015-16 revised estimate.	77
FINDING 45: Although the budget papers indicate the nominal registration freeze for certain types of heavy motor vehicles at 2015-16 prices for two years will impact on motor vehicle tax revenue, the amount of revenue foregone is not contained in the budget papers.	77

RECOMMENDATION 3: Estimates for all revenue items appear in the budget papers under the revenue initiatives section of Budget Paper No.3. If the initiative relates to revenue foregone, this information should also be detailed in the Tax Expenditures and Concession chapter of Budget Paper No.5. 77

FINDING 46: Land tax revenue is expected to be \$2.2 billion for 2016-17, an increase of \$491.1 million, or 28.3 per cent, over the revised 2015-16 estimate. It is also expected to raise \$7.0 billion over the forward estimates period. The expected increase in land tax revenue for 2016-17 is a result of:

- high property values at the time of the latest (2016) land valuations to be conducted by Victoria’s Valuer-General
- initiatives such as the *State Revenue Office Land Tax Compliance Program* which will focus on greater compliance and regulation of land tax exemptions
- the *Absentee Landowner Surcharge*, which will be administered by the State Revenue Office through the land tax assessment system. 78

FINDING 47: Revenue from gambling taxes is expected to be \$1.9 billion for 2016-17, an increase of \$51 million, or 2.7 per cent, over the revised 2015-16 estimate. It is also anticipated to raise \$6.1 billion over the forward estimate period. . . . 79

FINDING 48: Insurance taxes are expected to raise \$1.2 billion revenue for 2016-17, an increase of \$72.0 million, or 6.3 per cent, over the revised 2015-16 estimate. Insurance taxes are also expected to raise \$4.2 billion over the forward estimates period. The fire services property levy is forecast to generate \$674 million for 2016-17, an increase of \$12.2 million or 1.8 per cent increase over the revised 2015-16 estimate. The fire services property levy is also forecast to raise \$2.1 billion over the forward estimates period. 80

FINDING 49: The landfill levy is forecast to raise \$200.0 million in 2016-17, an increase of \$9 million or 4.7 per cent on revised budget estimate for 2015-16 of \$191.0 million. The land fill levy is also expected to raise \$529 million over the forward estimates period. Liquor licences are forecast to raise \$22.0 million in 2016-17, the same amount as the 2015-16 revised estimate, and \$71.0 million over the forward estimates to 2019-20. 80

FINDING 50: The revenue item ‘other taxes’ is expected to be \$1.2 billion for 2016-17, an increase of \$856 million over the previous year. The item is largely comprised of the pre-paid Port of Melbourne licence fee. 81

FINDING 51: The Government has not explained the increase in transport fees from 2015-16 to 2016-17 in the budget papers, despite supporting a recommendation by the Committee in principal in its *Report on the 2015-16 Budget Estimates* to explain yearly changes of any line items within the budget papers that are close to or over \$1.0 billion. 81

RECOMMENDATION 4: Future budget papers provide a detailed explanation for changes to any item of any part of the budget estimates where the change from one year to the next or from previous estimates is:

- (a) close to or over \$1.0 billion or
- (b) more than 50 per cent for any item with a value over \$200.0 million. 81

FINDING 52: Sales of goods and services are expected to raise \$6.8 billion in 2016-17, an 3.0 per cent increase over the revised 2015-16 amount. It is expected to raise \$21.5 billion over the forward estimates period.....	82
RECOMMENDATION 5: Future budget papers include a disaggregation of provision of services by major category.....	82
FINDING 53: Dividends from the public financial corporations sector to the general government sector are expected to rise by 120.1 per cent from \$239 million in 2015-16 to be \$526 million in 2016-17. This will increase to \$879 million in 2017-18 before falling by 61.7 per cent to \$336 million in 2018-19 and \$235 million in 2019-20 at the end of the forward estimates period. The budget papers do not provide an explanation of the anticipated fall in dividends from the PFC sector to the general government sector between 2017-18 and 2018-19.	84
FINDING 54: The amount of a dividend provided by a government business enterprise to the general government sector is not necessarily related to the government business enterprise's economic performance.	86
FINDING 55: Dividends from the public non-financial corporations sector to the general government sector are expected to be \$250 million for 2016-17 and \$470 million over the forward estimates period.	87
FINDING 56: Other revenue is expected to be \$2.6 billion in 2016-17, a decrease of \$259 million, or 9.2 per cent. Other revenue is also expected to fall to \$2.3 billion each year in 2017-18 and 2018-19, before increasing to \$2.4 billion in 2019-20.	87
FINDING 57: Victoria is expected to receive \$13.9 billion in general-purpose (GST) grants in 2016-17, a 6.5 per cent increase over the previous year.	89
FINDING 58: While the pool of Goods and Services Tax is expected to increase in 2016-17, moderate growth in household consumption and below trend growth in consumer prices at the national level are factors that have contained growth in the overall amount of Goods and Services Tax revenue. The longer term trend of greater growth in consumption of Goods and Services Tax exempt items over the consumption of Goods and Services Tax liable items is another risk to growth in the Goods and Services Tax pool.	89
FINDING 59: Specific-purpose grants are estimated to be \$13.3 billion in 2016-17, an increase of 9.0 per cent over the previous year.	90
FINDING 60: Government departments will receive \$12.0 billion, or 21.7 per cent of general government sector revenue for output funding, outside of parliamentary scrutiny in 2016-17.....	92
FINDING 61: The Department of Economic Development, Jobs, Transport and Resources and the Department of Health and Human Services expect to receive \$3.9 billion in revenue transactions in 2016-17 and the majority of this revenue will be held outside the public account.....	95

FINDING 62: The amount of applied appropriations unspent continues to grow, reaching \$6.3 billion at 30 June 2015, and this source of funding for departments is currently not discussed in the budget papers. 96

RECOMMENDATION 6: Future budget papers specify the intended purpose (provision of outputs, additions to the net asset base, or payments on behalf of the State) of money received by departments from trust accounts. 97

RECOMMENDATION 7: The Department of Treasury and Finance require departments, in their annual reports, to disclose their income from the Trust Fund, broken down into the provision of outputs, additions to the net asset base and payments made on behalf of the State. Any variances between the initial budget estimates and the actual amounts should be identified and explained. 97

RECOMMENDATION 8: Future budget papers separately detail the income expected from funds held outside the Public Account for each department, broken down into the provision of outputs, additions to the net asset base and payments made on behalf of the State. 97

RECOMMENDATION 9: The Department of Treasury and Finance require departments, in their annual reports, to disclose their income from funds held outside the Public Account, broken down into the provision of outputs, additions to the net asset base and payments made on behalf of the State. Any variances between the initial budget estimates and the actual amounts should be identified and explained. 97

RECOMMENDATION 10: In future budget papers, the Department of Treasury and Finance:

- (a) note the total value of accumulated applied appropriations unspent, broken down into the major components (including payables, accruals related to employee entitlements, prior years’ surpluses and depreciation equivalent revenue)
- (b) indicate the estimated change to these values over the forward estimates period
- (c) indicate the reasons for the anticipated changes for each component. 97

5 Borrowings and net debt page

FINDING 63: The Government intends to keep general government sector net debt (in terms of a proportion of gross state product) at ‘sustainable’ levels, while highlighting the benefits of debt funding of infrastructure. This level of net debt is not anticipated to affect the State’s credit rating. 102

FINDING 64: The Government has not explained its strategy for net debt in the public non-financial corporations sector in the 2016-17 Budget. The sector has significant net debt in relation to the general government sector, and this is anticipated to rise over the forward estimates period. 103

RECOMMENDATION 11: In future budget papers, the Government explain its strategy for net debt in the public non-financial corporations sector. 103

- FINDING 65:** The Government has maintained its commitment to ‘fully fund the State’s unfunded superannuation liability by 2035’. The 2016-17 budget papers state that the Government is on track to achieve this objective. Further information related to progress towards this goal is anticipated in the 2017-18 budget papers.104
- FINDING 66:** The Government plans to lease the operations of the Port of Melbourne during 2016-17, and expects a reduction of net debt following the Port of Melbourne lease of operations. In addition, it anticipates a related grant under the Commonwealth Government’s *Asset Recycling* initiative.106
- FINDING 67:** The budget papers indicate that net debt for the general government sector will fall to \$18.6 billion by June 2017. This decrease is associated with the lease of the Port of Melbourne’s operations.107
- FINDING 68:** According to the budget papers, the expected lease of the operations of the Port of Melbourne will cause net debt as a percentage of gross state product to decline sharply by June 2017.108
- FINDING 69:** The 2016-17 Budget forecasts a declining trend of net debt as a percentage of gross state product over the next four years. The decrease in June 2017 is associated with the expected lease of the Port of Melbourne’s operations. The anticipated growth of the economy is the main reason for net debt as a percentage of gross state product growing slowly over the next four years. The budget papers also indicate that this declining trend will continue beyond the forward estimates period to 2025-26. However, the assumptions for this forecast are not disclosed in the budget papers.108
- RECOMMENDATION 12:** Future budget papers disclose and explain the assumptions considered when making forecasts beyond the end of the forward estimates period.108
- FINDING 70:** Melbourne Water Corporation is expected to comprise 52.3 per cent of the total public non-financial corporation’s net debt in June 2017, while the three remaining metropolitan water authorities (Yarra Valley Water, South East Water and City West Water) are expected to comprise 32.1 per cent. The Government expects that these four authorities will increase their net debt over the next four years, constituting 86.2 per cent of the sector’s total net debt in June 2020.110
- FINDING 71:** Real general government net debt per Victorian is expected to fall from \$3,023 in June 2017 to \$3,188 in June 2020. This expected fall is at a faster rate than nominal net debt due to inflation and an increasing population.112
- FINDING 72:** General government sector net debt as a proportion of revenue is expected to fall from 39.8 per cent in June 2016 to 30.8 per cent in June 2017 due to the lease of the Port of Melbourne’s operations. It is then anticipated to rise to 34.4 per cent by the end of the forward estimates period.112

FINDING 73: When comparing the 2016-17 budget estimates to those included in the 2015-16 Budget and the *2015-16 Budget Update*, the Government has revised its net debt and borrowings estimates downwards for June 2017 but upwards for June in 2016, 2018 and 2019. In general, the revision of these estimates has been influenced by the impact of output and revenue measures, asset investment, and for June 2016 and June 2017 in particular, the revised timing of the Port of Melbourne operations lease. 115

FINDING 74: S&P Global Ratings and Moody’s Investors Services have maintained Victoria’s credit rating at AAA level. However, S&P Global Ratings revised its outlook to negative following a similar action on the Commonwealth of Australia. 118

6 Output expenditure page

FINDING 75: The Government intends to achieve its target for a general government sector operating surplus over the forward estimates period. Although output expenditure is projected to grow at faster rate (2.6 per cent) than revenue (2.3 per cent) between 2016-17 and 2019-20, the Government anticipates that it will achieve its operating surplus target as a result of increases in land tax revenue and the once-off revenue anticipated from the Port of Melbourne pre-paid port licence. 120

FINDING 76: The 2016-17 Budget forecasts a slower growth rate for output expenditure over the four years to 2019-20 (2.6 per cent) than the expected average growth rate between 2009-10 and 2015-16 (3.7 per cent). 121

FINDING 77: Employee expenses are the largest component of the general government sector’s output expenditure, accounting for 37.0 per cent (\$21.3 billion) of the total. They are expected to grow by an average of 3.6 per cent over the next four years, reaching \$27.3 billion in 2019-20. 122

FINDING 78: The 2016-17 budget estimates for output expenditure, compared to the 2015-16 Budget, increase expenditure by \$2.0 billion in 2016-17, by \$1.5 billion in 2017-18 and by \$1.2 billion in 2018-19. These revised estimates are primarily driven by the cost of output initiatives and specific-purpose Commonwealth grants. These higher expenses are partially offset by expenditure reduction initiatives, reprioritisation of existing resources and the release of contingencies from previous budgets. 125

RECOMMENDATION 13: Future budget papers provide a detailed reconciliation (that is, not in net terms) and explanation of changes between estimates for output expenditure between the current budget and the previous year’s budget. . . . 125

FINDING 79: The Government expects output expenditure in real terms per Victorian to decline by an average of 1.5 per cent over the next four years. Output expenditure in real terms increased by an average of 0.5 per cent between 2012-13 and 2015-16. 126

FINDING 80: According to the government purpose classification, the largest areas of expenditure are ‘health’ (28.5 per cent of total expenditure) and ‘education’ (25.7 per cent of total expenditure).	129
FINDING 81: Expected changes in expenses by government purpose classification are not explained in sufficient detail in the budget papers. In addition, the budget papers do not provide a break-down of output expenses by government purpose classification at a departmental level.	129
RECOMMENDATION 14: Future budget papers provide a break-down of total output expenses by government purpose classification for each department.	129
RECOMMENDATION 15: Future budget papers discuss and provide details of significant changes in estimates from one year to another for output expenditure according to the government purpose classification.	129
FINDING 82: The 2016-17 Budget announced new output initiatives with an estimated value of \$6.8 billion from 2015-16 to 2019-20. Two of the three largest initiatives delivered through the Department of Health and Human Services are related to better meeting the demand for hospital services and improving access to elective surgery.	132
FINDING 83: The Government announced expenditure reduction initiatives estimated at \$84.2 million from 2016-17 to 2019-20. This is significantly lower compared to previous budgets.	134
FINDING 84: The Government did not support a previous Committee recommendation to require departments to list expenditure reduction targets set for the relevant year and explain details of how these targets are being met. The Government indicated that budget decisions that impact service delivery are already explained through changes to performance measures or targets and that ‘it is not appropriate to require departments to report on budget decisions that were not published in the budget papers’.	135
FINDING 85: The Government intends that \$1.9 billion of the cost of new output initiatives will be funded by reprioritising resources previously allocated to departments. However, the Committee was able to identify only \$385.5 million out of this total with the information provided by the departments in response to the Committee’s 2016-17 Budget Estimates General Questionnaire.	136
FINDING 86: The Government has used \$1.7 billion to offset the estimated cost of new output initiatives released in the 2016-17 Budget. In addition, it has put aside \$10.1 billion (four-year total) in contingencies to fund initiatives in future years.	138
FINDING 87: In response to the Committee’s 2016-17 Budget Estimates General Questionnaire, the departments identified 87 programs that have lapsed in 2015-16 with a total expenditure of \$467.9 million. The budget papers do not identify whether some of these initiatives will receive further funding or be discontinued.	139

7	Asset investment	page
	FINDING 88: Infrastructure Victoria was established in October 2015, and has begun the preparation of a list of infrastructure options for the State. Projects Victoria was established under the Department of Treasury and Finance in June 2016.	144
	FINDING 89: The budget papers anticipate a significant increase in government infrastructure investment to \$7.5 billion for 2016-17. This level is forecast to be sustained over the forward estimates period. This would reverse a past gradual downward trend in government infrastructure investment.	145
	FINDING 90: Net direct asset investment is anticipated to rise from \$3.9 billion in 2015-16 to \$6.7 billion in 2016-17. This growth is anticipated to underpin overall government infrastructure investment for 2016-17. However, over the forward estimates period, net direct investment is anticipated to decline.....	146
	FINDING 91: The significant growth of direct asset investment in 2016-17 is a result of both newly-released projects and existing projects. Two projects included in the <i>2015-16 Budget Update</i> that had anticipated expenditure in 2016-17 did not appear in the 2016-17 budget papers.....	150
	RECOMMENDATION 16: Future budget papers include all significant projects included in previous budget updates, either as completed or ongoing projects.	150
	FINDING 92: At the time of the preparation of the 2016-17 Budget, less than half the amount anticipated to be invested in 2019-20 had been allocated to departments.....	151
	FINDING 93: Past budget papers listed projects that contributed to ‘decisions made but not yet allocated’. This practice has been discontinued in recent budget papers.	151
	RECOMMENDATION 17: Future budget papers reinstate the practice of listing significant projects that contribute to ‘decisions made but not yet allocated’.	151
	FINDING 94: After a period of investment into other sectors, the general government sector anticipates net ‘disinvestments’. Cash returning from investments through other sectors is expected to increase from \$391.0 million in 2016-17 to \$1.6 billion in 2017-18 and remain at this level over the forward estimates period. Similar to asset sales, disinvestment in other sectors has become a source of funds for other investments.....	153
	FINDING 95: Investment through other sectors (cash flows from investments in financial assets for policy purposes) has been presented in the 2016-17 budget papers as a net figure.....	153

RECOMMENDATION 18: Future budget papers separately disclose cash inflows and outflows from investments in financial assets for policy purposes, and use ‘not for publication’ for gross figures in years where disclosing such information could potentially prejudice the State’s commercial interests related to major future proposed transactions.	153
FINDING 96: In years when net cash flows from investments in other sectors are towards the general government sector, disclosure of which entities are anticipated to provide this cash is important for stakeholders to understand the effects of this disinvestment.	155
RECOMMENDATION 19: Future budget papers include a list of partner entities in the public financial corporations and the public non-financial corporations sectors that are the sources of cash inflows and destination of cash outflows through net cash flows from investments in financial assets for policy purposes. The list should also show the amount of funds coming from and flowing to each partner entity.	155
FINDING 97: Investment expenditure on public private partnerships and other projects is anticipated to increase from \$620.0 million in 2015-16 to \$1.1 billion in 2016-17. It is forecast to reach \$3.5 billion in 2019-20. This strong increase is expected to underpin overall government infrastructure investment for the second half of the forward estimates period.	156
FINDING 98: The proportion of asset investment provided by the private sector on behalf of the public sector is anticipated to increase strongly over the forward estimates period. This constitutes a change in the way the Government delivers infrastructure projects.	157
RECOMMENDATION 20: Future budget papers include a discussion of the Government’s strategy with respect to the proportion of asset investment provided by the private sector.	157
FINDING 99: There are several types of public private partnership projects, each of which may be represented differently in the budget papers. In many cases, this may have the effect of complicating choices for asset investment.	159
FINDING 100: Infrastructure Victoria has been established by the Government to provide advice on matters relating to infrastructure, including its funding.	159
FINDING 101: The Victorian Auditor-General’s Office now has the authority to carry out ‘follow-the-dollar’ performance audits. This will improve the ability of the Auditor-General to support transparency on behalf of the Parliament.	160
FINDING 102: Government infrastructure investment per Victorian in real terms is anticipated to increase in 2016-17 to \$1,212. This is expected to decline over the forward estimates period, but remain higher than historic levels.	161

FINDING 103: Ratios for both government infrastructure investment and net direct investment to depreciation for the general government sector indicate that assets in the general government sector are being built over time. 162

FINDING 104: Direct asset investment by the public non-financial corporations sector in 2016-17 is expected to be \$2.0 billion. It is expected to fluctuate between \$2.1 and \$2.3 billion over the forward estimates period. However, over the forward estimates period, depreciation is expected to be greater than net direct asset investment, suggesting that assets will not be replaced as fast as they wear out. 164

RECOMMENDATION 21: Future budget papers include commentary on the relationship between:

- (a) net direct investment (net cash flows from investments in non-financial assets), and
- (b) depreciation in the public non-financial corporations sector.

This should also include discussion on the anticipated rate of net asset creation in the sector. 164

FINDING 105: The increase in the 2016-17 estimate for government infrastructure investment was a result of increases in anticipated investment in net direct asset investment, net investment through other sectors and public private partnership expenditure. Larger upward adjustments made for 2017-18 and 2018-19 estimates are a result of upward adjustments made to public private partnership and other investment estimates. 167

FINDING 106: The Port of Melbourne lease transaction has changed structure since the 2015-16 budget papers, becoming more complex and more difficult to understand. 169

RECOMMENDATION 22: Once the long-term lease of the Port of Melbourne has been entered into, the Government provide the Parliament with more detailed information about the structure of the transaction and the allocation of the proceeds. 169

FINDING 107: For the last three budget updates, the forecast growth rate of government infrastructure investment in the budget year (compared to the year prior) has been revised down from higher growth rates forecast in the budget. The *2015-16 Budget Update* did not discuss revisions to government infrastructure investment figures. 171

RECOMMENDATION 23: Future budget updates include an explanation of revisions made to government infrastructure investment estimates for both the latest completed year and the budget year. 171

8 The Government's election commitments page

FINDING 108: Of the 14 output commitments that were yet to be funded at the time of the 2015-16 Budget:

- eight have been fully funded by the time of the 2016-17 Budget
- one has been funded, but to an unspecified extent
- one for which funding has been provided, but whether this was in fulfilment of an election commitment remains unclear
- four remain unfunded at the time of the 2016-17 Budget. 176

FINDING 109: The addition of the *Western Distributor* in the 2016-17 budget papers supersedes the Government's election commitment to the *West Gate Distributor*, having an increased scope. 180

FINDING 110: Of the 25 asset commitments that were yet to be funded at the time of the 2015-16 Budget:

- 18 have been fully funded by the time of the 2016-17 Budget
- one is funded, but is now dependent on another larger project
- one is partially funded
- three remain unfunded
- two for which funding remains unclear at the time of the 2016-17 Budget. 181

9 Performance measurement page

FINDING 111: The 'Budget and Financial Management Guidances' suite of documents was replaced in July 2016 by the *Performance Management Framework for Victorian Government Departments*. 184

FINDING 112: The definitions of departmental objective and departmental objective indicators have not changed materially in the updated guidance released by the Department of Treasury and Finance. 186

FINDING 113: In 2016-17, there were 35 objectives for departments set in the budget papers, the same number as for 2015-16. There were 135 departmental objective indicators that supported these objectives. This was an increase of 15 indicators over the previous year. 187

FINDING 114: Guidance provided by the Department of Treasury and Finance currently does not describe circumstances under which changes to departmental objectives or objective indicators would be required. 187

RECOMMENDATION 24: In future versions of the *Performance Management Framework for Victorian Government Departments*, the Department of Treasury and Finance include a description of circumstances under which changes to departmental objectives or objective indicators are required. 187

FINDING 115: While guidance strongly implies that departmental objective indicators are to be quantified, this is not explicit. 189

RECOMMENDATION 25: The Department of Treasury and Finance update its guidance documentation to explicitly specify that departmental objective indicators must be clearly quantifiable or measurable. 189

FINDING 116: Departmental objective indicators for the Department of Premier and Cabinet are not quantifiable. The Department has not indicated an intention to publish quantifiable data supporting the departmental objective indicators that are currently identified. 190

RECOMMENDATION 26: The Department of Premier and Cabinet update its departmental objective indicators in order to make them quantifiable. 190

FINDING 117: A number of departments have made changes to objectives and objective indicators in the 2016-17 budget papers. Some departments have provided explanations for changes, some have noted that changes have occurred and some have not provided any information. 192

RECOMMENDATION 27: The Department of Treasury and Finance update its guidance to specify that explanations provided in the budget papers for modifications to departmental objectives and departmental objective indicators include a discussion of the reason why changes were made to objectives or objective indicators. 192

FINDING 118: While the definition of what an output is has not changed materially, the Minister for Finance has previously expressed a preference for a higher number of outputs. The updated guidance includes a discussion of the size of outputs, and indicates a preference for smaller outputs. 194

FINDING 119: The 2016-17 budget papers include 114 outputs. This is one fewer than in the 2015-16 budget papers. The updated guidance did not take effect until after the preparation of the 2016-17 Budget. 195

FINDING 120: The 2016-17 budget papers included 1,028 non-cost performance measures, a net gain of 27 over the 2015-16 budget papers. 47 new performance measures relate to new funding for activities or new information about existing activities. 196

FINDING 121: Guidance documentation discourages departments from using ‘wide’ ranges. However, in the 2016-17 budget papers, the number of performance measures with targets expressed as unbounded ranges has increased. For measures that expressed targets as closed ranges, the average spread of those ranges has increased. The guidance does not define what a ‘wide’ range is. 198

RECOMMENDATION 28: Future versions of the *Performance Management Framework for Victorian Government Departments* contain specific guidance as to what constitutes a ‘wide’ range when referring to performance measure targets. 198

FINDING 122: The proportions of non-cost performance measures that have been adjusted upwards and downwards at the time of the 2016-17 Budget are similar to those from the 2015-16 Budget.	199
FINDING 123: The 2016-17 budget papers anticipate that results for performance measures for 2015-16 will be 1.7 per cent above the targets on average. The Department of Environment, Land, Water and Planning anticipates a 6.3 per cent variance above targets for its measures. The Department of Treasury and Finance anticipates an overall 3.2 per cent variance below targets for its measures.	200
FINDING 124: In the 2016-17 budget papers, 65 performance measures were proposed for discontinuation. Most of the reasons given by departments in support of discontinuing measures were related to those included in guidance documentation.	203
FINDING 125: The Government has proposed discontinuing 65 measures for 2016-17. The Committee has reviewed the measures proposed and considers that 15 should be retained in departmental performance statements.	205
RECOMMENDATION 29: The Government not discontinue the performance measures that are listed in Table 9.5 of this report.	205

10

The Government's responses to previous recommendations

page

FINDING 126: Of the 50 recommendations in the Committee's <i>Report on the 2015-16 Budget Estimates</i> that received a level of support:	
<ul style="list-style-type: none"> • five have been implemented • five have been partially implemented • three have not yet been implemented • 37 are not yet able to be assessed. 	210
FINDING 127: The Committee has re-examined the implementation progress of the seven recommendations in the Committee's <i>Report on the 2014-15 Budget Estimates</i> , which had been tabled in two parts. Two years after tabling the report:	
<ul style="list-style-type: none"> • five recommendations have been fully implemented • two have been partially implemented. 	211

1.1 Background

The Government introduced the 2016-17 appropriation bills into Parliament on 27 April 2016, seeking authority to release money from the Consolidated Fund for the financial year 2016-17. The bills were passed by the Legislative Council on 23 June 2016, and received Royal Assent on 28 June 2016.

Along with the appropriation bills, the Government also tabled five budget papers, an overview document and one budget information paper concerning the rural and regional aspects of the Budget. These documents detail the estimated finances for 2016-17 and the forward estimates period (that is, the three years following the budget year), along with the Government's intentions, strategies, economic assumptions and forecasts. These include:

- estimates of revenue, expenditure and other financial items over 2016-17 and the forward estimates period to 2019-20
- revised estimates for 2015-16
- details of new initiatives that fund goods and services that will be delivered by departments
- the State's capital program
- the Government's fiscal strategies
- the outlook for the economy
- performance measures associated with the goods and services delivered by the Government.

There are also a series of online datasets that the Department of Treasury and Finance has made available containing further information.¹

The Victorian State Budget is normally presented to the Parliament in the first week of May. However, this year the Commonwealth Budget, which is normally handed down in the second week of May, was presented one week earlier. As a consequence, the State Budget was also rescheduled one week earlier. The Committee notes the efforts of departments, and especially the Department of Treasury and Finance in compiling the 2016-17 Budget.

¹ Department of Treasury and Finance, *Financial Data Sets 2016-17* (2016). Available at <www.dtf.vic.gov.au/Victorias-Economy/Economic-indicators-and-statistics/Financial-data-sets>, viewed 22 August 2016

1.2 The role of the Public Accounts and Estimates Committee

The Public Accounts and Estimates Committee is required to:

... inquire into, consider and report to the Parliament on ... 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.²

The aims of the inquiry are to:

- assist members of Parliament in their deliberations on the appropriation bills
- make recommendations which promote clear and full disclosure of the information contained in future budget papers
- assist members of Parliament and the community in their understanding of the budget, including its assumptions, estimates and consequences
- encourage efficient and effective Government administration
- provide feedback on the performance measures that the Government has proposed discontinuing for 2016-17.

This report presents the findings and recommendations resulting from the Committee's examination of the 2016-17 budget papers.

1.3 Key findings

This section identifies some of the key themes of the report, which are discussed further in the relevant chapters.

1.3.1 The Budget at a glance

The Government estimates it will receive \$60.4 billion in revenue and spend \$57.5 billion delivering goods and services. This will leave an operating surplus of \$2.9 billion in 2016-17.

For 2016-17 and the forward estimates period, the Government expects both revenue and expenses to grow. Measured from the revised estimates for 2015-16, revenue is expected to grow at an average of 3.4 per cent per year to 2019-20, whereas expenses are expected to grow at 3.3 per cent per year. This is in line with the Government's stated sustainability objective. However, when measured from the budget year, 2016-17, the expected growth rate of expenses to 2019-20 is 2.6 per cent per year, higher than that of revenue, which is expected to grow at 2.3 per cent per year. This is further discussed in Section 4.3.

² *Parliamentary Committees Act 2003 (Vic)*, s.14

General government sector net debt for June 2017 is expected to be \$18.6 billion, the lowest year-end figure since June 2012, after peaking at \$22.5 billion in June 2016. The Government expects to meet its target of ‘net debt to gross state product (GSP) no greater than its peak over the last five years by the end of the forward estimates’.³

The Government anticipates that \$7.5 billion will be spent on asset investment during 2016-17, including \$1.1 billion spent by the private sector on public private partnership (PPP) projects. This is an increase of 67.5 per cent on the revised estimate for the previous year, and is a result of both a downward revision of the previous estimate for 2015-16 as well as an upward revision in the 2016-17 estimate (see Section 7.7). For 2016-17 the overall increase in investment expenditure is expected to be driven by net direct investment, but over the rest of the forward estimates period the higher level of investment is expected to be sustained by growth in funds spent by the private sector on PPP projects.

The recent levels of growth for the Victorian population and gross state product are expected to continue, with the budget papers noting that ‘keeping economic growth ahead of population growth is critical to ensuring all Victorians benefit from economic growth, and relies on greater employment and increased productivity’.⁴

1.3.2 Reporting the Port of Melbourne lease transaction

The lease of the Port of Melbourne’s operations was announced in the 2014-15 Budget⁵ and was discussed as part of the Committee’s *Report on the 2015-16 Budget Estimates*.⁶ The proceeds from the Port of Melbourne lease transaction included funding the Government’s level crossing removal program.⁷ The lease was also the subject of the report produced by the Legislative Council’s Port of Melbourne Select Committee. The report was tabled in December 2015.⁸

The *Delivering Victorian Infrastructure (Port of Melbourne Lease Transaction) Act 2016* received Royal Assent on 22 March 2016. Under this Act, the operations of the port will be leased out for a period of 50 years.

On 19 September 2016, the Government announced it had entered into a 50-year lease arrangement for the Port of Melbourne with the Lonsdale Consortium, worth over \$9.7 billion.⁹

The lease transaction includes two components: the Port’s lease amount (paid by the private sector operator for the right to operate the port), and the Upfront Licence Fee amount (the capitalised equivalent of an annual licence fee).

3 Department of Treasury and Finance, *Budget Paper No.5: 2015-16 Statement of Finances* (2015), p.16

4 Department of Treasury and Finance, *Budget Paper No.2: 2016-17 Strategy and Outlook* (2016), p.3

5 Department of Treasury and Finance, *Budget Paper No.2: 2014-15 Strategy and Outlook* (2014), p.7

6 Public Accounts and Estimates Committee, *Report on the 2015-16 Budget Estimates* (2015), p.186

7 *ibid.*

8 Port of Melbourne Select Committee, *Inquiry into the Proposed Lease of the Port of Melbourne*, (2015)

9 Hon. Daniel Andrews MP, Premier, *Promise Delivered: Port of Melbourne Leased to Remove Level Crossings and Create Thousands of Jobs* (Media release, 19 September 2016)

In addition to the proceeds from the Port of Melbourne lease transaction, the Government anticipates a grant from the Commonwealth Government under the Commonwealth's *Asset Recycling* initiative.¹⁰

The accounting treatment of the Port of Melbourne lease transaction in the 2016-17 budget papers differs from the way in which the transaction was reported in previous budget papers. The Department of Treasury and Finance advised the Committee that this was because:

In the 2015-16 Budget, the transaction was reported as a sale/disposal of assets and a transfer of equity back to the State. Due to the passage of the Delivering Victorian Infrastructure (Port of Melbourne Lease Transaction) Act 2016 in March 2016, the 2016-17 Budget reported the transaction as a lease rather than a disposal of assets.¹¹

The lease transaction appears across various line items of the 2016-17 budget papers. These are shown in Table 1.1.

Table 1.1 Line items affected by the Port of Melbourne lease transaction, 2016-17 budget papers

Statement	Line item
General government sector	
Operating statement	Taxation revenue
	Interest revenue
	Interest expense
Balance sheet	Advances paid
	Deposits held and advances received
	Borrowings
Cash flow statement	Taxes received
	Interest received
	Interest paid
	Net cash flows from investments in financial assets for policy purposes
	Advances received (net)
	Net borrowings
Public non-financial corporations sector	
Operating statement	Sales of goods and services
	Interest revenue
	Interest expense
Balance sheet	Advances paid
	Deposits held and advances received
	Payables
Cash flow statement	Sales of goods and services
	Interest received
	Interest paid
	Net cash flows from investments in financial assets for policy purposes
	Advances received (net)
	Other financing (net)

Source: Department of Treasury and Finance, *Response to the Committee's 2016-17 Budget Estimates Entity-specific Questionnaire*, received 1 July 2016, p.7

¹⁰ Department of Treasury and Finance, *Response to the Committee's 2016-17 Budget Estimates Entity-specific Questionnaire*, received 1 July 2016, p.8

¹¹ *ibid.*

The Port of Melbourne lease transaction affects various chapters in this report:

- in Chapter 4 focusing on *revenue*, the lease transaction affects State-sourced revenue estimates, discussed under 'other taxes' (see Section 4.5.1)
- in Chapter 5 on *borrowings and net debt*, funds arising from the lease transaction will be used in the short term to pay down debt, thus keeping Victorian finances within the net debt to GSP ratio target set by the Government:

Net debt as a proportion of GSP is expected to be 5.9 per cent at June 2016 before declining sharply in 2016-17, largely reflecting the receipt of proceeds from entering into a medium term lease over the operations of the Port of Melbourne. By June 2020, net debt as a proportion of GSP is expected to be 4.8 per cent.¹²

- in Chapter 7 on *asset investment*, the cash raised through the Port of Melbourne lease forms part of a complex arrangement of flows between the public non-financial corporations (PNFC) sector and the general government sector.

The Auditor-General has certified that the Government has applied appropriate accounting standards for the treatment for the Port of Melbourne lease transaction.¹³ While there is a need to treat the expected proceeds from the sale of the Port of Melbourne with a degree of commercial sensitivity when the sale process is underway, the Committee has made a series of recommendations throughout this report addressing the broader issue of the budget papers providing clear information to the reader, enhancing transparency and clarity, and making the budget papers more accessible to the community.

1.4 The inquiry process

1.4.1 Questionnaires

The Committee sent two questionnaires to all departments as part of this inquiry plus a supplementary questionnaire to the Department of Treasury and Finance and the Victorian Auditor-General's Office.

The Committee appreciates the efforts of departments and staff for completing these questionnaires, especially as the tabling of the budget was one week earlier than in previous years.

The general questionnaire contained a standard set of questions put to all departments and was sent to all departments on 23 March 2016, for return prior to the public hearings beginning on 6 May 2016. The questions related to:

- departmental strategic priorities
- the bases on which the budget was prepared
- departmental expenditure

¹² Department of Treasury and Finance, *Budget Paper No.2: 2016-17 Strategy and Outlook* (2016), p.44

¹³ Department of Treasury and Finance, *Budget Paper No.5: 2015-16 Statement of Finances* (2015), pp.2-5

- expenditure reduction initiatives
- output and asset initiative funding
- expenditure on public private partnership projects
- revenue, including Commonwealth Government grants
- performance measures
- staffing matters.

As part of the general questionnaire, a series of questions related to whole-of-government issues was sent to the Department of Treasury and Finance.

The supplementary questionnaire was sent to the Department of Treasury and Finance and the Victorian Auditor-General's Office on 13 June 2016. This related to implementation of recommendations previously made by the Committee. This is normally included with the general questionnaire but was sent separately this year due to the timing of the Government response to the Committee's *Report on the 2015-16 Budget Estimates*.

The entity-specific questionnaire was sent to all departments on 7 June 2016, and responses were due from departments by 1 July. This questionnaire addressed specific topics arising from the budget papers, as well as some questions on common issues such as departments' appropriations and performance measures.

1.4.2 Public hearings

The Committee held public hearings from 6 to 20 May 2016 with all ministers, parliamentary presiding officers and senior departmental officials. In total, these hearings lasted for 54 hours. The hearings featured a new conduct and questioning procedure introduced by the Committee including timed questions and the ability to call witnesses from the gallery. In general, the new style was received favourably, although the Committee may make further refinements to public hearings in the future.

The hearings provided an opportunity for all ministers to present information on their portfolios, highlighting relevant aspects from the 2016-17 Budget. Ministers and other witnesses also responded to the Committee's questions regarding the estimates for each portfolio, as well as initiatives, policies, and programs funded as part of this year's budget.

Transcripts of the public hearings, slide shows of the ministers' presentations and documents tabled in the hearings can be found on the Committee's website (www.parliament.vic.gov.au/paec).

1.4.3 Questions on notice

In the course of the hearings, ministers, presiding officers and departmental officials took 174 questions on notice across the 41 portfolios. The Committee notes that a significant number of responses took the form of providing additional information.

The portfolios and their responsible ministers at the time of the 2016-17 budget estimates hearings are listed in Appendix A1.1. The Committee notes that a number of changes to these portfolios were made subsequent to the hearings.

The responses to the questions taken on notice can be found on the Committee's website (www.parliament.vic.gov.au/paec).

2.1 Introduction

This chapter provides an overview of the economic outlook for Victoria over 2016-17. It is informed by projections and the assessment of the economic outlook made in the 2016-17 budget papers together with information and statements made by ministers and departmental representatives to the Committee at the *Inquiry into the 2016-17 Budget Estimates* hearings held during May 2016.

Economic outlook for 2016-17

Overall, the economic outlook for Victoria for 2016-17 is marked by:

- growth in the Victorian economy. The budget papers estimate Victorian gross state product (GSP) will grow by 3.0 per cent between 2015-16 and 2016-17, followed by 2.75 per cent growth a year over the rest of the forward estimates period.¹⁴ Infrastructure, education and health spending allocated in this year's budget is aimed at maintaining the GSP growth rate above that of population.¹⁵
- the Victorian population continuing to grow strongly, increasing by 1.8 per cent for 2016-17 and over the forward estimates period.¹⁶ The infrastructure-related spending on transport, health and education outlined in this year's budget papers is aimed at creating productivity improvements over the long term.¹⁷
- a national economy that is now in a period of re-adjustment after a mining boom.¹⁸ This means the more populous states of New South Wales and Victoria are starting to fare better in terms of contributing to national economic growth, investment and revenue than in previous years.¹⁹
- an international setting that continues to have a poor outlook, marked by low rates of economic growth across the major economic zones, low oil prices and the prospect of a potential economic downturn in China.²⁰ The impact of a potential economic slowdown in China on the Victorian economy is discussed further in Sections 2.3.1 and 2.7.

¹⁴ Department of Treasury and Finance, *Budget Paper No.2: 2016-17 Strategy and Outlook* (2016), p.16

¹⁵ *ibid.*, p.3

¹⁶ *ibid.*, p.16

¹⁷ *ibid.*, p.3

¹⁸ *ibid.*, p.22

¹⁹ *ibid.*

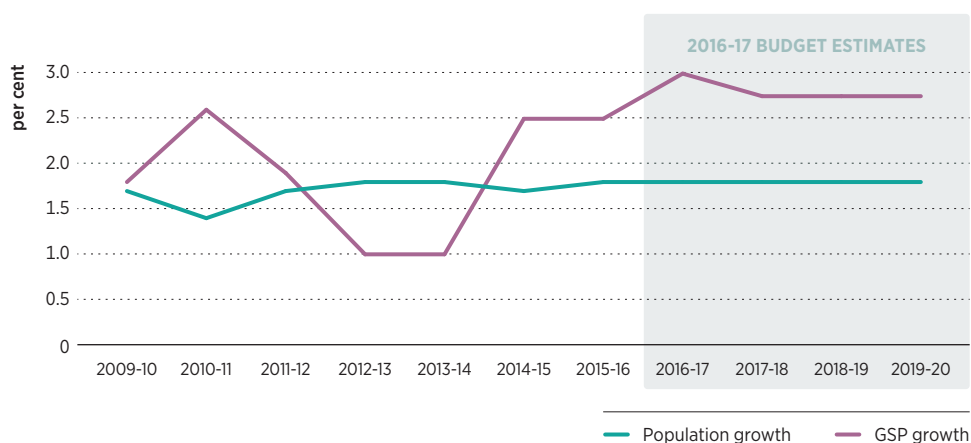
²⁰ *ibid.*, pp.23-5

2.2 Victorian productivity

This section contains an analysis of the budget estimates for real GSP growth and gives an overview of budget initiatives that the Government has indicated will enhance productivity growth, such as labour market programs, infrastructure funding initiatives and health spending.

According to the forecasts contained in the budget papers, real GSP is anticipated to grow by 3 per cent over 2016-17 and by 2.75 per cent for each year over the forward estimates period.²¹ Victorian GSP growth rates have been greater than the State's population growth rate since 2014-15 after a period of decline between 2012-13 and 2013-14, and the budget papers note 'keeping economic growth ahead of population growth is critical to ensuring all Victorians benefit from economic growth, and relies on greater employment and increased productivity'.²²

Figure 2.1 Victorian population and gross state product growth rates, 2009-10 to 2019-20



Source: Department of Treasury and Finance, *Macroeconomic Indicators* (2016). Available at <www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Macroeconomic-indicators>, viewed 8 June 2016

2.2.1 Initiatives in the 2016-17 Budget that aim to increase Victoria's GSP per capita

The budget papers note 'In 2014-15, GSP per capita grew by 0.7 per cent and growth is expected to continue over the forward estimates'.²³ The Committee was informed by all departments of the measures outlined in the 2016-17 Budget that ultimately aim to increase Victoria's GSP per capita. The departments outlined programs and initiatives across the areas of infrastructure (road and rail transport and water), education, health, labour market participation and economic inclusion.

The full responses provided by the departments can be found on the Committee's website (www.parliament.vic.gov.au/paec).

21 *ibid.*, p.16

22 *ibid.*, pp.2-3

23 *ibid.*, p.2

Infrastructure

The economic commentary in the 2016-17 budget papers emphasises the need for long term ‘transformative infrastructure’ projects to boost Victorian productivity. A key risk identified in the budget papers is Victoria’s growing population that live some distance from ‘the growing number of jobs in high-growth sectors in both the metropolitan and regional areas of the State’.²⁴ The infrastructure spending aims ultimately to ‘connect consumers to a greater number of businesses, and bring workers into contact with more opportunities for employment and training’.²⁵

The Department of Treasury and Finance informed the Committee that it plays ‘a key role in assisting the provision and financing of effective and efficient economic infrastructure like roads and public transport that can help drive economic growth’.²⁶ Key infrastructure spending and projects include:

- \$2.9 billion towards the commencement of the Melbourne Metro Tunnel which will improve the efficiency of Melbourne’s public transport system, while also improving its liveability
- other new infrastructure investment in public transport, including the Mernda rail extension project, Hurstbridge Corridor Upgrade and 28 more high capacity metro trains
- \$6.7 billion new infrastructure investment in roads, which includes \$1.46 billion Government contribution over four years to Western Distributor, breaking the dependence on the Westgate corridor for access to the city and port from the west.²⁷

Education

Increasing spending on education and health services is aimed at creating a healthier and more productive workforce.²⁸

The Department of Education and Training informed the Committee that funding various *Education State* initiatives will ultimately:

... contribute to per capita GSP growth by lifting Victoria’s workforce participation and productivity in the long run.

The Education State reform seeks to improve skill development through all key stages of learning from early childhood through to school and vocational training. Every learning stage supports the expansion of the economy’s productive capacity and improves the prospects for sustained growth and job creation.²⁹

24 *ibid.*, p.29

25 *ibid.*, p.42

26 Department of Treasury and Finance, *Response to the Committee’s Entity-specific Questionnaire*, received 1 July 2016 p.1

27 *ibid.*

28 Department of Treasury and Finance, *Budget Paper No.2: 2016-17 Strategy and Outlook* (2016), p.42

29 Department of Education and Training, *Response to the Committee’s 2016-17 Budget Estimates Entity-specific Questionnaire*, received 1 July 2016 p.1

Health

The Department of Health and Human Services informed the Committee that the Department provides services in order ‘to support Victorians to be as healthy as possible, and provide community services to support individuals experiencing disadvantage, supporting them to achieve their maximum potential’.³⁰ The Department further explained:

Research demonstrates the importance of these services in improving outcomes for individuals and, ultimately, to the community’s economic welfare. The department’s services contribute to increasing Victoria’s gross state product by supporting individuals with a physical and/or mental illness to continue to live as productive members of the community, and minimising long term costs of ill health by intervening earlier.

Equally, protecting vulnerable children minimises long term damage to physical and mental health, and later contact with social services, health services and the criminal justice system and support children to have better life outcomes. Stable housing supports social and economic welfare through better educational and social outcomes for children, and improved employment and health outcomes for adults.³¹

Labour market participation and economic inclusion

Labour market programs increase workforce participation and thus ‘help people find employment more quickly and ensure disadvantaged Victorians remain engaged in the labour market’.³² The 2016-17 Budget provides \$53.2 million (five-year total) to establish the Jobs Victoria agency coordinating all Victorian Government-funded employment programs.³³

FINDING 1: Initiative and project funding in the 2016-17 Budget is intended to improve Victoria’s productivity per capita across the areas of infrastructure, education, health, labour market participation and economic inclusion.

³⁰ Department of Health and Human Services, *Response to the Committee’s Entity-specific Questionnaire*, received 1 July 2016, p.1

³¹ *ibid.*

³² Department of Premier and Cabinet, *Response to the Committee’s 2016-17 Budget Estimates Entity-specific Questionnaire*, received 1 July 2016, p.1

³³ Department of Treasury and Finance, *Budget Paper No.3: 2016-17 Service Delivery* (2016), p.25

2.3 The Victorian economic outlook

The following section outlines the international and national economic setting outlined in the budget papers.

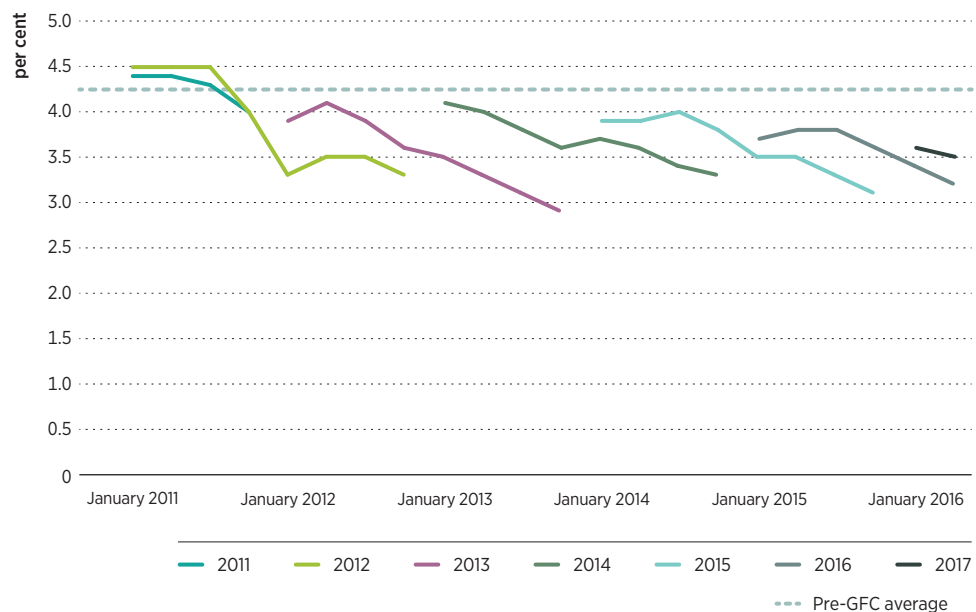
2.3.1 The international setting

Subdued global growth

According to the budget papers, the international economic outlook has remained 'subdued' since the *2015-16 Budget Update* published in November 2015.³⁴ The budget papers indicate that while growth is picking up across emerging economies, advanced economies are projected to experience only a modest recovery.³⁵

Figure 2.2 on global growth forecasts made by the International Monetary Fund (IMF) illustrates the tendency for the global growth forecasts of recent years to be overstated. In addition to the low actual growth results recorded on completion of calendar years, they are also well below the pre-global financial crisis (GFC) average of 4.1 per cent. Overall, Figure 2.2 demonstrates the ongoing slow economic recovery to the GFC at the global level.

Figure 2.2 Global growth forecasts, 2011-2016^(a)



(a) Each line represents forecasts for a particular calendar year.

Source: International Monetary Fund, *World Economic Outlook 2011-2017*

³⁴ Department of Treasury and Finance, *Budget Paper No.2: 2016-17 Strategy and Outlook* (2016), p.23

³⁵ *ibid.*

In terms of the economic outlook across the world's major economies and regions, the budget papers also note:

- that economic growth in the United States has slowed. Although there has been an increase in the growth of disposable incomes, household consumption growth has eased. However, as employment overall is improving and the unemployment rate continues to decline, consumer spending is expected to gradually recover.³⁶
- a weakening in the growth outlook for the Euro zone, due to a slowdown in the manufacturing sector as a result of softening export demand. The budget papers also noted the impact of the potential exit of Britain from the European Union.³⁷ The Australian Council of Financial Regulators commented in a recent report on the Brexit result:

Prior to Brexit, the IMF indicated that should Britain vote to leave the EU, GDP in the EU could be lower by up to 0.5 percentage points and GDP in the rest of the world could be up to 0.2 percentage points lower by 2018. There is a significant degree of uncertainty around the estimated economic impact of Brexit. The IMF forecast a wide variation in output losses across individual economies, reflecting differing trade and financial exposures to the UK, as well as the policy space to respond to negative spill-overs.³⁸

- the ongoing economic transition in China from infrastructure investment and residential construction towards internal consumption and services. The budget papers note that this transition will take time, and as a result 'Chinese investment and manufacturing are likely to weaken'.³⁹

Lower oil prices

A key factor in the poor international economic outlook is the ongoing fall in oil prices.⁴⁰ Further to the impact of the decline in the oil price, demand from oil importing economies remains subdued in comparison to previous oil 'downturns', further compounding the poor outlook for oil exporting economies.⁴¹

³⁶ *ibid.*, p.24

³⁷ *ibid.*

³⁸ Council of Financial Regulators, *Report on the Implications of Brexit*, July 2016, p.9. Available at <www.treasury.gov.au/-/media/Treasury/Publications%20and%20Media/Publications/2016/Report%20on%20the%20implications%20of%20Brexit/Downloads/PDF/CFR_Brexit.ashx>, viewed 9 August 2016

³⁹ Department of Treasury and Finance, *Budget Paper No.2: 2016-17 Strategy and Outlook* (2016), p.24

⁴⁰ *ibid.*, p.23

⁴¹ *ibid.*

Figure 2.3 Oil prices (\$US per barrel), West Texas Intermediate (WTI),^(a) 1996-2016

(a) Monthly average price

Source: Federal Reserve Bank of St Louis, *Crude Oil Prices: West Texas Intermediate (WTI) – Cushing, Oklahoma* (2016). Available at <www.fred.stlouisfed.org/series/DCOILWTICO/downloaddata>, viewed 22 August 2016

Impact of potential economic slowdown in China

Another key risk identified in the budget papers to the Australian, and in turn Victorian, economy is the impact of a potential economic slowdown in China. The Australian Trade Commission has made the following statement on the economic relationship between China and Australia:

There's no doubt that the economic rise of China has been a good news story for Australia's economy. China's rapid industrialisation and urbanisation helped to trigger a global resource boom that boosted the terms of trade, lifted government revenues and encouraged a surge in local resource investment. Chinese demand also provided an important source of growth during the dark days of the global financial crisis ... China is currently a critical driver of Australia's overall export performance.⁴²

An economic downturn in China could affect the national and state economy in a number of ways. Any reduction in demand for Australian exports would affect the terms of trade, as China is Australia's largest export market for both goods and services, accounting for 28.8 per cent (\$91.3 billion) of total exports in 2015.⁴³ In the event of a fall in the price of iron ore, Victoria's share of goods and services tax (GST) revenue would decrease as Western Australia's share of GST revenue would increase over time to compensate for the loss of royalty revenue. Alternatively, and more positively, any growth in China's domestic consumption has the potential to support Victorian exports.

⁴² Australian Trade Commission, *Trade and Investment Note: How Dependent are Australian exports on China?* (2015), p.15. Available at <www.austrade.gov.au/News/Economics-at-Austrade/how-dependent-are-australian-exports-on-china>, viewed 8 August 2016

⁴³ Department of Foreign Affairs and Trade, *Composition of Trade, Australia, 2015*, (2016), p.6. Available at <www.dfat.gov.au/about-us/publications/Documents/cot-cy-2015.pdf>, viewed 9 August 2016

FINDING 2: The global economic outlook for 2016-17 is marked by poor growth prospects for the United States and the Euro zone, partly due to the continuing fall in oil prices, and a mixed outlook for China as their economy transitions away from infrastructure investment and residential construction towards domestic consumption and services.

FINDING 3: The impact of the international economic outlook on the Australian and Victorian economies is mixed; at the national level, the fall in demand for the Australian commodity prices may affect the terms of trade; however an increase in domestic Chinese consumption could possibly support Victorian exporters.

2.3.2 The national setting

Discussion in the budget papers on the national economic environment for 2016-17 emphasises the ongoing structural change underlying the Australian economy. The budget papers note:

In recent decades, key structural trends across the national economy include rising female labour force participation, the service sectors emerging as the predominant contributor to jobs growth and increasing demand for skilled workers.

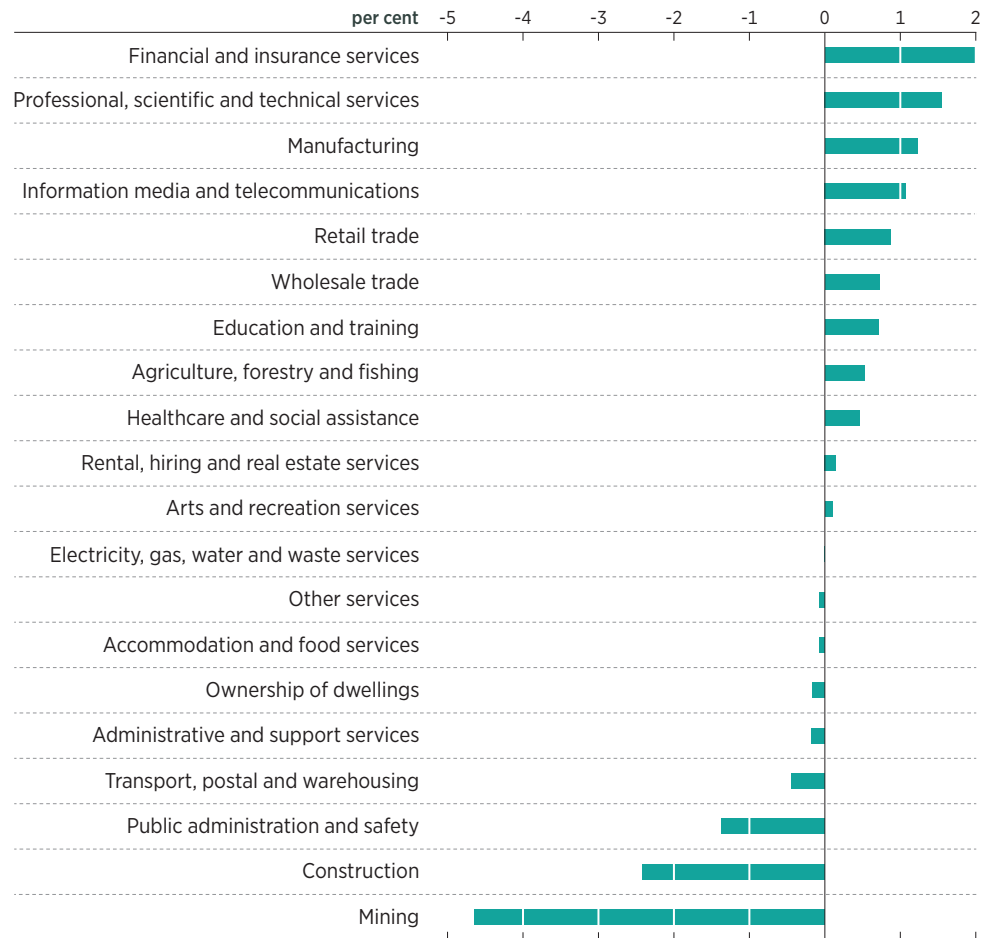
The composition of Victoria's labour market has reflected these trends and is constantly undergoing structural change, which presents a range of challenges and opportunities.⁴⁴

Figure 2.4 demonstrates the percentage difference by industry of Victoria's GSP to the national average (of GDP), using the measurement of gross value added (GVA).⁴⁵ The figure demonstrates the Victorian specialisation in services, particularly the Australian Bureau of Statistics (ABS) categories of 'Financial and insurance services' and 'Professional, scientific and technical services' which have the highest positive difference from the national average. Other services-related industries that had a proportion of GVA greater than the national average include 'Retail trade' and 'Wholesale trade', 'Education and training' and 'Health care and social assistance'.

⁴⁴ Department of Treasury and Finance, *Budget Paper No.2: 2016-17 Strategy and Outlook* (2016), p.19

⁴⁵ Gross value added is a term used to describe gross product by industry and by sector. It is calculated by the value of output at basic prices minus the value of intermediate consumption at purchasers' prices.

Figure 2.4 Percentage point difference between Victorian and national average of industry share of GSP/GDP, 2014-15



Source: Australian Bureau of Statistics, *Australian National Accounts: State Accounts 2014-15*, Cat. No. 5220.0, Tables 3, 10. Available at <www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/5220.02014-15>, viewed 2 September 2016

The budget papers also note the impact of the end of the mining investment boom on the Australian economy, during which time Queensland and Western Australia led the nation in terms of contribution to gross domestic product (GDP) growth and investment. As a result of this:

... the Australian economy is rebalancing toward the more populous states and to areas in which Victoria has a competitive advantage, such as service industries and the knowledge economy.⁴⁶

In other elements of national outlook detailed in the budget papers, household consumption growth over 2016-17 is forecast to be 'robust', while dwelling investment has recently increased due to a large pipeline of construction projects. Although the negative impact of lower petrol prices on the global economic outlook is discussed earlier in the chapter, the budget papers note that at the domestic level 'lower petrol prices will improve the cash flow position of most households and businesses'.⁴⁷

⁴⁶ Department of Treasury and Finance, *Budget Paper No.2: 2016-17 Strategy and Outlook* (2016), p.22

⁴⁷ *ibid.*, p.23

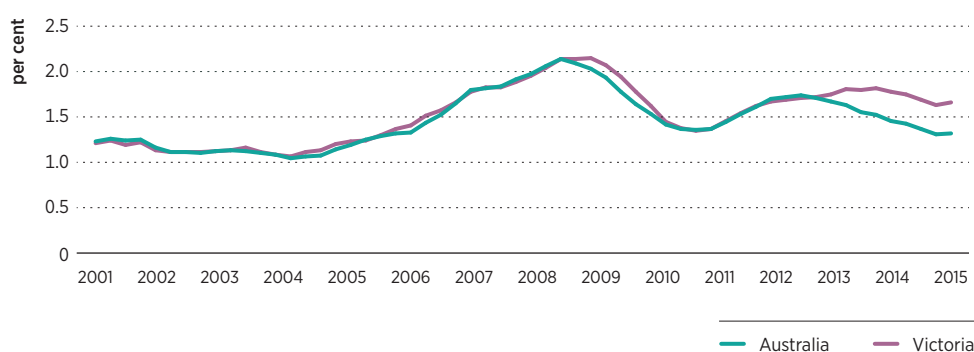
In terms of inflation, the budget papers note ‘national inflation is likely to remain contained over the forecast period due to spare capacity in the labour market and muted inflationary expectations’.⁴⁸ Since the budget was released in April 2016, the most recently released data regarding inflation (June quarter 2016) indicates Australia’s year-on-year inflation rate growth is the lowest since 1999, while the core inflation rate is the lowest on record.⁴⁹

The budget papers also note that further falls in the value of the Australian dollar would boost spending domestically.⁵⁰ The value of the Australian dollar is also discussed in Section 2.7 on Victorian exports.

2.4 Population growth

The budget papers forecast the annual Victorian population growth rate of 1.8 per cent for 2016-17 and over the forward estimates period.⁵¹ The latest data indicates that Victoria has experienced the highest annual population growth rate of all states (1.7 per cent against a national average of 1.3 per cent).⁵² Figure 2.5 demonstrates Victoria’s annual population growth rate was in line with the national average until 2013, after which time the national growth rate begins to fall while Victorian growth remains over 1.5 per cent.

Figure 2.5 Annual population growth rate, Australia and Victoria, 2001-2015



Source: Australian Bureau of Statistics, *Australian Demographic Statistics, Sep 2015*, Cat. No. 3101.0, Table 4. Available at <www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/3101.0Sep%202015>, viewed 2 September 2016

While net overseas migration remains the main driver of population growth in Victoria, the levels of net interstate migration have been increasing in recent years. Net interstate migration measures the population settling in

⁴⁸ *ibid.*

⁴⁹ Core inflation ‘removes from the consumer price index basket those goods and services for which prices are significantly affected by exogenous factors, to arrive at a measure which reflects price movements which are predominantly influenced by market forces.’ (Australian Bureau of Statistics, *Information Paper: Outcome of The 13th Series Australian Consumer Price Index Review, 1997*, Cat. No.6453.0, Appendix 3. Available at <www.abs.gov.au/AUSSTATS/abs@.nsf/Latestproducts/6453.0Appendix31997>, viewed 2 September 2016)

⁵⁰ Department of Treasury and Finance, *Budget Paper No.2: 2016-17 Strategy and Outlook* (2016), p.46

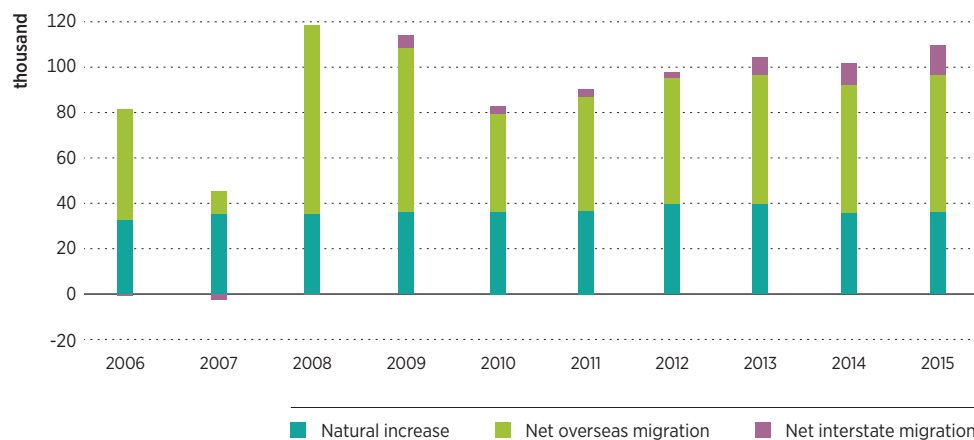
⁵¹ *ibid.*, p.16

⁵² Australian Bureau of Statistics, *Australian Demographic Statistics, Sep 2015*, Cat. No. 3101.0, Table 4. Available at <www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/3101.0Sep%202015>, viewed 2 September 2016

Victoria from other states. In 2015, 11 per cent of Victoria's net population increase was comprised of net interstate migration. Reasons behind the increase in net interstate migration include:

- the attractiveness of the Victorian economy in comparison to other states
- the falling rate of interstate migration to Western Australia as the mining boom declines
- the more favourable labour market conditions and recent levels of wage growth in Victoria in comparison to other states (see Section 2.5.2 on wages growth).⁵³

Figure 2.6 Composition of net Victorian population increase, 2006-2015

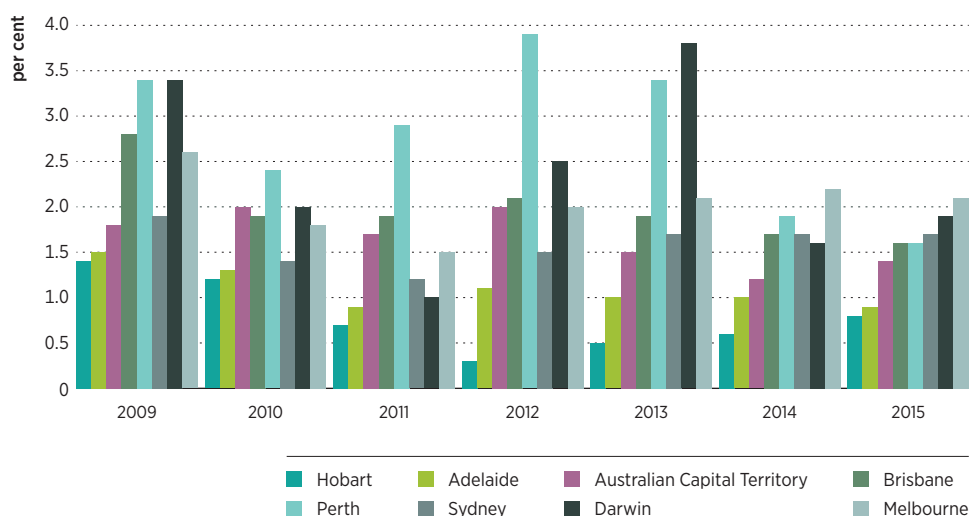


Source: Australian Bureau of Statistics, *Australian Demographic Statistics, December 2015*, Cat. No. 3101.0, Table 2. Available at <www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/3101.0Dec%202015>, viewed 15 September 2016

Perhaps more noteworthy however, have been levels of population increase in Melbourne. Figure 2.7 demonstrates that after a period of high population growth in capital cities such as Brisbane and Perth, in part driven by the mining boom, Melbourne has experienced the highest annual population growth of all Australian capital cities since 2014. The budget papers note that this increase equates to 'more than 360,000 people over the past four years'.⁵⁴

⁵³ Department of Treasury and Finance, *Budget Paper No.2: 2016-17 Strategy and Outlook* (2016), p.46

⁵⁴ *ibid.*, p.29

Figure 2.7 Population growth rates for Australian capital cities, 2009-2015

Source: Australian Bureau of Statistics, *Regional Population Growth, Australia, 2014-15*, Cat. No. 3218.0, Table 1. Available at <www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/3218.02014-15>, viewed 2 September 2016

The population growth experienced in Melbourne and regional Victoria has not occurred evenly across the capital city and the rest of the state. Most of the population increases have taken place across the outer metropolitan local government areas such as Casey, Wyndham, Melton, Whittlesea, Hume and Cardinia as well as the centrally located City of Melbourne. The major regional cities of Geelong, Ballarat and Bendigo have also experienced strong population growth.⁵⁵

Victoria's high rate of population growth has the following effects:

- it creates the need for greater infrastructure investment to ensure residents in these growth areas have the appropriate transport access to jobs and do not become a drain on productivity.
- it creates further demand for housing, and in turn, stimulates activity for the construction sector.
- it increases levels of housing stock, which in turn has a positive impact on state based revenue. Just over a quarter (26.3 per cent) of the state-sourced revenue for 2016-17 is anticipated in land transfer duties.⁵⁶

Further discussion on the impact of population increases, the housing sector and revenue related to this can be found in Section 2.8 and Chapter 4.

⁵⁵ *ibid.*

⁵⁶ Department of Treasury and Finance, *Budget Paper No.5: 2016-17 Statement of Finances* (2016), pp.28-9

FINDING 4: The Victorian population growth rate has been higher than the national growth rate since 2013. The latest figures (2014-15) indicate Victoria has the highest annual population growth rate out of all the Australian states.

FINDING 5: Victoria's population increases continue to be driven by high levels of net overseas migration, although the levels of net interstate migration have been increasing in recent years, with Victoria recording the highest level of net interstate migration out of all the Australian states at the time of the most recent population data release.

FINDING 6: Melbourne has experienced the highest population growth out of all Australian capital cities since 2014.

FINDING 7: Most of Victoria's recent population growth has taken place across outer metropolitan local government areas, the city centre of Melbourne and the major regional centres.

2.5 Consumer prices and wages growth

The 2016-17 Budget forecasts a 2.0 per cent increase in 2016-17 for consumer prices and a 2.5 per cent increase in the wage price index.⁵⁷

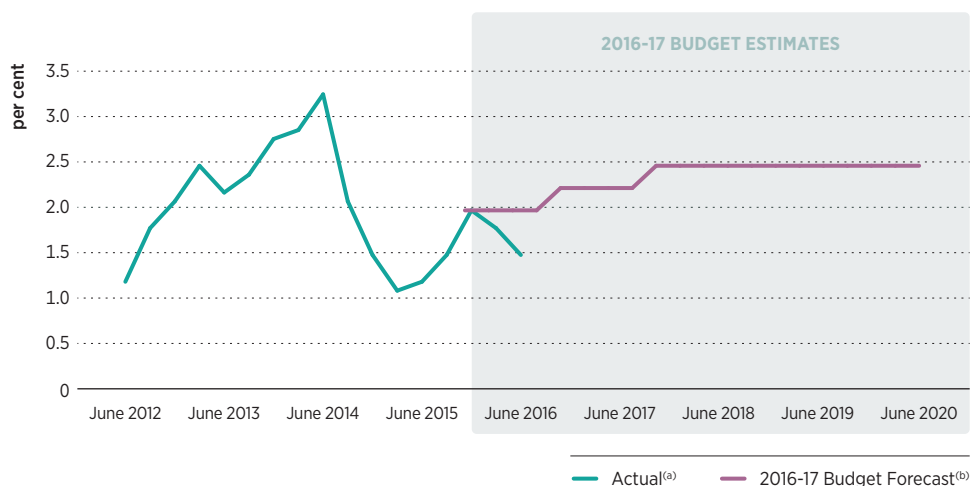
2.5.1 Consumer prices

In terms of consumer prices, forecasts that appear in the budget papers, published in April 2016, anticipated the 2015-16 figure to increase by 2.0 per cent over the previous year. However, the actual increase of the consumer price index for 2015-16, published in July 2016, was 1.6 per cent.⁵⁸

Figure 2.8 compares the recent actual year-on-year change in the consumer price index with the forecast in the budget papers for 2016-17 and the forward estimates period. The data indicates the Department of Treasury and Finance predicts a strong return to year-on-year consumer price growth in the coming years.

⁵⁷ Department of Treasury and Finance, *Budget Paper No.2: 2016-17 Strategy and Outlook* (2016), p.16

⁵⁸ *ibid.*, p.36

Figure 2.8 Year-on-year change of the consumer price index, 2011-12 to 2019-20

(a) Percentage change from the corresponding quarter of the previous year.

(b) The budget paper forecasts assume a year average figure.

Source: Australian Bureau of Statistics, *Consumer Price Index, Australia, June 2015*, Cat. No. 6401.0, Table 2. Available at <www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/6401.0Jun%202016>, viewed 2 September 2016

The methods and accuracy of the Department of Treasury and Finance's economic modelling were examined previously by the Committee in the *Report on the 2015-16 Budget Estimates*.⁵⁹ As part of this analysis, the Committee found that the economic forecasts made for the last two years of the forward estimates (for the 2016-17 Budget year this is 2018-19 and 2019-20) are calculated in a different way to the forecasts for the first two years, as they represent broader, trend-based rates.

For the consumer price index, the assumed trend rate of 2.50 per cent 'was chosen because it is the mid-point of the Reserve Bank of Australia's (RBA) inflation target band. This coincides with the average rate since inflation targeting commenced in mid-1993'.⁶⁰ The data presented in Figure 2.8 on actual consumer price index growth, together with the budget paper commentary on the international and national economic outlook, suggest inflation will remain low. When this is taken into account, the trend growth rate of 2.50 per cent for the last two years of the forward estimates period appears to be a very positive forecast.

FINDING 8: The consumer price index grew by 1.6 per cent in 2015-16. The Department of Treasury and Finance forecast indicates a return to the trend rate of 2.50 per cent by the last two years of the forward estimates period. The 2.50 per cent trend rate in the budget forecast is not based on international and national economic conditions outlined in the budget commentary, but is a long-term average growth rate consistently used for the last two years of any forward estimates period by the Department of Treasury and Finance.

⁵⁹ Public Accounts and Estimates Committee, *Report on the 2015-16 Budget Estimates* (2015), pp.66-72

⁶⁰ *ibid.*, p.70

In the *Report on the 2015-16 Budget Estimates*, the Committee recommended that:

The Department of Treasury and Finance update the Method for Making Forecasts of Macro-Economic Indicators to provide more detailed descriptions of the methods used to produce forecasts for the last two years of the forward estimates period.⁶¹

The Government supported the recommendation and indicated it will ‘seek to provide more details on the projections for the forward estimate out-years’ in the online budget document *Method for Making Forecasts of Macro-Economic Indicators*.⁶² This document had not been updated to reflect the suggested change since the Committee made this recommendation and the Government tabled its response. However, the Committee looks forward to more detailed descriptions of the methods used to produce forecasts in upcoming versions of the document, as this will assist interpreting the economic outlook in future budget papers.

2.5.2 Wages growth

Figure 2.9 demonstrates the slowing wages growth occurring at both the national and state level since 2011, although the Victorian rate has been higher than the national level since 2012. This has been seen as one of the key factors behind Victoria’s increasing net interstate migration figure, as Victoria’s higher wages growth attracts workers from other states (see also Section 2.4).

Figure 2.9 Wages growth,^(a) Victoria and Australia, 2005-2015



(a) Percentage change from the corresponding quarter of the previous year.

Source: Australian Bureau of Statistics, *Wage Price Index, Australia, June 2016*, Cat. No. 6345.0, Table 8b. Available at <[www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/6345.0Jun 2016](http://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/6345.0Jun%2016)>, viewed 2 September 2016

FINDING 9: While wages growth in Victoria has been declining since 2010 in line with the national trend, it remains higher than the national average. This has been a contributing factor towards the increase in interstate migration to Victoria.

⁶¹ *ibid.*, p.71

⁶² Victorian Government, *Government Responses to the Recommendations of Public Accounts and Estimates Committee’s Report on the 2015-16 Budget Estimates*, tabled 4 May 2016, p.7

2.6 The labour market

Table 2.1 provides the forecasts for employment growth and the unemployment rate in Victoria made by the Department of Treasury and Finance in the 2016-17 Budget. The budget papers noted the Victorian labour market had strengthened throughout 2015 and anticipated labour market conditions would continue to improve over 2016-17.⁶³

Table 2.1 Economic forecasts for employment growth and the unemployment rate, 2016-17 to 2019-20

	2016-17 Budget	2017-18 estimate	2018-19 estimate	2019-20 estimate
Employment growth (per cent)	1.75	1.5	1.5	1.5
Unemployment rate	5.75	5.75	5.5	5.5

Source: Department of Treasury and Finance, *2016-17 Budget Paper 2: Strategy and Outlook*, p.16

The nature of Victorian labour market growth over the last year was characterised in the following terms in the budget papers:

The labour market subsequently improved in 2015 ... The unemployment rate continued to trend down and was in line with the national average for the majority of the year. Aggregate hours worked in the Victorian economy rose by 2.8 per cent, having declined by 0.5 per cent between 2011 and 2014.

More than two thirds of the growth in aggregate hours worked in 2015 could be attributed to the following sectors: construction; professional, scientific and technical services; and accommodation and food services industries.⁶⁴

The majority of the growth in aggregate hours worked came from three industries ('Construction', 'Professional, scientific and technical services' and 'Accommodation and food services') and is a reflection of the longer term trend in the Victorian labour market and economy towards services industries. Figure 2.4 indicated the importance of service industries to the overall Victorian economy in a comparison against the national averages. The budget paper discussion on the employment and jobs outlook for Victoria also mentioned the longer term pattern of jobs growth largely arising from services-related industries:

Nearly two thirds of net jobs growth in Victoria over the past decade can be attributed to the following five industries: health care and social assistance; professional, scientific and technical services; education and training; construction; and public administration and safety.⁶⁵

Figure 2.10 demonstrates the employment change by industry in Victoria between 2006 and 2016. The figure illustrates the growth of part-time employment in the Victorian labour market. Part-time work comprises a high

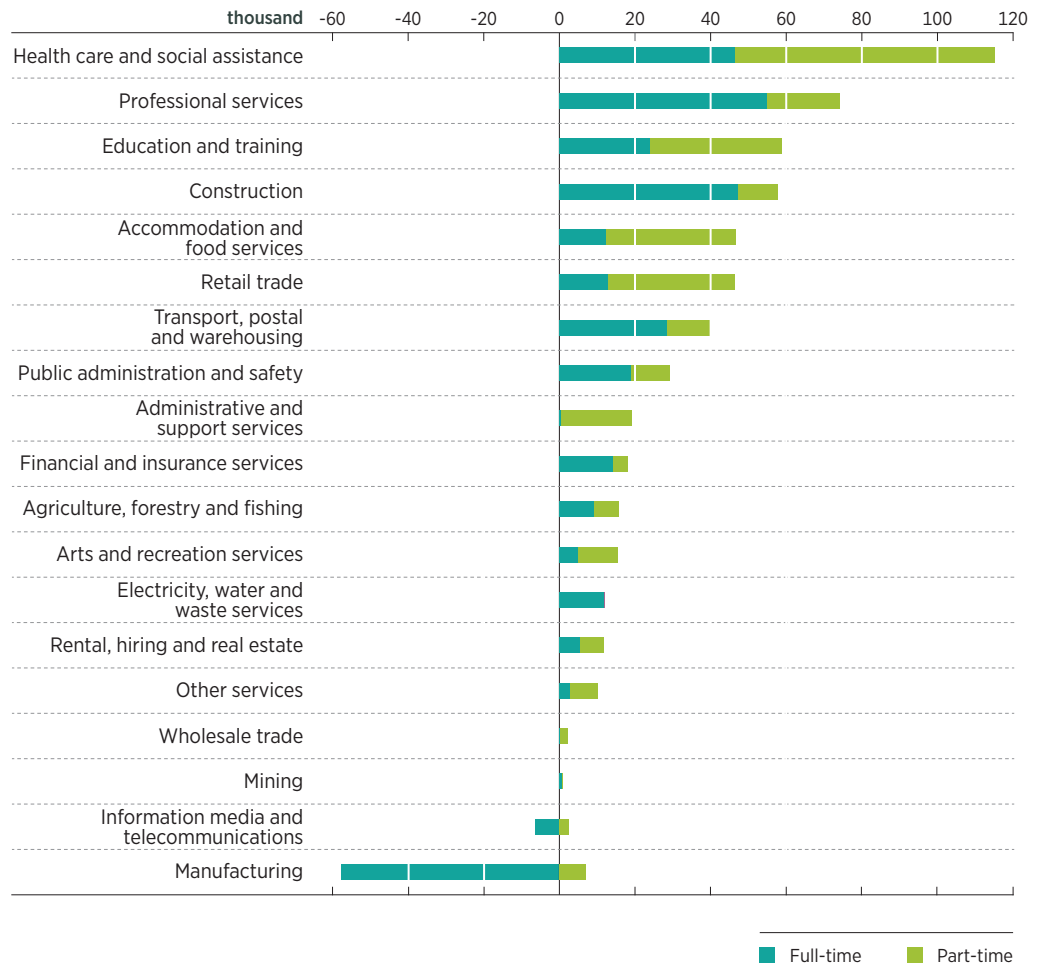
⁶³ Department of Treasury and Finance, *Budget Paper No.2: 2016-17 Strategy and Outlook* (2016), p.18

⁶⁴ *ibid.*, p.21

⁶⁵ *ibid.*

proportion of two of the highest employing industries in Victoria; ‘Health care and social assistance’ (50.7 per cent) and ‘Retail trade’ (48.1 per cent), as well as the high growth industries of ‘Education and training’ (41.1 per cent) and ‘Accommodation and food services’ (60.3 per cent).⁶⁶

Figure 2.10 Employment change by industry in Victoria, 2006 to 2016^(a)



(a) Year to February 2006 and February 2016 average
 Source: Australian Bureau of Statistics, *Labour Force, Australia, Detailed, Quarterly, Feb 2016*, Cat. No. 6291.0.55.003, Table 5. Available at <www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/6291.0.55.003Feb%202016>, viewed 2 September 2016

Figure 2.10 also shows the decline of ‘Manufacturing’ employment over the last ten years. Industries that experienced employment increases include ‘Health care and social assistance’, ‘Professional scientific and technical services’ and ‘Education and training’.

FINDING 10: Employment in services-related industries continues to increase in Victoria. However, much of the employment the high-employing services industries such as ‘Retail trade’ and ‘Health care and social assistance’, or high growth services industries such as ‘Accommodation and food services’ is part-time.

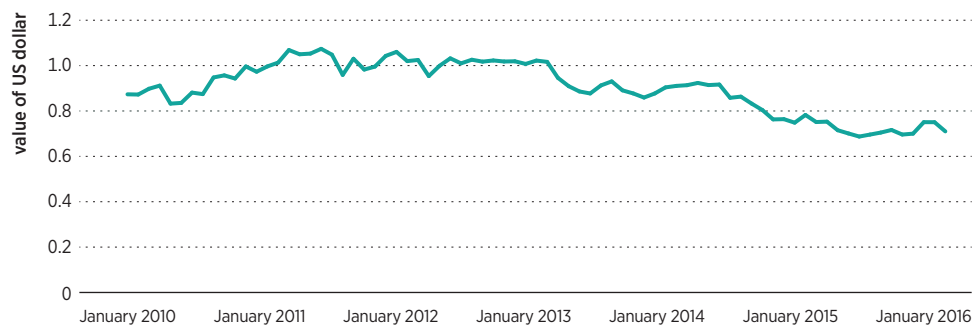
66 Australian Bureau of Statistics, *Labour Force, Australia, Detailed, Quarterly, Feb 2016*, Cat. No. 6291.0.55.003, Table 5. Available at <www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/6291.0.55.003Feb%202016>, viewed 2 September 2016

2.7 Exports

The value of the Australian dollar is an important factor in Victoria's exports performance. The Department of Treasury and Finance provided the following explanation on the impact of recent exchange rate movements in the Australian dollar on the Victorian economy:

Since early 2013, the Australian dollar has depreciated by around 30 per cent against the US dollar. This has boosted production in trade exposed industries and will continue to boost domestic spending over the forward estimates.⁶⁷

Figure 2.11 Australian Dollar/US Dollar exchange rate,^(a) 2010 to 2016



(a) Average monthly rate

Source: Reserve Bank of Australia, *Exchange rates*. Available at <[www.rba.gov.au/statistics/historical-data.html#exchange-rates](http://www.rba.gov.au/statistics/historical-data/html/#exchange-rates)>, viewed 6 June 2016

The latest data (2014-15) indicates Victorian exports were worth \$39.5 billion, with goods exports accounting for 60 per cent and services exports comprising 40 per cent of the total.⁶⁸ The major Victorian goods exports are 'food and fibre', which are mainly agricultural products (meat, dairy, grains, prepared foods, animal fibre, horticulture and forestry products, wine and seafood).⁶⁹ Victoria's major services exports are international education and recreational tourism.⁷⁰ The budget papers provided a positive outlook for Victorian exports for 2016-17:

Merchandise export growth is expected to increase in 2016-17, benefiting from rising demand from the Asian middle class combined with a lower dollar, with Victoria remaining Australia's largest exporter of food and fibre. Service exports growth is also expected to remain robust in 2016-17, with continuing high levels of inbound tourists and students.⁷¹

⁶⁷ Department of Treasury and Finance, *Response to the Committee's 2016-17 Budget Estimates Entity-specific Questionnaire*, received 1 July 2016

⁶⁸ Commonwealth Government, Department of Foreign Affairs and Trade, *Australia's Trade by State and Territory 2014-15* (2016), p.32

⁶⁹ Department of Economic Development, Jobs, Transport and Resources, *Victorian Food and Fibre Export Performance Report, 2014-15* (2015), pp.4-5

⁷⁰ Commonwealth Government, Department of Foreign Affairs and Trade, *Australia's Trade by State and Territory 2014-15* (2016), p.32

⁷¹ Department of Treasury and Finance, *Budget Paper No.2: 2016-17 Strategy and Outlook* (2016), p.17

In terms of goods exports, the major export items in 2014-15 were wool (\$1.5 billion), beef (\$1.5 billion) and passenger motor vehicles (\$1.4 billion).⁷² The main export markets for Victorian goods were China (worth \$4.3 billion or 18.0 per cent), the United States (\$2.7 billion or 11.4 per cent) and New Zealand (\$1.9 billion or 8.2 per cent).⁷³

Data available for services exports is for the last calendar year (2015), valuing Victorian services exports at \$16.2 billion.⁷⁴ In 2015 ‘education-related travel services’ (or international education) was worth \$5.8 billion, ‘personal travel services’ (or recreational tourism) was worth \$3.5 billion and ‘professional and management consulting services’ was worth \$1.4 billion.⁷⁵ Education and personal travel services combined account for 58 per cent of total Victorian services exports for 2015.

The main market for Victorian services exports is also China. Chinese students accounted for 30 per cent of total international student enrolments in Victoria in 2015.⁷⁶ In terms of inbound international tourism to Victoria, information provided by Visit Victoria indicates:

Chinese visitor expenditure in Victoria reached \$2.2 billion in the year ending December 2015, a year-on-year increase of 59.2 per cent and an average increase of 27.4 per cent per annum since 2010, representing a 33.4 per cent share of total international expenditure in Victoria ... China’s share of expenditure to the State is more than the next six markets combined: New Zealand (6.6 per cent), UK (6.5 per cent), Malaysia (5.4 per cent), Singapore (4.9 per cent), USA (4.5 per cent) and India (4.1 per cent).⁷⁷

FINDING 11: The main market for Victorian exports of both goods and services is China. While the continuing depreciation of the Australian dollar has the potential to assist Victorian exporters, the possibility of an economic slowdown in China, as outlined in the international outlook contained in the budget papers, is also a potential risk to future levels of growth and value of Victoria’s exports.

⁷² Commonwealth Government, Department of Foreign Affairs and Trade, *Australia’s Trade by State and Territory 2014-15* (2016), p.32

⁷³ *ibid.*

⁷⁴ Australian Bureau of Statistics, *International Trade: Supplementary Information, Calendar Year, 2015*, Cat. No. 5368.0.55.004, Table 3.2. Available at <www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/5368.0.55.0042015>, viewed 6 July 2016

⁷⁵ *ibid.*

⁷⁶ Commonwealth Government, Department of Education and Training, *International Student Data 2015*. Available at <www.internationaleducation.gov.au/research/International-Student-Data/Pages/InternationalStudentData2015.aspx>, viewed 6 July 2016

⁷⁷ Visit Victoria, 2016, *International Market Profile: China, Year ending December 2015*, p.5. Available at <www.tourism.vic.gov.au/research/international-research/international-market-profiles.html>, viewed 6 July 2016

2.8 The property market

The recent positive state of the Victorian property market is discussed throughout the budget papers, which note:

The boom in Victoria's property market over the past few years has been driven by a strengthening labour market, historically low interest rates, increased investor demand and strong population growth.⁷⁸

The state of the property market has a considerable impact on the State's finances, as two key forms of state-based revenue are based on property. These are:

- land transfer duty, which is primarily affected by the number of property transactions occurring in the market
- land tax, which is calculated on valuations of property.

The following section examines various aspects of the recent increases in property values including:

- where this has occurred in Victoria
- the nature of new construction
- other consequences of the property boom such as housing affordability.

Further discussion of the revenue estimates in the 2016-17 Budget from property based taxes can also be found in Section 4.5.1.

2.8.1 Impact of a possible easing in the property market on the Victorian economy and state finances

Following the recent increases in property values, the Department of Treasury and Finance has updated its estimate for land transfer duty 2015-16, to \$6.1 billion, an estimated 23 per cent increase in the revenue item from 2014-15.⁷⁹ Despite the increase in growth for 2015-16, the Department of Treasury and Finance has indicated it expects the property market to cool slightly leading to a fall in land transfer duty revenue for 2016-17, before returning to trend growth rates by the end of the forward estimates period in 2019-20.⁸⁰ The Treasurer made the following statement regarding the Victorian property market to the Committee:

What we know is that we have got low interest rates and strong population growth that have contributed to strengthen our property market; in fact, one of the most attractive property markets in the nation, in Melbourne, if not the most attractive property market. Strengthened prices and transaction volumes have generated very strong growth in land transfer duty over the past few years.

⁷⁸ Department of Treasury and Finance, *Budget Paper No.2: 2016-17 Strategy and Outlook* (2016), p.46

⁷⁹ *ibid.*; Department of Treasury and Finance, *Budget Paper No.5: 2015-16 Statement of Finances* (2015), pp.145, 165

⁸⁰ Department of Treasury and Finance, *Budget Paper No.2: 2016-17 Strategy and Outlook* (2016), p.46

More recently forward indicators have begun to ease, and we are starting to see that coming through. Certainly that has been incorporated into our projections going forward. Taking that into account, all the current information, the budget projections anticipate that the property market will experience a moderate correction in 2016–17...⁸¹

The Treasurer also noted the rapid growth in median house prices in recent years:

According to the REIV [Real Estate Institute of Victoria], what they believe is median house prices in Melbourne have grown by 8 per cent over the past year, and that growth has been concentrated in the inner suburbs, where median prices have grown by over 16 per cent.⁸²

The budget papers also note the risk to budget estimates in the event of a decline in the property prices as ‘a sharp price correction would affect consumption and overall growth’.⁸³

FINDING 12: The budget papers anticipate a moderate correction in the Victorian property market in 2016-17. However, a more pronounced market correction would have a negative impact on elements of the Victorian economy such as consumption and overall growth.

2.8.2 Inner city apartment construction

A key feature of the current property boom is the strong demand for apartment construction. The Minister for Planning made the following comments to the Committee regarding the continuing pipeline of apartment construction projects, and the preferred inner metropolitan locations for these developments:

The trend in the inner and established suburbs is also that housing production is continuing to increase, as many people downsize or look for a better location. Since coming to office I have approved more than \$7 billion of developments in the CBD and surrounds. The number of apartments built has increased significantly, with 60,000 either marketed or in the pipeline in metropolitan Melbourne.⁸⁴

A recent Reserve Bank of Australia (RBA) report into the growth of apartment construction in Australian capital cities found that Melbourne’s apartment stock had grown by 30 per cent over the period 2012 to 2015.⁸⁵ The report identified three distinct buyers of apartments; owner occupiers; domestic investors and foreign buyers. In terms of recent growth in apartment construction the report noted, ‘Foreign buyers have played a significant role in the inner city of Melbourne’.⁸⁶ The impact of foreign buyers on the Melbourne property market is discussed further in Section 4.4.1.

⁸¹ Hon. Tim Pallas MP, Treasurer, *2016-17 Budget Estimates Transcript of Evidence*, 6 May 2016, p.11

⁸² *ibid.*

⁸³ Department of Treasury and Finance, *Budget Paper No.2: 2016-17 Strategy and Outlook* (2016), p.24

⁸⁴ Hon. Richard Wynn MP, Minister for Planning, *2016-17 Budget Estimates Transcript of Evidence*, 18 May 2016, pp.2-3

⁸⁵ Reserve Bank of Australia, *The Growth of Apartment Construction in Australia*, report prepared by Michael Shoory, June 2016, p.22

⁸⁶ *ibid.*, p.23

Apartment construction has played a significant role in the current expansion of the Victorian property market, with data published by the Australian Bureau of Statistics (ABS) indicating the value of building approvals for apartments have increased steadily over the last ten years.

Figure 2.12 Value of building approvals by type of residential dwelling, Victoria, 2006 to July 2016



(a) Data for 2016 is from January to July.

Source: Australian Bureau of Statistics, *Building Approvals, Australia, July 2016*, Cat. No. 8731.0, Table 23. Available at <www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/8731.0Jul%202016>, viewed 8 July 2016

The RBA report also noted:

A desire to reside close to CBD employment centres is also likely to have stimulated demand for apartments, as residents in increasingly populated cities value the convenience and reduced travel time associated with the proximity to amenities in these areas.⁸⁷

The Minister for Planning also commented on growing community concerns regarding the amenity of new apartments and specifically issues regarding minimum floor space requirements:

... the Sydney approach of 50 square metres for a one bedroom unit and 60 square metres for a two bedroom unit may in fact be too blunt an instrument to have here in Melbourne because I can take you to apartments that are below 50 square metres that are very beautifully designed and in fact achieve all the outcomes that you would be looking for in terms of amenity.

Of course what also underpins this is a concern in relation to, obviously, affordability as well. So it is trying to balance out all these competing issues ... when you talk to major developers many of them look back and go, 'Well, yes, some of the stuff we built is pretty ordinary, with very poor amenity'. So this notion that has now crept into planning language of borrowed light — this notion that you do not actually get light

87 *ibid.*, p.21

into the building, poor ventilation, no storage — these are issues that I think are quite fundamental in terms of how we want to see apartment style living going forward because it is clear that the trend towards apartment style living is here. There is a very strong appetite for it from the community, but we have to build better.⁸⁸

The Government released the *Better Apartments Draft Design Standards* paper on 15 August 2016 and the Minister for Planning indicated to the Committee that the final design standards would be introduced by December 2016.⁸⁹

FINDING 13: The recent property boom in Victoria has been driven mostly by apartment construction in inner Melbourne, with foreign investors playing a significant role.

2.8.3 Housing affordability

A further outcome of the increasing median property prices throughout Melbourne and regional Victoria identified in the public hearings by the Committee was housing affordability. The Treasurer indicated this issue was currently being considered by the Government, and a statement on the issue would be announced towards the end of the year:

We far too often disaggregate this problem [housing affordability] into small parts, and we need to recognise that if you are going to do anything in this area, it is not that you have 1000 different solutions to the problem; it is about recognising that it has many different facets. It translates into a regime that the state puts in place around the rights that renters have. It goes to issues around public and community housing and how we provide more of those offerings into the community. The truth is we have seen a very poor investment over recent years into these areas. So we have made a start in this budget, recognising that there is still a lot more to do in this space.

Then of course obviously the other issues are around first home owners and also the availability of land supply into the market and how we minimise the transactional costs for developers in being able to make that land available for housing and approval, and that goes into the planning space. So there is a lot to unpack in this area. We are looking at it in a root and branch sense, and we hope by the end of the year to have some clear direction.⁹⁰

The Government intends to release a statement addressing the issue of housing affordability by the end of 2016.

⁸⁸ Hon. Richard Wynn MP, Minister for Planning, *2016-17 Budget Estimates Transcript of Evidence*, 18 May 2016, p.22

⁸⁹ Department of Environment, Land, Water and Planning, *Better Apartments Draft Design Standards* (2016). Available at <www.delwp.vic.gov.au/better-apartments>, viewed August 16 2016; Hon. Richard Wynn MP, Minister for Planning, *2016-17 Budget Estimates Transcript of Evidence*, 18 May 2016, p.22

⁹⁰ Hon. Tim Pallas MP, Treasurer, *2016-17 Budget Estimates Transcript of Evidence*, 6 May 2016, p.16

3

Key aspects of the 2016-17 Budget

3.1 Introduction

This chapter provides an overview of the 2016-17 Budget, beginning with a discussion of the Government's overarching strategy for this year's budget, together with an analysis of the long-term financial management objectives and financial measures and targets outlined in the budget papers (Section 3.2). The key components of the 2016-17 Budget are then examined across the three sectors that comprise Victorian public sector finances: the general government sector, the public non-financial corporations (PNFC) sector and the public financial corporations (PFC) sector (Section 3.3). The trends for the estimates of the key components of the budget (operating surplus, revenue, expenses, net debt and borrowings) across the three sectors for the 2016-17 Budget forward estimates period (2016-17 to 2019-20) are also discussed in detail (Section 3.4).

Following this, budget forecasts for key financial indicators on expenditure and net debt sustainability are examined (Section 3.5).

New output and asset initiatives announced as part of the 2016-17 Budget are outlined (Section 3.6). An overview of the changes made to the departmental performance measures that appear in the budget papers is given, together with an analysis of the progress of the Government's election commitments. The chapter concludes with a discussion of the structure of this year's budget papers and how this differs from the previous year (Section 3.7).

Most of the topics presented in this chapter are analysed in more detail throughout the report.

3.2 Budget setting and strategic directions

The theme for the 2016-17 Budget is 'Getting It Done', and this informs the commentary throughout the budget papers. This follows on from the theme 'For Families', which was adopted for the 2015-16 Budget, and 'Getting on with it', the title of the shorter Government statement made in December 2014.⁹¹ In his budget speech, the Treasurer announced 'Our first Budget was about getting on with it. This Budget is about getting it done'.⁹²

91 Department of Treasury and Finance, *Budget Paper No.1: 2015-16 Treasurer's Speech* (2015); Victorian Government, *Getting on with it: Fast-tracking the Projects our State Needs* (2015)

92 Department of Treasury and Finance, *Budget Paper No.1: 2016-17 Treasurer's Speech* (2016), p.1

Further to this, the Treasurer informed the Committee that:

The 2016-17 Budget reflects the government's clear economic plan to bolster the state's financial position, to deliver a significant and sustained increase in infrastructure investment and to invest in our people to maintain our enviable living standards and also to ensure our communities are safe.⁹³

At the hearing, the Treasurer outlined key aspects of the 2016-17 Budget concerning revenue growth estimates, the operating surplus, levels of net debt and infrastructure spending.

In terms of revenue growth, the Treasurer announced that the 2016-17 Budget projects an average annual growth rate of 3.4 per cent over the budget estimates period. This will exceed expenses growth average annual growth rate of 3.3 per cent over the forward estimates period.⁹⁴ The Treasurer explained that:

The first priority needs to be disciplined and responsible financial management. We are experiencing rapid increases in demand for services and infrastructure and will meet that demand. But we need to do it in a fiscally responsible way. The global economy remains in a period of considerable uncertainty and it is critical that we have the flexibility to respond to the unexpected.⁹⁵

The Committee notes that the calculation of the average annual growth rate for revenue and expenses announced in the Budget covers the time period 2015-16 to 2019-20. When the average annual growth rate is calculated from 2016-17 to 2019-20, revenue for the general government sector is expected to grow by an average of 2.3 per cent, and expenses for the general government sector are expected to grow by 2.6 per cent.

FINDING 14: The budget papers indicate that output expenses for the general government sector are expected to grow at a faster rate (2.6 per cent) than revenue (2.3 per cent) between 2016-17 and 2019-20.

In announcing the operating surplus of \$2.9 billion in 2016-17 and \$9.2 billion over the forward estimates period, the Treasurer noted this '... further strengthens Victoria's fiscal position and ensures that we are equipped to meet our economic challenges'.⁹⁶ The Treasurer noted that the level of State net debt as a proportion of GSP is projected to fall to 5 per cent over the forward estimates.⁹⁷

⁹³ Hon. Tim Pallas MP, Treasurer, *2016-17 Budget Estimates Transcript of Evidence*, 6 May 2016, p.2

⁹⁴ *ibid.*, p.3

⁹⁵ *ibid.*

⁹⁶ *ibid.*

⁹⁷ *ibid.*

The Treasurer also noted that:

Even with a declining debt profile, we are stepping up infrastructure investment this year. This budget has a sustained increase in government infrastructure investment over the forward estimates, with an average of 4.9 billion per year over the past 11 years to 7.4 billion over the estimates.⁹⁸

See Section 3.4.3 for further discussion.

3.2.1 Strategic directions

There are two components of the Government's fiscal strategy in the 2016-17 Budget. These are:

- long-term financial management objectives
- financial measures and targets for the 2016-17 Budget.⁹⁹

The Committee notes that both sets of financial goals are unchanged since their introduction in the 2015-16 Budget.¹⁰⁰

Long-term financial management objectives

The 2016-17 Budget establishes four long-term financial management objectives across the priorities of:

- sound financial management
- improving services
- building infrastructure
- efficient use of public resources.

Table 3.1 lists the corresponding objectives to each of the four priorities.

Table 3.1 Long-term financial management objectives, 2016-17 Budget

Priority	Objective
Sound financial management	Victoria's finances will be managed in a responsible manner to provide capacity to fund services and infrastructure at levels consistent with maintaining a triple-A credit rating.
Improving services	Public services will improve over time.
Building infrastructure	Public infrastructure will grow steadily over time to meet the needs of a growing population.
Efficient use of public resources	Public sector resources will be invested in services and infrastructure to maximise the economic, social and environmental benefits.

Source: Department of Treasury and Finance, *Budget Paper No.2: 2016-17 Strategy and Outlook* (2016), p.14

⁹⁸ *ibid.*

⁹⁹ Department of Treasury and Finance, *Budget Paper No.2: 2016-17 Strategy and Outlook* (2016), p.14

¹⁰⁰ Department of Treasury and Finance, *Budget Paper No.2: 2015-16 Strategy and Outlook* (2015), p.14

Financial measures and targets for the 2016-17 Budget

The Government has set targets across three components of State finances: net debt, superannuation liabilities and the operating surplus. Table 3.2 contains the target measures.

Table 3.2 Financial measures and targets, 2016-17 Budget

Financial measures	Target
Net debt	General government net debt as a percentage of GSP to be maintained at a sustainable level over the medium term.
Superannuation liabilities	Fully fund the unfunded superannuation liability by 2035.
Operating surplus	A net operating surplus consistent with maintaining general government net debt at a sustainable level over the medium term.

Source: Department of Treasury and Finance, *Budget Paper No.2: 2016-17 Strategy and Outlook* (2016), p.14

Three of the four long-term financial management objectives are directly related to infrastructure investment. The primary infrastructure-related objective is to increase the infrastructure base in order to serve the growing population of the State. The ultimate purpose of this infrastructure is to provide improved services to the public.

Balancing this, the objective of sound financial management is a constraint to the provision of infrastructure. The Government intends to maintain net debt as a percentage of gross state product (GSP) at ‘a sustainable level over the medium term’.¹⁰¹ This level is further specified elsewhere in the budget papers as ‘no greater than its peak over the last five years by the end of the forward estimates’.¹⁰²

The Committee considers that the language used in specifying this target is not clear, as it does not specify which five-year period the objective referred to. The Committee contacted the Department of Treasury and Finance for clarification and received the following response:

The five year period in the net debt to GSP objective refers to the last five years of actual data available at the time of the 2016-17 Budget. This represents data from 2010-11 to 2014-15 and will remain the sustainability objective over the term of the Government.¹⁰³

Figure 3.10 in Section 3.5 shows that for this period, the peak value of net debt as a proportion of GSP was 6.2 per cent in June 2015. Therefore, the level of net debt anticipated in 2019-20 satisfies the Government’s definition of ‘sustainable’.

¹⁰¹ Department of Treasury and Finance, *Budget Paper No.2: 2016-17 Strategy and Outlook* (2016), p.14

¹⁰² Department of Treasury and Finance, *Budget Paper No.5: 2016-17 Statement of Finances* (2016), p.16

¹⁰³ Department of Treasury and Finance, *Response to the Committee’s 2016-17 Budget Estimates Entity-specific Questionnaire*, received 1 July 2016, p.10

FINDING 15: The Government intends infrastructure investment to grow to provide for a growing population. The Government has also set a limit on net debt (expressed as a percentage of gross state product), which supports a competing objective of sound financial management.

FINDING 16: The definition of ‘sustainability’ for net debt given in the budget papers is not clear, as it does not specify the years it refers to. Using the years specified by the Department of Treasury and Finance, net debt estimated for 2019-20 satisfies the Government’s definition of ‘sustainable’.

RECOMMENDATION 1: When defining a target such as ‘a sustainable level of net debt’ with a reference to a time period, future budget papers identify the time period as specific years rather than using relative terms.

An additional element of the Government’s strategy, ‘efficient use of public resources’,¹⁰⁴ relates in part to the allocation of infrastructure investment between projects. To achieve this, the Government’s intentions include:

- choosing infrastructure projects which provide the greatest benefits to the State
- managing existing projects to prevent cost over-runs and delays.

The Government has a number of methods of achieving these aims, including the High-Value High-Risk process for scrutiny and approval of projects and oversight of certain projects by Major Projects Victoria. Infrastructure projects outlined in the 2016-17 Budget are discussed further in Chapter 7 and further discussion of this financial ‘sustainability objective’ and net debt can be found in Chapter 5.

FINDING 17: The Government has not changed its long-term financial management objectives and its financial measures and targets, which it introduced in the 2015-16 Budget.

3.3 Key components of the 2016-17 Budget

Public sector finances in Victoria are divided into three sectors: the general government sector, the public non-financial corporations (PNFC) sector and the public financial corporations (PFC) sector. Table 3.3 provides descriptions and examples of the three sectors.

104 Department of Treasury and Finance, *Budget Paper No.2: 2016-17 Strategy and Outlook* (2016), p.14

Table 3.3 Public finance sectors in Victoria

General government sector	Comprises all government departments and government agencies that provides services with no charges or charges significantly below costs.
Public non-financial corporations sector	Comprises a wide range of government-owned entities that charge for their services to recover their costs. The largest entities within this sector provide water, housing, transport and port services.
Public financial corporations sector	Includes entities primarily engaged with the provision of financial services including insurance. Entities within this sector can be categorised in two types: those that provide services outside the public sector (for example, WorkSafe Victoria and the Transport Accident Commission) and those that provide services to other government entities (for example, the Victorian Funds Management Corporation and the Treasury Corporation of Victoria).

Sources: Department of Treasury and Finance, *Budget Paper No.2: 2016-17 Strategy and Outlook* (2016), p.61; Department of Treasury and Finance, *2014-15 Financial Report* (2015), p.223

3.3.1 General government sector

REVENUE for the general government sector is expected to be \$60.4 billion in 2016-17. This mainly consists of Commonwealth grants (45.0 per cent) and State-sourced revenue (55.0 per cent).¹⁰⁵

Most of the revenue obtained by the general government sector funds the Government's spending for the delivery of goods and services (referred to in the budget papers as output expenditure).¹⁰⁶ The general government sector's **OUTPUT EXPENDITURE** is expected to be \$57.5 billion in 2016-17.¹⁰⁷

The Government also funds its asset investment program through a number of different sources (that is, cash resources). This includes:

- the **OPERATING RESULT**, which is the difference between revenue and output expenditure and is also referred to as the operating balance.¹⁰⁸ The Government expects an operating surplus of \$2.9 billion in 2016-17¹⁰⁹
- **DEPRECIATION AND SIMILAR**, which is the amount included in output expenses for accounting reasons but for which there are no cash transfers. As a result, the cash is still available to be used by the Government. The budget papers estimate depreciation and similar to be \$2.3 billion in 2016-17¹¹⁰

¹⁰⁵ Department of Treasury and Finance, *Budget Paper No.5: 2016-17 Statement of Finances* (2016), pp.6, 27

¹⁰⁶ Also referred to as 'expenses', 'operating expenses' or 'expenses from transactions' in the budget papers.

¹⁰⁷ Department of Treasury and Finance, *Budget Paper No.5: 2016-17 Statement of Finances* (2016), p.6

¹⁰⁸ This will be a surplus if revenue exceeds output expenditure, and conversely, a deficit if revenue is less than output expenditure. It is also referred as the 'net result from transactions-net operating balance' in the budget papers.

¹⁰⁹ Department of Treasury and Finance, *Budget Paper No.5: 2016-17 Statement of Finances* (2016), p.6

¹¹⁰ Department of Treasury and Finance, *Budget Paper No.2: 2016-17 Strategy and Outlook* (2016), p.57

- Revenue from **ASSET SALES**¹¹¹ which is estimated to be \$486.7 million in 2016-17¹¹²
- \$5.5 billion from **OTHER MOVEMENTS** (related to the payment from the Port of Melbourne lease into the Victorian Transport Fund from the PNFC sector).¹¹³

Additionally, the general government sector expects to receive \$391.0 million from its **INVESTMENT THROUGH OTHER SECTORS**.¹¹⁴

These four sources (depreciation and similar, asset sales, other movements and investment through other sectors) are expected to provide the Government with a total of \$8.7 billion in cash resources in 2016-17. Appendix A3.1 shows that the total cash resources available to the Government have increased by 21.6 per cent compared to the revised amount of cash resources available in 2015-16.

The **GOVERNMENT INFRASTRUCTURE INVESTMENT** indicator measures the total expenditure on asset investment (including expenditure made by the private sector on behalf of the government for the construction of public private partnership projects). It is expected that government infrastructure investment will be \$7.5 billion in 2016-17.¹¹⁵ This is an increase of \$3.0 billion in comparison to the revised 2015-16 estimate.¹¹⁶

The general government sector's **NET DEBT** is expected to decrease by \$3.9 billion in 2016-17.¹¹⁷ The Committee notes that this would be the first decrease in net debt since 2005-06.¹¹⁸

Appendix 3.1 provides further details of these amounts.

FINDING 18: The Government expects to increase the general government sector's operating surplus by \$981.1 million to \$2.9 billion in 2016-17. Additionally, the Government expects to increase the amount of cash resources available by 21.3 per cent (\$1.1 billion) compared to the previous year's estimate to fund its asset investment program.

FINDING 19: General government sector net debt is expected to decrease by \$3.9 billion in 2016-17. If realised, it would be the first time that net debt for this sector has decreased since 2005-06.

111 Referred to as 'proceeds from asset sales' or 'sales of non-financial assets' in the budget papers.

112 Department of Treasury and Finance, *Budget Paper No.5: 2016-17 Statement of Finances* (2016), p.9

113 Department of Treasury and Finance, *Budget Paper No.2: 2016-17 Strategy and Outlook* (2016), p.56-7

114 Referred to as 'net cash flows from investments in financial assets for policy purposes' in the budget papers (Department of Treasury and Finance, *Budget Paper No.5: 2016-17 Statement of Finances* (2016), p.9).

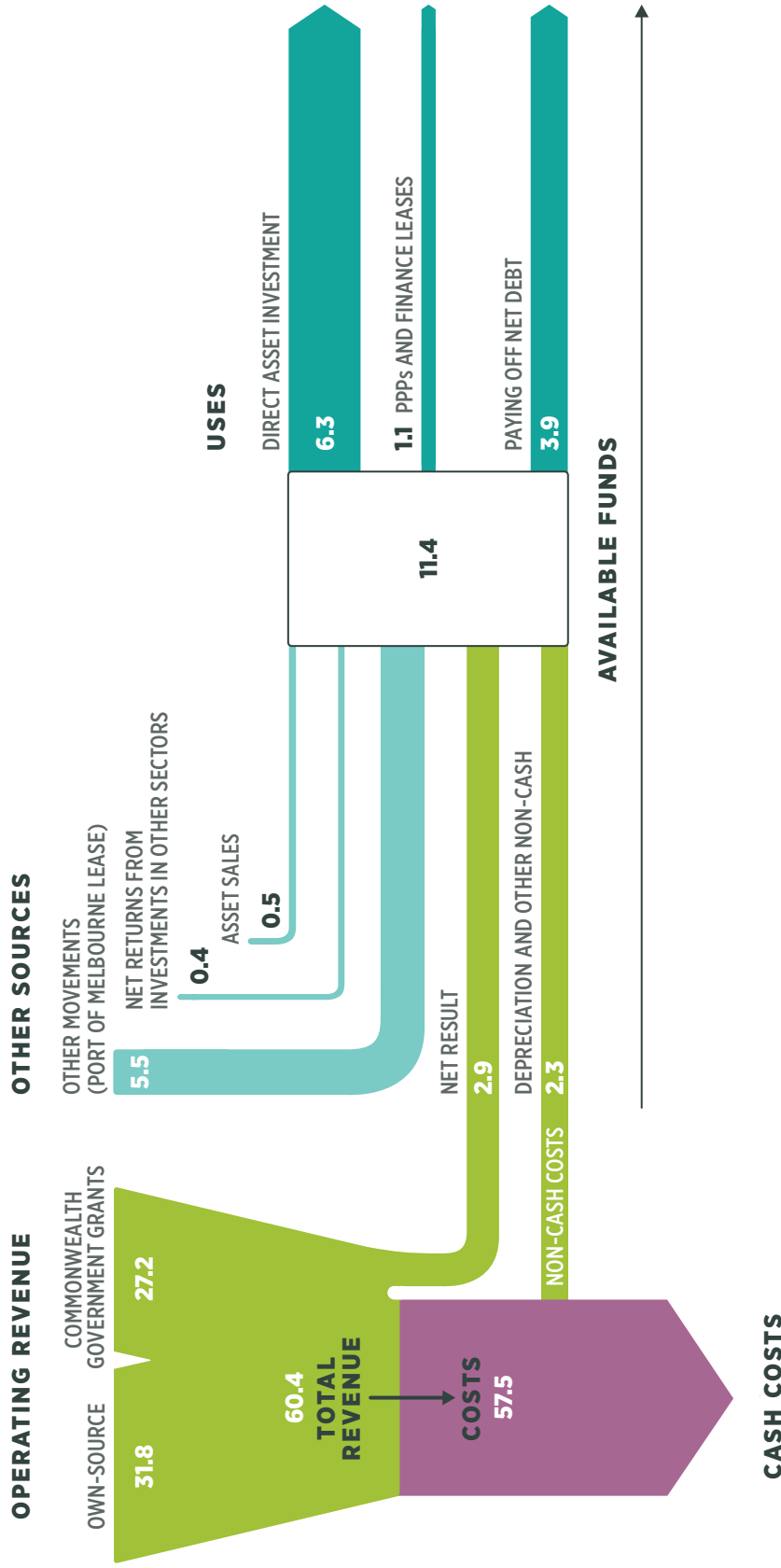
115 Department of Treasury and Finance, *Budget Paper No.2: 2016-17 Strategy and Outlook* (2016), p.15

116 Department of Treasury and Finance, *Net Infrastructure Investment* (2016). Available at <www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Other-financial-aggregates>, viewed 31 May 2016

117 Department of Treasury and Finance, *Budget Paper No.2: 2016-17 Strategy and Outlook* (2016), p.57

118 Department of Treasury and Finance, *Consolidated Balance Sheet – General Government Sector* (2016). Available at <www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Aggregate-financial-statements>, viewed 31 May 2016

Figure 3.1 Key components of the 2016-17 Budget for the general government sector



Source: Public Accounts and Estimates Committee

Figure 3.1 shows the key budget components for the general government sector according to the 2016-17 Budget and illustrates the various sources of cash. In total, the Committee calculates that the anticipated cash available from all sources is \$11.6 billion.

In previous years, an additional source of cash for asset investment has been an increase in net debt. However, net debt is expected to decrease in 2016-17:

... largely reflecting the receipt of proceeds from entering into a medium term lease over the operations of the Port of Melbourne.¹¹⁹

In the two following years, the uses for cash are anticipated to outweigh the sources, leading to net debt increasing.¹²⁰ In 2019-20, the budget papers anticipate that slightly more cash will be provided than is required, and net debt will decrease marginally.

FINDING 20: For 2016-17, the Government anticipates that the receipt of funds related to the lease of the operations of the Port of Melbourne will provide more cash than is required for asset expenditure, and that this will result in lower net debt for the year. For the next two years, net debt is anticipated to rise.

3.3.2 Public non-financial corporations sector

Table 3.4 shows the main components of the 2016-17 Budget for the public non-financial corporations (PNFC) sector.

Table 3.4 Key components of the 2016-17 Budget for the public non-financial corporations sector in comparison to the 2015-16 revised estimates^(a)

	2015-16 revised estimate	2016-17 Budget	Variance	
	(\$ million)	(\$ million)	(\$ million)	(per cent)
Revenue	10,272	10,200	-72	-0.7
Output expenses	10,228	10,869	641	6.3
Operating result	44	-669	-713	-1,620.5
Net debt	14,788	15,714	926	6.3

(a) As the 2016-17 budget papers only provide figures to the nearest million dollars, decimal places are not presented in this table.

Source: Committee calculations based on Department of Treasury and Finance, *Budget Paper No.5: 2016-17 Statement of Finances* (2016), pp.43-45

¹¹⁹ Department of Treasury and Finance, *Budget Paper No.2: 2016-17 Strategy and Outlook* (2016), p.44

¹²⁰ *ibid.*, p.57

Table 3.4 shows that the PNFC sector is expected to receive revenue of \$10.2 billion and incur output expenses of \$10.9 billion in 2016-17. As a result, the budget papers anticipate that this sector will have an operating deficit of \$669 million in the budget year. This expected operating result compares negatively to the operating surplus estimate of \$44.0 million in 2015-16.

Net debt for the PNFC sector is expected to increase from an estimate of \$14.8 billion in 2015-16 to \$15.7 billion in 2016-17.

3.3.3 Public financial corporations sector

Table 3.5 shows the main components of the 2016-17 Budget for the public financial corporations (PFC) sector.

Table 3.5 Key components of the 2016-17 Budget for the public financial corporations sector in comparison to the 2015-16 revised estimates^(a)

	2015-16 revised estimate	2016-17 Budget	Variance	
	(\$ million)	(\$ million)	(\$ million)	(per cent)
Revenue	7,610	7,844	234	3.1
Output expenses	8,292	8,822	530	6.4
Operating result	-682	-978	-296	43.4
Net result	-107	519	626	-585.0

(a) As the 2016-17 budget papers only provide figures to the nearest million dollars, decimal places are not presented in this table.

Source: Committee calculations based on Department of Treasury and Finance, *Budget Paper No.5: 2015-16 Statement of Finances* (2015), p.59

The PFC sector's revenue is expected to be \$7.8 billion in 2016-17, while output expenses are estimated at \$8.8 billion for the same year. This leaves the sector with an estimated operating deficit of \$978 million in 2016-17, which is \$296 million higher compared to the 2015-16 revised estimate.

As this sector substantially relies on its investments, the net result is a more meaningful indicator to reflect its financial performance. The budget papers explain that:

Capital gains on the investment portfolios of the State's insurance agencies (WorkSafe Victoria, Transport Accident Commission and Victorian Managed Insurance Authority) are classified as other economic flows. As these capital gains are available to fund claims expenses, the net result provides a more meaningful reflection of the underlying operating and performance of the PFC sector than the net result from transactions.¹²¹

Table 3.5 also shows that the sector's net result is expected to move from a negative position of \$107 million to a positive position of \$519 million.

121 Department of Treasury and Finance, *Budget Paper No.5: 2016-17 Statement of Finances* (2016), p.59

3.4 The forward estimates, 2016-17 to 2019-20

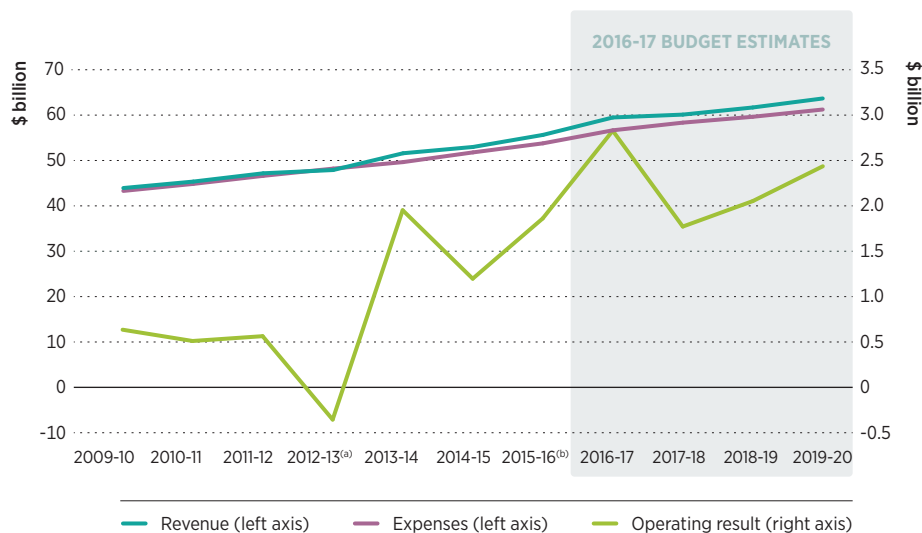
3.4.1 General government sector

Operating result, revenue and expenses

As noted in Section 3.3.1, the difference between total revenue and total output expenditure is referred to as the operating surplus (if revenue is higher than expenses). This operating result, when added to other cash resources such as depreciation, asset sales and investment through other sectors (see Figure 3.1), is used to fund asset investment or pay off debt.

Figure 3.2 shows the trends for the operating result, revenue and expenses for the general government sector between 2009-10 and 2019-20.

Figure 3.2 Operating result, revenue and expenses, general government sector, 2009-10 to 2019-20



- (a) The operating deficit in 2012-13 is a result of changes made to an official accounting standard (AASB 119) that took place after the original financial year result. Before the change in accounting standard, the result for 2012-13 was a surplus.
- (b) The 2015-16 figure is a revised estimate.

Sources: Department of Treasury and Finance, *Consolidated Comprehensive Operating Statement – General Government Sector* (2016). Available at <www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Aggregate-financial-statements>, viewed 31 May 2016

As discussed in Section 3.2, revenue for the general government sector is expected to grow by an average of 2.3 per cent between 2016-17 and 2019-20.¹²² This growth estimate is lower than the expected annual average growth rate of 4.0 per cent between 2009-10 and 2015-16. Chapter 4 of this report provides further details of the expected trends for the general government sector revenue over the forward estimates period. The calculation of the growth rate is also further discussed in Section 4.3.

¹²² Annual averages are calculated using compound annual growth rates.

Output expenses for the general government sector are expected to rise at an annual average rate of 2.6 per cent between 2016-17 and 2019-20, which is 0.3 per cent higher than the estimated annual average growth for revenue (2.3 per cent). This compares to a revised annual average growth rate of 3.7 per cent from 2009-10 to 2015-16. Output expenses are discussed in further detail in Chapter 6.

The operating surplus is expected to reach \$2.9 billion in 2016-17, \$1.8 billion in 2017-18 before increasing to \$2.5 billion by 2019-20 at the end of the forward estimates period.¹²³ The operating surplus' peak in 2016-17 is primarily driven by land tax revenue and the once-off revenue anticipated from the pre-paid port licence fees of the Port of Melbourne.¹²⁴ The treatment of the pre-paid port licence fees for the Port of Melbourne in the 2016-17 budget papers is discussed further in Section 4.5.1 and Section 7.6.1.

FINDING 21: The general government sector operating surplus is expected to reach its highest level over the next four years in 2016-17 at \$2.9 billion. This is primarily driven by land tax revenue and the once-off revenue from the pre-paid port licence fees for the Port of Melbourne.

Net debt and borrowings

The Government may choose to borrow money when the level of asset investment it has committed to exceeds the funding available. Borrowings fund expenses including both assets delivered by the Government as well as the Government payments through public private partnerships (PPP) agreements. The level of borrowings is the primary factor influencing the Government's net debt position (see Figure 3.3).

The net debt position is determined by the difference between what the Government owes and the cash it holds including liquid assets.¹²⁵

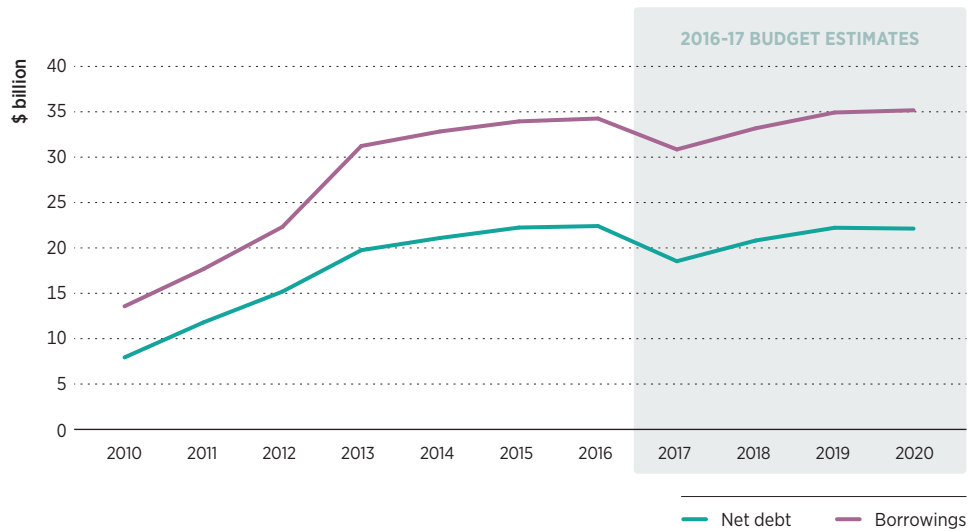
Figure 3.3 shows the general government sector's borrowings and net debt from June 2010 to June 2020.

¹²³ Department of Treasury and Finance, *Budget Paper No.5: 2016-17 Statement of Finances* (2016), p.6

¹²⁴ *ibid.*, p.25

¹²⁵ Department of Treasury and Finance, *Budget Paper No.2: 2016-17 Strategy and Outlook* (2016), pp.56-7

Figure 3.3 Borrowings and debt, general government sector, 30 June, 2010 to 2020



Note: The 2015-16 figure is a revised estimate.

Source: Department of Treasury and Finance, *Consolidated Comprehensive Operating Statement - General Government Sector* (2016). Available at <www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Aggregate-financial-statements>, viewed 31 May 2016

Net debt for June 2017 is expected to be \$18.6 billion, the lowest since 2012, after peaking at \$22.5 billion in June 2016. The Government then expects that net debt will increase to \$22.2 billion in June 2020. This level is equivalent to the level in June 2015.

Similarly, the Government expects that borrowings will fall to \$31.0 billion in June 2017, their lowest level in five years and then increase to \$35.3 billion in June 2020.

Borrowings and net debt are discussed further in Chapter 5.

FINDING 22: Net debt for the general sector is expected to decrease to \$18.6 billion in June 2017. It is then expected to increase by \$3.6 billion to \$22.2 billion by June 2020, reaching similar levels to those seen in June 2015.

3.4.2 Public non-financial corporations sector

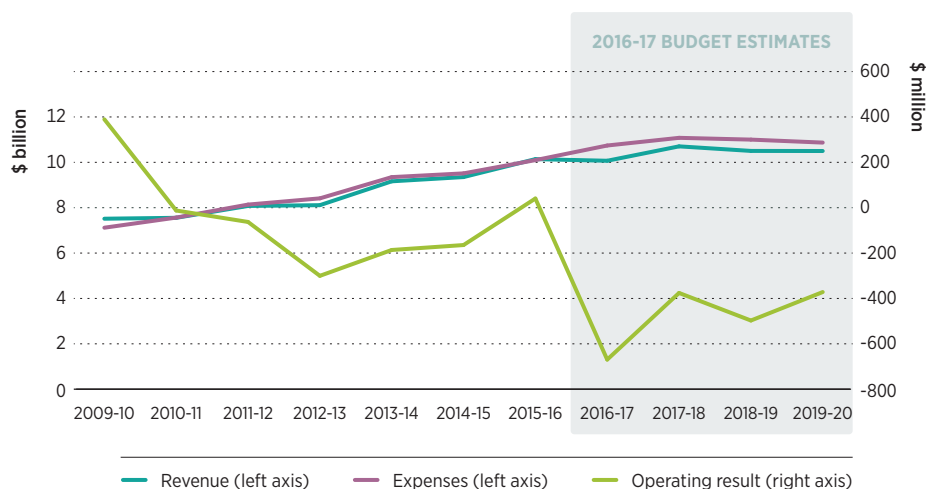
Operating result, revenue and expenses

As noted in Section 3.3, the PNFC sector comprises agencies that charge for their services such as water and housing.¹²⁶

Figure 3.4 shows the trends for the operating result, revenue and expenses for the public non-financial corporations sector between 2009-10 and 2019-20.

126 *ibid.*, p.61

Figure 3.4 Operating result, revenue and expenses, public non-financial corporations sector 2009-10 to 2019-20



Note: The 2015-16 figure is a revised estimate.

Sources: Department of Treasury and Finance, *Budget Paper No.5: 2016-17 Statement of Finances* (2016), p.43; Department of Treasury and Finance, *Financial Report*, 2009-10 to 2014-15

The PNFC sector's revenue is expected to be \$10.2 billion in 2016-17.¹²⁷ This sector's revenue is expected to grow by an annual average of 1.4 per cent over the forward estimates period. This average annual growth rate estimate is lower than the past annual average growth rate of 5.0 per cent between 2009-10 and 2015-16.

Output expenses for the PNFC sector are expected to be \$10.9 billion in 2016-17.¹²⁸ The sector's revenue annual average growth is expected to be 0.4 per cent between 2016-17 and 2019-20. This average annual growth rate is also lower compared to the estimated average annual growth of 5.9 per cent between 2009-10 and 2015-16. Output expenses for the PNFC sector are discussed further in Chapter 6.

The Government expects an operating deficit of \$669 million for the PNFC sector in 2016-17.¹²⁹ It is also expected that the PNFC sector will remain in deficit throughout the forward estimates period, reaching a deficit of \$370 million in 2019-20, as shown in Figure 3.4.

FINDING 23: Over the forward estimates period, revenue for the public non-financial corporations sector is expected to grow by an annual average of 1.4 per cent, while output expenses are estimated to grow by an annual average of 0.4 per cent. Nonetheless, the sector's operating result is expected to remain in deficit over the forward estimates period, reaching \$370 million in 2019-20.

Net debt and borrowings

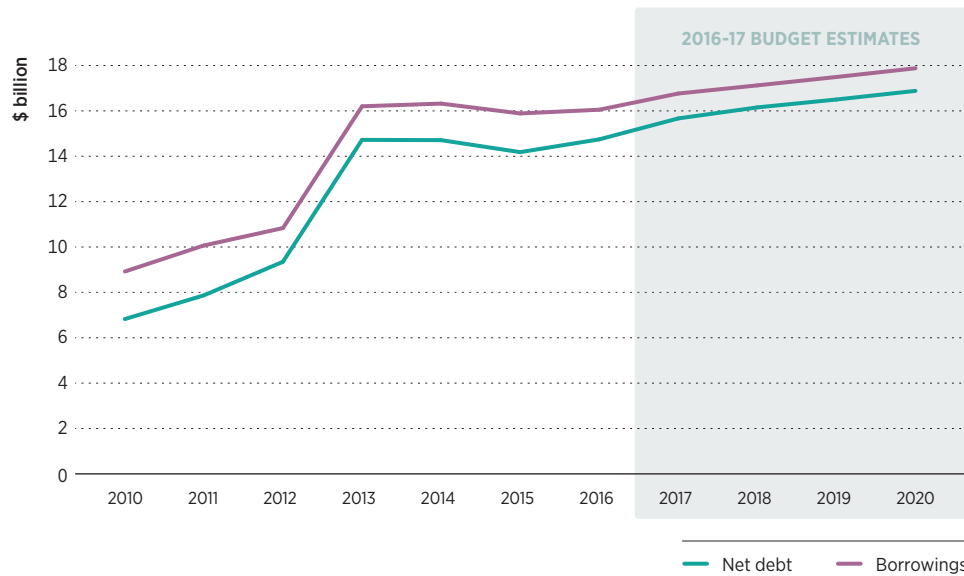
Figure 3.5 shows the trends for borrowings and net debt for the PNFC sector from June 2010 to June 2020.

¹²⁷ Department of Treasury and Finance, *Budget Paper No.5: 2016-17 Statement of Finances* (2016), p.43

¹²⁸ *ibid.*

¹²⁹ *ibid.*

Figure 3.5 Borrowings and net debt, public non-financial corporations sector, 30 June, 2010 to 2020



Note: The 2016 figure is a revised estimate.

Sources: Department of Treasury and Finance, *Budget Paper No.5: 2016-17 Statement of Finances* (2016), p.45; Department of Treasury and Finance, *Financial Report*, 2009-10 to 2014-15

Net debt for the PNFC sector is expected to increase from \$15.7 billion in June 2017 to \$16.9 billion in June 2020.¹³⁰ Figure 3.5 shows that this follows a period of steady net debt levels of around \$14.5 billion between June 2013 and the June 2016 revised figure.

Similar to the general government sector, the PNFC sector's net debt and borrowings are closely correlated. Borrowings are expected to increase from a revised estimate of \$16.8 billion in June 2017 to \$17.9 billion in June 2020.¹³¹

3.4.3 Asset investment

Government infrastructure investment

The budget papers utilise 'government infrastructure investment' as an overall measure for asset investment.

This indicator is calculated by adding the total direct investment made by the general government sector (net of asset sales and funds received from investments in other sectors) to the expenditure made by the private sector on construction of public private partnerships (PPPs) on behalf the public sector. The budget papers also indicate that this indicator does not include the impact of the medium-term lease over the operations of the Port of Melbourne.¹³²

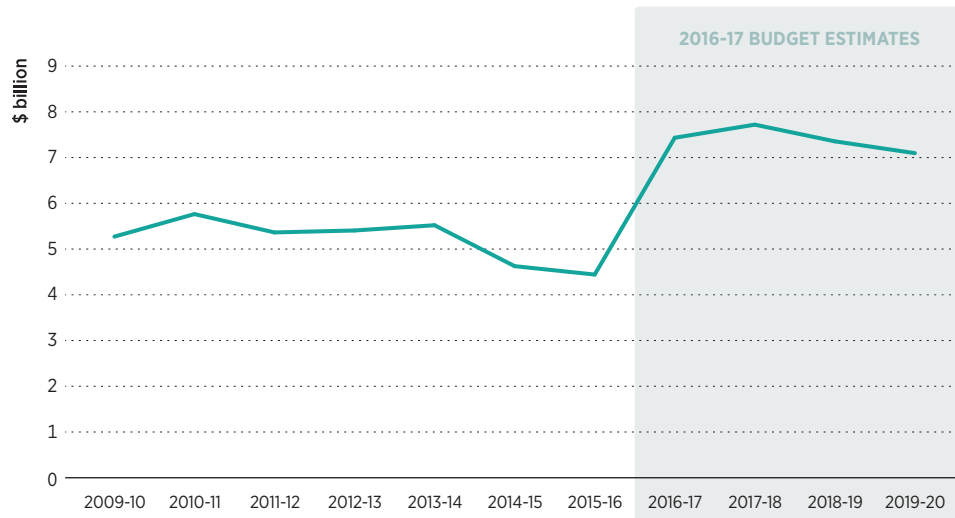
¹³⁰ *ibid.*, p.45

¹³¹ *ibid.*

¹³² Department of Treasury and Finance, *Budget Paper No.2: 2016-17 Strategy and Outlook* (2016), p.13

According to this indicator, the Government expects an average investment of \$7.4 billion on infrastructure and other physical assets between 2016-17 and 2019-20 (see Figure 3.6).

Figure 3.6 Government infrastructure investment, 2009-10 to 2019-20



Note: The 2015-16 figure is a revised estimate.

Source: Department of Treasury and Finance, *Net Infrastructure Investment* (2016). Available at <www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Other-financial-aggregates>, viewed 31 May 2016

Components of general government sector asset investment

Asset investment in Victoria is delivered in three ways:

- direct investment,¹³³ where the general government sector manages the construction of assets
- net investment through other sectors,¹³⁴ where the Government provides the funds to other sectors, particularly to the PNFC sector, to deliver the assets¹³⁵
- public private partnerships (PPPs), where the Government enters into an agreement with the private sector to finance and construct the assets on behalf of the Government.

Net direct investment

Net direct investment refers to the level of asset investment less the proceeds from asset sales. Table 3.6 shows the expected trend of net direct asset investment for the general government sector over the next four years.

¹³³ Referred to as 'purchase of non-financial assets' in the budget papers.

¹³⁴ Referred to as 'net cash flows from investments in financial assets for policy purposes' in the budget papers.

¹³⁵ The budget papers indicate that from 2015-16 onwards, this component will be negative. That is, funds *received* from investments in other sectors will outweigh funds *invested* in other sectors.

Table 3.6 Net direct asset investment, general government sector, 2015-16 to 2019-20

	2015-16 revised estimate	2016-17 Budget	2017-18 estimate	2018-19 estimate	2019-20 estimate
	(\$ million)	(\$ million)	(\$ million)	(\$ million)	(\$ million)
Net direct asset investment	3,891	6,720	6,333	6,102	5,252

Source: Department of Treasury and Finance, *Budget Paper No.5: 2016-17 Statement of Finances* (2016), pp.9, 202

The Committee notes that the general government sector's net direct investment is expected to increase by \$2.8 billion (or 72.7 per cent) between 2015-16 and 2016-17. The budget papers indicate that this net direct asset investment is expected to remain above \$6.0 billion between 2016-17 and 2018-19 and then decrease to \$5.3 billion in 2019-20.

In addition to this, it is forecast that the PNFC sector will deliver at least \$2.0 billion in net direct investment each year between 2015-16 and 2019-20.¹³⁶

Direct investment is discussed in detail in Section 7.3.1 of this report.

FINDING 24: Net direct investment for the general government sector is expected to be \$6.7 billion in 2016-17, an increase of \$2.8 billion or 72.7 per cent over the previous year. Net direct investment is anticipated to be above \$6.0 billion between 2016-17 and 2018-19, before decreasing to \$5.3 billion in 2019-20.

Net investment through other sectors

In the budget papers, this line item includes both cash inflows and outflows between the sectors. Table 3.7 shows the forecasts for net investment through other sectors between 2015-16 and 2019-20.

Table 3.7 Net investment through other sectors, 2015-16 to 2019-20

	2015-16 revised estimate	2016-17 Budget	2017-18 estimate	2018-19 estimate	2019-20 estimate
	(\$ million)	(\$ million)	(\$ million)	(\$ million)	(\$ million)
Net investment through other sectors	-54	-391	-1,556	-1,676	-1,602

Source: Department of Treasury and Finance, *Budget Paper No.5: 2016-17 Statement of Finances* (2016), pp.9, 202

The Committee notes that the budget papers indicate more cash will flow in than will flow out from 2015-16 to 2019-20. The Government expects that these 'disinvestments' in the general government sector will increase from a revised estimate of \$54 million in 2015-16 to \$391 million in 2016-17 and \$1.6 billion in 2016-17, maintaining approximately the same level over the final years of the forward estimates period.

¹³⁶ Department of Treasury and Finance, *Budget Paper No.5: 2016-17 Statement of Finances* (2016), p.46

Section 7.3.2 further discusses movements in net investment through other sectors over the forward estimates period.

FINDING 25: In relation to investment through other sectors, the budget papers indicate that more cash will flow in to the general government sector than will flow out over the next four years. The available cash is expected to be \$391 million in 2016-17 and rise to \$1.6 billion in 2019-20.

Public private partnerships

In this form of asset investment delivery, the private sector typically finances, builds and operates an asset on behalf the Government. The ownership of the asset is transferred to the Government at the conclusion of the agreement. The budget papers explain that:

The Government uses PPPs to contract with the private sector to provide infrastructure and related services. Private finance does not represent an additional funding source. The majority of PPP projects are government funded through availability payments, financed by the private sector and recognised as a finance lease in the government's accounts.¹³⁷

According to information received from the departments, there are 17 projects in operation.¹³⁸ In addition, the budget papers indicate that there are five projects under construction. They are:

- *Bendigo Hospital Redevelopment*
- *CityLink – Tulla Widening*
- *New Schools PPP Project*
- *Ravenhall Prison*
- *Victorian Comprehensive Cancer Centre.*¹³⁹

The budget papers also indicate there are four projects in the procurement stage. They are:

- *High Capacity Metro Trains (HCMT)*
- *Melbourne Convention and Exhibition Centre - Stage 2 Development*
- *Casey Hospital Expansion*
- *Western Distributor.*¹⁴⁰

There is also one project, *Melbourne Metro Tunnel*, which is in the upcoming procurement stage.¹⁴¹

¹³⁷ Department of Treasury and Finance, *Budget Paper No.4: 2016-17 State Capital Program* (2016), p.10

¹³⁸ Departmental responses to the Committee's 2016-17 Budget Estimates General Questionnaire, q.18

¹³⁹ Department of Treasury and Finance, *Budget Paper No.4: 2016-17 State Capital Program* (2016), p.11

¹⁴⁰ *ibid.*

¹⁴¹ *ibid.*

The budget papers provide a combined figure for the expenditure made by the private sector on PPP projects and other projects considered to be commercially sensitive (referred to in the budget papers as ‘PPP and other investment’).¹⁴² Table 3.8 provides the estimates for ‘PPP and other investment’ from 2015-16 to 2019-20.

Table 3.8 PPP and other investment,^(a) 2015-16 to 2019-20

	2015-16 revised estimate	2016-17 Budget	2017-18 estimate	2018-19 estimate	2019-20 estimate
	(\$ million)	(\$ million)	(\$ million)	(\$ million)	(\$ million)
PPP and other investment	620.0	1,134.7	2,962.5	2,953.4	3,469.7

(a) Includes PPP infrastructure and other commercially sensitive items

Sources: Department of Treasury and Finance, *Budget Paper No.4: 2016-17 State Capital Program* (2016), p.15; Department of Treasury and Finance, *Response to the Committee's 2016-17 Entity-specific Questionnaire*, received 1 July 2016, p.17

Table 3.8 shows that expenditure on public private partnership projects is expected to increase over the next four years, from an estimate of \$1.1 billion in 2016-17 to \$3.5 billion in 2019-20. Overall, the Government expects a total of \$11.1 billion to be spent on PPP and other investment between 2015-16 and 2019-20. This estimate is substantially higher than the previous budget estimates. Further discussion of these estimates can be found in Section 7.6.

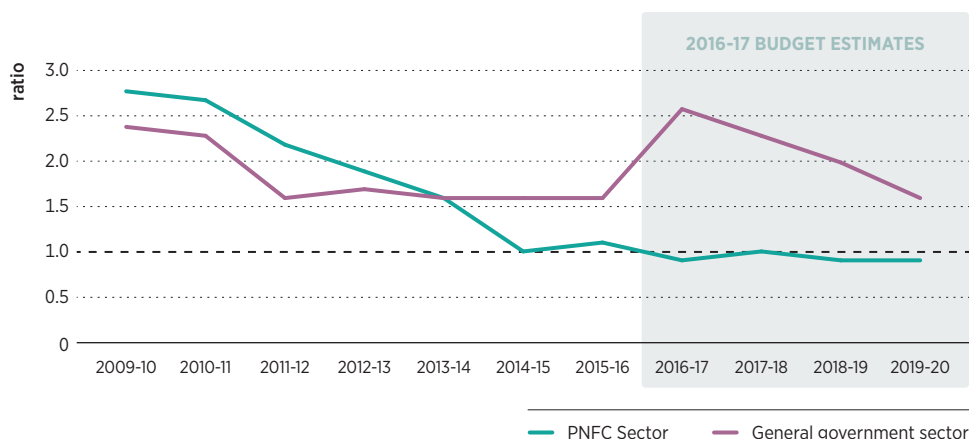
FINDING 26: The overall expenditure on public private partnership projects is expected to increase over the next four years, from an estimate of \$1.1 billion in 2016-17 to \$3.5 billion in 2019-20.

Ratio of asset creation to asset use

Figure 3.7 compares the estimated level of expenditure on assets to the amount required to maintain the current asset base (as indicated by depreciation). A ratio above 1.0 indicates that the Government is increasing the State’s infrastructure. Conversely, a ratio below 1.0 means that new asset investment is not keeping up with the decline in the value of existing assets.

142 *ibid.*, p.15

Figure 3.7 Ratio of asset creation to asset use, general government sector and PNFC sectors, 2009-10 to 2019-20



Note: The 2015-16 figure is a revised estimate.

Source: Committee calculations based on: Department of Treasury and Finance, *Consolidated Cash Flow Statement – General Government Sector* and *Consolidated Balance Sheet – General Government Sector* (2016). Available at <www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Aggregate-financial-statements>, viewed 31 May 2016; Department of Treasury and Finance, *Budget Paper No.5: 2016-17 Statement of Finances* (2016), pp.43, 46; Department of Treasury and Finance, *Financial Report*, 2009-10 to 2014-15

The Committee notes that, for the general government sector, the ratio is expected to remain above 1.5 over the forward estimates period, reaching a peak in 2016-17, in accordance with the level of investment announced by the Government. However, declining levels of asset investment in the PNFC sector mean that the ratio for the sector is anticipated to oscillate around 1.0 between 2014-15 and 2019-20, and fall below 1.0 in three of the last four estimates (2016-17, 2018-19 and 2019-20). This is discussed further in Sections 7.4 and 7.5 of this report.

FINDING 27: As indicated by depreciation, the level of general government sector asset investment is expected to be more than required to maintain the infrastructure base over the next four years. However, for the public non-financial corporations sector, the level of asset investment is expected to be less than required to maintain the asset base in three of the last four estimates over the same time period.

3.5 Key financial indicators

Expenditure sustainability – general government sector

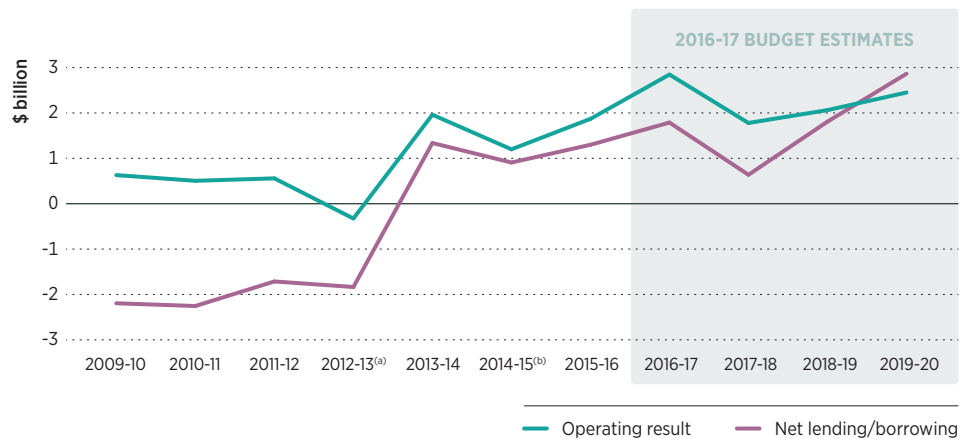
The Committee uses two measures to assess expenditure sustainability:

- the operating result (shown in Figure 3.8 for the general government sector), which compares the amount of revenue to output expenditure (see also Section 3.3.1)

- net lending/borrowing, which also measures the difference between revenue and expenditure but includes some money spent and received in relation to asset investment including PPP commitments.¹⁴³

Figure 3.8 shows the expected trend for these two indicators for the general government sector from 2009-10 to the end of the forward estimates period in 2019-20.

Figure 3.8 Operating result and net lending/borrowing, general government sector, 2009-10 to 2019-20



(a) The operating deficit in 2012-13 is a result of changes made to an official accounting standard (AASB 119) that took place after the original financial year result. Before the change in accounting standard, the result for 2012-13 was a surplus.

(b) The 2015-16 figure is a revised estimate

Source: Department of Treasury and Finance, *Consolidated Comprehensive Operating Statement – General Government Sector* (2016). Available at <www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Aggregate-financial-statements>, viewed 31 May 2016

The Committee notes the expected positive trend for the general government sector's operating surplus, averaging \$2.2 billion between 2015-16 and 2019-20. This is consistent with the Government's target discussed in Section 3.2.1. Overall, these operating surplus forecasts show the highest levels since 2013-14, where this indicator was \$1.9 billion.¹⁴⁴

In relation to the net lending/borrowing indicator, a result above zero means that the Government has more revenue than required to fund expenditure and asset investment (that is, a 'net lending' position). Conversely, a result below zero means that revenue collected by the Government (not including borrowings) is not sufficient to cover expenses and asset investment (that is, a 'net borrowing' position).

¹⁴³ This indicator includes proceeds from asset sales and direct asset investment but not net investment through other sectors. In relation to PPP liabilities, it recognises the total value of a project in the year in which it is commissioned. It does not reflect that actual payments for a PPP occur over a number of years.

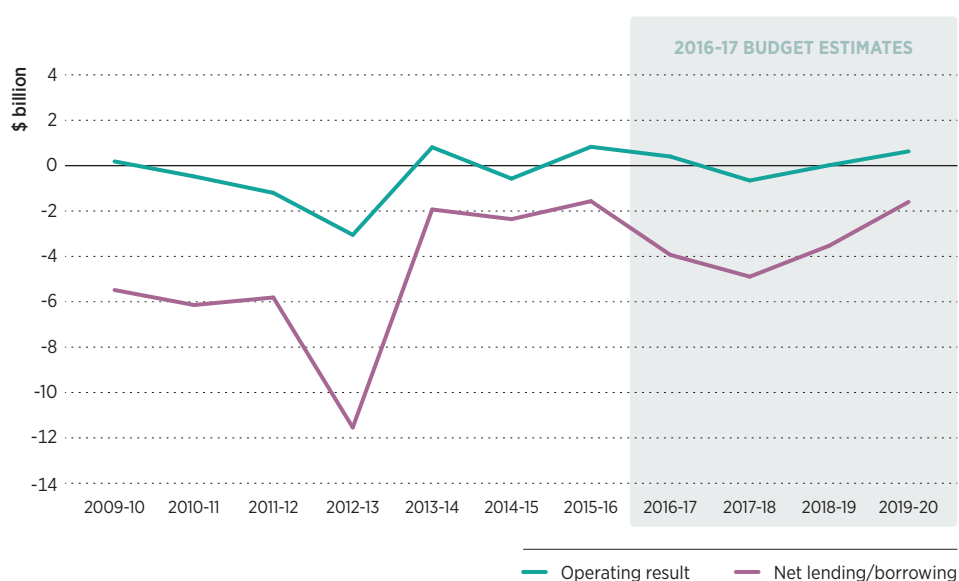
¹⁴⁴ Department of Treasury and Finance, *Consolidated Comprehensive Operating Statement – General Government Sector* (2016). Available at <www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Aggregate-financial-statements>, viewed 31 May 2016

Figure 3.8 indicates that the general government sector is expected to be in a 'net lending' position over the forward estimates period, which is consistent with steadier levels of net debt and the increasing amount of cash resources available, particularly to fund asset investment. Further discussion of asset investment and funding can be found in Chapter 7.

Expenditure sustainability – public sector as a whole

Figure 3.9 shows the same two indicators for the public sector as a whole,¹⁴⁵ which includes the three sectors (the general government sector, the PNFC and PFC sectors).

Figure 3.9 Operating result and net lending/borrowing, public sector as a whole, 2009-10 to 2019-20



Note: The 2015-16 figure is a revised estimate.

Source: Department of Treasury and Finance, *Consolidated Comprehensive Operating Statement – Whole of State* (2016). Available at <www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Aggregate-financial-statements>, viewed 31 May 2016

The budget papers forecast that the operating result for the public sector will peak in 2015-16 at a surplus of \$806.8 million and then decrease to its lowest level over the forward estimates period in 2017-18 when it expects a deficit of \$695.5 million. The operating result then increases over the last two years of the forward estimates period reaching a surplus of \$604.1 million by 2019-20. Differentiating each sector's operating result from 2015-16 to 2019-20, the general government sector is expected to have an average surplus of \$2.2 billion,¹⁴⁶ while both the PNFC and PFC sectors are expected to have an average deficit of \$373 million¹⁴⁷ and \$966 million¹⁴⁸ respectively.

¹⁴⁵ Referred to as the 'State of Victoria' in the budget papers.

¹⁴⁶ Department of Treasury and Finance, *Budget Paper No.5: 2016-17 Statement of Finances* (2016), p.6

¹⁴⁷ *ibid.*, p.43

¹⁴⁸ *ibid.*, p.59

However, as indicated in Section 3.3, the operating result does not include ‘other economic flows’, which are particularly relevant for the PFC sector. The Victorian Auditor-General explains:

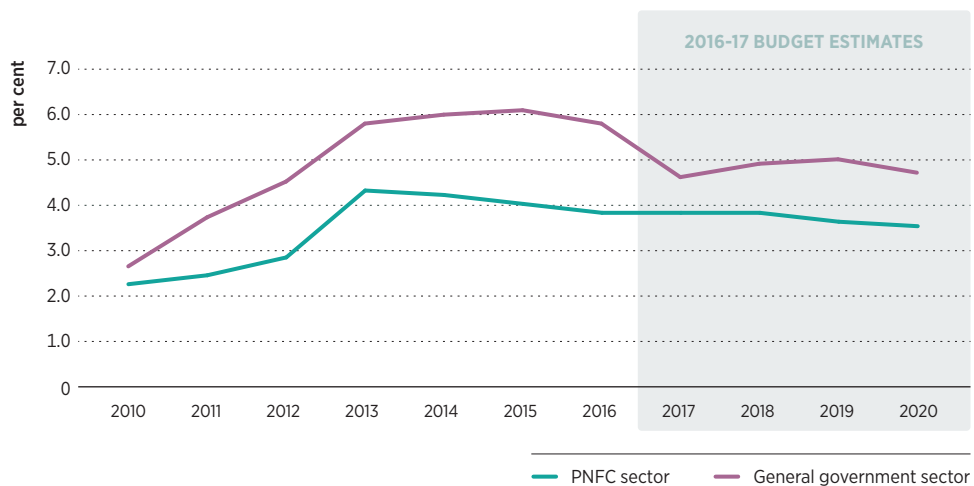
The net result from transactions shows the surplus or deficit the state has made from its operational revenue and expenditure for the year. This includes revenue and expenditure attributable to government policy, but excludes changes in values of assets and liabilities due to market fair value re-measurements—such as financial investments and non-financial fixed asset.¹⁴⁹

Figure 3.9 also shows that the public sector as a whole is expected to maintain a net borrowing position over the forward estimates period, following a similar pattern to the operating result. This indicator is expected to reach its highest net borrowing position at \$5.0 billion in 2017-18 and then improve over the last two years of the forward estimates period to the net borrowing position of \$1.7 billion in 2019-20.

Net debt sustainability – non-financial public sector

The non-financial public sector is comprised of the general government sector and the PNFC sector. Figure 3.10 shows the estimates of net debt as a proportion of GSP for both components of the non-financial public sector from June 2010 to June 2020. This indicator expresses what each sector owes in terms of the total value of goods and services produced in Victoria in the year.

Figure 3.10 Net debt as a proportion of gross state product, general government sector and PNFC sector, 30 June, 2010 to 2020



Note: The 2015-16 figure is a revised estimate
 Source: Committee calculations based on: Department of Treasury and Finance, *Consolidated Comprehensive Operating Statement – General Government Sector* (2016). Available at <www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Aggregate-financial-statements>, viewed 31 May 2016; Department of Treasury and Finance, *Macroeconomic Indicators* (2016). Available at <www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Macroeconomic-indicators>, viewed 31 May 2016

149 Victorian Auditor-General's Office, *Auditor-General's Report on the Annual Financial Report of the State of Victoria, 2014-15* (2015), p.19

The Government expects that general government sector net debt as a proportion of GSP will decrease from 6.2 per cent in June 2015 to 4.7 per cent in June 2017, and increase to 5.1 per cent in June 2019 before decreasing again in the last year of the forward estimates period to 4.8 per cent.

This result is consistent with the Government's target for general government net debt (see Table 3.2). Nonetheless, the Committee notes these results are primarily driven by GSP growing at a faster rate than net debt over that period of time.

This indicator also shows a negative trend for the PNFC sector since 2013. Net debt for the PNFC sector reached 4.6 per cent of GSP in June 2014, and the budget papers forecast that this will gradually decrease to 3.6 per cent in June 2020. As with the general government sector, this trend is primarily driven by the expectation that GSP will grow at a faster rate than the sector's net debt.

Net debt is discussed further in Chapter 5.

3.6 Budget initiatives

3.6.1 Output initiatives

The 2016-17 Budget released new output initiatives with an estimated cost of \$6.8 billion between 2016-17 and 2019-20.¹⁵⁰ This amount compares with \$9.2 billion announced in the 2015-16 Budget.¹⁵¹ Additionally, output initiatives announced in the *2015-16 Budget Update* totalled \$244.7 million.¹⁵²

According to the budget papers, the Government plans to fund these initiatives from:

- funding from reprioritisation of existing resources, which draw on funding previously allocated to departments for other purposes
- adjustments or contingencies, which refer to the use of provisions included in previous budgets that had not been identified at the time when those estimates were made
- savings or expenditure reduction initiatives, which refer to programs aimed at reducing expenses, either by delivering services more efficiently or by reducing the services delivered.¹⁵³

Table 3.9 shows the impact of the output initiatives released in the 2016-17 Budget.

¹⁵⁰ Department of Treasury and Finance, *Budget Paper No.3: 2016-17 Service Delivery* (2016), p.5

¹⁵¹ Calculations based on Department of Treasury and Finance, *Budget Paper No.3: 2015-16 Service Delivery* (2015), p.1

¹⁵² Department of Treasury and Finance, *2015-16 Budget Update* (2015), Appendix A

¹⁵³ Department of Treasury and Finance, *Budget Paper No.2: 2016-17 Strategy and Outlook* (2016), p.51

Table 3.9 Impact of the new output initiatives in the 2016-17 Budget

	2016-17 Budget	2017-18 estimate	2018-19 estimate	2019-20 estimate
	(\$ million)	(\$ million)	(\$ million)	(\$ million)
Cost of new output initiatives	2,318	1,729	1,320	1,227
Funded by				
• reprioritisation of existing resources	626	509	464	337
• use of contingencies ^(a)	482	506	388	337
• expenditure reduction initiatives	26	18	20	21
Net impact	1,183	696	448	532

(a) Contingencies are allowances made in previous budget estimates for the cost of initiatives which were to be released in future budgets. New initiatives can be funded without impacting on the total expense estimates by reducing the amount of contingencies. This figure includes amounts listed as 'adjustments' and 'contingency offset for new policy' in the budget papers.

Note: Figures may not add up due to rounding errors.

Source: Committee calculations based on Department of Treasury and Finance, *Budget Paper No.2: 2016-17 Strategy and Outlook* (2016), p.51

Further discussion of new output initiatives announced in the 2016-17 Budget can be found in Section 6.4 of this report.

3.6.2 Asset initiatives

The budget papers include 119 new asset initiatives.¹⁵⁴ The total estimated investment (TEI) of these projects is approximately \$12.4 billion.¹⁵⁵ These new projects are expected to add \$1.9 billion to total estimated general government investment for 2016-17.¹⁵⁶ By contrast, the TEI of the new projects contained in the 2015-16 Budget was between \$19.0 and \$22.0 billion.¹⁵⁷

In the *2015-16 Budget Update*, the Government also released asset initiatives with a TEI of \$186 million.¹⁵⁸

Funding for major asset projects released in the 2016-17 Budget includes \$5.5 billion for the *Western Distributor* project (which includes \$400 million for the Monash Freeway Upgrade), \$1.3 billion for regional rail services and infrastructure upgrades and \$1.9 billion to expand and upgrade the metropolitan rail network.¹⁵⁹

¹⁵⁴ Department of Treasury and Finance, *Budget Paper No.3: 2016-17 Service Delivery* (2016), Chapter 1

¹⁵⁵ *ibid.*, p.5

¹⁵⁶ *ibid.*

¹⁵⁷ Department of Treasury and Finance, *Budget Paper No.2: 2015-16 Strategy and Outlook* (2015), p.60

¹⁵⁸ Department of Treasury and Finance, *2015-16 Budget Update* (2015), Appendix A

¹⁵⁹ Department of Treasury and Finance, *Budget Paper No.2: 2015-16 Strategy and Outlook* (2015), p.55

Regarding the funding of these asset initiatives, the budget papers state that:

The Government is ensuring that its investment in infrastructure is financially sustainable. The Government's infrastructure program is fully funded, and there is capacity for additional investment in the future through prudent borrowing and fair Commonwealth contributions to the costs of Victorian infrastructure.

Net debt is projected to be 4.8 per cent of GSP at June 2020. The Government will consider opportunities to leverage its strong balance sheet and take advantage of current low interest rates, with prudent increases in debt to invest in productivity-enhancing infrastructure, consistent with the State's triple-A credit rating.

Maintaining net debt at around 6 per cent of GSP will provide capacity for additional capital investment by around \$16 billion over the next 10 years to fund further productivity enhancing infrastructure projects ...¹⁶⁰

Detailed discussion of new asset initiatives can be found in Section 7.3.1 of this report, while Sections 7.3.2 to 7.3.7 examines the funding of these initiatives.

3.6.3 Service delivery and targets

Along with the details of expenditure for 2016-17, the budget papers also contain details of the outcomes the Government intends to achieve via its expenditure and how it intends to achieve these outcomes. This is presented in the form of departmental objectives and performance measures.

Departments have the opportunity to make changes to departmental objectives and their indicators at the time of the budget.¹⁶¹ Changes are set out in the departmental performance statements, which are included in the budget papers.¹⁶²

In 2016-17, there were 35 objectives for departments set in the budget papers, the same number as for 2015-16. There were 135 departmental objective indicators that supported these objectives, an increase of 15 indicators from 2015-16.¹⁶³

The 2016-17 budget papers include 1,028 non-cost performance measures, a net gain of 27 from the 2015-16 budget papers of 1,001 non-cost performance measures. There are 47 new performance measures that relate to new funding for activities or new information about existing activities.¹⁶⁴

¹⁶⁰ *ibid.*, p.8

¹⁶¹ Department of Treasury and Finance, *Performance Management Framework for Victorian Government Departments* (2016), p.16

¹⁶² Department of Treasury and Finance, *Budget Paper No.3: 2016-17 Service Delivery* (2016), Chapter 2

¹⁶³ Department of Treasury and Finance, *Budget Paper No.3: 2015-16 Service Delivery* (2015), Chapter 2; Department of Treasury and Finance, *Budget Paper No.3: 2016-17 Service Delivery* (2016), Chapter 2

¹⁶⁴ *ibid.*

Following a recommendation in the *Committee's Report on the 2015-16 Budget Estimates*, 17 performance measures that had been proposed to be discontinued were reinstated in the 2016-17 Budget. For 2016-17, there are 65 performance measures that are proposed to be discontinued, and in Chapter 9 the Committee recommends that 15 should be reinstated.

Chapter 9 also contains further discussion on the performance measurement system.

3.6.4 Progress of election commitments

In its *Report on the 2015-16 Budget Estimates*, the Committee examined the various output and asset commitments the Government made prior to the 2014 Victorian State election. While the Committee determined that most election commitments had been fully or partly funded in the 2015-16 Budget, a number of commitments had yet to be funded at that time.

The Committee has examined the 2016-17 budget papers in order to provide an update on the output and asset initiatives that were originally outlined in the Government's election commitments. The Committee found that of the 14 output commitments that were classified as 'yet to be funded' in 2015-16:

- eight commitments have been fully funded
- one commitment has been funded as part of an output initiative, but the specific amount is not specified in the budget papers
- one commitment is related to funding that has been provided, but whether the funding is intended to fulfil the commitment is not clear
- four commitments are yet to be funded.

The Committee found in terms of the 25 asset commitments that remained either partially or yet to be funded in 2015-16:

- 18 commitments have been fully funded
- one commitment is dependent on the completion of another project
- one commitment has been partially funded
- three commitments remain yet to be funded
- two for which funding remained unclear at the time of the 2016-17 Budget.

Chapter 8 contains further discussion on the Government's election commitments.

3.7 Structure of the 2016-17 budget papers

The Department of Treasury and Finance informed the Committee that:

The core 2016-17 budget papers generally retain the structure of recent years. The most substantial new feature is the addition of the 'Medium Term Asset Investment Strategy' in Budget Paper No. 2 to outline the strategy to fund and build the assets needed to meet growth in the demand for services over the next decade.¹⁶⁵

In line with the 2015-16 Budget, there are five core budget papers for 2016-17. These are:

- the Treasurer's speech (Budget Paper No.1)
- an outline of the budget strategy and outlook (Budget Paper No.2)
- details of new initiatives released in this budget; details of each department's mission statement, objectives, outputs and performance measures; and a discussion of local government financial relations (Budget Paper No.3)
- information about infrastructure and other asset projects underway in the public sector, including both new and existing projects (Budget Paper No.4)
- estimated financial statements with detailed notes for the general government sector; financial statements for the other sectors and for departments; and details and commentary on a variety of aspects of the State's finances (Budget Paper No.5).

There is also a Budget Overview document and one budget information paper which focuses on 'rural and regional' aspects of the Budget.

In response to the Committee's questionnaire, the Department of Treasury and Finance expressed its view that, 'There are no substantial modifications on discontinuations to the core 2016-17 budget papers'.¹⁶⁶

The Committee conducted its own assessment of changes to the budget papers, which can be seen in Appendix A3.2.

The changes made to the 2016-17 budget papers from the previous year mainly reflect the Government's policy priorities. These include:

- the inclusion of a section in Budget Paper No.2 on the Government's implementation of the recommendations from the *Royal Commission into Family Violence*¹⁶⁷
- additional commentary throughout the budget papers on the Government's asset, infrastructure and investment strategy.¹⁶⁸

¹⁶⁵ Department of Treasury and Finance, *Response to the Committee's 2016-17 Budget Estimates General Questionnaire*, received 4 May 2016, p.31

¹⁶⁶ *ibid.*

¹⁶⁷ Department of Treasury and Finance, *Budget Paper No.2: 2016-17 Strategy and Outlook* (2016), p.10

¹⁶⁸ *ibid.*, Chapter 3; Department of Treasury and Finance, *Budget Paper No.5: 2016-17 Statement of Finances* (2016), pp.72-3; Department of Treasury and Finance, *Budget Paper No.4: 2016-17 State Capital Program* (2016), Chapter 1

The Committee welcomes the addition of the section in Budget Paper No. 5 entitled ‘New infrastructure projects with private sector involvement’, outlining the PPP projects greater than \$5 million that are expected to be contracted in the 2016-17 financial year. There is further discussion in Section 7.3.7 on transparency and auditing of PPP projects and the inclusion of this new section in the budget papers is another positive step towards greater accountability for this form of government infrastructure investment.

The Committee also notes the removal of the section in Chapter 1, Budget Paper No.3 in the 2015-16 budget papers that summarised the funding of election commitments.¹⁶⁹ The Committee has recommended previously that future budget papers include a section that acquits election commitments, and the Government supported this recommendation in principle, noting that it intended to include this in future budget papers.¹⁷⁰ While this did not occur for 2016-17, the Committee understands that the timing of the Government response to its recommendation may have been too late to ensure that this was included in the most recent budget papers. The Committee anticipates such a section in the 2017-18 budget papers. This is discussed further in Section 8.4.

Overall, the Committee considers that many of the changes to the budget papers are improvements. However, instances where the Committee believes that changes to the budget papers have reduced transparency are discussed further in the relevant chapters of this report (such as Chapters 4, 6 and 7 as well as Section 3.2.1 of this chapter).

FINDING 28: The core budget papers in 2016-17 present only a small number of changes compared to the 2015-16 budget papers. Notable additions include:

- A discussion of the Government’s implementation of the recommendations from the *Royal Commission into Family Violence*
- Additional commentary throughout the budget papers on the Government’s asset, infrastructure and investment strategy
- A section outlining the public private partnership projects greater than \$5 million that are expected to be contracted in the 2016-17 financial year.

¹⁶⁹ Department of Treasury and Finance, *Budget Paper No.3: 2015-16 Service Delivery* (2015), pp.108-111

¹⁷⁰ Public Accounts and Estimates Committee, *Report on the 2015-16 Budget Estimates* (2015), Recommendation 58, p.197; Victorian Government, *Government Responses to the Recommendations of Public Accounts and Estimates Committee’s Report on the 2015-16 Budget Estimates*, tabled 4 May 2016, p.19

4 Revenue

4.1 Introduction

This chapter examines the estimates for revenue for the general government sector in the 2016-17 Budget. It contains a discussion of the Government's strategy for revenue and an analysis of the estimates for 2016-17 across the various revenue streams including own-source revenue, grants from the Commonwealth Government and dividends paid to the general government sector from the public financial corporations (PFC) and public non-financial corporations (PNFC) sectors. The chapter concludes with an examination of departmental revenue in terms of funding that is derived under parliamentary control via the appropriations process, and the level of revenue departments are able to raise independently.

4.2 Government strategy

The Treasurer made the following statement to the Committee regarding the level of revenue growth in 2016-17 and over the forward estimates period:

The global economy remains in a period of considerable uncertainty and it is critical that we have the flexibility to respond to the unexpected. The 2016-17 budget projects average growth in revenue over the estimates of 3.4 per cent, which exceeds expense growth of 3.3 per cent.¹⁷¹

In addition to the set of medium and long-term financial measures and targets set by the Government (outlined in Section 3.2.1), there is also a set of three 'sustainability objectives' outlined in Budget Paper No.5. One of these relates to levels of expenditure and revenue growth, stating:

- expenditure growth [will be] no greater than revenue growth, on average, over the budget and forward estimates.¹⁷²

There is inconsistency in the way in which growth rates have been calculated within the 2016-17 budget papers. The calculation of the growth rates in relation to the sustainability objective is discussed further in Section 4.3.

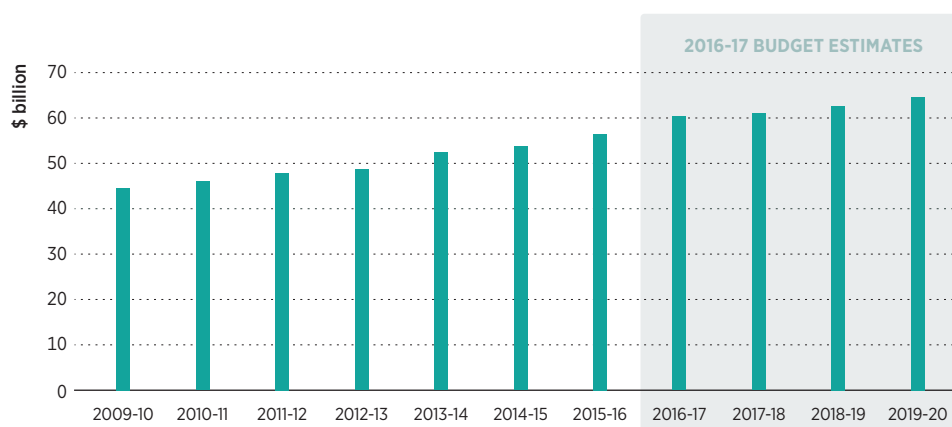
171 Hon. Tim Pallas MP, Treasurer, *2016-17 Budget Estimates Transcript of Evidence*, 6 May 2016, p.3

172 Department of Treasury and Finance, *Budget Paper No.5: 2016-17 Statement of Finances* (2016), p.16

4.3 Revenue estimates

The budget papers estimate total revenue for 2016-17 to be \$60.4 billion. This is a 6.9 per cent increase on the revised budget estimate for 2015-16. The budget papers anticipate that revenue will grow by an average of 3.4 per cent over the forward estimates.¹⁷³ The expected revenue growth rate of 3.4 per cent is above the expenditure growth rate of 3.3 per cent, in line with the Government's stated sustainability objective (Section 4.2).

Figure 4.1 General government sector total revenue, 2009-10 to 2019-20



Note: The 2015-16 figure is a revised estimate.

Source: Department of Treasury and Finance, *Consolidated Comprehensive Operating Statement – General Government Sector* (2016). Available at <www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Aggregate-financial-statements>, viewed 12 July 2016

Calculation of the annual growth rates in the 2016-17 budget papers

The average annual revenue growth rate of 3.4 per cent reported in the budget papers has been derived by starting the revenue growth calculation from 2015-16 to the end of the forward estimates period in 2019-20. Similarly, the expenditure growth rate quoted in the budget papers of 3.3 per cent is also calculated from 2015-16 to 2019-20. In other parts of the budget paper commentary, the Department of Treasury and Finance has used 2016-17 (the budget year) to 2019-20 to calculate average growth.¹⁷⁴

If the revenue growth rate had been calculated from 2016-17 (the budget year) to 2019-20, it would be 2.3 per cent and if the expenditure growth rate was also calculated from 2016-17 to 2019-20, it would be 2.6 per cent.

The calculation used in the 2016-17 budget papers shows that the Government will meet its sustainability objective of 'expenditure growth no greater than revenue growth, on average, over the budget and forward estimates'.¹⁷⁵ However,

¹⁷³ *ibid.*, p.143

¹⁷⁴ For example, commentary for motor vehicle taxes (Department of Treasury and Finance, *Budget Paper No.5: 2016-17 Statement of Finances* (2016), p.151)

¹⁷⁵ Department of Treasury and Finance, *Budget Paper No.5: 2016-17 Statement of Finances* (2016), p.16

if the calculation of the growth rates for both revenue and expenditure had been made starting from the budget year (2016-17) instead of the previous year (2015-16), the Government would not meet this sustainability objective.

FINDING 29: The budget papers do not use consistent time frames when calculating growth rates over the forward estimates period.

FINDING 30: The average annual revenue growth rate of 3.4 per cent reported in the budget papers is calculated from 2015-16 to 2019-20. If the average annual revenue growth rate were calculated from 2016-17 to 2019-20, it would be 2.3 per cent.

FINDING 31: The average annual expenditure growth rate of 3.3 per cent reported in the budget papers is calculated from 2015-16 to 2019-20. If the average annual expenditure growth rate were calculated from 2016-17 to 2019-20, it would be 2.2 per cent.

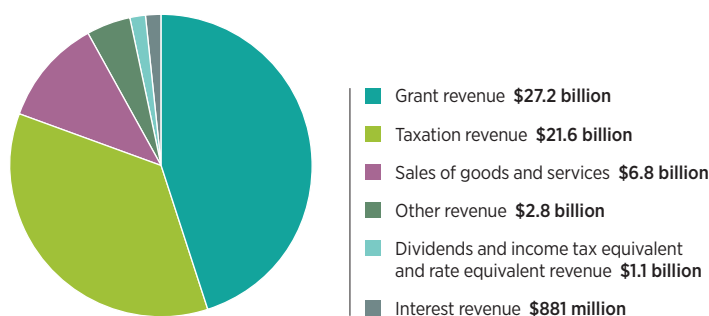
FINDING 32: The Government meets its sustainability objective of ‘expenditure growth no greater than revenue growth, on average, over the budget and forward estimates’ using a calculation of average annual growth starting from 2015-16 to 2019-20. If the calculation of average annual growth had started in 2016-17 (the budget year) to 2019-20, expenditure growth would be greater than revenue growth and the Government would not meet this sustainability objective.

RECOMMENDATION 2: The Department of Treasury and Finance use a consistent time frame to calculate average annual growth rates over the forward estimates period.

4.3.1 Revenue estimates by category

The largest portion of revenue is derived from grants, comprising \$27.2 billion or 45.0 per cent of total revenue. State taxes (such land transfer duty, land tax and payroll tax) are \$21.6 billion, or 35.8 per cent, followed by sales of goods and services (\$6.8 billion or 11.3 per cent), other revenue (2.8 billion or 4.6 per cent), dividends (\$1.1 billion or 1.8 per cent) and interest revenue (\$881 million or 1.5 per cent).¹⁷⁶

Figure 4.2 Revenue estimates by category, 2016-17



Source: Department of Treasury and Finance, *Budget Paper No.5: 2016-17 Statement of Finances* (2016), pp.6, 27

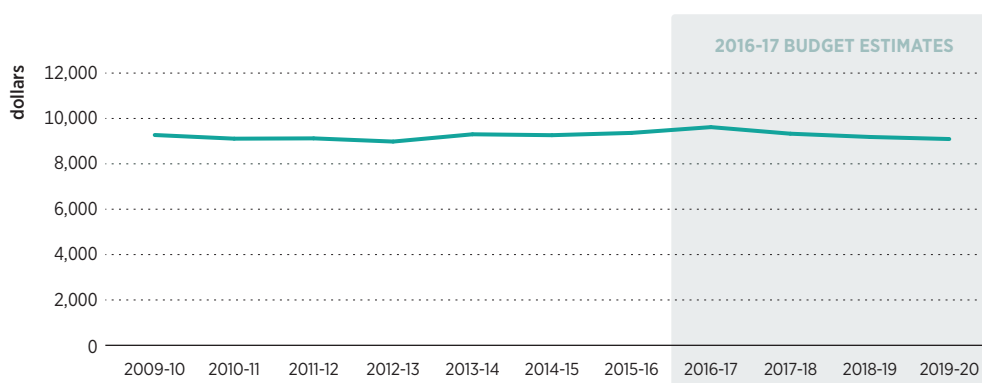
176 *ibid.*, pp.6, 27

4.3.2 Revenue in real terms per Victorian

Revenue per Victorian is expected to be \$9,810 for 2016-17. This is expected to fall slightly to \$9,738 per Victorian in 2017-18, before further decreasing to \$9,275 by 2019-20.

A high population growth rate puts pressure on the revenue per Victorian indicator. However, the high estimates for revenue via property based taxes made in this year's budget together with low projected inflation means that the real revenue per Victorian figure will fall gradually over the forward estimates period.

Figure 4.3 Revenue in real terms per Victorian,^(a) general government sector, 2009-10 to 2019-20



(a) Expressed in 2016-17 prices

Source: Committee calculations based on: Department of Treasury and Finance, *Consolidated Comprehensive Operating Statement – General Government Sector* (2016). Available at <www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Aggregate-financial-statements>, viewed 19 July 2016; Department of Treasury and Finance, *Macroeconomic Indicators* (2016). Available at <www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Macroeconomic-indicators>, viewed 19 July 2016

FINDING 33: Revenue per Victorian is expected to be \$9,810 for 2016-17 and fall to \$9,275 by 2019-20.

4.4 Revenue initiatives in the 2016-17 Budget

The budget papers outlined a series of revenue initiatives for 2016-17. The major revenue raising initiatives are:

- an increase in the *Land Transfer Duty Surcharge on Foreign Buyers of Residential Property*. The surcharge was first introduced in the 2015-16 Budget, and rises from 3 per cent to 7 per cent of property value, effective from 1 July 2016¹⁷⁷
- the *Brown Coal Royalty*, which introduces a threefold increase in the brown coal royalty rate, effective from 1 January 2017¹⁷⁸

¹⁷⁷ Department of Treasury and Finance, *Budget Paper No.3: 2016-17 Service Delivery* (2016), p.116

¹⁷⁸ *ibid.*

- the *State Revenue Office [SRO] Land Tax Compliance Program*, a series of programs aimed at achieving greater compliance across various aspects of land tax collection¹⁷⁹
- the *Absentee Landowner Surcharge*, providing an increase in the existing annual surcharge from 0.5 per cent to 1.5 per cent commencing from the 2017 land tax year.¹⁸⁰

Taxation relief initiatives announced in the 2016-17 Budget include:

- two initiatives regarding payroll tax changes that include increasing the tax free threshold to \$650,000 by 2019-20 and an exemption for wages of displaced apprentices and trainees¹⁸¹
- the extension of the *Land Tax Exemption for Primary Production Land in Urban Zone* to land owned by certain family trusts.¹⁸²

4.4.1 Revenue initiatives

Revenue initiatives related to foreign buyers and owners of property

There are two revenue initiatives in the 2016-17 Budget related to foreign buyers and owners of property. These are:

- the *Land Transfer Duty Surcharge on Foreign Buyers of Residential Property*
- the *Absentee Owner Surcharge*.

These two initiatives were introduced by the Government in 2015-16.¹⁸³ As part of the 2016-17 Budget, the surcharge rate for the *Land Transfer Duty Surcharge on Foreign Buyers of Residential Property* will more than double from 1 July 2017, increasing from 3 per cent to 7 per cent. The budget estimates indicate that this initiative will add \$53.0 million to revenue for 2016-17 and \$321.0 million over the forward estimates period.¹⁸⁴

Changes made to the *Absentee Owner Surcharge* as part of the 2016-17 Budget will see the land tax surcharge paid by landowners who do not ordinarily reside in Australia increase from 0.5 per cent to 1.5 per cent, starting from the 2017 land tax year.¹⁸⁵ The initiative is expected to raise \$28.0 million in 2016-17 and \$84.0 million over the forward estimates period.¹⁸⁶

179 *ibid.*, p.117

180 *ibid.*, p.116

181 *ibid.*, p.117

182 *ibid.*, p.116

183 Department of Treasury and Finance, *Budget Paper No.3: 2015-16 Service Delivery* (2015), p.104

184 Department of Treasury and Finance, *Budget Paper No.3: 2016-17 Service Delivery* (2016), p.116

185 *ibid.*

186 *ibid.*

The *Land Transfer Duty Surcharge on Foreign Buyers of Residential Property* initiative is based on property sales, and the budget papers anticipate a relative correction in property market in 2016-17 (see Section 2.8). As a result of this, revenue related to property sales such as land transfer duty is expected to decrease slightly for 2016-17 (see also Section 4.5.1). However, revenue from the *Land Transfer Duty Surcharge on Foreign Buyers of Residential Property* is estimated to increase by 66.0 per cent between 2016-17 and 2017-18, when overall land transfer duty is estimated to grow by 3.2 per cent over the same period.¹⁸⁷

The Treasurer explained to the Committee:

The Foreign Investment Review Board [FIRB] annual report for 14-15... shows that foreign investment in residential property continues to be strong, with a total of \$26 billion of investment in Victorian real estate approved in 14-15, compared to \$14 billion in the preceding financial year.

...

According to the National Australia Bank survey data, foreign demand for new dwellings in Victoria continued after the surcharge was introduced, and certainly we are on trend to get the revenue projections that we put in the 15-16 budget, so there has been no demonstrable impact upon demand.¹⁸⁸

The latest available data (2014-15) from the FIRB at the national level indicates just under half of all foreign investment approvals (in terms of value) were made for the real estate sector (\$94.9 billion out of \$194.6 billion in approvals or 49.8 per cent).¹⁸⁹ China accounted for the largest number and proportion of overall national approvals (65.7 per cent), and \$24.3 billion or 52.3 per cent of the \$46.5 billion total of Chinese approvals were for real estate.¹⁹⁰

The FIRB data also indicates that there were 16,775 approvals made by the FIRB for proposed investment in real estate in Victoria, or 44.4 per cent of the national figure.¹⁹¹ Figure 4.4 demonstrates how attractive Victorian property, and residential property in particular, has been to foreign investors with \$20.6 billion of investment being made in yet-to-be-developed residential construction projects alone.

FINDING 34: At the national level, just under half of the \$194.6 billion in foreign investment approvals for 2014-15 were for the real estate sector. China accounted for the largest number and proportion (65.7 per cent) of approvals nationally and over half of these approvals were for real estate.

FINDING 35: Victoria attracted the highest level of foreign investment for residential real estate of all the Australian states in 2014-15.

¹⁸⁷ *ibid.*; Department of Treasury and Finance, *Budget Paper No.5: 2016-17 Statement of Finances* (2016), p.145

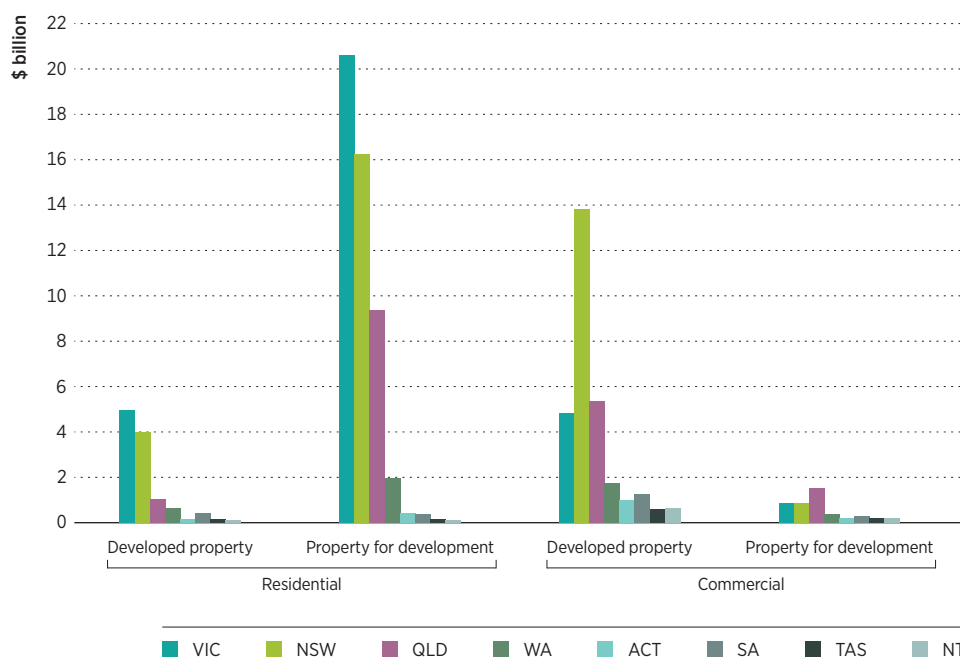
¹⁸⁸ Hon. Tim Pallas MP, Treasurer, *2016-17 Budget Estimates Transcript of Evidence*, 6 May 2016, p.11

¹⁸⁹ Foreign Investment Review Board, *Annual Report 2014-15*, p.35

¹⁹⁰ *ibid.*

¹⁹¹ *ibid.* p.33

Figure 4.4 State and Territory distribution of proposed foreign investment in residential real estate by industry subtype, 2014-15



Source: Foreign Investment Review Board, *Annual Report 2014-15*, p.33

In its recent report into the growth of apartment construction in Australia, the Reserve Bank of Australia (RBA) noted:

Industry contacts have often reported that many foreign buyers, especially those who reside in East Asia, have additional motivations for buying apartments in Australia. It is commonly reported that foreign buyers purchase Australian property to diversify their wealth and intend to hold the property for a long period. Contacts also suggest that foreign buyers' motivations can include the prospect of future migration, providing housing for children while they study in Australia, or acquiring holiday apartments. The interest from foreign buyers of property, particularly those from Asia, is not unique to Australia; such buyers are also active in the property markets in other countries, such as the United States, the United Kingdom, Canada and New Zealand. Other features that have been cited as attracting foreign buyers include the lower prices of apartments in Australia in recent years relative to major cities in some other countries (particularly following the depreciation of the Australian dollar), geographic proximity to Asia and a stable political and regulatory environment.¹⁹²

The RBA also observed that 'The net impact from foreign buyers on housing demand will depend on the relative mix of those buyers who plan to occupy their dwelling (or leave it vacant) and those who plan to rent out their property'.¹⁹³ Thus the impact of the current high level of apartment construction on increasing overall residential dwelling stock and meeting the demand for housing as a result of strong population growth rates is unclear (see Section 2.8).

¹⁹² Reserve Bank of Australia, *The Growth of Apartment Construction in Australia*, report prepared by Michael Shoory, June 2016, p.22

¹⁹³ *ibid.*

The Treasurer explained the attractiveness of the current Victorian property market to foreign investors in the following terms to the Committee:

... if you take into account the depreciation of the dollar, it was not so many years back that we had parity with the US dollar; we are now seeing quite considerable reduction in the Australian dollar, and of course on the back of the recent drop in interest rates again by the Reserve Bank, we have seen a further drop down. I have got to say that the depreciation in the Australian dollar is a good thing for the Victorian economy, but you do not want to have too much of a good thing; I think there is a point at which we would like to see that level out. But there is no doubt that foreign purchasers have been advantaged in the marketplace as a consequence of that. So low interest rates, low dollar, and the continuing strength of particularly the inner metropolitan Melbourne property prices I think have meant that there is a substantial uplift for foreign purchasers...¹⁹⁴

FINDING 36: Risks to the budget revenue estimates for the *Land Transfer Duty Surcharge on Foreign Buyers of Residential Property* include any increase in the value of the Australian dollar, increases in interest rates and any possible considerable fall in inner Melbourne property prices.

Brown Coal Royalty

The *Brown Coal Royalty* initiative raises the royalty rate levied on the production of brown coal, and is paid by the companies that own Victoria's brown coal mines located in Loy Yang, Hazelwood and Yallourn. The royalty rate has been increased threefold¹⁹⁵ and is anticipated to raise \$36.0 million in 2016-17, and \$72.0 million across every subsequent year of the forward estimates period.¹⁹⁶ The Minister for Energy and Resources explained to the Committee that the increase in Victoria's royalty rate means the levy is now on par with coal royalty rates charged by other states:

The last time we had a review of the royalties for coal in this state was in 2006. Since that period other states along the eastern seaboard actually reviewed theirs and increased them. So New South Wales and Queensland, both states, in 2012 did a review and increased their coal royalties.

It is very important also for us to remember that royalties are paid to access, use and extract resources that are managed and that are owned by the state, and that is very important on behalf of the community. We know that the rate of the coal royalty that has been increased, certainly, will bring Victoria into the broad range of what exists at the moment, what applies at the moment, in New South Wales and Queensland.¹⁹⁷

Further to this, the Premier made the following statement regarding the increase in the brown coal royalty rate to the Committee:

¹⁹⁴ Hon. Tim Pallas MP, Treasurer, *2016-17 Budget Estimates Transcript of Evidence*, 6 May 2016, p.12

¹⁹⁵ Increasing from 7.6 cents per gigajoule of energy to 22.8 cents per gigajoule.

¹⁹⁶ Department of Treasury and Finance, *Budget Paper No.3: 2016-17 Service Delivery* (2016), p.116

¹⁹⁷ Hon. Lily D'Ambrosio MP, Minister for Energy and Resources, *2016-17 Budget Estimates Transcript of Evidence*, 20 May 2016, p.7

... we make no apology for extremely profitable companies who have no justification in passing on any of these imposts to anyone. We make no apology for making sure that our natural resources that are owned by all Victorians, that a fair price is paid for them, bringing in line with other states the amount of coal royalty that is paid.¹⁹⁸

The Committee heard in the course of the public hearings that ‘there will be virtually no impact on consumers’, and that ‘if the coal royalty increases ... were passed on in full..., it would represent less than \$2 per household per year’.¹⁹⁹ To put the cost in other terms to be paid by the consumer, ‘... the net cost upon average bills, consumer bills, is 0.18 of 1 per cent’.²⁰⁰

State Revenue Office Land Tax Compliance Program

The *State Revenue Office Land Tax Compliance Program* revenue initiative is estimated to raise \$45.1 million in 2016-17 and \$163.5 million over the forward estimates period.²⁰¹ The budget papers indicate that the focus of the initiative includes:

...compliance programs involving the land tax principal place of residence exemption, foreign purchaser additional duty, absentee owner surcharge, undeclared changes in the composition of business partnerships that own land, and land held in undeclared trusts. Anomalies identified will be further investigated by the State Revenue Office and taxpayers will be assisted to improve compliance.²⁰²

The Department of Treasury and Finance explained the current process for the distribution of land tax assessments to the Committee:

Land tax assessments are distributed mostly in the first quarter of the calendar year. The bulk of the land tax assessments are sent out in the first month of the issue cycle with staggered distributions in the following months. The SRO aims to complete the distribution of land tax assessments by the end of the issue assessment cycle for the relevant land tax assessment year.

...

The SRO has advised that it reviews its process in distributing land tax assessments at each cycle and aims to improve it. DTF views the process as robust, and will continue to monitor the effectiveness of the SRO issue cycle process. The process that the SRO undertook at the 2016 cycle included: compliance activity, data maintenance and validation, and identifying potential absentee owners.²⁰³

FINDING 37: The *State Revenue Office Land Tax Compliance Program* initiative is estimated to raise \$45.1 million in 2016-17 and \$163.5 million over the forward estimates period.

¹⁹⁸ Hon. Daniel Andrews MP, Premier, *2016-17 Budget Estimates Transcript of Evidence*, 6 May 2016, p.31

¹⁹⁹ Hon. Lily D'Ambrosio MP, Minister for Energy and Resources, *2016-17 Budget Estimates Transcript of Evidence*, 20 May 2016, p.8; Hon. Daniel Andrews MP, Premier, *2016-17 Budget Estimates Transcript of Evidence*, 6 May 2016, p.32

²⁰⁰ Hon. Tim Pallas MP, Treasurer, *2016-17 Budget Estimates Transcript of Evidence*, 6 May 2016, p.30

²⁰¹ Department of Treasury and Finance, *Budget Paper No.3: 2016-17 Service Delivery* (2016), p.116

²⁰² *ibid.*, p.117

²⁰³ Department of Treasury and Finance, *Response to the Committee's 2016-17 Budget Estimates Entity-specific Questionnaire*, received 1 July 2016, p.19

4.4.2 Revenue foregone initiatives

There are two revenue foregone initiatives announced in the 2016-17 Budget relating to payroll tax relief. These are:

- the *Payroll Tax Threshold Increase*
- the *Payroll Tax Exemption*.

The *Payroll Tax Threshold Increase* will see the threshold for companies liable for payroll tax increase by \$25,000 to \$575,000 for 2016-17, together with another \$25,000 for every year over the forward estimates, ultimately rising to \$650,000 in 2019-20.²⁰⁴ The initiative is expected to lower revenue by \$26.0 million in 2016-17 and \$260.0 million in total over the forward estimates period.²⁰⁵ The Premier informed the Committee at the inquiry hearings:

This is the first change to payroll tax thresholds since 2002, and it ultimately results in some 36,000 businesses over the life of the policy getting a payroll tax cut and I think 2,800 or thereabouts businesses being payroll tax free where they currently have a payroll tax burden.²⁰⁶

A second revenue foregone initiative relating to payroll tax, the *Payroll Tax Exemption* for the wages paid or payable by an employer to a displaced apprentice or trainee, will become available from 1 July 2016 and aims to ‘support employers hiring apprentices or trainees wishing to continue and complete their qualifications’.²⁰⁷ It is expected to lower revenue by \$3.0 million in 2016-17 and \$23.0 million over the forward estimates period.²⁰⁸

The Minister for Employment explained to the Committee that the payroll tax exemption initiatives can also be seen in the context of maximising Victoria’s competitiveness:

We have to obviously have in place the right competitive environment for business in Victoria, and the payroll tax deduction program that is in the budget goes in part to that ... we need to have some levers in our control to be able to attract businesses — footloose investments — to Victoria.²⁰⁹

FINDING 38: Two revenue foregone initiatives relating to payroll tax were included in the 2016-17 Budget. Together they are expected to lower revenue by \$29.0 million in 2016-17 and \$283.0 million over the forward estimates period.

204 Department of Treasury and Finance, *Budget Paper No.3: 2016-17 Service Delivery* (2016), p.117

205 *ibid.*, p.116

206 Hon. Daniel Andrews MP, Premier, *2016-17 Budget Estimates Transcript of Evidence*, 6 May 2016, p.3

207 Department of Treasury and Finance, *Budget Paper No.3: 2016-17 Service Delivery* (2016), p.117

208 *ibid.*, p.116

209 Hon. Jacinta Allan MP, Minister for Employment, *2016-17 Budget Estimates Transcript of Evidence*, 12 May 2016, p.16

4.5 State-sourced revenue

State-sourced revenue is anticipated to raise \$33.2 billion in 2016-17.²¹⁰ This section examines revenue estimates for the following sources of state revenue:

- taxation
- sales of goods and services
- dividends.

4.5.1 Taxation revenue

The 2016-17 Budget estimate for taxation revenue is \$21.6 billion for 2016-17, an increase of \$1.5 billion, or 7.5 per cent, over the revised estimate of \$20.1 billion for 2015-16.²¹¹ While the anticipated taxation revenue is forecast to fall in 2017-18 by 1.4 per cent to \$21.3 billion, taxation revenue is expected to increase over the following years, rising to \$23.4 billion by 2019-20.²¹²

The anticipated fall in 2017-18 is due to expected corrections in land transfer duty as the property market is forecast to cool slightly.²¹³ The once-off payment regarding the Port of Melbourne licence fees will also boost revenue for 2016-17, and this also contributes to the slight fall anticipated in overall revenue in 2017-18.

The largest components of taxation revenue for 2016-17 are payroll tax and land transfer duty. Each is estimated to raise \$5.7 billion or 26.3 per cent of the taxation revenue total.²¹⁴ Motor vehicle taxes are forecast to raise \$2.3 billion in 2016-17, followed by land tax (\$2.2 billion) and gambling taxes (\$1.9 billion).²¹⁵ Other revenue streams include insurance taxes at \$1.2 billion and the fire services property levy at \$673.6 million for 2016-17.²¹⁶

210 Department of Treasury and Finance, *Budget Paper No.5: 2016-17 Statement of Finances* (2016), pp.6, 27

211 *ibid.*, pp.25, 209

212 *ibid.*, p.25

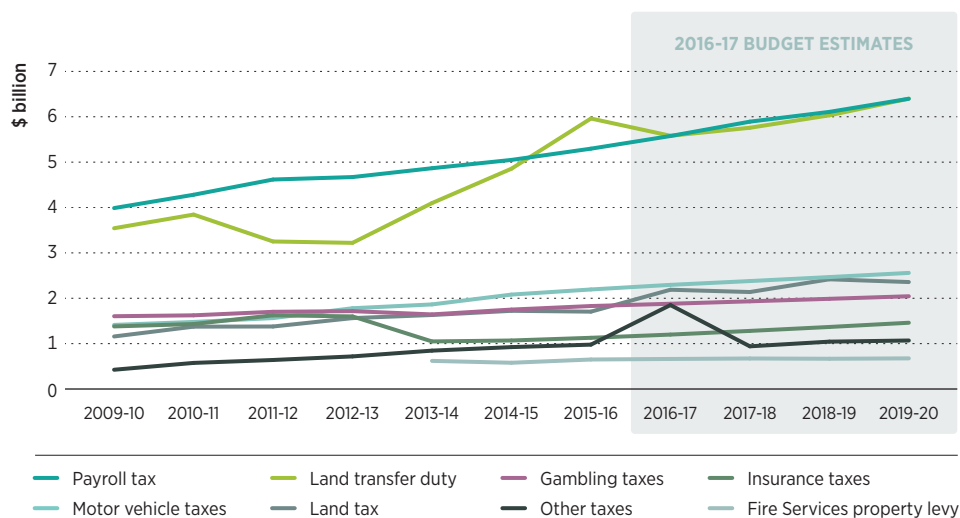
213 Department of Treasury and Finance, *Budget Paper No.5: 2016-17 Statement of Finances* (2016), p.144

214 *ibid.*

215 *ibid.*

216 *ibid.*, p.145

Figure 4.5 Major components of taxation revenue, 2009-10 to 2019-20



Note: The 2015-16 figures are revised estimates.

Source: Department of Treasury and Finance, *Taxation Revenue – Annual Historical Series* (2016). Available at <www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/State-taxation-revenue>, viewed 12 July 2016

FINDING 39: Total taxation revenue for 2016-17 is expected to be \$21.6 billion.

Payroll tax and land transfer duty are each estimated to raise \$5.7 billion or 26.3 per cent of the taxation revenue total. Following these, motor vehicle taxes are expected to raise \$2.3 billion, land tax is expected to raise \$2.2 billion and gambling taxes are expected to raise \$1.9 billion. Other taxation revenue streams include insurance taxes (\$1.3 billion) and the fire services property levy (\$673.6 million).

Land transfer duty

A major component of taxation revenue is land transfer duty, which is expected to raise \$5.7 billion in 2016-17 and a further \$18.5 billion over the forward estimates period. This is a 6.4 per cent decrease from the revised 2015-16 estimate.²¹⁷ Figure 4.5 demonstrates the growth in land transfer duty between 2012-13 and 2015-16. The cyclical nature of the property market and the possibility of variations between the estimated and the actual state revenue based on property transactions are discussed in Chapter 2. Due to the strength of the Victorian property market over the last year, the Department of Treasury and Finance revised the 2015-16 Budget land transfer duty initial estimate from \$5.0 billion to \$6.1 billion at the time the 2016-17 Budget was handed down in April 2016, representing a revised growth rate of 23 per cent over the previous year.²¹⁸

The budget papers note that while the current ‘property upturn has been exceptionally strong’, property cycles can vary in terms of ‘duration and strength depending on complex interactions between interest rates, sentiment, wages, household balance sheets, population growth and demand from foreign

²¹⁷ *ibid.*, p.25

²¹⁸ Department of Treasury and Finance, *Budget Paper No.5: 2015-16 Statement of Finances* (2015), p.165; Department of Treasury and Finance, *Budget Paper No.5: 2016-17 Statement of Finances* (2016), p.145

investors'.²¹⁹ While the forecast for land transfer duty into the forward estimates period indicates it is expected to return to a trend growth level after a small decline in 2016-17 as a result of 'an anticipated fall in the number of property transactions',²²⁰ the discussion in this year's budget papers addresses the risks to forecasts of property-related revenue:

There are risks to these forecasts. On the upside, current interest rates remain accommodative and underlying demand remains robust, reflecting strong population growth. If the Victorian economy outperforms relative to expectations and, for example, the Reserve Bank of Australia cuts interest rates due to weaker demand and investment nationally, the property market could retain momentum relative to the central case forecasts.

On the downside, Melbourne house price growth could slow more than anticipated. Domestically, there is a risk that further out-of-cycle increases in interest rates (reflecting higher costs of capital), combined with ongoing impacts from macro-prudential measures to curb investor demand, could see sentiment fall relative to expectations. Internationally, a sharp slowdown in the Chinese or other global economies could see a return of increased financial market volatility and lower equity prices in Australia. Shocks of this nature impact on sentiment and expectations of asset price growth and could see land transfer duty revenue forecasts underperform.²²¹

The RBA subsequently cut interest rates in August 2016 after the publication of the budget papers in April.²²²

FINDING 40: Land transfer duty is expected to be \$5.7 billion in 2016-17 and \$18.5 billion over the forward estimates period. This represents a 6.4 per cent decrease from the 2015-16 revised estimate for land transfer duty. The 2015-16 land transfer duty estimate was revised upwards from \$5.0 billion in the 2015-16 Budget to \$6.1 billion in the 2016-17 Budget, driven by the positive state of the Victorian property market.

FINDING 41: Estimates made by the Department of Treasury and Finance regarding property-related revenue could change considerably in the event of any of the following developments which may affect house prices:

- an increase in interest rates made by the Reserve Bank of Australia
- a fall in investor demand
- global financial market volatility as a result of a sharp economic slowdown in China, or a slowdown in other global economies.

²¹⁹ Department of Treasury and Finance, *Budget Paper No.5: 2016-17 Statement of Finances* (2016), p.146

²²⁰ *ibid.*

²²¹ *ibid.*, p.147

²²² Reserve Bank of Australia, *Minutes of the Monetary Policy Meeting of the Reserve Bank Board, August 2016*. Available at <www.rba.gov.au/monetary-policy/rba-board-minutes/2016/2016-08-02.html>, viewed 16 August 2016

Payroll tax

Payroll tax is paid by businesses and is calculated as 4.85 per cent of their total taxable Australian wage bill above the annual tax free threshold. Payroll tax is expected to increase by 4.6 per cent in 2016-17, before growing at an average of 4.7 per cent over the forward estimates period. It is expected to be \$5.7 billion in 2016-17, an increase of \$285.5 million or 5.3 per cent over the revised 2015-16 estimate. It is also expected to raise \$18.7 billion over the forward estimates.²²³ Changes to the annual payroll tax free threshold announced as part of the initiatives in this year's budget are discussed in Section 4.4.2. Together with the payroll tax exemption for employers of apprentices, the combined payroll tax relief initiatives outlined in the Budget amount to \$29.0 million in foregone revenue for 2016-17 and an additional \$283.0 million across the forward estimates.²²⁴

Payroll tax forecasts are based on the State's employment outlook and wages growth - a positive employment outlook and forecast jobs and wages growth suggest increases in payroll tax revenue. The discussion in the budget papers note that part-time job growth has been an important factor in overall employment growth in recent years.²²⁵ The forecast increases for payroll tax revenue are based on steady full-time employment growth over the forward estimates period. Mitigating the employment growth impact on payroll tax estimates are ongoing low levels of wage increases (See also Section 2.5). According to the Department of Treasury and Finance, wages growth in Victoria has been subdued and is expected to grow more gradually than employment.²²⁶

FINDING 42: Payroll tax is expected to be \$5.7 billion in 2016-17 and \$18.7 billion over the forward estimates. This is an increase of \$285.5 million or 5.3 per cent over the revised 2015-16 estimate.

FINDING 43: Risks to payroll tax estimates include subdued full-time employment growth and continuing low wage increases.

Motor vehicle taxes

Motor vehicle taxes are comprised of vehicle registration fees and duty on transfer and registration of vehicles. The budget papers predict that these motor vehicle taxes will raise \$2.3 billion in 2016-17, an increase of 4.6 per cent over the previous year.²²⁷ This growth rate will fall slightly to 3.7 percent over the forward estimates, raising a further \$7.5 billion over the period.²²⁸

²²³ Department of Treasury and Finance, *Budget Paper No.5: 2016-17 Statement of Finances* (2016), p.145

²²⁴ Department of Treasury and Finance, *Budget Paper No.3: 2016-17 Service Delivery* (2016), pp.116-17

²²⁵ Department of Treasury and Finance, *Budget Paper No.2: 2016-17 Strategy and Outlook* (2016), pp.3-4, 18

²²⁶ Department of Treasury and Finance, *Budget Paper No.5: 2016-17 Statement of Finances* (2016), pp.149-50

²²⁷ *ibid.*, p.145

²²⁸ *ibid.*

The budget papers indicate motor vehicle taxation growth has been driven by growth in the sales of new motor vehicles, expanding Victoria's 'vehicle population', reflecting a combination of positive consumer sentiment, falling oil prices and lower vehicle prices.²²⁹

The budget papers also note a recent decision made by the Transport and Infrastructure Council to freeze nominal registration revenue for certain types of heavy motor vehicles at 2015-16 prices for two years. The budget papers note that this will constrain growth in total vehicle tax revenue over 2016-17 and 2017-18. However the budget papers do not indicate the level of revenue foregone as a result of this decision.²³⁰

The Committee considers the revenue foregone as a result of the freeze to nominal registration revenue for certain types of heavy motor vehicles to be important information that should have been provided within the budget papers. There are two sections of the budget papers where this information should have been provided; the revenue initiative section of Budget Paper No.3, in line with other revenue foregone initiatives such as the *Payroll Tax Exemption*, and in the Table 5.2 in Chapter 5 – Tax Expenditures and Concessions in Budget Paper No.5.²³¹

FINDING 44: Motor vehicle taxes are expected to raise \$2.3 billion in 2016-17, an increase of 4.6 per cent over the 2015-16 revised estimate.

FINDING 45: Although the budget papers indicate the nominal registration freeze for certain types of heavy motor vehicles at 2015-16 prices for two years will impact on motor vehicle tax revenue, the amount of revenue foregone is not contained in the budget papers.

RECOMMENDATION 3: Estimates for all revenue items appear in the budget papers under the revenue initiatives section of Budget Paper No.3. If the initiative relates to revenue foregone, this information should also be detailed in the Tax Expenditures and Concession chapter of Budget Paper No.5.

Land Tax

Land tax is another revenue source based on property and is levied on the unimproved site value of land. Certain categories attract exemptions from land tax, including principal places of residence and primary production land. The budget papers estimate that land tax revenue will increase by \$491 million, or 28.3 per cent over the previous year to reach \$2.2 billion for 2016-17.²³² Over the forward estimates period, land tax revenue is projected to raise \$7.0 billion, although the growth rate of land tax revenue over the period 2017-18 to 2019-20 falls to an annual average of 5.0 per cent.

²²⁹ *ibid.*, p.151

²³⁰ *ibid.*

²³¹ Department of Treasury and Finance, *Budget Paper No.3: 2016-17 Service Delivery* (2016), p.116; Department of Treasury and Finance, *Budget Paper No.5: 2016-17 Statement of Finances* (2016), pp.167-9

²³² Department of Treasury and Finance, *Budget Paper No.5: 2016-17 Statement of Finances* (2016), p.145

Land tax assessments and revenue are based on property valuations which are conducted every two years. The Treasurer explained to the Committee:

The strong growth [in land tax revenue] is basically due to significant increases in the revaluation of residential, commercial and industrial land. So from a land tax perspective, what we have is a process every two years where the valuer-general does an assessment of the impact upon the changing value of the asset base of land in the state. What practically that means is that we do tend to see a two-year cycle of land tax income coming in, higher in valuation years, and then dropping off in the non-valuation years. Unimproved land values are expected to have increased by 19.5 per cent from 1 January 2014 and 1 January 2016, based on the latest data, so that is the sort of figure we are seeing coming through. New valuations will be applied to land assessments for 2017 and 18.²³³

Land tax assessment years are based on calendar years, and the revaluation process is undertaken by local councils and overseen by the Victorian Valuer-General. For the current cycle, land revaluations commenced in January 2016, with the latest data expected to be finalised by mid-year, and sent to the SRO by August 2016. Land Tax assessments are sent out from the start of 2017.

The projected increase in revenue for land tax for 2016-17 is once again due to increases in property values. The budget papers do note some risks with the budget projections as they are based on the total value of assessments that had yet to be concluded at the time of publishing the budget.²³⁴ The estimates also rely on the thorough distribution of land tax assessments by the SRO. This year's budget contained the *State Revenue Office Land Tax Compliance Program*, aiming to achieve increased land tax revenue through greater regulation of exemptions and the instigation of more compliance programs.²³⁵

The land tax estimates for 2016-17 are also affected by the *Absentee Landowner Surcharge* revenue initiative, which increases the existing surcharge to 1.5 per cent.²³⁶ This is discussed in Section 4.4.2. The surcharge is also administered by the SRO.

FINDING 46: Land tax revenue is expected to be \$2.2 billion for 2016-17, an increase of \$491.1 million, or 28.3 per cent, over the revised 2015-16 estimate. It is also expected to raise \$7.0 billion over the forward estimates period. The expected increase in land tax revenue for 2016-17 is a result of:

- high property values at the time of the latest (2016) land valuations to be conducted by Victoria's Valuer-General
- initiatives such as the *State Revenue Office Land Tax Compliance Program* which will focus on greater compliance and regulation of land tax exemptions
- the *Absentee Landowner Surcharge*, which will be administered by the State Revenue Office through the land tax assessment system.

²³³ Hon. Tim Pallas MP, Treasurer, *2016-17 Budget Estimates Transcript of Evidence*, 6 May 2016, p.11

²³⁴ Department of Treasury and Finance, *Budget Paper No.5: 2016-17 Statement of Finances* (2016), p.148

²³⁵ Department of Treasury and Finance, *Budget Paper No.3: 2016-17 Service Delivery* (2016), p.117

²³⁶ *ibid.*, p.116

Gambling taxes

Gambling tax revenue is forecast to produce \$1.9 billion in 2016-17, an increase of \$51 million or 2.7 per cent over the revised 2015-16 estimate.²³⁷ Gambling tax revenue is also forecast to increase by 2.8 per cent annually over the forward estimates period, raising an estimated \$6.1 billion over this time.²³⁸ The budget papers note that gambling tax revenue forecasts have weakened since the *2015-16 Budget Update*. This is due to the long-term decline of household expenditure consumption on gambling, as well as slower-than-initially-expected growth in smaller gambling tax lines such as Sportsbet and Keno.²³⁹

The following statement was made in the 2016-17 budget papers regarding the expenditure of gambling tax revenue, outlining the bulk of this revenue is to be allocated to social, health and community support programs:

In 2016-17, approximately 80 per cent of total gambling taxation revenue will be transferred to the Hospitals and Charities Fund, the Mental Health Fund and the Community Support Fund. These funds direct gambling revenues back into the community by providing funding for programs to tackle problem gambling, including funding for the Victorian Responsible Gambling Foundation; mental health services; drug education, treatment and rehabilitation; and hospitals and community organisations. The remaining gambling revenue is available for general government purposes.²⁴⁰

FINDING 47: Revenue from gambling taxes is expected to be \$1.9 billion for 2016-17, an increase of \$51 million, or 2.7 per cent, over the revised 2015-16 estimate. It is also anticipated to raise \$6.1 billion over the forward estimate period.

Insurance taxes and fire services levy

Insurance taxes include duty on forms of non-life insurance premiums, such as motor vehicle or household contents insurance, as well as third party insurance on vehicle registrations and transfers. Insurance taxes are expected to increase by \$72.0 million, or 6.3 per cent, over the 2015-16 revised estimate, raising \$1.2 billion revenue for 2016-17, and \$4.2 billion over the forward estimates period.²⁴¹ The fire services property levy was introduced in 2013-14 and is forecast to generate \$673.6 million for 2016-17, an increase of \$12.2 million or 1.8 per cent over the revised 2015-16 estimate. The fire services levy is also expected to raise \$2.1 billion over the forward estimates, although the rate is not expected to increase over the forward estimate years.²⁴²

²³⁷ Department of Treasury and Finance, *Budget Paper No.5: 2016-17 Statement of Finances* (2016), p.145

²³⁸ *ibid.*

²³⁹ *ibid.*, p.150

²⁴⁰ *ibid.*

²⁴¹ *ibid.*

²⁴² *ibid.*, p.145

FINDING 48: Insurance taxes are expected to raise \$1.2 billion revenue for 2016-17, an increase of \$72.0 million, or 6.3 per cent, over the revised 2015-16 estimate. Insurance taxes are also expected to raise \$4.2 billion over the forward estimates period. The fire services property levy is forecast to generate \$674 million for 2016-17, an increase of \$12.2 million or 1.8 per cent increase over the revised 2015-16 estimate. The fire services property levy is also forecast to raise \$2.1 billion over the forward estimates period.

Other taxes

Three smaller taxes were listed in the budget papers under the title 'other taxes'.²⁴³ These are:

- the landfill levy
- liquor licence fees
- transport fees.

The landfill levy is forecast to raise \$200.0 million in 2016-17, an increase of \$9 million or 4.7 per cent on revised budget estimate for 2015-16 of \$191.0 million.²⁴⁴ Over the forward estimates period, the landfill levy is also expected to generate \$529.0 million, although the amount of revenue is expected to fall from \$200.0 million in 2016-17 to \$175.0 million in 2017-18 and remain at that level for the rest of the forward estimates period.²⁴⁵

Liquor licences are a small revenue item, projected to raise \$22.0 million in 2016-17, the same amount as the 2015-16 revised estimate. Liquor licences are also projected to raise \$71.0 million over the forward estimates to 2019-20.²⁴⁶

FINDING 49: The landfill levy is forecast to raise \$200.0 million in 2016-17, an increase of \$9 million or 4.7 per cent on revised budget estimate for 2015-16 of \$191.0 million. The land fill levy is also expected to raise \$529 million over the forward estimates period. Liquor licences are forecast to raise \$22.0 million in 2016-17, the same amount as the 2015-16 revised estimate, and \$71.0 million over the forward estimates to 2019-20.

Transport fees and the inclusion of the Port of Melbourne licence fee

Transport fees revenue is forecast to earn \$114 million in the revised 2015-16 budget estimate and \$962 million for 2016-17, before falling to \$35 million for 2017-18 and \$67 million in both 2018-19 and 2019-20.

According to the footnote in the budget papers, 'Transport fees revenue includes an allowance for pre-paid port licence fees in the budget year'.²⁴⁷

²⁴³ Although the category 'other taxes' relates to a different group in the data set on the Department of Treasury and Finance's website.

²⁴⁴ Department of Treasury and Finance, *Budget Paper No.5: 2016-17 Statement of Finances* (2016), p.145

²⁴⁵ *ibid.*

²⁴⁶ *ibid.*

²⁴⁷ *ibid.*

The Committee considers that the increase in the transport fees revenue line item due to the inclusion of the pre-paid port licence fee is sufficiently important to warrant greater explanation in the budget papers.

The Committee has previously discussed the operations of the proposed lease of the Port of Melbourne in its *Report on the 2015-16 Budget Estimates*, where the Committee recommended that the budget papers should explain any variation in a line item where the variation is close to or over \$1.0 billion.²⁴⁸ While this recommendation was made in the context of asset investment and the transfer of assets between the various sectors, the Committee intended the recommendation to apply to all line items across the budget papers.²⁴⁹

Although the Government supported the recommendation in principle, its response indicates the Government intended to disclose the information only in relation to net investment:

Budget Paper No. 2 Strategy and Outlook Chapter 4 explains key movements in the trend for net investment in fixed assets. This includes net cash flows from investments in financial assets for policy purposes by the general government sector. Future budget papers will aim to provide further explanation to readers on the trend and variation across years for components of net investment in fixed assets that are considered material...²⁵⁰

A similar recommendation was also made by the former Committee in 2013-14.²⁵¹ This was also supported by the Government.²⁵² The Committee notes that such explanations have not been provided in the latest budget papers, and therefore that the Government has not implemented the Committee's recommendations.

FINDING 50: The revenue item 'other taxes' is expected to be \$1.2 billion for 2016-17, an increase of \$856 million over the previous year. The item is largely comprised of the pre-paid Port of Melbourne licence fee.

FINDING 51: The Government has not explained the increase in transport fees from 2015-16 to 2016-17 in the budget papers, despite supporting a recommendation by the Committee in principal in its *Report on the 2015-16 Budget Estimates* to explain yearly changes of any line items within the budget papers that are close to or over \$1.0 billion.

RECOMMENDATION 4: Future budget papers provide a detailed explanation for changes to any item of any part of the budget estimates where the change from one year to the next or from previous estimates is:

- (a) close to or over \$1.0 billion or
- (b) more than 50 per cent for any item with a value over \$200.0 million.

²⁴⁸ Public Accounts and Estimates Committee, *Report on the 2015-16 Budget Estimates*, Recommendation 50, p.170

²⁴⁹ Public Accounts and Estimates Committee, *Report on the 2015-16 Budget Estimates*, p.170

²⁵⁰ Victorian Government, *Government Responses to the Recommendations of Public Accounts and Estimates Committee's Report on the 2015-16 Budget Estimates*, tabled 4 May 2016, p.17

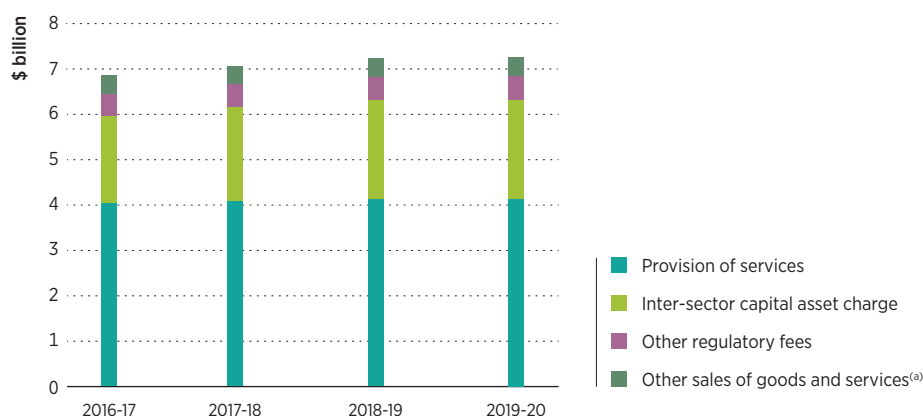
²⁵¹ Public Accounts and Estimates Committee, *Report on the 2013-14 Budget Estimates – Part Two* (2013), Recommendation 2, p.3

²⁵² Victorian Government, *Government Responses to the Recommendations of Public Accounts and Estimates Committee's Report on the 2013-14 Budget Estimates – Part Two*, tabled 16 April 2014, p.2

4.5.2 Sales of goods and services

Sales of goods and services include regulatory fees, user charges and public transport fares. Sales of goods and services are expected to raise \$6.8 billion in 2016-17, and \$21.5 billion over the forward estimates.²⁵³ This is an increase of \$200 million (or 3.0 per cent) over the revised 2015-16 amount. The budget papers state the increase in overall sales of goods and services revenue for 2016-17 is 'driven by an increase in the capital asset charge from VicTrack associated with an increase in the capital asset base'.²⁵⁴ The majority of the revenue from sales of goods and services falls under 'provision of services' which is expected to be \$4.0 billion in 2016-17, or 59 per cent of the total sales of goods and services, however the budget papers do not provide any further information regarding what 'provision of services' is comprised of. The Department of Treasury and Finance website does provide a disaggregation of this figure by department.²⁵⁵ However, the Committee would find further disaggregation of this line item useful in future budget papers.

Figure 4.6 2016-17 Budget estimates of sales of goods and services



(a) 'Other sales of goods and services' includes: motor vehicle regulatory fees, sales of goods, rental and refunds and reimbursements.

Source: Department of Treasury and Finance, *Budget Paper No.5: 2016-17 Statement of Finances* (2016), p.163

FINDING 52: Sales of goods and services are expected to raise \$6.8 billion in 2016-17, an 3.0 per cent increase over the revised 2015-16 amount. It is expected to raise \$21.5 billion over the forward estimates period.

RECOMMENDATION 5: Future budget papers include a disaggregation of provision of services by major category.

²⁵³ Department of Treasury and Finance, *Budget Paper No.5: 2016-17 Statement of Finances* (2016), p.163

²⁵⁴ *ibid.*

²⁵⁵ Department of Treasury and Finance, *Consolidated Comprehensive Operating Statement – General Government Sector* (2016). Available at <www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Aggregate-financial-statements>, viewed 18 October 2016

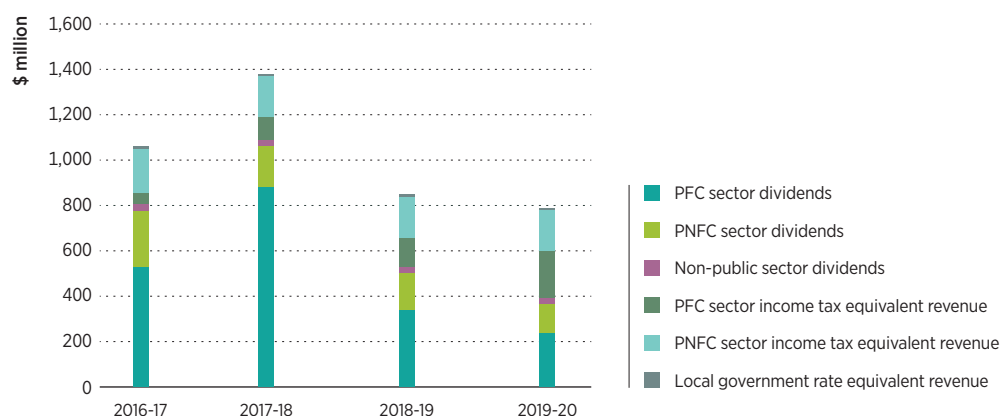
4.5.3 Dividends and similar revenue

Dividends and similar revenue includes:

- dividends, which are comprised of payments made by government business enterprises (GBEs) in the public financial corporations (PFC) and public non-financial corporations (PNFC) sectors to the general government sector
- payments equivalent to income tax or local government rates, which are paid by the GBEs to the general government sector to ensure they do not have an unfair advantage over private sector companies as the GBEs are not subject to normal taxes and rates.

Revenue for dividends and similar items is expected to be \$1.1 billion in 2016-17, increasing to \$1.4 billion in 2017-18 before falling to \$846 million in 2018-19 and \$787 million in 2019-20 at the end of the forward estimates period.²⁵⁶

Figure 4.7 Dividends and income tax equivalent and rate equivalent revenue, 2016-17 to 2019-20



Source: Department of Treasury and Finance, *Budget Paper No.5: 2016-17 Statement of Finances* (2016), p.26

Dividends from the public financial corporations sector

Dividends from the PFC sector to the general government sector are expected to rise by 120.1 per cent from \$239 million in 2015-16²⁵⁷ to \$526 million in 2016-17. Following this, it is expected to increase (by a further 67.1 per cent) to \$879 million in 2017-18 before falling to \$336 million in 2018-19 (a decrease of 61.8 per cent) and \$235 million in 2019-20 by the end of the forward estimates period.²⁵⁸ The budget papers do not provide an explanation of the anticipated fall in dividends from the PFC sector to the general government sector between 2017-18 and 2018-19.

²⁵⁶ Department of Treasury and Finance, *Budget Paper No.5: 2016-17 Statement of Finances* (2016), p.163

²⁵⁷ *ibid.*, p.210

²⁵⁸ *ibid.*, p.26

The PFC sector is comprised of entities primarily engaged with the provision of financial services or insurance. For 2016-17, the majority of dividend revenue from the PFC sector to the general government sector is expected to be provided by the Transport Accident Commission (TAC) (\$342 million), the Victorian Managed Insurance Authority (VMIA) (\$145 million) and the Treasury Corporation of Victoria (\$35.0 million). Over the forward estimates period, the largest PFC dividends are expected to be provided by the TAC, totalling \$1.1 billion.²⁵⁹

Figure 4.8 Dividends paid by the public finance corporations sector to the general government sector, 2016-17 to 2019-20



Source: Department of Treasury and Finance, *Budget Paper No.5: 2016-17 Statement of Finances* (2016), p.26

FINDING 53: Dividends from the public financial corporations sector to the general government sector are expected to rise by 120.1 per cent from \$239 million in 2015-16 to be \$526 million in 2016-17. This will increase to \$879 million in 2017-18 before falling by 61.7 per cent to \$336 million in 2018-19 and \$235 million in 2019-20 at the end of the forward estimates period. The budget papers do not provide an explanation of the anticipated fall in dividends from the PFC sector to the general government sector between 2017-18 and 2018-19.

Regarding dividends, the Minister for Finance explained the difference between the two funding ratios used to assess the ability of an insurance fund to make the required payments: the *accounting funding ratio* and the *economic funding ratio*.

The accounting funding ratio represents the extent to which assets are available to meet the accounting liability.

This liability is determined in accordance with the Australian accounting standards, which require the use of a risk free discount rate derived from the commonwealth government bond yields. Under the state's prudential insurance standard, a risk margin is also included to provide a 75 per cent probability of sufficiency. As such, the accounting liability and associated accounting funding ratio are conservative measures that include both implicit and explicit margins.

259 *ibid.*

The economic funding ratio has been measured since around 2011 and represents the extent to which assets are available to meet the economic liability. This liability is a best estimate value using the long term expected investment return on assets as a discount rate. The economic funding ratio therefore provides a best estimate for a scheme's financial position without the inclusion of those margins.²⁶⁰

The TAC is expected to contribute the bulk of dividends paid by the PFC sector to the general government sector. The Minister for Finance made the following statement on the recent economic performance of the TAC:

The TAC is in a strong financial position with a performance from insurance operations [PFIO] of \$413 million in 2014-15. The accounting funding ratio at 30 June 2015 was 92.3 per cent, and the economic funding ratio was 156.4 per cent. Again I reiterate the economic funding ratio is a more realistic measure, particularly in these times of very low interest rates.²⁶¹

The Minister for Finance also provided the following explanation of the Government decision on dividend levels from the TAC contained in the 2016-17 Budget:

Section 29B of the Transport Accident Act 1986 (TAC Act) provides the Treasurer with broad discretion to determine the amount and timing of any dividends to be paid by the TAC.

In determining the level of dividends to be paid by the TAC in any particular year, the Treasurer considers the financial capacity and needs of the TAC and broader budgetary considerations.

The TAC is forecast to be profitable in each year of the forward estimates. It is also forecast to remain within its preferred accounting funding ratio over that period.

As required by the TAC Act, the Treasurer will consult with the TAC Board and the relevant Minister before making any formal dividend determinations and will have regard to the solvency margin determined to maintain the long term financial viability of the transport accident scheme.²⁶²

The VMIA is also expected to deliver a considerable proportion of the overall PFC dividends to the general government sector, and the Minister for Finance made the following statement on the VMIA and its recent economic performance:

The Victorian Managed Insurance Authority provides risk and insurance services to protect Victoria's assets and minimise losses from adverse events ... The VMIA finished 2014-15 with a strong net result of \$403 million. Performance from insurance operations, which represents the VMIA's underlying financial performance, was \$331 million in 14-15. In 13-14 VMIA's PFIO was \$165 million. The improved result in 14-15 was due to a favourable claims experience for a number of insurance operations.

²⁶⁰ Hon. Robin Scott MP, Minister for Finance, *2016-17 Budget Estimates Transcript of Evidence*, 13 May 2016, p.3

²⁶¹ *ibid.*

²⁶² Hon. Robin Scott MP, Minister for Finance, 2016-17 Budget Estimates hearings, response to questions on notice, received 20 June 2016, p.1

The accounting funding ratio at 30 June 2015 was 133 per cent, and the economic funding ratio was 209 per cent. Again I reiterate the economic funding ratio is a more realistic measure.²⁶³

The Minister for Finance also explained the reasoning behind the amount of dividends from the VMIA to the general government sector to the Committee:

Section 13 of the State Owned Enterprise Act 1992 (the Act) provides the Treasurer with the authority to determine the dividends to be paid by VMIA.

The dividends to be paid in any year are not necessarily an indicator of profitability in that particular year. In determining the timing and amount of dividend to be paid by the VMIA, the Treasurer has regard to both VMIA's profitability and financial position and broader budgetary considerations.

As required by the Act, the Treasurer will consult with the VMIA Board and the relevant Minister before making any dividend determinations.

The VMIA is projected to remain in a strong financial position and stay within their preferred accounting funding ratio range over the forward estimates.²⁶⁴

It is important to note that declining dividend amounts over a forward estimates period for any of the PNFCs and PFCs is not necessarily an indicator of declining financial performance. In addition to an entity's financial performance, there are also a number of other factors that the Treasurer takes into account when making determinations regarding dividends. The Minister for Finance explained this further to the Committee using the dividends expected from the VMIA over the forward estimates as an example:

The VMIA is not expected to significantly decline in terms of its profitability... there is not a direct correlation between the two [profitability of the entity and size of dividend to the general government sector]. So there is a capacity to take dividends in such a manner that there is not a direct correlation, and I believe that in the outer years there is certainly a drop off down to \$43 and \$13 million. But I do not think you can draw the conclusion from that of a declining performance of the VMIA. The VMIA is in very strong financial health, and particularly its accounting funding ratio at 30 June 2015 was 133 per cent.²⁶⁵

FINDING 54: The amount of a dividend provided by a government business enterprise to the general government sector is not necessarily related to the government business enterprise's economic performance.

²⁶³ Hon. Robin Scott MP, Minister for Finance, *2016-17 Budget Estimates Transcript of Evidence*, 13 May 2016, p.4

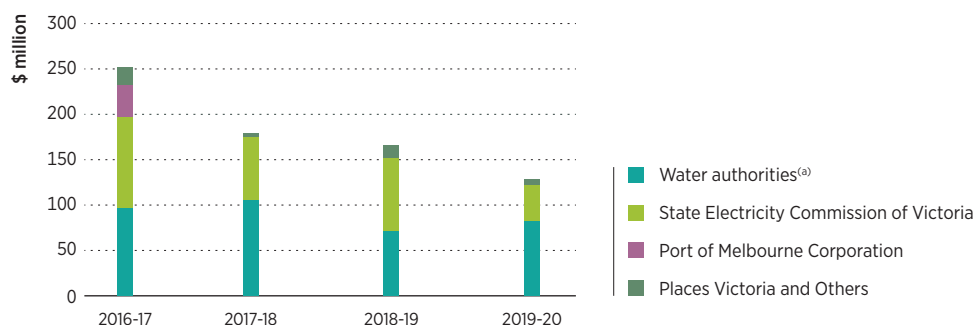
²⁶⁴ Hon. Robin Scott MP, Minister for Finance, 2016-17 Budget Estimates hearings, response to questions on notice, received 20 June 2016, p.1

²⁶⁵ Hon. Robin Scott MP, Minister for Finance, *2016-17 Budget Estimates Transcript of Evidence*, 13 May 2016, p.9

Dividends from the public non-financial corporations sector

Dividends from the PNFC sector to the general government sector are expected to rise from a revised estimate of \$149 million to \$250 million for 2016-17 and \$470 million over the forward estimates period.²⁶⁶ The PNFC dividends are largely comprised of dividends from the water authorities and the State Electricity Commission of Victoria (SECV).

Figure 4.9 Dividends paid by the public non-financial corporations sector to the general government sector, 2016-17 to 2019-20



(a) Water authorities include Melbourne Water Corporation, City West Water Corporation, South East Water Corporation and Yarra Valley Water Corporation.

Source: Department of Treasury and Finance, *Budget Paper No.5: 2016-17 Statement of Finances* (2016), p.26

FINDING 55: Dividends from the public non-financial corporations sector to the general government sector are expected to be \$250 million for 2016-17 and \$470 million over the forward estimates period.

4.5.4 Other Revenue

Other revenue includes fines, royalties and other donations and gifts and is expected to fall by 9.2 per cent from the revised 2015-16 estimate of \$2.8 billion to \$2.6 billion in 2016-17. The other revenue figure is also estimated to fall to \$2.3 billion a year in 2017-18 and 2018-19 before increasing to \$2.4 billion in 2019-20.²⁶⁷ The higher figure for 2016-17 compared to the other revenue estimates for 2017-18 and 2018-19 is primarily due to \$290.0 million from 'fair value of assets received free of charge or for nominal consideration', which the budget papers note is 'associated with Simonds Stadium from the Geelong City Council'.²⁶⁸

FINDING 56: Other revenue is expected to be \$2.6 billion in 2016-17, a decrease of \$259 million, or 9.2 per cent. Other revenue is also expected to fall to \$2.3 billion each year in 2017-18 and 2018-19, before increasing to \$2.4 billion in 2019-20.

²⁶⁶ Department of Treasury and Finance, *Budget Paper No.5: 2016-17 Statement of Finances* (2016), pp.26, 210

²⁶⁷ *ibid.*, p.164

²⁶⁸ *ibid.*

4.6 Grants from the Commonwealth

Grants from the Commonwealth fall into two categories: general-purpose grants, otherwise known as goods and services tax (GST) grants, and specific-purpose grants.

General-purpose (GST) grants represent Victoria's share of the goods and services tax revenue collected and distributed by the Commonwealth Government. There are no conditions or parameters regarding the manner in which GST revenue is spent at the state level.

Specific-purpose grants, on the other hand, are 'tied' in varying degrees to particular programs and initiatives determined by the Commonwealth Government. They are further broken down into the categories of 'specific-purpose grants for on-passing', which are mainly local government grant payments and 'grants for specific purposes', which includes grants for Commonwealth-State programs across health, education, environment, housing and infrastructure.

4.6.1 General-purpose (GST) grants

General-purpose grants are expected to rise by 6.5 per cent to reach \$13.9 billion for 2016-17.²⁶⁹ Victoria's GST revenue is determined by the overall amount collected by the Commonwealth (or the GST 'pool'), Victoria's GST relativity and Victoria's share of the national population.

Victoria's GST relativity is determined by the Commonwealth Grants Commission, and is calculated on a combination of the State's share of the national population, together with its ability to raise sufficient levels of its own revenue in order to provide the required services to the community.

The budget papers note that for 2016-17, Victoria's GST relativity has increased based on 'an increased need to invest in new infrastructure, driven by strong population growth'.²⁷⁰ However, Victoria's GST relativity is anticipated to decline by the end of the forward estimates period in 2019-20. This is because Victoria's robust economic growth in comparison to the other states is expected to drive an increase in own-source revenue.²⁷¹ This will offset the need for higher GST relativities, and following this, greater shares of the GST pool

269 *ibid.*, p.152

270 *ibid.*, p.153

271 *ibid.*

Table 4.1 Victoria's forecast GST relativities and share

	2016-17 Budget	2017-18 estimate	2018-19 estimate	2019-20 estimate
Victoria's relativity	0.90967	0.91039	0.93711	0.92927
GST share (%) ^(a)	22.9	22.9	23.7	23.5
Victoria's population share (%) ^(a)	25.1	25.1	25.2	25.3

(a) GST and Victorian population shares are based on estimates made by the Department of Treasury and Finance.
Source: Department of Treasury and Finance, *Budget Paper No.5: 2016-17 Statement of Finances* (2016), p.152

The national pool of GST is expected to be \$60.7 billion in 2016-17, an increase of 5.0 per cent over the 2015-16 figure.²⁷² The budget papers note that the GST revenue growth reflects the 'moderate' growth in household consumption, together with the below trend growth in consumer prices at the national level.²⁷³ The budget papers also note the growth in the consumption of GST exempt categories has been greater than the growth of GST liable categories.²⁷⁴ Further to this, falling dwelling investment at the national level, after strong growth over the previous two financial years, is also anticipated to impact on the future levels of GST raised.

FINDING 57: Victoria is expected to receive \$13.9 billion in general-purpose (GST) grants in 2016-17, a 6.5 per cent increase over the previous year.

FINDING 58: While the pool of Goods and Services Tax is expected to increase in 2016-17, moderate growth in household consumption and below trend growth in consumer prices at the national level are factors that have contained growth in the overall amount of Goods and Services Tax revenue. The longer term trend of greater growth in consumption of Goods and Services Tax exempt items over the consumption of Goods and Services Tax liable items is another risk to growth in the Goods and Services Tax pool.

4.6.2 Specific-purpose grants

Specific-purpose grants are estimated to be \$13.3 billion in 2016-17, an increase of 9.0 per cent over the previous year.²⁷⁵ The budget papers note this increase 'reflects growth in education funding for non-government schools and the timing of grants payments to local government'.²⁷⁶

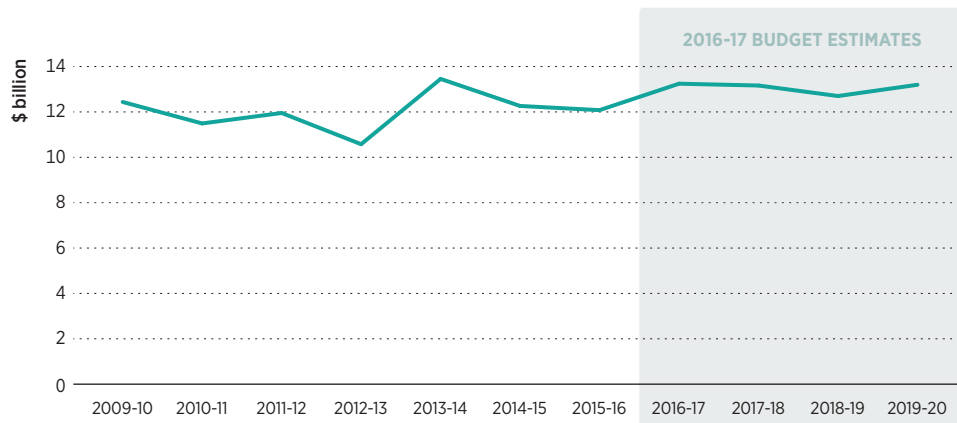
272 *ibid.*, p.152

273 *ibid.*

274 *ibid.*

275 *ibid.*

276 *ibid.*, p.155

Figure 4.10 Specific-purpose grants, 2009-10 to 2019-20

Note: The 2015-16 figure is a revised estimate.

Sources: Department of Treasury and Finance, *Budget Paper No.5: 2016-17 Statement of Finances* (2016), p.155; Department of Treasury and Finance, *Financial Report*, 2008-09 to 2014-15

FINDING 59: Specific-purpose grants are estimated to be \$13.3 billion in 2016-17, an increase of 9.0 per cent over the previous year.

4.7 Departmental revenue

In addition to the sources of revenue outlined throughout this chapter, some Government departments and their entities have the ability to raise their own revenue. This section examines the level of funding for departments that takes place under parliamentary control via the appropriations process, and compares that to the level of revenue that departments are able to raise independently. Ultimately, this section will assess the level of departmental revenue that is received from ‘outside the public account’, or is maintained by departments as ‘applied appropriations unspent’. These are both forms of revenue that are not directly reported on in the budget papers. The Committee has previously recommended that they be subject to greater scrutiny for transparency and accountability purposes.

4.7.1 Sources of funding for departments

Annual appropriation bills are passed through the Parliament, giving the Government authority to spend public money. The budget papers set out how money might be received and spent. In addition to annual appropriation, other acts may have been passed by the Parliament which allocate funds from Consolidated Revenue for specific purposes to departments. These are called special appropriations.

There are three sources of departmental funding:

- the Consolidated Fund, which is where the departments receive their money through the annual appropriations process via ‘appropriation acts’ each year as well as special appropriations (which are authorised through other acts)
- the Trust Fund, which gathers money for specific purposes and disburses it to departments.

The Consolidated Fund and the Trust Fund are collectively known as ‘the Public Account’. The other source of money for departments is known as

- funds outside the Public Account.

4.7.2 Annual and special appropriations

Appropriations funding is allocated to departments for three purposes and is listed as line items in the departmental operating statements in Budget Paper No.5:

- the provision of output funding (for service delivery)
- additions to the net asset base (which funds the production or purchase of capital items, such as investment funding for upgrades to hospitals and schools)
- payments made on behalf of the State (whereby funding is passed on to other entities or bodies).²⁷⁷

Funding via special appropriations is also included as a line item in a departmental operating statement, although it is not further broken down into the three line items listed above.

The annual and special appropriations funding for 2016-17 for each department can be found in Appendix A4.1.

4.7.3 The level of parliamentary control

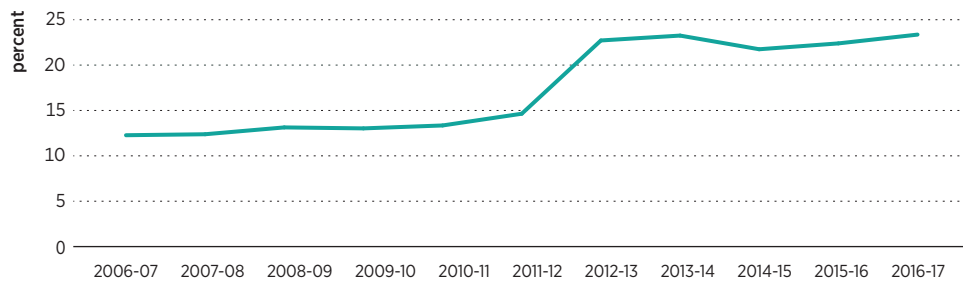
For 2016-17, Government departments will receive \$12.0 billion, or 21.7 per cent of general government sector revenue, outside of parliamentary scrutiny (that is, not through special or annual appropriation bills) for output funding.²⁷⁸

Figure 4.11 demonstrates that the proportion of total income for departments from these sources has nearly doubled over the last ten years.

²⁷⁷ Department of Treasury and Finance, *Budget Operations Framework for Victorian Government Departments* (2016), p.10

²⁷⁸ Department of Treasury and Finance, *Budget Paper No.5: 2016-17 Statement of Finances* (2016), Chapter 2, departmental income from transactions table

Figure 4.11 Proportion of total income from transactions for departments not provided through annual or special appropriations, 2006-07 to 2016-17



Source: Committee calculations based on Department of Treasury and Finance, *Budget Paper No.4/5: Statement of Finances*, 2006-07 to 2016-17

FINDING 60: Government departments will receive \$12.0 billion, or 21.7 per cent of general government sector revenue for output funding, outside of parliamentary scrutiny in 2016-17.

4.7.4 The Trust Fund and funds outside the Public Account

In the Committee’s last report into budget estimates, it was noted:

Historically, the contribution from funds received and held outside the Public Account has not been separately disclosed in either the budget papers or in departments’ annual reports. Rather, it contributes unknown amounts to a number of other line items. The Financial Report for the State does disclose the balance of funds held outside the Public Account at the end of the year, but not the amounts flowing into and out of these accounts. Simply put, there is no indication given anywhere as to how much money flows to departments from outside the Public Account.²⁷⁹

This year the Committee directly inquired of the Departments regarding the amounts of ‘own-source’ revenue raised and whether these funds are held outside the Public Account.

²⁷⁹ Public Accounts and Estimates Committee, *Report on the 2015-16 Budget Estimates* (2015), p.110

Table 4.2 Comparison of departmental revenue derived from Parliamentary authority for the provision of outputs and total income from transactions for 2016-17

Department	Parliamentary authority for the provision of outputs (\$ million)	Total income from transactions (\$ million)	Difference (\$ million)	Where income is held
Economic Development, Jobs, Transport and Resources	8,553.8	9,663.6	1,109.8	The majority is held outside the public account
Health and Human Services	19,534.5	22,303.3	2,768.8	Held outside the public account
Education and Training	15,277.2	13,578.5	-1,698.7 ^(a)	Held in and out of the public account
Justice and Regulation	6,069.3	6,053.2	-19.1 ^(b)	Held in the public account except for \$4.0 million from donations and sales of goods and services from VICSES (Victorian State Emergency Services)
Premier and Cabinet	593.1	598.2	5.1	Held in the Public Account
Treasury and Finance	258.5	454.2	195.7	Held in the public account except \$150 million from CenITex
Environment, Land, Water and Planning	1,338.2	2,100.8	762.6	Held in the Public account

(a) The Department of Education and Training has advised that this negative figure is due to 'the trust funds [which] are provided to Non-government Schools' (Department of Education and Training, *Response to the Committee's 2016-17 Budget Estimates Entity-specific Questionnaire*, received 7 July 2016, p.5).

(b) The Department of Justice and Regulation has advised that this negative figure is a result of 'funds collected by the entities administered on behalf of the state [that] are used for meeting expenses incurred for activities funded by the relevant special appropriations or for the specific purposes of individual trust funds as outlined in their governing legislation' (Department of Justice and Regulation, *Response to the Committee's 2016-17 Budget Estimates Entity-specific Questionnaire*, received 30 June 2016, p.2).

Sources: Departmental responses to the Committee's 2016-17 Budget Estimates Entity-specific Questionnaire; Departmental responses to the Committee's 2016-17 Budget Estimates General Questionnaire; Department of Treasury and Finance, *Budget Paper No.3: 2016-17 Service Delivery* (2016), Chapter 2

The responses indicate that the nature of the entity receiving the funds will have some bearing on whether these funds are held within the Public Account. The majority of the revenue received by the two departments that expect to receive the greatest amount of revenue from transactions (the Department of Economic Development, Jobs, Transport and Resources and the Department of Health and Human Services) are held outside the Public Account.

The Department of Health and Human Services has the highest level of income anticipated from 'own sources' (or the difference between Parliamentary authority for the provision of outputs total income from transactions) at \$2.8 billion for 2016-17 and explained that this figure:

... primarily relates to health agencies' own-sourced revenue. These include:

- income derived directly from health agencies' activities such as:
 - hospital patient fees
 - ambulance transport and membership subscription fees
 - fees from commercial activities such as parking fees and property rental income
 - donations
 - other miscellaneous revenue
- interest income derived by health agencies
- Commonwealth grants and contributions paid directly to health agencies.²⁸⁰

The Department of Economic Development, Jobs, Transport and Resources had the second highest difference of \$1.1 billion and explained this was 'predominately due to revenue from non-appropriation sources, in particular for General Government Sector portfolio agencies. This includes revenue received by agencies such as assets received free of charge, donations, and grants'.²⁸¹

The Department of Economic Development, Jobs, Transport and Resources further broke down their revenue from transactions as follows:

- \$489.0 million from Public Transport Victoria derived from Farebox revenue, fair value of assets and services received free of charge and grants received from other departments
- \$462.0 million from VicRoads as a result of the Transport Accident Commission, sales of goods and services, miscellaneous taxes
- \$102.0 million from Creative Victoria Agencies from fees and charges and sales of goods and services
- \$56.0 million from other miscellaneous revenue for projects undertaken, grants received for the Department of Economic Development, Jobs, Transport and Resources.²⁸²

Of the remaining departments:

- the Department of Premier and Cabinet explained the \$5.1 million difference 'primarily relates to grant revenue DPC is expected to receive for *Getting ready for the NDIS* and *Positioning Victoria as the Leader in Asia Capability initiatives*'.²⁸³

²⁸⁰ Department of Health and Human Services, *Response to the Committee's 2016-17 Budget Estimates Entity-specific Questionnaire*, received 1 July 2016, p.2

²⁸¹ Department of Economic Development, Jobs, Transport and Resources, *Response to the Committee's 2016-17 Budget Estimates Entity-specific Questionnaire*, received 1 July 2016, p.5

²⁸² *ibid.*

²⁸³ Department of Premier and Cabinet, *Response to the Committee's 2016-17 Budget Estimates Entity-specific Questionnaire*, received 1 July 2016, p.2

- the Department of Treasury and Finance advised ‘the higher ‘total income from transactions’ of \$195 million includes the income earned by CenITex (\$150 million), Shared Services Provider Trust (\$15 million) and Government Accommodation Trust (\$30 million). These entities are self-funded and do not receive Output Appropriation income ... The only income source that is not part of the Public Account is CenITex income of \$150 million’.²⁸⁴
- the Department of Justice and Regulation advised ‘the amount shown for entities administered on behalf of the State includes revenue received in administered trust funds including the Public Service Commuter Club, Australia and New Zealand Policing Support Agency Trust Account and a number of special appropriations received to support payments made under the Crown Proceedings and to reimburse Citylink and Eastlink for the value of tolls and administration costs that have been collected by the State as part of fine enforcement activities by the State’.²⁸⁵

FINDING 61: The Department of Economic Development, Jobs, Transport and Resources and the Department of Health and Human Services expect to receive \$3.9 billion in revenue transactions in 2016-17 and the majority of this revenue will be held outside the public account.

4.7.5 Applied appropriations unspent

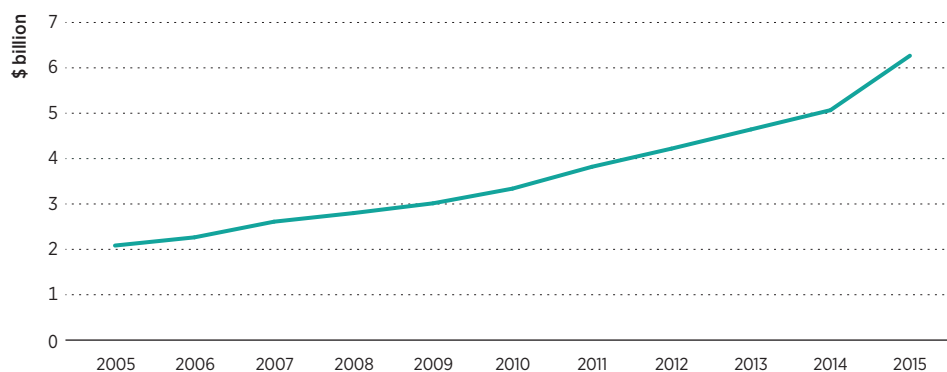
‘Applied appropriations unspent’ refers to the unspent or remaining output appropriation funding departments have received to supply certain goods and services to the Government under a previously agreed price within a ‘funder-purchaser-provider’ model. In the event of a department delivering a service below the originally agreed price, for example, the remaining funds are referred to as *applied appropriations unspent*.

Applied appropriations unspent may remain within the department for future projects with the Treasurer’s approval. The Committee has previously commented on the increasing amounts of applied appropriations unspent, noting that this ‘is a potentially large source of income for departments but is not discussed in the budget papers’.²⁸⁶ The latest data presented in Figure 4.12 indicates applied appropriations unspent has continued to grow, totalling \$6.3 billion at 30 June 2015, a 24 per cent increase over the previous year.

²⁸⁴ Department of Treasury and Finance, *Response to the Committee’s 2016-17 Budget Estimates Entity-specific Questionnaire*, received 1 July 2016, p.20

²⁸⁵ Department of Justice and Regulation, *Response to the Committee’s 2016-17 Budget Estimates Entity-specific Questionnaire*, received 30 June 2016, p.2

²⁸⁶ Public Accounts and Estimates Committee, *Report on the 2015-16 Budget Estimates* (2015), p.112

Figure 4.12 Applied appropriations unspent, 2005 to 2015^(a)

(a) Balances at 30 June each year

Source: Department of Treasury and Finance, *Financial Report*, 2004-15 to 2014-15

FINDING 62: The amount of applied appropriations unspent continues to grow, reaching \$6.3 billion at 30 June 2015, and this source of funding for departments is currently not discussed in the budget papers.

4.7.6 Previous Committee recommendations regarding funds held outside the public account and applied appropriations unspent

In the Committee's last report into budget estimates, it made a series of recommendations regarding better public disclosure of both funds held outside the Public Account and applied appropriations unspent.²⁸⁷

The Government supported two recommendations for greater disclosure in the budget papers of anticipated contributions from funds received and held outside the Public Account and the Trust Fund in departmental operating statements and the amounts expected from each trust account for each department.²⁸⁸

However, the following more specific recommendations made by the Committee for the Department of Treasury and Finance only received in-principle support from the Government.²⁸⁹ They were to:

- introduce changes to the budget papers that would provide greater disclosure of funds held outside the Public Account and the value of applied appropriations unspent
- introduce changes that would require greater disclosure by departments via their annual reports regarding the levels of income they receive from funds held outside the Public Account.

²⁸⁷ *ibid.*, pp.109-10, p.113

²⁸⁸ Victorian Government, *Government Responses to the Recommendations of Public Accounts and Estimates Committee's Report on the 2015-16 Budget Estimates*, tabled 4 May 2016, pp.10-11

²⁸⁹ *ibid.*, pp.11-12

The Committee notes the Government's in-principle support for these recommendations, however it considers the issue of increasing levels of potential resources held outside parliamentary scrutiny to be sufficiently important to reiterate the more detailed recommendations made by the Committee regarding these two funding sources.

RECOMMENDATION 6: Future budget papers specify the intended purpose (provision of outputs, additions to the net asset base, or payments on behalf of the State) of money received by departments from trust accounts.

RECOMMENDATION 7: The Department of Treasury and Finance require departments, in their annual reports, to disclose their income from the Trust Fund, broken down into the provision of outputs, additions to the net asset base and payments made on behalf of the State. Any variances between the initial budget estimates and the actual amounts should be identified and explained.

RECOMMENDATION 8: Future budget papers separately detail the income expected from funds held outside the Public Account for each department, broken down into the provision of outputs, additions to the net asset base and payments made on behalf of the State.

RECOMMENDATION 9: The Department of Treasury and Finance require departments, in their annual reports, to disclose their income from funds held outside the Public Account, broken down into the provision of outputs, additions to the net asset base and payments made on behalf of the State. Any variances between the initial budget estimates and the actual amounts should be identified and explained.

RECOMMENDATION 10: In future budget papers, the Department of Treasury and Finance:

- (a) note the total value of accumulated applied appropriations unspent, broken down into the major components (including payables, accruals related to employee entitlements, prior years' surpluses and depreciation equivalent revenue)
- (b) indicate the estimated change to these values over the forward estimates period
- (c) indicate the reasons for the anticipated changes for each component.

5

Borrowings and net debt

5.1 Introduction

The Government draws money from a number of sources to fund its asset investment program. This includes asset sales, cash allocated for depreciation, funds received from investments in other sectors, and the operating surplus (see Section 3.3 of this report). When these sources are not sufficient to fully fund asset investment, the Government requires borrowings to cover the cash costs of its asset projects. The sum determined by the future amounts that the Government will have to pay through public private partnership (PPP) agreements is also added to borrowings when these projects are committed.²⁹⁰

Borrowings are a key component of the Government's net debt position. Net debt is measured by the difference between what the Government owes (mainly comprised of borrowings) and the cash it holds, including assets which can be converted into cash (that is, liquid assets). The budget papers define net debt as 'the sum of borrowings, deposits held and advances received less the sum of cash and deposits, advances paid, and investments, loans and placements'.²⁹¹

Table 5.1 shows the estimates of net debt and borrowings for the general government sector from June 2016 to June 2020.

Table 5.1 Net debt and borrowings, general government sector, 30 June, 2016 to 2020

	2016 revised estimate	2017 Budget	2018 estimate	2019 estimate	2020 estimate
Borrowings (\$ million)	34,385.6	30,965.8	33,306.1	35,051.5	35,298.5
Net debt (\$ million)	22,493.2	18,601.5	20,895.6	22,304.3	22,207.8
Net debt as a percentage of gross state product (per cent)	5.9	4.7	5.0	5.1	4.8

Sources: Department of Treasury and Finance, *Consolidated Balance Sheet – General Government Sector* (2016). Available at <www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Aggregate-financial-statements>, viewed 31 May 2016; Department of Treasury and Finance, *Budget Paper No.2: 2016-17 Strategy and Outlook* (2016), p.13

Table 5.1 shows that the Government expects borrowings in the general government sector to decrease between June 2016 and June 2017 by \$3.4 billion to \$31.0 billion and then increase to \$35.3 billion by June 2020.

²⁹⁰ In these agreements, the private sector raises finances and delivers asset projects on behalf of the Government.

²⁹¹ Department of Treasury and Finance, *Budget Paper No.2: 2016-17 Strategy and Outlook* (2016), p.66

Similarly, the table shows that the general government sector net debt is expected to decrease by \$3.9 billion between June 2016 and June 2017 to \$18.6 billion and then increase to \$22.2 billion in June 2020. Furthermore, the Government expects that net debt as a percentage of gross state product (GSP) will fall from a revised estimate of 5.9 per cent in 2016 to 4.7 per cent in 2017.

As in previous budgets, the Government has also reiterated its commitment to 'fully fund the unfunded superannuation liability by 2035'.²⁹²

In analysing the Government's net debt and borrowings, this chapter will discuss the Government's strategy for borrowings, net debt and superannuation liabilities (Section 5.2), together with the budget estimates for borrowings and net debt over the next four years (Section 5.3). The chapter compares the current estimates to previous budget estimates (Section 5.4) and also discusses the impact of the 2016-17 Budget on Victoria's credit rating (Section 5.5).

The focus of this chapter is on borrowings and net debt for the general government sector, with additional discussion relating to the public non-financial corporations (PNFC) sector. This chapter does not discuss any related topics for the public financial corporations (PFC) sector as this sector acts as a financial intermediary for the public entities in Victoria. As a result of this, financial results in the PFC sector are reflected in the general government sector and the PNFC sector.

5.2 The Government's strategy

As noted in Section 3.2.1, the Government has set two specific medium-term financial measures and targets related to net debt for the general government sector (see Table 3.2). These are:

- general government net debt as a percentage of GSP to be maintained at a sustainable level over the medium-term.
- fully fund the unfunded superannuation liability by 2035.²⁹³

In addition, the Government considers that maintaining the State's AAA credit rating forms part of its long-term 'sound financial management' priority, and this also acts as a constraint on net debt.

A fourth element of the Government's strategy is its use of the Commonwealth Government's *Asset Recycling* initiative. Funds received under this program are intended to lower net debt until required for asset investment.

²⁹² *ibid.*, p.14

²⁹³ *ibid.*

5.2.1 Net debt as a percentage of gross state product

General government sector

As discussed in Section 3.3.1, the Government intends to increase its operating surplus from \$1.9 billion in 2015-16 to \$2.9 billion in 2016-17.²⁹⁴ As a result of these estimated operating surpluses, in combination with other cash resources (for example, depreciation and similar, asset sales, returns from investments in other sectors (see Section 3.3.1)) and transactions such as the lease of the Port of Melbourne operations (see Section 7.6.1), the Government expects to be able to fully fund its infrastructure program without borrowing in 2016-17²⁹⁵ and have sufficient available cash resource to reduce its debt.

As set out in Table 5.1, net debt for the general government sector is expected to fall from a revised estimate of \$22.5 billion in June 2016 to \$22.2 billion in June 2020.²⁹⁶

The Government's stated strategy is to maintain net debt in the general government sector at 'a sustainable level over the medium-term'.²⁹⁷ This 'sustainable level' is described in the budget papers as a ratio of net debt to GSP which is:

... no greater than its peak over the last five years by the end of the forward estimates.²⁹⁸

The Committee considers that the language used in the budget papers is ambiguous and does not add clarity to the Government's net debt management. This is discussed further in Section 3.2.1, along with a recommendation that future budget papers identify time periods as years rather than in relative terms.

However, the Government also points out in the budget papers that debt funding of infrastructure has been useful in the past and should not always be seen in a negative light:

Public debate about government debt has often focussed on the desirability of eliminating net debt. A reluctance to use debt can deter sensible investments in productivity enhancing infrastructure. Intolerance for debt has the potential to slow economic growth and limit opportunities to improve the quality of life of Victorians.

Without debt financing Victoria would not have much of the core infrastructure enjoyed today

...

²⁹⁴ *ibid.*, p.13

²⁹⁵ Department of Treasury and Finance, *Budget Paper No.5: 2016-17 Statement of Finances* (2016), p.8; cf. Department of Treasury and Finance, *Budget Paper No.2: 2016-17 Strategy and Outlook* (2016), p.8

²⁹⁶ Department of Treasury and Finance, *Budget Paper No.5: 2016-17 Statement of Finances* (2016), p.8

²⁹⁷ Department of Treasury and Finance, *Budget Paper No.2: 2016-17 Strategy and Outlook* (2016), p.14

²⁹⁸ Department of Treasury and Finance, *Budget Paper No.5: 2016-17 Statement of Finances* (2016), p.16

The International Monetary Fund (IMF) released its annual assessment of the Australian economy in September 2015. It pointed out that infrastructure is under pressure, particularly in urban areas, and that Australia has an infrastructure deficit. The IMF considers that a boost in infrastructure spending funded by borrowing would have short and long-run benefits.²⁹⁹

The Government notes, however, that debt funding of infrastructure must be limited, and that it does not intend to ‘use debt to meet the cost of recurrent services’.³⁰⁰

The Government’s ‘sustainable’ level of net debt, which is noted in Section 3.2.1 as being 6.2 per cent of 2014-15 GSP, is not expected to affect the State’s credit rating. The budget papers note that:

The Government is committed to maintaining Victoria’s triple-A credit rating. Maintaining general government sector net debt at around 6 per cent of GSP will still keep key financial indicators at prudent levels ...³⁰¹

Victoria’s AAA credit rating is discussed further in Section 5.5 of this chapter.

FINDING 63: The Government intends to keep general government sector net debt (in terms of a proportion of gross state product) at ‘sustainable’ levels, while highlighting the benefits of debt funding of infrastructure. This level of net debt is not anticipated to affect the State’s credit rating.

Public non-financial corporations sector

Net debt for the PNFC sector is expected to increase from a revised estimate of \$14.8 billion in June 2016 to \$16.9 billion in June 2020.³⁰² As a proportion of debt for both sectors combined, PNFC net debt is expected to rise from 39.7 per cent to 43.2 per cent of non-financial public sector net debt over the forward estimates period.³⁰³

The Committee notes that not only is the proportion of PNFC net debt significant in comparison to the general government sector, but over the forward estimates period it is expected to rise while general government sector net debt is expected to fall.

Due to its significance and trend, the Committee considers that strategic directions set in the budget papers should include the PNFC sector as well as the general government sector.

In its *Report on the 2015-16 Budget Estimates*, the Committee noted that the budget papers do not include a target for the PNFC sector net debt. The Committee recommended that future budgets include a target for the

²⁹⁹ Department of Treasury and Finance, *Budget Paper No.2: 2016-17 Strategy and Outlook* (2016), p.35

³⁰⁰ *ibid.*, p.36

³⁰¹ *ibid.*, p.37

³⁰² *ibid.*, p.45

³⁰³ *ibid.*, pp.8, 45, 53

sector's net debt with the aim to understand the Government's plans for net debt within this sector.³⁰⁴ The Government did not support the Committee's recommendation, and stated that:

Forward estimates of net debt for the Public Non-Financial Corporation Sector are provided in Table 2.2 of Budget Paper Number 5. These estimates represent the expected level of net debt for this sector.³⁰⁵

The Committee considers that in presenting expected levels of net debt without setting a target, the Government has not explained its strategy on net debt for the sector.

Further discussion of the trends for net debt in the PNFC sector can be found in Section 5.3.2 of this chapter.

FINDING 64: The Government has not explained its strategy for net debt in the public non-financial corporations sector in the 2016-17 Budget. The sector has significant net debt in relation to the general government sector, and this is anticipated to rise over the forward estimates period.

RECOMMENDATION 11: In future budget papers, the Government explain its strategy for net debt in the public non-financial corporations sector.

5.2.2 Superannuation liabilities

As seen in Section 3.2.1, another component of the Government's financial measures and targets for the 2016-17 Budget is to 'fully fund the unfunded superannuation liability by 2035'.³⁰⁶

With regard to unfunded superannuation liabilities, the budget papers state that:

The Government is on track to fully fund the State's unfunded superannuation liability by 2035. Information on the reported superannuation liability is shown in note 7 of Budget Paper No. 5, Chapter 1 Estimated financial statements for the general government sector.³⁰⁷

The Committee has previously noted the absence of a specific strategy towards the financial target through the establishment of interim goals.³⁰⁸ The Committee recommended that future budget papers 'reinstate the practice of including a diagram showing the expected level of unfunded superannuation liability in each year between the budget year and 2035, similar to the disclosure in earlier budget papers. Commentary should also be provided on the achievement of interim goals'.³⁰⁹

³⁰⁴ Public Accounts and Estimates Committee, *Report on the 2015-16 Budget Estimates* (2015), pp.116-17

³⁰⁵ Victorian Government, *Government Responses to the Recommendations of Public Accounts and Estimates Committee's Report on the 2015-16 Budget Estimates*, tabled 4 May 2016, p.12

³⁰⁶ Department of Treasury and Finance, *Budget Paper No.2: 2016-17 Strategy and Outlook* (2016), p.14

³⁰⁷ *ibid.*, p.57

³⁰⁸ Public Accounts and Estimates Committee, *Report on the 2015-16 Budget Estimates* (2015), p.122

³⁰⁹ Public Accounts and Estimates Committee, *Report on the 2015-16 Budget Estimates* (2015), Recommendation 35, p.123

The Government supported the Committee's recommendation 'in principle' by explaining that:

The Government supports inclusion of such a chart, noting the following:

- i. The chart would only cover the State's share of the State Super Fund's liabilities (i.e. excluding the Commonwealth's liability) as this is the portion that is currently being fully funded and for which data is available out to 2035. Please note that this will not include any surpluses in other plans nor the liability for Judge's pension.
- ii. The Government's target to fully fund the liability by 2035 is based on projections of the economic valuation of the liability and therefore the chart would need to be shown on an economic basis to accurately reflect the target. The chart would therefore be inconsistent with the current accounting value of the liability; and
- iii. The data would need to be based on values and projections as at the 31 December preceding the Budget (which is based on 31 March data) as this is the nearest date at which formal actuarial projections are provided.³¹⁰

The Committee welcomes the Government's response with its specifications, however, it notes that such a chart has not been included in the 2016-17 budget papers. The Department of Treasury and Finance advised the Committee that due to the timing of the tabling of the Committee's report:

... the relevant actions committed by the Government in its response will feed into the 2016-17 annual reporting cycle and the 2017-18 Budget.³¹¹

As previously noted by the Committee, the inclusion of this chart in the budget papers 'would demonstrate whether the Government is setting aside funds at an appropriate rate to achieve its goal'.³¹² The Committee anticipates the inclusion of the table in the 2017-18 budget papers.

FINDING 65: The Government has maintained its commitment to 'fully fund the State's unfunded superannuation liability by 2035'. The 2016-17 budget papers state that the Government is on track to achieve this objective. Further information related to progress towards this goal is anticipated in the 2017-18 budget papers.

5.2.3 *Asset Recycling initiative*

The Commonwealth Budget of 2014-15 included an *Asset Recycling* initiative,³¹³ whereby states that divest of an asset in order to reinvest in productive infrastructure receive a payment from the Commonwealth Government to the value of 15 per cent of the asset sale price.³¹⁴

The Treasurer made the following statement to the Committee on asset recycling at the inquiry hearings:

³¹⁰ Victorian Government, *Government Responses to the Recommendations of Public Accounts and Estimates Committee's Report on the 2015-16 Budget Estimates*, tabled 4 May 2016, p.13

³¹¹ Department of Treasury and Finance, *Response to the 2016-17 Budget Estimates Questionnaire - Supplementary: Previous Recommendations*, received 7 June 2016, p.2

³¹² Public Accounts and Estimates Committee, *Report on the 2015-16 Budget Estimates* (2015), p.122

³¹³ Commonwealth of Australia, *Budget Paper No.3: Federal Financial Relations 2014-15* (2014), p.66

³¹⁴ Commonwealth of Australia, *Building Australia's Infrastructure* (2014), p.5

I think it is important for the state to acknowledge that we do need to look at whether or not we are getting value for money from the assets that the state holds and whether or not we can work our balance sheet better in order to get a better return for the Victorian community.

I think one of the reasons the state has formed a view ... that it is important to make sure that we are getting value for the assets that the state holds. I do not see 'asset recycling' as a cute one liner. I see it as being something very tangible and real in the sense that, if we asset recycle, that is we are changing a current status, which could in fact be a leasehold, into another state asset that we have formed a view has better and more immediate economic value for the state. So in net, over the long term, this is about growing the asset base of the state; it is not about reducing it...³¹⁵

The Victorian Government stated its intention to utilise the Commonwealth Government asset recycling incentive in the 2015-16 budget papers with respect to the lease of operations of the Port of Melbourne.³¹⁶ This transaction was delayed, and is now anticipated during 2016-17.³¹⁷

The Government indicated that asset recycling transactions such as the Port of Melbourne operations lease will affect the State's finances and asset management. The budget papers refer to this as 'making better use of the State's balance sheet', explaining that:

The Government is using the State's resources wisely by recycling assets to fund new infrastructure. The Port of Melbourne medium-term lease will generate billions of dollars for reinvestment in new infrastructure.

Lease proceeds will go to the Victorian Transport Fund to be initially invested until needed to fund the removal of the 50 worst level crossings in Metropolitan Melbourne and other infrastructure initiatives in our cities and regions. The initial investment will reduce State debt.

...

The Government will continue to optimise the management of the State's balance sheet. This will be the basis for reform to improve the ongoing efficiency and effectiveness of the State's asset holdings.³¹⁸

The Committee notes that the Government anticipates a reduction of net debt following the Port of Melbourne lease of operation as the proceeds are expected to be invested in the Victorian Transport Fund. This fund will initially be used to reduce State debt, before being required to fund level crossing removals and other transport and infrastructure priorities.³¹⁹

The Port of Melbourne lease of operations transaction is discussed further in Section 7.6.1 of this report.

³¹⁵ Hon. Tim Pallas MP, Treasurer, *2016-17 Budget Estimates Transcript of Evidence*, 6 May 2016, p.7

³¹⁶ Department of Treasury and Finance, *Budget Paper No.2: 2016-17 Strategy and Outlook* (2016), p.11

³¹⁷ *ibid.*, p.56

³¹⁸ *ibid.*, p.9

³¹⁹ *ibid.*

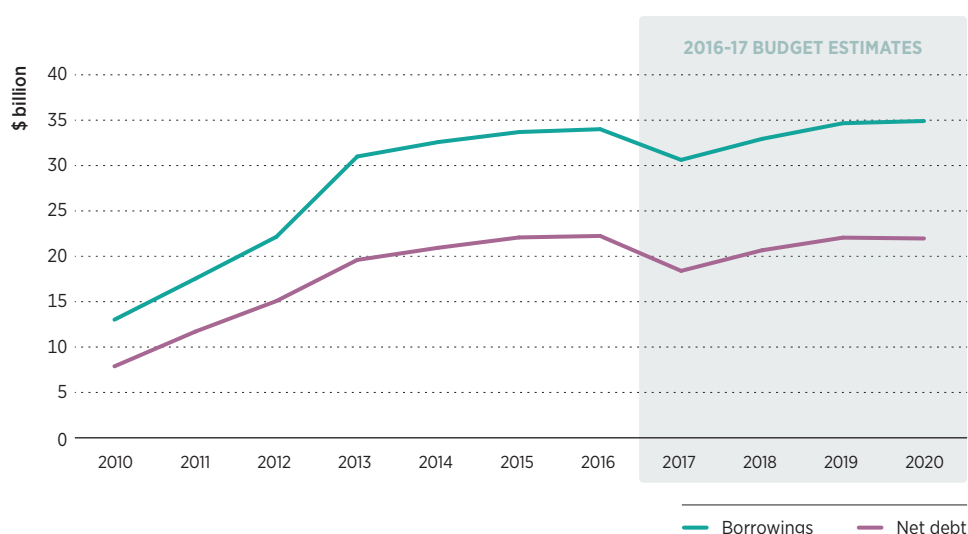
FINDING 66: The Government plans to lease the operations of the Port of Melbourne during 2016-17, and expects a reduction of net debt following the Port of Melbourne lease of operations. In addition, it anticipates a related grant under the Commonwealth Government's *Asset Recycling* initiative.

5.3 Borrowings and net debt estimates

5.3.1 General government sector

Figure 5.1 shows the expected trend for borrowings and net debt for the general government sector from June 2010 to June 2020.

Figure 5.1 Borrowings and net debt, general government sector, 30 June, 2010 to 2020



Note: The 2016 figure is a revised estimate.

Source: Department of Treasury and Finance, *Consolidated Comprehensive Operating Statement – General Government Sector* (2016). Available at <www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Aggregate-financial-statements>, viewed 31 May 2016

The Government expects net debt to peak at \$22.5 billion in June 2016 and then decrease to \$18.6 billion in June 2017. The Government forecasts that net debt for the general government sector will then increase between June 2017 and June 2020, reaching similar levels to those seen in June 2015 and June 2016. Borrowings are forecast to follow a similar pattern, with an increase of \$4.3 billion between June 2017 and June 2020, to reach \$35.3 billion in the last year of the forward estimates period.

As seen in Section 3.4.1, the operating surplus for the general government sector is expected to average \$2.3 billion between 2016-17 and 2019-20.³²⁰ Adding in other resources, the Government expects to have an average of \$4.8 billion of cash resources per year available to fund asset investment.³²¹

³²⁰ Department of Treasury and Finance, *Budget Paper No.5: 2016-17 Statement of Finances* (2016), p.6

³²¹ Department of Treasury and Finance, *Budget Paper No.2: 2016-17 Strategy and Outlook* (2016), pp.56-7

The Committee notes that the budget papers indicate the decrease in net debt in 2016-17 primarily reflects 'the receipt of proceeds from entering into a medium-term lease over the operations of the Port of Melbourne'.³²²

FINDING 67: The budget papers indicate that net debt for the general government sector will fall to \$18.6 billion by June 2017. This decrease is associated with the lease of the Port of Melbourne's operations.

Net debt as a proportion of gross state product

As noted in Section 3.5, general government sector net debt as a percentage of GSP is expected to decrease from 5.9 per cent in June 2016 to 4.7 per cent in June 2017, associated with the lease of the Port of Melbourne's operations.³²³ General government sector net debt is then expected to grow to 4.8 per cent of GSP by June 2020.³²⁴ Table 5.2 shows that this low growth rate between June 2017 and June 2020 is mainly a result of the growth rate of GSP. General government net debt (in dollar terms) is expected to grow at an annual average rate of 6.1 per cent over the period, but the economy is expected to grow nearly as fast (5.2 per cent) as net debt over the period, holding the growth of net debt as a proportion of GSP to 0.1 per cent.

Table 5.2 General government sector net debt and gross state product, 30 June, 2017 to 2020

	2017	2018	2019	2020
GGS net debt (year ended June, \$ billion)	18.6	20.9	22.3	22.2
Annual growth (per cent)	-	12.3	6.7	-0.4
Average growth 2017-2020 ^(a) (per cent)		6.1		
GSP (year ended June, \$ billion)	399.1	419.7	441.5	464.6
Annual growth (per cent)	-	5.2	5.2	5.2
Average growth 2017-2020 ^(a) (per cent)		5.2		
Net debt as a proportion of GSP (per cent)	4.7	5.0	5.1	4.8

(a) Compound annual growth rate

Sources: Department of Treasury and Finance, *Budget Paper No.5: 2016-17 Statement of Finances* (2016), p.8; Department of Treasury and Finance, *Macroeconomic Indicators* (2016). Available at <www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Macroeconomic-indicators>, viewed 31 May 2016; Department of Treasury and Finance, *Budget Paper No.2: 2016-17 Strategy and Outlook* (2016), p.13

For the first time this year's budget papers include a chart showing the longer-term projected ratio for net debt to GSP from June 2016 to June 2026. According to the budget papers, 'net debt is projected to fall from 5.9 per cent of GSP in 2015-16 to around 3.2 per cent of GSP over the next ten years, after taking into account the Government's significant investments in capital over that period'.³²⁵ Figure 5.2 reproduces the chart presented in the budget papers.³²⁶

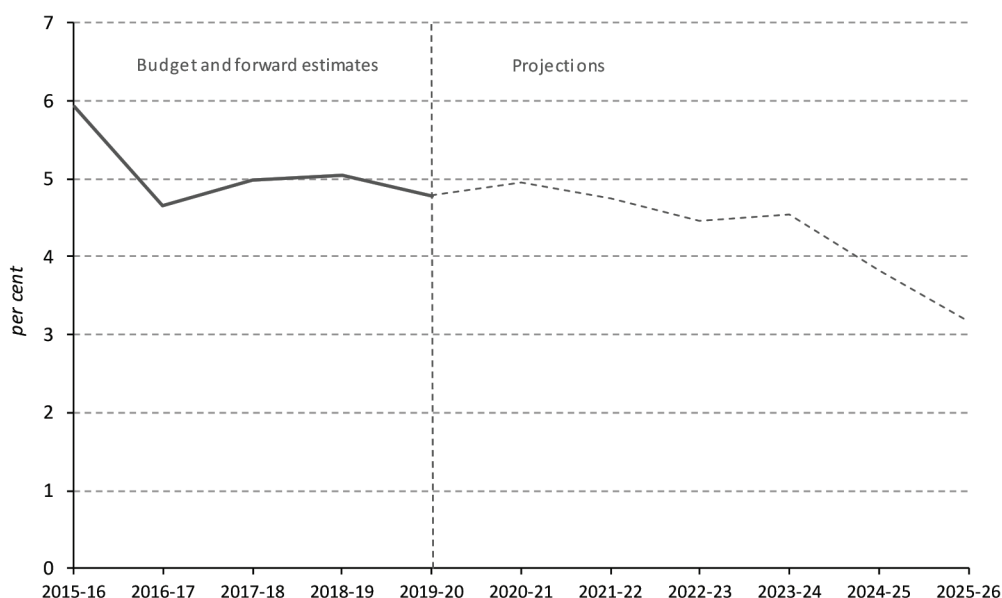
³²² *ibid.*, p.56

³²³ *ibid.*, p.13

³²⁴ *ibid.*

³²⁵ *ibid.*, p.33

³²⁶ *ibid.*

Figure 5.2 Net debt to gross state product, general government sector, 2015-16 to 2019-20

Source: Reproduced from Department of Treasury and Finance, *Budget Paper No.2: 2016-17 Strategy and Outlook* (2016), p.33

The Committee notes that the budget papers do not provide further information such as data or a set of assumptions that would support the Government's long-term projections on net debt to GSP. The Committee considers that, when making these long-term forecasts, the budget papers should provide sufficient commentary to assure the reader that the projection is based on a reliable set of assumptions and data.

FINDING 68: According to the budget papers, the expected lease of the operations of the Port of Melbourne will cause net debt as a percentage of gross state product to decline sharply by June 2017.

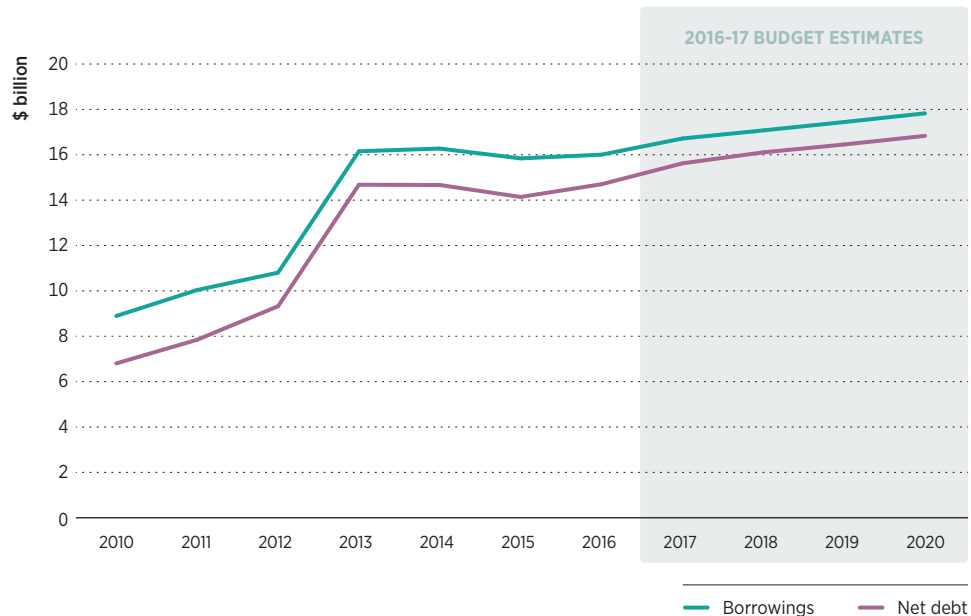
FINDING 69: The 2016-17 Budget forecasts a declining trend of net debt as a percentage of gross state product over the next four years. The decrease in June 2017 is associated with the expected lease of the Port of Melbourne's operations. The anticipated growth of the economy is the main reason for net debt as a percentage of gross state product growing slowly over the next four years. The budget papers also indicate that this declining trend will continue beyond the forward estimates period to 2025-26. However, the assumptions for this forecast are not disclosed in the budget papers.

RECOMMENDATION 12: Future budget papers disclose and explain the assumptions considered when making forecasts beyond the end of the forward estimates period.

5.3.2 Public non-financial corporations sector

Figure 5.3 shows the projected trend for the PNFC sector's borrowings and net debt between June 2010 and June 2020.

Figure 5.3 Borrowings and net debt, public non-financial corporations sector, 30 June, 2010 to 2020



Note: The 2016 figure is a revised estimate.

Sources: Department of Treasury and Finance, *Budget Paper No.5: 2016-17 Statement of Finances* (2016), p.45; Department of Treasury and Finance, *Financial Report, 2009-10 to 2014-15*

The trends for net debt and borrowings for the PNFC sector follow a different pattern than the general government sector. In contrast to the general government sector's net debt, the Government expects that net debt for the PNFC sector will increase at an average annual growth rate of 3.4 per cent between June 2016 and June 2020 (from an estimate of \$14.8 billion in June 2016 to \$16.9 billion in June 2020). This growth rate is higher than that of 0.1 per cent between June 2013 and June 2016.³²⁷ This is also seen in Figure 5.3.

Information provided by the Department of Treasury and Finance indicates that net debt for Melbourne Water Corporation accounts for 52.3 per cent of the PNFC sector's total net debt, principally due to the debt associated with the Victorian Desalination Plant.³²⁸ The three remaining metropolitan water authorities (Yarra Valley Water, South East Water, City West Water) are expected to account for 32.1 per cent of the sector's total net debt in June 2017.³²⁹ The Government expects that the proportion of debt for these four metropolitan water

³²⁷ For this calculation, the Committee uses only a three-year compound annual growth rate calculation period due to the growth rate between 2012 and 2013 being largely influenced by debt incurred for the Victorian Desalination Plant.

³²⁸ Department of Treasury and Finance, *Response to the Committee's 2016-17 Budget Estimates General Questionnaire*, received 4 May 2016, p.39

³²⁹ *ibid.*

authorities will rise gradually over the forward estimates period, and account for 86.2 per cent of the sector's total net debt in June 2020.³³⁰ Appendix A5.1 provides a detailed breakdown of net debt for the PNFC sector entities.

Borrowings for this sector are expected to follow a similar trend to that of net debt over the next four years. Borrowings are expected to grow by 2.7 per cent between June 2016 and June 2020, reaching \$17.9 billion in 2020. This contrasts with a negative growth rate of -0.3 per cent between June 2013 and June 2016.³³¹

The primary consequence of holding debt is the requirement to pay interest. Interest expense for the PNFC sector is expected to average \$1.4 billion annually between June 2016 and June 2020.³³²

FINDING 70: Melbourne Water Corporation is expected to comprise 52.3 per cent of the total public non-financial corporation's net debt in June 2017, while the three remaining metropolitan water authorities (Yarra Valley Water, South East Water and City West Water) are expected to comprise 32.1 per cent. The Government expects that these four authorities will increase their net debt over the next four years, constituting 86.2 per cent of the sector's total net debt in June 2020.

5.3.3 Debt sustainability indicators

The Committee uses two indicators to assess fiscal sustainability in the general government sector in relation to net debt:

- net debt per Victorian in real terms (that is, adjusted for population and inflation)
- net debt for the government general sector as a proportion of the sector's total revenue.

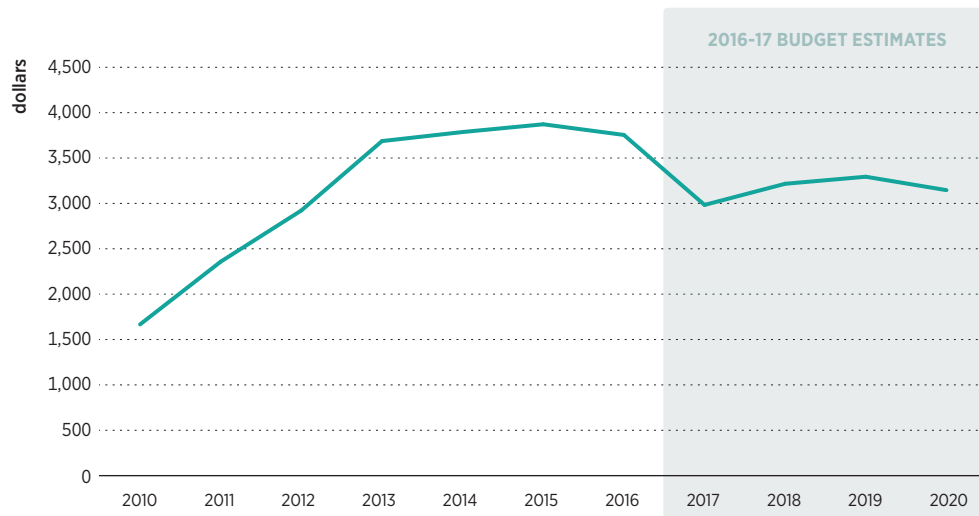
Section 3.5 also discusses key financial indicators used to assess the fiscal sustainability of the State's finances (the operating result, net lending/borrowing and net debt as a percentage of GSP).

Figure 5.4 shows net debt per capita and its forecasts in real terms from June 2010 to June 2020.

³³⁰ *ibid.*

³³¹ As with the calculation for net debt over the same period, the Committee uses only a three-year compound annual growth rate calculation period due to the growth rate between 2012 and 2013 being largely influenced by debt incurred for the Victorian Desalination Plant.

³³² Department of Treasury and Finance, *Budget Paper No.5: 2016-17 Statement of Finances* (2016), p.43

Figure 5.4 Real net debt per Victorian,^(a) general government sector, 30 June, 2010 to 2020

(a) 2016-17 values

Source: Committee calculations based on: Department of Treasury and Finance, *Consolidated Balance Sheet – General Government Sector* (2016). Available at <www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Aggregate-financial-statements>, viewed 31 May 2016; Department of Treasury and Finance, *Macroeconomic Indicators* (2016). Available at <www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Macroeconomic-indicators>, viewed 31 May 2016

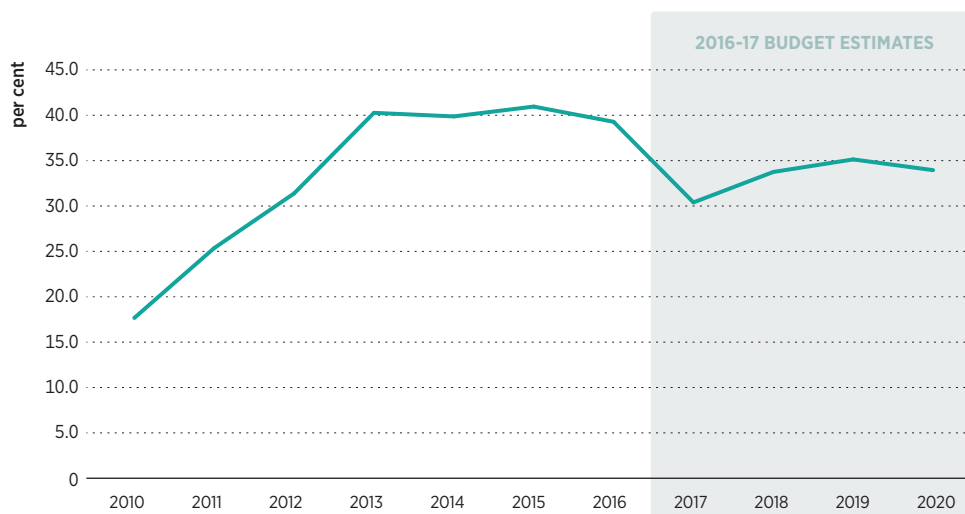
Because the value of net debt is progressively lowered by the eroding effect of inflation, as well as being spread over a growing number of Victorians, real net debt per Victorian grows more slowly (and falls faster) than nominal net debt.

Figure 5.4 shows that real net debt per Victorian is expected to follow a similar pattern to nominal net debt (see Figure 5.1). It is expected to fall significantly over 2016-17, due to the lease of the Port of Melbourne's operations, and is forecast to be \$3,023 in June 2017. After this, it is forecast to rise to \$3,338 in June 2019 before falling in the last year of the forward estimates.

However, unlike nominal net debt, which is predicted to fall only slightly over the whole period between June 2016 and June 2020, real net debt per Victorian is expected to fall more significantly to \$3,188 in June 2020. This underlines the effect of inflation and an increasing population.

Figure 5.5 shows the anticipated trend for general government sector net debt as a proportion of revenue from June 2010 to June 2020.

Figure 5.5 General government sector net debt as a proportion of revenue, 30 June, 2010 to 2020



Source: Committee calculations based on: Department of Treasury and Finance, *Consolidated Comprehensive Operating Statement – General Government Sector* (2016). Available at <www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Aggregate-financial-statements>, viewed 31 May 2016; *Consolidated Balance Sheet – General Government Sector* (2016). Available at <www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Aggregate-financial-statements>, viewed 31 May 2016

Figure 5.5 shows that for the period between June 2013 and June 2016, the overall growth rate for debt was matched by the growth rate of revenue, meaning that the net debt as a proportion of revenue remained fairly stable at around 40 per cent. This followed a period where net debt increased faster than revenue. For June 2016 the proportion was 39.8 per cent.

For June 2017, the budget papers anticipate that this proportion will fall to 30.8 per cent, associated with the lease of the Port of Melbourne’s operations, but then resume an overall upward trend as net debt grows faster than revenue over the forward estimates period. In June 2020 net debt is expected to be 34.4 per cent of revenue.

FINDING 71: Real general government net debt per Victorian is expected to fall from \$3,023 in June 2017 to \$3,188 in June 2020. This expected fall is at a faster rate than nominal net debt due to inflation and an increasing population.

FINDING 72: General government sector net debt as a proportion of revenue is expected to fall from 39.8 per cent in June 2016 to 30.8 per cent in June 2017 due to the lease of the Port of Melbourne’s operations. It is then anticipated to rise to 34.4 per cent by the end of the forward estimates period.

5.4 Comparison to previous estimates

Figure 5.6 compares the net debt estimates for the general government sector from the 2016-17 Budget to estimates in previous budgets and budget updates.

Figure 5.6 Comparison between the 2016-17 Budget net debt estimates and previous estimates, 30 June, 2016 to 2020



Sources: Department of Treasury and Finance, *Budget Paper No.5: Statement of Finances, 2014-15 to 2016-17*; Department of Treasury and Finance, *2014 Victorian Pre-Election Budget Update (2014)*, p.29; Department of Treasury and Finance, *2015-16 Budget Update (2015)*, p.31

The 2016-17 Budget projected a net debt of \$18.6 billion in June 2017. This is \$658.0 million lower than the estimate in the 2015-16 budget papers of \$19.3 billion.³³³

Overall, the Government has revised its net debt estimates upwards between June 2018 and June 2020. The budget papers note that these estimates are within the parameters stated as part of the Government's strategy for net debt (See Section 5.2).

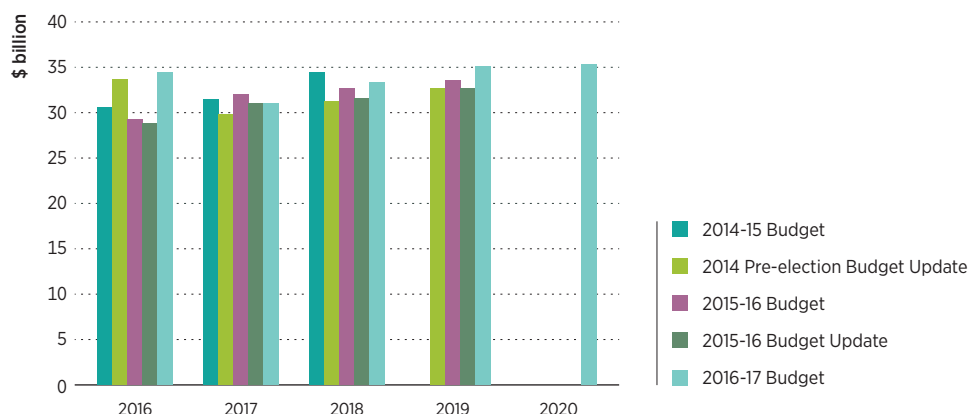
The specific revisions for net debt, compared to the 2015-16 Budget, increase net debt by \$1.4 billion in June 2018 and by \$3.5 billion in June 2019. In comparison to the *2015-16 Budget Update*, the Government has revised its estimates upwards increasing net debt by \$2.0 billion in June 2018 and by \$2.7 billion in June 2019.

The Committee notes that borrowings follow a similar pattern to net debt when comparing them to past budget estimates. The latest estimates in the 2016-17 Budget show that, when compared to the 2015-16 budget estimates, the Government has revised downwards its borrowings requirements for June 2016 by \$1.1 billion, but upwards by \$638.8 million in 2018 and by \$1.5 billion in June 2019 (see Figure 5.6).

Comparing the 2016-17 budget estimates to the *2015-16 Budget Update*, borrowings have been revised downwards by \$104.0 million in June 2017, but revised upwards by \$1.7 billion in June 2018 and by \$2.4 billion in June 2019 (see also Figure 5.6).

³³³ Department of Treasury and Finance, *Budget Paper No.5: 2015-16 Statement of Finances (2015)*, p.9

Figure 5.7 Comparison between the 2016-17 Budget borrowings estimates and previous estimates, 30 June, 2016 to 2020



Sources: Department of Treasury and Finance, *Budget Paper No.5: Statement of Finances, 2014-15 to 2016-17*; Department of Treasury and Finance, *2014 Victorian Pre-Election Budget Update (2014)*, p.29; Department of Treasury and Finance, *2015-16 Budget Update (2015)*, p.31

The Committee sought further details from the Department of Treasury and Finance regarding the reasons that have led to changes in borrowings and net debt between the 2015-16 and 2016-17 Budgets. The Department explained that:

Nominal net debt is expected to increase by \$2.7 billion at June 2019 compared with the 2015-16 Budget Update. As a proportion of the economy, net debt is expected to increase from 4.4 per cent to 5.1 per cent.

The increase in net debt is primarily due to the significant increase in infrastructure investment of \$5.3 billion to June 2019. Other key changes include:

- higher debt due to the net impact of new output and revenue measures; largely offset by additional taxation receipts, largely due to improved estimates for land transfer duty and land tax;
- Higher net cash inflows from the Government's investment activities, including dividend and income tax equivalent payments; and
- Increased revenue as result of the High Court decision in favour of the State relating to the gambling licenses proceedings.

Estimated net debt increased by around \$5.6 billion in 2015-16 largely due to the revised timing from entering into the medium term lease of the Port of Melbourne.

The movements in borrowings are highly correlated with the movements to net debt.³³⁴

As indicated by the Department of Treasury and Finance, the Committee notes that the latest estimates for both net debt and borrowings, particularly for the revised estimate for June 2016 and June 2017, are influenced by the timing of the Port of Melbourne lease of operations, which was previously expected in 2015-16 rather than in 2016-17.³³⁵

³³⁴ Department of Treasury and Finance, *Response to the Committee's 2016-17 Budget Estimates General Questionnaire*, received 4 May 2016, p.40

³³⁵ *ibid.*; Department of Treasury and Finance, *Budget Paper No.2: 2016-17 Strategy and Outlook (2016)*, p.56

FINDING 73: When comparing the 2016-17 budget estimates to those included in the 2015-16 Budget and the *2015-16 Budget Update*, the Government has revised its net debt and borrowings estimates downwards for June 2017 but upwards for June in 2016, 2018 and 2019. In general, the revision of these estimates has been influenced by the impact of output and revenue measures, asset investment, and for June 2016 and June 2017 in particular, the revised timing of the Port of Melbourne operations lease.

5.5 Victoria's credit rating

A credit rating is a forward-looking opinion about the creditworthiness of a public or private entity with respect to its financial obligations, and is provided by specialised rating agencies.

Two international agencies provide periodic assessments for the State of Victoria: S&P Global Ratings (formerly Standard & Poor's Ratings Services) and Moody's Investors Service. Overall, these agencies assess information related to:

- the institutional framework
- the economic outlook
- financial management, fiscal policy and debt profile
- budgetary flexibility.³³⁶

S&P Global Ratings

S&P Global Ratings reaffirmed the 'AAA/A-1+' credit rating for Victoria but revised its outlook to negative following 'a similar action on the Commonwealth of Australia'.³³⁷ The agency explained that:

- On July 7, 2016, we revised our outlook on the Commonwealth of Australia to negative from stable and affirmed the 'AAA/A-1+' ratings.
- We cap our long-term rating on the State of Victoria (Victoria) at the level of the long-term rating on Australia.
- Consequently, we are revising our outlook on Victoria to negative from stable and affirming our 'AAA/A-1+' ratings on the state.
- The negative outlook on Victoria reflects that on the sovereign, indicating an at least one-in-three likelihood of a downgrade of both Australia and Victoria within the next 12 months.³³⁸

³³⁶ S&P Global Ratings, *Australian State of Victoria Affirmed At 'AAA/A-1+'; Outlook Revised to Negative Following Similar Sovereign Action*, 7 July 2016; Moody's Investors Service, *Announcement: Moody's comments on Victoria's 2016/17 Budget*, 28 April 2016; Moody's Investors Service, *Credit Opinion: Victoria (State of) Australia*, 22 February 2016

³³⁷ S&P Global Ratings, *Australian State of Victoria Affirmed At 'AAA/A-1+'; Outlook Revised to Negative Following Similar Sovereign Action*, 7 July 2016, p.1

³³⁸ *ibid.*

In addition, S&P Global Ratings stated that:

The ratings on Victoria reflect our view of the extremely predictable and supportive institutional framework benefiting state governments in Australia, plus the state's very strong financial management and economy, and its exceptional liquidity. The ratings also reflect Victoria's strong budgetary performance and low contingent liabilities. Victoria's average budgetary flexibility and its moderate debt burden partially offset these strengths.³³⁹

Furthermore:

Victoria's financial management is very strong and supports the state's creditworthiness.

...

Victoria's budgetary performance is strong, and we expect its nonfinancial public sector's cash operating surplus to average about 6.7% of operating revenues (after S&P Global Ratings' adjustments) between 2014 and 2018. Although the state is in a strong position, the state forecasts in its 2015-2016 budget cash operating expenditure higher than previously by 3.8% in 2016-2018, reflecting the state government's election commitments to increase service delivery including higher staffing expenses increasing by 2.5%. These tend to be relatively inflexible and difficult to reduce, if necessary. If the state doesn't control costs, this could put pressure on budgetary performance and creditworthiness in the long run. Supporting this strong position are its small after-capital account deficits of 0.2% of total revenues over the same period, and benefit from additional revenue following the long-term lease of the Port of Melbourne Corp. (Port Melbourne). Reflecting the central government's current policy of not providing future grants of A\$1.5 billion for the construction of the East-West Link, we have removed the project from our base case. We have included the existing A\$1.5 billion that the central government has already provided because the state is in negotiations to retain these grants for other projects.³⁴⁰

Moody's Investors Service

Moody's Investors Service reaffirmed its AAA rating and 'stable' outlook for Victoria in February 2016, prior to the 2016-17 Budget release. The agency indicated that:

Victoria's credit quality reflects ample financial flexibility and a diverse economic base that supports its operations. The state's general government sector moved into a balanced position in FY2013/14, fiscal year ended June 2014, following a series of deficits that it started to incur in FY2007/08. The improved financial performance reflects strong revenue growth and the government's budgetary redress measures with a focus on slower growth in current expenditures. The state's debt burden remains manageable, and should remain stable as its improved financial performance is sustained. A continued commitment to prudent fiscal practices, however, is important to maintain the state's credit outlook given upward pressures on expenditures.

...

³³⁹ *ibid.*

³⁴⁰ *ibid.*, p.2

Victoria's AAA rating is well placed when compared to most Australian states and territories, whose ratings range from AA2 to AAA, reflecting their better financial and debt metrics, and disciplined fiscal management.³⁴¹

Additionally, Moody's Investors Service pointed out Victoria's credit strengths and challenges:

Credit Strengths

- Victoria's credit strengths include:
 - Diverse economic base to benefit from rebalancing of the country's economy in the wake of the mining investment boom
 - Well-established institutional framework, providing fiscal flexibility
 - Debt burden stabilizing
 - Improved fiscal results reflect prudent financial management and strong revenue growth

Credit Challenges

- Victoria's credit challenges include:
 - Risks to fiscal outcomes emanate from expenditure pressures
 - Lower operating balances provide less of a buffer to fund large capital investments³⁴²

After the release of the 2016-17 Budget, Moody's Investors Service highlighted that improving trends of revenue in the State rely upon once-off revenue sources:

Moody's Investors Service says that the State of Victoria's FY2016/17 budget forecasts will remain in a surplus position -- on a net lending/borrowing basis, incorporating capital expenditures -- in FY2016/17 and over the medium term. However, Moody's notes that to a large extent, the improving trends also rely upon one-time revenues and non-cash transfers related to Vic Track infrastructure assets.

The budget projects that the state's general government sector will generate a surplus of AUD1.8 billion in FY2016/17, equal to 3.0% of revenues, considerably better than last year's forecast of a minor deficit of AUD114 million, or 0.2% of revenues for FY2016/17, and also better than the state's mid-year estimates. These results are due to much stronger growth in land taxes, conveyancing duties and payroll tax, reflecting in turn the state's robust economic and population growth and some additional tax measures, along with higher levels of Commonwealth grants.

However, also contributing to the improvement are AUD1.6 billion in one-time revenues, including asset recycling grants from the Commonwealth government for the sale of the Port of Melbourne, which has not yet completed, and non-cash transfers of infrastructure assets to Vic Track which are netted off of general government capital expenditures in the amount of AUD3.7 billion; excluding these items the state would be projecting a deficit just over 6.0% of revenues.

³⁴¹ Moody's Investors Service, *Credit Opinion: Victoria (State of) Australia*, 22 February 2016, p.1

³⁴² *ibid.*

Over the medium term, the state has forecast fiscal improvements with surpluses averaging 2.3% of revenues -- from FY2015/16 through FY2018/19 -- which is also above the 0.8% average surplus forecast for the same years in the FY2015/16 budget. After excluding the non-cash transfers related to Vic Track, the state would be projecting deficits averaging 2.4% of revenues, similar to what was envisaged in last year's budget.³⁴³

Moody's Investors Services indicated that its comment on the 2016-17 Budget does not announce a credit action and that it 'intends to conduct an in-depth analysis of the budget and its medium-term impact on the State's financial and debt profile'.³⁴⁴

FINDING 74: S&P Global Ratings and Moody's Investors Services have maintained Victoria's credit rating at AAA level. However, S&P Global Ratings revised its outlook to negative following a similar action on the Commonwealth of Australia.

343 Moody's Investors Service, *Announcement: Moody's comments on Victoria's 2016/17 Budget*, 28 April 2016, p.1

344 *ibid.*

6 Output expenditure

6.1 Introduction

The majority of the Government's expenditure each year goes to output expenses. These are primarily related to the funding of services delivered by the Government. For 2016-17 the general government sector's output expenditure is expected to be \$57.5 billion and is expected to increase by an average of 2.6 per cent between 2016-17 and 2019-20.³⁴⁵

This chapter focuses on expenditure for the general government sector, and examines the Government's plans for output expenditure over the next four years. It includes a discussion of the Government's strategy for output expenditure (Section 6.2), an analysis of the trends for output expenditure over the forward estimates period (Section 6.3), including a comparison of the current estimates against previous estimates (Section 6.3.2). Section 6.4 provides an overview of the output initiatives contained in the 2016-17 Budget and discusses the Government's plan to fund these initiatives (Section 6.5). The chapter also examines how many programs have lapsed in 2015-16 (Section 6.6).

6.2 The Government's strategy

As discussed in Section 3.2.1 of this report, one element of the Government's strategy for the 2016-17 Budget is to achieve 'a net operating surplus consistent with maintaining general government net debt at a sustainable level over the medium term'.³⁴⁶

To achieve this target, the operating surplus is anticipated to be sustained over the next four years. This means that revenue is anticipated to grow at a similar rate to expenditure.

However, Section 4.3 notes that output expenses for the general government sector are expected to grow at a faster rate (2.6 per cent) than revenue (2.3 per cent) between 2016-17 and 2019-20. Section 3.4.1 also noted that increasing surpluses are expected to be achieved through large increases in land tax revenue and the once-off revenue anticipated from the pre-paid port licence fees for the Port of Melbourne.³⁴⁷

345 Department of Treasury and Finance, *Budget Paper No.2: 2016-17 Strategy and Outlook* (2016), p.45

346 *ibid.*, p.14

347 Department of Treasury and Finance, *Budget Paper No.5: 2016-17 Statement of Finances* (2016), p.25

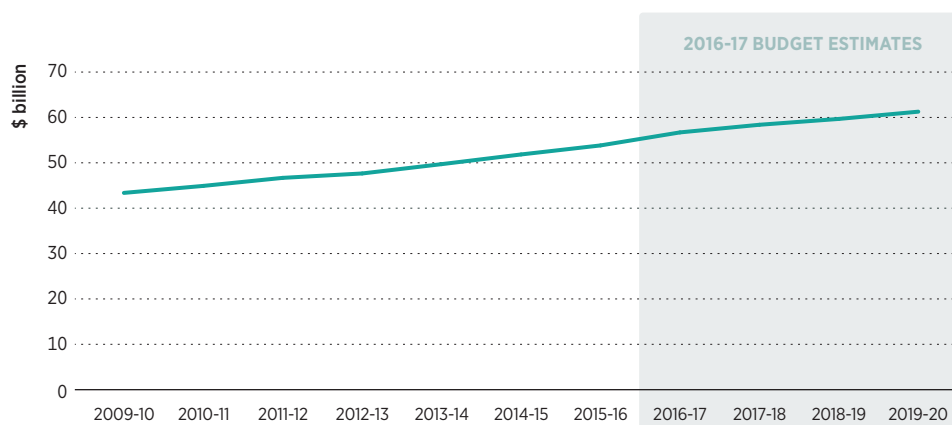
The budget papers indicate that the expected growth in expenses ‘reflects Government investment to meet demand for core services, including on health, education and social services’.³⁴⁸

FINDING 75: The Government intends to achieve its target for a general government sector operating surplus over the forward estimates period. Although output expenditure is projected to grow at faster rate (2.6 per cent) than revenue (2.3 per cent) between 2016-17 and 2019-20, the Government anticipates that it will achieve its operating surplus target as a result of increases in land tax revenue and the once-off revenue anticipated from the Port of Melbourne pre-paid port licence.

6.3 Output expenditure estimates

The estimated trend for the general government sector’s output expenditure from 2009-10 to 2019-20 is shown in Figure 6.1.

Figure 6.1 General government sector output expenditure, 2009-10 to 2019-20



Note: The 2015-16 figure is a revised estimate.

Source: Department of Treasury and Finance, *Consolidated Comprehensive Operating Statement – General Government Sector* (2016). Available at <www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Aggregate-financial-statements>, viewed 31 May 2016

As noted in Sections 3.4.1 and 6.2, the Government expects the average output expenditure growth rate to be 2.6 per cent between 2016-17 and 2019-20. This is lower than the average annual growth of 3.7 per cent between 2009-10 and 2015-16.³⁴⁹

Table 6.1 shows the Government’s year-on-year expenditure growth rate estimates in the 2016-17 Budget from the 2015-16 revised estimate to 2019-20 at the end of the forward estimates period. The Committee notes that the largest increase for output expenditure for the general government sector, on a year-on-year basis, is expected to occur in 2016-17 (5.3 per cent).

³⁴⁸ Department of Treasury and Finance, *Budget Paper No.2: 2016-17 Strategy and Outlook* (2016), p.49

³⁴⁹ Committee calculations based on Department of Treasury and Finance, *Consolidated Comprehensive Operating Statement – General Government Sector* (2016). Available at <www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Aggregate-financial-statements>, viewed 31 May 2016

Table 6.1 Year-on-year output expenditure growth, 2015-16 to 2019-20

	2015-16 revised estimate	2016-17 Budget	2017-18 estimate	2018-19 estimate	2019-20 estimate
Output expenditure growth (per cent)	3.9	5.3	3.0	2.2	2.7

Source: Department of Treasury and Finance, *Budget Paper No.2: 2016-17 Strategy and Outlook* (2016), p.45

FINDING 76: The 2016-17 Budget forecasts a slower growth rate for output expenditure over the four years to 2019-20 (2.6 per cent) than the expected average growth rate between 2009-10 and 2015-16 (3.7 per cent).

6.3.1 Output expenditure by expense type

The three largest expense categories for the general government sector in 2016-17 are:

- employee expenses (\$21.3 billion or 37.0 per cent of total expenditure)³⁵⁰
- ‘other operating expenses’ (\$18.7 billion or 32.5 per cent of total expenditure)³⁵¹
- grants and other transfers (\$9.5 billion or 16.4 per cent of total expenditure).³⁵²

Employee expenses

In explaining employee expenses, the budget papers state:

Employee expenses are always the State’s largest expense. Wages policy sets the framework for enterprise agreement negotiations and in part contributes to the projection of employee expenses. The composition and profile of the workforce, and rostering arrangements also contribute to the projection of employee expenses.³⁵³

Employee expenses are expected to be \$21.3 billion for 2016-17, an increase of 6.2 per cent from the 2015-16 revised estimate, growing by an annual average growth rate of 3.6 per cent over the remainder of the forward estimates period to total \$68.9 billion.³⁵⁴

³⁵⁰ Department of Treasury and Finance, *Budget Paper No.2: 2016-17 Strategy and Outlook* (2016), p.45

³⁵¹ ‘Other operating expenses’ consist of purchases of supplies, consumables and services from outside the general government sector entities. Department of Treasury and Finance, *Budget Paper No.2: 2016-17 Strategy and Outlook* (2016), p.49

³⁵² Department of Treasury and Finance, *Budget Paper No.2: 2016-17 Strategy and Outlook* (2016), p.45

³⁵³ *ibid.*, p.58

³⁵⁴ Committee calculations based on Department of Treasury and Finance, *Consolidated Comprehensive Operating Statement – General Government Sector* (2016). Available at <www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Aggregate-financial-statements>, viewed 31 May 2016

FINDING 77: Employee expenses are the largest component of the general government sector's output expenditure, accounting for 37.0 per cent (\$21.3 billion) of the total. They are expected to grow by an average of 3.6 per cent over the next four years, reaching \$27.3 billion in 2019-20.

The budget papers indicate that the expected change between 2015-16 and 2016-17 'is driven by annual growth in wages, consistent with the Government's wages policy, growth in staffing numbers associated with delivering additional services, growing hospital demand, and increased investment in the education sector'.³⁵⁵

In response to the Committee's budget estimates questionnaire, the Department of Treasury and Finance indicated the increase in 2016-17 is due to Government decisions that will increase staffing in the health, police and corrections sectors. The Government anticipates that this will:

- enable health services to respond to growing patient demand;
- provide additional elective surgery procedures to meet existing demand and significantly reduce waiting times;
- improve ambulance response times;
- enhance the ability of Victoria Police to keep Victorians safe from crime by funding 406 additional sworn police officers and 52 additional specialist staff; and
- strengthen community correctional services to allow for better supervision of offenders.³⁵⁶

Other operating expenses

'Other operating expenses' are expected to be \$18.7 billion in 2016-17 and \$58.5 billion over the forward estimates period.³⁵⁷ They are expected to grow by an average annual growth rate of 2.2 per cent over the next four years.³⁵⁸

Increases in other operating expenses are largely due to new Government decisions including:

- action on family violence;
- an increase relating to additional services in hospitals to meet growth in demand;
- funding to improve public transport and roads; and
- additional funding for the education sector.³⁵⁹

³⁵⁵ Department of Treasury and Finance, *Budget Paper No.2: 2016-17 Strategy and Outlook* (2016), p.49

³⁵⁶ Department of Treasury and Finance, *Response to the Committee's 2016-17 Budget Estimates General Questionnaire*, received 4 May 2016, p.27

³⁵⁷ Department of Treasury and Finance, *Budget Paper No.5: 2016-17 Statement of Finances* (2016), p.31

³⁵⁸ Committee calculations based on Department of Treasury and Finance, *Consolidated Comprehensive Operating Statement – General Government Sector* (2016). Available at <www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Aggregate-financial-statements>, viewed 31 May 2016

³⁵⁹ Department of Treasury and Finance, *Response to the Committee's 2016-17 Budget Estimates General Questionnaire*, received 4 May 2016, p.28

Grant expenses

Grant expenses are expected to be \$9.5 billion in 2016-17 and \$29.7 billion over the forward estimates period.³⁶⁰ They are expected to increase by an average annual growth rate of 2.0 per cent between 2016-17 and 2019-20.³⁶¹ Grants and other transfers consist of money given to other sector entities both within and outside the public sector. The budget papers indicate that this line item includes ‘funding provided to non-government schools, VicTrack and V/Line for operational costs incurred in the provision of transport services, and local governments’.³⁶²

Increases in grant expenses have also been driven by new budget decisions including:

- Funding for the Regional Network Development Plan;
- Additional local government funding for the Interface Councils Infrastructure Grant Fund; and
- Family violence flexible support packages and services.³⁶³

6.3.2 Comparison to previous estimates

In last year’s report the Committee noted that forecast growth rates in budget papers have historically been conservative while actual outcomes have been higher.³⁶⁴ This would suggest that the output expenditure forward estimates in the 2016-17 Budget may be underestimated. Figure 6.2 compares the 2016-17 budget estimates for output expenditure to the estimates made in previous budgets.

The Committee notes that as part of the 2016-17 Budget, the Government has revised its output expenditure estimates for 2015-16 and for each of the next four years, in line with upwards revisions for output expenditure that have been a consistent practice in previous budgets.

³⁶⁰ Department of Treasury and Finance, *Budget Paper No.5: 2016-17 Statement of Finances* (2016), p.31

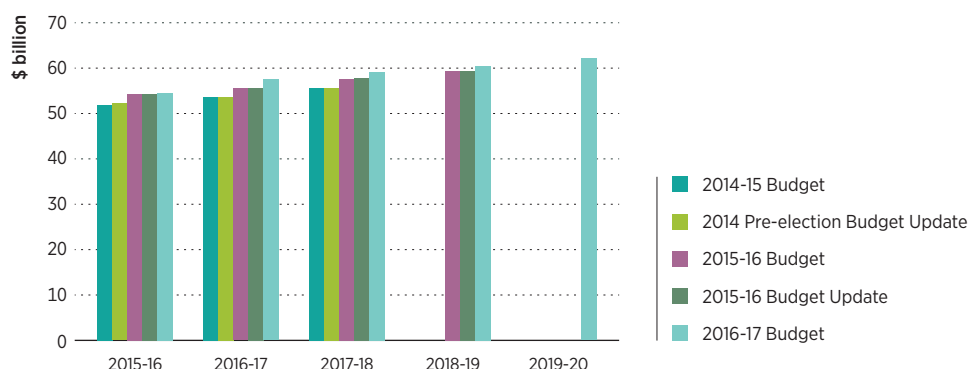
³⁶¹ Committee calculations based on Department of Treasury and Finance, *Consolidated Comprehensive Operating Statement – General Government Sector* (2016). Available at <www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Aggregate-financial-statements>, viewed 31 May 2016

³⁶² Department of Treasury and Finance, *Budget Paper No.2: 2016-17 Strategy and Outlook* (2016), p.58

³⁶³ Department of Treasury and Finance, *Response to the Committee’s 2016-17 Budget Estimates General Questionnaire*, received 4 May 2016, pp.27-8

³⁶⁴ Public Accounts and Estimates Committee, *Report on the 2015-16 Budget Estimates* (2015), pp.131-2

Figure 6.2 Comparison between the 2016-17 Budget output expenditure estimates and previous estimates, 2015-16 to 2019-20



Sources: Department of Treasury and Finance, *Budget Paper No.5: Statement of Finances*, 2014-15 to 2016-17; Department of Treasury and Finance, *2014 Victorian Pre-Election Budget Update* (2014), p.11; Department of Treasury and Finance, *2015-16 Budget Update* (2015), p.9

For the general government sector, the latest revisions for output expenses, compared to the 2015-16 Budget, increase expenditure by \$2 billion in 2016-17, by \$1.5 billion in 2017-18 and by \$1.2 billion in 2018-19.

In comparison to the *2015-16 Budget Update*, the Government has revised its estimates upward, increasing output expenditure by \$1.8 billion in 2016-17, by \$1.5 billion in 2017-18, and by \$1.1 billion in 2018-19.

Factors increasing output expenditure estimates

The Committee sought further details regarding the factors influencing the revised estimates for output expenditure. The Department of Treasury and Finance provided a detailed reconciliation between the 2015-16 Budget and the 2016-17 budget estimates (see Table 6.2).³⁶⁵

The Committee notes that this reconciliation has not been disclosed in the budget papers since the 2015-16 Budget. In its current form, the reconciliation provided in the 2016-17 budget papers refers to the budget update estimates, presenting only a number of items as net figures.³⁶⁶ In previous budgets, the table included information that enabled a detailed reconciliation, which the Committee considers to be more valuable information that would enable the reader to understand the factors driving the latest estimates.³⁶⁷

³⁶⁵ Correspondence from Mr David Martine, Secretary, Department of Treasury and Finance, to Chair, Public Accounts and Estimates Committee, received 15 September 2016

³⁶⁶ Department of Treasury and Finance, *Budget Paper No.2: 2016-17 Strategy and Outlook* (2016), p.50

³⁶⁷ Department of Treasury and Finance, *Budget Paper No.2: 2013-14 Strategy and Outlook* (2013), p.49

Table 6.2 Reconciliation between the 2015-16 Budget and the 2016-17 budget estimates for output expenditure, 2016-17 to 2018-19

	2016-17 (\$ million)	2017-18 (\$ million)	2018-19 (\$ million)
Expense estimates in the 2015-16 Budget	55,497	57,561	59,351
Policy decision variations			
2015-16 Budget Update output policy decisions ^(a)	58	24	13
2016-17 Budget output policy decisions ^(b)	2,735	2,243	2,048
Commonwealth grant variations			
Specific-purpose grants	194	225	-65
Other	151	81	48
Less:			
Funding from reprioritisation of existing resources	-626	-509	-464
Adjustments	-282	-306	-188
Savings	-26	-18	-20
Administrative variations			
Contingency offset for new policy	-200	-200	-200
Total variations in expenses	2,004	1,541	1,171
Expense estimates in the 2016-17 Budget	57,501	59,212	60,522

(a) 2015-16 Budget Update output policy decisions not broken out by reprioritisations, adjustments and savings due to a change in presentation and coding in the system

(b) Equal to '2016-17 Budget output policy decisions' (2016-17 Budget, Budget Paper 2, Table 4.4) plus expenses offset by corresponding increases in revenue as outlined in footnote (a) (e.g. \$2,318 million plus \$417 million in 2016-17 in Table 4.4)

Source: Correspondence from Mr David Martine, Secretary, Department of Treasury and Finance, to Chair, Public Accounts and Estimates Committee, received 15 September 2016

Table 6.2 shows that the upward revisions for output expenditure between 2016-17 and 2018-19 between the latest two budgets are primarily driven by output initiatives and changes in Commonwealth specific-purpose grants.

These additional costs have been partially offset by expenditure reduction initiatives, the reprioritisation of existing resources and the release of contingencies from previous budgets (see further discussion in Section 6.5.3 of this report).

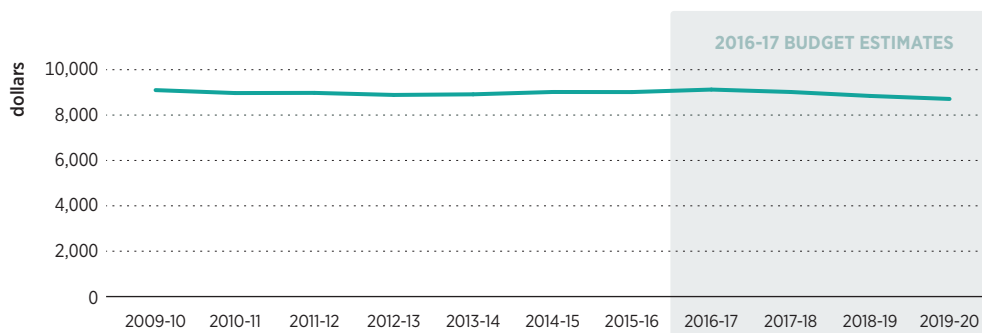
FINDING 78: The 2016-17 budget estimates for output expenditure, compared to the 2015-16 Budget, increase expenditure by \$2.0 billion in 2016-17, by \$1.5 billion in 2017-18 and by \$1.2 billion in 2018-19. These revised estimates are primarily driven by the cost of output initiatives and specific-purpose Commonwealth grants. These higher expenses are partially offset by expenditure reduction initiatives, reprioritisation of existing resources and the release of contingencies from previous budgets.

RECOMMENDATION 13: Future budget papers provide a detailed reconciliation (that is, not in net terms) and explanation of changes between estimates for output expenditure between the current budget and the previous year's budget.

6.3.3 Output expenses in real terms per Victorian

Figure 6.3 shows the expected trend for output expenses in real terms per capita (adjusted for inflation and population growth) from 2009-10 to 2019-20. Using this measure, general government sector output expenses is expected to be \$9,344 per Victorian for 2016-17.

Figure 6.3 Output expenses in real terms per Victorian,^(a) general government sector, 2009-10 to 2019-20



(a) Expressed in 2016-17 prices

Sources: Committee calculations based on: Department of Treasury and Finance, *Consolidated Comprehensive Operating Statement – General Government Sector* (2016). Available at <www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Aggregate-financial-statements>, viewed 31 May 2016; Department of Treasury and Finance, *Macroeconomic Indicators* (2016). Available at <www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Macroeconomic-indicators>, viewed 31 May 2016

As seen in Figure 6.3, the Government expects that output expenditure in real terms per capita will decrease by an average of 1.5 per cent between 2016-17 and 2019-20.³⁶⁸ In contrast, output expenditure in real terms is expected to have increased by an average of 0.5 per cent between 2012-13 and 2015-16.³⁶⁹

Despite the nominal growth in output expenses as seen in Figure 6.1, the estimates for output expenditure in real terms per capita show that nominal growth is not expected to keep pace with the anticipated population growth and inflation. If these estimates eventuate, the Government would need to either increase expenditure or achieve significant efficiencies to maintain the same level of service delivery per Victorian.³⁷⁰

FINDING 79: The Government expects output expenditure in real terms per Victorian to decline by an average of 1.5 per cent over the next four years. Output expenditure in real terms increased by an average of 0.5 per cent between 2012-13 and 2015-16.

³⁶⁸ Committee calculations based on: Department of Treasury and Finance, *Consolidated Comprehensive Operating Statement – General Government Sector* (2016). Available at <www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Aggregate-financial-statements>, viewed 31 May 2016; Department of Treasury and Finance, *Macroeconomic Indicators* (2016). Available at <www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Macroeconomic-indicators>, viewed 31 May 2016

³⁶⁹ *ibid.*

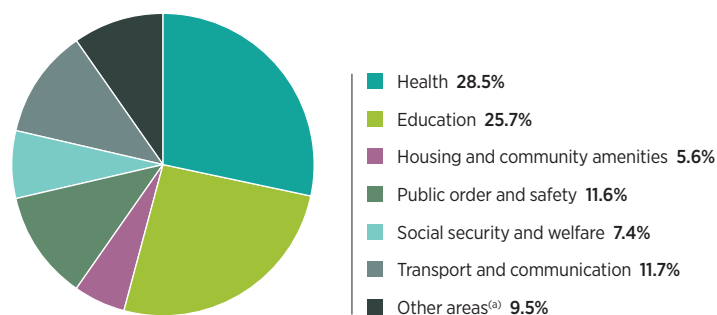
³⁷⁰ The estimated decline in output expenditure in real terms per Victorian may be also a result of the possible underestimation of output expenditure estimates as previously noted in this section.

6.3.4 Output expenditure by government purpose classification

Output expenditure can be broken down according to the ‘government purpose classification’, which classifies expenditure in terms of the purposes for which the transactions are made.³⁷¹

Figure 6.4 shows that ‘health’ and ‘education’ are expected to be the two largest areas of expenditure, accounting for 54.2 per cent (or \$31.2 billion) of total output expenditure in 2016-17. This is followed by ‘transport and communication’ (11.7 per cent or \$6.8 billion), ‘public order and safety’ (11.6 per cent or \$6.6 billion), and ‘social security and welfare’ (7.4 per cent or \$4.2 billion).

Figure 6.4 Expenses by government purpose classification, 2016-17 Budget



(a) ‘Other areas’ includes: ‘general public services’, ‘recreation and culture’, ‘fuel and energy’, ‘agriculture, forestry, fishing and hunting’, ‘mining, manufacturing and construction’, ‘other economic affairs’ and ‘other purposes’.

Source: Committee calculations based on: Department of Treasury and Finance, *Consolidated Government Purpose Classification Data* (2016). Available at <www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Aggregate-financial-statements>, viewed 9 August 2016

The budget papers also provide details on the total output expenditure across the different departments. However, the Committee notes that information at a departmental level on output expenditure is not broken down by government purpose classification.³⁷²

In accordance with the AASB Standard 1049, the government purpose classification assists:

... users in identifying the resources committed to particular functions and the costs of service delivery that are reliably attributable to those functions. Functional classification of financial information, where it can be determined reliably, will also assist users in assessing the significance of financial or non-financial performance indicators reported by the government.³⁷³

³⁷¹ Department of Treasury and Finance, *2014-15 Financial Report* (2015), p.198

³⁷² Department of Treasury and Finance, *Budget Paper No.5: 2016-17 Statement of Finances* (2016), p.33

³⁷³ Commonwealth of Australia, Australian Accounting Standards Board, *Compiled AASB Standard (AASB 1049) – Whole of Government and General Government Sector Financial Reporting* (March 2015), p.31

The *Financial Management Act 1994* also specifies that a key principle of sound financial management for the Victorian Government is to ‘provide full, accurate and timely disclosure of financial information relating to the activities of the Government and its agencies’.³⁷⁴

The Committee considers that providing disclosure of total output expenses by government purpose classification by department would enable the reader to further examine the reasons for expenditure variances and priorities for each department over the forward estimates period.

For example, in the Committee’s 2016-17 Budget Estimates General Questionnaire, the Department of Health and Human Services explained that growth in the estimates for 2015-16 (\$487.8 million) and 2016-17 (\$578.1 million) in the ‘housing and community amenities’ category are primarily due to:

- additional funding for new initiatives provided in the 2016-17 State Budget
- continuing implementation of initiatives announced in previous budgets
- additional funding for anticipated cost increases in 2016-17.³⁷⁵

The Committee considers that such a disclosure made by all departments would provide a greater level of ‘full, accurate and timely disclosure of financial information’,³⁷⁶ which would facilitate a more reliable assessment of the Government’s plans for output expenditure.

Additionally, the Committee notes that when explaining variances across the forward estimates the budget papers provide generic explanations for these movements. For example, variances for ‘housing and community amenities’ are explained with the following statement:

The downward movement from 2017-18 relates to sunsetting initiatives and movements in funding across years for various initiatives.³⁷⁷

The Committee notes that this statement was also provided to explain similar variances in the 2015-16 budget papers.³⁷⁸

The Committee considers that future budget papers should provide clearer and more meaningful details on how service delivery would be affected by expected variances of output expenditure in the future.

³⁷⁴ *Financial Management Act 1994* (Vic) s.23D(1)(e)

³⁷⁵ Department of Health and Human Services, *Response to the Committee’s 2016-17 Budget Estimates General Questionnaire*, received 10 May 2016, p.17

³⁷⁶ *Financial Management Act 1994* (Vic) s.23D(1)(e)

³⁷⁷ Department of Treasury and Finance, *Budget Paper No.5: 2016-17 Statement of Finances* (2016), p.32

³⁷⁸ Department of Treasury and Finance, *Budget Paper No.5: 2015-16 Statement of Finances* (2015), p.34

FINDING 80: According to the government purpose classification, the largest areas of expenditure are 'health' (28.5 per cent of total expenditure) and 'education' (25.7 per cent of total expenditure).

FINDING 81: Expected changes in expenses by government purpose classification are not explained in sufficient detail in the budget papers. In addition, the budget papers do not provide a break-down of output expenses by government purpose classification at a departmental level.

RECOMMENDATION 14: Future budget papers provide a break-down of total output expenses by government purpose classification for each department.

RECOMMENDATION 15: Future budget papers discuss and provide details of significant changes in estimates from one year to another for output expenditure according to the government purpose classification.

6.4 Output initiatives

The new output initiatives announced in the 2016-17 Budget have an estimated value of \$6.8 billion over five years (from 2015-16 to 2019-20).³⁷⁹ Of this total, the Government plans to spend \$2.3 billion in 2016-17 and then spend between \$1.2 billion and \$1.7 billion each year from 2017-18 to 2019-20 (see Table 6.3).

Table 6.3 Estimated funding for new output initiatives, 2016-17 Budget

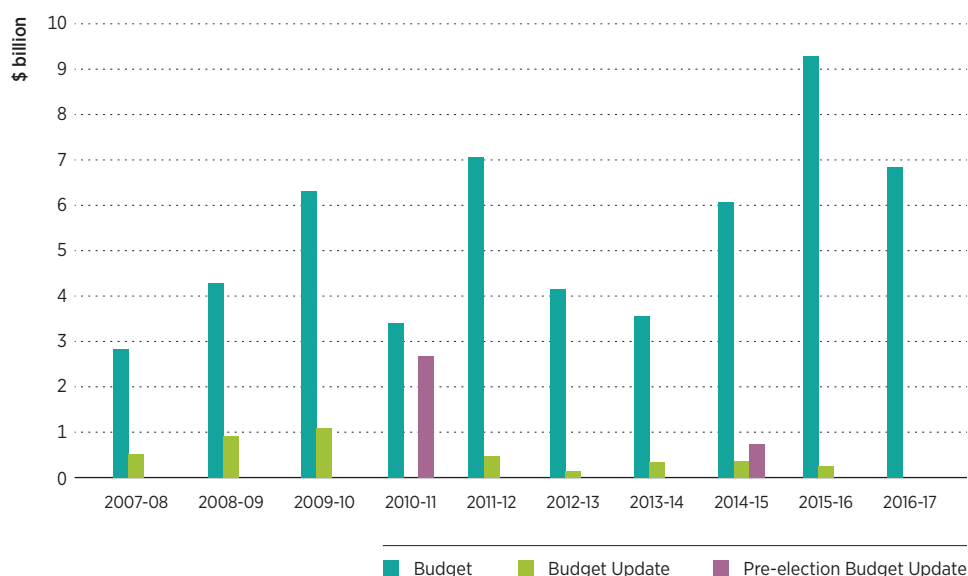
	2015-16 estimate	2016-17 Budget	2017-18 estimate	2018-19 estimate	2019-20 estimate
	(\$ million)	(\$ million)	(\$ million)	(\$ million)	(\$ million)
Estimated cost of new output initiatives	244.2	2,317.7	1,728.6	1,319.7	1,227.4

Source: Department of Treasury and Finance, *Budget Paper No.3: 2016-17 Service Delivery* (2016), p.5

Figure 6.5 compares the estimated funding for new output initiatives released in the 2016-17 Budget to past budgets and demonstrates the amount of funding required for new output initiatives in the 2016-17 Budget is less by \$2.5 billion compared to the 2015-16 Budget.³⁸⁰

³⁷⁹ Department of Treasury and Finance, *Budget Paper No.3: 2016-17 Service Delivery* (2016), p.5

³⁸⁰ *ibid.*

Figure 6.5 New output initiatives^{(a)(b)}, current and previous budgets, 2007-08 to 2016-17

(a) Five-year totals

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

Sources: Committee calculations based on: Department of Treasury and Finance, *Budget Paper No.3: Service Delivery*, 2007-08 to 2016-17; Department of Treasury and Finance, *Victorian Budget Update*, 2007-08 to 2015-16; Department of Treasury and Finance, *Victorian Pre-Election Budget Update*, 2010 and 2014

6.4.1 Key output initiatives announced in the 2016-17 Budget

This section provides an outline of three of the key output initiatives in the 2016-17 Budget:

- *Meeting Hospital Services Demand*
- *Public Safety – Police Response*
- *Improving Access to Elective Surgery.*

A table of the estimated funding for output initiatives above \$100 million for 2016-17 and the forward estimates period in the 2016-17 Budget can be found in Appendix A6.1.

Meeting Hospital Services Demand

The *Meeting Hospital Services Demand* output initiative has an estimated funding of \$271.7 million for 2016-17 and an additional \$706.7 million over the forward estimates period. The budget papers indicate that the funding of this new output initiative ‘will enable health services to respond to growing patient demand across Victoria. Services targeted include emergency department presentations, intensive care, maternity admissions, specialist clinics, palliative care, chemotherapy, radiotherapy and sub-acute care’.³⁸¹

381 *ibid.*, p.80

In the budget estimates hearings, the Deputy Secretary, Health Services, Policy and Programs of the Department of Health and Human Services stated:

That funding is for growth in hospital activity—so expanded services. That pays for things like additional emergency department capacity, additional elective surgery capacity, additional palliative care capacity, additional chemotherapy, radiotherapy, renal dialysis—so all of our acute hospital services; we work out what the demand is going to be based on population growth demand capacity. That wraps up into that amount of money, and then we allocate that funding to health services.³⁸²

The budget papers also note that funding for this output initiative includes Commonwealth funding as part of the National Health Reform Agreement.³⁸³ The portion of Commonwealth funding is not disclosed in the budget papers.

Public Safety – Police Response

The *Public Safety – Police Response* output initiative is expected to cost \$47.1 million in 2016-17, and \$343.6 million over the remainder of the forward estimates period.³⁸⁴ The budget papers state that as a result of the *Public Safety – Police Response* output initiative:

... there will be an increase in frontline police numbers as well as specialist policing resources to target serious crime and gang activity. This package includes 406 additional sworn police officers and 52 additional specialist staff, technology upgrades such as body worn cameras and mobile technology for police officers, and an expanded forensic and fingerprinting capability.³⁸⁵

Improving Access to Elective Surgery

The *Improving Access to Elective Surgery* is expected to cost \$167.0 million in 2016-17 and a further \$148.2 million over the forward estimates period.³⁸⁶ The budget papers note this additional funding will ‘enable additional elective surgery procedures to meet existing demand and significantly reduce waiting times. Funding includes minor capital grants to increase elective surgery capacity’.³⁸⁷ As with the *Meeting Hospital Services Demand* initiative, this output initiative also includes a portion of Commonwealth funding under the National Health Reform Agreement.³⁸⁸

This output initiative included funding of \$20.0 million in 2015-16. At the budget estimates hearings, the Minister for Health explained that, ‘... [this funding] is really important—making sure that those health services that require a little bit of capital investment or additional money in order to enhance their capacity to

³⁸² Ms Frances Diver, Deputy Secretary, Department of Health and Human Services, *2016-17 Budget Estimates Transcript of Evidence*, 11 May 2016, p.27

³⁸³ Department of Treasury and Finance, *Budget Paper No.3: 2016-17 Service Delivery* (2016), p.79

³⁸⁴ *ibid.*, p.97

³⁸⁵ *ibid.*, p.100

³⁸⁶ *ibid.*, p.78

³⁸⁷ *ibid.*, p.80

³⁸⁸ *ibid.*, p.79

perform more elective surgery. That is why we did a bring forward earlier this year of \$20 million to enable many of those health services to prepare themselves for this very, very significant investment'.³⁸⁹

Furthermore, the Minister explained to the Committee:

I think the other critical issue, another important part of elective surgery, is addressing the very many problems that have beset outpatients clinics and specialist clinics as well, because the two are very much interrelated. For the first time ever, I have published the data around outpatients clinics. I am giving health services some funding to enable them to get their data in a way that is fit for purpose, but we have great administrative and healthcare reform challenges to make sure that we are having more efficient use of specialist clinics, which then means that people are able to ensure that they start bringing down their elective surgery waiting lists dramatically. But demand is a great challenge, both on our elective surgery waiting lists and with our emergency departments. It is population growth/age, but the big one in health is always utilisation.

...

The current waiting list at the last quarter was 41 557. We are happy that we have managed to get the trend going in the right direction around our elective surgery waiting list. That is not to say people still are not waiting too long. We are dedicated to turning that around.³⁹⁰

FINDING 82: The 2016-17 Budget announced new output initiatives with an estimated value of \$6.8 billion from 2015-16 to 2019-20. Two of the three largest initiatives delivered through the Department of Health and Human Services are related to better meeting the demand for hospital services and improving access to elective surgery.

6.5 Funding the new initiatives

The estimated cost of new output initiatives has been partially offset by:

- expenditure reduction initiatives³⁹¹
- reprioritisation of existing departmental funding
- the release of contingencies set aside in past budget estimates.

6.5.1 Expenditure reduction initiatives

Expenditure reduction initiatives reduce departments' expenditure either by reducing the goods or services delivered, or by finding greater efficiencies in their delivery.

³⁸⁹ Hon. Jill Hennessy MP, Minister for Health, *2016-17 Budget Estimates Transcript of Evidence*, 11 May 2016, p.10

³⁹⁰ *ibid.*, pp.10, 18

³⁹¹ Referred to as 'savings and efficiencies' in the budget papers.

The 2016-17 Budget announced expenditure reduction initiatives estimated at \$84.2 million over four years (see Table 6.4).³⁹²

Table 6.4 Expenditure reduction initiatives, 2016-17 Budget

Department	2016-17 Budget (\$ million)	2017-18 estimate (\$ million)	2018-19 estimate (\$ million)	2019-20 estimate (\$ million)
Economic, Development, Jobs, Transport and Resources	3.0	3.0	3.0	3.0
Education and Training	13.2	5.0	5.0	5.0
Environment, Land, Water and Planning	-	-	1.5	2.5
Justice and Regulation	-	10.0	10.0	10.0
Total	16.2	18.0	19.5	20.5

Source: Department of Treasury and Finance, *Budget Paper No.3: 2016-17 Service Delivery* (2016), p.118

The Department of Economic Development, Jobs, Transport and Resources is expected to reduce its operating expenditure by \$3.0 million in 2016-17 and \$9 million over the forward estimates period by implementing 'tighter control of grants expenditure'.³⁹³

The Department of Education and Training is expected to reduce its expenditure by \$13.2 million in 2016-17 and \$15 million over the forward estimates period. It is anticipated that the Department will achieve this by 'reducing the use of temporary labour hire and contractors, managing program allocations informed by updated usage information and ceasing a redundant funding allocation'.³⁹⁴ The Department of Education and Training has provided further information to the Committee regarding these expenditure reduction initiatives, indicating that while 'reducing the use of temporary labour hire and contractors' is estimated to save \$4.0 million in 2016-17, it:

... does not anticipate an overall decline in staff as a result of this initiative. The Department is implementing a strategy to reduce the use of temporary labour hire and contractors. Some of these positions are expected to transfer into the VPS. This will result in cost savings through reduced fees paid to labour hire firms.³⁹⁵

For the Department of Education and Training's remaining two expenditure reduction initiatives for 2016-17, 'managing program allocation informed by updated usage information' is estimated to save \$1 million and 'ceasing a redundant funding allocation' initiative is anticipated to save \$8.2 million.³⁹⁶

³⁹² Department of Treasury and Finance, *Budget Paper No.3: 2016-17 Service Delivery* (2016), p.118

³⁹³ *ibid.*

³⁹⁴ *ibid.*

³⁹⁵ Department of Education and Training, *Response to the Committee's 2016-17 Budget Estimates Entity-specific Questionnaire*, received 7 July 2016, p.3

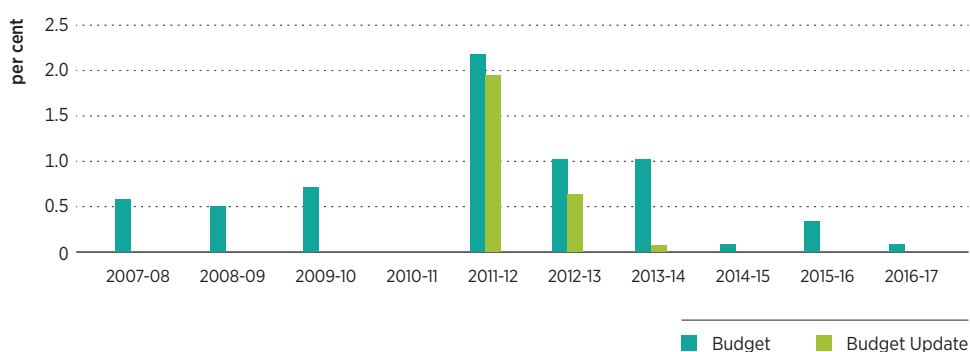
³⁹⁶ *ibid.*

The Department of Environment, Land, Water and Planning is expected to save \$4 million across 2018-19 and 2019-20 ‘through opportunities to streamline administrative and policy functions’.³⁹⁷

The Department of Justice and Regulation is expected to implement \$10.0 million for each year from 2016-17 to 2019-20 in expenditure reduction initiatives ‘including through opportunities to streamline administrative functions and deliver additional procurement savings’.³⁹⁸

Figure 6.6 shows the value of expenditure reduction initiatives released in previous budgets. The Committee notes that the value of expenditure reduction announced in the 2016-17 Budget is significantly smaller compared to past budget estimates, with the exception of the 2014-15 Budget.

Figure 6.6 Expenditure reduction initiatives^(a), current and previous budgets, 2007-08 to 2016-17



(a) Five-year totals

Sources: Committee calculations based on: Department of Treasury and Finance, *Budget Paper No.3: Service Delivery*, 2007-08 to 2016-17; Department of Treasury and Finance, *Victorian Budget Update*, 2007-08 to 2015-16; Department of Treasury and Finance, *Victorian Pre-Election Budget Update*, 2010 and 2014

FINDING 83: The Government announced expenditure reduction initiatives estimated at \$84.2 million from 2016-17 to 2019-20. This is significantly lower compared to previous budgets.

The Committee has previously noted that the disclosure regarding the way that expenditure reduction measures are implemented and reported can be improved.³⁹⁹ In its *Report on the 2015-16 Budget Estimates*, the Committee recommended that the Model Report⁴⁰⁰ should be updated ‘to require all departments to list expenditure reduction targets set for the relevant year

³⁹⁷ Department of Treasury and Finance, *Budget Paper No.3: 2016-17 Service Delivery* (2016), p.118

³⁹⁸ *ibid.*

³⁹⁹ The former Committee also discussed these concerns in past reports during the 57th Parliament. See Public Accounts and Estimates Committee, *Report on the 2013-14 Budget Estimates – Part Two* (2013), pp.122-4; Public Accounts and Estimates Committee, *Report on the 2011-12 Financial and Performance Outcomes* (2013), pp.56-7

⁴⁰⁰ The Model Report is a document developed by the Department of Treasury and Finance which sets out the requirements for departments in preparing their annual reports.

and how these targets were met ... [including] details of any impacts on service delivery, including quantification of the impacts where possible'.⁴⁰¹ The Government did not support the recommendation, stating that:

Under the output management framework, departments are funded for the delivery of outputs. Departments have responsibility to allocate resources within their budgets to best deliver their outputs. Budget decisions which are anticipated to have a significant impact on service delivery (including savings) are disclosed in Budget Paper No. 3 through changes to performance measures or targets, with commentary in footnotes.

As the Annual Report discloses an acquittal of the budget, it is not appropriate to require departments to report on budget decisions that were not published in the budget papers.⁴⁰²

The Committee understands that, as indicated by the Government response to the Committee's recommendation, departments have the responsibility to allocate resources in the best possible way to optimise service delivery. However, it also considers that this should not be independent to the provision of the appropriate level of disclosure to enable a better understanding of how departments meet their financial objectives.

FINDING 84: The Government did not support a previous Committee recommendation to require departments to list expenditure reduction targets set for the relevant year and explain details of how these targets are being met. The Government indicated that budget decisions that impact service delivery are already explained through changes to performance measures or targets and that 'it is not appropriate to require departments to report on budget decisions that were not published in the budget papers'.

6.5.2 Reprioritisation of existing resources

The budget papers indicate that a total of \$1.9 billion of existing resources is to be reprioritised over the next four years (see Table 6.5).⁴⁰³

Table 6.5 Reprioritisation of existing resources, 2016-17 Budget

	2016-17 Budget	2017-18 estimate	2018-19 estimate	2019-20 estimate
	(\$ million)	(\$ million)	(\$ million)	(\$ million)
Reprioritisation of existing resources	626	509	464	337

Source: Department of Treasury and Finance, *Budget Paper No.2: 2016-17 Strategy and Outlook* (2016), p.51

⁴⁰¹ Public Accounts and Estimates Committee, *Report on the 2015-16 Budget Estimates* (2015), Recommendation 43, p.151

⁴⁰² Victorian Government, *Government Responses to the Recommendations of Public Accounts and Estimates Committee's Report on the 2015-16 Budget Estimates*, tabled 4 May 2016, p.15

⁴⁰³ Department of Treasury and Finance, *Budget Paper No.2: 2016-17 Strategy and Outlook* (2016), p.51

The Committee sought further details from departments on these reprioritisations. Six departments quantified their responses and identified a number of programs from which funding has been reprioritised between 2016-17 and 2019-20. However, the amounts reported by the departments to the Committee account for only \$385.8 million of the total amount reported in the budget papers (or 20.3 per cent of the total).⁴⁰⁴

In its *Report on the 2015-16 Budget Estimates*, the Committee recommended that budget papers should include details of the programs from which funding has been reprioritised, including the name of the program, the amount reprioritised and the budget in which the initiative was released.⁴⁰⁵

The Committee has previously recommended that the Model Report should be updated to require departments to report on the actual amounts of money reprioritised, including the same details as recommended for future budget papers.⁴⁰⁶

The Government did not support either recommendation, reiterating that 'Departments have responsibility to allocate resources within their budgets to best deliver their outputs', and indicating that:

Departments are funded on a global appropriation basis and Ministers have the ability to reprioritise funding within their portfolio department. If the reprioritisation is anticipated to have a significant impact on service delivery, this is disclosed in Budget Paper No. 3 through changes to performance measures or targets, with commentary in footnotes.⁴⁰⁷

FINDING 85: The Government intends that \$1.9 billion of the cost of new output initiatives will be funded by reprioritising resources previously allocated to departments. However, the Committee was able to identify only \$385.5 million out of this total with the information provided by the departments in response to the Committee's 2016-17 Budget Estimates General Questionnaire.

6.5.3 Contingencies

The 2016-17 Budget also includes money that has been set aside to fund expenditure in future years for purposes that have yet to be determined.⁴⁰⁸

The budget papers break down contingencies into two different categories:

⁴⁰⁴ Committee calculations based on departmental responses to *the Public Accounts and Estimates Committee's 2016-17 Budget Estimates General Questionnaire* q.13.

⁴⁰⁵ Public Accounts and Estimates Committee, *Report on the 2015-16 Budget Estimates* (2015), Recommendation 44, p.152

⁴⁰⁶ Public Accounts and Estimates Committee, *Report on the 2015-16 Budget Estimates* (2015), Recommendation 45, p.153

⁴⁰⁷ Victorian Government, *Government Responses to the Recommendations of Public Accounts and Estimates Committee's Report on the 2015-16 Budget Estimates*, tabled 4 May 2016, pp.15-16

⁴⁰⁸ Department of Treasury and Finance, *Budget Paper No.5: 2016-17 Statement of Finances* (2016), p.33

- Decisions made but not yet allocated [which] reflects existing government policy decisions for which funding has yet to be allocated to departments; provisions not yet allocated to meet additional price and demand growth for health, disability and education; and a provision for estimated depreciation expense associated with the general government unallocated asset contingency.
- Funding not allocated to specific purposes [which is] an unallocated provision available to contribute to future government policy decisions and commitments, including for decisions to extend lapsing programs across the budget and forward estimates.⁴⁰⁹

The budget papers indicate that contingencies have been reduced by \$1.7 billion to partially fund 2016-17 Budget initiatives over the forward estimates period.⁴¹⁰

Table 6.6 compares the total amount of contingencies set aside in the 2016-17 Budget against the 2015-16 Budget.

Table 6.6 Output contingencies, 2016-17 Budget and 2015-16 Budget

		2015-16 Budget	2016-17 Budget	2017-18 estimate	2018-19 estimate	2019-20 estimate
		(\$ million)	(\$ million)	(\$ million)	(\$ million)	(\$ million)
2015-16 Budget	Decisions made but not yet allocated	418	1,336	2,424	3,494	n/a
	Funding not allocated to specific purposes	100	300	500	700	n/a
	Total output contingencies	518	1,637	2,924	4,194	n/a
2016-17 Budget	Decisions made but not yet allocated	n/a	518	1,648	2,740	3,434
	Funding not allocated to specific purposes	n/a	300	300	500	700
	Total output contingencies	n/a	818	1,948	3,240	4,134

Sources: Department of Treasury and Finance, *Budget Paper No.5: 2015-16 Statement of Finances* (2015), p.35; Department of Treasury and Finance, *Budget Paper No.5: 2016-17 Statement of Finances* (2016), p.33

The Committee notes that the total amount of output contingencies in the 2016-17 Budget (\$10.1 billion from 2016-17 to 2019-20) is higher by approximately \$800 million compared to the amount released in the 2015-16 Budget (\$9.3 billion from 2015-16 to 2018-19).

⁴⁰⁹ *ibid.*

⁴¹⁰ Committee calculations based on the sum of 'adjustments' and 'contingency offset for new policy'. See Department of Treasury and Finance, *Budget Paper No.2: 2016-17 Strategy and Outlook* (2016), p.51

The Committee notes that having a higher amount of output contingencies will allow the Government to have more resources to fund new initiatives in future budgets without reducing the operating surplus, raising any other additional revenue streams, reducing other output expenditure, or increasing future output expenditure estimates.

FINDING 86: The Government has used \$1.7 billion to offset the estimated cost of new output initiatives released in the 2016-17 Budget. In addition, it has put aside \$10.1 billion (four-year total) in contingencies to fund initiatives in future years.

6.6 Lapsing and discontinued programs

In the event that funding for a specific program has been fully expended, a department may choose the following:

- obtain more funding through another time-limited initiative
- continue the program utilising the department's own funding
- discontinue the program.

As part of this inquiry, the Committee sought further details from the departments regarding any programs or initiatives that have lapsed in 2015-16. The Committee notes that this information is not disclosed in the budget papers.

The departments identified 87 programs as lapsing in 2015-16 with a total expenditure (in 2015-16) of \$467.9 million.⁴¹¹ The departments indicated that in some cases these programs are expected to be funded through new output initiatives released in the 2016-17 Budget, while others will continue to be funded through the department's own sources or be discontinued.⁴¹²

The Committee has previously noted the discrepancy between the number of lapsing programs reported by the departments in response to the Committee's questionnaire and the number of programs with time-limited funding according to the information provided in the budget papers.⁴¹³ This discrepancy can be partly explained by:

- the lack of identification in the budget papers of existing programs that have had their funding extended for longer than initially stated
- new initiatives that essentially provide further funding for existing initiatives.

⁴¹¹ Committee calculations based on departmental responses to the Committee's 2016-17 Budget Estimates General Questionnaire. Further details of these programs can be found on the Committee's website (www.parliament.vic.gov.au/paec).

⁴¹² Departmental responses to the Committee's 2016-17 Budget Estimates General Questionnaire. Further details of these programs can be found on the Committee's website (www.parliament.vic.gov.au/paec).

⁴¹³ Public Accounts and Estimates Committee, *Report on the 2015-16 Budget Estimates* (2015), p.155

In a previous report, the Committee recommended that future budget papers should make the distinction between these two categories.⁴¹⁴

In response to the Committee's recommendation, the Government indicated that it 'supports future budget papers identifying initiatives that are provided with ongoing funding or supplement a lapsing initiative, and will give consideration to how this could be implemented'.⁴¹⁵

FINDING 87: In response to the Committee's 2016-17 Budget Estimates General Questionnaire, the departments identified 87 programs that have lapsed in 2015-16 with a total expenditure of \$467.9 million. The budget papers do not identify whether some of these initiatives will receive further funding or be discontinued.

414 *ibid.*

415 Victorian Government, *Government Responses to the Recommendations of Public Accounts and Estimates Committee's Report on the 2015-16 Budget Estimates*, tabled 4 May 2016, p.16

7

Asset investment

7.1 Introduction

This chapter examines the Government's plans for investment in infrastructure and other physical assets as outlined in the 2016-17 Budget. This includes the Government's strategy for asset investment (Section 7.2) and the expected levels of investment expenditure by the general government sector over the forward estimates period, seen in Table 7.1 and discussed further in Section 7.3.

Table 7.1 Government infrastructure investment,^(a) 2015-16 to 2019-20

	2015-16 revised estimate	2016-17 Budget	2017-18 estimate	2018-19 estimate	2019-20 estimate
Net direct asset investment (\$ million)	3,891.1	6,719.5	6,333.2	6,101.9	5,252.2
Investment through other sectors (\$ million)	-54.3	-391.0	-1,555.6	-1,676.0	-1,601.9
PPP and other investment (\$ million)	620.0 ^(b)	1,134.7	2,962.5	2,953.4	3,469.7
Government infrastructure investment (\$ million)	4,456.8	7,463.2	7,740.0	7,379.3	7,120.0
Annual growth					
• (\$ million)	-184.3	3,006.4	276.8	-360.7	-259.3
• (per cent)	-4.0	67.5	3.7	-4.7	-3.5
Average annual growth rate (2016-17 to 2019-20) (per cent) ^(c)			-1.6		

(a) Sum of direct asset investment net of asset sales, investment through other sectors and construction expenditure carried out by the private sector on behalf of the government.

(b) Calculated by elimination

(c) Compound annual growth rate calculated by the Committee.

Sources: Department of Treasury and Finance, *Net Infrastructure Investment* (2016). Available at <www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Other-financial-aggregates>, viewed 3 June 2016; Department of Treasury and Finance, *Consolidated Cash Flow Statement - General Government Sector* (2016). Available at <www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Aggregate-financial-statements>, viewed 3 June 2016; Department of Treasury and Finance, *Budget Paper No.4: 2016-17 State Capital Program* (2016), p.15

Government infrastructure investment is comprised of net direct asset investment (represented in the budget papers as 'purchases of non-financial assets' net of asset sales), investments through other sectors ('net cash flows from investments in financial assets for policy purposes') and investment in public private partnership (PPP) projects and other projects with unpublished estimates.⁴¹⁶

⁴¹⁶ Such as the *Port Rail Shuttle* project (Department of Treasury and Finance, *Budget Paper No.4: 2016-17 State Capital Program* (2016), p.25)

In turn, investment in PPP projects is the estimate of the amount invested by the private sector on behalf of the Government on PPP projects.

Table 7.1 shows that that Government infrastructure investment is anticipated to climb to historically high levels and remain at high levels over the forward estimates period. While this is a result of a large increase in direct investment in 2016-17, it is anticipated to be sustained for the rest of the forward estimates period by strong growth in expenditure by the private sector on PPP projects. PPP projects are further discussed in terms of their benefits, issues relating to the transparency of PPP projects and recent amendments made to the auditing of PPP projects (Sections 7.3.3 to 7.3.7).

This chapter contains an outline and discussion of some of the new major asset initiatives outlined in the Budget (Sections 7.3.1 and 7.3.3).

The chapter also discusses the level of net investment through other sectors. Investment through other sectors has been falling over the past five years. This is forecast to continue over the whole of the forward estimates period as the general government sector is expected to make capital withdrawals from the public non-financial corporations (PNFC) sector, turning the PNFC entities into a source of investment funds (Section 7.5).

In addition, the chapter discusses the different accounting treatment for the Port of Melbourne lease transaction in the 2016-17 Budget in comparison to the 2015-16 Budget. Overall the discussion concludes that the accounting treatment in this year's budget papers detracts from transparency (Section 7.6.1).

7.2 Strategy

As discussed in Chapter 3, the Government has set out its long-term financial strategy in the budget papers. This is made up of four financial management objectives, three of which are directly related to infrastructure investment. These objectives are unchanged from the 2015-16 budget papers, and are shown in Table 7.2.

Table 7.2 The Government's long-term financial management objectives, 2016-17 Budget

Priority	Objective
Sound financial management	Victoria's finances will be managed in a responsible manner to provide capacity to fund services and infrastructure at levels consistent with maintaining a triple A credit rating.
Improving services	Public services will improve over time.
Building infrastructure	Public infrastructure will grow steadily over time to meet the needs of a growing population.
Efficient use of public resources	Public sector resources will be invested in services and infrastructure to maximise the economic, social and environmental benefits.

Source: Department of Treasury and Finance, *Budget Paper No.2: 2015-16 Strategy and Outlook* (2016), p.14

The Government intends infrastructure investment to increase in order to provide for a growing population. The Government also intends to limit net debt as expressed as a proportion of GSP. This is discussed further in Section 3.2.1.

7.2.1 Statutory bodies related to infrastructure planning

The Government has established two statutory authorities related to infrastructure planning:

- Infrastructure Victoria
- Projects Victoria.

Infrastructure Victoria

Infrastructure Victoria was established in October 2015, the result of an initiative released in the *2014-15 Victorian Budget Update*.⁴¹⁷ It is an independent advisory body, having its own legislation.⁴¹⁸

The stated purpose of Infrastructure Victoria is to ‘provide expert advice and guide decision-making on Victoria’s infrastructure needs and priorities’.⁴¹⁹ The role of the authority is not to oversee or manage infrastructure investment itself, but rather to supply a 30-year ‘pipeline’ of projects, giving the Government a range of options for future infrastructure provision. Options are prepared after consultation with the community and stakeholder groups.

Projects Victoria

As part of the 2015-16 Budget, the Government committed \$2.5 million annually between 2015-16 and 2018-19 to fulfil its election commitment to establish Projects Victoria.⁴²⁰ The Department of Premier and Cabinet has advised the Committee that:

Projects Victoria will support project development and delivery by providing advice on capital investment decisions, overseeing all major projects and improving project delivery capability across Government. Projects Victoria will also include the Victorian Chief Engineer, who will provide expert advice on technical readiness and execution of all major infrastructure projects.⁴²¹

⁴¹⁷ Department of Treasury and Finance, *2014-15 Victorian Budget Update* (2014), p.123

⁴¹⁸ *Infrastructure Victoria Act (2015)*

⁴¹⁹ Infrastructure Victoria, *Infrastructure Victoria Fact Sheet*, p.1. Available at <www.infrastructurevictoria.com.au/about-us>, viewed 3 June 2016

⁴²⁰ Department of Treasury and Finance, *Budget Paper No.3: 2015-16 Service Delivery* (2015), p.92

⁴²¹ Department of Premier and Cabinet, *Response to the Committee’s 2016-17 Budget Estimates Entity-specific Questionnaire*, received 1 July 2016, pp.2-3

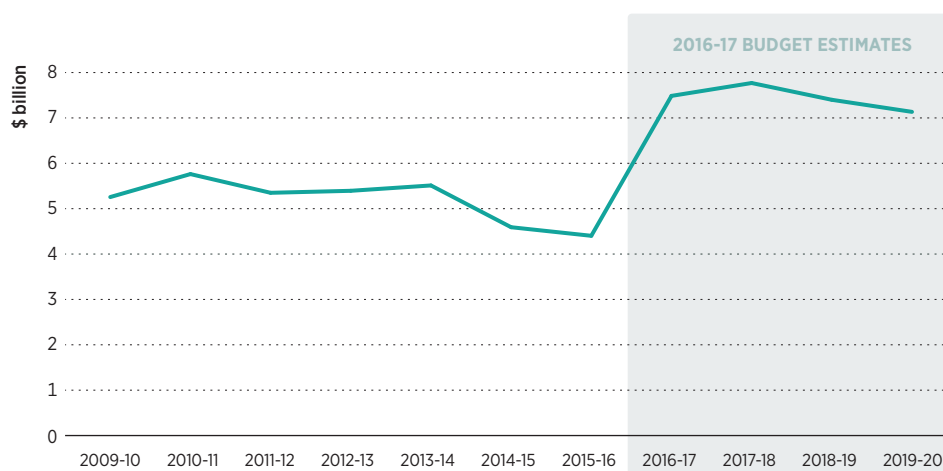
The Committee notes that the Office of Projects Victoria was established on 30 June 2016, the order having effect on 1 July 2016.⁴²² The Committee further notes that the responsibility for Projects Victoria has been transferred to the Department of Treasury and Finance. As at August 2016 the Department was working to establish the operations of the office.

FINDING 88: Infrastructure Victoria was established in October 2015, and has begun the preparation of a list of infrastructure options for the State. Projects Victoria was established under the Department of Treasury and Finance in June 2016.

7.3 Government infrastructure investment over the forward estimates

Figure 7.1 shows the trend of government infrastructure investment since 2009-10. More detailed figures are provided in Appendix A7.1.

Figure 7.1 Government infrastructure investment, 2009-10 to 2019-20



Source: Department of Treasury and Finance, *Net Infrastructure Investment* (2016). Available at <www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Other-financial-aggregates>, viewed 3 June 2016

Figure 7.1 demonstrates that up to 2015-16, infrastructure investment has shown a gradual declining trend, with the revised 2015-16 investment totalling \$4.5 billion.⁴²³ However, asset investment is expected to increase substantially above the recent trend, rising to \$7.5 billion in 2016-17 (an increase on the previous year of 67.5 per cent), then a further 3.7 per cent to \$7.7 billion in 2017-18 before declining slightly to \$7.1 billion by the end of the forward estimates period.⁴²⁴

Government infrastructure investment is made up of three components:

- net direct asset investment (the Government investing through departments), which is partly funded by asset sales

⁴²² *Victoria Government Gazette*, 30 June 2016, p.1664

⁴²³ Department of Treasury and Finance, *Budget Paper No.2: 2015-16 Strategy and Outlook* (2016), p.13

⁴²⁴ *ibid.*

- net investment through other sectors (the Government investing through other government business enterprises)
- PPP investment (the private sector investing on behalf of the Government).

The overall increase in investment expenditure in 2016-17 is expected to be driven mostly by net direct investment. Over the rest of the forward estimates period, this higher level of investment is expected to be sustained by growth in funds spent by the private sector on PPP projects.

In contrast, net investment through other sectors is expected to be negative. This trend of net 'disinvestment' through other sectors is anticipated to strengthen over the forward estimates period. This has become a source of cash for other investments.

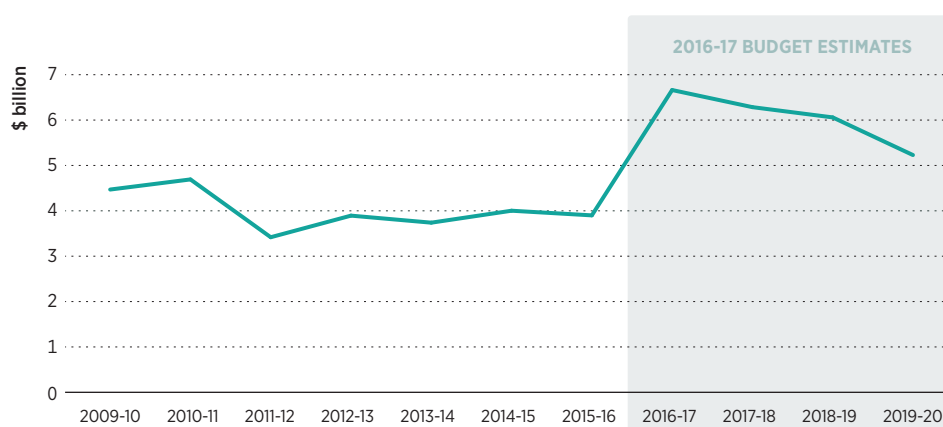
FINDING 89: The budget papers anticipate a significant increase in government infrastructure investment to \$7.5 billion for 2016-17. This level is forecast to be sustained over the forward estimates period. This would reverse a past gradual downward trend in government infrastructure investment.

The components that make up government infrastructure investment will now be discussed in further detail.

7.3.1 Net direct asset investment

Net direct asset investment consists of expenditure made by departments that manage the investment process. After the investment phase, departments own and manage the resulting asset. Offsetting direct asset expenditure is cash raised through sales of existing assets. Figure 7.2 shows the recent history of net direct investment, and anticipated levels over the forward estimates period.

Figure 7.2 Net direct asset investment,^(a) general government sector, 2009-10 to 2019-20



(a) Referred to in the budget papers as 'net cash flows from investments in non-financial assets'.

Note: The 2015-16 figure is a revised estimate.

Source: Department of Treasury and Finance, *Consolidated Cash Flow Statement - General Government Sector* (2016). Available at <www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Aggregate-financial-statements>, viewed 3 June 2016

Figure 7.2 shows that following the peak in 2010-11 (which was high as a result of Commonwealth stimulus payments) net direct asset investment has remained relatively constant, between \$3.5 and \$4.0 billion each year. However, the 2016-17 budget papers anticipate that net direct asset investment will rise (by 71.7 per cent) from a revised estimate for 2015-16 of \$3.9 billion to \$6.7 billion in 2016-17. After this, it is expected to decline over the forward estimates period, falling to \$5.3 billion in 2019-20.⁴²⁵

The increase in net direct investment anticipated for 2016-17 is the primary contributor to the rise in overall government infrastructure investment for that year.

Net direct asset investment's two components, direct asset investment and asset sales (known respectively in the budget papers as 'purchase of non-financial assets' and 'sales of non-financial assets') are set out in Appendix A7.1.

Net direct asset investment may also be divided into projects released as part of the budget papers, and projects in existence prior to the 2016-17 Budget.

FINDING 90: Net direct asset investment is anticipated to rise from \$3.9 billion in 2015-16 to \$6.7 billion in 2016-17. This growth is anticipated to underpin overall government infrastructure investment for 2016-17. However, over the forward estimates period, net direct investment is anticipated to decline.

New initiatives in the 2016-17 Budget

The budget papers include 119 new asset initiatives.⁴²⁶ The total estimated investment (TEI) of these projects is \$12.4 billion.⁴²⁷ These new projects are expected to add \$1.4 billion to total estimated general government investment for 2016-17.⁴²⁸ In addition, five projects released in the 2016-17 Budget entailed expenditure that was yet to be confirmed for 2016-17 (see Appendix A7.2).

The majority of projects are to be delivered through the departments of:

- Economic Development, Jobs, Transport and Resources (\$9.6 billion)
- Health and Human Services (\$1.0 million)
- Education and Training (\$895.0 million).⁴²⁹

The following section discusses some of the more significant asset initiatives.

⁴²⁵ Department of Treasury and Finance, *Budget Paper No.5: 2016-17 Statement of Finances* (2016), p.9

⁴²⁶ Department of Treasury and Finance, *Budget Paper No.3: 2016-17 Service Delivery* (2016), Chapter 1

⁴²⁷ *ibid.*, p.5

⁴²⁸ Department of Treasury and Finance, *Budget Paper No.4: 2016-17 State Capital Program* (2016), p.14

⁴²⁹ Department of Treasury and Finance, *Budget Paper No.3: 2016-17 Service Delivery* (2016), p.5

Western Distributor

The *Western Distributor* project is the largest new project included in the 2016-17 Budget, with a total disclosed TEI of \$5.5 billion.⁴³⁰

This is an unsolicited project, and is intended to achieve the same objectives as the *West Gate Distributor – Northern Section* project included in the 2015-16 budget papers,⁴³¹ as well as other objectives, and so may be considered a replacement for that project (see further discussion in Section 8.3).

The project has a number of sub-projects, including:

- West Gate alternative route
- Webb Dock access improvement
- Monash Freeway upgrade in Berwick – between the East-Link junction and Clyde Road (a \$400 million component).⁴³²

The project is intended to provide travel time improvements across the whole length of the Monash Freeway. The Minister for Roads and Road Safety commented that the project will:

... ensure that we have a free flow from one end, literally from Geelong, right through to Pakenham. That is very much the way we have looked at this. This is a total package, and this will very much improve travel times also from the south-east. We are looking at travel time improvements of about 10 minutes.⁴³³

In contrast, the Committee notes that the Treasurer stated that the *Western Distributor* ‘will take about 20 minutes off travel time’.⁴³⁴

Regarding costs, the cash flows set out in the budget papers total \$1.5 billion.⁴³⁵ However, a contingency has been set aside for ‘any additional contribution beyond the forward estimates’.⁴³⁶ The Premier commented that ‘provision is made for a \$2 billion contribution by our government to deliver that vital second crossing’.⁴³⁷

⁴³⁰ *ibid.*, p.55; Department of Treasury and Finance, *Budget Paper No.4: 2016-17 State Capital Program* (2016), pp.4, 23

⁴³¹ Department of Treasury and Finance, *Budget Paper No.5: 2015-16 Statement of Finances* (2015), p.37

⁴³² Hon. Tim Pallas MP, Treasurer, *2016-17 Budget Estimates Transcript of Evidence*, 6 May 2016, p.10

⁴³³ Hon. Luke Donnellan MP, Minister for Roads and Road Safety, *2016-17 Budget Estimates Transcript of Evidence*, 10 May 2016, p.4

⁴³⁴ Hon. Tim Pallas MP, Treasurer, *2016-17 Budget Estimates Transcript of Evidence*, 6 May 2016, p.10

⁴³⁵ Department of Treasury and Finance, *Budget Paper No.3: 2016-17 Service Delivery* (2016), p.49

⁴³⁶ *ibid.*, p.55

⁴³⁷ Hon. Daniel Andrews MP, Premier, *2016-17 Budget Estimates Transcript of Evidence*, 6 May 2016, p.3

This project is intended to be funded with contributions from three sources. The Minister for Roads and Road Safety advised the Committee that:

This year's budget provides the government's contribution to the project, which will also be funded through a combination of tolls on the new road connections and an extension of the CityLink concession.⁴³⁸

The project is anticipated to be at least a partial PPP, with Transurban as the principal partner. However, the Committee notes that the actual construction of the roadway will be carried out by another partner.⁴³⁹

Indications of levels of tolls have not yet been given, with the Treasurer commenting that 'we are not at that point in terms of being able to give clarity around that'.⁴⁴⁰ However, he did express the opinion that the extension of the CityLink concession would be 'something in the order of 10 years'.⁴⁴¹ The Committee notes that the CEO of Transurban indicated that the company had 'proposed to the state 10 to 12 years extension on the concession of CityLink'.⁴⁴²

The project is expected to be completed by 2022.

Other new initiatives

The 2016-17 Budget includes a number of transport initiatives for metropolitan public transport.⁴⁴³ This includes duplicating a single line area of the Hurstbridge line and extending the South Morang railway by an additional eight kilometres to Mernda. It also includes the provision of additional new railway rolling stock.

Another group of transport initiatives was aimed at regional public transport.⁴⁴⁴ This includes track upgrades on the Ballarat and Gippsland rail lines, and planning for upgrades on the Bendigo rail line. It also includes station upgrades and new, refurbished and reconfigured rolling stock.

The 2016-17 Budget includes a number of education-related initiatives.⁴⁴⁵ The majority of the funds provided will be invested in new and upgraded schools (including land acquisition) in the metropolitan area, and upgrades in non-metropolitan areas. Short-term relocatable classrooms are also provided for schools that have more enrolments than existing facilities are able to accommodate.

⁴³⁸ Hon. Luke Donnellan MP, Minister for Roads and Road Safety, *2016-17 Budget Estimates Transcript of Evidence*, 10 May 2016, p.3

⁴³⁹ *ibid.*, pp.4, 14

⁴⁴⁰ Hon. Tim Pallas MP, Treasurer, *2016-17 Budget Estimates Transcript of Evidence*, 6 May 2016, p.14

⁴⁴¹ *ibid.*

⁴⁴² Mr Scott Charlton, Chief Executive Officer, Transurban, *Standing Committee on the Economy and Infrastructure's Inquiry into Infrastructure Projects Transcript of Evidence*, 8 March 2016, p.11

⁴⁴³ Department of Treasury and Finance, *Budget Paper No.3: 2016-17 Service Delivery* (2016), pp.57-8

⁴⁴⁴ *ibid.*, pp.59-60

⁴⁴⁵ *ibid.*, pp.65-8

Health initiatives in the 2016-17 Budget provide for capital works across a number of locations around the State.⁴⁴⁶ The largest single initiative is a \$168.5 million redevelopment of the Goulburn Valley Health's Shepparton campus.⁴⁴⁷ While the final total estimated investment and cash flow have yet to be finalised, the Budget also sets aside \$135.0 million for the development of the *Victorian Heart Hospital* at Monash University. It is intended that the costs for this project will be funded with contributions from the Commonwealth and the private sector, assisted by other fundraising.⁴⁴⁸

The Department of Health and Human Services will also administer the \$200 million *Regional Health Infrastructure Fund*.⁴⁴⁹ This will provide funds for a number of smaller capital projects in regional areas. In her hearing with the Committee, the Minister for Health noted that entities that can access these funds will:

... also include public sector, residential, aged care, and other forms of health services across the state, including rural and regional community health services as well.⁴⁵⁰

Existing projects

The significant increase in net direct asset investment anticipated in 2016-17 is largely a result of investment in projects that had been included (or included in contingency) in the 2015-16 Budget. The Committee noted this increase as part of its previous report.⁴⁵¹

Existing projects (that is, those included in the 2016-17 Budget that had also been included in the 2015-16 Budget) contributed \$3.0 billion to total estimated expenditure for the general government sector for 2016-17.⁴⁵² In addition, two projects⁴⁵³ released prior to the 2016-17 Budget have expenditure that is yet to be confirmed for 2016-17 (see Appendix A7.2).

The Committee also notes that two asset initiatives were included in the *2015-16 Budget Update*. These were:

- the *Establishment of the Agriculture Infrastructure and Jobs Fund* (TEI: \$13.0 million)⁴⁵⁴
- the *Implementation of Plan Melbourne Initiatives* (TEI: \$150.0 million).⁴⁵⁵

446 *ibid.*, pp.81-96

447 *ibid.*, p.91

448 *ibid.*, p.93

449 *ibid.*, p.92

450 Hon. Jill Hennessy MP, Minister for Health, *2016-17 Budget Estimates Transcript of Evidence*, 1 May 2016, p.5

451 Public Accounts and Estimates Committee, *Report on the 2015-16 Budget Estimates* (2015), pp.166-7

452 Department of Treasury and Finance, *Budget Paper No.4: 2016-17 State Capital Program* (2016), p.14

453 *Port-Rail Shuttle (Metropolitan Intermodal System)* and *Melbourne Exhibition Centre - Stage 2 Development*

454 Department of Treasury and Finance, *2015-16 Budget Update* (2015), p.111

455 *ibid.*, p.114

The *2015-16 Budget Update* anticipated expenditure for both initiatives (totalling \$50.5 million) during 2016-17. However, neither project was included in the 2016-17 budget papers as an ongoing or completed project. The Committee understands that a threshold level for inclusion in the budget papers applies, but notes smaller projects are included.⁴⁵⁶

The Committee considers that for adequate accountability, all asset initiatives included in budget updates should appear in subsequent volumes of Budget Paper No.4: State Capital Program, either as completed or ongoing projects.

FINDING 91: The significant growth of direct asset investment in 2016-17 is a result of both newly-released projects and existing projects. Two projects included in the *2015-16 Budget Update* that had anticipated expenditure in 2016-17 did not appear in the 2016-17 budget papers.

RECOMMENDATION 16: Future budget papers include all significant projects included in previous budget updates, either as completed or ongoing projects.

Contingencies

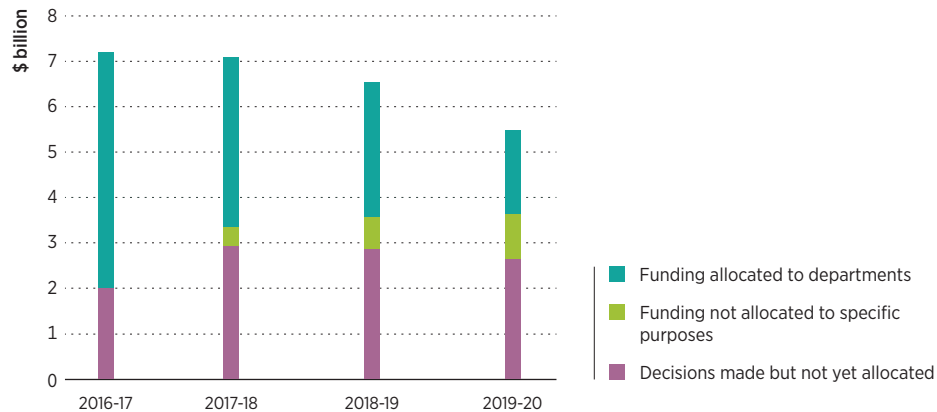
Part of the estimates for direct asset investment is made up of contingencies. These are funds that have not been associated with specific projects, as:

- the Government has decided on the investment, but detailed estimates have not yet been finalised ('decisions made but not yet allocated'), or
- the Government has not yet assigned a project for the funds, but considers it prudent to set funds aside for the future ('funding not allocated to specific purposes').

Together, these two components are known as 'asset contingencies not allocated to departments'. Figure 7.3 shows the proportion of direct asset investment made up by the two types of contingencies.

⁴⁵⁶ Such as *Marine Pollution Response Capability* (TEI \$3.4 million) (Department of Treasury and Finance, *Budget Paper No.4: 2016-17 State Capital Program* (2016), p.24)

Figure 7.3 Components of asset contingencies not allocated to departments, 2016-17 to 2019-20



Source: Department of Treasury and Finance, *Budget Paper No.5: 2016-17 Statement of Finances* (2016), p.38

Figure 7.3 shows that the proportion of direct asset investment that is currently not allocated to departments is expected to increase over the forward estimates period, as the planning horizon lengthens. At the time of the preparation of the 2016-17 Budget, less than half the amount anticipated to be invested in 2019-20 had been allocated to departments. The Committee notes that the Parliament has very limited scrutiny over asset expenditure that is not allocated to departments.

The Committee understands that ‘decisions made but not yet allocated’ is mainly influenced by significant projects which are early in the planning stages, and in particular, projects that are anticipated to be delivered as PPPs. The Committee notes that past budget papers listed the more significant projects as a footnote to the relevant table.⁴⁵⁷ This enabled the reader to understand the main purposes to which these contingency funds were expected to flow. Reinstating this practice would enhance the readers’ understanding of these contingencies.

Changes in contingencies identified since the previous budget are discussed in Section 7.6.

FINDING 92: At the time of the preparation of the 2016-17 Budget, less than half the amount anticipated to be invested in 2019-20 had been allocated to departments.

FINDING 93: Past budget papers listed projects that contributed to ‘decisions made but not yet allocated’. This practice has been discontinued in recent budget papers.

RECOMMENDATION 17: Future budget papers reinstate the practice of listing significant projects that contribute to ‘decisions made but not yet allocated’.

⁴⁵⁷ Department of Treasury and Finance, *Budget Paper No.5: 2014-15 Statement of Finances* (2014), p.36

7.3.2 Net investment through other sectors

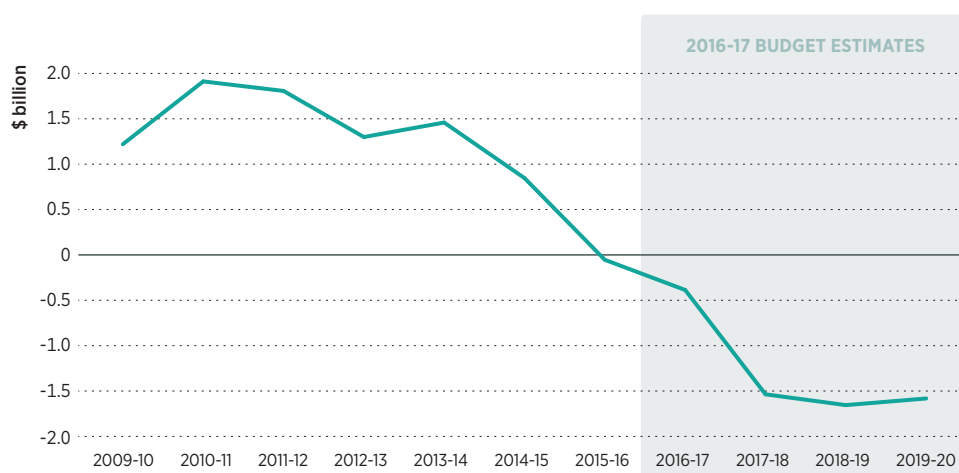
This type of investment is referred to in the budget papers as ‘net cash flows from investments in financial assets for policy purposes’.

The general government sector makes ‘arm’s length’ investments by injecting capital into entities in other sectors, normally the PNFC sector. While the investments are made in other entities, such as VicTrack, they are generally associated with a specific project, such as the *Regional Rail Link*.

As with other financial investments, it is anticipated that funds are eventually repaid to the investor. That is, net cash flows from investments in financial assets for policy purposes may involve cash flows both to and from the general government sector.

Figure 7.4 shows how investment in other sectors has moved since 2009-10, and its forecast over the forward estimates.

Figure 7.4 Investment through other sectors, 2009-10 to 2019-20



Note: The 2015-16 figure is a revised estimate.

Source: Department of Treasury and Finance, *Consolidated Cash Flow Statement - General Government Sector* (2016). Available at <www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Aggregate-financial-statements>, viewed 3 June 2016

Figure 7.4 demonstrates that after a period of investment into other sectors, the Government anticipates net ‘disinvestments’, with overall investment funds expected to flow into the general government sector. This is expected to increase from \$54.3 million in 2015-16 to \$391.0 million in 2016-17. After this, cash inflows are anticipated to increase again to \$1.6 billion in 2017-18 and remain at this level over the forward estimates period.⁴⁵⁸ The Committee notes that, similar to asset sales, disinvestment in other sectors has become a source of funds for other investments.

⁴⁵⁸ *ibid.*, p.9; Department of Treasury and Finance, *Consolidated Cash Flow Statement - General Government Sector* (2016). Available at <www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Aggregate-financial-statements>, viewed 3 June 2016

In a previous report, the Committee recommended that the budget papers disaggregate investment through other sectors, showing payments to and from the general government sector.⁴⁵⁹ This would bring the budget papers (which are published prior to the start of the financial year) in line with the Annual Financial Report (which is published upon the completion of the financial year).⁴⁶⁰ The Government supported this in principle:

... except in circumstances where it is considered that disclosing such information could potentially prejudice the State's commercial interests related to major future proposed transactions.⁴⁶¹

The Committee understands that the Government faces a risk when disclosing incoming and outgoing cash flows. However, the Committee would encourage the Government to consider ways of disclosing gross cash flows as this adds to transparency. For example, the use of 'nfp' ('not for publication') for cash inflows and outflows in years where sensitive transactions occur, while still providing net results would enable gross cash flows to be disclosed.

FINDING 94: After a period of investment into other sectors, the general government sector anticipates net 'disinvestments'. Cash returning from investments through other sectors is expected to increase from \$391.0 million in 2016-17 to \$1.6 billion in 2017-18 and remain at this level over the forward estimates period. Similar to asset sales, disinvestment in other sectors has become a source of funds for other investments.

FINDING 95: Investment through other sectors (cash flows from investments in financial assets for policy purposes) has been presented in the 2016-17 budget papers as a net figure.

RECOMMENDATION 18: Future budget papers separately disclose cash inflows and outflows from investments in financial assets for policy purposes, and use 'not for publication' for gross figures in years where disclosing such information could potentially prejudice the State's commercial interests related to major future proposed transactions.

Related projects

The Committee notes that the investment by the general government sector into other sectors is into an entity (such as the Goulburn-Murray Rural Water Corporation) rather than a project (such as the *Connections Project*). However, the nexus between investments made into entities in other sectors and projects carried out by those entities is determined by the relevant Government policy.

⁴⁵⁹ Public Accounts and Estimates Committee, *Report on the 2015-16 Budget Estimates* (2015), Recommendation 52, p.170

⁴⁶⁰ See Department of Treasury and Finance, *2014-15 Financial Report* (2015), p.28

⁴⁶¹ Victorian Government, *Government Responses to the Recommendations of Public Accounts and Estimates Committee's Report on the 2015-16 Budget Estimates*, tabled 4 May 2016, p.17

In previous years, the budget papers identified projects that were associated with cash flows.⁴⁶² This information is useful when investment by the general government sector through other sectors was primarily cash outflows as it shows stakeholders the uses to which the funds would be put. The Committee has recommended that this information be reinstated into the budget papers.⁴⁶³

The Committee approached the Department of Treasury and Finance for a list of major projects that contribute to investment through other sectors for the general government sector. The Department of Treasury and Finance advised the Committee that this mainly includes:

- an equity investment into VicTrack for the *Level Crossing Removal Program*
- an inflow of \$50 million relating to the finance lease loan receivable from Melbourne Water for the Victorian Desalination Plant
- a \$26 million cash outflow for an equity investment for the *Connections Project* (Goulburn-Murray Water)
- a \$155 million capital repatriation from the State Electricity Commission of Victoria
- a \$35 million outflow related to the *Simonds Stadium Redevelopment – Stage 4* project
- re-phasings related to the *Melbourne Metro Rail* project and the lease of operations of the Port of Melbourne.⁴⁶⁴

In some cases, the Department of Treasury and Finance advised the Committee that:

Further disaggregation of figures would reveal information that is commercial in confidence and would negatively impact on the State's commercial interests.⁴⁶⁵

Related entities

In contrast to previous years, the budget papers forecast that overall cash flows from investments through other sectors will result in cash flowing towards the general government sector in 2015-16 and across the entire forward estimates period (see Figure 7.4). Between 2017-18 and 2019-20, these forecast cash inflows

⁴⁶² For example, Department of Treasury and Finance, *Budget Paper No.4: 2014-15 State Capital Program* (2014), p.16

⁴⁶³ Public Accounts and Estimates Committee, *Report on the 2015-16 Budget Estimates* (2015), Recommendation 51, p.170

⁴⁶⁴ Department of Treasury and Finance, *Response to the Committee's 2016-17 Budget Estimates Questionnaire*, received 4 May 2016, p.40; Department of Treasury and Finance, *Response to the Committee's 2016-17 Budget Estimates Entity-specific Questionnaire*, received 1 July 2016, p.11

⁴⁶⁵ *ibid.*

are more than \$1.6 billion annually.⁴⁶⁶ The Committee notes that not only the related entities, but also the sectors of the sources of these cash flows are not made clear in the budget papers.⁴⁶⁷

As noted above, investment by the general government sector into other sectors is into a government business enterprise rather than a project. Because of this, when cash flows back, the projects are less important than the enterprise paying back the investments. This is because it is the enterprise, rather than the project, that is required to provide the cash. Such payments may have significant effects on entities in other sectors, for example, through effects that the payments have on cash availability or anticipated debt over the forward estimates period.

The Committee considers that identification of public sector entities in the PNFC and PFC sectors that repatriate cash would be a useful addition to the budget papers. This would enable the Parliament and other stakeholders to be informed of which entities were affected (and their sectors), but also how they are expected to be affected.

FINDING 96: In years when net cash flows from investments in other sectors are towards the general government sector, disclosure of which entities are anticipated to provide this cash is important for stakeholders to understand the effects of this disinvestment.

RECOMMENDATION 19: Future budget papers include a list of partner entities in the public financial corporations and the public non-financial corporations sectors that are the sources of cash inflows and destination of cash outflows through net cash flows from investments in financial assets for policy purposes. The list should also show the amount of funds coming from and flowing to each partner entity.

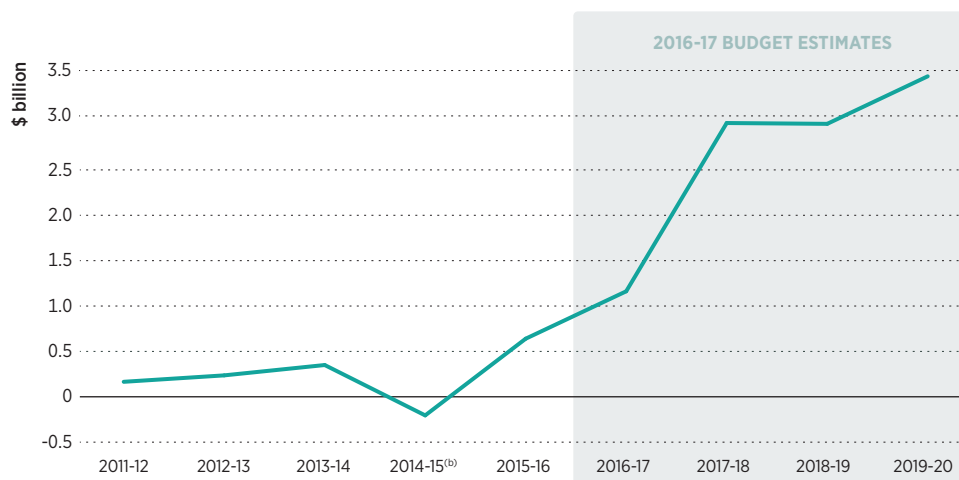
7.3.3 Investment on public private partnerships and other projects

The third component of government infrastructure investment is ‘PPP and other investment’. This includes investment expenditure made by the private sector on the construction of public assets on behalf of the public sector.

⁴⁶⁶ Department of Treasury and Finance, *Budget Paper No.5: 2016-17 Statement of Finances* (2016), p.9

⁴⁶⁷ This lack of clarity is contributed to by inconsistent aggregation of certain items across the sectors, such as cash flows from investments in financial assets for policy and liquidity purposes, and net advances and deposits received (Department of Treasury and Finance, *Budget Paper No.5: 2016-17 Statement of Finances* (2016), pp.9, 46, 61).

Figure 7.5 Investment on public private partnerships and other investment,^(a) 2011-12 to 2019-20



(a) Includes PPP infrastructure investment and other commercially sensitive items.

(b) The figure is negative due to adjustments resulting from changed government policy with respect to the *East-West Link* and the *Cranbourne-Pakenham Rail Corridor* projects.

Source: Committee calculations based on: Department of Treasury and Finance, *Net Infrastructure Investment* (2016). Available at <www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Other-financial-aggregates>, viewed 3 June 2016; Department of Treasury and Finance, *Response to the Committee's 2015-16 Budget Estimates Questionnaire*, received 12 June 2015, p.44

The budget papers anticipate that PPP and other investment expenditure will increase from \$620.0 million in 2015-16 to \$1.1 billion in 2016-17,⁴⁶⁸ before increasing to \$3.5 billion in 2019-20.⁴⁶⁹ This strong increase is expected to underpin overall government infrastructure investment for the second half of the forward estimates period.

FINDING 97: Investment expenditure on public private partnerships and other projects is anticipated to increase from \$620.0 million in 2015-16 to \$1.1 billion in 2016-17. It is forecast to reach \$3.5 billion in 2019-20. This strong increase is expected to underpin overall government infrastructure investment for the second half of the forward estimates period.

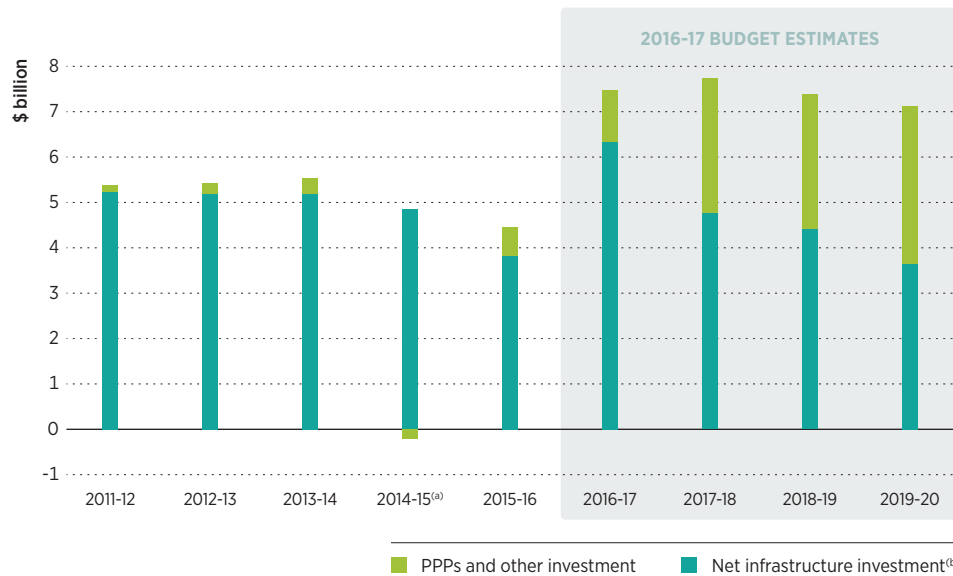
7.3.4 Significance of public private partnership expenditure in Victoria

The proportion of government infrastructure investment provided by the private sector on behalf of the Government is anticipated to increase over the forward estimates. Figure 7.6 shows that by 2019-20, 48.7 per cent of asset investment for the State will be provided by the private sector. This compares to 13.9 per cent for 2015-16.

⁴⁶⁸ Department of Treasury and Finance, *Net Infrastructure Investment* (2016). Available at <www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Other-financial-aggregates>, viewed 3 June 2016

⁴⁶⁹ Department of Treasury and Finance, *Budget Paper No.4: 2016-17 State Capital Program* (2016), p.15

Figure 7.6 Investment on public private partnership and other projects and net infrastructure investment, 2011-12 to 2019-20



(a) The figure is negative due to adjustments resulting from changed government policy with respect to the *East-West Link* and the *Cranbourne-Pakenham Rail Corridor* projects.

(b) Net infrastructure investment is the sum of net direct asset investment and net investment through other sectors.

Source: Committee calculations based on Department of Treasury and Finance, *Net Infrastructure Investment* (2016). Available at <www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Other-financial-aggregates>, viewed 3 June 2016

The Committee considers that this is a significant change in the way that the Government provides infrastructure. The budget papers discuss the need for increased infrastructure expenditure,⁴⁷⁰ as well as the advantages of funding asset creation through PPP projects.⁴⁷¹ However, the increased proportion of asset expenditure provided by the private sector over the forward estimates period may indicate a change in strategy and rationale by the Government. The Committee considers that such a change in strategy should be clearly explained in the budget papers.

FINDING 98: The proportion of asset investment provided by the private sector on behalf of the public sector is anticipated to increase strongly over the forward estimates period. This constitutes a change in the way the Government delivers infrastructure projects.

RECOMMENDATION 20: Future budget papers include a discussion of the Government's strategy with respect to the proportion of asset investment provided by the private sector.

⁴⁷⁰ Department of Treasury and Finance, *Budget Paper No.2: 2016-17 Strategy and Outlook* (2016), p.27

⁴⁷¹ *ibid.*, p.38

7.3.5 Use of public private partnerships to deliver infrastructure

Asset projects may be delivered in two ways. These are:

- the provision of the asset by the Government, owned and managed by the Government
- the provision of the asset by the private sector on behalf of the Government, with an agreed repayment method into the future.

Some asset projects may have components that utilise both methods.

Over recent years, PPP projects have demonstrated a range of options, with projects:

- having different contributors, with payments to private sector operators being made entirely by the Government, entirely by the final user, or a mix of these two
- affecting different sectors, meaning the debt and other effects of the project are less comparable
- changing line items in the State's finances, with accounting treatments for PPP projects changing at the point of contract signing
- affecting assets of differing contestability, meaning competition between potential private sector partners may be compromised.

In addition, traditional projects, paid for directly by the Government are less variable in the way they affect the budget papers, but can affect more than one sector.

This variation makes the task of allocating funds to the most appropriate project being considered by the Government more difficult. It also demonstrates less clearly that funds have been allocated in the best interests of the community.

At present, there are methods for analysing the choices between potential projects, including the Department of Treasury and Finance's High-Value High-Risk process (HVHR), and the final allocation is decided by a central body in Cabinet.

However, the Committee considers that while these methods analyse information presented for individual projects, they may not address the issue of which is the best way of delivering the project. The current methods may also provide limited information for Parliament and the community as to how the choices are made, meaning the transparency of the process may be lessened.

The Committee also notes that for the majority of PPP projects, commitments are made for expenditure beyond the forward estimates period. Therefore the Parliament is unable to fully scrutinise the total expenditures of these projects.

FINDING 99: There are several types of public private partnership projects, each of which may be represented differently in the budget papers. In many cases, this may have the effect of complicating choices for asset investment.

The newly-established independent body, Infrastructure Victoria, can provide advice on capital investment decisions.⁴⁷² At a recent hearing for the Standing Committee on Economy and Infrastructure, its CEO noted that:

... in order to nurture and enhance the debate around how we will fund the short, medium and long-term pipeline of recommendations that we will table at your [Parliament's] end, we will have to look — and we want to have a role to play — at innovative ways of finding new funding sources. Infrastructure Victoria definitely has a role to play in that.⁴⁷³

The Committee desires the best outcomes for Victoria in relation to infrastructure provision. It considers that there would be advantage in having Infrastructure Victoria investigate PPP provision including its anticipated increase on behalf of the Parliament. This may include discussing:

- processes for determining whether a project is appropriately carried out by the public or the private sector, including when such a decision may be made
- how an appropriate proportion of asset creation provided through PPP projects may be determined
- risks associated with delivering projects through PPPs that the Government should manage through mitigation plans
- differences between the ability of the public and private sectors to provide infrastructure, and how these differences may be managed or utilised.

FINDING 100: Infrastructure Victoria has been established by the Government to provide advice on matters relating to infrastructure, including its funding.

7.3.6 Transparency of PPP projects

Part of the role of the Parliament is to ensure that the State's money is allocated in the best interests of the community. While the allocation of funds is specifically the Government's decision, the Parliament has a more general role through its deliberations on the Appropriation Bills, informed by the budget papers and other evidence.

With respect to asset investment, the Parliament and the community need to understand and be assured that the Government is investing in projects that are not only worthwhile, but also the best of all available options.

⁴⁷² Department of Premier and Cabinet, *Response to the Committee's 2016-17 Budget Estimates Entity-specific Questionnaire*, received 1 July 2016, pp.2-3

⁴⁷³ Mr Michel Masson, CEO, Infrastructure Victoria, *Standing Committee on the Economy and Infrastructure's Inquiry into Infrastructure Projects Transcript of Evidence*, 20 April 2016, p.3

There are a large number of investment projects funded by the Government. This includes a significant number of PPP projects. Appendix A7.3 lists PPP projects that departments have reported responsibility for, both in procurement (in planning and under construction) and in operation.

Further, PPP projects can be structured in a number of different ways, and can affect the budget papers in different ways.

7.3.7 Auditing of public private partnerships

The Committee notes that the Victorian Auditor-General's Office has been granted additional powers for its performance audits. It now has the capacity for 'follow-the-dollar' performance audits. This means that the Auditor-General will be able to examine the efficiency, effectiveness and economy of functions provided on behalf of the public sector by contractors, sub-contractors and other 'associated entities'. This includes entities in the private and not-for-profit sectors.

For PPP projects, this may mean that the Auditor-General will be able to examine the efficiency, effectiveness and economy of the provision of public assets by the private sector.

The Committee welcomes this development, as it considers it to be a worthwhile step in the pursuit of transparency in the provision of Government services.

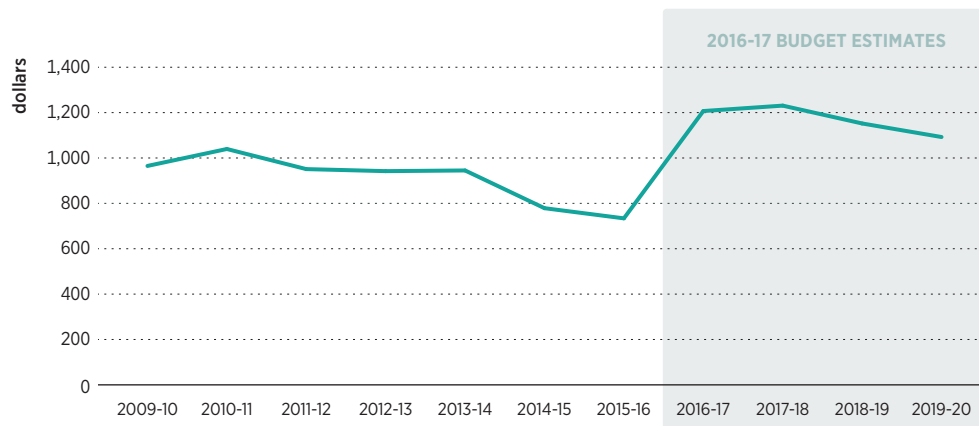
FINDING 101: The Victorian Auditor-General's Office now has the authority to carry out 'follow-the-dollar' performance audits. This will improve the ability of the Auditor-General to support transparency on behalf of the Parliament.

7.4 Asset investment indicators – general government sector

The purpose of the Committee's two investment indicators is to give additional context to the estimates included in the budget papers.

Investment per Victorian in real terms

Figure 7.7 shows government infrastructure investment per Victorian, adjusting for the changing buying power of money over time. The Committee notes that this indicator does not show any desirable level of spending, but rather allows an improved understanding of the trend over time, independent of changes in population and spending power of money.

Figure 7.7 Government infrastructure investment per Victorian,^(a) 2009-10 to 2019-20

(a) 2016-17 values

Sources: Committee calculations based on: Department of Treasury and Finance, *Net Infrastructure Investment* (2016). Available at <www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Other-financial-aggregates>, viewed 3 June 2016; Department of Treasury and Finance, *Macroeconomic indicators* (2016). Available at <www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Macroeconomic-indicators>, viewed 6 June 2016

Figure 7.7 shows a similar trend to government infrastructure investment shown in Figure 7.1. After a period of declining real expenditure per Victorian, the Government anticipates a significant increase in 2016-17 to \$1,212 per head. Following this, real expenditure per capita is expected to decline over the forward estimates period, but remain higher than historic levels.

FINDING 102: Government infrastructure investment per Victorian in real terms is anticipated to increase in 2016-17 to \$1,212. This is expected to decline over the forward estimates period, but remain higher than historic levels.

Ratio of asset creation to depreciation

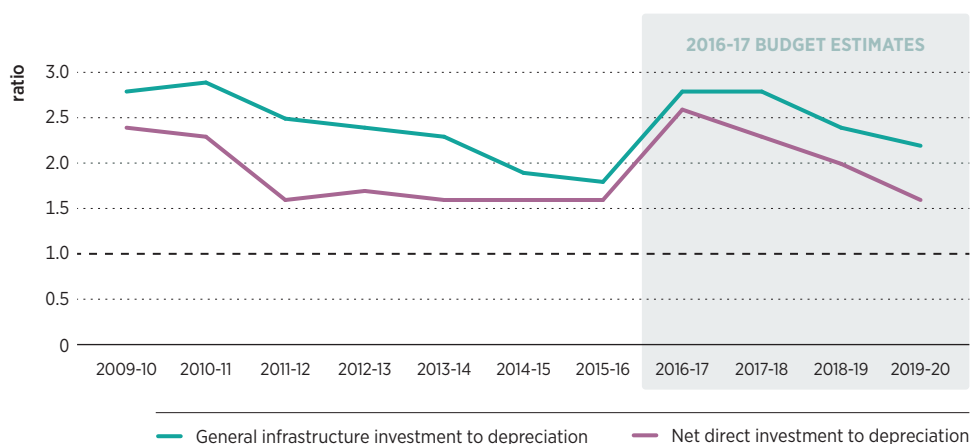
This indicator allows an understanding of how the overall stock of infrastructure is changing, by comparing the amount created with the amount consumed. When the ratio of asset creation to depreciation is greater than one, the net asset stock is being built up. On the other hand, when the ratio is less than one, the stock is being eroded.

Figure 7.8 shows two ratios:

- government infrastructure investment (see Section 7.3) to depreciation
- net direct asset investment (see Section 7.3.1) to depreciation.

The ratio of government infrastructure investment to depreciation will always be higher than the net direct investment to depreciation ratio. This is because net direct investment is a component of government infrastructure investment.

Figure 7.8 shows the changing ratios over time, including estimates over the forward estimates period.

Figure 7.8 Ratios of asset creation to asset use, 2009-10 to 2019-20

Source: Committee calculations based on: Department of Treasury and Finance, *Net Infrastructure Investment* (2016). Available at <www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Other-financial-aggregates>, viewed 3 June 2016; Department of Treasury and Finance, *Consolidated Cash Flow Statement - General Government Sector* (2016). Available at <www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Aggregate-financial-statements>, viewed 6 June 2016

Figure 7.8 shows that both measures of investment have been greater than depreciation in the general government sector since 2009-10. The budget papers anticipate that the significant increase in net direct asset investment (see Section 7.3.1) will cause an increase in the rate of asset creation in 2016-17. However, while assets will continue to be created faster than they are eroded, the budget papers predict a decrease in the rate of asset creation.

FINDING 103: Ratios for both government infrastructure investment and net direct investment to depreciation for the general government sector indicate that assets in the general government sector are being built over time.

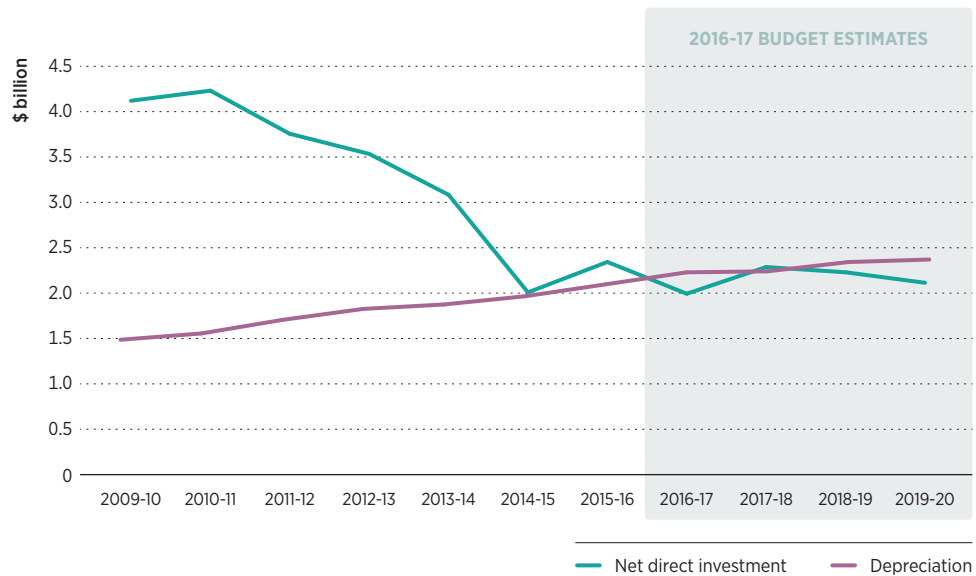
7.5 Asset investment indicators – public non-financial corporations sector

As noted in Section 7.3.2, some of the investment made by the Government is provided through the PNFC sector. In addition to this, entities in this sector may invest in assets on their own account. In some cases, an asset project may be partly funded by the general government sector, with additional funding provided by the PNFC entity.

Figure 7.9 shows direct investment by PNFC entities (net of asset sales)⁴⁷⁴ since 2009-10, including the forward estimates period.

⁴⁷⁴ Known in the budget papers as 'net cash flows from non-financial assets'

Figure 7.9 Net direct investment and depreciation (asset creation and asset use), public non-financial corporations sector 2009-10 to 2019-20



Note: The 2015-16 figure is a revised estimate.

Sources: Department of Treasury and Finance, *Financial Report*, 2010-11 to 2014-15; Department of Treasury and Finance, *Budget Paper No.5: 2015-16 Statement of Finances* (2016), pp.43, 46

Figure 7.9 shows that net direct asset investment by the PNFC sector has generally decreased since 2009-10. The decline from 2009-10 is primarily a result of the decrease in investments by the general government sector through the PNFC sector (see Section 7.3.2). Continuing this trend, net direct asset investment by the PNFC sector is expected to decrease from \$2.4 billion in 2015-16 to \$2.0 billion in 2016-17. This is expected to fluctuate between \$2.1 and \$2.3 billion over the forward estimates period.⁴⁷⁵

To express this in the context of the level of assets used by the sector, Figure 7.9 also shows the depreciation allowance over the same period. This shows a constant upward trend.

Figure 7.9 shows that the level of net direct asset investment in the sector is anticipated to be less than depreciation in the sector in 2016-17. This suggests that infrastructure assets in the sector (for example, water or transport-related infrastructure) are expected to erode faster than they are being replaced. This situation is repeated in the two final years of the forward estimates period. The ratio of asset creation to asset use is expected to be less than 1.0 in 2016-17, 2018-19 and 2019-20 (see Figure 3.7).

⁴⁷⁵ Department of Treasury and Finance, *Budget Paper No.5: 2016-17 Statement of Finances* (2016), p.46

In aggregate, over the period between 2015-16 and 2019-20, the total direct investment (net of asset sales) by the sector is anticipated to be \$11.0 billion,⁴⁷⁶ which is less than the total depreciation allowance forecast over the same period of \$11.4 billion.⁴⁷⁷ This shows that the Government expects that, on average, assets will be eroded in the sector over the whole forward estimates period. In addition, the downward trend of net direct asset investment and the upward trend of depreciation suggest that overall asset erosion may continue in the future.

The Committee considers that this situation may be a cause for concern for the sector. Further commentary in the budget papers on asset replacement in the sector, including how this is to be funded, would be useful to the Parliament and other stakeholders.

FINDING 104: Direct asset investment by the public non-financial corporations sector in 2016-17 is expected to be \$2.0 billion. It is expected to fluctuate between \$2.1 and \$2.3 billion over the forward estimates period. However, over the forward estimates period, depreciation is expected to be greater than net direct asset investment, suggesting that assets will not be replaced as fast as they wear out.

RECOMMENDATION 21: Future budget papers include commentary on the relationship between:

- (a) net direct investment (net cash flows from investments in non-financial assets), and
- (b) depreciation in the public non-financial corporations sector.

This should also include discussion on the anticipated rate of net asset creation in the sector.

7.6 How the estimates have changed from previous budgets

The 2016-17 Budget has provided updates for estimates that were made in past budgets for future years. For example, the 2015-16 Budget estimated that government infrastructure investment would be \$4.5 billion in 2017-18.⁴⁷⁸ The 2016-17 Budget estimates that government infrastructure investment in 2017-18 would be \$7.7 billion.⁴⁷⁹

Figure 7.10 shows the various estimates of government infrastructure investment made in budgets for the years 2016-17 to 2019-20.

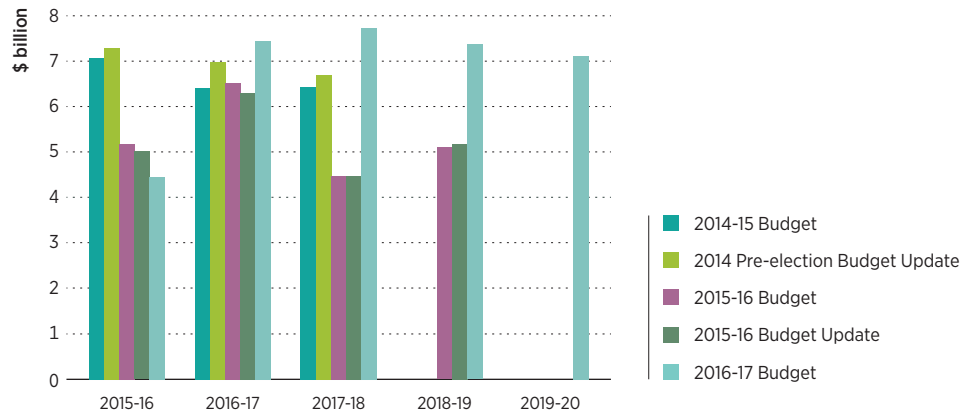
⁴⁷⁶ *ibid.*

⁴⁷⁷ *ibid.*, p.43

⁴⁷⁸ Department of Treasury and Finance, *Budget Paper No.2: 2015-16 Strategy and Outlook* (2015), p.13

⁴⁷⁹ *ibid.*

Figure 7.10 Government infrastructure investment, comparison of estimates in the 2016-17 Budget to previous estimates



Source: Department of Treasury and Finance, *Net Infrastructure Investment* (2016). Available at <www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Other-financial-aggregates>, viewed 3 June 2016

Figure 7.10 shows that the estimates for government infrastructure investment made in the 2016-17 budget papers are significantly higher than those from previous budgets. This increase is especially pronounced for 2017-18 and 2018-19.

Table 7.3 shows the estimates for PPP and other investment (a component of government infrastructure investment – see Section 7.3.3) included in the 2015-16 and 2016-17 budget papers, and the adjustments that were made to the estimates for the common years (2015-16 to 2018-19).

Table 7.3 shows that the increase in the estimate for 2016-17 between the 2015-16 budget papers and the 2016-17 budget papers was a result of increases in anticipated investment in both fixed assets (that is, net direct asset investment and net investment through other sectors) and PPP expenditure.

The table also shows that the large adjustments to estimates for government infrastructure investment for 2017-18 and 2018-19 are principally the result of adjustments to estimates for PPP and other investment.

Table 7.3 Changes in estimates between 2015-16 and 2016-17 budget papers, components of government infrastructure investment, 2015-16 and 2016-17 budget papers

	2015-16	2016-17	2017-18	2018-19	2019-20
	(\$ million)	(\$ million)	(\$ million)	(\$ million)	(\$ million)
2015-16 budget papers					
Total net investment in fixed assets ^(a)	-2,281.1	5,763.2	4,062.4	4,969.5	n/a
PPP and other investment	7,472.0	765.6	421.6	142.6	n/a
Government infrastructure investment	5,190.9	6,528.8	4,484.0	5,112.1	n/a
2016-17 budget papers					
Total net investment in fixed assets ^(a)	3,836.8	6,328.5	4,777.6	4,425.9	3,650.3
PPP and other investment	620.0	1,129.7 ^(b)	2,967.5 ^(b)	2,953.4	3,469.7
Government infrastructure investment	4,456.8	7,458.2	7,745.0	7,379.3	7,120.0
Change in estimates					
Total net investment in fixed assets ^(a)	6,117.9	565.3	715.1	-543.6	n/a
PPP and other investment	-6,852.0	364.1	2,545.9	2,810.8	n/a
Government infrastructure investment	-734.1	929.3	3,261.0	2,267.1	n/a

(a) Total net investment in fixed assets equals net direct asset investment plus net investment through other sectors.

(b) Some figures provided on the Department of Treasury and Finance website differ slightly from the *Budget Paper No.4: 2016-17 State Capital Program* (2016), p.15. The Committee is unaware of the reason for this.

Source: Department of Treasury and Finance, *Net Infrastructure Investment* (2016). Available at <www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Other-financial-aggregates>, viewed 3 June 2016

The Committee contacted the Department of Treasury and Finance to find reasons for the adjustments to PPP and other investment. The Department responded that:

- The New Schools PPP contract was executed in 2015-16; therefore cash flows relating to this project were updated to reflect the construction profile of the successful consortium (replacing the Public Sector Comparator construction profile). This has resulted in variances in the 'PPP infrastructure investment and other' figures for 2015-16, 2016-17 and 2017-18;
- An increase in the scope of the High Capacity Metro Trains PPP was announced in March 2016, resulting in variances in the 'PPP infrastructure investment and other' figures for 2015-16, 2016-17, 2017-18 and 2018-19;
- The Western Distributor and Melbourne Metro Rail Projects were announced in 2015-16. The 'PPP infrastructure investment and other' figures for 2017-18 and 2018-19 have increased to reflect these projects' anticipated construction profiles, consistent with the respective business cases. Only the PPP component of the Melbourne Metro Rail Project is included in the above figures;
- The Port of Melbourne medium-term lease that was included in 2015-16 has been removed due to the revised accounting treatment and timing.⁴⁸⁰

480 Department of Treasury and Finance, *Response to the Committee's 2016-17 Budget Estimates General Questionnaire*, received 4 May 2016, p.33

FINDING 105: The increase in the 2016-17 estimate for government infrastructure investment was a result of increases in anticipated investment in net direct asset investment, net investment through other sectors and public private partnership expenditure. Larger upward adjustments made for 2017-18 and 2018-19 estimates are a result of upward adjustments made to public private partnership and other investment estimates.

7.6.1 Lease of operations of the Port of Melbourne

Table 7.3 shows that the estimate for total net investment in fixed assets for 2015-16 was revised from a cash inflow of \$2.3 billion to a cash outflow of \$3.8 billion.⁴⁸¹

The response from the Department of Treasury and Finance above indicates that this was due to a changed accounting treatment as well as the anticipated timing of the proposed Port of Melbourne lease transaction.

The 2015-16 budget papers appear to include the transaction in two items in the PNFC sector⁴⁸² and two items in the general government sector.⁴⁸³ The accounting treatment of the Port of Melbourne lease transaction in the 2016-17 budget papers is complicated, as the changed accounting treatment has affected a number of items in the cash flow statements.

Based on its understanding of:

- the State's finances
- the *Delivering Victorian Infrastructure (Port of Melbourne Lease Transaction) Act 2016*
- information from the Department of Treasury and Finance
- commentary throughout the budget papers,⁴⁸⁴

the Committee understands that the suite of transactions affects the cash flow statements in the two affected sectors as set out in Figure 7.11. Line items affected by the transaction are listed in Appendix A7.4.

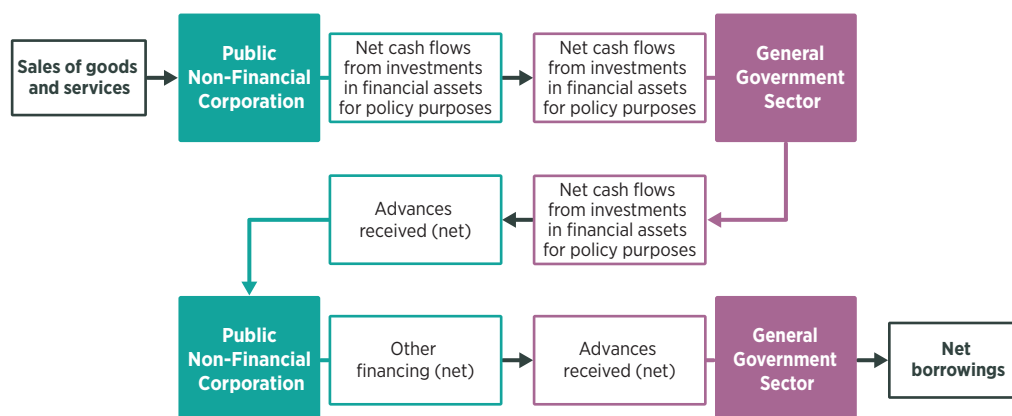
⁴⁸¹ Department of Treasury and Finance, *Budget Paper No.5: 2015-16 Statement of Finances* (2015), p.10; *ibid.*, p.202

⁴⁸² *ibid.*, p.52

⁴⁸³ *ibid.*, p.10

⁴⁸⁴ Including Department of Treasury and Finance, *Budget Paper No.2: 2016-17 Strategy and Outlook* (2016), p.9; Department of Treasury and Finance, *Budget Paper No.4: 2016-17 State Capital Program* (2016), p.9; Department of Treasury and Finance, *Budget Paper No.5: 2016-17 Statement of Finances* (2016), p.20

Figure 7.11 Port of Melbourne operations lease transaction



Source: Public Accounts and Estimates Committee

The cash raised by the sale of the lease is expected to be received by the PNFC sector, before being invested in the Victorian Transport Fund (in the general government sector). The fund is not expected to require the cash immediately, as expenditure for level crossing removals is expected in stages over the forward estimates period. However, the funds may not be used under the legislation to pay off debt, and so they are expected to be invested, this time in an entity in the PNFC sector, the cash flowing out through the same item it entered on, resulting in a small expected net cash flow. The cash is anticipated to be treated as an advance by the PNFC entity. Finally, the PNFC entity is anticipated to then return it to the general government sector, through 'other financing (net)'. The general government sector would receive this as an advance, and could now pay down debt, the cash flowing out through net borrowings.

Appendix A7.4 shows that changes made in the 2016-17 budget papers have spread the transaction over more cash flow items, being four items in the PNFC sector⁴⁸⁵ and three items in the general government sector.⁴⁸⁶ The Committee understands that one item included as a net cash flow in the financial statements is affected in both directions, and so has a small net result.⁴⁸⁷

In addition to these items, the Department of Treasury and Finance has advised that:

A grant is expected from the Commonwealth under the Asset Recycling Agreement as a result of the lease of the Port of Melbourne's commercial operations.

The grant will appear on the operating statement under 'grants revenue' and the cashflow statement under 'grants received'.⁴⁸⁸

⁴⁸⁵ *ibid.*, p.46

⁴⁸⁶ *ibid.*, p.9

⁴⁸⁷ Department of Treasury and Finance, *Response to the Committee's 2016-17 Budget Estimates Entity-specific Questionnaire*, received 1 July 2016, p.9

⁴⁸⁸ *ibid.*, p.8

The Committee accepts that both approaches are correct applications of the accounting standards, as evidenced by the Auditor-General's verification.⁴⁸⁹ However, the Committee considers that the approach used in the most recent budget papers is more complex, and therefore is more difficult for the Parliament and the community to understand, particularly for readers without a background in accountancy.

The Committee notes a number of 'breakout boxes' included in various places in the budget papers,⁴⁹⁰ providing the opportunity to explain various aspects of the Budget in greater depth. The Committee considers that such an in-depth explanation, showing what the differences are, and why the Government chose to change the structure of the transaction would have been appropriate in this case.

In addition, the recommendation made in Section 4.5.1 of this report on the inclusion of explanations of line item variances that are close to or over \$1.0 billion from the previous year's budget papers would also be beneficial.

FINDING 106: The Port of Melbourne lease transaction has changed structure since the 2015-16 budget papers, becoming more complex and more difficult to understand.

RECOMMENDATION 22: Once the long-term lease of the Port of Melbourne has been entered into, the Government provide the Parliament with more detailed information about the structure of the transaction and the allocation of the proceeds.

7.7 Reliability of estimates

As part of its required examination of the budget estimates, the Committee has noted a number of instances in the past where estimates in the budget papers have been consistently over- or under-estimated.⁴⁹¹

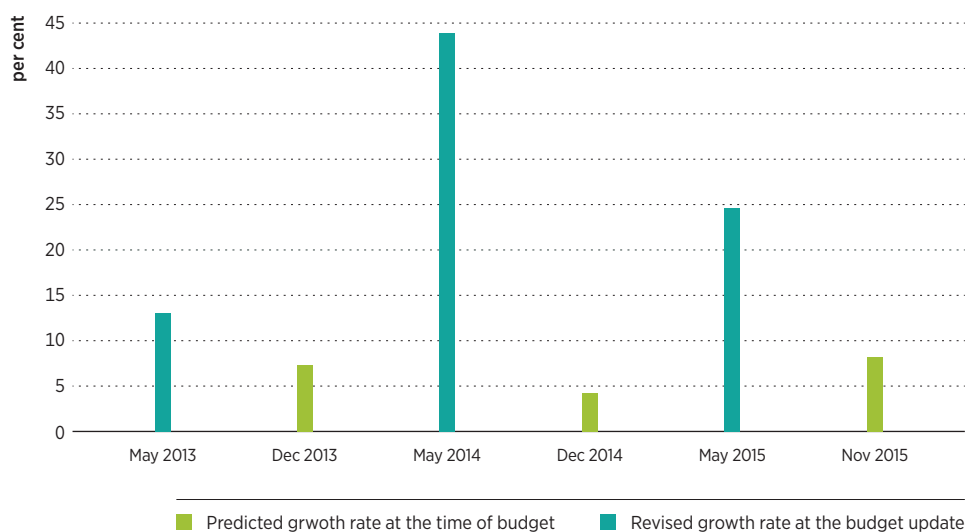
The Committee notes that data for government infrastructure investment has begun to show similar signs. Figure 7.12 shows estimates of growth rates for government infrastructure investment estimates for the budget year over the year prior for the past three budget cycles.

⁴⁸⁹ Department of Treasury and Finance, *Budget Paper No.5: 2015-16 Statement of Finances* (2015), pp.4-5; *ibid.*, pp.2-3

⁴⁹⁰ Such as *Budget Paper No.2: Strategy and Outlook*, Chapter 4, *Budget Paper No.5: Statement of Finances*, chapter 4, or a budget information paper.

⁴⁹¹ For example, Public Accounts and Estimates Committee, *Report on the 2015-16 Budget Estimates* (2015), p.3

Figure 7.12 Growth rates for government infrastructure investment in budget year compared to the prior year, past three budget cycles



Source: Department of Treasury and Finance, *Net Infrastructure Investment* (2016). Available at <www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Other-financial-aggregates>, viewed 3 June 2016

Figure 7.12 shows that for the past three budget cycles, the rate of growth of government infrastructure investment has been revised downwards between the budget (in May) and the budget update (in November or December). Appendix A7.5 shows that this is a result of a combination of two factors:

- in two of the three budget updates, estimated government infrastructure investment in the year prior to the budget year has been revised upwards
- in all budget updates, estimated government infrastructure investment in the budget year has been revised downwards.

For example, the 2015-16 Budget estimated the growth rate of government infrastructure investment to be 24.6 per cent, but this was revised to 8.2 per cent at the time of the *2015-16 Budget Update*.⁴⁹² This was due to both the 2014-15 figure being revised upwards and the 2015-16 figure being revised downwards. The Committee notes that while the *2015-16 Victorian Budget Update* discussed the level of government infrastructure investment for 2015-16 onwards, it does not indicate the revised figure for 2014-15,⁴⁹³ or reasons for its revision.

The Committee notes that the 2016-17 budget papers forecast that government infrastructure investment will be \$7.5 billion in 2016-17, an increase of 67.3 per cent over the revised figure of \$4.5 billion for 2015-16.⁴⁹⁴

⁴⁹² Department of Treasury and Finance, *Net Infrastructure Investment* (2016). Available at <www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Other-financial-aggregates>, viewed 3 June 2016

⁴⁹³ Department of Treasury and Finance, *2015-16 Budget Update* (2015), p.9

⁴⁹⁴ Department of Treasury and Finance, *Net Infrastructure Investment* (2016). Available at <www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Other-financial-aggregates>, viewed 3 June 2016

The Committee notes that figures for government infrastructure investment have only been published since the 2013-14 Budget. For this reason, there is little depth of data on which to base an analysis.

FINDING 107: For the last three budget updates, the forecast growth rate of government infrastructure investment in the budget year (compared to the year prior) has been revised down from higher growth rates forecast in the budget. The *2015-16 Budget Update* did not discuss revisions to government infrastructure investment figures.

RECOMMENDATION 23: Future budget updates include an explanation of revisions made to government infrastructure investment estimates for both the latest completed year and the budget year.

8 The Government's election commitments

8.1 Introduction

In its *Report on the 2015-16 Budget Estimates*, the Committee examined the various output and asset commitments the Government made prior to the 2014 Victorian State election. While the Committee determined that most election commitments had been fully or partly funded in the 2015-16 Budget, a number of commitments had yet to be funded at that time.⁴⁹⁵

In this chapter, the budget papers are examined to provide an update on the output and asset initiatives that were originally outlined as part of the Government's election commitments, together with the level of funding committed for them in 2016-17.

8.2 Output commitments

Output commitments are funding initiatives outlined in the budget for goods and services that are to be delivered by a department and its agencies.

In the Committee's previous examination of the Government's election commitments contained in the *Report on the 2015-16 Budget Estimates*, 14 output commitments were classified as 'yet to be funded'.⁴⁹⁶ These commitments are listed in Table 8.1.

⁴⁹⁵ Public Accounts and Estimates Committee, *Report on the 2015-16 Budget Estimates* (2015), p.201

⁴⁹⁶ *ibid.*, p.262

Table 8.1 Output commitments fully funded in the 2016-17 Budget

Commitment	Original funds committed ^(a)	Funds committed in the 2016-17 budget papers
	(\$ million)	(\$ million)
<i>Active Transport Victoria</i>	3.3	3.3
<i>Doctors in Schools</i>	24.6	25.8
<i>Geelong Ring Road Extension – Planning</i>	4.0	4.0
<i>Victorian Transport Association Logistics Cadetship Program</i>	1.0	1.0
<i>Grant to Country Women's Association</i>	0.1	– ^(b)
<i>Homes for Homes</i>	0.5	0.5
<i>Parliamentary Budget Office</i>	11.0	14.3
<i>Presumptive Rights for Fire Fighters</i>	40.0	–
<i>Response Time Rescue Fund – New Program Funding</i>	60.0	60.0 ^(c)
<i>Rolling Stock – Stage 1 – Operating Component</i>	20.4	59.0 ^(d)
<i>Romsey Intersection – Planning</i>	0.2	– ^(e)
<i>Rooming House Upgrade Program</i>	10.0	10.0 ^(f)
<i>TAC International</i>	0.5	– ^(b)
<i>WorkSafe Package</i>	6.5	–

(a) Five-year total

(b) No funds were committed prior to 2017-18.

(c) Funded through a combination of asset and output initiatives.

(d) Funds provided through output initiatives providing metropolitan and regional rolling stock.

(e) Funding provided as part of the *Road and Rail Minor Works Fund* asset initiative.

(f) Funded through an asset initiative.

Sources: Public Accounts and Estimates Committee, *Report on the 2015-16 Budget Estimates* (2015), p.261; Committee calculations based on Department of Treasury and Finance, *Budget Paper No.3: 2016-17 Service Delivery* (2016), Chapter 1

Table 8.1 shows that in the 2016-17 budget papers, of the 14 output commitments that were classified as 'yet to be funded' in the 2015-16 Budget:

- eight commitments have been fully funded
- one commitment has been funded as part of an output initiative, but the amount is not specified in the budget papers
- one commitment is related to funding that has been provided, but whether the funding is intended to fulfil the commitment is unclear
- four commitments are yet to be funded.

Fully funded commitments

There are eight commitments that were not funded in the 2015-16 budget papers which have been fully funded in the 2016-17 Budget.

One commitment, *Response Time Rescue Fund – New Program Funding*, has been funded through a combination of output and asset initiatives in the 2016-17 Budget.⁴⁹⁷

One commitment, *Rooming House Upgrade Program*, has been funded via an asset initiative.⁴⁹⁸

Two commitments, *Doctors in Schools* and *Parliamentary Budget Office*, have been allocated funds exceeding the level assigned in the original commitments.⁴⁹⁹

The Committee also notes that the funding for two commitments, *Geelong Ring Road Extension – Planning* and *Victorian Transport Association Logistics Cadetship Program*, were allocated in 2016-17, although the funds for these commitments were originally planned for 2017-18.⁵⁰⁰

Commitment funded, but to an unspecified extent

The budget papers state that the *Road and Rail Minor Works Fund* asset initiative would include 'a study of options to upgrade the Barry Street/Melbourne – Lancefield Road intersection in Romsey'.⁵⁰¹ The Committee notes that there is no specified amounts allocated to the options study in the budget papers.

Commitment for which funding is unclear

The *Rolling Stock – Stage 1 – Operating Component* commitment included \$20.4 million in output funding, starting in 2016-17.⁵⁰² The 2016-17 Budget includes two output initiatives (*Additional X'Trapolis Trains* and *More Regional Trains*) for the provision of additional metropolitan and regional rolling stock. The 2016-17 Budget allocates \$59.0 million for these two initiatives over the forward estimates period.⁵⁰³ However, while the funds provided for the two output initiatives are greater than the original commitment of \$20.4 million for *Rolling Stock – Stage 1 – Operating Component*, it is not made clear in the budget papers whether these initiatives form part of the original commitment.⁵⁰⁴ The commentary in the budget papers on asset and output initiatives usually does so.⁵⁰⁵

⁴⁹⁷ Department of Treasury and Finance, *Budget Paper No.3: 2016-17 Service Delivery* (2016), pp.78, 89

⁴⁹⁸ *ibid.*, p.89

⁴⁹⁹ *ibid.*, pp.61, 111; Victorian Labor, *Labor's Financial Statement 2014* (2014), p.7

⁵⁰⁰ Victorian Labor, *Labor's Financial Statement 2014* (2014), p.8

⁵⁰¹ Department of Treasury and Finance, *Budget Paper No.3: 2016-17 Service Delivery* (2016), p.52

⁵⁰² Victorian Labor, *Labor's Financial Statement 2014* (2014), p.8

⁵⁰³ Department of Treasury and Finance, *Budget Paper No.3: 2016-17 Service Delivery* (2016), p.38

⁵⁰⁴ *ibid.*, pp.57, 60

⁵⁰⁵ See the commentary for the *Victorian Transport Association Logistics Cadetship Program*, Department of Treasury and Finance, *Budget Paper No.3: 2016-17 Service Delivery* (2016), p.43

Commitments for which funding is yet to be provided

Four commitments that were not funded in the 2015-16 budget papers remain unfunded. These are the:

- *Grant to Country Women's Association*
- *TAC International*
- *Presumptive Rights for Fire Fighters*
- *WorkSafe Package.*

Of these commitments, funding for the *Grant to Country Women's Association* and *TAC International* had not been committed until 2017-18.⁵⁰⁶

In the 2016-17 budget estimates hearings, the Minister for Emergency Services informed the Committee that funding for the *Presumptive Rights for Fire Fighters* commitment will be allocated after the Government has finalised the relevant legislation.⁵⁰⁷

Finally, the Committee was unable to clearly establish funding provided to the *WorkSafe Package* in the 2016-17 budget papers.

FINDING 108: Of the 14 output commitments that were yet to be funded at the time of the 2015-16 Budget:

- eight have been fully funded by the time of the 2016-17 Budget
- one has been funded, but to an unspecified extent
- one for which funding has been provided, but whether this was in fulfilment of an election commitment remains unclear
- four remain unfunded at the time of the 2016-17 Budget.

8.3 Asset commitments

Asset commitments are for projects or programs undertaken by a department and its agencies that deliver assets such as roads or hospitals.

Previously unfunded commitments

In its *Report on the 2015-16 Budget Estimates*, the Committee established that 25 asset commitments remained either partially funded or yet to be funded.⁵⁰⁸ These are listed in Table 8.2, along with funding included in the 2016-17 Budget.

⁵⁰⁶ Victorian Labor, *Labor's Financial Statement 2014* (2014), pp.7-8

⁵⁰⁷ Hon. Jane Garrett MP, Minister for Emergency Services, *2016-17 Budget Estimates Transcript of Evidence*, 20 May 2016, pp.13-14

⁵⁰⁸ Public Accounts and Estimates Committee, *Report on the 2015-16 Budget Estimates* (2015), p.262

Table 8.3 Asset commitments that were not fully funded after the 2015-16 Budget

Commitment	Original TEI commitment	Funds committed in the 2016-17 or 2015-16 budget papers
	(\$ million)	(\$ million)
<i>Aikenhead Biomedical Engineering</i>	60.0	-(a)
<i>Bolton Street Eltham Upgrade</i>	10.5	10.5 ^{(b)(c)}
<i>Chinese Aged Care Land Bank</i>	2.5	2.5
<i>Contemporary Music Hub</i>	10.0	-
<i>Doctors in Schools</i>	18.0	18.0
<i>Drysdale Bypass Construction</i>	109.0	108.8 ^{(b)(c)}
<i>Extra School Capital</i>	20.0	0.0
<i>Frankston Station Precinct Redevelopment</i>	50.0	63.1 ^(c)
<i>Golf Centre of Excellence</i>	10.0	-
<i>Maroondah Breast Cancer Centre</i>	10.0	10.0
<i>Mernda Rail Extension</i>	400.0 to 600.0	596.7 ^(c)
<i>Napier Street Bendigo Upgrade</i>	17.2	17.8 ^(c)
<i>O'Herns Road Upgrade – State Contribution</i>	40.7	41.8 ^{(b)(d)}
<i>Orygen Youth Mental Health</i>	60.0	60.0 ^(c)
<i>Railway Station Car Parking Fund</i>	20.0	19.9 ^(b)
<i>Road and Rail Minor Works Fund</i>	80.0	82.3 ^{(b)(c)}
<i>Save Sunvale Primary Site</i>	4.2	-
<i>School Asbestos Removal Program</i>	100.0	70.0 ^(c)
<i>School Capital Package</i>	510.0	Cannot yet be determined
<i>Streamlining Hoddle Street</i>	60.0	60.4 ^{(b)(c)}
<i>Tech Schools – Capital Component</i>	100.0	124.1 ^{(b)(c)}
<i>Thompsons Road Duplication</i>	175.0	175.2 ^{(b)(c)}
<i>Victorian Heart Hospital</i>	150.0	150.0 ^(c)
<i>West Gate Distributor^(e)</i>	500.0	1,460.2 ^(c)
<i>Yan Yean Road Duplication</i>	95.0	132.1 ^{(b)(c)}

(a) Funding for this project is held in contingency.

(b) Includes output initiative funding in the 2016-17 Budget

(c) Includes some funding provided in the 2015-16 Budget

(d) Not including Commonwealth capital contribution of \$40.4 million

(e) This commitment has been superseded by the larger *Western Distributor* project.

Sources: Public Accounts and Estimates Committee, *Report on the 2015-16 Budget Estimates* (2015), p.263; Committee calculations based on Department of Treasury and Finance, *Budget Paper No.3: 2016-17 Service Delivery* (2016), Chapter 1

Of the asset commitments listed in Table 8.2:

- 18 commitments have been fully funded
- one commitment is dependent on the completion of another project
- one commitment has been partially funded
- three commitments remain yet to be funded
- funding for two components remains unclear.⁵⁰⁹

Fully funded commitments

The 2016-17 Budget has fully funded 18 of the asset commitments that were not fully funded in the 2015-16 Budget.⁵¹⁰ These are:

- *Aikenhead Biomedical Engineering*
- *Bolton Street Eltham Upgrade*
- *Chinese Aged Care Land Bank*
- *Doctors in Schools*
- *Drysdale Bypass Construction*
- *Frankston Station Precinct Redevelopment*
- *Maroondah Breast Cancer Centre*
- *Mernda Rail Extension*
- *Napier Street Bendigo Upgrade*
- *O'Herns Road Upgrade – State Contribution*
- *Orygen Youth Mental Health*
- *Railway Station Car Parking Fund*
- *Road and Rail Minor Works Fund*
- *Streamlining Hoddle Street*
- *Tech Schools – Capital Component*
- *Thompsons Road Duplication*
- *Victorian Heart Hospital*
- *Yan Yean Road Duplication.*

The *Victorian Heart Hospital* commitment received funding of \$135.0 million in the 2016-17 Budget.⁵¹¹ The budget papers note that 'final project TEI and cash flow will be determined following completion of business planning

⁵⁰⁹ Committee calculations based on Department of Treasury and Finance, *Budget Paper No.3: 2016-17 Service Delivery* (2016), Chapter 1, pp.325, 332

⁵¹⁰ In some cases, such as the *Drysdale Bypass Construction* project, small funding shortfalls are assumed to be rounding errors in the budget papers.

⁵¹¹ Department of Treasury and Finance, *Budget Paper No.3: 2016-17 Service Delivery* (2016), p.89

and development'.⁵¹² The Minister for Health noted in the budget estimates hearing that the business case is expected to be completed during the 2016-17 financial year.⁵¹³

The 2016-17 Budget does not provide specific funding for the *Aikenhead Biomedical Engineering* project. However, in the budget estimates hearing the Minister stated that:

St Vincent's has raised \$60 million. We have committed \$60 million that is in contingency in the budget, but are awaiting the federal government to announce whether or not they will commit the final \$60 million.⁵¹⁴

As funds are explicitly being held in contingency in the State's finances for this project, the Committee considers that the project is fully funded.

The *Mernda Rail Extension* project received \$9.0 million in the 2015-16 Budget,⁵¹⁵ and a further \$587.7 million in the 2016-17 Budget.⁵¹⁶ This is \$3.3 million less than the full commitment given prior to the election.⁵¹⁷ The Government has said the *Mernda Rail Extension* commitment is fully funded, as the Minister for Public Transport informed the Committee that:

This year's budget also delivers every single dollar we need to deliver the Mernda rail extension.⁵¹⁸

Commitment dependent on another project

The first stage of one commitment, the *West Gate Distributor*, is now superseded by the larger *Western Distributor* project. The *West Gate Distributor* commitment received approximately \$40.1 million in funding in the 2015-16 Budget (see Section 7.3.1).⁵¹⁹

The larger *Western Distributor* project will:

- construct on-and-off ramps on the West Gate Freeway and an elevated road along Hyde Street, Yarraville
- upgrade and duplicate Whitehall Street between Francis Street and Somerville Road
- strengthen Shepherd Bridge and upgrade into Footscray Road.⁵²⁰

512 *ibid.*, p.90

513 Hon. Jill Hennessy MP, Minister for Health, *2016-17 Budget Estimates Transcript of Evidence*, 11 May 2016, p.9

514 *ibid.*, p.30

515 Department of Treasury and Finance, *Budget Paper No.3: 2015-16 Service Delivery* (2015), p.37

516 Department of Treasury and Finance, *Budget Paper No.3: 2016-17 Service Delivery* (2016), p.49

517 Victorian Labor, *Labor's Financial Statement 2014* (2014), p.13

518 Hon. Jacinta Allan MP, Minister for Public Transport, *2016-17 Budget Estimates Transcript of Evidence*, 12 May 2016, p.4

519 Department of Treasury and Finance, *Budget Paper No.3: 2015-16 Service Delivery* (2015), pp.21, 37

520 Victorian Labor, *Labor to Fast Track Work on West Gate Distributor* (Media release, 15 September 2014)

Funding for the first (Northern) stage of the project was provided in the 2015-16 Budget.⁵²¹ The Government announced on 8 June 2016 that construction on this \$40 million stage has begun.⁵²² This stage provides:

- widening Moreland Street to provide a four lane divided road, with an upgraded connection to Footscray Road
- new signals for intersections in Moreland Street at Footscray Road, Parker Street and Whitehall Street
- the widening and strengthening of Shepherd Bridge over the Maribyrnong River with the removal of the pedestrian and cycling paths on the bridge
- a new bridge over the Maribyrnong River for pedestrians and cyclists.⁵²³

The *Western Distributor* aims to provide an alternative to the West Gate Bridge, a second river crossing and direct access to the Port of Melbourne. This larger project will:

- widen from 8 to 12 lanes and other improvements along the West Gate Freeway
- build a new road and tunnel under Yarraville connecting the West Gate Freeway with the Port of Melbourne, CityLink and the Central Business District (CBD)
- construct a bridge over the Maribyrnong River joining an elevated road along Footscray Road
- provide a direct connection to the port from Hyde Street for trucks carrying hazardous goods
- provide improved access to Swanson, Appleton and Webb Docks
- establish an eastern interchange connecting to CityLink, inner northern suburbs and the city
- use smart technology adding to the M1 managed motorway
- add major new cycling and walking paths.⁵²⁴

FINDING 109: The addition of the *Western Distributor* in the 2016-17 budget papers supersedes the Government's election commitment to the *West Gate Distributor*, having an increased scope.

521 Department of Treasury and Finance, *Budget Paper No.3: 2016-17 Service Delivery* (2016), pp.21, 37

522 Hon. Luke Donnellan MP, Minister for Roads and Road Safety, *Getting it Done: Construction Starts on Shepherd Bridge* (Media release, 8 June 2016)

523 VicRoads, *West Gate Distributor – Stage 1*. Available at <www.vicroads.vic.gov.au/planning-and-projects/melbourne-road-projects/west-gate-distributor>, viewed 5 July 2016

524 Victorian Government, *Fact Sheet: Western Distributor Overview*. Available at <westerndistributorproject.vic.gov.au/western-distributor-document-library>, viewed 5 July 2016, p.1

Partially funded commitment

The *School Asbestos Removal Program* received additional capital funding in the 2016-17 Budget of \$28.0 million.⁵²⁵ The project had been partially funded in the 2015-16 Budget, receiving both output and capital funding, bringing the total funding allocated to \$70.0 million compared to the election commitment of \$100.0 million.⁵²⁶

In the budget estimates hearings, the Minister for Education indicated that while all high-risk asbestos has been removed from school buildings, 'removal of the asbestos will be determined by the school capital program'.⁵²⁷

Commitments yet to be funded

The 2016-17 Budget does not explicitly include funding for the following commitments:

- *Contemporary Music Hub*
- *Golf Centre of Excellence*
- *Save Sunvale Primary Site.*

Commitments for which funding remains unclear

In its *Report on the 2015-16 Budget Estimates*, the Committee noted that there was a lack of clarity around the *School Capital Package* and *Extra School Capital* commitments. While the Minister for Education stated in the 2015-16 budget estimates hearings that \$497.5 million of the \$530 million commitment had been acquitted,⁵²⁸ the 2015-16 budget papers had not clearly indicated that the commitments had been funded.⁵²⁹ The Committee notes that there is no clear indication of further funding in the 2016-17 Budget.

FINDING 110: Of the 25 asset commitments that were yet to be funded at the time of the 2015-16 Budget:

- 18 have been fully funded by the time of the 2016-17 Budget
- one is funded, but is now dependent on another larger project
- one is partially funded
- three remain unfunded
- two for which funding remains unclear at the time of the 2016-17 Budget.

⁵²⁵ Department of Treasury and Finance, *Budget Paper No.3: 2016-17 Service Delivery* (2016), p.65; Victorian Labor, *Labor's Financial Statement 2014* (2014), p.12

⁵²⁶ Department of Treasury and Finance, *Budget Paper No.3: 2015-16 Service Delivery* (2015), pp.47, 53

⁵²⁷ Hon. James Merlino, Minister for Education, *2016-17 Budget Estimates Transcript of Evidence*, 10 May 2016, p.9

⁵²⁸ Hon. James Merlino, Minister for Education, *2015-16 Budget Estimates Transcript of Evidence*, 12 May 2015, p.4

⁵²⁹ Public Accounts and Estimates Committee, *Report on the 2015-16 Budget Estimates* (2015), p.202

8.4 Treatment of Government election commitments in the budget papers

In its *Report on the 2015-16 Budget Estimates*, the Committee recommended that future budget papers include a section that acquits election commitments.⁵³⁰ The Government supported this in principal, noting that it intended to include in future budget papers a section that summarises the funding of election commitments, similar to that in Chapter 1, Budget Paper No. 3 in the 2015-16 budget papers.⁵³¹ However this section was removed from the 2016-17 budget papers (see Appendix A3.2), although most of the initiatives that were in fulfilment of election commitments did have notes to that effect in the commentary. The Government response to the Committee's recommendation also noted that:

While the Government will deliver on all its election commitments, prudent budgetary decision-making requires that the Government consider these competing priorities at each budget and make allocations year by year in the best interests of the Victorian community.⁵³²

The Committee understands that the timing of the Government response to its recommendation may have been too late to ensure that the 2016-17 budget papers included a section acquitting election commitments. The Committee anticipates such a section in the 2017-18 budget papers.

⁵³⁰ Public Accounts and Estimates Committee, *Report on the 2015-16 Budget Estimates* (2015), Recommendation 58, p.197

⁵³¹ Victorian Government, *Government Responses to the Recommendations of Public Accounts and Estimates Committee's Report on the 2015-16 Budget Estimates*, tabled 4 May 2016, p.19

⁵³² *ibid.*

9

Performance measurement

9.1 Introduction

This chapter examines the departmental performance measurement system, which is an essential part of the way the Government communicates its intended policies. Clear and objective measurement and reporting of performance is critical to a transparent and accountable Government and public service.

Having a well-functioning performance measurement system supports the concept of transparency by setting clear and unambiguous goals for departments at the start of the financial year. Estimates in the budget papers are used to communicate these goals, including why they are important, to Parliament and the community.

In addition, the performance reporting system allows an objective understanding of what occurred during the year. Directly comparing what was intended at the start of the year and what happened highlights any variances, and enables departments to explain them to stakeholders. This is a critical element of accountability.

The Victorian performance measurement system works on two levels:

- the system requires departments to define their overall objectives, to choose indicators that objectively describe progress towards those objectives, and to report on these in annual reports
- at a finer level, the system defines what departments are intended to produce, described in terms of quality, quantity, timeliness and cost, and enables an examination of these outputs at the end of the year.

This chapter examines the current performance measurement system and the changes that have been made for 2016-17, describing:

- changes to guidance documentation for departments for 2016-17
- changes to objectives for departments, and changes to objective indicators
- changes to outputs for 2016-17
- performance measures proposed for discontinuation in 2016-17, and those which the Committee considers should be retained.

9.2 Changes to guidance documentation for 2016-17

The performance measurement system in Victoria has been operating on the basis of output funding, with outputs described in terms of quality, quantity and timeliness, as well as cost, introduced fully in the 1998-99 Budget.⁵³³

The Committee notes that in July 2016, the Department of Treasury and Finance has introduced a new suite of guidance documentation for departments and other users. The Minister for Finance informed the Committee of the new guidance documentation at the inquiry hearings.⁵³⁴

The two major elements of the new guidance are:

- *Standing Directions of the Minister for Finance 2016*
- *Performance Management Framework for Victorian Government Departments.*

The *Performance Management Framework for Victorian Government Departments* provides guidance for departments on a number of areas, including:

- short, medium and long term planning
- development of departmental objectives and their supporting objective indicators
- development of outputs and performance measures and their targets
- changing objectives, outputs and performance measures
- pricing outputs
- monitoring and reporting performance.

The *Performance Management Framework for Victorian Government Departments* consolidates a large number of previous documents known as *Budget and Financial Management Guidances* (BFMGs). These documents were updated at different times as changes were made, leading to a diverse range of documents with different dates. The Committee considers that having all guidance in a single document will allow departments to keep abreast of updates more easily.

For this report, the Committee will primarily base its discussion on the new documentation. However, where relevant, reference will be made to the previous BFMG documents to provide continuity.

FINDING 111: The 'Budget and Financial Management Guidances' suite of documents was replaced in July 2016 by the *Performance Management Framework for Victorian Government Departments*.

⁵³³ Department of Treasury and Finance, *Budget Paper No.3: 1998-99 Budget Estimates* (1998), Statement 2, pp.29-392

⁵³⁴ Hon. Robin Scott MP, Minister for Finance, *2016-17 Budget Estimates Transcript of Evidence*, 13 May 2016, p.2

9.3 Departmental objectives and indicators

A departmental objective is an expression of what a department intends to achieve. They are:

... results-based and reflect the extent of the department's service delivery ambitions over the forward estimates period.⁵³⁵

Departmental objectives are measured not in terms of what departments produce, but:

... are the effects or impacts a department seeks to have on clients, the community and other key stakeholders.⁵³⁶

As well as identifying the intended achievements of the department, departmental objectives identify the beneficiaries, set out the intended quality of the achievements and give a medium term timeframe for the department.⁵³⁷ The focus on outcomes means that objectives do not specify the actions of departments, or the efforts to be made by those departments.

Departmental objectives are intended to be quantifiable, although in practice this is assessed in concert with actually quantified departmental objective indicators.⁵³⁸

A purely illustrative example of a departmental objective may be: 'Victoria's roads are safer over the last 12 months than the average of the previous three years, for motorists, pedestrians, cyclists and other road users'.

Departmental objective indicators are included in the budget papers in support of departmental objectives. According to the guidance documentation:

A departmental objective indicator is a piece of data that demonstrates progress towards the achievement of a department's objectives. Indicators provide evidence to support measurement and management of performance.⁵³⁹

The updated guidance has not changed this definition, apart from clarifying that departmental objective indicators 'describe the quantifiable extent of the effect on recipients of services provided'.⁵⁴⁰

⁵³⁵ Department of Treasury and Finance, *Performance Management Framework for Victorian Government Departments* (2016), p.40; see also Department of Treasury and Finance, *BFMG - 08: Departmental Objectives and Departmental Objective Indicators* (2013), p.103

⁵³⁶ Department of Treasury and Finance, *Performance Management Framework for Victorian Government Departments* (2016), p.11

⁵³⁷ *ibid.*, p.13; see also Department of Treasury and Finance, *BFMG - 08 Departmental Objectives and Departmental Objective Indicators* (2013), p.104

⁵³⁸ Department of Treasury and Finance, *Performance Management Framework for Victorian Government Departments* (2016), p.40

⁵³⁹ *ibid.*

⁵⁴⁰ *ibid.*

Departmental objective indicators work in tandem with departmental objectives. Changes in the quantified indicators allow departments to demonstrate that they have made progress towards their relevant objectives. This is reported in departmental annual reports; no targets are set in the budget papers.

For the illustrative example given above, departmental objective indicators may include:

- motorist deaths (per 1,000 population) over the last 12 months
- motorist serious injuries over the last 12 months
- pedestrian deaths over the last 12 months.

FINDING 112: The definitions of departmental objective and departmental objective indicators have not changed materially in the updated guidance released by the Department of Treasury and Finance.

9.3.1 Changes to departmental objectives and indicators in 2016-17

Departments have the opportunity to make changes to departmental objectives and their indicators at the time of the budget.⁵⁴¹ Changes are set out in the departmental performance statements, which are included in the budget papers.⁵⁴² Changes set out in the 2016-17 budget papers will be discussed in this section.

Guidance provided by the Department of Treasury and Finance specifies that departmental objectives and objective indicators are to be reviewed and assessed annually, and that changes are to be made as part of the annual budget process.⁵⁴³ However, currently the guidance does not describe the circumstances under which changes to objectives or indicators would be required. Without this there is the possibility of out of date (or otherwise inappropriate) objectives or indicators remaining in operation.

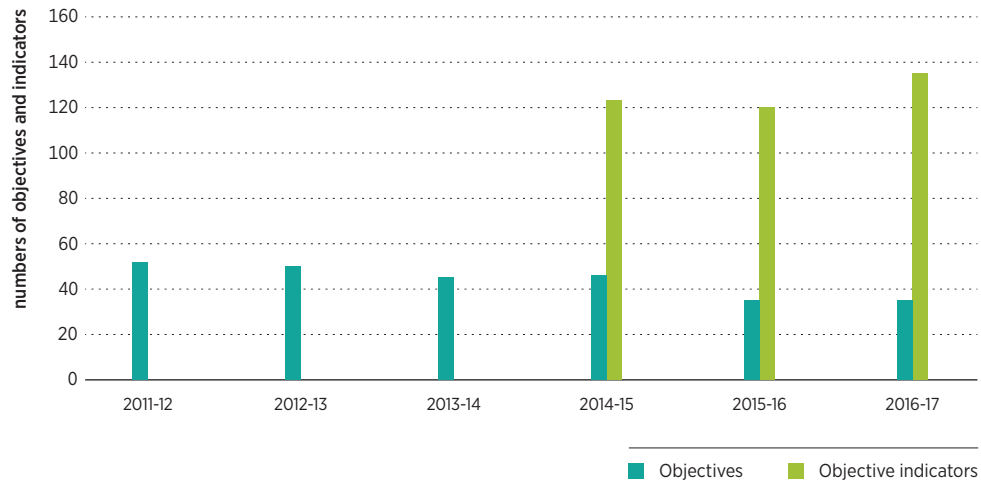
Figure 9.1 shows the number of departmental objectives and departmental objective indicators included in the budget papers since their various introductions.

⁵⁴¹ *ibid.*, p.16

⁵⁴² Department of Treasury and Finance, *Budget Paper No.3: 2016-17 Service Delivery* (2016), Chapter 2

⁵⁴³ Department of Treasury and Finance, *Performance Management Framework for Victorian Government Departments* (2016), p.16

Figure 9.1 Departmental objectives and departmental objective indicators^(a) in budget papers



(a) Not including Victorian Auditor-General’s Office and Parliament, which have not provided formal objectives or indicators
 Source: Committee calculations based on: Department of Treasury and Finance, *Budget Paper No.3: 2011-12 Service Delivery* (2011), Chapter 3; Department of Treasury and Finance, *Budget Paper No.3: Service Delivery, 2012-13 to 2016-17*, Chapter 2

Figure 9.1 shows that the number of departmental objectives have decreased since their introduction in 2011-12 to 2015-16, and have remained at 35 over the last two years.

The figure also shows that there has been an increase in the number of departmental objective indicators for 2016-17 to 135.

Changes in the number of objectives and objective indicators by department in the latest budget papers are given in Appendix A9.1.

FINDING 113: In 2016-17, there were 35 objectives for departments set in the budget papers, the same number as for 2015-16. There were 135 departmental objective indicators that supported these objectives. This was an increase of 15 indicators over the previous year.

FINDING 114: Guidance provided by the Department of Treasury and Finance currently does not describe circumstances under which changes to departmental objectives or objective indicators would be required.

RECOMMENDATION 24: In future versions of the *Performance Management Framework for Victorian Government Departments*, the Department of Treasury and Finance include a description of circumstances under which changes to departmental objectives or objective indicators are required.

9.3.2 Objectives and objective indicators by department

The following section examines the changes made to the objectives and objective indicators by departments as they appear in the 2016-17 budget papers.

Department of Justice and Regulation

The budget papers note that the objectives and objective indicators for the Department of Justice and Regulation have been reviewed and updated.⁵⁴⁴ The Minister for Finance noted in his hearing that this was ‘to better align its outputs and objectives’.⁵⁴⁵ All six objectives have been reworded. The Committee notes that in most cases these changes align with guidance for specification of departmental objectives provided by the Department of Treasury and Finance.⁵⁴⁶ However, two objectives⁵⁴⁷ are set out as something the Department intends to do rather than something the department intends to achieve, which may contribute to confusion between departmental objectives and departmental outputs.

The Department of Justice and Regulation has added a significant number of objective indicators in support of its objectives, moving from 15 in the 2015-16 budget papers⁵⁴⁸ to 25 in the 2016-17 budget papers.⁵⁴⁹ In most cases these are new indicators, although some replace related indicators from the 2015-16 budget papers. The Committee is pleased to see the increase in indicators, as it provides a more comprehensive demonstration of how the Department of Justice and Regulation is achieving its objectives.

The Committee notes that one new indicator, ‘Crime statistics’, is likely to be a suite of statistics rather than a single datum. This may mean if some of these data move in different directions to others, the way in which the objective indicator supports the objective may become ambiguous.

Department of Premier and Cabinet

The Department of Premier and Cabinet have made minor changes to names and descriptions of its objectives in the 2016-17 budget papers.⁵⁵⁰ One objective indicator has been discontinued following the transfer of the *Business Environment Policy Advice* output to the Department of Treasury and Finance.⁵⁵¹ The Committee notes, however, that this change in focus for the Department of Premier and Cabinet has not resulted in a change to the description of the relevant output.

⁵⁴⁴ Department of Treasury and Finance, *Budget Paper No.3: 2016-17 Service Delivery* (2016), p.262

⁵⁴⁵ Hon. Robin Scott MP, Minister for Finance, *2016-17 Budget Estimates Transcript of Evidence*, 13 May 2016, p.3

⁵⁴⁶ Department of Treasury and Finance, *BFMG – 08 Departmental Objectives and Departmental Objective Indicators* (2013), p.104; Department of Treasury and Finance, *Performance Management Framework for Victorian Government Departments* (2016), p.11

⁵⁴⁷ ‘Ensuring community safety through policing, law enforcement and prevention activities’ and ‘Reduce the impact of, and consequences from, natural disasters and other emergencies on people, infrastructure, the economy and the environment’

⁵⁴⁸ Department of Treasury and Finance, *Budget Paper No.3: 2015-16 Service Delivery* (2015), pp.266-7

⁵⁴⁹ Department of Treasury and Finance, *Budget Paper No.3: 2016-17 Service Delivery* (2016), pp.261-2

⁵⁵⁰ *ibid.*, pp.287-8

⁵⁵¹ *ibid.*, p.289

The Committee also notes that the Department of Premier and Cabinet has a low number of indicators that support its objectives, with five indicators and three objectives. The Committee also notes that the Department's indicators appear to be multifaceted, dealing with a number of aspects of each of the Department's objective.⁵⁵²

While guidance for departmental objective indicators does not explicitly specify that departmental objective indicators must be quantifiable in order to be measured in annual reports, the Committee considers that this is strongly implied. This is because the guidance states that departmental objective indicators:

- are referred to as 'a piece of data'⁵⁵³
- are to 'focus on measurable results'⁵⁵⁴
- should use 'existing data sets'⁵⁵⁵ where possible
- quantify progress towards achievement of the department's objective.⁵⁵⁶

The Committee notes that the Government supported a previous Committee recommendation on this matter,⁵⁵⁷ responding that:

The Department of Treasury and Finance will continue to work with departments to ensure that in future budget papers objective indicators are clearly quantifiable or measurable.⁵⁵⁸

The Committee considers that the guidance documentation would be improved by explicitly stating that departmental objective indicators must be quantifiable.

FINDING 115: While guidance strongly implies that departmental objective indicators are to be quantified, this is not explicit.

RECOMMENDATION 25: The Department of Treasury and Finance update its guidance documentation to explicitly specify that departmental objective indicators must be clearly quantifiable or measurable.

⁵⁵² For example, 'A values-driven, high-integrity public service characterised by employees who collaborate across government and in partnership with the community and other sectors, and who use evidence to support decisions which drive the progress of Victoria socially and economically' (Department of Treasury and Finance, *Budget Paper No.3: 2016-17 Service Delivery* (2016), p.288).

⁵⁵³ Department of Treasury and Finance, *Performance Management Framework for Victorian Government Departments* (2016), p.40; see also Department of Treasury and Finance, *BFMG - 08 Departmental Objectives and Departmental Objective Indicators* (2013), p.103

⁵⁵⁴ Department of Treasury and Finance, *Performance Management Framework for Victorian Government Departments* (2016), p.47

⁵⁵⁵ *ibid.*

⁵⁵⁶ *ibid.*, p.45

⁵⁵⁷ Public Accounts and Estimates Committee, *Report on the 2013-14 Budget Estimates - Part Two* (2013), Recommendation 23, p.136

⁵⁵⁸ Victorian Government, *Government Responses to the Recommendations of Public Accounts and Estimates Committee's 116th Report to the Parliament - Report on the 2013-14 Budget Estimates - Part Two*, tabled 16 April 2014, p.9

The Committee approached the Department of Premier and Cabinet for information about what quantified data, if any, the Department intends to publish in support of its departmental objective indicators in future annual reports. The Department of Premier and Cabinet responded that it will be:

... continuing to report against its outputs and relevant performance measures aligned to the overarching objectives.⁵⁵⁹

Data published relating to outputs and performance measures are distinct from that which supports departmental objective indicators. This suggests to the Committee that the Department of Premier and Cabinet does not intend to publish data explicitly in support of its departmental objective indicators.

FINDING 116: Departmental objective indicators for the Department of Premier and Cabinet are not quantifiable. The Department has not indicated an intention to publish quantifiable data supporting the departmental objective indicators that are currently identified.

RECOMMENDATION 26: The Department of Premier and Cabinet update its departmental objective indicators in order to make them quantifiable.

Other departments

The Department of Education and Training has not altered the objectives from the 2015-16 budget papers.⁵⁶⁰ However, a number of alterations have been made to the objective indicators that support the Department's objectives, including:

- for the 'Achievement' objective, three new supporting indicators have been added, but one has been altered to cease reporting standards across 'arts, history and ICT'⁵⁶¹ as 'on the basis that limitations in its composite design and associated data reduced its effectiveness in the measurement and reporting of achievement in each of its component learning areas'⁵⁶²
- for the 'Engagement' objective, two new indicators have been added and one has been divided into two.⁵⁶³ Although the new pair of indicators report attendance, they do not define an 'acceptable' level. Another indicator⁵⁶⁴ has been altered to report students' opinions of the school rather than the teachers.

⁵⁵⁹ Department of Premier and Cabinet, *Response to the Committee's 2016-17 Budget Estimates Entity-specific Questionnaire*, received 1 July 2016, p.1

⁵⁶⁰ Department of Treasury and Finance, *Budget Paper No.3: 2016-17 Service Delivery* (2016), pp.164-5

⁵⁶¹ Department of Treasury and Finance, *Budget Paper No.3: 2015-16 Service Delivery* (2015), p.169

⁵⁶² Department of Education and Training, *Response to the Committee's 2016-17 Budget Estimates Entity-specific Questionnaire*, received 7 July 2016, p.6

⁵⁶³ 'Students with acceptable levels of school attendance' is now reported as 'Mean number of student absent days per full-time equivalent (FTE) a year' and 'Mean number of unapproved student absence days per full-time equivalent (FTE) per year in secondary schools'.

⁵⁶⁴ 'Students with a positive opinion about their school providing a stimulating learning environment', previously 'Students with a positive opinion of their school teachers providing a stimulating learning environment'

The Department of Environment, Land, Water and Planning has not altered objectives from the 2015-16 budget papers.⁵⁶⁵ One objective indicator⁵⁶⁶ has been discontinued ‘due to a change in policy as a result of the development of the new water plan, *Water for Victoria*’.⁵⁶⁷ Another indicator⁵⁶⁸ has been altered to reflect a change in the approach to reducing the risk of bushfire that places the focus on ‘doing the burns in a way that reduces risk to life and property’.⁵⁶⁹

The Department of Treasury and Finance has altered one of its objectives,⁵⁷⁰ reflecting a rearrangement of activities within the Department including the receipt of some components of its *Business Environment Policy Advice* output from the Department of Premier and Cabinet.⁵⁷¹ The Committee notes that the description of this objective now no longer refers to ‘transparent and accountable commercial principles and practices throughout the public sector’.⁵⁷²

The Department of Treasury and Finance has made minor changes to its indicators for 2016-17, mostly reflecting the changes to objectives.

Explanations for changes to objectives and indicators

As part of its *Report on the 2015-16 Budget Estimates*, the Committee recommended that modifications to objectives be explained in the budget papers.⁵⁷³ The Committee also recommended similar explanations for changes to departmental objective indicators.⁵⁷⁴ While both recommendations were supported by the Government,⁵⁷⁵ the Committee notes that the Government response was tabled after the preparation of the 2016-17 budget papers.

In the 2016-17 budget papers:

- changes to objectives and indicators by the Department of Education and Training⁵⁷⁶ discussed earlier are not explained in the budget papers
- the Department of Environment, Land, Water and Planning provides an explanation for the alteration of one indicator, but does not mention the removal of a second⁵⁷⁷

⁵⁶⁵ Department of Treasury and Finance, *Budget Paper No.3: 2016-17 Service Delivery* (2016), pp.191-2

⁵⁶⁶ ‘Proportion of new homes and businesses connected to an alternative water source’ (Department of Treasury and Finance, *Budget Paper No.3: 2015-16 Service Delivery* (2015), p.193)

⁵⁶⁷ Department of Environment, Land, Water and Planning, *Response to the Committee’s 2016-17 Budget Estimates Entity-specific Questionnaire*, received 1 July 2016, p.2

⁵⁶⁸ ‘Area treated through planned burning and other treatments to maintain the statewide bushfire risk at or below 70 per cent’ (Department of Treasury and Finance, *Budget Paper No.3: 2015-16 Service Delivery* (2016), p.192)

⁵⁶⁹ Hon. Lisa Neville, Minister for Environment, Climate Change and Water, *2016-17 Budget Estimates Hearings Transcript of Evidence*, 17 May 2106, p.10

⁵⁷⁰ ‘Drive improvement in public sector commercial and asset management and the delivery of infrastructure’

⁵⁷¹ Department of Treasury and Finance, *Budget Paper No.3: 2016-17 Service Delivery* (2016), p.308

⁵⁷² Department of Treasury and Finance, *Budget Paper No.3: 2015-16 Service Delivery* (2015), p.316; cf. Department of Treasury and Finance, *Budget Paper No.3: 2016-17 Service Delivery* (2016), p.307

⁵⁷³ Public Accounts and Estimates Committee, *Report on the 2015-16 Budget Estimates* (2015), Recommendation 60, p.212

⁵⁷⁴ Public Accounts and Estimates Committee, *Report on the 2015-16 Budget Estimates* (2015), Recommendation 61, p.214

⁵⁷⁵ Victorian Government, *Government Responses to the Recommendations of Public Accounts and Estimates Committee’s Report on the 2015-16 Budget Estimates*, tabled 4 May 2016, p.20

⁵⁷⁶ Department of Treasury and Finance, *Budget Paper No.3: 2016-17 Service Delivery* (2016), pp.164-5

⁵⁷⁷ *ibid.*, p.192

- the Department of Justice and Regulation notes in the budget papers that changes to objectives have been made but have provided no actual explanation⁵⁷⁸
- as mentioned earlier, the Department of Premier and Cabinet did not explain the discontinuation of one objective indicator
- the Department of Treasury and Finance notes that wording changes to indicators are to ‘more accurately describe the objective indicator’, but these do not explain where the previous indicator was unclear, and in some cases substitute one complex sentence for another.⁵⁷⁹

As noted above, updated documentation covering changes to objectives and indicators specifies when changes are to occur.⁵⁸⁰ However, it does not indicate to departments what information they should provide the Parliament or the community when objectives or objective indicators are changed.

FINDING 117: A number of departments have made changes to objectives and objective indicators in the 2016-17 budget papers. Some departments have provided explanations for changes, some have noted that changes have occurred and some have not provided any information.

RECOMMENDATION 27: The Department of Treasury and Finance update its guidance to specify that explanations provided in the budget papers for modifications to departmental objectives and departmental objective indicators include a discussion of the reason why changes were made to objectives or objective indicators.

9.4 Outputs

The newly-released guidance documents define output as:

... the final products, or goods and services produced or delivered by, or on behalf of, a department or public body to external customers/recipients.⁵⁸¹

This is similar to the previous definition that states:

Outputs include products and services delivered to the community by departments or entities on behalf of the State (e.g. education, health services), or products and services provided to other departments.⁵⁸²

⁵⁷⁸ *ibid.*, p.262

⁵⁷⁹ For example, ‘Provide high quality, timely and relevant advice on asset management, the delivery of infrastructure and management of government land as assessed by feedback from our key clients’ is more succinct than ‘Provide high quality, timely and relevant advice on asset management, the delivery of infrastructure, management of government land, borrowings, investments, insurance, superannuation issues and prudential supervision, as assessed by feedback from our key clients’.

⁵⁸⁰ Department of Treasury and Finance, *Performance Management Framework for Victorian Government Departments* (2016), p.16

⁵⁸¹ *ibid.*, p.41

⁵⁸² Department of Treasury and Finance, *BFMG – 09 Output Specification and Performance Measures* (2012), p.109

The Committee considers that the definition of an output has not changed materially, that is, they are what a department produces, as distinct to what a department achieves.

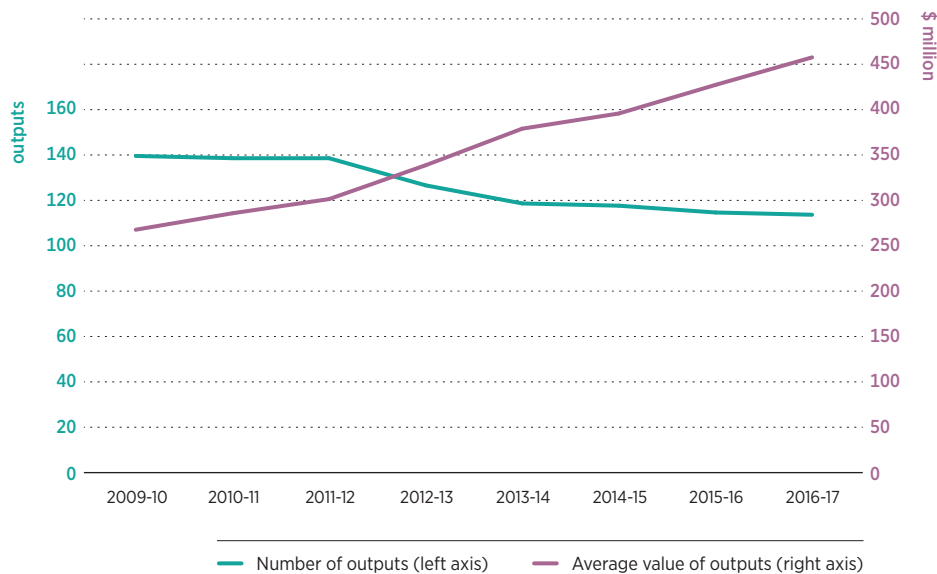
9.4.1 Value and number of outputs

Because the total expenditure on outputs is fixed in each year, the value of outputs in terms of their cost is directly related to their number. The Minister for Finance noted in his 2015-16 budget estimates hearing that the number of outputs had been dropping consistently since the introduction of the system, despite the amount of expenditure increasing.

One of my key responsibilities is output performance measures. There is a need to review output measures. The capacity to make resource allocation decisions and hold departments to account is being reduced by poor specification of outputs and a gradual aggregation of activities into larger outputs. There were about 350 outputs when Victoria first introduced output budgeting in 1997-98, appropriation has grown almost fourfold and the number of outputs reduced by more than half.⁵⁸³

The number and value of outputs from 2009-10 to 2016-17 can be seen in Figure 9.2.

Figure 9.2 Average value^(a) of outputs and number of outputs 2009-10 to 2016-17



(a) Target cost given in *Budget Paper No.3: Service Delivery*
 Source: Committee calculations based on Department of Treasury and Finance, *Budget Paper No.3: Service Delivery*, 2009-10 to 2016-17

583 Hon. Robin Scott MP, Minister for Finance, *2015-16 Budget Estimates Transcript of Evidence*, 14 May 2015, p.2

Referring back to the statement made in 2015, the Minister for Finance stated in the 2016-17 Budget estimates hearing that:

... I have engaged with lead ministers to improve departmental performance statements by realigning outputs to objectives, disaggregating outputs and improving performance measures. The Department of Treasury and Finance is engaged with departments to implement these changes.⁵⁸⁴

The Committee notes that the updated guidance includes an altered discussion of the size of outputs. Both editions use the same output, *Dental Services*, as an example. However, the previous guidance concludes that a broad level of output would be appropriate.

The programs reflected (and measured) in this output are far ranging and diverse (from school dental care to emergency dental care). Each dental service or program provided would be too specific for departmental reporting, therefore, a broad output for the provision of very similar services and programs is more appropriate in this case.⁵⁸⁵

In contrast, the new guidance concludes that the same output would be considered too large:

... Dental Services provides far ranging and diverse services (from school dental care to emergency dental care), and would be considered too large an output. ... An output should not be so large that it reduces transparency and accountability.⁵⁸⁶

Thus the updated guidance provides a limit for the size of outputs, and indicates a preference for smaller, rather than larger outputs.

The Committee considers that a higher number of smaller outputs would provide a greater level of transparency, as it reveals greater disaggregated information about more specific government activities.

FINDING 118: While the definition of what an output is has not changed materially, the Minister for Finance has previously expressed a preference for a higher number of outputs. The updated guidance includes a discussion of the size of outputs, and indicates a preference for smaller outputs.

9.4.2 Changes to output numbers in the 2016-17 budget papers

Figure 9.2 showing the number and average value (that is, target cost) of outputs delivered by departments each year since 2009-10 demonstrates the longer-term trend of amalgamation of outputs referred to earlier by the Minister for Finance, along with the consequent increase in average value. The 2016-17 budget papers indicate that the overall number of outputs fell by one.⁵⁸⁷

⁵⁸⁴ Hon. Robin Scott MP, Minister for Finance, *2016-17 Budget Estimates Transcript of Evidence*, 13 May 2016, p.3

⁵⁸⁵ Department of Treasury and Finance, *BFMG – 09 Output Specification and Performance Measures* (2012), p.111

⁵⁸⁶ Department of Treasury and Finance, *Performance Management Framework for Victorian Government Departments* (2016), pp.14-15

⁵⁸⁷ Department of Treasury and Finance, *Budget Paper No.3: 2016-17 Service Delivery* (2016), p.120

The Committee notes that the changes to guidance regarding size (and therefore the number) of outputs took effect from 1 July 2016, and that the 2016-17 Budget was framed using the previous guidance. Disaggregation of outputs would tend to reverse the trends shown in Figure 9.2.

For 2016-17, the budget papers show that two departments and Parliament have increased the number of outputs produced, all by a net of one output each.⁵⁸⁸

However, this increase was outweighed by two departments decreasing the number of outputs produced, both by two each.⁵⁸⁹ The Committee notes that the Department of Treasury and Finance has decreased its number of outputs from 9 to 7.

Overall, the number of outputs has decreased by one. However, as the new directions set out in updated guidance document begin to take effect, the Committee anticipates an increase in the number of outputs in future years.

Numbers of outputs by department for 2015-16 and 2016-17 are shown in Appendix A9.2.

FINDING 119: The 2016-17 budget papers include 114 outputs. This is one fewer than in the 2015-16 budget papers. The updated guidance did not take effect until after the preparation of the 2016-17 Budget.

9.5 Performance measures

Outputs are made up of goods and services produced by (or on behalf of) public bodies such as departments. These outputs are described in the departmental performance statement⁵⁹⁰ in terms of quantity, quality, timeliness as well as cost. These descriptions form the performance measures for each output.

A summary of changes to performance measures since the 2015-16 budget papers has been included in Appendix A9.3. In addition to the changes in the number of cost measures that have been discussed in Section 9.4.2 above,⁵⁹¹ Appendix A9.3 summarises changes to non-cost performance measures.

The 2015-16 budget papers included 1,001 non-cost performance measures. The 2016-17 budget papers include 1,028 non-cost performance measures, a net gain of 27.

Following a recommendation in the Committee's *Report on the 2015-16 Budget Estimates*, the 2016-17 Budget re-instated 17 performance measures. These are shown in Appendix A9.4. The Committee notes that four of these measures have again been proposed to be discontinued.⁵⁹²

⁵⁸⁸ *ibid.*

⁵⁸⁹ Department of Treasury and Finance, *Budget Paper No.3: 2016-17 Service Delivery* (2016), p.120

⁵⁹⁰ For 2016-17, these statements comprised Chapter 2 of *Budget Paper No.3: 2016-17 Service Delivery*.

⁵⁹¹ For each output there is a single cost measure.

⁵⁹² Department of Treasury and Finance, *Budget Paper No.3: 2016-17 Service Delivery* (2016), Appendix A

One performance measure⁵⁹³ for the Department of Justice and Regulation was disaggregated into two measures.⁵⁹⁴ The Committee notes that this measure was included in Appendix A of Budget Paper No.3.⁵⁹⁵

Five performance measures⁵⁹⁶ for the Department of Treasury and Finance were amalgamated into two, reflecting the rearrangement of outputs in the Department. The performance measures that were discontinued in this change were not included in Appendix A of Budget Paper No.3.

A total of 65 measures were removed from the list of active performance measures. Of these, 64 were included for the Committee's assessment in Appendix A of Budget Paper No.3, showing measures proposed to be discontinued. The remaining measure that was removed from the list⁵⁹⁷ had been introduced at the time of the 2015-16 Budget as a replacement for a measure⁵⁹⁸ that the Department of Economic Development, Jobs, Transport and Resources had proposed to discontinue.⁵⁹⁹ Following a Committee recommendation,⁶⁰⁰ this measure was re-instated, but in doing so, the Department of Economic Development, Jobs, Transport and Resources removed the replacement measure. The 2016-17 budget papers noted the reinstatement⁶⁰¹ but did not include the measure in Appendix A.

Finally, 77 new measures were introduced in the 2016-17 budget papers. Based on the comments provided in the budget papers, these are comprised of:

- 24 measures that are related to new funding identified for initiatives, programs or activities
- 23 measures that provide additional information about existing activities
- 24 measures that are identified as replacing a single previous measure
- 6 measures where two or more previous measures are identified as being predecessors to the measure.⁶⁰²

FINDING 120: The 2016-17 budget papers included 1,028 non-cost performance measures, a net gain of 27 over the 2015-16 budget papers. 47 new performance measures relate to new funding for activities or new information about existing activities.

593 'Victims receiving a service from the Victims of Crime Helpline, Victims Assistance and Counselling Program and Victims Register'

594 Department of Treasury and Finance, *Budget Paper No.3: 2016-17 Service Delivery* (2016), p.276

595 *ibid.*, p.358

596 All five measures were called 'Maintain ISO 9001 (Quality Management Systems) certification'

597 'Average safety and quality rating for metropolitan taxi vehicles'

598 'Taxis and hire vehicles conform to safety and quality standards'

599 Department of Treasury and Finance, *Budget Paper No.3: 2015-16 Service Delivery* (2015), p.360

600 Public Accounts and Estimates Committee, *Report on the 2015-16 Budget Estimates* (2015), Recommendation 66, p.228; see also p.270

601 Department of Treasury and Finance, *Budget Paper No.3: 2016-17 Service Delivery* (2016), p.154

602 Committee calculations based on Department of Treasury and Finance, *Budget Paper No.3: 2016-17 Service Delivery* (2016), Chapter 2

9.5.1 Changes to targets and expected outcomes

Targets expressed as ranges

The budget papers include a number of performance measures that express targets as ranges. These ranges may either be ‘closed’ (such as ‘45–50’) or ‘unbounded’ (such as ‘>45’).

For ‘closed’ ranges, any result which is between the upper and lower boundaries is considered ‘on target’. Measures with ‘unbounded’ ranges can have a very large variance from the target in one direction and still be considered ‘on target’.

The Department of Treasury and Finance’s new *Performance Management Framework for Victorian Government Departments* discourages the use of ‘wide’ ranges. It advises that:

Targets involving wide ranges should not be used in most cases as they allow a wide range of performance to be considered a positive result and may not be sufficiently challenging.⁶⁰³

Table 9.1 shows the number of measures that were expressed as ranges in 2015-16 and 2016-17, as well as the average percentage spread⁶⁰⁴ for measures expressed as closed ranges.

Table 9.1 Number and average spread of measures that were expressed as ranges, 2015-16 and 2016-17

	Closed ranges		Unbounded ranges
	Number of measures	Average spread ^(a) of target (per cent)	Number of measures
2015-16	28	16	42 ^(b)
2016-17	25	19	45

(a) The percentage difference between the high and low points of the range

(b) Includes one measure that was proposed to be discontinued, but was re-instated in the 2016-17 budget papers.

Source: Committee calculations based on: Department of Treasury and Finance, *Budget Paper No.3: 2015-16 Service Delivery* (2015), Chapter 2; Department of Treasury and Finance, *Budget Paper No.3: 2016-17 Service Delivery* (2016), Chapter 2

Table 9.1 shows that over the last two years, while the overall number of performance measures that use ranges has not changed, the number of targets expressed as unbounded ranges has increased. Appendix A9.5 gives details for these changes.

Table 9.1 also shows that in the 2016-17 budget papers, while there were fewer measures that expressed targets as closed ranges, the average spread of these ranges increased.

⁶⁰³ Department of Treasury and Finance, *Performance Management Framework for Victorian Government Departments* (2016), p.55

⁶⁰⁴ The percentage difference between the high and low points of the range

In a previous report, the Committee recommended that departments modify measures that use ranges to single numbers unless necessary.⁶⁰⁵ This was supported by the Government, which responded that ‘measures with ranges as targets should be modified to a single number except where a range is necessary and appropriate’.⁶⁰⁶ Appendix A9.5 shows that the Department of Justice and Regulation and the Department of Health and Human Services have removed ranges from a number of measures. However, both departments (as well as the Department of Economic Development, Jobs, Transport and Resources) have also introduced measures with ranges. The Committee also notes that the Department of Treasury and Finance modified one measure changing its target from a discrete number to an unbounded range.

The Committee notes that while the documentation discourages the use of ‘wide’ ranges, it does not define what a ‘wide’ range is, either for closed or unbounded ranges. Without such a definition, departments have no useful guidance on whether or not their measures are acceptable. Providing an objective guide for what constitutes a ‘wide’ range would enhance the usefulness of the guidance documentation.

FINDING 121: Guidance documentation discourages departments from using ‘wide’ ranges. However, in the 2016-17 budget papers, the number of performance measures with targets expressed as unbounded ranges has increased. For measures that expressed targets as closed ranges, the average spread of those ranges has increased. The guidance does not define what a ‘wide’ range is.

RECOMMENDATION 28: Future versions of the *Performance Management Framework for Victorian Government Departments* contain specific guidance as to what constitutes a ‘wide’ range when referring to performance measure targets.

Changes made to targets

The budget papers provide the opportunity for departments to alter targets for their performance measures. The updated guidance material provided by the Department of Treasury and Finance states that:

... targets should be revised regularly to reflect increases or decreases in funding, historical over achievement, or productivity gains resulting from continuous improvement.⁶⁰⁷

⁶⁰⁵ Public Accounts and Estimates Committee, *Review of the Performance Measurement and Reporting System* (2014), Recommendation 27, p.62

⁶⁰⁶ Victorian Government, *Government Responses to the Recommendations of Public Accounts and Estimates Committee’s 118th Report to Parliament – Review of the Performance Measurement and Reporting System*, tabled 18 September 2014, p.12

⁶⁰⁷ Department of Treasury and Finance, *Performance Management Framework for Victorian Government Departments* (2016), p.15

The Committee notes that the updated guidance differs slightly from the older Budget and Financial Management Guidance, which noted that targets should be reassessed when ‘a policy change makes the current target unachievable’.⁶⁰⁸ The updated guidance substitutes this with ‘productivity gains resulting from continuous improvement’.

Table 9.2 shows the proportion of non-cost performance measures that have been adjusted upwards and downwards in the last two budgets.

Table 9.2 Non-cost performance measures^(a) with targets decreased, not changed and increased, 2015-16 and 2016-17

Changes in targets	2016-17 Budget	2015-16 Budget
Decreased target	9.2	9.7
No change to target	70.1	68.4
Increased target	20.7	21.9

(a) Includes non-cost measures where growth of target from 2015-16 to 2016-17 is calculable

Source: Committee calculations based on: Department of Treasury and Finance, *Budget Paper No.3: 2015-16 Service Delivery* (2015), Chapter 2; Department of Treasury and Finance, *Budget Paper No.3: 2016-17 Service Delivery* (2016), Chapter 2

Table 9.2 shows that adjustments were made to around 30 per cent of all non-cost performance measures in each of the last two budgets. The Committee considers that this is consistent with guidance that targets should be revised regularly.

Table 9.2 also shows that the proportions of adjustments upwards and downwards that were made at the time of the 2016-17 Budget are similar to those made at the previous budget.

FINDING 122: The proportions of non-cost performance measures that have been adjusted upwards and downwards at the time of the 2016-17 Budget are similar to those from the 2015-16 Budget.

Anticipated variances for 2015-16

Each year, at the time of the compilation of the budget, departments are required to provide an estimate of the expected result of each of their performance measures. These are published in the budget papers. Annual reports for relevant years are published around September, following the end of the financial year. These annual reports contain the actual results for performance measures.⁶⁰⁹

Departments’ average expected variances for performance measures for 2015-16 are shown in Table 9.3.

⁶⁰⁸ Department of Treasury and Finance, *BFMG – 09 Output Specification and Performance Measures* (2012), p.115

⁶⁰⁹ In some cases, annual reports contain ‘preliminary’, ‘estimated’ or otherwise non-final outcomes for performance measures.

Table 9.3 Average variances for 2015-16 expected at the time of the 2016-17 Budget

Department	Expected average variance (per cent)
Court Services Victoria	3.0
Economic Development, Jobs, Transport and Resources	1.8
Environment, Land, Water and Planning	6.3
Education and Training	1.3
Health and Human Services	0.5
Justice and Regulation	3.1
Premier and Cabinet	1.6
Treasury and Finance	-3.2
Parliament	0.0
All departments	1.7

Source: Committee calculations based on Department of Treasury and Finance, *Budget Paper No.3: 2016-17 Service Delivery* (2016), Chapter 2

From the table above, departments anticipate that results for performance measures for 2015-16 will be 1.7 per cent above the targets on average. Only the Parliamentary departments have anticipated no average variances for 2015-16. The Department of Treasury and Finance anticipates an overall 3.2 per cent variance below targets for its performance measures. By contrast, the Department of Environment, Land, Water and Planning anticipates a 6.3 per cent variance above targets for its measures.

The Committee notes that last year's comparison shows that departments were optimistic when they estimated variances of their performance measures. That is, the average variance expected in the 2015-16 budget papers was smaller⁶¹⁰ for all but one department than the variances revealed in annual reports (see Appendix A9.6 for details).

The Committee anticipates comparing these figures with actual variances at the time of its report on the 2015-16 financial and performance outcomes.

FINDING 123: The 2016-17 budget papers anticipate that results for performance measures for 2015-16 will be 1.7 per cent above the targets on average. The Department of Environment, Land, Water and Planning anticipates a 6.3 per cent variance above targets for its measures. The Department of Treasury and Finance anticipates an overall 3.2 per cent variance below targets for its measures.

⁶¹⁰ That is, expected outcomes for performance measures reported in the 2015-16 budget papers were smaller than were revealed in annual reports.

9.6 Discontinued performance measures

9.6.1 Background and process

Following an annual review and assessment, departments have the opportunity to propose the discontinuation of performance measures at the time of the budget. This review is carried out jointly with portfolio departments and the Department of Treasury and Finance, and examines measures for ‘relevance and robustness’.⁶¹¹

Circumstances under which performance measures may be discontinued are set out in guidance documentation provided by the Department of Treasury and Finance.⁶¹² The Committee notes that after 1 July 2016 this guidance is provided in the *Performance Management Framework for Victorian Government Departments*.⁶¹³ The updated guidance is substantially similar to the old guidance, with the exception that the Government has discontinued the use of ‘Parliament and the public can judge the success of output delivery without the measure’ as a reason supporting discontinuing a measure.⁶¹⁴ The Committee supports this change, as it is aligned with transparency in departments.

The updated *Performance Management Framework for Victorian Government Departments* states that measures may be discontinued because:

- it is no longer relevant due to a change in government policy or priorities and/or departmental objectives;
- projects or programs have been completed, substantially changed, or discontinued;
- milestones have been met;
- funding is not provided in the current budget for the continuation of the initiative; or
- improved measures have been identified for replacement.⁶¹⁵

A similar set of criteria (with the second and third criteria combined) is set out in the budget papers.⁶¹⁶

⁶¹¹ Department of Treasury and Finance, *Performance Management Framework for Victorian Government Departments* (2016), p.16

⁶¹² *ibid.*, pp.22-3; see also Department of Treasury and Finance, *BFMG – 09 Output Specification and Performance Measures* (2012), pp.117-18

⁶¹³ Department of Treasury and Finance, *Performance Management Framework for Victorian Government Departments* (2016), pp.22-3

⁶¹⁴ *ibid.*; cf. Department of Treasury and Finance, *BFMG – 09 Output Specification and Performance Measures* (2012), p.118

⁶¹⁵ Department of Treasury and Finance, *Performance Management Framework for Victorian Government Departments* (2016), p.22

⁶¹⁶ Department of Treasury and Finance, *Budget Paper No.3: 2016-17 Service Delivery* (2016), p.120

The updated guidance also includes circumstances under which performance measures should not be discontinued. These include:

- when the measure ‘is the sole indicator of an attribute (e.g. quality) of the output’
- when the measure indicates that ‘there has been under performance’
- where lapsing programs continue to operate, ‘funded internally through reprioritisation’.⁶¹⁷

Measures that are proposed to be discontinued are listed in an appendix to the budget papers. This appendix also includes the commentary provided by departments on why the measure is proposed to be discontinued.

Following the presentation of the annual budget, the Public Accounts and Estimates Committee:

... may be invited by government to review performance measures that are proposed to be substantially changed or proposed to be discontinued, to ensure these measures are receiving a high level of scrutiny through their publication in budget papers.⁶¹⁸

9.6.2 Performance measures proposed to be discontinued in the 2016-17 budget papers

There are 65 measures proposed for discontinuation and are identified in the 2016-17 budget papers.⁶¹⁹ This includes 64 measures that are proposed to be discontinued and one measure that has been further disaggregated.

The reasons for discontinuation provided by departments are summarised in Table 9.4. The Committee has grouped the reasons provided by departments for discontinuing performance measures against the reasons provided in the guidance documentation. Most reasons given by departments in support of discontinuing measures were related to those included in guidance documentation.

⁶¹⁷ Department of Treasury and Finance, *Performance Management Framework for Victorian Government Departments* (2016), p.22

⁶¹⁸ *ibid.*, p.23

⁶¹⁹ Department of Treasury and Finance, *Budget Paper No.3: 2016-17 Service Delivery* (2016), Appendix A

Table 9.4 Reasons provided for proposing the discontinuation of performance measures in the 2016-17 budget papers

Reasons provided in the budget papers for discontinuing measures	Reason provided by departments in Appendix A for discontinuing the measure	Measures
There is a more appropriate measure which will provide more meaningful information	Absorbed into existing measures	3
	Amalgamated with others into a new measure	15
	Disaggregated into multiple new measures	2
	Replaced by a single new measure	24
Changed Government policy	Measure relates to an activity that no longer occurs	6
Relevant work is complete	Relevant program/project is complete	10
Funding is not provided	-	-
Other reasons	Activity is operational, does not measure service delivery and is not challenging	2
	Activity is subject to external factors	2
	Data supporting the measure is not annually available	1
Total		65

Source: Committee calculations based on Department of Treasury and Finance, *Budget Paper No.3: 2016-17 Service Delivery* (2016), Appendix A

FINDING 124: In the 2016-17 budget papers, 65 performance measures were proposed for discontinuation. Most of the reasons given by departments in support of discontinuing measures were related to those included in guidance documentation.

9.6.3 The Committee's review of measures proposed to be discontinued in the 2016-17 budget papers

The Committee's criteria for deciding when to recommend retention of a measure involve an examination of:

- the measure itself
- reasons provided by the departments for discontinuation of the measure and comparison of these to those provided in the guidance material
- proposed replacement measures, including whether the information provided by these measures will be more meaningful
- the suite of measures proposed for the output.

The Committee also contacted departments for additional information for some of the measures proposed for discontinuation. Departments' responses to these requests guided the Committee's decisions.

The Committee recommends that measures should be re-instated where:

- the activity assessed by the performance measure is in the public interest and not measured against a target by other measures
- the new measures are less clear than the measures proposed for discontinuation
- the removal of the performance measures would lead to a less comprehensive measurement of the departments' activities (by no longer providing information about certain activities)
- removing the proposed measures would leave the output with none of a particular type of measure (quality, quantity or timeliness)
- policy or other changes are anticipated by the department that would render the measure less useful, but these changes have not occurred at the time of the budget
- the measures provide information about the workload of the department, which is important contextual information for understanding the department's performance and its level of efficiency.

Table 9.5 lists the performance measures that the Committee considers should be retained. Additional information provided by departments and the Committee's specific comments regarding each recommended reinstatement are included in Appendix A9.7.

Table 9.5 Performance measures that have been proposed to be discontinued for 2016-17 but which the Committee considers should be retained

Output	Performance measure
Department of Economic Development, Jobs, Transport and Resources	
Cultural Infrastructure and Facilities	Success measures of projects achieved
Taxi and Hire Vehicle Services	Average occupancy rate of metropolitan taxis in December (period of high service demand)
	Average occupancy rate of metropolitan taxis in June (period of low service demand)
	Taxi and hire vehicle: calls to the Taxi Services Commission call centre answered within 20 seconds
Transport Safety, Security and Emergency Management	Rail safety audits, compliance inspections and investigations conducted in accordance with State and National legislative requirements and timelines
	Transport safety regulation: rail safety audits/compliance inspections conducted in accordance with legislative requirements
	Regulatory interventions conducted on high risk or accredited Rail Transport Operators
	New taxi, hire vehicle and bus driver accreditation applications processed within 14 days
	Road vehicle and driver regulation: new and renewed driving instructor authority applications processed within 14 days
Department of Environment, Land, Water and Planning	
Management of Forests, Parks and Public Land	Threatened native species and communities for which specifically targeted conservation measures are in place at Royal Botanic Gardens
Department of Health and Human Services	
Health Protection	Immunisation coverage: At 65+ years of age (influenza)
Department of Treasury and Finance	
Business Environment Policy Advice	Number of inquiry reports and regulatory improvement studies submitted to Government
	Completion of inquiry reports and regulatory improvement studies by due date
Financial and Resource Management Frameworks Maintenance and Support	VPS stakeholder feedback indicates delivery of advice and information sessions supported the VPS to understand the financial management framework
Financial Reporting	Supporting the financial reporting framework across the VPS (survey data)

Source: Public Accounts and Estimates Committee

FINDING 125: The Government has proposed discontinuing 65 measures for 2016-17. The Committee has reviewed the measures proposed and considers that 15 should be retained in departmental performance statements.

RECOMMENDATION 29: The Government not discontinue the performance measures that are listed in Table 9.5 of this report.

10 The Government's responses to previous recommendations

10.1 Introduction

Each year the Committee examines departmental responses to recommendations from the Committee's previous reports. This is to assess the implementation of recommendations that received the Government's support. The Committee considers that this is an important part of the accountability cycle.

This chapter examines recommendations made in two previous reports. It looks at implementation of recommendations from:

- the *Report on the 2015-16 Budget Estimates* that may have been made soon after the Government's response (Section 10.2)
- the *Report on the 2014-15 Budget Estimates* that have been made more than a year after the Government's response to the report (Section 10.3).

The Committee found that of the 68 recommendations included in the *Report on the 2015-16 Budget Estimates*, nine recommendations have been, at this early stage, implemented or partially implemented.

Further to this, the Committee is pleased to learn that all seven recommendations made in the two parts of the *Report on the 2014-15 Budget Estimates* have now been implemented or partially implemented.

10.2 *Report on the 2015-16 Budget Estimates*

The Committee tabled its *Report on the 2015-16 Budget Estimates* in November 2015. The Committee's report contained 68 recommendations, comprising 66 made to the Government and two made to the Victorian Auditor-General's Office (VAGO).

The *Parliamentary Committees Act 2003* requires that the Government provide a response to the recommendations within six months of a report's tabling.⁶²⁰ The Government tabled its response on 4 May 2016.⁶²¹

⁶²⁰ *Parliamentary Committees Act 2003 (Vic)* s.36(1)

⁶²¹ Victorian Government, *Government Responses to the Recommendations of Public Accounts and Estimates Committee's Report on the 2015-16 Budget Estimates*, tabled 4 May 2016

10.2.1 Responses to the recommendations

The Government did not support 18 of the 66 recommendations in the Committee's report. Of the remaining recommendations:

- 17 were supported
- 26 were supported 'in principle'
- five were indicated as being under review.

The Victorian Auditor-General's Office (VAGO) did not respond directly regarding the two recommendations made by the Committee in the 2015-16 report but has subsequently indicated that, while it has not yet implemented either of them, it intends to partially implement one recommendation and would consider the other at a future opportunity.⁶²²

The Committee has examined the implementation of the remaining 50 recommendations which had some level of support from the *Report on the 2015-16 Budget Estimates*.

10.2.2 Implementation of the recommendations

In assessing the implementation of these 50 recommendations, the Committee examined the 2016-17 budget papers and other recent reports such as the *2014-15 Financial Report*.

The Committee also approached the Department of Treasury and Finance and VAGO regarding the extent to which supported recommendations had been implemented, and where they had been implemented. The Department of Treasury and Finance and VAGO responded with the relevant information and the Committee appreciates these responses.

The Committee sought evidence of implementation (or lack of implementation) of a recommendation, including an explicit commitment to carry out actions to implement the recommendation. Based on this, the Committee considers that of the 50 recommendations that received a level of support:

- five recommendations have been implemented
- five have been partially implemented
- three have not yet been implemented⁶²³
- 37 are not yet able to be assessed.⁶²⁴

⁶²² Victorian Auditor-General's Office, *Response to the Committee's 2016-17 Budget Estimates Supplementary Questionnaire (Previous Recommendations)*, received 30 May 2016, pp.3-4

⁶²³ that is, the Committee has found evidence that the recommendation has not been implemented

⁶²⁴ that is, no evidence of implementation or lack of implementation has yet been found

The five recommendations that have been partially implemented relate to:

- publication of regular reports assessing the Government's programs to stimulate employment⁶²⁵
- VAGO assessing whether the factors used by the Department of Treasury and Finance in constructing revenue estimates are adequately described in the budget papers⁶²⁶
- the Government providing explanations for all asset investment projects where the details on anticipated expenditure are not provided
- including the Government's explanations for modifications to departmental objective indicators in future budget papers
- the Government retaining 45 performance measures that were proposed to be discontinued.⁶²⁷

The three recommendations that are not yet implemented relate to:

- an update to the *Method for Making Forecasts of Macro-Economic Indicators* to provide more detailed descriptions of the methods used to produce forecasts for the last two years of the forward estimates period⁶²⁸
- the publication of an explanation of the Government's dividend policy⁶²⁹
- VAGO's consideration of whether the way output prices are calculated is articulated clearly and accurately by the Department of Treasury and Finance,⁶³⁰ which VAGO has deferred.

The Committee was not yet able to assess 35 recommendations for which the Department of Treasury and Finance explained:

The Government's response to PAEC's *Report on 2015-16 Budget Estimates* was only tabled on 4 May 2016. Most recommendations relate to budget papers or annual reports (via requirements outlined in the Model Report). As the Model Report for the 2015-16 reporting cycle and the 2016-17 budget papers were both finalised in April 2016, the relevant actions committed by the Government in its response will feed into the 2016-17 annual reporting cycle and the 2017-18 Budget.⁶³¹

625 Department of Treasury and Finance, *Response to the Committee's 2016-17 Budget Estimates Supplementary Questionnaire (Previous Recommendations)*, received 7 June 2016, p.4

626 Victorian Auditor-General's Office, *Response to the Committee's 2016-17 Budget Estimates Supplementary Questionnaire (Previous Recommendations)*, received 30 May 2016, p.3

627 Victorian Government, *Government Responses to the Recommendations of Public Accounts and Estimates Committee's Report on the 2015-16 Budget Estimates*, tabled 4 May 2016, pp.19,20,22

628 *ibid.*, p.7

629 *ibid.*, p.8

630 Victorian Auditor-General's Office, *Response to the Committee's 2016-17 Budget Estimates Supplementary Questionnaire (Previous Recommendations)*, received 30 May 2016, p.4

631 Department of Treasury and Finance, *Response to the Committee's 2016-17 Budget Estimates Supplementary Questionnaire (Previous Recommendations)*, received 7 June 2016, p.2

The remaining two recommendations that were not yet able to be assessed relate to:

- a review of the methodology for forecasting growth in real gross state product and population (given regular variances from estimates in the past)⁶³²
- a review and update of the *Guidelines for Submissions and Responses to Inquiries*.⁶³³

The Committee notes the Department of Treasury and Finance response and intends to re-assess the implementation of these recommendations as part of its report on the 2017-18 budget estimates.

FINDING 126: Of the 50 recommendations in the Committee's *Report on the 2015-16 Budget Estimates* that received a level of support:

- five have been implemented
- five have been partially implemented
- three have not yet been implemented
- 37 are not yet able to be assessed.

10.3 **Report on the 2014-15 Budget Estimates: implementation of recommendations after an additional year**

The Committee tabled its *Report on the 2014-15 Budget Estimates* in two parts. These were tabled in June 2014 and September 2014 respectively. The Committee made seven recommendations in the report: one from Part One and six from Part Two.

The Committee previously assessed the implementation of the recommendations as part of its *Report on the 2015-16 Budget Estimates*. It has briefly re-examined the implementation progress of the recommendations two years after tabling the report as part of the current inquiry.

Supported recommendations made in the *Report on the 2014-15 Budget Estimates - Part One*

The Committee considers that the single recommendation contained in the *Report on the 2014-15 Budget Estimates - Part One* has now been partially implemented.

⁶³² Victorian Government, *Government Responses to the Recommendations of Public Accounts and Estimates Committee's Report on the 2015-16 Budget Estimates*, tabled 4 May 2016, p.7

⁶³³ *ibid.*, p.22

The Government responded to the recommendation on 15 October 2014. It indicated at that time that a decision had yet to be made regarding the recommendation, which was on discontinued performance measures.⁶³⁴

As part of the current inquiry, the Committee found that of the 16 performance measures that it recommended be retained, two had been reinstated.⁶³⁵

The Committee notes that of these two retained measures, one was subsequently discontinued at the time of the 2015-16 Budget,⁶³⁶ and the second is proposed to be discontinued as part of the 2016-17 Budget.⁶³⁷

Supported recommendations made in the *Report on the 2014-15 Budget Estimates – Part Two*

The Government responded on 15 April 2015 that it would support four recommendations and two 'in principle'.⁶³⁸

At the time of the *Report on the 2015-16 Budget Estimates*, the Committee found that:

- three recommendations had been implemented
- one had been partially implemented
- one had not been implemented
- it was too soon to assess whether one recommendation had been fully implemented.⁶³⁹

After an additional year, the Committee considers that:

- five recommendations have been implemented
- one recommendation has been partially implemented.

Details for these recommendations are given in Appendix A10.1.

FINDING 127: The Committee has re-examined the implementation progress of the seven recommendations in the Committee's *Report on the 2014-15 Budget Estimates*, which had been tabled in two parts. Two years after tabling the report:

- five recommendations have been fully implemented
- two have been partially implemented.

⁶³⁴ Victorian Government, *Government Responses to the Recommendations of Public Accounts and Estimates Committee's 120th Report to Parliament – Report on the 2014-15 Budget Estimates – Part One*, tabled 12 June 2014

⁶³⁵ 'Road vehicle and driver regulation: new and renewed driving instructor authority applications processed within 14 days', (Department of Treasury and Finance, *2014-15 Victorian Budget Update* (2014), p.127) and 'Game licence applications, renewals and amendments processed within 15 days of receipt' (Department of Treasury and Finance, *Budget Paper No.3: 2015-16 Service Delivery* (2015), p.358)

⁶³⁶ Department of Treasury and Finance, *Budget Paper No.3: 2015-16 Service Delivery* (2015), p.358

⁶³⁷ Department of Treasury and Finance, *Budget Paper No.3: 2016-17 Service Delivery* (2016), p.351

⁶³⁸ Victorian Government, *Government Responses to the Recommendations of Public Accounts and Estimates Committee's 120th Report to Parliament – Report on the 2014-15 Budget Estimates – Part Two*, tabled 17 September 2014

⁶³⁹ Public Accounts and Estimates Committee, *Report on the 2015-16 Budget Estimates* (2015), p.230

Appendix 1

Introduction

A1.1 Portfolios and ministers at the time of the 2016-17 Budget Estimates hearings

Minister	Portfolio
Hon. Tim Pallas MP	Treasurer
Hon. Daniel Andrews MP	Premier
Presiding Officers: Hon. Telmo Languiller MP (Speaker) Hon. Bruce Atkinson MLC (President)	Parliamentary departments
Hon. James Merlino MP	Education
Hon. Steve Herbert MP	Training and Skills including International Education
Hon. Luke Donnellan MP	Roads and Road Safety
	Ports
Hon. Jill Hennessy MP	Health
	Ambulance Services
Hon. Robin Scott MP	Finance
	Multicultural Affairs
	Police
	Corrections
Hon. Jacinta Allan MP	Public Transport
	Employment
Hon. Jenny Mikakos MLC	Families and Children
	Youth Affairs
Hon. Jaala Pulford MLC	Agriculture
	Regional Development
Hon. Gavin Jennings MLC	Special Minister of State
Hon. Martin Pakula MP	Attorney-General including Court Services Victoria
	Racing
Hon. Philip Dalidakis MLC	Small Business, Innovation and Trade
Hon. Lisa Neville MP	Environment, Climate Change and Water
Hon. Richard Wynne MP	Planning

Minister	Portfolio
Hon. Natalie Hutchins MP	Local Government
	Aboriginal Affairs
	Industrial Relations
Hon. Fiona Richardson MP	Prevention of Family Violence
	Women
Hon. Martin Foley MP	Housing, Disability and Ageing
	Mental Health
	Creative Industries
	Equality
Hon. John Eren MP	Sport
	Tourism and Major Events
	Veterans
Hon. Jane Garrett MP	Consumer Affairs, Gaming and Liquor Regulation
	Emergency Services
Hon. Lily D'Ambrosio MP	Energy and Resources
	Industry

Source: Public Accounts and Estimates Committee

Appendix 3

Key aspects of the 2016-17 Budget

A3.1 Key components of the 2016-17 Budget for the general government sector in comparison to the revised 2015-16 estimates

	2015-16 revised estimate	2016-17 Budget	Growth	
	(\$ million)	(\$ million)	(\$ million)	(per cent)
Revenue				
State-sourced	31,229.9	33,177.8	1,947.9	6.2
Commonwealth Government grants	25,240.0	27,192.0	1,952.0	7.7
Total revenue	56,469.9	60,369.8	3,899.9	6.9
Expenses				
Output expenses	54,582.0	57,500.8	2,918.9	5.3
Cash resources				
Operating surplus	1,887.9	2,869.0	981.1	52.0
Depreciation and similar	2,885.0	2,333.0	-552.0	-19.1
Asset sales	174.1	486.7	312.6	179.6
Investment through other sectors (net)	54.3	391.0	336.7	619.9
Total cash resources	5,001.3	6,079.7	1,078.4	21.3
Annual asset investment				
Government infrastructure investment	4,456.8	7,458.2	3,001.4	67.3
Repayment of borrowings				
Increase in net debt	165.8	-3,891.7 ^(a)	-4,057.5	-2,447.2

(a) Negative amount indicates that net debt decreased.

Source: Committee calculations based on: Department of Treasury and Finance, *Budget Paper No.5: 2016-17 Statement of Finances* (2016), p.152; Department of Treasury and Finance, *Budget Paper No.2: 2016-17 Strategy and Outlook* (2016), p.57; Department of Treasury and Finance, *Consolidated Comprehensive Operating Statement - General Government Sector* (2016). Available at <www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Aggregate-financial-statements>, viewed 31 May 2016; Department of Treasury and Finance, *Net Infrastructure Investment* (2016). Available at <www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Other-financial-aggregates>, viewed 31 May 2016; Department of Treasury and Finance, *Consolidated Cash Flow Statement - General Government Sector* (2016). Available at <www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Aggregate-financial-statements>, viewed 3 June 2016

A3.2 Changes to the structure of the budget papers between 2015-16 and 2016-17

Chapter	Type of change	Details of the change
Budget Paper No.2: 2016-17 Strategy and Outlook		
Chapter 1	Removal	The discussion on the funding of the federation has been removed although the context has been highlighted in Chapter 4, Fiscal Risks.
	Addition	A section on addressing family violence has been included due to the Government's response to recommendations from the Royal Commission on Family Violence report.
	Restructure	There are now two distinct sections. One focuses on building infrastructure and the other on required human services such as health, education, police and emergency services.
Chapter 2	Addition	A section has been added focusing on the Victorian labour market. It describes the current Victorian labour market conditions and trends, especially the youth labour market, as well as how the Government intends to position the State of Victoria to capitalise on these trends.
Chapter 3	Removal	The entire chapter, named 'The Jobs Challenge' in the 2015-16 budget papers, has been removed and is now an additional but smaller section in Chapter 2.
	Addition	The chapter has been renamed 'Medium Term Asset Investment Strategy' which predominantly focuses on the Government's strategy in this regard.
Chapter 4	Removal	Commonwealth grants are not considered as a general fiscal risk.
	Addition	Victoria's GST revenue has now been included as an additional specific fiscal risk.
Budget Paper No.3: 2016-17 Service Delivery		
Chapter 1	Removal	The section on 'Labor's Financial Statement 2014' with detailed financial information on the Government's election commitments has been removed.
	Removal	The section on 'Outstanding capital commitments' which focuses on asset commitments which have yet to be committed for funding has been removed.
Appendix A	Restructure	Previous sections on 'Improving service delivery to local communities' and 'Creating liveable communities' have been combined into a new section called 'Supporting Local Government in creating liveable communities'.
Budget Paper No.4: 2016-17 State Capital Program		
Chapter 1	Restructure	A previous section on 'Getting on with it' has been revised to become a section on 'Investing for growth' with increased focus and details on investing in safer communities, education, health and transport.
Definitions and Style Conventions	Removal	Definitions of terms describing government asset, capital and infrastructure investments, although these can now be found in the Department of Treasury and Finance online glossary.
Budget Paper No.5: 2016-17 Statement of Finances		
Chapter 2	Addition	A new section on 'New infrastructure projects with private sector involvement' with detailed information on new PPP projects such as <i>Casey Hospital Expansion, High Capacity Metro Trains and Melbourne Exhibition and Convention Centre (Stage 2 Development)</i> .

Chapter	Type of change	Details of the change
Budget Overview		
All	Restructure	The contents are generally similar within the broad themes of development of rural and regional Victoria, jobs for growth, education, health, community safety, road and rail transport and infrastructure. An additional section has been added which focuses on the Government's implementation of the recommendations from the Royal Commission on Family Violence.
Budget Information Papers		
All	Restructure	This year there is a single budget information paper, compared to four last year, focusing on 'rural and regional' issues. The structure and contents of the budget information paper is generally in line with the broad themes of tourism development, education, health, community safety, road and rail transport and infrastructure.

Source: Public Accounts and Estimates Committee

Appendix 4

Revenue

A4.1 Parliamentary Authority, Departments, 2016-17

Department of Economic Development, Jobs, Transport and Resources

A4

	Provision of outputs	Additions to the net asset base	Payments made on behalf of the State	Total
	(\$ million)	(\$ million)	(\$ million)	(\$ million)
Annual appropriations	7,213.4	1,983.4	71.1	9,267.8
Receipts credited to appropriations	545.1	39.9	-	585.1
Unapplied previous years appropriation	-	-	-	-
Accumulated surplus - previously applied appropriation	-	-	-	-
Gross annual appropriation	7,758.5	2,023.3	71.1	9,852.9
Special appropriations	5.8	-	-	5.8
Trust funds	789.4	-	-	789.4
Total parliamentary authority	8,553.8	2,023.3	71.1	10,648.1

Sources: Department of Treasury and Finance, *Budget Paper No.3: 2016-17 Service Delivery* (2016), p.125; Department of Treasury and Finance, *Budget Paper No.5: 2016-17 Statement of Finances* (2016), p.191; Department of Economic Development, Jobs, Transport and Resources, *Response to the Committee's 2016-17 Budget Estimates General Questionnaire*, received 2 May 2016, p.22

Department of Education and Training

	Provision of outputs	Additions to the net asset base	Payments made on behalf of the State	Total
	(\$ million)	(\$ million)	(\$ million)	(\$ million)
Annual appropriations	11,456.6	209.3	-	11,666.0
Receipts credited to appropriations	492.5	33.0	-	525.5
Unapplied previous years appropriation	200.0	-	-	200.0
Accumulated surplus – previously applied appropriation	-	-	-	-
Gross annual appropriation	12,149.1	242.3	0.0	12,391.5
Special appropriations	12.0	-	-	12.0
Trust funds	3,116.1	-	-	3,116.1
Total parliamentary authority	15,277.2	242.3	0.0	15,519.6

Sources: Department of Treasury and Finance, *Budget Paper No.3: 2016-17 Service Delivery* (2016), p.167; Department of Treasury and Finance, *Budget Paper No.5: 2016-17 Statement of Finances* (2016), p.191; Department of Education and Training, *Response to the Committee's 2016-17 Budget Estimates General Questionnaire*, received 2 May 2016, p.32

Department of Environment, Land, Water and Planning

	Provision of outputs	Additions to the net asset base	Payments made on behalf of the State	Total
	(\$ million)	(\$ million)	(\$ million)	(\$ million)
Annual appropriations	1,101.4	87.7	629.3	1,818.4
Receipts credited to appropriations	115.0	2.9	-	117.9
Unapplied previous years appropriation	59.5	18.7	6.9	85.1
Accumulated surplus – previously applied appropriation	-	-	-	-
Gross annual appropriation	1,275.9	109.5	636.2	2,021.6
Special appropriations	62.3	-	-	62.3
Trust funds	n/a	n/a	n/a	1,361.8 ^(a)
Total parliamentary authority	1,338.2	109.5	636.2	3,445.7

(a) The Department did not provide a disaggregation of the funds received from Trust Funds. As a result, the totals do not sum for this table.

Sources: Department of Treasury and Finance, *Budget Paper No.3: 2016-17 Service Delivery* (2016), p.194; Department of Treasury and Finance, *Budget Paper No.5: 2016-17 Statement of Finances* (2016), p.191; Department of Environment, Land, Water and Planning, *Response to the Committee's 2016-17 Budget Estimates General Questionnaire*, received 29 April 2016, p.20

Department of Health and Human Services

	Provision of outputs	Additions to the net asset base	Payments made on behalf of the State	Total
	(\$ million)	(\$ million)	(\$ million)	(\$ million)
Annual appropriations	12,848.0	181.8	-	13,029.8
Receipts credited to appropriations	462.0	7.8	-	469.8
Unapplied previous years appropriation	72.1	-	-	72.1
Accumulated surplus – previously applied appropriation	221.5	4.2	-	225.7
Gross annual appropriation	13,603.6	193.8	0.0	13,797.3
Special appropriations	1,403.9	-	-	1,403.9
Trust funds	4,527.0	-	-	4,527.0
Total parliamentary authority	19,534.5	193.8	0.0	19,728.2

Sources: Department of Treasury and Finance, *Budget Paper No.3: 2016-17 Service Delivery* (2016), p.218; Department of Treasury and Finance, *Budget Paper No.5: 2016-17 Statement of Finances* (2016), p.191; Department of Health and Human Services, *Response to the Committee's 2016-17 Budget Estimates General Questionnaire*, received 10 May 2016, p.28

Department of Justice and Regulation

	Provision of outputs	Additions to the net asset base	Payments made on behalf of the State	Total
	(\$ million)	(\$ million)	(\$ million)	(\$ million)
Annual appropriations	5,584.1	324.4	54.5	5,963.0
Receipts credited to appropriations	218.2	0.6	-	218.8
Unapplied previous years appropriation	72.4	90.6	-	163.0
Accumulated surplus – previously applied appropriation	-	-	-	-
Gross annual appropriation	5,874.7	415.6	54.5	6,344.8
Special appropriations	11.9	-	-	11.9
Trust funds	182.7	-	-	182.7
Total parliamentary authority	6,069.3	415.6	54.5	6,539.4

Sources: Department of Treasury and Finance, *Budget Paper No.3: 2016-17 Service Delivery* (2016), p.265; Department of Treasury and Finance, *Budget Paper No.5: 2016-17 Statement of Finances* (2016), p.192; Department of Justice and Regulation, *Response to the Committee's 2016-17 Budget Estimates General Questionnaire*, received 28 April 2016, pp.41-2

Department of Premier and Cabinet

	Provision of outputs	Additions to the net asset base	Payments made on behalf of the State	Total
	(\$ million)	(\$ million)	(\$ million)	(\$ million)
Annual appropriations	457.7	4.8	-	462.4
Receipts credited to appropriations	1.8	-	-	1.8
Unapplied previous years appropriation	31.0	0.5	-	31.5
Accumulated surplus – previously applied appropriation	-	-	-	-
Gross annual appropriation	490.4	5.3	0.0	495.6
Special appropriations	75.5	5.6	-	81.1
Trust funds	27.2	-	-	27.2
Total parliamentary authority	593.1	10.8	0.0	603.9

Sources: Department of Treasury and Finance, *Budget Paper No.3: 2016-17 Service Delivery* (2016), p.290; Department of Treasury and Finance, *Budget Paper No.5: 2016-17 Statement of Finances* (2016), p.192; Department of Premier and Cabinet, *Response to the Committee's 2016-17 Budget Estimates General Questionnaire*, received 28 April 2016, p.22

Department of Treasury and Finance

	Provision of outputs	Additions to the net asset base	Payments made on behalf of the State	Total
	(\$ million)	(\$ million)	(\$ million)	(\$ million)
Annual appropriations	250.6	2.6	6,813.3	7,066.6
Receipts credited to appropriations	7.9	-	-	7.9
Unapplied previous years appropriation	-	-	-	-
Accumulated surplus – previously applied appropriation	-	-	-	-
Gross annual appropriation	258.5	2.6	6,813.3	7,074.4
Special appropriations	-	-	9,147.0	9,147.0
Trust funds	55.7	-	3,219.9	3,275.6
Total parliamentary authority	314.2	2.6	19,180.2	19,497.1

Source: Department of Treasury and Finance, *Budget Paper No.3: 2016-17 Service Delivery* (2016), p.310; Department of Treasury and Finance, *Budget Paper No.5: 2016-17 Statement of Finances* (2016), p.192; Department of Treasury and Finance, *Response to the Committee's 2016-17 Budget Estimates General Questionnaire*, received 4 May 2016, p.16; correspondence from Mr S Harris, Department of Treasury and Finance, received 1 June 2016

Parliament^(a)

	Provision of outputs	Additions to the net asset base	Payments made on behalf of the State	Total
	(\$ million)	(\$ million)	(\$ million)	(\$ million)
Annual appropriations	112.7	-	-	112.7
Receipts credited to appropriations	0.2	-	-	0.2
Unapplied previous years appropriation	5.4	-	-	5.4
Accumulated surplus – previously applied appropriation	-	28.7	-	28.7
Gross annual appropriation	118.3	28.7	0.0	147.0
Special appropriations	39.4	-	-	39.4
Trust funds	-	-	-	-
Total parliamentary authority	186.5	0.0	0.0	186.5

(a) The above figures are for Parliament only. 'Parliamentary authority for resources' table for the Parliamentary departments in Budget Paper No.3 also includes VAGO.

Source: Parliamentary Departments, *Response to the Committee's 2016-17 Budget Estimates General Questionnaire*, received 29 April 2016, p.19

Court Services Victoria

	Provision of outputs	Additions to the net asset base	Payments made on behalf of the State	Total
	(\$ million)	(\$ million)	(\$ million)	(\$ million)
Annual appropriations	259.8	43.3	-	303.1
Receipts credited to appropriations	65.4	-	-	65.4
Unapplied previous years appropriation	-	-	-	-
Accumulated surplus – previously applied appropriation	-	-	-	-
Gross annual appropriation	325.2	43.3	0.0	368.5
Special appropriations	208.4	-	-	208.4
Trust funds	16.6	-	-	16.6
Total parliamentary authority	550.2	43.3	0.0	593.5

Sources: Department of Treasury and Finance, *Budget Paper No.3: 2016-17 Service Delivery* (2016), p.336; Department of Treasury and Finance, *Budget Paper No.5: 2016-17 Statement of Finances* (2016), p.192; Court Services Victoria, *Response to the Committee's 2016-17 Budget Estimates General Questionnaire*, received 3 June 2016, p.19

Appendix 5

Borrowings and net debt

A5.1 Public non-financial corporations sector net debt, June 2016 to June 2019

PNFC entity	Net debt 30 June 2016	Net debt 30 June 2017	Net debt 30 June 2018	Net debt 30 June 2019	Net debt 30 June 2020
	(\$ million)	(\$ million)	(\$ million)	(\$ million)	(\$ million)
Melbourne Water	8,107	8,244	8,371	8,461	8,533
Yarra Valley Water	2,188	2,419	2,573	2,773	2,970
South East Water	1,398	1,465	1,550	1,623	1,706
City West Water	1,119	1,178	1,228	1,343	1,483
Barwon Water	606	646	615	601	603
Central Gippsland Water	281	285	284	288	297
Coliban Water	469	459	449	437	425
Other PNFCs ^(a)	620	1,018	1,131	1,025	916
Total PNFC net debt	14,788	15,714	16,201	16,550	16,932

(a) Calculated by the Committee based on the difference between the entities listed above and total public non-financial corporations sector.

Source: Department of Treasury and Finance, *Response to the Committee's 2016-17 Budget Estimates General Questionnaire*, received 4 May 2016, p.39; Department of Treasury and Finance, *2016-17 Budget Paper No.5: Statement of Finances* (2016), p.45

Appendix 6

Output expenditure

A6.1 Estimated funding for new output initiatives, 2016-17 Budget, initiatives with 5-year total above \$100 million

Department	Output initiative	Estimated funding (\$ million)					Five-year total
		2015-16	2016-17	2017-18	2018-19	2019-20	
Economic, Development, Jobs, Transport and Resources	<i>Regional Rail Sustainability</i>	36.5	57.9	37.9	33.8	32.0	198.1
	<i>Road Safety</i>	0.1	25.1	44.8	57.6	22.0	149.6
Education and Training	<i>Maintaining the Essential Maternal and Child Health Service</i>	-	31.9	33.0	33.5	34.6	133.0
Environment, Land, Water and Planning	<i>Improving the Health of Waterways in Regional Victoria</i>	-	48.1	52.2	51.9	47.8	200.0
Health and Human Services	<i>Meeting Hospital Services Demand</i>	25.0	271.7	229.8	235.5	241.4	1,003.4
	<i>Improving Access to Elective Surgery</i>	20.0	167.0	48.2	49.4	50.6	335.2
	<i>Meeting Clinical Services Demand</i>	5.0	40.4	28.3	29.0	29.6	132.3
Justice and Regulation	<i>Public Safety – Police Response</i>	-	47.1	112.7	113.7	117.2	390.7
	<i>Community Corrections – Contributing to a Safer Community</i>	-	33.8	47.2	53.9	66.5	201.4
Whole-of-Government	<i>Investment Attraction and Assistance Program</i>	-	55.0	55.0	3.0	3.0	116.0
	<i>Future Industries Fund Extension and Sector-Strategic Projects</i>	-	20.0	29.5	35.3	26.6	111.4

Source: Committee calculations based on Department of Treasury and Finance, Budget Paper No.3: 2016-17 Service Delivery (2016), Chapter 1

Appendix 7

Asset investment

A7.1 Components of government infrastructure investment, actual and forecast 2009-10 to 2019-20

	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Direct asset investment	4,661.2	4,886.3	3,564.9	4,133.2	3,997.3	4,393.7	4,065.2	7,206.2	7,078.9	6,542.3	5,489.2
Asset sales	-187.4	-184.3	-167.1	-248.0	-270.9	-397.7	-174.1	-486.7	-745.7	-440.4	-237.0
Net direct asset investment	4,473.9	4,702.1	3,397.9	3,885.2	3,726.4	3,996.0	3,891.1	6,719.5	6,333.2	6,101.9	5,252.2
Investment through other sectors	1,236.6	1,937.5	1,831.1	1,316.8	1,478.3	858.1	-54.3	-391.0	-1,555.6	-1,676.0	-1,601.9
Net infrastructure investment	5,710.5	6,639.6	5,228.9	5,202.0	5,204.6	4,854.1	3,836.8	6,328.5	4,777.6	4,425.9	3,650.3
PPP and other investment	-421.0	-856.3	151.8	221.7	334.0	-213.0	620.0	1,134.7	2,962.4	2,953.4	3,469.7
Government Infrastructure Investment	5,289.4	5,783.2	5,380.7	5,423.7	5,538.7	4,641.1	4,456.8	7,463.2	7,740.0	7,379.3	7,120.0

Source: Department of Treasury and Finance, *Net Infrastructure Investment* (2016). Available at <www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Other-financial-aggregates>, viewed 3 June 2016;
 Department of Treasury and Finance, *Consolidated Cash Flow Statement, General Government Sector* (2016). Available at <www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Aggregate-financial-statements>, viewed 31 May 2016

A7.2 General government sector projects with anticipated expenditure during 2016-17 undisclosed or \$50 million and over

Department	New/existing	Project Name	Estimated expenditure during 2016-17
Economic Development, Jobs, Transport and Resources	Existing	<i>Level Crossing Removal Program^(a)</i>	636.0
		<i>Level Crossing Removal Projects^(b)</i>	246.8
		<i>CityLink-Tulla Widening Project - CityLink Tunnel to Melbourne Airport</i>	232.9
		<i>M80 Upgrade - Sunshine Avenue to Calder Fwy</i>	125.4
		<i>Monash Children's Hospital</i>	94.6
		<i>Road Safety Strategy 2013-22</i>	92.0
		<i>Princes Highway Duplication Project - Winchelsea to Colac</i>	74.5
Health and Human Services	Existing	<i>Royal Victorian Eye and Ear Hospital Redevelopment</i>	60.1
Justice and Regulation	New	<i>Public Safety - Police Response</i>	58.2
		<i>Corrections Remand Upgrades</i>	54.7
Education and Training	New	<i>Land Acquisition - Cities of Hume, Yarra, Greater Geelong, Casey, Wyndham, Melton, Whittlesea and Greater Dandenong</i>	54.3
Health and Human Services	New	<i>Regional Health Infrastructure Fund</i>	50.0
Education and Training	New	<i>Shared Facilities Fund - Community Hubs at Schools</i>	50.0
Economic Development, Jobs, Transport and Resources	Existing	<i>Melbourne Exhibition Centre - Stage 2 development</i>	tbc
	New	<i>Outer Suburban Arterial Roads Package: Dohertys Road Improvement</i>	tbc
	Existing	<i>Port-Rail Shuttle (Metropolitan Intermodal System)</i>	tbc
	New	<i>Western Distributor: Western Distributor - Main Works Including Tunnel</i>	tbc
		<i>Western Distributor: Monash Freeway Upgrade - EastLink to Clyde Road</i>	tbc
		<i>Outer Suburban Arterial Roads Package: Plenty Road Upgrade</i>	tbc
			<i>Outer Suburban Arterial Roads Package: Hallam Road Duplication</i>

(a) Package of 50 level crossing removals included in the 2015-16 Budget

(b) Projects located at Blackburn, Glen Iris, St Albans and Ormond included in the 2014-15 Budget

Source: Department of Treasury and Finance, *Budget Paper No.4: 2016-17 State Capital Program* (2016), Chapter 2

A7.3 Public private partnership projects in procurement and in operation

Department	In procurement	In operation
Economic Development, Jobs, Transport and Resources	<i>Melbourne Exhibition Centre Expansion/ Stage 2 Redevelopment</i>	Biosciences Research Centre Project
	<i>Melbourne Metro Rail Project</i>	Melbourne Convention Centre Development
	<i>High Capacity Metro Trains Project</i>	Southern Cross Station
	<i>CityLink Tulla Widening Project</i>	Peninsula Link
	<i>Western Distributor Project</i>	Royal Melbourne Showgrounds Redevelopment Project
Environment, Land, Water and Planning	Nil	Victorian Desalination Plant
Education and Training	<i>New Schools Public Private Partnership (PPP) Project</i>	Partnerships Victoria in Schools Project
Health and Human Services	<i>Victorian Comprehensive Cancer Centre</i>	Casey Hospital
	<i>Bendigo Hospital</i>	The Royal Women's Hospital
		The Royal Children's Hospital
Justice and Regulation	<i>Ravenhall Prison</i>	Fulham Correctional Centre
		Metropolitan Remand Centre
		Marnongneet Correctional Centre
		MFESB – Metropolitan Mobile Radio (MMR) ^(a)
		CFA – Emergency Alert System (EAS) and Regional Mobile Radio (RMR) ^(a)
		ESTA – MMR, Mobile Data Network (MDN) and EAS ^(a)
Court Services Victoria	Nil	County Court building, 250 William Street, Melbourne

(a) Managed through controlled entities

Source: Departmental responses to the Committee's 2016-17 Budget Estimates General Questionnaire, q.18

A7.4 Port of Melbourne lease transaction 2016-17, affected line items on cash flow statements

	2015-16 transactions	2016-17 transactions
Public non-financial corporations sector	Net cash flows from investments in financial assets for policy purposes	Sales of goods and services
	Other financing (net)	Net cash flows from investments in financial assets for policy purposes
		Advances received (net)
		Other financing (net)
General government sector	Net cash flows from investments in financial assets for policy purposes	Net cash flows from investments in financial assets for policy purposes
	Net borrowings	Advances received (net)
		Net borrowings

Source: Public Accounts and Estimates Committee

A7.5 Government infrastructure investment, latest year and budget year estimates, current and past budgets

	Document name	Latest year (\$ million)	Budget year (\$ million)	Forecast growth (per cent)
Budget cycle 2013-14				
May 2013	Budget	5,426.2	6,136.1	13.1
December 2013	Budget Update	5,423.7	5,819.9	7.3
Budget cycle 2014-15				
May 2014	Budget	5,182.8	7,458.8	43.9
December 2014	Budget Update	5,538.7	5,772.7	4.2
Budget cycle 2015-16				
May 2015	Budget	4,164.5	5,190.9	24.6
November 2015	Budget Update	4,641.1	5,020.2	8.2
Budget cycle 2016-17				
May 2016	Budget	4,456.8	7,458.2	67.3

Source: Department of Treasury and Finance, *Net Infrastructure Investment* (2016). Available at <www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Other-financial-aggregates>, viewed 3 June 2016

Appendix 9

Performance measurement

A9.1 Numbers of objectives and objective indicators by department, 2015-16 and 2016-17

Department	Objectives	Objective indicators	Objectives	Objective indicators
		2015-16		2016-17
Economic Development, Jobs, Transport and Resources	4	20	4	20
Education and Training	4	26	4	33
Environment, Land, Water and Planning	6	17	6	16
Health and Human Services	6	23	6	23
Justice and Regulation	6	15	6	25
Premier and Cabinet	4	6	4	5
Treasury and Finance	4	11	4	11
Court Services Victoria	1	2	1	2
Total^(a)	35	120	35	135

(a) The Parliament and Victorian Auditor-General's Office indicate aims in the budget papers rather than objectives.

Source: Committee calculations based on: Department of Treasury and Finance, *Budget Paper No.3: 2015-16 Service Delivery* (2015), Chapter 2; Department of Treasury and Finance, *Budget Paper No.3: 2016-17 Service Delivery* (2016), Chapter 2

A9.2 Number of outputs by department, 2015-16 and 2016-17

Department	Outputs 2015-16	Outputs 2016-17
Economic Development, Jobs, Transport and Resources	22	22
Education and Training	7	7
Environment, Land, Water and Planning	10	8
Health and Human Services	34	35
Justice and Regulation	11	12
Premier and Cabinet	15	15
Treasury and Finance	9	7
Parliament	6	7
Court Services Victoria	1	1
Total	115	114

Source: Committee calculations based on: Department of Treasury and Finance, *Budget Paper No.3: 2015-16 Service Delivery* (2015), Chapter 2; Department of Treasury and Finance, *Budget Paper No.3: 2016-17 Service Delivery* (2016), Chapter 2

A9.3 Changes in performance measures, 2016-17 Budget

	Cost measures	Non-cost measures	Total
Measures prior to 2016-17 Budget	115	1,001	1,116
Measures reinstated following Committee recommendations	-	17	17
Measures amalgamated (net loss)	-4	-3	-7
Measures further disaggregated (net gain)	-	1	1
Measures rearranged (net gain)	1	-	1
New measures	2	77	79
Measures proposed to be discontinued	-	-64	-64^(a)
Other measures discontinued	-	-1	-1
Measures included in 2016-17 Budget	114	1,028	1,142

(a) One disaggregated measure was also included in Appendix A

Sources: Department of Treasury and Finance, *Budget Paper No.3: 2016-17 Service Delivery* (2016), Chapter 2, Appendix A; Department of Treasury and Finance, *Budget Paper No.3: 2015-16 Service Delivery* (2015), Chapter 2, Appendix A

A9.4 Performance measures reinstated at the time of the 2016-17 Budget

Output	Performance measure
Department of Economic Development, Jobs, Transport and Resources	
Industry and Enterprise Innovation	'Number of major research and evaluation projects completed'
Sustainably Manage Fish, Game and Forest Resources	'Minimum number of uniformed fisheries officers maintaining operational coverage for priority fishing activity periods, as defined by the Compliance Strategic Assessment'
Taxi and Hire Vehicle Services	'Taxis and hire vehicles conform to safety and quality standards'
Tourism, Major Events and International Education	'Value of media coverage generated: domestic'
	'Value of media coverage generated: international'
Transport Safety, Security and Emergency Management	'Transport safety regulation: rail safety audits/compliance inspections conducted in accordance with legislative requirements' ^(a)
Department of Premier and Cabinet	
Aboriginal policy, strengthening Aboriginal cultural heritage and communities	'Client service contacts for members of the Stolen Generations with Connecting Home Limited' ^(a)
	'Client service contacts for members of the Stolen Generations with the Victorian Koorie Family History Service' ^(a)
Chief Parliamentary Counsel Services	'Advice given on legislation in response to written requests' ^(a)
Chief Parliamentary Counsel Services	'Statutory Rules made and Bills prepared and introduced into Parliament'
Public Sector Integrity	'Corruption prevention initiatives delivered by IBAC'
	'Education and training activities delivered by FOI Commissioner'
	'Jurisdictional complaints finalised (VO)'
	'Proportion of jurisdictional complaints where the original outcome is set aside by a review undertaken in accordance with the Ombudsman's internal review policy'
Women, the Prevention of Family Violence and LGBTI Equality Policy and Programs	'Number of women participating in funded programs, projects and events'
Department of Treasury and Finance	
Budget and Financial Advice	'Funding reviews delivered'
Economic and Policy Advice	'Economic research projects completed'

(a) Performance measure proposed to be discontinued again in 2016-17

Source: Department of Treasury and Finance, *Budget Paper No.3: 2016-17 Service Delivery* (2016), Chapter 2

A9.5 Performance measures with targets expressed as a range in 2016-17 and expressed differently to 2015-16

Performance measure and unit	2015-16 target	2016-17 target
Department of Economic Development, Jobs, Transport and Resources		
'Cultural Facilities Maintenance Fund projects delivered within agreed timeframes' (per cent) ^(a)	-	>90
'State-owned tenanted cultural facilities maintained to agreed service standards' (per cent) ^(a)	-	>90
Department of Health and Human Services		
'Emergency patients re-presenting to the emergency department within 48 hours of previous presentation' (per cent) ^(a)	-	<6
'Emergency patients who did not wait for treatment' (per cent) ^(a)	-	<5
'Grants acquitted within the timeframe specified in the terms and conditions of the funding agreement' (per cent)	>90	90
'Intensive Care Unit central line associated blood stream infections (CLABSI) per 1,000 device days'	≤2.5	1.5
'Sporting uniform grants: number approved' ^(b)	>600	300
'Staphylococcus aureus bacteraemias (SAB) infections per 10,000 patient days'	≤2	2
Department of Justice and Regulation		
'Community Legal Education and Information Services Victoria Legal Aid (VLA) ^(a)	-	135,000-140,000
'Community work hours performed' (thousands)	780-880	850
'Duty lawyer services (VLA) ^(a)	-	83,000-85,000
'Enquiries made by the community to VEOHRC for information and advice'	8,500-9,000	9,000
'Provision of expert forensic medical and scientific evidence in court (VIFM) ^(a)	-	150-250
'Successful completion of parole orders' (per cent)	55-60	60
'Successful completion of reparation orders' (per cent)	70-75	73
'Successful completion of supervised court orders' (per cent)	60-65	62
'Total annual daily average number of prisoners'	6,915-7,300	6,600
'Total persons reported injured in vehicle collisions' ^(a)	-	<18,700
'Total reported road fatalities in vehicle collisions' ^(a)	-	<250
Department of Treasury and Finance		
'Benefits delivered as a percentage of expenditure by mandated agencies under DTF managed state purchasing contracts, including reduced and avoided costs' (per cent)	5	≥5

(a) New measure introduced in the 2016-17 budget papers

(b) Measure proposed to be discontinued in the 2016-17 budget papers

Sources: Department of Treasury and Finance, *Budget Paper No.3: 2016-17 Service Delivery* (2016), Chapter 2; Department of Treasury and Finance, *Budget Paper No.3: 2015-16 Service Delivery* (2015), Chapter 2

A9.6 Average variance for 2014-15 performance measures: expected average variances reported in 2015-16 budget papers and actual average variances reported in 2014-15 departmental annual reports.

Department	Average variance for 2014-15 expected in 2015-16 budget papers (per cent)	Actual average variance reported in 2014-15 annual reports (per cent)
Education and Training	3.0	4.2
Economic Development, Jobs, Transport and Resources	3.6	5.5
Environment, Land, Water and Planning	3.1	8.9
Health and Human Services	1.3	1.8
Justice and Regulation	3.4	4.9
Premier and Cabinet	0.8	1.6
Treasury and Finance	2.3	2.1
Parliament	-0.2	2.4
Court Services Victoria	4.5	6.9

Sources: Department of Treasury and Finance, *Budget Paper No.3: 2015-16 Service Delivery* (2015), Chapter 2; departmental 2014-15 annual reports

A9.7 Performance measures proposed to be discontinued in the 2016-17 budget papers which the Committee recommends should be retained

Department of Economic Development, Jobs, Transport and Resources

Output	Performance Measure	Reason for discontinuation provided in the budget papers	Additional information provided by the Department	Committee's comments
Cultural Infrastructure and Facilities	'Success measures of projects achieved'	This performance measure is proposed to be discontinued as it has been replaced by the 2016-17 performance measure 'State-owned tenanted cultural facilities maintained to agreed service standards'.	The methodology previously calculated the percentage of success measures of a project as a standalone activity. The proposed replacement measure incorporates the success of the project in the context of the entire facility. The approved maintenance and capital works projects at state-owned tenanted facilities are completed to ensure the facility can continue to support the programs delivered by the tenants.	The Committee considers that the replacement measure reports only 'in the context of the entire facility', the success or otherwise of projects may be masked by other outcomes at a facility. Because maintenance of facilities may be at agreed service standards regardless of the success or otherwise of (particularly small) projects relating to facilities, the Committee considers that removing the measure would leave the output with less granular performance information.
Taxi and Hire Vehicle Services	'Average occupancy rate of metropolitan taxis in December (period of high service demand)'	This measure is proposed to be discontinued as occupancy is subject to external factors outside the control of the Taxi Services Commission.	In its annual reporting for 2014-15, the Taxi Services Commission noted that occupancy rates were lower than target for two reasons: <ul style="list-style-type: none"> the higher than anticipated supply of metropolitan taxis because of high demand for 'as of right' annual taxi licences issued under the taxi and hire vehicle industry reforms which commenced in July 2014 and the emergence and increasing supply and use of alternative service providers (regulated hire car and unregulated ride-share operators). 	The Committee notes that other measures, such as demand for hospital beds or demand for ambulance services are entirely beyond the control of the government, but these measures provide important information about activity within the relevant department.
	'Average occupancy rate of metropolitan taxis in June (period of low service demand)'	This measure is proposed to be discontinued as occupancy is subject to external factors outside the control of the Taxi Services Commission.	Occupancy rates of metropolitan taxis in 2016-17 and beyond are not anticipated to be the subject of government policy or priorities, and therefore not a deliverable from the Taxi and Hire Vehicles budget output. Occupancy will be completely demand-driven, determined by the level and type of services provided by operators in the commercial passenger vehicle market and the corresponding responses and uptake by the travelling public. This means that metropolitan taxi occupancy rates will be market driven and outside the control of the government. For these reasons, the TSC recommends to PAEC that the two occupancy rate measures be discontinued and not formally reported on.	The Committee considers that occupancy rate information is relevant to the public's understanding of the industry. If the Department anticipates that the Government will have a totally hands-off approach to the industry in the future, the performance measure may be removed when this deregulation is complete.

Output	Performance Measure	Reason for discontinuation provided in the budget papers	Additional information provided by the Department	Committee's comments
Taxi and Hire Vehicle Services (continued)	Taxi and hire vehicle: calls to the Taxi Services Commission call centre answered within 20 seconds'	This measure is proposed to be discontinued as it has been replaced by 'Taxi and hire vehicle: average speed of calls answered in the Taxi Services Commission call centre'. The proposed new measure better reflects the core focus of Taxi Services Commission on resolving calls promptly at the first point of contact. The 2015-16 expected outcome is lower than the 2015-16 target. Call numbers and complexity continue to be high.	<p>The Taxi Services Commission (TSC) staffs its Customer Call Centre to channel and receive all telephone enquiries from customers, industry participants and members of the public. The TSC Call Centre tracks the number of calls received, answered, the length of time for the call and calls lost on an hourly, weekly and monthly basis utilising the capability of its call centre software.</p> <p>The number of calls is reported to the Commission every month as part of the CEO's report. The Call Centre's objective is to close 70% of all calls at this first point of contact rather than distribute them to other parts of the organisation. The Call Centre does not currently measure call complexity.</p> <p>Examples of the diverse and complex matters that are likely to be raised in phone calls include queries from existing or intended industry participants concerned about the impact and behaviour of rideshare operators; whether rideshare will be legalised and when; understanding various aspects of the Knowledge test for drivers; exploring buying or renting options for different categories of taxi licenses; and whether they need to become accredited and what is required to apply. Customers of taxi and hire car services may call about concerns with one or more drivers, vehicles, and/or trips, the legality of rideshare and their options for providing information for further investigation or registering a complaint.</p> <p>The call centre also is receiving an increased number of time-consuming inquiries from elderly people about becoming members of the Multi-Purpose Taxi Program, who may be hard of hearing, and have difficulty understanding requirements due to their age and/or non-English speaking background.</p>	<p>The Government's guidance on discontinuing performance measures states that: 'a current measure should not be discontinued where ... there has been under performance'. (Department of Treasury and Finance, <i>Performance Measurement Framework for Victorian Government Departments</i> (2016), p.22)</p> <p>There has been significant (>5%) underperformance in this measure since 2012-13.</p> <p>The Committee considers that answering calls does not define the Taxi Services Commission's core business, but continuing underperformance in this suggests that there may be an unsolved problem.</p>

Output	Performance Measure	Reason for discontinuation provided in the budget papers	Additional information provided by the Department	Committee's comments
Transport Safety, Security and Emergency Management	<p>'Rail safety audits, compliance inspections and investigations conducted in accordance with State and National legislative requirements and timeliness'</p> <p>'Transport safety regulation: rail safety audits/compliance inspections conducted in accordance with legislative requirements'</p>	<p>This performance measure is proposed to be discontinued as it has been replaced by the 2016-17 performance measure 'Rail safety audits, compliance inspections and investigations conducted in accordance with legislative requirements' to more accurately reflect all the regulatory safety activities under the national and local rail safety regulatory scheme undertaken by Transport Safety Victoria.</p> <p>This performance measure is proposed to be discontinued as it has been replaced by the 2016-17 performance measure 'Rail safety audits, compliance inspections and investigations conducted in accordance with legislative requirements'.</p> <p>The Office National Rail Safety Regulator required Transport Safety Victoria to undertake investigations in addition to audit and compliance activities. Investigation activities were not included in this measure when the targets were set in March 2014. The target was amended to more accurately reflect the regulatory activities including investigations under the national and local rail safety regulatory scheme undertaken by Transport Safety Victoria.</p>	<p>A new rail safety measure has been proposed which consolidates the three discontinued measures. This new consolidated measure has been developed to more accurately reflect the regulatory activities of Transport Safety Victoria (TSV).</p> <ul style="list-style-type: none"> Rail safety audit – is regulatory intervention activity to determine whether the rail transport operator has a Safety Management System (SMS), which is a set of procedures/processes that is prescribed under legislations and whether they are complying with the SMS. Compliance inspection – this activity has a narrower scope that focuses on a specified subject matter (such as Driver Fatigue Management) of the rail Safety Management System for the rail transport operator. Investigation – another regulatory intervention tool to determine whether or not there has been a breach of the rail safety legislation, typically conducted following a serious rail safety incident. Regulatory intervention – includes rail safety audits, compliance inspections, investigations and a range of enforcement tools (e.g. improvement notice, prohibition notice, infringement notice and prosecutions) that are available within the legislation to enforce compliance. <p>Two measures remain for 2016-17 Budget Paper that relate to rail safety activities:</p> <ul style="list-style-type: none"> 'Rail safety audits, compliance inspections and investigations conducted in accordance with legislative requirements' (quantity 80). 'Applications for rail accreditation and variations to accreditation processed within State and National legislative requirements and timeliness' (timeliness 100%) <p>The data on the interventions is collected and administered in:</p> <ul style="list-style-type: none"> the Office of National Rail Safety Regulator (ONRSR)'s regulatory in-ormation system (Regis) for national operations Transport Safety Victoria internal system (TSAARS) for local operations. The intervention data is also reported to ONRSR and the Director, Transport Safety Victoria on a monthly basis. <p>TSV issues an annual safety report compiling rail safety statistics for local operations. ONRSR issues an annual safety report compiling rail safety statistics for national operations.</p>	<p>The Committee recommends retaining these two quality measures, as without them there will be no quality performance measure relating to rail safety activities (which the Committee accepts is not the entire scope of the output).</p> <p>Further, removal of these two measures will leave the output with a less comprehensive description of performance.</p>
<p>'Regulatory interventions conducted on high risk or accredited Rail Transport Operators'</p>	<p>This performance measure is proposed to be discontinued as it has been replaced by the 2016-17 performance measure 'Rail safety audits, compliance inspections and investigations conducted in accordance with legislative requirements' to more accurately reflect all the regulatory safety activities under national and local rail safety regulatory scheme undertaken by Transport Safety Victoria.</p>	<p>Replacing this measure with 'Rail safety audits, compliance inspections and investigations conducted in accordance with legislative requirements' will lessen the comprehensiveness of the description of the output, with two measures describing rail safety – only one of which relates to compliance.</p>		

Output	Performance Measure	Reason for discontinuation provided in the budget papers	Additional information provided by the Department	Committee's comments
Transport Safety, Emergency Management (continued)	'New taxi, hire vehicle and bus driver accreditation applications processed within 14 days'	The 2015-16 expected outcome is lower than the 2015-16 target due to a 32 per cent increase in applications received in the year to date compared to last year. It has not been possible to allocate additional resourcing for processing of the increased number of applications. This performance measure is proposed to be discontinued as it has been replaced by the measure 'Taxi, hire vehicle, bus driver, and driving instructor accreditation applications processed within 14 days' to demonstrate Taxi Services Commission's responsiveness in processing all accreditation applications.	The processing of taxi, hire vehicle and bus driver accreditation applications within 14 days has declined since the commencement of the taxi and hire vehicle industry reforms in July 2013. There have been a number of unanticipated spikes in applications received in the last three years, relating to flow-on impacts when reforms have been introduced and the emergence of new alternative service providers. The resources responsible for the processing of these applications have not been able to maintain anticipated levels of throughput during these periods.	Guidance documents state that measures should not be discontinued where there has been underperformance (Department of Treasury and Finance, <i>Performance Measurement Framework for Victorian Government Departments</i> (2016), p.22).
	'Road vehicle and driver regulation: new and renewed driving instructor authority applications processed within 14 days'	This performance measure is proposed to be discontinued as it has been replaced by the measure 'Taxi, hire vehicle, bus driver, and driving instructor accreditation applications processed within 14 days' to demonstrate Taxi Services Commission's responsiveness in processing all accreditation applications.	The Taxi Services Commission (TSC) has responded to the declining trend and implemented business process improvements in February 2016. Processing of applications was over 90 per cent within 14 days for the April to June 2016 quarter. The processing of driving instructor authority applications is undertaken by the same team to maximise resourcing flexibility to better deal with volume spikes and all accreditation applications are processed in order of receipt, irrespective of accreditation type.	While the Committee notes that the Department advises the performance of one measure has been improved, the Committee would recommend leaving these measures in their current form until the improved performance has been reported in at least the 2015-16 Annual Report.
			The new measure for 2016-17 has been proposed because it emphasises that the timely processing of accreditation applications is the deliverable, regardless as to whether it is for driving taxis, hire vehicles or buses, or for operating as a driving instructor.	

Department of Environment, Land, Water and Planning

Output	Performance measure	Reason for discontinuation provided in the budget papers	Additional information provided by the Department	Committee's comment
Management of Forests, Parks and Public Land	'Threatened native species and communities for which specifically targeted conservation measures are in place at Royal Botanic Gardens'	This performance measure is proposed to be discontinued as it has been replaced by the 2016-17 performance measure 'Specimens curated in the State Botanical Collection'. The new measure focuses on the internationally significant State Botanical Collection and is a more accurate reflection of service delivery.	<p>Yes, there are many specimens in the Royal Botanical Garden (RBG) that are not threatened. RBG is just one of a number of entities that works to preserve Victoria's threatened species, with entities such as DELWP regional services and Parks Victoria making considerable contributions.</p> <p>The new measure captures all the specimens RGB are curating and therefore the full contribution they are making to species preservation in Victoria. For example, last year RBG curated around 1200 specimens as part of their collection. This measure also better reflects their core operations, which includes to promote scientific research through the State Botanical Collection.</p> <p>The Department provides information on the status of threatened species and communities to the State of the Environment Report prepared by the CSE, to the Catchment Condition and Management Report prepared by the VCMC and to other similar processes such as State of the Parks and State of the Forests reports. The Department also publishes and periodically updates advisory lists of the threatened species occurring in Victoria.</p>	<p>The Committee considers that this would decrease the comprehensiveness of reporting of efforts by the Department to assist threatened native plant species.</p> <p>The information provided by the Department relates to the species themselves, and not efforts by the Department on their behalf. This information is also not part of the performance measurement and reporting system.</p>

Department of Health and Human Services

Output	Performance measure	Reason for discontinuation provided in the budget papers	Additional information provided by the Department	Committee's comment
Health Protection	'Immunisation coverage: At 65+ years of age (influenza)'	This performance measure is proposed to be discontinued as data is not able to be collected annually. Data for this measure is provided by the Australian Institute of Health and Welfare Adult Vaccination Survey conducted every 5-6 years.	<p>The department considers influenza vaccination coverage in the population aged 65 and over to be one significant indicator of health protection activity. Influenza vaccination coverage is an internationally used and globally established indicator for health. Furthermore, it is an essential indicator used by the Organisation for Economic Co-operation and Development (OECD) to report on comparable data on the performance of health systems in OECD countries. (OECD 2016, <i>Health at a Glance: Influenza vaccination rates</i> (indicator)). The department suggests discontinuing the measure until a reliable vehicle is in place to report the coverage. The AIHW has been unable to provide data on this immunisation activity since 2009. Responsibility for reporting this measure is transferring from the AIHW to the Australian Immunisation Register later in 2016 and it is proposed to assess the reliability of this report with the possible reinstatement in 2017-18.</p> <p>An alternative measure to show the quality of health protection services for those aged 65 years and over may be available (e.g. cancer screening or other disease rates). Thorough evidenced based research would be required in order to determine appropriate alternative measures and has not been possible at the current time.</p>	<p>The Department agrees that this is an important indicator, and that responsibility for data production will shortly be transferred to a new body.</p> <p>The Committee considers that rather than removing the indicator with the possibility that it may be reinstated in 2017-18, it should be retained, and results be noted as being temporarily unavailable.</p>

Department of Treasury and Finance

Output	Performance measure	Reason for discontinuation provided in the budget papers	Additional information provided by the Department	Committee's comments
Business Environment Policy Advice	'Number of inquiry reports and regulatory improvement studies submitted to Government'	This performance measure is proposed to be discontinued as it is no longer relevant to the revised functions of this output. The 2015-16 expected outcome is lower than the 2015-16 target as the former Victorian Competition and Efficiency Commission did not receive any terms of reference for new inquiries or regulatory improvement studies before it was abolished in September 2015.	The output description reflects the role of the Commissioner for Better Regulation. The Commissioner for Better Regulation was principally established and funded to take over the VCEC function to provide independent advice on the adequacy of regulatory impact assessments and to administer the Government's Competitive Neutrality Policy. These activities currently account for the bulk of the Commissioner's role and are reflected in the quantity and timeliness measures for impact assessments. Through the impact assessment work and research into matters referred to it by the Government, the Commissioner will support departments and agencies in improving regulation. The previous quality measure was removed in the 2015-16 Budget. The Department will give further consideration to approaches for measuring the quality of these outputs.	The Committee understands that the Commissioner for Better Regulation is funded under this output, meaning the activities are still relevant. Information from the Department (including the follow-up) does not make clear whether the measures proposed to be dropped are no longer relevant, given that the operations of the Commissioner for Better Regulation appear similar to the former Victorian Competition and Efficiency Commission. The existing measures (which are not new) may be replacements, but this has not been clearly expressed. The Committee considers that the Department must provide a clearer argument to remove these measures. The Committee also notes that even with these measures there are no quantity measures for this output. However, this is not the forum for encouraging the development of new measures. If it were, the Committee would be recommending some measures about the Competitive Neutrality Unit.
Financial and Resource Management Frameworks Maintenance and Support	'VPS stakeholder feedback indicates delivery of advice and information sessions supported the VPS to understand the financial management framework'	This performance measure is proposed to be discontinued as it has been consolidated into the 2016-17 performance measure 'VPS stakeholder feedback indicates delivery of advice and information sessions supported the financial reporting framework across the VPS and supported the VPS to understand the financial management framework'.	Consistent with current practice, two separate, tailored surveys will be sent to relevant stakeholders in relation to the financial management framework and financial reporting framework respectively. The indicator is calculated by combining the results of both surveys, taking the sum of all stakeholder feedback rated as positive, and dividing it by the total of all survey responses. This calculation is consistent with previous years.	The Committee understands that these two measures relate to the provision of two separate services: training (through information sessions to understand the financial management framework) and operational support (Supporting the FRF). Given that these are separate activities with separate surveys, the Committee considers that combining them to provide an average result will decrease comprehensiveness of reporting and reduce the usefulness of the measure as a management tool.
Financial Reporting	'Supporting the financial reporting framework across the VPS (survey data)'	This performance measure is proposed to be discontinued as it has been consolidated into the 2016-17 performance measure 'VPS stakeholder feedback indicates delivery of advice and information sessions supported the financial reporting framework across the VPS and supported the VPS to understand the financial management framework'.	The Financial Reporting Operations Framework (FROF) is made up of mandatory requirements and guidance for departments drawn from the pre-existing Budget and Financial Management Guidelines (BFMGs). Given that the FROF consolidated existing requirements, the FROF has not changed the financial reporting framework more broadly. It does not affect the replacement performance measure.	

Sources: Department of Treasury and Finance, *Budget Paper No.3: 2016-17 Service Delivery* (2016), Chapter 2; Correspondence from Hon. Robin Scott MP, Minister for Finance, to Chair, Public Accounts and Estimates Committee, received 8 August 2016

Appendix 10

The Government's responses to previous recommendations

A10.1 Recommendations from the Committee's *Report on the 2014-15 Budget Estimates*

Part	Recommendation	Implementation		
		after one year	after two years	
1	1	The Government not discontinue the 16 performance measures that are listed in Table 3.1 of this report.	Not yet implemented	Partially implemented
2	1	The Government should investigate the potential benefits of tabling the Victorian budget after the Commonwealth budget.	Implemented	
	2	The Department of Treasury and Finance continue the practice of separately reporting purchases of non-financial assets and sales of non-financial assets for all sectors in the Annual Financial Report.	Not yet able to be assessed	Implemented
	3	The Department of Treasury and Finance publish historical figures for public private partnership infrastructure investment.	Partially implemented	
	4	In estimating, publishing and discussing government infrastructure investment figures, the Department of Treasury and Finance build on existing disclosure by quantifying, to the extent compatible with protecting the State's financial interests, all components of the government infrastructure investment for each year of the forward estimates period after the budget year.	Implemented	
	5	The Department of Treasury and Finance include the definitions of the following terms from its website in Budget Paper No.4 (State Capital Program): (a) 'government infrastructure investment'; and (b) 'PPP infrastructure investment'.	Implemented	
	6	The Department of Treasury and Finance continue to refine the definitions in Budget Paper No.4 (State Capital Program) to ensure that terms which are used interchangeably are not defined differently.	Not yet implemented	Implemented

Extract of Proceedings

24 October 2016

Motion: That Chapters 1-10 and appendices, including Chapters 7 and 8 and appendices subject to amendments to be agreed between the Chair and Deputy Chair, be the *Report on the 2016-17 Budget Estimates*.

Moved: Mr Danny Pearson MP

The Committee divided on the motion.

Ayes (4)	Noes (3)
Mr Dimopoulos	Mr Morris
Mr Pearson	Mr O'Brien
Ms Pennicuik	Mr Smith
Ms Ward	

Resolved in the affirmative.

PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

REPORT ON THE INQUIRY INTO THE 2016-17 ESTIMATES

MINORITY REPORT

David Morris MP

Deputy Chair

Tim Smith MP

Committee Member

Danny O'Brien MP

Committee Member

1. Introduction

The authors of Minority report concur with the Majority on all recommendations contained in the body of the this report. We do however believe there were a number of issues which are not addressed in the main report. Those issues are detailed below.

In summary, the Andrews government has been negligent in its approach to the 2016-17 Estimates hearings.

- For the second year running the government has failed to keep its election promise to reform the estimates process.
- In the case of some portfolios there has been an apparent attempt to prevent the committee from receiving all necessary information to complete the inquiry as required by s14 of the Parliamentary Committees Act.
- Many questions on notice, despite a commitment from witnesses at a public hearing to provide the necessary information, have simply not been answered. While a response has been provided to every question, in many cases the words completely fail to address the issue, or to provide information requested in the question.

2. The failure of the Andrews government to meet its election commitment to reform the estimates process.

The Minority reiterate the concerns expressed in the Minority report tabled as part of the 2015-16 Estimates Inquiry.

In particular the Minority notes:

- The Government has again failed to meet its election commitment to reform the conduct of the Public Accounts and Estimates Committee Estimates Hearings.
- Despite a 2014 commitment to the abolition of “Dorothy Dix” questions, they were again a significant feature of this year’s hearings. Those questions consumed almost half of the total time available to question Minister’s and public servants.

It should be noted however, that there was a significant change to the questioning practice and which was initiated by agreement between government and non-government members.

This was not a reform proposed by government, this was a reform proposed by the membership of the committee alone.

Two significant changes were made to the model of questioning:

- Members of the committee were able to ask a series of questions, on a time limited basis.
- Committee members were permitted to directly question the public servants present at the hearings..

While these changes were an improvement, they do not acquit in any way the commitment of the government to reform the estimates process.

While members were able to ask questions of senior public servants, in too many cases ministers sought to intervene, or to actively prevent the public servant concerned from responding in as frank a manner as many clearly wished to do.

Unfortunately the obvious lack of commitment from the majority of ministers, and the persistence of the practice of “Dorothy Dix” questions combined to limit the usefulness of estimates hearings.

It is to be hoped that the government will finally keep its election promise for the approaching estimates hearings.

3. Questions on notice.

As has been the practice for many years members elected to place on notice questions when a witness was unable to provide information. A review of the hearing transcripts indicates that on each occasion agreement was given by the witness under examination. In each case the witness concerned gave an undertaking that the information would be subsequently provided.

While the combined answers to questions on notice total 150 pages they do not unfortunately provide all the information that was sought at the hearings. In fact, many do begin to address the specific matters raised by a particular question.

It would appear to the Minority that some of the responses to questions asked of the departmental secretaries or other senior officials may have been the subject of political censorship prior to their transmission to the committee.

If the estimate process is to provide all of information the Committee requires in order to properly report on the Government’s expenditure plans in any particular financial year the full provision of detailed information when sought from public officials (both Ministers and public servants) present at the hearings is essential.

The current arrangements provide no safeguard that the undertakings given freely in a public hearing will in fact be complied with.

The following are a very few examples of the repeated failure of the answers received to provide information sought by the committee.

Portfolio: Ambulance Services

The committee requested data regarding workforce satisfaction, including any particular instances of bullying from both the “people matters” survey and from the department’s internal surveys.

Minority Comment

- Data from the people matters survey was provided, no further information was required provided.
- The answer provided did not respond to the question asked.

Portfolio: Consumer Affairs, Gaming and Liquor Regulation

Information was sought regarding the cost of flights, accommodation and other expenses, for the Department of Justice and Regulation, of overseas travel in 2015-16. The response advised that “*Department expenditure is published in their Annual Report...*”.

Minority Comment

- Note the use of the word “their” which suggests that the information was not provided by the department as requested, rather that it originated from a Minister’s office.
- There is no reporting at all of the cost of flights and accommodation in the annual report, let alone a break down as requested by the Committee.
- The answer provided did not respond to the question asked.

The Department was asked to advise of the number of reported incidents of bullying, broken down by types of bullying, such as those identified by gender, sexuality, physical or other.

The response was: “*Information on the number of complaints, the application of public sector values, employment principles, codes of conduct and standards can be found in the Victorian Public Sector Commissions Annual Report.*”

Minority Comment

- Yes – all those things can be found in the document cited.
- The number of reported incidents of bullying, broken down by types of bullying, such as those identified by gender, sexuality, physical or other is not contained in this report.
- The answer provided did not respond to the question asked.

Other Portfolios

The responses cited above are simply the first occurrences of a pattern repeated throughout the 150 pages of “answers”. The Minority have identified many more instances where the answers provided have been incomplete, inaccurate or just plain misleading.

An example of the Government’s public commitment to provide information, and subsequent refusal to meet that commitment occurred in the Industry portfolio hearings.

The Minister for Industry was asked to provide details of expenditure from the Future Industries Fund:

MrMORRIS—Can I refer to budget paper 3, pages 1 and 28, and the reference to the Future Industries Fund? This was of course a feature of last year as well. I think it was some 50.5 million provided in the budget for 15–16. I am wondering how much, if any, remains to be expended this financial year.

Ms D’AMBROSIO—Just let me get my page.

The CHAIR—Sorry, Deputy Chair. Could you repeat the reference again? Budget paper 3—

MrMORRIS—Pages 1 and 28. It is ironic it has taken us until the last hearing to get to page 1.

Ms D’AMBROSIO—Okay, so 1 and 28.

MrMORRIS—It is the Future Industries Fund.

Ms D’AMBROSIO—Yes, I understand. Members will be aware of the Future Industries Fund that we introduced as a government. We have thus far released a number of programs under that fund. Let us have a look here. We have got the manufacturing program, which has a fund of, I think it was, \$5 million that was opened up for applications late last year. We have the—

MrMORRIS—Without wishing to interrupt you, Minister, I am interested in the funds that have actually been expended, not—

Ms D’AMBROSIO—Actual funds expended.

MrMORRIS—Actually expended.

Ms D’AMBROSIO—Yes, well, we have received significant numbers—I am just giving you the context of when the funds were opened, because that gives you an indication of funds expended thus far. So the New Energy Jobs Fund was also released late last year, and the manufacturing program. Earlier this year we opened up the sector growth program—a \$20 million fund. What we did as a government when we came into government was consult with industry, who told us very clearly that they wanted to be consulted about how the Future Industries Fund could best be maximised, could best be spent. So what we did was engage with more than 1000 businesses, industry associations, research and academic associations about the need to develop up sector

strategies—inter-sector strategies—which would guide the way that the fund would be spent. Therefore—

MrMORRIS—Minister, I am simply after—and I am happy for the department to take it on notice if that helps—how much has been expended from the fund, and in particular how much has been expended with regard to medical technology and pharmaceuticals, new energy technology, food and fibre processing, transport, defence and construction technology, international education, and professional services—so six different sectors.

Ms D'AMBROSIO—Yes, I understand what you are saying.

MrMORRIS—So could we have the expended figures on those and the total?

Ms D'AMBROSIO—We are in the process of actually considering significant numbers of applications that have come in—hundreds of applications that have come in for those programs. We have announced a handful of those thus far. In terms of the actual value of that, I am happy to—

MrMORRIS—I am happy to move on, but if we could have on notice the amount expended as of today in total and in those sectors.

Ms D'AMBROSIO—Yes. Whatever is available, I am happy to provide that.

As the transcript clearly demonstrates, the question was simple and straightforward, and the Minister indicated a desire to answer the question.

The response however, provided no relevant information:

Reply

The following program funding has been committed to date in the 2015–16 financial year:

- \$1,532,036 in grant funding to seven companies has been committed under the \$5 million Future Industries Manufacturing Fund.
- Round One of the \$20 million New Energy Jobs Fund closed on 16 March 2016 and applications are currently being assessed.
- The \$20 million Future Industries Sector Growth Program was launched on 17 March 2016 and no funding has been committed at this stage.
- In the 2015-16 financial year, as at 20 May 2016 \$477,701.03 had been spent by the department in developing the Future Industries initiative.
- In addition, \$26.4 million was invested in the 2015-16 State Budget in strategic initiatives in the medical technologies and pharmaceuticals sector that will help drive growth in that sector.

The Committee sought information on the breakdown of expenditure to the date of the hearing in each of the six sectors (medical technology and pharmaceuticals, new energy technology, food and fibre processing, transport, defence and construction technology, international education, professional services).

No breakdown was provided. This was not an isolated example.

4. Conclusion

Despite the Premier's election commitment to reform the Estimates process there has been a significant decline in standards since the present Government came to office.

The pattern of response to Committee questions on notice makes it clear that there is no desire on the part of the Government to genuinely respond to the questions addressed to it as part of the hearings process.

The Minority believes that the Government has provided insufficient information to answer many legitimate questions raised as part of the budget process.

The failure to provide information requested, combined with the incomplete, and often potentially misleading answers that have been provided mean that it is impossible to guarantee the integrity of the budget documentation, and consequently for the Committee to provide assurance to the Parliament that the funds approved by the Appropriation Bills are to be spent appropriately.

David Morris MP, Deputy Chair
Danny O'Brien MP
Tim Smith MP

Melbourne 16 November 2016

