

Cabinet in Confidence

Government Responses to the Recommendations of PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE'S Report on the 2015-16 Financial and Performance Outcomes

Pursuant to Section 36 of the *Parliamentary Committees Act 2003*, this paper provides a response to the recommendations contained in the Public Accounts and Estimates Committee's (PAEC) Report on the 2015-16 Financial and Performance Outcomes.

Guide for readers - Following is the explanation of the format of this paper.

1 Title		
2 Chapter number and topic		
1 PAEC recommendation	2 Response	3 Action taken to date and commitment to further action

Row 1: Indicates the title of this paper.

Row 2: Indicates the number and topic of the response to the PAEC recommendations.

Column 1: Contains PAEC's recommendations as published in its Report on the 2015-16 Financial and Performance Outcomes.

Column 2: Indicates the Government's response to each recommendation: 'Support', 'Support-in-Principle', 'Not Support' or 'Under Review'.

Column 3: Provides an explanation of the Government's position on the recommendation indicates the actions that have been taken to date, relevant to the implementation of the recommendation and outlines commitment to further action, relevant to the implementation of the recommendation.

PAEC recommendation	Response	Action taken to date and commitment to further action
---------------------	----------	---

Report on the 2015-16 Financial and Performance Outcomes

Recommendation 1, p27, Chapter 2: Economic Overview

<p>The Department of Economic Development, Jobs, Transport and Resources publish regular and more detailed reports on the progress and efficacy of the following labour market initiatives: (1) The Future Industries Fund (2) The Premiers Job and Investment Fund (3) The Regional Jobs Fund.</p>	<p>Support-in-principle</p>	<p>The Department of Economic Development, Jobs, Transport and Resources (DEDJTR) currently publishes this information in its annual report, including grant payments made from the Future Industries Fund, Premiers Job and Investment Fund, and Regional Jobs Fund. This is supplemented by information contained in the Regional Development Victoria Annual Report for the Regional Jobs Fund, including grant payments and case studies. As noted in the <i>Report on the 2015-16 Financial and Performance Outcomes</i>, these programs also contribute to output targets reported in Budget Paper No. 3.</p> <p>Some information is also provided on the Department's website. See for example: http://www.business.vic.gov.au/support-for-your-business/future-industries/new-energy-technologies</p> <p>The Department will consider the publication of additional information as these programs progress.</p>
---	-----------------------------	---

PAEC recommendation	Response	Action taken to date and commitment to further action
---------------------	----------	---

Recommendation 2, p31, Chapter 3: Overall financial outcomes for 2015-16

<p>The Government develop a set of metrics, using quantifiable data, in order to monitor progress towards meeting its long-term financial management objectives.</p>	<p>Support-in-principle</p>	<p>The Government's long-term financial management objectives in the <i>2015-16 Budget</i> were reaffirmed in the <i>2017-18 Budget</i>. The long term objectives are:</p> <ul style="list-style-type: none"> • 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. <p>Progress towards these long term objectives is supported by a set of measurable financial measures and targets, namely:</p> <ul style="list-style-type: none"> • 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. <p>The Government already provides quantifiable metrics on measuring sustainability in the <i>2017-18 Budget</i>. Budget Paper No.5 notes that the Government has set its sustainability objectives as:</p> <ul style="list-style-type: none"> • net operating surpluses in each year over the next four years; • expenditure growth no greater than revenue growth, on average, over the next four years; and • net debt to gross state product no greater than its peak over the past five years by the end of the forward estimates.
--	-----------------------------	--

PAEC recommendation	Response	Action taken to date and commitment to further action
Recommendation 3, p59, Chapter 4: Borrowings and net debt		
<p>The Department of Treasury and Finance discuss the composition of the superannuation liability in the budget papers in greater depth, including the influence of factors such as the bond yields on year to year changes to the liability amount and the impact of other financial and demographic changes.</p>	<p>Support-in-principle</p>	<p>In accordance with the requirements of <i>Australian Accounting Standard AASB 119 Employee benefits</i>, the State's 2015-16 <i>Financial Report</i> already includes information regarding the sensitivity of the State's superannuation liability to various factors. In particular, page 76 of the 2015-16 <i>Financial Report</i> outlines the key risks to the superannuation liability and includes an indication of the impact of movements in the key financial assumptions.</p> <p>Note that this sensitivity analysis does not include the variability of the liability to demographic factors. The only demographic assumption that has a significant impact on the liability is mortality. The mortality assumptions for the State's primary public sector superannuation scheme (Emergency Services and State Super, ESSSuper) are reviewed on a triennial basis and explanations of any variations, and their impacts are included in the associated valuation report, which is tabled in Parliament. The last such report was prepared as at 30 June 2015 and the next will be undertaken as at 30 June 2018.</p> <p>The composition of the superannuation liability is disclosed in the table on page 74 of the 2015-16 <i>Financial Report</i>. The table shows that over 96 per cent of the State's superannuation liability relates to ESSSuper. The balance relates to constitutionally protected schemes and the Health Super Fund.</p>
Recommendation 4, p62, Chapter 4: Borrowings and net debt		
<p>Additional contributions made by the Government in order to meet the target of 'fully funding the unfunded superannuation liability by 2035' are listed separately in the budget papers at the start of the financial year and in the Annual Financial Report at the end of the financial year.</p>	<p>Not Support</p>	<p>As noted in PAEC's report, the State's total contributions to public sector superannuation schemes are shown in the State's Financial Report along with details of the underlying appropriations. Projections of the additional contributions that are expected to be required each year to 2035 are also included in ESSSuper's triennial valuation report which is tabled in Parliament.</p> <p>Given these existing disclosures, the Government does not support the inclusion of further details of additional contributions. These amounts are estimates only and vary for reasons beyond the control of Government.</p>

PAEC recommendation	Response	Action taken to date and commitment to further action
Recommendation 5, p99, Chapter 6: Output expenditure and delivery		
<p>In order to ensure that workforce data included in annual reports is comprehensive and not-double counted, the Department of Treasury and Finance clarify guidance for entities that specifies when workforce data are to be consolidated into departmental annual reports and when they will not be included.</p>	Support	<p>The <i>2016-17 Model Report for Victorian Government Departments</i> (the Model Report) provides illustrations and guidance on the scope of workforce data to be disclosed in the department's annual report (page 40 to 43 of The Model Report). Financial Reporting Direction 29B <i>Workforce data disclosures in the Report of Operations-public service employees</i> also prescribes the disclosures required with respect to portfolio entities such as Authorities and Offices. The guidance in the Model Report is considered adequate, which requires departments to list the authorities and offices that employ public service employees independent of the Department secretary that falls within their portfolio, and outlines the expectations for the disclosure of employee numbers when these entities do not produce their own annual report.</p> <p>The Department of Treasury and Finance will remind entities of the requirements via additional guidance and training during the delivery of the Model Report training workshops in future.</p>
Recommendation 6, p99, Chapter 6: Output expenditure and delivery		
<p>In workforce data disclosures, departments list the employing entities that contribute to the data published. Departments should also list associated employing entities that do not contribute to the data published.</p>	Support	<p>The <i>2016-17 Model Report for Victorian Government Departments</i> (the Model Report) requires departments to disclose the list of entities that contribute to the workforce data disclosed.</p> <p>The Department of Treasury and Finance will remind entities of the requirements via additional guidance and training during the delivery of the Model Report training workshops going forward.</p>
Recommendation 7, p101, Chapter 6: Output expenditure and delivery		
<p>Future publications of <i>The State of the Public Sector in Victoria</i> report total remuneration of executives in the Victorian public service and other public entities.</p>	Support	<p>The Victorian Public Sector Commission (VPSC) holds relevant data, including executives' total remuneration at the annual census date and will include the data in future publications.</p>

PAEC recommendation	Response	Action taken to date and commitment to further action
Recommendation 8, p103, Chapter 6: Output expenditure and delivery		
<p>The Victorian Public Sector Commission investigate the trend over time where the proportion of jobs in the Victorian Public Service in lower categories has fallen consistently, while the proportion in higher categories has risen consistently. Results of this investigation, including how and why it has occurred, be included in <i>The State of the Public Sector in Victoria</i> publication.</p>	<p>Not Support</p>	<p><i>The State of the Public Sector in Victoria</i> currently reports VPS workforce classifications in a two-year time series. The Victorian Public Sector Commission could extend this reporting to a longer time series (for example, five years). VPSC data holdings do not identify why the 39 public service employers have established roles at each classification, or why changes have occurred. This information is unlikely to be readily available on a time series basis from individual employers. A review of the reasons for classification changes would be a significant undertaking and require additional resourcing.</p>
Recommendation 9, p113, Chapter 6: Output expenditure and delivery		
<p>The Department of Economic Development, Jobs, Transport and Resources prepare the budget for the Tourism, Major Events and International Education output using the assumption that events under negotiation will take place.</p>	<p>Not Support</p>	<p>The overall funding allocation for the major events fund per annum is communicated in Ministerial speeches. Events under negotiation may or may not be secured and funding may be a key point in negotiations. Funding for specific major events is allocated to the Department based on contract execution (when the event is secured and the funding requirement is known). Funding cannot be included as part of the Department's output cost in the Budget Papers prior to this time.</p>

PAEC recommendation	Response	Action taken to date and commitment to further action
Recommendation 10, p113, Chapter 6: Output expenditure and delivery		
<p>To enhance transparency of the Tourism, Major Events and International Education output, the Department of Economic Development, Jobs, Transport and Resources include a list of specific events that contribute to the 'Major sporting and cultural events facilitated' measure and consequently to the output cost in the note in the budget papers. The Department also include the list of events that contributed to actual results in the Department's annual report.</p>	<p>Support-in-principle</p>	<p>The Government will publish a list of events that make up the outcome for the "Major sporting and cultural events facilitated" Budget Paper Measure. This will be provided in the Department of Economic Development, Jobs, Transport and Resources' Annual Report.</p>
Recommendation 11, p114, Chapter 6: Output expenditure and delivery		
<p>The Department of Treasury and Finance alter the Model Report to require departments to provide an explanation for variances in performance measures which are greater than a 5 per cent increase or decrease from the budget, or in the case of cost performance measures, greater than a \$50 million increase or decrease from the budget.</p>	<p>Support</p>	<p>The <i>2016-17 Model Report for Victorian Government Departments</i> (the Model Report) (page 19 to 22) currently requires departments to explain variances that are greater than a 5% increase or decrease from the target.</p> <p>The 2017-18 Model Report will be updated to include \$50 million as an additional threshold to ensure that preparers provide explanations for such variances in cost performance measures.</p>

PAEC recommendation	Response	Action taken to date and commitment to further action
Recommendation 12, p116, Chapter 6: Output expenditure and delivery		
<p>The Department of Treasury and Finance consult with the Department of Health and Human Services to improve forecasts for hospital demand and consequent forecasts for salaries in health agencies.</p>	Support	<p>As part of regular hospital expenditure estimates updates and approval of new hospital demand funding in the annual budget, the Department of Treasury and Finance consults with the Department of Health and Human Services to assess the reasonableness of the assumptions driving changes in expenditure estimates. The Department of Treasury and Finance acknowledges the complexity in predicting hospital demand given that there are over 100 public hospitals and health services in Victoria. Additionally, forecasts for hospital expenditure incorporate estimates of funding provided by the Commonwealth under the National Health Reform Agreement which impacts the accuracy of expenditure forecasts given the timing and retrospective nature of payments.</p> <p>The Department of Treasury and Finance will continue to consult with the Department of Health and Human Services to better estimate hospital expenditure, including hospital demand projections and associated employee expenses.</p>
Recommendation 13, p117, Chapter 6: Output expenditure and delivery		
<p>The Department of Health and Human Services publish forecasts of service delivery for each health agency at the start of each financial year, publish actual results for activity of service delivery for each health agency at the end of each financial year, and use this data to improve forecasting in the future.</p>	Support	<p>The Department of Health and Human Services currently publishes budgeted activity for each of the health services in the statement of priorities (agreed each financial year between the Chair of each health service and the Minister for Health or Secretary of the Department, depending on the service). Depending on demand and patient volume there may be some variation in actual services delivered, as well as some variation in Commonwealth funding which may also affect expenditure estimates. Each of the health services reports final reconciled activity in their Annual Reports, which the Minister for Health tables in Parliament. The Department of Health and Human Services will continue to work with the Department of Treasury and Finance to better estimate hospital expenditure, with a specific focus on hospital demand projections and associated employee expenses.</p>
Recommendation 14, p124, Chapter 7: Asset investment		
<p>All variances reported or discussed in the Annual Financial Report are calculated against a published estimate.</p>	Support	<p>The Department of Treasury and Finance will continue to ensure that all variances reported or discussed in the Financial Report are calculated against a published estimate.</p>

PAEC recommendation	Response	Action taken to date and commitment to further action
---------------------	----------	---

Recommendation 15, p125, Chapter 7: Asset investment

The Department of Treasury and Finance ensure that figures available on its website released at the time of paper publications agree with the relevant published tables.	Support	The Department of Treasury and Finance will ensure that figures available on its website released at the time of publication agree with the relevant published tables, capturing revisions to the comparative period.
--	---------	---

Recommendation 16, p132, Chapter 7: Asset investment

Department of Treasury and Finance develop a two to three page template for Partnerships Victoria to present to the public using a consistent terminology on summary financial payment information for public private partnership projects.	Not support	<p>The Government considers the existing financial disclosures and guidance material adequately presents financial payment information to the public.</p> <p>Following the financial close of each PPP project, a project summary is tabled in Parliament and published on the DTF website within two months. All project summaries can be downloaded from the DTF website http://www.dtf.vic.gov.au/Infrastructure-Delivery/Public-private-partnerships/Project-Summaries.</p> <p>In November 2016 as part of the Partnerships Victoria policy refresh, DTF released a model template to be used by procuring agencies preparing project summaries. The template can be downloaded at http://www.dtf.vic.gov.au/Publications/Infrastructure-Delivery-publications/Partnerships-Victoria/Partnerships-Victoria-project-summary.</p> <p>The project summary includes a value for money section that discloses the public sector comparator (PSC) and compares the value for money of the PPP against the private party's proposal. The net present cost of the PSC and the PPP contract are disclosed, as well as the nominal PPP contract cost, the PPP lease liability and the breakdown of service payments. As an example, the financial disclosures for the High Capacity Metro Trains project are shown below:</p>
---	-------------	---

Table 5: Value-for-money comparison – PSC versus private sector delivery

Public sector comparator NPC (\$ millions)	Project Co contract cost NPC (\$ millions)	Estimated savings
3 812.1	2 342.9	38.5%

PAEC recommendation	Response	Action taken to date and commitment to further action																										
		<p>Table 6: Disclosure of nominal flows</p> <table border="1"> <thead> <tr> <th data-bbox="846 304 1137 432">NPC of proposal as at 11/16 (\$'000)</th> <th data-bbox="1144 304 1435 432">Discount rate used to arrive at NPC</th> <th data-bbox="1442 304 1697 432">Total cost of proposal (nominal) (\$'000)</th> <th data-bbox="1704 304 1939 432">First full year QSP payment (nominal) (\$'000)</th> </tr> </thead> <tbody> <tr> <td data-bbox="846 437 1137 480">2 342 901</td> <td data-bbox="1144 437 1435 544">4.85 per cent and 4.50 per cent for the State contribution</td> <td data-bbox="1442 437 1697 480">5 686 163</td> <td data-bbox="1704 437 1939 480">123 452</td> </tr> </tbody> </table> <hr/> <p>Table 7: Disclosure of lease liability</p> <table border="1"> <thead> <tr> <th data-bbox="846 655 1137 815">Lease liability expected to be recognised at Provisional Acceptance Project (nominal) (\$'000)</th> <th data-bbox="1144 655 1435 815">Lease liability expected to be recognised at Provisional Acceptance Project (NPC) (\$'000)</th> <th data-bbox="1442 655 1697 767">Expected year of Provisional Acceptance Project</th> <th data-bbox="1704 655 1939 767">Implied interest rate in lease liability</th> </tr> </thead> <tbody> <tr> <td data-bbox="846 820 1137 863">2 999 585</td> <td data-bbox="1144 820 1435 863">1 691 030</td> <td data-bbox="1442 820 1697 863">2024</td> <td data-bbox="1704 820 1939 863">4.90%</td> </tr> </tbody> </table> <hr/> <p>Table 8: Breakdown of quarterly service payments</p> <table border="1"> <thead> <tr> <th data-bbox="846 943 1435 1007"></th> <th data-bbox="1442 943 1715 1007">(Nominal) (\$'000)</th> </tr> </thead> <tbody> <tr> <td data-bbox="846 1011 1435 1054">Implied principal payments on lease liability</td> <td data-bbox="1442 1011 1715 1054">1 527 589</td> </tr> <tr> <td data-bbox="846 1059 1435 1102">Implied interest payments on lease liability</td> <td data-bbox="1442 1059 1715 1102">1 383 346</td> </tr> <tr> <td data-bbox="846 1107 1435 1150">Implied operating and maintenance component of QSP</td> <td data-bbox="1442 1107 1715 1150">2 353 982</td> </tr> <tr> <td data-bbox="846 1155 1435 1198">Sum of State QSPs over the term</td> <td data-bbox="1442 1155 1715 1198">5 264 917</td> </tr> </tbody> </table> <p>The State's financial commitments and liabilities for PPP projects in the delivery and operational phases are disclosed in the Financial Report as detailed in the response to recommendation 20.</p>	NPC of proposal as at 11/16 (\$'000)	Discount rate used to arrive at NPC	Total cost of proposal (nominal) (\$'000)	First full year QSP payment (nominal) (\$'000)	2 342 901	4.85 per cent and 4.50 per cent for the State contribution	5 686 163	123 452	Lease liability expected to be recognised at Provisional Acceptance Project (nominal) (\$'000)	Lease liability expected to be recognised at Provisional Acceptance Project (NPC) (\$'000)	Expected year of Provisional Acceptance Project	Implied interest rate in lease liability	2 999 585	1 691 030	2024	4.90%		(Nominal) (\$'000)	Implied principal payments on lease liability	1 527 589	Implied interest payments on lease liability	1 383 346	Implied operating and maintenance component of QSP	2 353 982	Sum of State QSPs over the term	5 264 917
NPC of proposal as at 11/16 (\$'000)	Discount rate used to arrive at NPC	Total cost of proposal (nominal) (\$'000)	First full year QSP payment (nominal) (\$'000)																									
2 342 901	4.85 per cent and 4.50 per cent for the State contribution	5 686 163	123 452																									
Lease liability expected to be recognised at Provisional Acceptance Project (nominal) (\$'000)	Lease liability expected to be recognised at Provisional Acceptance Project (NPC) (\$'000)	Expected year of Provisional Acceptance Project	Implied interest rate in lease liability																									
2 999 585	1 691 030	2024	4.90%																									
	(Nominal) (\$'000)																											
Implied principal payments on lease liability	1 527 589																											
Implied interest payments on lease liability	1 383 346																											
Implied operating and maintenance component of QSP	2 353 982																											
Sum of State QSPs over the term	5 264 917																											

PAEC recommendation	Response	Action taken to date and commitment to further action
Recommendation 17, p134, Chapter 7: Asset investment		
<p>Future Annual Financial Reports for the State include discussion of significant variances between budget estimates and actual results for asset investment by government purpose classification.</p>	<p>Support</p>	<p>The General Purpose Classification (GPC) is a classification system used by the Australian Bureau of Statistics to enable consistent reporting across jurisdictions under the uniform presentation framework. The purpose of this reporting framework is to allow aggregated national reporting on a common basis, facilitating inter-jurisdictional comparison.</p> <p>The Department of Treasury and Finance will seek to provide further clarification within the existing GPC tables by way of footnotes where reclassifications between purposes or significant changes between budget estimates and actual results for asset investment by GPC have occurred, in areas that have not already been explained in the commentary provided for significant variations on the financial statements.</p>
Recommendation 18, p143, Chapter 7: Asset investment		

PAEC recommendation	Response	Action taken to date and commitment to further action
<p>For projects that are either completed or expected to be completed by the financial year in which the budget is drafted, future budget papers include updated estimates of total estimated investment (TEI) and the estimated expenditure to June (as is currently the case for other projects).</p>	<p>Support</p>	<p>The Department of Treasury and Finance will develop additional reporting requirements in Budget paper No. 4 for projects reaching practical completion.</p> <p>Additional information for reporting may include final total estimated investment (TEI), estimated expenditure to the end of the current financial year and expected financial completion date.</p>
<p>Recommendation 19, p148, Chapter 7: Asset investment</p>		

PAEC recommendation	Response	Action taken to date and commitment to further action
<p>The Department of Treasury and Finance alter the Model Report to require departments, through their annual reports, to provide the following information on projects that have reached practical completion: (a) the original estimated completion date (b) the latest approved completion date (c) the practical completion date (d) explanations for changes in completion date, showing root causes for the changes. For projects that have reached financial completion, the following information is to be provided: (a) the original approved total estimated investment (b) the latest approved total estimated investment (c) the actual total investment (d) explanations for changes in total investment, showing root causes for the changes.</p>	<p>Support</p>	<p><u>Provide explanations for changes in practical completion date</u></p> <p>The 2016-17 Model Report for Victorian Government Departments (the Model Report) requires departments to report the following information for projects that have reached practical completion date consistent with Recommendation 19, i.e. (a) the original estimated completion date; (b) the latest approved completion date; (c) the practical completion date.</p> <p>The Department of Treasury and Finance will update the 2017-18 Model Report to require explanations for changes in completion date.</p> <p><u>Disclose the changes in total investment between practical completion date and financial completion date when there are material variances</u></p> <p>The Model Report requires departments to report on the actual total estimated investment (TEI) cost and also provide explanations for variances from the latest approved TEI budget.</p> <p>In an effort to reduce the onerous burden of reporting and as part of streamlining and de-cluttering the annual report, departments are not required to provide further reporting on a project that reaches financial completion in a subsequent reporting period (unless there is a material variance) if it has been reported as practically complete in an earlier reporting period.</p> <p>The Department of Treasury and Finance will include a footnote to the Disclosure table for reporting 'Capital projects completed during the reporting period' to remind preparers that where there is a material variance for projects that have been reported in a previous reporting period as practically complete, they will still need to report on the project on financial completion date in the following reporting period. DTF will further clarify "material variance" by adding a threshold of 5 per cent or \$ 50 million (consistent with recommendation 11).</p> <p>The 2017-18 Model Report will be updated to reflect this change.</p>
<p>Recommendation 20, p149, Chapter 7: Asset investment</p>		

PAEC recommendation	Response	Action taken to date and commitment to further action
<p>A global figure of public private partnership payment commitments for the next thirty years be contained in the budget papers.</p>	<p>Not support</p>	<p><u>Disclosure in the Budget papers</u></p> <p>Newly approved Public Private Partnerships (PPP) availability projects are recorded in the forward estimates of the Budget as estimated finance lease liabilities in the anticipated year of construction completion. When a project is approved for PPP delivery, the net present value of the estimated PPP availability capital repayments will be recognised as a lease liability and impact net debt.</p> <p><u>Disclosure in the Financial Report</u></p> <p>The PPP commitments are disclosed in the Financial Report and the Project Summaries noted in the response to Recommendation 16. When a PPP contract is signed, the forward estimates recognise an estimated finance lease liability in the balance sheet as a forward commitment in the year of estimated construction completion. After construction completion, PPPs are recognised in the Financial Report on the State's current year balance sheet as finance lease liabilities and are accounted for in accordance with generally accepted accounting principles.</p> <p>PPP availability payments have three components which impact both the Financial Report and forward estimates. The response to recommendation 16 provides an example (Table 8 of the Project Summary for High Capacity Metro Trains) of the three components: the implied principal payments, the implied interest payments and the implied operating and maintenance component.</p> <p>When availability payments are made, the cash balance will be reduced as the principal payments made reduce the lease liability on the balance sheet, the interest payment will be recorded as an interest expense (see Section 5.5 on page 64 of the <i>2015-16 Financial Report</i>) and the operating and maintenance component will be accounted for as an expense in the comprehensive operating statement. The future commitments for the operating and maintenance component will be disclosed in the Commitment note to the accounts consistent with page 66 of the <i>2015-16 Financial Report</i>.</p> <p>Consistent with the Victorian public sector governance model, individual PPP projects are contracted and managed by each department and/or agency that has entered into a PPP arrangement. The relevant departments and agencies maintain the detailed records around these arrangements, and provide summary information to DTF for the purposes of consolidated financial reporting by the government, consistent with the relevant Australian accounting standards and related reporting practices and requirements for preparing the Financial Report and Budget.</p>

PAEC recommendation	Response	Action taken to date and commitment to further action																														
		<p>The total value of the State's commitments for currently contracted PPP arrangements, for both the finance lease and the operating and maintenance component, is disclosed each year in the Financial Report. For your reference, this information was disclosed on pages 66, 67 and 69 of the <i>2015-16 Financial Report</i> and page 91 for PPP finance leases already commissioned and recorded on the State's balance sheet.</p> <p>A breakdown of the total PPP commitments by individual PPP is disclosed on pages 66 and 67 of the <i>2015-16 Financial Report</i> (PPP commitments).</p> <p>The table below shows the total commitments for all PPP projects (page 69 of the <i>2015-16 Financial Report</i>):</p> <table border="1" data-bbox="725 491 2002 1023"> <thead> <tr> <th data-bbox="725 491 1167 708"><i>Commitment payables</i></th> <th data-bbox="1167 491 1357 708"><i>State of Victoria 2016 Nominal value</i></th> <th data-bbox="1357 491 1581 708"><i>General government sector 2016 Nominal value</i></th> <th data-bbox="1581 491 1787 708"><i>State of Victoria 2015 Nominal value</i></th> <th data-bbox="1787 491 2002 708"><i>General government sector 2015 Nominal value</i></th> </tr> </thead> <tbody> <tr> <td data-bbox="725 708 1167 788">Public private partnership commitments</td> <td data-bbox="1167 708 1357 788"></td> <td data-bbox="1357 708 1581 788"></td> <td data-bbox="1581 708 1787 788"></td> <td data-bbox="1787 708 2002 788"></td> </tr> <tr> <td data-bbox="725 788 1167 836">Less than 1 year</td> <td data-bbox="1167 788 1357 836">1 166</td> <td data-bbox="1357 788 1581 836">1 144</td> <td data-bbox="1581 788 1787 836">489</td> <td data-bbox="1787 788 2002 836">464</td> </tr> <tr> <td data-bbox="725 836 1167 884">1 year but less than 5 years</td> <td data-bbox="1167 836 1357 884">3 679</td> <td data-bbox="1357 836 1581 884">3 583</td> <td data-bbox="1581 836 1787 884">4 105</td> <td data-bbox="1787 836 2002 884">4 011</td> </tr> <tr> <td data-bbox="725 884 1167 932">5 years or more</td> <td data-bbox="1167 884 1357 932">19 283</td> <td data-bbox="1357 884 1581 932">19 087</td> <td data-bbox="1581 884 1787 932">20 049</td> <td data-bbox="1787 884 2002 932">19 826</td> </tr> <tr> <td data-bbox="725 932 1167 1023">Total public private partnership commitments</td> <td data-bbox="1167 932 1357 1023">24 128</td> <td data-bbox="1357 932 1581 1023">23 814</td> <td data-bbox="1581 932 1787 1023">24 642</td> <td data-bbox="1787 932 2002 1023">24 302</td> </tr> </tbody> </table>	<i>Commitment payables</i>	<i>State of Victoria 2016 Nominal value</i>	<i>General government sector 2016 Nominal value</i>	<i>State of Victoria 2015 Nominal value</i>	<i>General government sector 2015 Nominal value</i>	Public private partnership commitments					Less than 1 year	1 166	1 144	489	464	1 year but less than 5 years	3 679	3 583	4 105	4 011	5 years or more	19 283	19 087	20 049	19 826	Total public private partnership commitments	24 128	23 814	24 642	24 302
<i>Commitment payables</i>	<i>State of Victoria 2016 Nominal value</i>	<i>General government sector 2016 Nominal value</i>	<i>State of Victoria 2015 Nominal value</i>	<i>General government sector 2015 Nominal value</i>																												
Public private partnership commitments																																
Less than 1 year	1 166	1 144	489	464																												
1 year but less than 5 years	3 679	3 583	4 105	4 011																												
5 years or more	19 283	19 087	20 049	19 826																												
Total public private partnership commitments	24 128	23 814	24 642	24 302																												

PAEC recommendation	Response	Action taken to date and commitment to further action																																																																				
		<p>The total PPP finance lease liabilities (the total of the principal payments) are included in the table below (page 91 of the <i>2015-16 Financial Report</i>):</p> <table border="1"> <thead> <tr> <th rowspan="2"><i>Finance lease liabilities payable</i></th> <th colspan="2"><i>State of Victoria</i></th> <th colspan="2"><i>General government sector</i></th> </tr> <tr> <th><i>2016</i></th> <th><i>2015</i></th> <th><i>2016</i></th> <th><i>2015</i></th> </tr> </thead> <tbody> <tr> <td>Less than 1 year</td> <td>546</td> <td>942</td> <td>476</td> <td>871</td> </tr> <tr> <td>1 year but less than 5 years</td> <td>2 533</td> <td>3 972</td> <td>2 103</td> <td>3 477</td> </tr> <tr> <td>5 years or more</td> <td>17 758</td> <td>15 563</td> <td>17 627</td> <td>15 427</td> </tr> <tr> <td>Minimum lease payments</td> <td>20 837</td> <td>20 477</td> <td>20 206</td> <td>19 775</td> </tr> <tr> <td>Future finance charges</td> <td>11 197</td> <td>11 717</td> <td>11 197</td> <td>11 717</td> </tr> <tr> <td>Total finance lease liabilities</td> <td>9 640</td> <td>8 760</td> <td>9 009</td> <td>8 059</td> </tr> </tbody> </table> <p>The interest expense for finance lease liabilities, including PPPs, is also disclosed in the AFR (page 64 of the <i>2015-16 Financial Report</i>):</p> <table border="1"> <thead> <tr> <th rowspan="2"></th> <th colspan="2"><i>State of Victoria</i></th> <th colspan="2"><i>General government sector</i></th> </tr> <tr> <th><i>2016</i></th> <th><i>2015</i></th> <th><i>2016</i></th> <th><i>2015</i></th> </tr> </thead> <tbody> <tr> <td>Interest on interest-bearing liabilities</td> <td>1 882</td> <td>2 019</td> <td>1 272</td> <td>1 300</td> </tr> <tr> <td>Finance charges on finance leases</td> <td>828</td> <td>833</td> <td>766</td> <td>764</td> </tr> <tr> <td>Discount interest on payables</td> <td>20</td> <td>15</td> <td>38</td> <td>38</td> </tr> <tr> <td>Total interest expense</td> <td>2 730</td> <td>2 867</td> <td>2 076</td> <td>2 102</td> </tr> </tbody> </table> <p>In the <i>2015-16 Financial Report</i>, the table on page 66 outlining the “Commissioned public private partnerships other commitments” represents the operating and maintenance component of PPP payments.</p>	<i>Finance lease liabilities payable</i>	<i>State of Victoria</i>		<i>General government sector</i>		<i>2016</i>	<i>2015</i>	<i>2016</i>	<i>2015</i>	Less than 1 year	546	942	476	871	1 year but less than 5 years	2 533	3 972	2 103	3 477	5 years or more	17 758	15 563	17 627	15 427	Minimum lease payments	20 837	20 477	20 206	19 775	Future finance charges	11 197	11 717	11 197	11 717	Total finance lease liabilities	9 640	8 760	9 009	8 059		<i>State of Victoria</i>		<i>General government sector</i>		<i>2016</i>	<i>2015</i>	<i>2016</i>	<i>2015</i>	Interest on interest-bearing liabilities	1 882	2 019	1 272	1 300	Finance charges on finance leases	828	833	766	764	Discount interest on payables	20	15	38	38	Total interest expense	2 730	2 867	2 076	2 102
<i>Finance lease liabilities payable</i>	<i>State of Victoria</i>			<i>General government sector</i>																																																																		
	<i>2016</i>	<i>2015</i>	<i>2016</i>	<i>2015</i>																																																																		
Less than 1 year	546	942	476	871																																																																		
1 year but less than 5 years	2 533	3 972	2 103	3 477																																																																		
5 years or more	17 758	15 563	17 627	15 427																																																																		
Minimum lease payments	20 837	20 477	20 206	19 775																																																																		
Future finance charges	11 197	11 717	11 197	11 717																																																																		
Total finance lease liabilities	9 640	8 760	9 009	8 059																																																																		
	<i>State of Victoria</i>		<i>General government sector</i>																																																																			
	<i>2016</i>	<i>2015</i>	<i>2016</i>	<i>2015</i>																																																																		
Interest on interest-bearing liabilities	1 882	2 019	1 272	1 300																																																																		
Finance charges on finance leases	828	833	766	764																																																																		
Discount interest on payables	20	15	38	38																																																																		
Total interest expense	2 730	2 867	2 076	2 102																																																																		

PAEC recommendation	Response	Action taken to date and commitment to further action
Recommendation 21, p152, Chapter 7: Asset investment		
<p>The Department of Education and Training review its forecasting methods, including forecasting project scheduling, in order to better forecast expenditure for asset investment projects in the budget papers.</p>	Support	<p>The Department of Education and Training (DET) will continue to review and refine its forecasting methods and project scheduling. DET has already implemented a range of measures to help improve its project scheduling and expenditure forecasting for asset investment projects.</p> <p>For example, the Victorian School Building Authority (VSBA) was established in 2016 to implement and deliver the Victorian Government's unprecedented investment in school infrastructure and to manage the DET's asset portfolio. The VSBA has improved its forecasting, monitoring and oversight of projects to help ensure projects are delivered consistent with the DET's forecasts.</p> <p>DET is also working with TAFEs and Dual Sector Universities to improve the forecasting and scheduling of project milestones.</p>
Recommendation 22, p153, Chapter 7: Asset investment		
<p>The Department of Education and Training create a performance measure for its Strategy review and regulation output that measures the accuracy of estimates in the budget papers for asset expenditure for the year compared to amounts actually spent in the year.</p>	Not Support	<p>The Department of Education and Training recognises it is important to minimise significant deviations and variances from forecasts. However, a level of variance will always occur within a large capital program, and the Department of Education and Training considers a critical priority is to transparently explain any variances.</p> <p>Where external and/or unforeseen events necessitate changes to project timelines and cash flows, the Department of Education and Training updates information in line with whole of government financial reporting requirements and reports in annual budget publications including Budget Paper No. 4 <i>State Capital Program</i>.</p> <p>The Department of Education and Training has implemented a range of measures, including forecasting on an individual project basis to help improve its project forecasting and monitoring to ensure projects are delivered on time and on budget consistent with forecasts.</p> <p>The Department of Education and Training will continue to implement measures to enhance its project forecasting and monitoring capabilities across the three education portfolios' asset investment programs.</p>

PAEC recommendation	Response	Action taken to date and commitment to further action
Recommendation 23, p159, Chapter 8: Review of 2015-16 annual reports		
The Department of Treasury and Finance update the Model Report to specify what constitutes a significant or material variance for the budget portfolio outcomes sections, as it does for variances for performance measures.	Support	The <i>2016-17 Model Report for Victorian Government Departments</i> (the Model Report) provides illustrations and guidance (pages 19-28) to support departments explain material variances between budget and actual financial outcomes. The Model Report guidance will be further enhanced to refer departments to AASB-1031 <i>Materiality</i> , to inform judgements on appropriate quantitative thresholds when considering the materiality of variances to be reported. For consistency with recommendation 11, the Department of Treasury and Finance will consult with departments and will consider revising the 2017-18 Model Report to require explanations for variances in budget portfolio outcomes that are greater than a 5 per cent increase or decrease from the budget, or in the case of cost performance measures, greater than a \$50 million increase or decrease from the budget.
Recommendation 24, p159, Chapter 8: Review of 2015-16 annual reports		
The Department of Treasury and Finance update guidance documentation to require departments, in budget portfolio outcomes sections, to quote original budgets as printed in the budget papers. Any administrative adjustments to budgets should be explained along with other variances.	Support	This requirement is consistent with the general government sector financial reporting requirements set down in AASB 1049 <i>Whole of Government and General Government Sector Financial Reporting</i> . AASB 1049 (Section 59) requires that where whole of government or general government sector budgeted financial statements are presented to Parliament, the statements should disclose the original budgeted financial statements, and explanations of major variances between the actual amounts presented in the financial statements and corresponding original budget amounts. Hence the Victorian Financial Report compares actual financial statements with the published budgeted financial statements and reports material variances at the whole of government level. DTF will clarify its expectations of requirements specified in the Model Report with departments to facilitate a consistent acquittal of these requirements across government.

PAEC recommendation	Response	Action taken to date and commitment to further action
Recommendation 25, p160, Chapter 8: Review of 2015-16 annual reports		
The Department of Parliamentary Services and Court Services Victoria improve accountability by including budget portfolio outcomes sections in future annual reports. This would highlight budget and actual results as well as provide explanations for significant or material variances.	Support	<p><u>Court Services Victoria</u></p> <p>Court Services Victoria included a budget portfolio outcomes section in Appendix 1 (pages 138 to 144) of its 2015-16 annual report. This highlighted budget and actual results and also provided explanations for significant or material variances. Court Services Victoria will continue to provide such information in its 2016-17 annual report and in future annual reports.</p> <p><u>Department of Parliamentary Services</u></p> <p>The Department of Parliamentary Services will respond directly to Parliament in relation to this recommendation.</p>
Recommendation 26, p167, Chapter 9: Implementation of previous recommendations		
The number of land tax assessments made by the State Revenue Office be established as a quantity performance measure for the Department of Treasury and Finance.	Not Support	<p>The existing performance measure 'Revenue collected as a percentage of budget target' already provides a link between forecast estimates and actual receipts, and does this across multiple tax lines.</p> <p>Land tax assessment numbers are driven by movements in the property market, such as growth in supply and movements in investment property numbers. The annual number of land tax assessments issued was reported in the State Revenue Office 2015-16 Annual Review.</p>
Recommendation 27, p172, Chapter 9: Implementation of previous recommendations		
In order to assist users to locate data on the Department of Treasury and Finance's website, a summary index of the data (including hyperlinks to the data) be placed on the Department's website, and included as an appendix to one of the budget papers and the Annual Financial Report.	Support	<p>The Department of Treasury and Finance is in the process of updating its website and this will be factored into the planning. Further consideration is required on technicalities around budget delivery timelines, but this should be able to be accommodated.</p>

PAEC recommendation	Response	Action taken to date and commitment to further action
---------------------	----------	---

Recommendation 28, p174, Chapter 9: Implementation of previous recommendations

<p>When responding to Committee recommendations, the Government adheres to its Guidelines for Victorian Government Submissions and Responses to Inquiries. Accordingly, when any action (including a review or implementation) is indicated in a response to a recommendation, an expected completion date for the action is to be provided. If no expected date for the action can be estimated, the response should indicate why this is the case.</p>	<p>Support-in-principle</p>	<p>The Government supports this recommendation in principle. To the extent possible, specific details of planned reviews and associated timelines of proposed review action will be included in Government responses.</p>
--	-----------------------------	---