QUESTIONS TAKEN ON NOTICE AND FURTHER INFORMATION AGREED TO BE SUPPLIED AT THE HEARINGS

DEPARTMENT OF TREASURY AND FINANCE

1. *Are there any programs within the department which had funding which concluded in 2016-17 and was not renewed?*

(Asked by Mr Morris, pages 5-6 of the Department of Treasury and Finance portfolio transcript)

There were two initiatives relating to the State Revenue Office where funding concluded in 2016-17 as shown in the table below:

		Published/ original decision						
Initiative	*Division*	*Year of Approval*	*Lapsing Year*	*Approved total funding ($m)*	*Lapsing year funding ($m)*	*Funding duration*	*Funding source*	*Comment*
Back to Work Scheme	SRO	2014-15	2016-17	100	50.0	2 years	POBOS Appropriation	*2014-15 Budget Update* refer pg. 125.
Automotive - Back to Work	SRO	2016-17	2016-17	10.0	10.0	1 year	Grant received from DET	*2016-17 Budget Paper 3* refer pg. 25 and 26.

2. *Are there any programs which may have concluded in 2016-17 for which funding was renewed? If so for what period was the program renewed and how much was provided?*

(Asked by Mr Morris, page 6 of the Department of Treasury and Finance portfolio transcript)

There are no programs which concluded in 2016-17 for which funding was renewed.

3. *Please advise the extent to which changes resulting from the new AASB standard on leases will be back-passed in future budget papers and financial reports.*

(Asked by Mr O'Brien, pages 7-8 of the Department of Treasury and Finance portfolio transcript)

There is no requirement within AASB 16: Leases to restate comparative financial information.

4. How has the first $288 million arising from the Port of Melbourne lease been allocated to major projects – delivering new infrastructure for transport?

(Asked by Mr O'Brien, pages 9-10 of the Department of Treasury and Finance portfolio transcript)

The Government has announced that it will fully acquit its legislated commitment to invest at least 10 per cent of the proceeds from the lease of the Port of Melbourne in regional transport infrastructure. The 2017-18 Budget outlined a series of projects which would form part of the Regional Rail Revival (see 2017-18 Budget Paper 3, pg 51). Since the 2017-18 Budget, the Victorian and Commonwealth Governments have reached agreement on the allocation of the funds to the Regional Rail Revival. The acquittal of the 10 per cent regional commitment will be done through specific regional transport projects funded through the budget (such as the Major periodic maintenance project funded in the 2017-18 Budget), and by directing the expenditure for the Regional Rail Revival program through the Victorian Transport Fund.

The 2017-18 Budget allocated $288 million in capital funding towards the Major periodic maintenance project (see 2017-18 BP3 page 42 and page 43). The Major periodic maintenance project will renew assets that have reached the end of their useful life on the regional rail network. The $288 million in capital funding will be used, for example, to replace infrastructure assets such as timber rail sleepers with concrete sleepers, strengthen rail bridges and culverts, upgrades of signals and signal structures, and any other asset in the regional rail network which is reaching the end of its useful life in the next one or two years, extending the useful life of the asset. The treatment of this funding as capital is consistent with the capitalisation principles outlined in accounting standard AASB 116 Property, Plant and Equipment, and can be funded out of the Victorian Transport Fund.

In contrast, routine maintenance activities are operating expenditure which is necessary for an asset to function as expected and to avoid the asset degrading before the end of its expected useful life. Under the recognition principles in accounting standard AASB 116 Property, Plant and Equipment, the costs of day-to-day servicing of the assets, e.g. repairs, are required to be expensed. These activities would not be classified as a 'rail infrastructure project', and as such, this type of expenditure cannot be funded out the Victorian Transport Fund.

5. Please advise the Committee of:

- ***the total Fire Services Levy collected from religious-owned properties***
- ***the capital improved value of these properties.***

(Asked by Ms Patten, page 11 of the Department of Treasury and Finance portfolio transcript)

Details of the actual levy paid for, and the capital improved value of, properties owned by a particular individual, trust or entity are protected under the secrecy provisions of the *Fire Services Property Levy Act 2012*.

As councils are the collection agents for the Fire Services Property Levy, de-identified data is not provided in their returns.

6. Please describe and reconcile these figures which relate to the West Gate Tunnel:

- ***contribution by the project to the variance in output appropriations for DTF of $19.7 million (DTF Questionnaire p.22)***
- ***Treasurer's Advance of $16.6 million (DTF Questionnaire p.4)***
- ***$17.25 million (legal costs and consultants).***

(Asked by Ms Pennicuik, pages 12-13 of the Department of Treasury and Finance portfolio transcript)

DTF expensed $19.7 million in 2016-17 on the West Gate Tunnel project. Of that, $17.25 million was for invoices paid to consultants and another $2.48 million was for costs incurred but not yet paid. These costs were partially funded from a Treasurer's Advance of $16.6 million, with the remainder funded out of DTF's existing Output Appropriation.

7. Please disaggregate the positions created (10 in the Office of Projects Victoria; 27 in capability funding; and 47 in shared services) by level (VPS1-6, EO3-1, etc.).

(Asked by Mr Smith, pages 13-14 of the Department of Treasury and Finance portfolio transcript)

	FTE		
Classification	**Office of Projects Victoria**	**Capability Funding**	**Shared Services**
EO1	1		
EO2	1	1	
EO3	1	3	
VPSTEC			1
VPSG6	3	7	4
VPSG5	0.7	11	9.8
VPSG4	2	2	19
VPSG3		2	11
VPSG2	1	1	2
Total	**9.7**	**27.0**	**46.8**

8. Will legislation be required to introduce of a point-of-consumption tax?

(Asked by Mr O'Brien, page 18 of the Department of Treasury and Finance portfolio transcript)

As part of the *2017-18 Budget*, the Government announced that Victoria is developing a point of consumption tax, where operators are liable to pay tax on customers wagering in Victoria, no matter where the operator is located or licensed.

This tax would replace the current wagering tax structures for all wagering and betting product types, and for all methods of placing wagers.

Legislation would be required to implement this tax.

9. Regarding the remediation of the former gasworks site in Smith Street in Fitzroy, please advise

- ***what remediation was required at the site and why***
- ***the plans for the site.***

(Asked by Ms Shing on behalf of Ms Patten, page 21 of the Department of Treasury and Finance portfolio transcript)

The former Fitzroy gasworks site is highly contaminated as a result of historical coal gas manufacturing dating back to the 1860's. A Clean Up Notice was issued on the site by the Environment Protection Authority Victoria in 2014 and DTF has been developing a remediation strategy to achieve an acceptable level of clean up, and to enable the future development of the site. The remediation program will see significant quantities of contaminated soils excavated from the site and transported to a licensed treatment facility.

The Master Plan for a future site development is currently on exhibition as part of a planning proposal from Development Victoria. It provides for a mix of apartments, retail, childcare, sports courts, a vertical secondary school, car parking and open space. Further details of the Master Plan can be accessed from the website of the Department of Environment, Land, Water and Planning (DELWP).

10. Please provide a list of all projects, along with their costs, that were funded under the 'Marketing and Road Safety' and 'Safe System Road Infrastructure' programs, apart from those that have been separately reported.

(Asked by Mr Morris, pages 21-2 of the Department of Treasury and Finance portfolio transcript)

The following answer has been provided by the Transport Accident Commission (TAC):

The Victorian Government's Towards Zero Road Safety Strategy and Action Plan aims to reduce road deaths by 20 percent and serious injuries by 15 percent by 2020, making it our most ambitious road safety target.

<u>Marketing and road safety</u>

The TAC and its partners actively campaign to prevent serious injury and loss of life on Victoria's roads. Reducing road trauma is a shared responsibility and the TAC engages in various ways to educate the Victorian public about road safety, including traditional broadcast campaigns, direct engagement with communities and organisations via social investment in partnerships and events, as well as the provision of road safety grants to community groups and local councils.

In 2016-17, the TAC invested in a number of campaigns, with a focus on motorcycle safety with 'Driver Think Rider. Rider Think Driver.', the increased risk of road trauma on regional roads with 'Knocking on Doors', enforcement via 'More Drug Tests, More Places, More Often', speed via 'Rethink Speed' and human vulnerability through 'Meet Graham' which provided an interactive experience for thousands of Victorians.

Towards Zero Partnerships with organisations such as AFL Victoria, Melbourne Victory, the Australian Grand Prix Corporation Moto GP, Country Racing Victoria, Melbourne Renegades, Falls Festival and the Melbourne Comedy Festival are an important part of the TAC's engagement strategy, underpinned by multi-faceted and enduring relationships to promote road safety.

The TAC's grants programs support initiatives and organisations, including local councils and provide funding to community-based and council projects which address specific local road safety issues.

The TAC also collects the Motorcycle Safety Levy on behalf of the Government. In 2016-17, these funds were utilised by VicRoads to deliver a number of road infrastructure and other programs designed to improve safety for motorcyclists.

Safe System Road Infrastructure

Hundreds of kilometres of flexible barriers and other life-saving road treatments are being installed as efforts to safeguard motorists on our 20 highest risk roads move into top gear. This project is targeted in country areas, where most fatalities occur.

This investment has included flexible barriers on our key inland highways (Princes, Hume, Bass, Goulburn, Calder and Midland), tactile centre and edge road markings and other minor safety installations in busy urban streets.

Flexible barriers have been shown to reduce run off road and head on crashes on high volume roads by up to 85 percent. With Victorians four times more likely to be killed and 40 percent more likely to be seriously injured on regional roads, there is evidence these barriers are already contributing to saving lives. In 2017, there were 160 crashes recorded on new wire rope barriers.

The below information provides a breakdown of the TAC's expenditure in both its 'Marketing and road safety' and 'Safe system road infrastructure' line items listed on page 37 of the TAC's Annual Report 2016-17.

Marketing and road safety	$
Media	15,262,000
Production	16,223,000
Partnerships	8,249,000
Road Safety	13,813,000
Support Costs	690,000
Motorcycle Levy	9,037,000
Community Grants	1,101,000
Local Government Grants	343,000
Young Driver Safety Package	9,747,000
L2P Program	4,000,0000
TOTAL	**78,465,000**

Safe system road infrastructure	$
SSRIP and Towards Zero Project Costs	118,226,599
TAC SRRIP Staff Salary Costs	305,483
TAC SSRIP Staff expenses	5,752
Costs (Non Project Specific)	353,362
TOTAL	**118,891,195**

11. Please disaggregate and describe projects funded under the 'Research and external funding' component of 'other operating costs' in the WorkSafe Victoria Annual Report (p.73)

(Asked by Mr Morris, pages 23-4 of the Department of Treasury and Finance portfolio transcript)

The following answer has been provided by WorkSafe Victoria (WorkSafe):

The 'research and external funding' component of other operating costs covers the funding provided by WorkSafe for research, sponsorships and grants.

Research underpinned the development of WorkSafe 2030 and is an important input into WorkSafe's strategic prevention initiatives.

WorkSafe uses sponsorships to raise awareness of workplace safety messages and build relationships with the community in support of WorkSafe's role. Such sponsorships include a new sponsorship arrangement with Melbourne Victory, as well as support for the Melbourne Vixens, and country football and netball.

The key project funded is the Quad Bike Safety Rebate Scheme administered by the Victorian Farmers Federation on behalf of WorkSafe. Quad bikes are one of the main causes of serious injuries and fatalities on Australian farms and this funding provides rebates for approved safety solutions to help reduce quad bike deaths in Victoria.

12. The total TEI of the Level Crossing Removal Program was revised upwards at the time of the 2017-18 Budget.

- ***a. Why was the Level Crossing Removal Program 'a billion dollars over budget'?***
- ***b. DEDJTR advised PAEC that the HVHR process was followed for the project. Can you please reconcile this with VAGO's conclusion that the HVHR process was not employed?***
- ***c. Please advise whether the Department was provided with updated benefit cost ratios for the Level Crossing Removal Program.***

(Asked by Mr Smith, pages 25-6 of the Department of Treasury and Finance portfolio transcript)

a. The Level Crossing Removal Program (LCRP) budget estimate was updated in the *2017-18 Budget* to $6.879 billion, from an initial estimate of $5-$6 billion. The initial estimate was an indicative range that preceded detailed site investigations and project option development. Following this detailed work, the program cost was revised due to changes in project design solutions in response to community and stakeholder feedback and the inclusion of additional level crossings on the Frankston Line adjacent to existing level crossing removal sites.

   Responsibility for project delivery and management of scope changes lies with the Department of Economic Development, Jobs, Transport and Resources and the Minister for Public Transport.

b. VAGO stated that 'Department of Economic Development, Jobs, Transport and Resources (DEDJTR) did not follow the High Value High Risk (HVHR) guidelines to update the business case to reflect ongoing changes to program cost estimates arising from scope changes, including the addition of two more sites.'

   The HVHR guidelines do not require that agencies update business cases for changes in program cost estimates.

DTF manages a number of complementary, yet distinctly separate policy frameworks for supporting government investment decision making and infrastructure delivery. The HVHR project assurance framework aims to increase the level of central agency and government oversight of significant government projects and improve delivery confidence. The separate Investment Lifecycle Guidelines provide best practice guidance for developing and delivering capital investments.

DEDJTR has followed the HVHR Guidelines. A tailored project assurance process for the Level Crossing Removal Program (LCRP) has been adopted to reflect the scale, project packaging and delivery strategy of the program. The HVHR framework was applied at all relevant decision points. Given the scale and complexity of the LCRP, Gateway Reviews for Gates 1 and 2 were conducted on the program business case that covered all 50 sites. Gateway Reviews on procurement activities (Gate 3 and 4) and HVHR approvals are being undertaken at the works package (i.e. a bundle of sites) and/or individual project level where they meet the HVHR thresholds.

c. Updated benefit cost ratios have not been received.

The LCRP is an eight year program of works with staggered procurement of large delivery packages. Timing of any update to the business case would need to be undertaken at a sensible stage in the program once costs firm up through the individual procurement processes. For example, a sensible time to revisit the program business case could be halfway through the program's life – (i.e. 2019/2020) once a reasonable proportion of sites have been procured.

13. With respect to revenue certification:

a. please advise the major projects that were funded through outputs where performance measures were not met, but revenue was certified nevertheless.

b. please advise how the decision whether or not to certify departments' invoices is made. What is the criteria for deciding whether the level of the majority of performance measures has been met?

(Asked by Ms Pennicuik, pages 28 and 36 of the Department of Treasury and Finance portfolio transcript)

a. Capital investments, such as major projects, are funded through appropriations for additions to the net asset base (not through appropriations for the provision of outputs).

b. DTF provides advice on revenue certification by reviewing departments' output costs and other output performance measures. Rather than applying a uniform threshold or percentage, factors such as the following are taken into account to form a view across the balance of all measures:

i. a variance of 5 per cent above or below target for individual performance measures as a starting point for further assessment;

ii. commentary provided by departments;

iii. the number of individual measures within an output for which targets are met/not met;

iv. the extent to which the performance was within departments' control;

v. the contribution that individual performance measures make towards overall outputs – some measures relate to larger areas of activity within an output than others;

vi. history of under- or over-performance for an output or measure;

vii. whether relevant funding has already been spent (including the appropriateness of recovering any funds from external recipients);

viii. the extent to which a department has an ability to control its fixed costs; and

ix. materiality of an individual measure to the overall performance of the department.

14. Regarding the Victorian Social Housing Growth Fund:

a. Please advise whether Fund is a repurposed existing allocation or whether it is funded through new debt. How does it currently appear in the financial statements?

b. Please describe how the Fund will be managed/administered.

(Asked by Mr Smith, pages 30-1 of the Department of Treasury and Finance portfolio transcript)

a. The 2016-17 $100 million initial equity in the Victorian Social Housing Growth Fund (VSHGF) was a repurposing of existing funds. It was the transfer of an identified surplus from the 'Victorian Property Fund' in the Department of Justice and Regulation. This $100 million appears in DTF's 2016-17 Annual Report supporting notes to the Financial Statements. See Note 7 - Trust account balances (page 78).

   During 2017-18 a further $50 million equity has been transferred into the VSHGF from that fund. The current capital remaining of $850 million, to bring the Fund's capital to $1 billion, is being funded via budget appropriations through debt from 2017-18 to 2019-20.

b. The Fund is held centrally by DTF and jointly administered by the Minister for Housing and the Treasurer. The Fund's permanent capital is invested with the Victorian Funds Management Corporation (VFMC) , which manages the investment portfolio. The management of these funds is in line with a rolling investment strategy which requires the annual approval of the Treasurer.

   The Fund's investment returns will be applied to increase the supply of long term housing assistance directly through dedicated construction of social and affordable housing. The proposed expenditure will need to align with an annual business plan submitted by the Director of Housing that requires the approval of the Minister for Housing and the Treasurer. The business plan is intended to ensure that the Fund can sustainably meet growing demand.

15. With respect to the ten year extension of the concession deed for Transurban in return for the West Gate Tunnel project, please advise whether Victorians will be paying an additional $10 billion in tolls.

(Asked by Mr O'Brien, page 32-4 of the Department of Treasury and Finance portfolio transcript)

A significant portion of the West Gate Tunnel project's construction costs will be incurred by Transurban, and paid for over the project's construction period. These construction costs will be in part financed by money raised against a 10 year extension of the CityLink Concession Deed from 2035.

Transurban takes demand risk on traffic during the concession extension period. Therefore it is difficult to estimate the actual value of toll revenue to be collected over the extension period. In 2017 Transurban collected toll revenue of $687 million. Future tolls will be escalated in accordance with the publicly released CityLink Concession Deed Amendments during the term of the current contract and traffic volumes may vary over time.

Transurban's market-led proposal for the West Gate Tunnel Project was assessed under the Market-led Proposals Guideline framework. The assessment, including independent analysis and evaluation from expert advisers such as PwC and Macquarie Capital, concludes that the proposal offers value for money. The publicly released Summary Value for Money Report by PwC shows that the amount of funding Transurban has invested into the project in respect of the extended concession period for CityLink was at the upper (positive) end of the State's value for money benchmark range.

16. Please describe work carried out by the Department during the 16–17 period into estimates and modelling of uptake and impact of the first home owner's grants and changes to payroll tax during the 16-17 period.

(Asked by Ms Shing, pages 34-5 of the Department of Treasury and Finance portfolio transcript)

First Home Owner Grant

As part of the Homes for Victorians package, the Government doubled the First Home Owners Grant (FHOG) for first home buyers in regional Victoria to $20,000, taking effect from 1 July 2017. To estimate the uptake and financial impact, DTF estimated annual first home buyer volumes, and then applied the increase in the FHOG amount ($10,000) to those volumes relating to regional first home buyers to obtain the total financial impact. Additionally, DTF phased in this financial impact over time as the new grant only applies to contracts signed after 1 July 2017.

Payroll tax

During the 2016-17 period, DTF modelled the impact of bringing forward the reduction in the payroll tax-free threshold for all businesses and a reduction in the payroll tax rate applicable to regional businesses. Both of these measures commenced from 1 July 2017. Commencing 1 July 2017, the payroll tax free threshold increased to $625,000 and the rate applicable to regional businesses reduced to 3.65%. The higher thresholds impact all payroll tax liable businesses, so were applied to all payroll unit record data.

The regional payroll tax rate applies only to those businesses with an Australian Business Number registered in a regional area and that pay at least 85 per cent of wages to regional employees. Regional data was extracted from unit record data to estimate the revenue impact of the reduced rate.

17. What is the relationship between the '$6.7 billion that you mentioned as the cost for the West Gate tunnel and the 9.1 billion that you mentioned with regard to your response to the Chair earlier'?

(Asked by Ms Pennicuik, pages 35-6 of the Department of Treasury and Finance portfolio transcript)

The $9.1 billion is an aggregate figure and represents total Government infrastructure investment in 2016-17. This measure includes expenditure for the West Gate Tunnel Project, but only during the 2016-17 financial year. The $6.7 billion is the total cost of the West Gate Tunnel Project over its full construction period. The full list of projects with expenditure in 2016-17 and included in the $9.1 billion is detailed in the Financial Report for 2016-17, Chapter 2, page 11.