

**PAEC 2014-15 Financial and Performance Outcomes Inquiry Hearings Questions on Notice****Question 1:**

*Recommendation 39 of the Committee's Report on the 2015-16 Budget Estimates related to costs and benefits of machinery-of-government changes. Does the Department plan to make changes to the Model Report as per the recommendation the Committee has made? (Page 8 of the Department of Treasury and Finance transcript)*

**Proposed Response to Question 1:**

The issues that have been raised in terms of reporting machinery of government changes, particularly on an annual basis, are matters that ultimately need to be decided by government.

The Department's view of the purpose of the Report of Operations section of the Model Report is to provide appropriate management commentary and analysis for users to assess the performance and effectiveness of the relevant reporting entity relative to the entity's objectives and targets. The proposal to include costs and benefits from Machinery-of-Government (MOG) changes would be challenging as many of the costs and benefits are qualitative and difficult to measure consistently across departments.

In addition, compared to the overall total departmental expense number (2014-15) of \$61 billion, MOG direct expenses of around \$3 million is comparatively low. Also, as financial benefits may not be measureable or occur in future years it would give an uneven view of the cost benefit analysis that is the primary objective of the intended disclosure.

**Question 2:**

*Please describe the changes in methodology that have led to variances in expenses by Government Purpose Classification. In doing so, please resubmit the department's response to question 22 of the General Questionnaire showing the quantity and explaining the variance between budget and actual for each classification attributable to each change in methodology separately to the variance attributable to other factors. (Pages 8-9, 27-9 of the Department of Treasury and Finance transcript)*

**Proposed Response to Question 2:**

Government Purpose Classification (GPC) is a series of categories for Government expenditure, designed by the Australian Bureau of Statistics to assist in the comparison of data between jurisdictions. In Victoria, the Government uses the Australian Accounting Standards as the basis of its financial reporting. Therefore, a process is required to re-categorise (or re-allocate) our estimate and actual data to create a GPC dataset for jurisdictional comparisons.

The re-allocation methodology for GPC categories has evolved over recent years, as part of a continuous improvement process undertaken by DTF. A significant change in the methodology occurred between the 2013-14 Budget and the 2013-14 Annual Financial Report. The method for calculating GPC data now in operation is significantly more accurate than the previous estimation method.

Up until the production of the 2013-14 budget estimates, DTF used a hybrid estimation method as follows:

- re-allocation of expenses to GPC codes on percentage ratios based on historical data; and

- some direct attributions, such as:
  - Department of Health expenditure was fully allocated to the Health GPC; and
  - Department of Education and Early Childhood Development expenditure was fully allocated to the Education GPC.

The result was an estimate of expenditure according to GPC classifications.

After the 2013-14 Budget, a new methodology was introduced:

- DTF now requires departments to provide additional information to their financial data for central collection: output. This means that every expenditure line is now attributed to outputs for financial reporting purposes.
- Given that all outputs can be mapped to a relevant GPC code, it now means that individual expenditure lines (and the output components of those amounts) can be allocated directly to a GPC code. Instead of the historical estimation method, GPC data is now being automatically calculated by the financial system.

The reason that the new methodology cannot be applied retrospectively to the 2013-14 Budget data is that expenditure data was not collected with the output information included.

The implementation of this new methodology, and the resultant significant improvement in the accuracy of the data, means that there was a one-off disconnect between actuals and estimates that occurred for GPC data in the 2013-14 financial year. This disconnect applies only to that year.

The 2014-15 budget and actuals GPC data was collected and calculated by the same, new methodology.

Government purpose classification	Initial budget estimate for 2014-15	Actual for 2014-15	Explanation for any variance greater than $\pm 10$ per cent or \$100 million
	(\$ million)	(\$ million)	
General public services	891.4	2 428.3	This variance primarily relates to the change in the classification of interest cost on defined benefit superannuation* from the other purposes output to the general public services output as it is a more accurate classification (\$1.8 billion).  This is partially offset by interest on term borrowings which was allocated against general public services at budget (\$1.2 billion) whereas the actual was allocated against the other purposes classification to more correctly attribute this item.  <i>* Change during the period in the defined benefit liability that arises from the passage in time.</i>
Public order and safety	5,913.2	5 769.1	This variance largely reflects lower fire protection services than anticipated due to lower bushfire related incidents in 2014-15.
Education	12,943.6	12 973.8	Immaterial
Health	14,437.1	14 369.8	Immaterial
Social security and welfare	4,048.6	4 254.9	The variance is primarily is due to additional expenditure to strengthen responses to family violence and additional demand in placement and support services for children and young people in care.
Housing and community amenities	3,022.2	2 948.2	Immaterial (2.4 per cent variance between budget and actuals)
Recreation and culture	653.8	682.6	Immaterial (4.4 per cent variance between budget and actuals)
Fuel and energy	183.3	130.4	This variance relates to the timing of expenditure for programs such as CarbonNet and Low Emissions Energy Technology.
Agriculture, forestry, fishing, and hunting	362.1	382.0	Immaterial (5.5 per cent variance between budget and actuals)
Transport and communications	5,839.9	6 133.6	This variance primarily relates to: <ul style="list-style-type: none"> <li>reclassification of costs from capital expenditure to operating expenditure of \$42 million reflecting the actual expenditure incurred;</li> </ul>

			<ul style="list-style-type: none"> <li>• additional funding from the Commonwealth government for works of \$34m relating to flood recovery and electricity recovery;</li> <li>• \$54m of carryover of unused appropriation to the 2014-15 financial year;</li> <li>• \$15m additional working capital for V/Line as outlined in the Treasurer's Advances in the AFR; and</li> <li>• \$31m relating to the Cranbourne-Pakenham Rail Corridor.</li> </ul>
Other economic affairs	1,173.4	1 108.9	Immaterial (5.5 per cent variance between budget and actuals)
Other purposes	2,106.7	1 376.4	<p>This variance primarily relates to:</p> <ul style="list-style-type: none"> <li>• the change in the classification of interest cost on defined benefit superannuation from the other purposes output to the general public services output as it is a more accurate classification (\$1.8 billion).</li> <li>• the reclassification of interest on finance leases was reclassified from other purposes to the GPC they relate for actuals (\$770m) to more accurately attribute this item.</li> </ul> <p>Partially offsetting these decreases from the original budget to actuals were:</p> <ul style="list-style-type: none"> <li>• the reclassification of interest on long-term borrowings to other purposes (from general public services) in actuals (\$1.2 billion) as previously mentioned.</li> </ul>

**Question 3a:**

*a) Please list EBAs concluded in 2013-14 and 2014-15. For each, please show the number of employees affected and the growth in employee expenses attributable to the EBA*

**Proposed Response to Question 3a:**

Table 1 and Table 2 provide the list of EBAs concluded in 2013-2014 and 2014-15 including full-time equivalent employees (FTE) associated with each. EBAs finalised in 2013-14 covered 7.5 per cent of the Victorian Public Sector workforce and in 2014-15 covered 4.1 per cent of the total workforce.

The increase in employee expenses each year reflects a combination of increases in the quantity of services delivered and the price of those services, which may be determined by EBA's finalised in previous years or in the year in question, as well as factors such as changes in the composition of the workforce and the rate of progression of the workforce. In addition, the contribution of individual EBA's to overall increases in employee expenses will be the net effect of the gross increase in costs associated with the EBA in each year less any reduction in costs secured as part of the EBA.

DTF does not currently collate the information required to accurately identify these various impacts on growth in employee expenses. However, DTF notes that given the low proportion of the workforce which achieved new EBA's in 2013-14 and 2014-15, it is likely that growth in employee expenses is primarily driven by either increases in the quantity of services or increases in prices secured in EBA's finalised in earlier years, or a combination of both.

<b>Enterprise agreements approved in 2014-15</b>	<b>Number of workers *</b>
Ambulance Victoria (Management and Administrative Staff) Enterprise Agreement 2014	452
Ambulance Victoria Enterprise Agreement 2015	3,431
Biomedical Engineers (Single-employer) Agreements	80
Box Hill Institute PACCT Employee Enterprise Agreement 2014	468
City West Water Enterprise Agreement 2014	348
Coliban Water Enterprise Agreement 2015	192
Country Fire Authority District Mechanical Officers And Tower Overseers Agreement 2014	74
Country Fire Authority Fiskville Hospitality Agreement 2014	31
East Gippsland Water Corporation Enterprise Agreement 2014	85
Emergency Services Telecommunications Authority Administrative and Support Staff Enterprise Agreement 2014-17	163
Geelong Cemeteries Trust (Indoor and Outdoor) Enterprise Agreements 2014	28
Geelong Performing Arts Centre Enterprise Agreement 2014-2016	85
Gippsland Ports Enterprise Agreement 2014	44
Goulburn Valley Water Enterprise Agreement 2015	208
Harness Racing Victoria Stewards Panel Enterprise Agreement 2014-2017	14
Mallee Catchment Management Authority Enterprise Agreement 2015	43
Melbourne and Olympic Parks Enterprise Agreement 2013-2016	146
Melbourne Market Authority Enterprise Agreement 2013 - 2015	25
Metropolitan and Regional Waste and Resource Recovery Groups Agreement 2014	54
Mt Baw Baw Alpine Resort Management Board Enterprise Agreement 2014	110
North Central Catchment Management Authority 2014 Collective Agreement	53
Phillip Island Nature Parks Agreement 2014-2017	189
Port of Melbourne Corporation Enterprise Agreement 2014	231
Port Phillip and Westernport Catchment Management Authority Enterprise Agreement 2014	22
Royal Botanic Gardens Enterprise Agreement 2014	165
South East Water Employees Enterprise Agreement 2015	447
Southern Rural Water (SRW) Enterprise Agreement 2014	153
State Trustees Limited Enterprise Agreement 2014	421
The Ballarat General Cemeteries Trust (Indoor and Outdoor Employees) Enterprise Agreement 2014-2017	15
The Shrine of Remembrance Enterprise Agreement 2015	29
Transport Accident Commission Enterprise Agreement 2014-2017	771
Victorian Health Promotion Foundation (VicHealth) Enterprise Agreement 2014	80
Victorian Public Health Sector (General Dentists) Enterprise Agreement 2014-2017	130
Western Water Enterprise Agreement 2014	153
Wodonga Institute Of Tafe PACCT Staff Enterprise Agreement 2014	146

\* Full-time equivalent workers at the time of Government approval

<b>Enterprise agreements approved in 2013-14</b>	<b>Number of workers *</b>
AMA Victoria - Victorian Public Health Sector Medical Specialists Enterprise Agreement 2013	8,600
Arts Centre Melbourne Enterprise Agreement 2012	650
Barwon Region Water Corporation Enterprise Agreement 2014	311
Centre for Adult Education (CAE) Collective Agreement 2012	576
Dental Health Services Victoria - Specialist Dentists and Specialist Dentist in Training Collective Agreement 2013-17	49
DEPI Wild Dog Controllers Agreement 2012	19
Emergency Services Telecommunications Authority Operational Employees Enterprise Agreement 2013	835
ESSSuper Enterprise Agreement 2013 - 2016	138
Falls Creek Alpine Resort Management Board, Enterprise Agreement 2012	150
Gippsland Water Enterprise Agreement 2013	247
Glenelg Hopkins Catchment Management Authority Workplace Agreement 2013-2016	45
Goulburn Broken Catchment Management Authority Enterprise Agreement 2013-2016	68
Harness Racing Victoria Enterprise Agreement 2013 - 2016	51
Melbourne Recital Centre Enterprise Agreement 2012	116
Melbourne Water Corporation Enterprise Agreement 2013	206
Metropolitan Fire and Emergency Services Board AMWU Mechanical Engineering Workshops Agreement 2012	46
Metropolitan Fire and Emergency Services Board Corporate and Technical Staff Agreement 2013	252
Mount Buller Mount Stirling Resort Management (RMB) Enterprise Agreement 2013-2015	71
Mount Hotham Resort Management Board, Enterprise Agreement 2013	83
Southern Metropolitan Cemeteries Trust Outdoor Enterprise Agreement 2014	107
The Architects Registration Board of Victoria (ARBV) Collective Agreement 2013 - 2015	3
Trust of Nature Enterprise Agreement 2013	50
V/Line Passenger (Infrastructure) Enterprise Agreement 2012-2015	239
V/Line Rail Operations Enterprise Agreement 2012-2015	1,047
Victorian Building Authority Enterprise Agreement 2013	157
Victorian Institute of Forensic Medicine (Specialist Forensic Pathologists and Physicians) Agreement 2014	22
Victorian Public Health Sector (Dental Therapists, Dental Hygienists and Oral Health Therapists') Enterprise Agreement 2013-2017	48
Victorian Public Health Sector Maintenance Multi-Employer Enterprise Agreement 2013-16	252
Victorian WorkCover Authority Enterprise Agreement 2012	1,112
VicTrack Enterprise Agreement 2012-2015	240
Wannon Water Enterprise Agreement 2013	209
West Gippsland Catchment Management Authority Enterprise Agreement 2013	45
Westernport Region Water Corporation Enterprise Agreement 2013 to 2016	66
Zoos Victoria Keepers, Horticulturists and Groundstaff Collective Agreement 2012	245

\* Full-time equivalent workers at the time of Government approval

### **Question 3b:**

*b) Please explain why the Ambulance EBA is not defined as a major EBA*

### **Proposed Response to Question 3b:**

Major enterprise agreements are defined as those with an annual salary base over \$1 billion, a convention that has applied under successive governments. The six agreements classified as major agreements cover the significant majority of Victorian public sector workers.

The Ambulance Victoria EBA is not classified as a major agreement as its salary base is under the \$1 billion threshold (the Ambulance EBA salary base is less than \$500 million).

### **Question 4:**

*Regarding the review into housing affordability (DTF Annual Report p.9), please advise:*

- a. who is conducting this review*
- b. the terms of reference of the review*
- c. the anticipated completion date of the review*
- d. the relevant policies (such as grants and concessions) that may be considered as part of the review.*

*(Pages 25-6 of the Department of Treasury and Finance transcript)*

**Proposed Response to Question 4:**

The Treasurer announced in the 2015-16 Budget there would be a review conducted into housing affordability.

The review is being managed by the Department and includes taxation and regulatory settings, and the suite of grants and concessions available to different categories of property purchasers.

The review is ongoing.

**Question 5:**

*Please advise whether the Department of Treasury and Finance is in discussion with the Department of Environment, Land, Water and Planning (specifically the planning units) with regards to their role in housing affordability? If so, please advise the Committee what issues are included in this discussion.*

*(Pages 26 of the Department of Treasury and Finance transcript)*

**Proposed Response to Question 5:**

DTF has engaged all relevant areas in the Victorian Government in relation to housing affordability issues. This includes DEWLP on planning processes and their impact on housing affordability.

**Question 6:**

*Please advise the liabilities to the State of the various possible outcomes of the Tabcorp and Tatts litigations.*

*(Pages 31-2 of the Department of Treasury and Finance transcript)*

**Proposed Response to Question 6:**

On 2 March 2016, the High Court of Australia overturned the Court of Appeal's decision relating to Tatts' proceedings and upheld the Court of Appeal's decision relating to Tabcorp's proceedings. The parties have exhausted all avenues of appeal and the proceedings are at an end.

As a result of the decision, Tatts is liable to repay the State \$540.5 million plus interest accrued since the payment was made on 27 June 2014. This amount will be reflected in the financial statements.

By 3 March 2016, Tatts had repaid all of the principal judgment sum together with all the interest on that sum Tatts considers reasonable and appropriate, amounting to \$567.1 million. The State requested Tatts to provide full details of the methodology, including details of the calculations underlying the amounts that have been repaid.

The State will consider this information once it is provided by Tatts, and if it considers that further amounts should be repaid, the State will raise this issue with Tatts accordingly.