



**PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE**

**2016-17 BUDGET ESTIMATES QUESTIONNAIRE**

**For Official Use Only**

## 1. Strategic priorities

### Question 1

Regarding the machinery-of-government changes that occurred during 2014-15, please:

- (a) provide a revised estimate of the costs of carrying out the changes for 2015-16 and any estimated costs anticipated during 2016-17. Please include all costs of the changes, such as IT-related costs or relocation costs, excluding staff costs.

Year	Costs related to machinery-of-government changes
2015-16	No additional costs anticipated
2016-17	No additional costs anticipated

- (b) provide a revised estimate for 2015-16 and estimate for 2016-17 for anticipated staff impacts of the machinery-of-government changes, quantifying expected redeployments, redundancies (including targeted redundancies), non-renewal of contracts and any other means of reducing staff numbers. Please identify estimated staff costs and savings arising from each means. Please also identify the areas within the Department where staff reductions are anticipated.

	Number (FTE)	Resulting costs (\$ million)	Resulting savings (\$ million)
<b>2015-16</b>			
Redeployment	-		
Redundancies	-		
Non-renewal of contracts	-		
Staff reductions through other means	-		
Areas where reductions are anticipated	n/a		
<b>2016-17</b>			
Redeployment	-		
Redundancies	-		-
Non-renewal of contracts	-		
Staff reductions through other means	13		\$1.729
Areas where reductions are anticipated	Departmental wide reduction		

- (c) detail any expected closures of offices, depots or other public service points as a result of the machinery-of-government changes, quantifying the number of each type of location to be closed.

Nil

## Question 2

- (d) What are the Department's key strategic priorities underpinning its budget for 2016-17 and over the forward estimates to 2019-20?

The Department's key strategic priorities for its budget for 2016-17 are its departmental objectives. These are:

- Sound financial management of Victoria's fiscal resources
- Guide government actions to increase Victoria's productivity and competitiveness
- Drive improvement in public sector commercial and asset management and the delivery of infrastructure
- Deliver efficient whole of government common services to the Victorian public sector.

The department will continue to re-assess its objectives in each annual planning cycle to ensure they continue to focus on the results that the Government expects the department to deliver.

- (e) If applicable, how do these priorities differ from the previous year?

The departmental objective 'Drive improvement in public sector asset management and the delivery of infrastructure' was amended to 'Drive improvement in public sector commercial and asset management and the delivery of infrastructure'. The amendment clarifies the relationship between DTF's objectives and outputs so that each output aligns with only one objective.

The focus of the annual review of DTF's performance statement for the 2016-17 Budget was to align DTF's objectives and outputs more closely to its accountabilities as reflected in its organisational structure.

- (f) What are the impacts of any differences in the Department's strategic priorities between 2015-16 and 2016-17 on funding and resource allocation in the 2016-17 Budget?

DTF's output costs have been aligned to DTF's revised objectives and output structure.

- (g) Please identify any programs or initiatives (asset or output) over \$2.0 million relevant to the Department that have been curtailed, deferred, discontinued or completed as a result of changes in strategic priorities between 2015-16 and 2016-17. In describing the programs or initiatives, please use the same names as are used in the budget papers where applicable.

Not applicable.

### Question 3

Please identify any programs or initiatives (including asset or output initiatives) that have lapsed in 2015-16 (that is, they will not be continued in 2016-17). For each program or initiative, please indicate the expenditure on this program/initiative in 2015-16. If the program or initiative is to be extended, please identify whether the Department's own sources will be used or name any initiatives in the 2016-17 Budget that replace the lapsing initiative. Please also identify the impact on the community of the lapsing (including rescheduling of service provision or commencement of service provision). If there is no impact, please detail the actions undertaken by the Department to ensure this. In describing the programs or initiatives, please use the same names as are used in the budget papers where applicable.

The Department of Treasury and Finance has no lapsing programs in 2015-16.

### Question 4

What are the key Government policies applicable to the Department in 2016-17 and how are these policies addressed in this budget?

#### **Port of Melbourne Lease Transaction**

Legislation to enable the leasing of the Port of Melbourne, the Delivering Victorian Infrastructure (Port of Melbourne Lease Transaction) Bill 2015, was passed by the Victorian Parliament on 10 March 2016.

Additional funding in the *2016-17 Budget* will enable the Port Transaction Unit to finalise vendor due diligence and procurement activities to enable the completion of the Port of Melbourne lease transaction.

#### **Market-led Proposals Guideline**

The Market-led Proposals Guideline was released in November 2015 and updated the interim guidelines released in February 2015. The guideline implements the Government's commitment to transparent and competitive processes for considering whether market-led proposals are in the public interest, represent value-for-money and are consistent with Government policy and priorities.

#### **Public Private Partnerships**

The Partnerships Victoria policy provides the framework for a whole of government approach to the provision of public infrastructure and related ancillary services through public private partnerships.

#### **High Value High Risk**

The High Value High Risk (HVHR) policy, infrastructure and ICT projects identified as being high value and/or high risk will be subject to more rigorous scrutiny and approval processes.

#### **Reducing the Regulatory Burden**

The aim of this policy is to reduce the time spent and costs incurred by business and the community in dealing with excessive regulatory requirements is an unacceptable burden.

#### **Intellectual Property Policy**

The Whole of Victorian Government Intellectual Property Policy Intent and Principles (IP Policy) is the State's framework for the ownership and management of its intellectual property (IP), and for its use of IP belonging to other parties.

#### **DataVic Access Policy**

The DataVic Access Policy has been developed by the Victorian Government to encourage the availability of Victorian Government data for the public good.

**Financial reporting policy**

The Department of Treasury and Finance provides various guidance materials to assist Victorian public sector entities meeting their accounting and financial reporting obligations.

**Victoria Risk Management Framework and Insurance Management Policy**

The Victorian Government Risk Management Framework provides a minimum risk management standard for the Victorian public sector. The Framework was updated in 2015. It incorporates existing mandatory requirements relating to risk and insurance management practices and policies and streamlines the annual attestation requirements.

Question 5

- (a) Please provide details of the Department's progress at developing corporate plans and long-term plans as detailed in BFMG-03 and the Department of Treasury and Finance's *A Guide to Corporate and Long-Term Planning* (April 2014).

The Department is developing a 2016-20 Corporate Plan in line with the current guidelines *A Guide to Corporate and Long term Planning* (April 2014).

Long term plans are currently not required by Government.

- (b) If the Department's corporate plan is online, please provide the address below.

The Department's 2015-19 Corporate Plan was not published online.

- (c) If it is not online, please explain why it is not online and advise whether it is intended to be made publicly available in the future.

The Department's 2015-19 Corporate Plan is classified as Cabinet-in-Confidence.

## 2. Budget preparation

### Question 6

In relation to the Department's budget across the forward estimates period, please indicate:

- (d) major areas of risk identified by the Department for its income estimates

The majority of the Department's revenue base is appropriation. The Department is not directly subject to material third party revenue risks.

CenITex has identified potential loss of revenue as customers may move to external cloud services.

- (e) major areas of risk identified by the Department for its expenses estimates

The major component of DTF's expenses are staffing costs which are generally stable and predictable. DTF will achieve its allocated savings target by finding efficiencies while continuing to deliver services through its allocated resources.

CenITex has identified the major areas of risk as an ageing asset base and platforms result in higher costs. There is also the potential for impairment of assets upon transition to cloud technologies and impact of Australian dollar fluctuations on hardware and software renewals.

- (f) what measures have been put in place to manage these risks.

DTF is re-examining the Department's expenditure base and the development of short to medium-term expenditure reduction options. These are designed to sustain the key operations of the Department over the medium to long-term without impacting on its core delivery functions. This is supported by regular reporting to DTF senior management and the DTF Board.

CenITex will manage the risks by reviewing the prioritisation of upgrades to existing asset base and platforms through the Asset Refresh Program, defining and implementing a cloud technology strategy, and prepaying expenditure where relevant to minimise the impact of currency fluctuations.

### Question 7

Please describe any expected sources of income or expenses where the Department has made a conservative estimate in the budget year or any year over the forward estimates, and as a result anticipates that the actual amount is likely to be more than 10 per cent greater than what has been estimated in the budget papers (for example, where the amount is difficult to predict so the budget paper estimates are zero or a low amount). Please also identify any items for which the budget estimates are zero but income or expenses are expected. Examples might include: 'fair value of assets and services received free of charge or for nominal consideration', grants from new national partnerships that the Commonwealth might announce at some point during the forward estimates period, or donations to community appeals.

The Department has provided its best estimates for all known transactions.

### 3. Spending

#### Question 8

Please explain any variations of more than  $\pm 10$  per cent (or greater than \$100 million) between the revised estimate for 2015-16 and the budget for 2016-17 for the following line items in the Department's operating statement in the Statement of Finances budget paper:

- (a) 'employee benefits'
- (b) 'grants and other transfers'
- (c) 'other operating expenses' in aggregate
- (d) the major components of 'other operating expenses' for your department (please supply categories as appropriate).

	<b>2015-16 (revised estimate) (\$ million)</b>	<b>2016-17 (Budget) (\$ million)</b>	<b>Explanation for any variances greater than <math>\pm 10\%</math> (or greater than \$100 million)</b>
Employee benefits	180.9	200.5	Variance is attributable to additional funding received by DTF in relation to: <ul style="list-style-type: none"> <li>- Essential Services Commission to deliver regulatory obligations relating to local councils' rate charges, consumer protection on electricity, taxi services and the price monitoring of the Port of Melbourne leasehold</li> <li>- funding related to strengthening the department's strategic capability to be more effective in delivering the Government's priorities.</li> </ul>
Grants and other transfers	5.3	5.5	Not applicable
Other operating expenses	182.6	171.8	Not applicable
Major components of 'other operating expenses' (please supply categories):			
Assets provided free of charge	0.0	0.0	Not applicable
Intra government supplies and consumables	7.9	8.3	Not applicable
Purchase of supplies and services	174.2	162.8	Not applicable
Finance expenses and fees	0.5	0.7	Not applicable

Question 9

For the line item 'payments for non-financial assets' for 2016-17 in the departmental cash flow statement in the Statement of Finances budget paper, please identify the amount that is expected to be funded using funds carried over from 2015-16.

No carryover funding has been identified from 2015-16 to 2016-17.

Question 10

In relation to the break-down of expenses from transactions disaggregated by government purpose classification in the budget papers, please provide details of the Department's component of the expenses in each category for 2015-16 and 2016-17. Please explain any variations between the years that are greater than  $\pm 10$  per cent (or greater than \$100 million) between 2015-16 and 2016-17 estimates.

For reference, the relevant information was in Note 12(a) to the general government sector consolidated operating statement the 2015-16 Statement of Finances budget paper, p.34.

<b>Government purpose classification</b>	<b>2014-15 actual (\$ million)</b>	<b>2015-16 revised estimate (\$ million)</b>	<b>2016-17 Budget (\$ million)</b>	<b>Explanation for any variances greater than <math>\pm 10\%</math> (or greater than \$100 million) between 2015-16 and 2016-17 estimates.</b>
General public services	5,760	5,639	6,407	The increase in the General public services includes: <ul style="list-style-type: none"> <li>- increase in estimated grants and transfer payments for on-passing including grants to non-government schools; and</li> <li>- decisions made but not yet allocated and funding not yet allocated to specific purposes.</li> </ul> This increase is partially offset by a decision to forgive a loan which the Director of Housing has with the State to simplify the financial arrangements between Director of Housing and the State.
Other purposes	1,275	1,304	1,536	The increase relates to interest expenses reflecting an updated program of borrowings associated with the receipt of the estimated proceeds from the medium-term lease over the operations of the Port of Melbourne into the Victorian Transport Fund.
<b>Total*</b>	<b>7,035</b>	<b>6,943</b>	<b>7,943</b>	

\*Note that this table excludes payments into the Consolidated Fund as per 16-17 Budget, BP 5, Chapter 3 page 127 as it represents inter fund transfers.



## 4. Expenditure reduction measures

### Question 11

For each of the savings initiatives detailed in the table below, please detail (on the same basis of consolidation as the budget papers):

- (a) what actions the Department will take in 2016-17 to meet the various savings targets
- (b) any impact that these actions will have on the delivery of services during 2016-17
- (c) the Department's savings target for 2016-17, with an explanation for any variances between the current target and what was originally published in the budget papers when the initiative was released. If the change in Government affected the implementation of these measures, please provide a more detailed explanation.

Initiative	Actions the Department will take in 2016-17	Impact of these actions on service delivery in 2016-17	Savings target for 2016-17 (\$ million)	Explanation for variances to the original target
Efficiency and expenditure reduction measures in 2013-14 Budget (2013-14 BP3 pp.62-4)	Department identified options to manage FTE numbers within budget.	Not applicable	3.2	The Department is expected to achieve this target.
Efficiency measures in 2013-14 Budget Update (2013-14 BU pp.129-30)	Not applicable	Not applicable	Nil	Not applicable
Efficiency and expenditure reduction measures in 2014-15 Budget (2014-15 BP3 p.79)	Better Services Initiative Target	* see footnote below	9.00	The Department is expected to achieve this target.

<b>Initiative</b>	<b>Actions the Department will take in 2016-17</b>	<b>Impact of these actions on service delivery in 2016-17</b>	<b>Savings target for 2016-17 (\$ million)</b>	<b>Explanation for variances to the original target</b>
Efficiency and expenditure reduction measures in 2015-16 Budget (BP3 pp.105-7)	LFS Savings on travel, labour hire, hardcopy reports and reduce number of executive officers.	* see footnote below	1.06	The Department is expected to achieve this target.
	Disbandment of the Construction Code Compliance Unit.	* see footnote below	2.10	The Department is expected to achieve this target.
Any efficiency and expenditure reduction measures in 2016-17 Budget	LFS Savings on advertising, VicFleet (motor vehicle expenses), electronic purchasing and communications.	* see footnote below	0.44	The Department is expected to achieve this target.

\* The Department of Treasury and Finance is committed to finding efficiencies while continuing to deliver services through its allocated resources.

### Question 12

In relation to any programs or initiatives that have been reprioritised, curtailed or reduced for 2016-17 (including lapsing programs), please identify:

- (a) the amount expected to be spent under the program or initiative during 2016-17 at the time of the 2015-16 Budget
- (b) the amount currently expected to be spent under the program or initiative during 2016-17
- (c) the use to which the reprioritised funds will be put. Please include the name(s) of any program or initiative that will be funded or partially funded through the reprioritisation.

The Department of Treasury and Finance has no new initiatives for which existing resources have been reprioritised.

### Question 13

In relation to any funding from reprioritisation of existing resources in the 2016-17 Budget for your department, please provide the following information in relation to each initiative, program or project from which \$1.0 million or more of funding has been reprioritised. In describing initiatives, please use the same names as are used in the budget papers.

For reference, the aggregated information was in Table 4.4 (net impact of the *2015-16 Budget* new output initiatives) in 2015-16 Budget Paper No.2.

The Department of Treasury and Finance has no new initiatives for which existing resources have been reprioritised.

## 5. Output and asset initiative funding

### Question 14

Please list the factors that contributed to changes in total income from transactions reported in departmental operating statements in the budget papers between 2015-16 and 2016-17, as in the following table:

	Amount		Explanation
	(per cent)	(\$ million)	
Total income from transactions 2015-16	na	432.2	
New output initiative funding	4.8%	20.8	Increase in the output appropriation revenue for 2016-17 includes the following initiatives: <ul style="list-style-type: none"> <li>- Essential Services Commission to deliver regulatory obligations relating to administering the Fair Go Rates System, monitoring and enforcing consumer protection for electricity and gas customers, and being the independent regulator for the leased Port of Melbourne.</li> <li>- Creating a stronger Victorian Public Sector through a stronger centre.</li> </ul>
Savings and efficiency measures	-1.4%	-6.1	General Efficiency Dividend and Labor Financial Statements savings.
Inflation adjustment			
Other (please specify)	1.6%	7.2	Increase in the other revenue is attributed to full year impact of CenITex after MOG changes.  Transfer of former Victorian Competition and Efficiency Commission from the Department of Premier and Cabinet.
Total income from transactions 2016-17	na	454.2	

Question 15

Please provide the following details of any outputs for which output resources allocation reviews or base reviews (as described in BFMG-05) were completed, or expected to be completed, in 2015-16.

DTF was not required to undertake output resources allocation reviews or base reviews in 2015.

Question 16

In relation to the asset initiatives released in the 2016-17 Budget for the Department (as detailed in the Service Delivery budget paper), please quantify the amount of funding for those initiatives that is expected to come from the Department's own sources (such as depreciation, applied appropriations which have not been spent or other sources) and the amount of new funding provided specifically for these initiatives in this budget.

For reference, asset initiatives released in the 2015-16 Budget for the Department were detailed in *Budget Paper No.5: 2015-16 Statement of Finances*.

	<b>2015-16 (\$ million)</b>	<b>2016-17 (\$ million)</b>	<b>2017-18 (\$ million)</b>	<b>2018-19 (\$ million)</b>	<b>2019-20 (\$ million)</b>	<b>TEI (\$ million)</b>
Funding from the Department's own sources	37.6	59.8	41.1	62.7	37.4	238.6
New funding specifically for these initiatives in 2016-17 Budget		3.2	3.8	3.6	3.1	13.7
Total asset initiatives (as in Service Delivery budget paper)	37.6	63.0	44.9	66.3	40.5	252.3

Question 17

- (a) Please quantify the Department's balance of applied appropriations unspent as at 30 June 2015 as defined in the notes to note 39(a) of the 2014-15 Financial Report for the State, along with estimates for the equivalent figures as at 30 June 2016 and 2017.

	<b>2015</b> <b>(\$ million)</b>	<b>2016</b> <b>(\$ million)</b>	<b>2017</b> <b>(\$ million)</b>
Applied appropriations unspent as at 30 June	38.14	38.14	38.14

- (b) Please indicate the intended use of these amounts.

The Department has no plans to utilise these amounts.

## 6. Public private partnership expenditure

### Question 18

Please identify the PPP projects that are being managed by the Department or its controlled entities.

The Department of Treasury and Finance is not a partner department in any Public Private Partnerships.

### Question 19

For each line item in the Department's comprehensive operating statement or statement of cash flows which includes expenditure on all PPP projects in 2016-17 or across the forward estimates period, please identify:

- (a) the line item
- (b) the value of expenditure (**including staff costs**) on PPP projects included within that line item
- (c) what the expenditure is for (for example, labour costs, payment of interest, payment of capital, purchases of services, payment of contracted penalties etc.).

For reference, the Department's comprehensive operating statement or statement and cash flows were detailed in *Budget Paper No.5: 2015-16 Statement of Finances*.

The Department of Treasury and Finance is not a partner department in any Public Private Partnerships.

## 7. Revenue

### Question 20

Please disaggregate the Parliamentary Authority for the Department for 2016-17 as in the table below.

(\$ million)

	<b>Provision of outputs</b>	<b>Additions to the net asset base</b>	<b>Payments made on behalf of the State</b>	<b>Total</b>
Annual appropriations	250.6	2.6	6,813.3	7,066.5
Receipts credited to appropriations	7.9			7.9
Unapplied previous years appropriation				
Accumulated surplus – previously applied appropriation				
Gross annual appropriation (sum of previous 4 rows)	258.5	2.6	6,813.3	7,074.4
Special appropriations			9,147.0	9,147.0
Trust funds				3,275.6
Total parliamentary authority (sum of previous 3 rows)	258.5	2.6	15,955.3	19,497.1



Question 21

In relation to 2016-17, please outline any new revenue-raising initiatives released in the 2016-17 Budget. For each initiative, please explain:

- (a) the reasons for the initiative
- (b) the assumptions underlying the reasons
- (c) the impact of any changes on service delivery (that is, please detail all programs/projects that have been revised as a result of changes to existing revenue initiatives)
- (d) any performance measures or targets altered as a result of the initiative
- (e) the anticipated total value of revenue gained/foregone as a result of the initiative.

In describing initiatives, please use the same names as are used in the budget papers where applicable.

<b>Initiative/change</b>	<b>Reasons for the initiative/change</b>	<b>Underlying assumptions</b>	<b>Impact of changes on service delivery</b>	<b>Performance measures or targets altered</b>	<b>Anticipated total value of revenue gained/foregone</b>
Not applicable					

Question 22

In relation to 2016-17, please outline any other major changes to existing revenue initiatives. For each change, please explain:

- (a) the reasons for the change
- (b) the assumptions underlying the reasons
- (c) the impact of any changes on service delivery (that is, please detail all programs/projects that have been revised as a result of the change)
- (d) any performance measures or targets altered as a result of the change
- (e) the anticipated total value of revenue gained/foregone as a result of the change.

Where possible, please use names for programs or initiatives as are used in the budget papers.

<b>Change</b>	<b>Reasons for the change</b>	<b>Underlying assumptions</b>	<b>Impact of changes on service delivery</b>	<b>Performance measures or targets altered</b>	<b>Anticipated total value of revenue gained/foregone</b>
Increase in the land transfer duty surcharge on foreign buyers of residential property from 3% to 7%	To ensure foreign buyers of residential property pay their fair share of tax.				\$374 million over the forward estimates period
Increase in the absentee landowner surcharge from 0.5% to 1.5%	To ensure foreign landowners of residential property pay their fair share of tax.				\$112 million over the forward estimates period
Increase the brown coal royalty rate by three times	To support the transition to cleaner energy sources and ensure a fair return from Victoria's resources.				\$252 million over the forward estimates period

Question 23

In relation to 2016-17, please outline any new tax expenditures or concession/subsidy initiatives and/or major changes to existing tax expenditures or concession/subsidy initiatives. For each initiative/change, please explain:

- (a) the reasons for the initiative/change
- (b) the assumptions underlying the reasons
- (c) the impact of any initiatives/changes on service delivery (that is, please detail all programs/projects that have been revised as a result of changes to existing revenue initiatives)
- (d) any performance measures or targets altered as a result of the initiative/change
- (e) the anticipated total value of revenue gained/foregone as a result of the initiative/change.

In describing initiatives, please use the same names as are used in the budget papers where applicable.

<b>Initiative/change</b>	<b>Reasons for the initiative/change</b>	<b>Underlying assumptions</b>	<b>Impact of changes on service delivery</b>	<b>Performance measures or targets altered</b>	<b>Anticipated total value of revenue gained/foregone</b>
Introduce a payroll tax exemption for the wages of a displaced apprentice or trainee	To provide an incentive for employers to hire a displaced apprentice or trainee to enable completion of the apprenticeship or traineeship.				(\$26 million) over the forward estimates period
Increase the payroll tax threshold to: \$575,000 in 16-17, \$600,000 in 17-18, \$625,000 in 15-19, \$650,000 in 19-20.	To support business to grow and employ more people.				(\$286 million) over the forward estimates period
Extend the primary production exemption for land in an urban zone to land owned by certain family superannuation trusts					(\$14 million) over the forward estimates period

#### Question 24

For the Department's income categories, as per the Department's operating statement in the Statement of Finances budget paper, please provide an explanation for any items that have a variance of greater than  $\pm 10$  per cent or \$100 million between the revised estimate for 2015-16 and the budget for 2016-17.

Income category	Revised estimate for 2015-16 (\$ million)	Estimate for 2016-17 (\$ million)	Explanation
Output Appropriation	259.5	258.5	Not applicable
Interest	1.9	1.7	Not applicable
Sale of goods and services	173.6	163.6	Not applicable
Other Income	29.7	30.4	Not applicable

#### Question 25

What impact have developments at the Commonwealth level had on the Department's component of the 2016-17 State Budget?

- The Commonwealth has written to the Victorian government agreeing to the retention and reinvestment of the \$1.5bn received for the former East West Link Project.
- Based on the above letter, the Acting Auditor-General has withdrawn the audit qualification with respect to the East West Link funding, and has instead issued an "emphasis of matter" in his review report for the 2016-17 estimated financial statements (EFS).
- An "emphasis of matter" is not a qualification, and is used by auditors to draw attention to specific significant matters that are considered of interest to users of the financial statements.
- The Commonwealth Government confirmed in writing on 8 April 2016 that the \$1.5 billion previously provided for the East West Link project will be retained by the State and allocated to other projects. The State has accepted the offer and confirmed that it will work to finalise implementation arrangements.

## 8. Performance measures

### Question 26

For each initiative (asset or output) in the 2016-17 Budget with a total cost over the forward estimates greater than \$20 million (or a TEI over \$20 million), please list all new and existing performance measures in the budget papers related to the initiative. In describing initiatives, please use the same names as are used in the budget papers.

Initiative	Related performance measures
New activity for the Essential Services Commission	<p><b>New performance measure for 2016-17 related to the initiative:</b></p> <ul style="list-style-type: none"> <li>• Compliance and enforcement activities – energy</li> </ul> <p><b>Existing performance measures related to the initiative:</b></p> <ul style="list-style-type: none"> <li>• New or revised regulatory instruments issued</li> <li>• Performance reports for regulated businesses or industries</li> <li>• Performance reviews and compliance audits of regulated businesses</li> <li>• Price approvals of regulated businesses</li> <li>• Registration and accreditation decisions/approvals in relation to the VEET scheme</li> <li>• Reviews, investigations or advisory projects</li> <li>• Decisions upheld where subject to review, appeal or disallowance</li> <li>• Delivery of major milestones within agreed timelines.</li> </ul>
State Revenue Office Land Tax Compliance Program	<p><b>Existing performance measures related to the initiative:</b></p> <ul style="list-style-type: none"> <li>• Revenue assessed from compliance projects meets estimates</li> <li>• Revenue collected as a percentage of budget target</li> <li>• Customer satisfaction level</li> <li>• Meet Cabinet and Parliamentary timelines.</li> </ul>
Creating a stronger VPS through a stronger centre	<p><b>Existing performance measures related to the initiative:</b></p> <ul style="list-style-type: none"> <li>• Economic research projects completed</li> <li>• VPS stakeholder feedback indicates delivery of advice and information sessions supported the financial reporting framework across the VPS and supported the VPS to understand the financial management framework</li> <li>• Develop and implement policies, procedures and training to govern and build capability to deliver infrastructure investment</li> <li>• Gateway reviews undertaken to minimise Government's exposure to project risks.</li> </ul>

## Question 27

For each quality, quantity or timeliness performance measure newly introduced in the 2016 17 Budget, please attach any supporting documentation the Department has produced in developing the measure, such as:

- (a) a description of the measure, including the data that support it, assumptions made, and how the data are collected and transformed
- (b) if the measure is a ratio (including a percentage), please include a description of the numerator and denominator series that provide the ratio
- (c) how the measure evaluates the performance of the Department or the task faced by the Department
- (d) the process the Department employed to set a target or anticipated result for this measure
- (e) a description of what constitutes good performance and how the performance measure indicates this
- (f) any shortcomings of the measure
- (g) how the department intends to estimate the 'expected outcome' of the measure at the time of the 2017-18 Budget
- (h) how the department intends to evaluate the effectiveness of the measure in the future.

**Output:** Economic Regulatory Services

**New performance measure:** Compliance and enforcement activities - energy

- (a) **Performance measure description:** The compliance and enforcement activities will be counted when completed. The activities are:
  - i. inquiries (show cause letters, call-in meetings);
  - ii. negotiated outcomes;
  - iii. formal investigations;
  - iv. undertakings; and
  - v. enforcement (penalty notices, civil penalty notices, court action).
- (b) n/a
- (c) How the measure evaluates performance or the task faced by the department: The measure will demonstrate the level of service delivery for this new function by showing the number of energy compliance and enforcement activities undertaken by the Essential Services Commission (ESC).
- (d) Process employed to set a target: The ESC estimated the number of compliance and enforcement activities it anticipates will be completed during 2016-17 for this new function.
- (e) Description of what constitutes good performance: Delivery of the quantity of activities anticipated, noting that the target is based on anticipated demand for a new function in the ESC.
- (f) Any shortcomings of the measure: This is a new function for the ESC and the appropriateness of the performance measure will continue to be evaluated for future budget papers.
- (g) How the expected outcome will be estimated: The ESC will estimate the expected outcome after considering the actual outcome up to quarter 3 2016-17 and estimating activities expected to be completed in quarter 4 2016-17.
- (h) How the department will evaluate the effectiveness of the measure: DTF reviews its performance measures in each annual planning cycle to ensure that they remain relevant to the Department's objectives and focus on the results that the Government expects the Department to deliver.

## 9. Staffing matters

### Question 28

Please fully complete the table below, providing actual FTE staff numbers at 30 June 2015 and estimates of FTE staff numbers (broken down by the categories listed below) at 30 June 2016 and 30 June 2017 for the Department. Please provide figures consolidated on the same basis as the expenditure for the Department in the budget papers.

<b>Grade</b>	<b>30 June 2015 (Actual FTE number)</b>	<b>30 June 2016 (Expected FTE number)</b>	<b>30 June 2017 (Forecast FTE number)</b>
Secretary	1.00	1.00	1.00
EO-1	4.00	4.00	4.00
EO-2	17.00	17.70	17.30
EO-3	41.05	42.80	41.70
VPS Grade 7 (STS)	11.80	12.30	12.00
VPS Grade 6	114.74	119.50	116.50
VPS Grade 5	129.31	134.70	131.30
VPS Grade 4	93.85	97.70	95.30
VPS Grade 3	74.19	77.30	75.30
VPS Grade 2	15.83	16.50	16.10
VPS Grade 1			
Government Teaching Service			
Health services			
Police			
Allied health professionals			
Child protection			
Disability development and support			
Custodial officers			
Other (Please specify)	4.38	4.60	4.40
<b>Total</b>	<b>507.15</b>	<b>528.00</b>	<b>515.00</b>

Question 29

Please break down the actual staff numbers in your department as at 30 June 2015 and the estimates as at 30 June 2016 and 2017 according to the number of staff that are ongoing, fixed-term or casual.

	<b>30 June 2015</b> <b>(Actual FTE number)</b>	<b>30 June 2016</b> <b>(Expected FTE number)</b>	<b>30 June 2017</b> <b>(Forecast FTE number)</b>
Ongoing	490.84	518.40	505.40
Fixed-term	16.31	9.60	9.60
Casual	0.00	0.00	0.00
<b>Total</b>	<b>507.15</b>	<b>528.00</b>	<b>515.00</b>

Question 30

Please detail numbers (FTE) and the actual amount that the Department spent on contractors and consultants in 2014-15 and the estimated numbers and expenditure in 2015-16 and 2016-17. A definition of the difference between consultants and contractors is contained in FRD 22G – Standard Disclosures in the Report of Operations. Please provide figures on the same basis of consolidation for the Department as used in the budget papers.

	<b>2014-15 Actual</b>		<b>2015-16 Expected</b>		<b>2016-17 Forecast</b>	
	<b>(\$ million)</b>	<b>FTE</b>	<b>(\$ million)</b>	<b>FTE</b>	<b>(\$ million)</b>	<b>FTE</b>
Consultants	21.4	n.a.	21.0	n.a.	11	n.a.
Contractors	18.6	n.a.	22.4	n.a.	22.4	n.a.



## Whole-of-government questions (Department of Treasury and Finance only)

### Question 1

- (a) Please detail the economic forecasts which had the most significant impact on framing the 2016-17 Budget, detailing for each the major revenue and expenditure items in the budget that have been affected.

Although the economic forecasts inform the *2016-17 Budget*, it is the economic variations from the underlying trend that have the most significant impact on framing the *2016-17 Budget*.

Victorian GSP growth was 2.5 per cent in 2014-15 (the highest of the non-mining states) and is forecast to grow at 3.0 per cent in 2015-16 and 2016-17, slightly above the long-run trend. This is driven by national economic conditions. A return to stronger growth has supported solid employment outcomes, although spare capacity in the labour market has subdued wage growth. Price growth in the economy has also been below trend. Payroll and property-related tax revenues have been the most sensitive to economic conditions and therefore impact most on framing the *2016-17 Budget*.

The following forecast items are explicitly included in the models used to develop the *2016-17 Budget* estimates.

Economic Forecast	Affected items in the budget	
	Revenue	Expenses
GSP	<ul style="list-style-type: none"> <li>• Sale of Goods and Services</li> <li>• Taxes on insurance</li> <li>• Land Transfer Duty</li> </ul>	<ul style="list-style-type: none"> <li>• Purchase of Supplies and Services</li> </ul>
Employment	<ul style="list-style-type: none"> <li>• Payroll Tax</li> <li>• Dividends and income tax equivalent and rate equivalent revenue</li> </ul>	
Wage Price Index	<ul style="list-style-type: none"> <li>• Payroll Tax</li> <li>• Dividends and income tax equivalent and rate equivalent revenue</li> </ul>	
Consumer prices	<ul style="list-style-type: none"> <li>• Sales of Goods and Services</li> <li>• Total Motor Vehicle Taxes</li> <li>• Taxes on insurance</li> <li>• Land Transfer Duty</li> <li>• Interest revenue</li> <li>• Dividends and income tax equivalent and rate equivalent revenue Fines &amp; Regulatory Fees</li> </ul>	<ul style="list-style-type: none"> <li>• Purchase of Supplies &amp; Services</li> </ul>
Property prices <sup>^</sup>	<ul style="list-style-type: none"> <li>• Land Tax</li> <li>• Land Transfer Duty</li> </ul>	
Property volumes <sup>^</sup>	<ul style="list-style-type: none"> <li>• Land Transfer Duty</li> </ul>	
Interest rates	<ul style="list-style-type: none"> <li>• Dividends and income tax equivalent and rate equivalent revenue Interest revenue</li> </ul>	<ul style="list-style-type: none"> <li>• Superannuation*</li> <li>• Borrowing Costs</li> </ul>

<sup>^</sup>unpublished

\*Superannuation figures are based on interest rate estimates from the latest actuarial data adjusted to the relevant forecast period

- (b) Please indicate what mechanisms have been put in place to assess the accuracy of the Department of Treasury and Finance’s previous economic forecasts compared to actual results and any changes to the methodology that have been made in response.

The forecasts for each variable are reviewed before each forecasting round prior to Budget and Budget Update with new parameters calculated from updated data, or new model specifications. More extensive reviews of the forecasting process are undertaken periodically.

A number of methods and sources of information are employed to generate macroeconomic forecasts. These include consideration of recent and current recorded values, formal econometric modelling, trends suggested by leading indicators, economic theory, industry and business liaison, insights provided by other forecasts, and the experience of DTF officials. Differences between forecasts and actual results are calculated and analysed as part of this process.

It is important to note that the ABS often significantly revise economic variables. For example, the 2012-13 gross state product growth figure was originally published as 1.6 per cent; a year later, this was revised up to 2.1 per cent; and last year revised down to 1.0 per cent. Revisions of this magnitude make comparisons of forecasts with “actuals” difficult: so-called “forecast error” can be revised away at a later date.

- (c) Please provide details of any other methods the Department employs to ensure that the economic forecasts used in preparing the budget are appropriate.

DTF monitors commentary from private sector forecasters, Treasuries in other states and territories, the Commonwealth Treasury and the Reserve Bank of Australia. DTF analyses a comprehensive range of economic statistics from the ABS and other sources such as banks and consulting firms.

## Question 2

In relation to the estimated financial statements for the general government sector (estimated operating statement and estimated balance sheet), please explain any variations of more than  $\pm 10$  per cent (or greater than \$100 million) between the estimates for 2016-17 published in the 2015-16 budget papers, and the budget forecasts for 2016-17 shown in the 2016-17 budget papers.

The key movements on the operating statement are outlined in both Table 4.3 of *Budget Paper 2, Chapter 4* (pages 50 – 53) from *Budget Update* to the *2016-17 Budget* and Table 3.3 of the *Budget Update* (pages 13-15) from 2015-16 budget to budget update. Supplementing these explanations are some further variance commentary below:

Line item	Reason for variation
<b>Operating statement</b>	
Taxation revenue	<p>The increase is driven by:</p> <ul style="list-style-type: none"> <li>Increased land transfer (stamp) duty due to the strength of the property market (both price and volume) in both the residential and commercial markets (\$548 million)</li> <li>Increased land tax due to a stronger than expected land revaluation outcome in 2016 (\$219 million)</li> <li>Increased other taxes including an allowance for prepaid port licence fees, related to the proposed lease of the Port of Melbourne.</li> </ul>

Line item	Reason for variation
<b>Operating statement</b>	
Grant revenue	<p>The increase in grant revenue is driven by:</p> <ul style="list-style-type: none"> <li>• Increased GST grants (\$534m) as a result of a higher national GST pool, stronger growth in Victoria's population share and an increase in Victoria's GST relativity.</li> <li>• Increased specific purpose grants including rescheduling Goulburn-Murray Water Connections Project grants from 2015-16 to 2016-17 to correspond to the rephrasing of project timelines and associated State expenditure, and rescheduling of expected asset recycling initiative payments.</li> <li>• Other contributions and grants relating to grants received from the Transport Accident Commission as part of the 'Towards Zero Road Safety Strategy'.</li> </ul>
Other revenue	<p>The increase is due to the expected transfer of Simonds Stadium from the Geelong City Council, free of charge (\$235m) and an increase in royalties revenue of \$34m primarily due to the policy decision to increase the brown coal royalty rate as part of the <i>2016-17 Budget</i>.</p>
Employee expenses	<p>Estimated employee expenses for 2016-17 have increased by \$700.9 million (3.6 per cent) between the <i>2015-16 Budget</i> and <i>2016-17 Budget</i>, primarily due to new budget decisions to:</p> <ul style="list-style-type: none"> <li>• enable health services to respond to growing patient demand;</li> <li>• provide additional elective surgery procedures to meet existing demand and significantly reduce waiting times;</li> <li>• improve ambulance response times;</li> <li>• enhance the ability of Victoria Police to keep Victorian's safe from crime by funding 406 additional sworn police officers and 52 additional specialist staff; and</li> <li>• strengthen community correctional services to allow for better supervision of offenders.</li> </ul>
Other superannuation	<p>The increase in other superannuation is a result of increases in employee expenses resulting from mainly new budget decisions, including in the Health and Justice sectors.</p>

Line item	Reason for variation
<b>Operating statement</b>	
Depreciation	<p>Depreciation has decreased by \$101.1 million primarily due to the following:</p> <ul style="list-style-type: none"> <li>• DEDJTR - Major revaluation of road assets which considered more current information resulting in a lower asset revaluation;</li> <li>• DET - Revised depreciation estimates to more closely align the estimates with the actual depreciation expense which occurred during 2014-15.</li> </ul>
Interest expense	<p>Interest increased by \$333.7m, primarily reflecting an updated program of borrowings associated with the receipt of the estimated proceeds from the medium-term lease over the operations of the Port of Melbourne into the Victorian Transport Fund.</p>
Grant expense	<p>Grant expense has increased by \$303 million since the <i>2015-16 Budget</i>, primarily driven by new budget decisions including:</p> <ul style="list-style-type: none"> <li>• Funding for the Regional network development plan;</li> <li>• Additional local government funding for the Interface Councils Infrastructure Grant Fund; and</li> <li>• Family violence flexible support packages and services.</li> </ul>
Other operating expenses	<p>Other operating expenses have increased by \$675 million since the <i>2015-16 Budget</i>.</p> <p>This is primarily driven by new budget decisions including:</p> <ul style="list-style-type: none"> <li>• action on family violence;</li> <li>• an increase relating to additional services in Hospitals to meet growth in demand;</li> <li>• funding to improve public transport and roads; and</li> <li>• additional funding for the education sector.</li> </ul>
Changes in non-financial assets revaluation surplus	<p>Changes in the non-financial assets revaluation surplus has decreased by \$404 million since the <i>2015-16 Budget</i>.</p> <p>This is primarily driven by the timing of the revaluation of cultural assets, which are expected to occur in 2017-18 and 2018-19.</p>
Re-measurement of superannuation defined benefit plans	<p>Re-measurement of superannuation defined benefits has decreased by \$118 million solely due to the extent to which the expected return on superannuation plan assets is estimated to exceed interest income, driven by changes in financial markets over the year.</p>

Line item	Reason for variation
<b>Operating statement</b>	
Net gain/(loss) on equity investments in other sector entities	The \$3.1 billion change in the 'net gain/(loss) on equity investments' in the general government sector primarily reflects forecast movements in the net asset positions of entities in the public non-financial corporation and public financial corporation sectors, mainly reflecting revaluations.
<b>Balance Sheet</b>	
Cash and deposits	The decrease is largely driven by the movement of financial assets from at call to short term deposits (\$366.5m) which are classified under investments, loans and placements. A corresponding variance can therefore be found in the investment, loans and placements line item. Also contributing to the decrease is the unanticipated reduction in the amount of cash at hand held by hospitals.
Advances paid	The movement relates to the expected Port of Melbourne lease transaction, which is commercially highly sensitive.
Investments, loans and placements	The increase is largely driven by transfer of funds at call to short term deposits, a corresponding variance can be found in cash and deposits.
Receivables	The movement in the receivables balance is due to the closing balance of the <i>2014-15 Financial Report (AFR)</i> receivables being higher and hence 2015-16 opening balance been \$545m higher. This is due to higher than expected receivables from land tax due to the land revaluation, land transfers resulting from the strong property market and payroll tax. This increase is partially offset by a decision to forgive a loan which the Director of Housing has with the State to simplify the financial arrangements between Director of Housing and the State.
Investments in other sector entities	The increase in investments in other sectors primarily reflects forecast movements in the net asset positions of entities in the public non-financial corporation and public financial corporation sectors, mainly reflecting revaluations.
Non-financial assets held for sale	The movement is due to the higher opening balance from the 2014-15 AFR. This is consistent with the Government's land sales program.
Land, buildings, infrastructure, plant and equipment	The decrease is mainly driven by a lower than expected revaluation of roads, roads infrastructure and earthworks during the 2014-15 AFR.
Deposits held and advances received	The movement relates to the Port of Melbourne lease transaction.

Line item	Reason for variation
<b>Operating statement</b>	
Payables	Estimates for payables have decreased by \$353.1 million since the 2015-16 Budget (6 per cent). This is primarily attributable to the earlier than expected settlement of certain payables during the year, including the finalisation of the agreement with the East West Link consortium in 2014-15.
Borrowings	The decrease in borrowings primarily reflects a significant increase in net cash flows generated from operating activities, partially offset by increased net investment in infrastructure and other fixed assets.
Employee benefits	The increase in employee benefits reflects adjustments for the expected financial impact of employing more staff to increase service delivery and approved wage agreements allowing for future movements and expected wages growth.
Superannuation	<p>The decrease in the superannuation liability is due to:</p> <ul style="list-style-type: none"> <li>the yield on the Commonwealth government bond that underlies the key superannuation valuation assumptions has increased considerably between 31 March 2015 (the basis for the <i>2015-16 Budget</i> estimates) and 31 March 2016 (the basis for the <i>2016-17 Budget</i> estimates). In particular, the yield on the relevant index linked bond increased from 0.29 per cent per annum at 31 March 2015 to 0.74 per cent per annum at 31 March 2016. Higher bond yields reduce the value of the liability.</li> </ul> <p>This was partially offset by the impact of unfavourable investment returns on superannuation assets for the year to 31 March 2016. These lower than expected investment returns have reduced the value of superannuation assets relative to the level expected in the <i>2015-16 Budget</i> which has acted to moderate the reduction in the liability that is attributable to movements in bond yields.</p>
Other provisions	Other provisions has increased primarily due to the creation of a provision for Fiskville (\$65 million) and \$90 million relating to DEDJTR for movements in the metropolitan train and tram operators employee entitlements and higher than expected property acquisition costs.
Reserves	The reserves balance has increased due to expected movements in the General Government's investment in other sector entities equating to forecast movements in the net asset positions of entities in the public non-financial corporation and public financial corporation sectors, mainly reflecting higher revaluations in those sectors. This is partially offset by lower than expected revaluations of roads, roads infrastructure and earthworks during the 2014-15 AFR.
Non-controlling interest	The decrease relates to the expected transfer of the State's minority interest in the Synchrotron to the Commonwealth Government.

### Question 3

(a) What new features have been incorporated in the budget papers for 2016-17 and why?

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

(b) What previous features have been modified or discontinued and why?

There are no substantial modifications or discontinuations to the core 2016-17 Budget papers.

### Question 4

Please disaggregate the line item 'other purposes' in the 'Expenses by government purpose classification' note to the general government sector comprehensive operating statement (Statement of Finances budget paper, p.34) into 'other purposes' and 'not allocated by purpose', as is done for asset investment.

	<b>2016-17 (\$ million)</b>	<b>2017-18 (\$ million)</b>	<b>2018-19 (\$ million)</b>	<b>2019-20 (\$ million)</b>
Other purposes	1515	1269	1305	1327
Not allocated by purpose	(677)	(145)	(54)	405

Notes:

'Not allocated by purpose' has been disaggregated from 'Other purposes' in the *2016-17 Budget*, BP5 page 32. The 'not allocated by purpose' category mainly comprises provision for future demand growth, departmental underspending, eliminated purchases of supplies and consumable between Government entities, and items not yet formalised at the time of publication.

'Other purposes' is mainly made up of public debt transactions in accordance with the Australian Bureau of Statistics Government Purpose Classification definitions.

## Question 5

Please reconcile the revenue and output expenditure estimates from the 2015-16 Budget and the 2016-17 Budget.

Note that Reconciliation of estimates is currently presented in the following format:

### Reconciliation of estimates from 2015-16 Budget to 2016-17 Budget<sup>(a)</sup>

	2016-17 estimate	2017-18 estimate	2018-19 estimate
<b>Net result from transactions: 2015-16 Budget</b>	<b>1 397</b>	<b>1 366</b>	<b>1 828</b>
<b>Policy decision variations</b>			
Revenue policy decision variations	130	174	165
Output policy decision variations	(1 441)	( 920)	( 661)
	<b>(1 311)</b>	<b>( 746)</b>	<b>( 496)</b>
<b>Economic/demographic variations</b>			
Taxation	642	679	876
Investment income	70	365	( 206)
	<b>712</b>	<b>1 044</b>	<b>670</b>
<b>Commonwealth grant variations</b>			
General purpose grants	533	207	( 72)
Specific purpose grants	345	( 364)	( 285)
	<b>879</b>	<b>( 157)</b>	<b>( 357)</b>
<b>Administrative variations</b>			
Contingency offset for new policy	200	200	200
Other administrative variations	991	90	236
	<b>1 191</b>	<b>290</b>	<b>436</b>
<b>Total variation since 2015-16 Budget</b>	<b>1 473</b>	<b>432</b>	<b>253</b>
<b>Net Result from transactions: 2016-17 Budget</b>	<b>2 869</b>	<b>1 797</b>	<b>2 082</b>

Source: Department of Treasury and Finance

Notes:

(a) Figures in this table are subject to rounding to the nearest million and may not add up to totals.

Sources: 2015-16 Budget Update, Chapter 3, Table 3.3, page 13

2016-17 Budget Paper No. 2, Chapter 4, page 50



Question 6

In regard to the figure in the 2016-17 budget papers for ‘PPP infrastructure investment and other’, (see 2015-16 State Capital Program budget paper, p.12), please provide a revised estimate for this figure for 2015-16 and an explanation for the changes between last year’s estimates and those for 2016-17:

	<b>2015-16 (\$ million)</b>	<b>2016-17 (\$ million)</b>	<b>2017-18 (\$ million)</b>	<b>2018-19 (\$ million)</b>	<b>2019-20 (\$ million)</b>
2015-16 budget papers	7,472.0	765.6	421.6	142.6	na
2016-17 budget papers	590	7,611	1,874	2,101	2,440
Explanation	<ul style="list-style-type: none"> <li>• The New Schools PPP contract was executed in 2015-16; therefore cash flows relating to this project were updated to reflect the construction profile of the successful consortium (replacing the Public Sector Comparator construction profile). This has resulted in variances in the ‘PPP infrastructure investment and other’ figures for 2015-16, 2016-17 and 2017-18.</li> <li>• The impact of the Port of Melbourne medium-term lease has been delayed until 2016-17, resulting in a reduction to the ‘PPP infrastructure investment and other’ figure in 2015-16 and an increase in the figure for 2016-17.</li> <li>• An increase in the scope of the High Capacity Metro Trains PPP was announced in March 2016, resulting in variances in the ‘PPP infrastructure investment and other’ figures for 2015-16, 2016-17, 2017-18 and 2018-19.</li> <li>• The Western Distributor and Melbourne Metro Rail Projects were announced in 2015-16. The ‘PPP infrastructure investment and other’ figures for 2017-18 and 2018-19 have increased to reflect these projects’ anticipated construction profiles, consistent with the respective business cases. Only the PPP component of the Melbourne Metro Rail Project is included in the above figures.</li> </ul>				

Question 7

Also in relation to ‘PPP infrastructure investment and other’, please:

(a) describe the model used in estimating the figure

As accounting treatment for PPPs is different to traditionally procured infrastructure projects, DTF has developed a method to approximate the annual project capital investment cash flows for PPPs. For projects in the procurement phase, the Public Sector Comparator construction cash flows from the Business Case are used. For projects in the delivery phase, the private sector’s cash flows contained in the contracted financial model are used. For projects in the operational phase, lifecycle refurbishment and replacement capital investment is recognised using the cash flow profile contained in the contracted financial model.

In accounting for private sector investment, the model excludes all public sector direct capital investment to the project such as any State capital contribution or project development expenditure incurred by the State, as these numbers are recognised in the broader infrastructure investment line.

(b) also advise how this figure was estimated, including:

(i) what the sources for the estimation were

- For PPPs announced or in procurement – annual capital expenditure cash flows are taken from the approved business case;
- For PPPs in the delivery phase – annual capital expenditure cash flows are taken from the successful consortium's Financial Model; and
- For PPPs in the operating phase – any relevant capital expenditure (relating to lifecycle refurbishment) will also be sourced from the consortium's Financial Model.

(ii) what major components make up the figure

The most significant component of the PPP infrastructure investment figure is the project development, design and construction expenditure. This includes the estimated private sector-financed capital expenditure for each relevant PPP project, excluding capitalised interest, State Contribution amounts and any State costs incurred.

The 'other' component of the figure includes other adjustments to better reflect the underlying Government Infrastructure Investment. For example, the 2016-17 figure includes an adjustment to negate the impact of the capital return from public non-financial corporations sector resulting from the medium-term lease over the operations of the Port of Melbourne.

(iii) what assumptions are inherent in the estimation

The Public Sector Comparator construction profile provides the best estimate of cash flows prior to contract execution.

From contract execution, the private sector's estimates contained in the contracted financial model present the best estimate. As all delivery and whole-of-life risks are transferred to the private sector, the contracted financial model does not get updated for actual cash flows, as the State is only obliged to pay the contracted Quarterly Service Payment amounts (regardless of any variances).

(iv) what projects are included (without disaggregating the figures)

Relevant PPP projects include the Victorian Comprehensive Cancer Centre, New Bendigo Hospital, Ravenhall Prison, CityLink-Tulla Widening, New Schools PPP, High Capacity Metro Trains, Western Distributor, and the PPP component of the Melbourne Metro Rail Project.

(c) advise how the Department intends to evaluate the estimate against actual future results

With respect to the PPP estimates, the cash flows of the successful consortium will always differ from the State's Public Sector Comparator capital expenditure profiles. The quantum of the annual variances will be known at financial close (with adjustments made to the Budget).

Following Financial Close, under the PPP contract the consortium must report monthly regarding actual construction progress. Any variances in expenditure will not be disclosed, as the State is only obliged to pay the contracted Quarterly Service Payment amounts.

(d) advise when actual figures for this estimate will be disclosed.

Once the financial close profiles for a project are known, the PPP infrastructure investment figure will be updated in the Budget (along with the relevant PPP Commitments figure in the Annual Financial Report). Following Financial Close, under the PPP contract the consortium must report monthly regarding actual construction progress. Any variances in expenditure will not be disclosed, as the State is only obliged to pay the contracted Quarterly Service Payment amounts.

### Question 8

For each of the following line items in the general government sector comprehensive operating statement (or its notes) in the 2016-17 Budget, please quantify the amount of the line item that is received from or provided to the PNFC sector or PFC sector. Please also identify any other line items in the revenue from transactions or expenses from transactions or their notes in which more than \$100 million flows from the general government sector to the PNFC or PFC sector or vice versa.

The 2015-16 estimates from the Department's response to a previous questionnaire are included for compatibility.

(a) revenue from transactions

Line item	Amount coming from PNFC sector (\$ million)					Amount coming from the PFC sector (\$ million)				
	2015-16 previous estimate	2016-17	2017-18	2018-19	2019-20	2015-16 previous estimate	2016-17	2017-18	2018-19	2019-20
Taxation revenue	138.0	148.8	162.6	175.6	188.5	Nil	Nil	Nil	Nil	Nil
Interest revenue	473.2	543.7	565.3	545.6	541.2	108.0	118.7	123.8	123.9	124.0
Dividends	229.7	250.4	178.2	164.3	127.5	613.6	526.0	878.5	336.9	234.9
Income tax equivalent and local government rate equivalent revenue	248.8	203.5	189.9	194.8	188.9	7.3	50.5	103.5	125.9	210.1
Grants	10.3					129.6				
Sales of goods and services – inter-sector capital assets charge	1,743.5	1,924.5	2,070.7	2,170.5	2,178.8	Nil	Nil	Nil	Nil	Nil
Sales of goods and services – provision of services	121.5	124.9	125.1	136.1	140.7	155.5	173.1	175.5	177.9	180.4
Total revenue from transactions	2,965.0	3,202.7	3,298.2	3,393.1	3,372.0	1,014.2	1,090.5	1,502.9	1,035.2	904.2
Other line items with >\$100 million coming from the PNFC or PFC sector (please specify)										

(b) expenses from transactions

Line item	Amount going to PNFC sector (\$ million)					Amount going to the PFC sector (\$ million)				
	2015-16 previous estimate	2016-17	2017-18	2018-19	2019-20	2015-16 previous estimate	2016-17	2017-18	2018-19	2019-20
Interest expense	Nil	Nil	Nil	Nil	Nil	1,260.4	1,496.5	1,364.9	1,380.4	1,305.5
Grants and other transfers	2,872.4	3,141.6	3,279.4	3,254.7	3,248.2	38.6	13.3	13.3	12.7	12.7
Other operating expenses – purchase of supplies and consumables	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Other operating expenses – purchase of services	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Total expenses from transactions	2,872.4	3,141.6	3,279.4	3,254.7	3,248.2	1,298.9	1,509.8	1,378.3	1,393.1	1,318.2
Other line items with >\$100 million going to the PNFC or PFC sector (please specify)										

Question 9

In the tables relating to grants for specific purposes in the Statement of Finances budget paper, if any line item labelled 'other' has a value exceeding \$10 million in 2016-17, please provide details of the grants which have been included in the line item.

The 2016-17 Budget, BP5, Chapter 4 page 156 lists further details for Commonwealth grants for specific purposes.

The Table 4.14 (page162) incorporates "Other" payments for contingent and other services including:

<b>Grants</b>	<b>\$m</b>	<b>Comments</b>
Other Commonwealth Grants	90	Incorporates general Commonwealth revenue to hospitals for the purpose of aiding in the financing of recipient's operations.
Community Aged Care Packages	19	Commonwealth funding to health agencies for Community Aged Care Package (CACP). CACP is funding to support service for older people with complex care needs living at home who would otherwise be eligible for admission to low level residential aged care.
Residential Care Subsidy	230	Commonwealth funding for residential care subsidy for older patients who are in long term residential care in hospitals.
Transitional Care	29	Commonwealth funding to hospitals for daily care fees for recipients of the Transition Care Program (TCP). TCP is funding to hospitals for older patients transitioning from hospitals to their own home. The program aims to minimise older people experiencing inappropriate, extended lengths of stay in hospitals or being prematurely admitted to residential care.
Pharmaceutical Benefit Scheme	430	Commonwealth funding to hospitals under the Pharmaceutical Scheme. Under the Pharmaceutical Benefit Scheme, the Government subsidises the cost of medicine for most medical conditions.
Commonwealth Grants - Residential Aged Care Accommodation Supplements (Capital)	12	Commonwealth funding to health agencies for residents receiving permanent residential aged care who are classified as concessional, supported, low means or assisted.
Other grants mainly attributable to asset recycling incentive payments	569	
<b>Total</b>	<b>1379</b>	

Question 10

- (a) Please give reasons for the changes in general purpose grants estimates from the 2015-16 Budget, including those over the forward estimates.

	<b>2016-17 (\$ million)</b>	<b>2017-18 (\$ million)</b>	<b>2018-19 (\$ million)</b>
2015-16 estimates (2015-16 BP5 p.29)	13,351.5	14,401.3	15,842.5
2016-17 estimates (2016-17 budget papers)	13,884.8	14,608.7	15,770.5
Explanation for variances	Higher than expected GST relativity, upgrade to size of the GST pool and a larger share of the national population	Higher than expected GST relativity and a larger share of the national population, partially offset by a small downgrade to size of the GST pool	Lower than expected GST relativity and a downgrade to size of the GST pool, partially offset by a larger share of the national population

- (b) What has been the impact of these changes to Victoria for 2016-17 and beyond? Please detail any actions that the State Government has taken in response to expected changes in the value of general purpose grants in 2016-17 and the forward estimates period.

Between the *2015-16 Budget* and the *2016-17 Budget*, the total change in forecast GST revenue between 2016-17 and 2018-19 was an upgrade of \$668.7 million.

Question 11

In relation to the net debt projections for the non-financial public sector for 2016-17 and over the forward estimates to 2019-20 (as published in the Statement of Finances budget paper), please provide a break-down of the spread of net debt between the general government sector (GGS) and each of the main public non-financial corporations (PNFCs) concerned.

GGS/PNFC entity	Net debt, 30 June 2016 (\$ million)	Net debt, 30 June 2017 (\$ million)	Net debt, 30 June 2018 (\$ million)	Net debt, 30 June 2019 (\$ million)	Net debt, 30 June 2020 (\$ million)
GG Sector	22,493.2	18,601.5	20,895.6	22,304.4	22,207.9
PNFC Sector	14,783.9	15,767.5	16,267.0	16,656.5	17,049.5
<i>Breakdown of PNFC sector entities:</i>					
Melbourne Water	8,106.8	8,244.3	8,371.2	8,461.3	8,533.0
Yarra Valley Water	2,188.4	2,418.7	2,573.3	2,773.1	2,969.5
South East Water	1,398.2	1,464.8	1,550.2	1,622.6	1,705.6
City West Water	1,118.5	1,177.7	1,227.5	1,342.9	1,483.3
Barwon Water	606.2	646.1	614.6	600.5	602.8
Central Gippsland Water	280.5	285.0	284.1	287.8	296.9
Coliban Water	469.4	459.3	448.8	437.3	424.6
Goulburn Murray Water	(5.9)	(28.1)	124.4	108.8	124.5
Goulburn Valley Water	94.5	103.2	111.3	122.6	121.0
Grampians-Wimmera Mallee Water	150.7	166.7	168.1	167.1	167.4
Western Region Water	177.1	242.3	300.2	361.7	421.0
Places Victoria	155.7	358.9	455.9	565.5	491.7
VicTrack	632.1	549.1	363.7	96.3	7.8
Cemetery Trusts	(486.8)	(448.7)	(476.4)	(517.0)	(562.2)
Director of Housing (PNFC)	(326.3)	(285.1)	(217.9)	(170.8)	(103.1)
SECV	(185.6)	(15.1)	(12.1)	(1.9)	(1.9)
Other PNFCs	85.9	(105.9)	(48.3)	(51.1)	(16.4)

**Note:** Figures in positive mode indicate a net debt position; and figures in parentheses indicate a net asset position.

## Question 12

What specific factors or assumptions (for example, new or changed major asset or output initiatives) have led to changes to the estimates of borrowings and net debt as at 30 June 2015 and the forward estimates between the 2015-16 Budget and the 2016-17 Budget?

As outlined as part of the 2014-15 Annual Financial Report, the general government sector's net debt at June 2015 was \$22.3 billion, 6.1 per cent of gross state product (GSP). The net debt outcome was higher than the revised 2014-15 estimate published in the *2015-16 Budget* in part due to a bring forward of a payment for East West Link from 2015-16.

Nominal net debt is expected to increase by \$2.7 billion at June 2019 compared with the *2015-16 Budget Update*. As a proportion of the economy, net debt is expected to increase from 4.4 per cent to 5.1 per cent.

The increase in net debt is primarily due to the significant increase in infrastructure investment of \$5.3 billion to June 2019. Other key changes include:

- higher debt due to the net impact of new output and revenue measures; largely offset by additional taxation receipts, largely due to improved estimates for land transfer duty and land tax;
- Higher net cash inflows from the Government's investment activities, including dividend and income tax equivalent payments; and
- Increased revenue as result of the High Court decision in favour of the State relating to the gambling licenses proceedings.

Estimated net debt increased by around \$5.6 billion in 2015-16 largely due to the revised timing from entering into the medium term lease of the Port of Melbourne.

The movements in borrowings are highly correlated with the movements to net debt.

## Question 13

- (a) If not already in the 2016-17 budget papers, please provide a list of major projects that contribute to net cash flows from investments in financial assets for policy purposes for the general government sector, including anticipated inflows and outflows for 2016-17.

The net cash flows for investments in financial assets for policy purposes for the general government sector mainly includes:

- equity investment into VicTrack (\$732 million) for the Level Crossing Removal Program (partially offset by the release of funding from contingency \$414 million);
- recording of the finance lease loan receivable (from Melbourne Water) for the Victorian Desalination Plant (around \$50 million);
- recording of equity investment related to the Goulburn-Murray Water Connections project (\$26 million);
- expected capital repatriation from the State Electricity Commission of Victoria (\$155m);
- rephasing for significant programs such as the Melbourne Metro Rail project as well as items including the Port of Melbourne lease transaction, which cannot be disclosed due to commercial sensitivities.



- (b) Please provide a list of major projects that contribute to net cash flows from investments in financial assets for policy purposes for the State of Victoria, including anticipated inflows and outflows for 2016-17.

Project	Expected cash inflow (\$ million)	Expected cash outflow (\$ million)	Expected net cash flow (\$ million)
Snowy Hydro share of profit i.e. primarily dividends SECV receives from the State's investment in Snowy Hydro.	65		65
Other (a number of items across various entities)	58		58
<b>Total</b>	<b>123</b>		<b>123</b>

Question 14

- (a) Please provide an updated copy of the guidelines from the Minister for Finance to departments for corporate, long-term and other plans.

The Department recently released the Performance Management Framework, which contains current guidance for departmental corporate planning.

<http://www.dtf.vic.gov.au/Government-Financial-Management/Planning-Budgeting-and-Financial-Reporting-Frameworks/Performance-Management-Framework>

- (b) If this guidance is under review, please indicate:

- (i) the major areas covered by the review,

N/A

- (ii) when the guidance is expected to be complete, and

N/A

- (iii) when departments will be required to comply with the update.

N/A