

## Government Response to PAEC's Report on the 2013-14 and 2014-15 Financial and Performance Outcomes

Recommendation	Response	Action taken to date and commitment to further action
<b>RECOMMENDATION 1:</b> Due to its significant contribution to Victoria's gross state product, the Department of Treasury and Finance quantify the impact of household consumption on the main budget items via the sensitivity analysis in the budget papers.	Under review	The current methodology employed for the sensitivity analysis does not separately model the components of GSP. DTF is currently reviewing the methodology and will consider the possibility of incorporating sensitivity of the budget aggregates to changes in components of GSP as part of this exercise.
<b>RECOMMENDATION 2:</b> The Department of Treasury and Finance publish data on the impact of the State's main economic variables on the public non-financial corporations sector.	Under review	The current sensitivity analysis model only covers the general government (budget) sector and the impact on the financial aggregates of that sector of changes in economic parameters. DTF will review the capacity of the new model to determine robust estimates of the impact of variables on the public non-financial corporations sector.
<b>RECOMMENDATION 3:</b> The Department of Treasury and Finance develop methods to quantify the impact of the State's main economic variables on the public financial corporations sector.	Under review	The current sensitivity analysis model only covers the general government (budget) sector and the impact on the financial aggregates of that sector of changes in economic parameters. DTF will review the capacity of the new model to determine robust estimates of the impact of variables on the public financial corporations sector.
<b>RECOMMENDATION 4:</b> Future Annual Financial Reports for the State include discussion of significant variances between budget estimates and actual results for operating expenditure by government purpose classification.	Support	DTF will seek to provide further clarification within the existing GPC tables by way of footnote where reclassifications between purposes or significant changes between budget estimates and actual results for operating expenditure have occurred in areas that have not already been explained in the commentary provided for significant variations on the financial statements.
<b>RECOMMENDATION 5:</b> Transfers greater than \$10.0 million by departments between capital and operating expenditure should be explained in annual reports, including: (a) why the expenditure had been classified as it had been	Support	The Model Report already requires departments to include explanations for material variances in the commentary supporting the relevant financial reports.  The Model Report will be updated to require explanations of material transfers

Recommendation	Response	Action taken to date and commitment to further action
<p>at the time of the budget            (b) why that had changed during the year            (c) the effect of the change on the department's finances including its net result from transactions.</p>		<p>between appropriation line items.</p> <p>It should be noted that the effect of an appropriation transfer under section 30 of the FMA on a department's net result from transactions is generally zero as any expenditure changes are generally associated with a corresponding change in revenue.</p>
<p><b>RECOMMENDATION 6:</b> In years where there is a change in Government, the budget papers (including budget updates) include additional discussion on changes in expenditure that are a result of the change in Government.</p>	<p>Not support</p>	<p>Changes in expenditure between budget publications are the result of various drivers. These are largely attributable to new policy decisions by an incoming Government. Currently, any new policy decisions are disclosed in budget papers, either in Chapter 1 of Budget Paper 3, or Appendix A in Budget Update. Information currently provided in these documents is generally sufficient to identify the changes in expenditure that are a result of a change in Government.</p> <p>In addition, the Government has endorsed the recommendation for Departments to track and report direct machinery of government costs, as well as the creation of relevant guidelines, in the Government responses to the recommendations of the Public Accounts and Estimates Committee's Report on the 2015-16 Budget Estimates (page 14). Further details about the reporting of machinery of government changes are included in the Government's response to Parliament's Legal and Social Issues Committee's May 2016 Inquiry into machinery of government changes final report.</p>
<p><b>RECOMMENDATION 7:</b> The Department of Treasury and Finance disclose expenditure on operating public private partnership projects as a fiscal aggregate in the consolidated comprehensive operating statement in Annual Financial Reports.</p>	<p>Under review</p>	<p>The AFR presents an audited consolidated comprehensive operating statement, consolidated balance sheet, consolidated cash flow statement, and consolidated statement of changes in equity in accordance with Australian Accounting standards.</p> <p>The definition of "Key Fiscal Aggregates" is included in the Australian Accounting Standard - AASB 1049 Whole of Government and General Government Sector Financial Reporting and includes:</p> <ul style="list-style-type: none"> <li>• Opening Net Worth</li> <li>• Net operating balance</li> <li>• Net lending/Borrowing</li> <li>• Change in net worth due to revaluations</li> <li>• Change in net worth due to other changes in the volume of assets</li> </ul>

Recommendation	Response	Action taken to date and commitment to further action
		<ul style="list-style-type: none"> <li>• Total Change in Net worth</li> <li>• Change in net worth</li> <li>• Cash surplus/Deficit.</li> </ul> <p>These aggregates focus on the reporting entity's aggregate performance and position, intended for macro-economic analysis purposes.</p> <p>There is a new Australian Accounting Standard expected to be soon released by the Australian Accounting Standards Board which specifically deals with PPP's. Future PPP project disclosures will be revisited in the context of this new standard once effective.</p>
<p><b>RECOMMENDATION 8:</b> Future Annual Financial Reports include an actual result or an updated estimate of the value of asset investment carried out by the private sector public private partnership projects during the year. Significant variations from this figure and the initial estimate of public private partnership infrastructure investment should be explained.</p>	Support	<p>An updated estimate of the value of asset investment carried out by the private sector contractor during the year will be provided in the AFR, as part of Government Infrastructure Investment, based on the best available information in the context of current contractual arrangements.</p> <p>It should be noted that the Australian Accounting Standards Board (AASB) plans to issue a new accounting standard for service concession arrangements, which will require specific financial disclosures for public private partnerships. This will be further considered once the accounting standard becomes effective.</p>
<p><b>RECOMMENDATION 9:</b> The Department of Treasury and Finance incorporate existing information on workforce numbers, job levels and existing enterprise bargaining agreements to estimate the impact of increases from newly finalised enterprise bargaining agreements and employee expenses on superannuation liabilities, transactions and net debt via the sensitivity analysis in the budget papers.</p>	Not Support	<p>The impact of newly finalised enterprise bargaining agreements are already incorporated in Budget estimates of total employee expenses. The sensitivity analysis in the 2016-17 Budget included a 1 per cent change to total employee expenses due to a combination of factors to derive the impact on the State's fiscal aggregates.</p>
<p><b>RECOMMENDATION 10:</b> Budget updates compiled by the Department of Treasury and Finance include an analysis of reprioritisations and adjustments that are made post-budget, in line with the current reporting methods used for</p>	Support	<p>The Government supports providing aggregated information relating to reprioritisation and adjustments made post-Budget for inclusion in budget update publications where practicable. That is, the budget update will reflect new output policy decisions, consistent with methods of reporting in 2016-17 Budget, Budget Paper No. 2, Chapter 4</p>

Recommendation	Response	Action taken to date and commitment to further action
reprioritisations that form part of Budget Paper No.2.		table 4.4.
<p><b>RECOMMENDATION 11:</b> To assist Parliament in its analysis of how movements in ‘specific-purpose grants’ contribute to the overall budget result, the Department of Treasury and Finance should include a breakdown of the major variances in ‘specific-purpose grants’ in the Annual Financial Report in the same way as they appear in the budget papers.</p>	Support in principle	<p>The AFR is prepared as a general purpose report only and presents the audited financial information in accordance with the requirements of the Australian Accounting standards.</p> <p>However, the reporting on individual/specific grants received under intergovernmental agreements will be delivered through the online data set available on the DTF website. A reference to direct users of the AFR to the relevant webpage will be included in the AFR.</p>
<p><b>RECOMMENDATION 12:</b> The Department of Treasury and Finance work with other departments to improve the estimation of completion dates for asset investment projects.</p>	Support	<p>The Department of Treasury and Finance will continue to work with departments to improve the identification and reporting of completion dates for asset investment projects to Government.</p>
<p><b>RECOMMENDATION 13:</b> The number of land tax assessments made by the State Revenue Office becomes a quantity performance measure for the Department of Treasury and Finance.</p>	Not Support	<p>Accuracy of estimating State taxation revenue in the State budget is a performance measure for the Department of Treasury and Finance and provides a clear link between forecast estimates and actual receipts. Setting a target for the number of land tax assessments as a performance measure would not improve the forecast accuracy of land tax revenue.</p>
<p><b>RECOMMENDATION 14:</b> The Department of Treasury and Finance ensure that all departments provide data for departmental objective indicators in their annual reports, as required in the Model Report.</p>	Support	<p>The framework for annual reporting established by the Minister for Finance through the Model Report requires departments to report on departmental objective indicators.</p> <p>The government will ensure that departments comply with these requirements. DTF will continue to provide guidance and information to support departments in establishing processes to meet these requirements.</p> <p>In turn, departments annually attest to the Minister for Finance on compliance with relevant ministerial directions under the Financial Management Compliance Framework.</p>

Recommendation	Response	Action taken to date and commitment to further action
<p><b>RECOMMENDATION 15:</b> The Department of Treasury and Finance amend the Model Report to require departments to include budgets adjusted for machinery-of-government changes as part of budget portfolio outcomes sections in annual reports, and discuss variations from adjusted figures.</p>	Support	<p>The Model Report will be amended to require departments, in a machinery-of-government year, to include, along with the published Budget, the revised budget, which will include adjustments for the machinery-of-government changes. Commentary discussing the variations from adjusted figures will be provided in the portfolio entities' own financial statements where it is considered a more appropriate place rather than in departments' annual reports.</p>
<p><b>RECOMMENDATION 16:</b> The Department of Treasury and Finance alter the corporate planning guidance for government entities to require initiatives that are identified in planning documents as important to the department's objectives during the financial year be made public at the start of that financial year.</p>	Support	<p>The Department of Treasury and Finance will update the departmental corporate planning requirements to require publishing of key initiatives that are important to achieving departmental objectives at the start of that financial year.</p>
<p><b>RECOMMENDATION 17:</b> The Department of Treasury and Finance alter its guidance for the 'initiatives and key achievements' section of annual reports to require reporting entities to specify which initiatives discussed were identified in planning documents as important to the department's objectives, and where the department described the initiative prior to the start of the year.</p>	Support	<p>The Department of Treasury and Finance will update guidance in the Model Report for Victorian Government Departments on the 'Key initiatives and projects' section for departments to report achievements against key initiatives and projects identified in published plans.</p>
<p><b>RECOMMENDATION 18:</b> As part of its regular examination of public sector reporting, the Victorian Auditor-General examine whether public sector entities are correctly following guidance from the Department of Treasury and Finance, including guidance in the Model Report, related to public private partnership projects.</p>	N/A	<p>The Auditor-General will respond directly to Parliament in relation to this recommendation.</p>
<p><b>RECOMMENDATION 19:</b> To consolidate guidance for public</p>	Under	<p>The AASB has recently issued exposure draft ED 261 Service Concession Arrangements:</p>

Recommendation	Response	Action taken to date and commitment to further action
<p>sector entities on disclosures relating to public private partnership projects, the Department of Treasury and Finance release a financial reporting directions and guidance document that encompasses all relevant requirements, including those currently in the Model Report.</p>	<p>review</p>	<p>Grantor, and an AASB final standard is expected to be issued in the near future. This ED foreshadows significant changes in the accounting for private partnership projects and their disclosures. DTF will update the Model Report in line with these impending changes once the standard is issued. At this stage, DTF is monitoring and consulting with the impacted departments to support transition to the new AASB standard.</p>
<p><b>RECOMMENDATION 20:</b> Future versions of the Model Report are adjusted to take into account changes to the risk management framework and processes in the Standing Directions of the Minister for Finance under the <i>Financial Management Act 1994</i>.</p>	<p>Support</p>	<p>The Model Report is published in April each year to provide sufficient time for departments to implement any revisions. Each revised Model Report includes transitional provisions to facilitate a smooth implementation of the revisions, including any changes to the risk management framework and processes incorporated in the Standing Directions.</p>
<p><b>RECOMMENDATION 21:</b> The Department of Treasury and Finance review guidance for the disclosure index in the Model Report, including:  (a) requiring all the prescribed entries in the disclosure index to be included, but allowing entities to use 'n/a' as page references if appropriate  (b) the list of prescribed entries in the disclosure index  (c) whether references in the disclosure index are to refer to sections disclosing data or sections discussing policy</p>	<p>Not support</p>	<p>The requirements for the disclosure policy are set out in Financial Reporting Direction (FRD) 10A. The purpose of the disclosure index as per FRD 10A is to assist in identifying the extent of compliance with applicable statutory disclosure and other requirements. Including only the relevant prescribed entries in the disclosure index prevents additional clutter to the departmental financial statements. The Annual Financial Report was recently approved by the Treasurer to use a streamlined approach to reduce clutter and make information more readable. It is expected that the Model Report format will follow the streamlined approach of the AFR.</p>
<p><b>RECOMMENDATION 22:</b> The Department of Treasury and Finance require departments and agencies to include all sections from the Model Report in their annual reports. Rather than allowing departments to omit sections that are not applicable, the Model Report require nil reports when departmental activities do not trigger the disclosure requirements of relevant financial reporting directions or the Model Report.</p>	<p>Not Support</p>	<p>The Model Report is a framework reference that Departments are required to use to enable decisions to be made on information that is relevant and reliable to be disclosed for their particular activities and circumstances. Requesting sections to be submitted that are not relevant would further clutter important information. The Annual Financial Report was recently approved by the Treasurer to use a streamlined approach to reduce clutter and make information more readable. It is expected the Model Report format will follow the streamlined approach of the AFR.</p>