



**PARLIAMENT OF VICTORIA**  
Public Accounts and Estimates Committee

**Report on the 2015-16  
Financial and Performance  
Outcomes**

Parliament of Victoria  
**Public Accounts and Estimates Committee**

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# Committee functions

The Public Accounts and Estimates Committee is a joint parliamentary committee constituted under the *Parliamentary Committees Act 2003*.

The Committee comprises nine members of Parliament drawn from both Houses of Parliament.

The Committee carries out investigations and reports to Parliament on matters associated with the financial management of the State. Its functions under the Act are to inquire into, consider and report to the Parliament on:

- any proposal, matter or thing concerned with public administration or public sector finances
- the annual estimates or receipts and payments and other budget papers and any supplementary estimates of receipts or payments presented to the Assembly and the Council
- any proposal, matter or thing that is relevant to its functions and has been referred to the Committee by resolution of the Council or the Assembly or by order of the Governor in Council published in the Government Gazette.

The Committee also has a number of statutory responsibilities in relation to the Office of the Auditor-General. The Committee is required to:

- recommend the appointment of the Auditor-General and the independent performance and financial auditors to review the Victorian Auditor-General's Office
- consider the budget estimates for the Victorian Auditor-General's Office
- review the Auditor-General's draft annual plan and, if necessary, provide comments on the plan to the Auditor-General prior to its finalisation and tabling in Parliament
- have a consultative role in determining the objectives and scope of performance audits by the Auditor-General and identifying any other particular issues that need to be addressed
- have a consultative role in determining performance audit priorities
- exempt, if ever deemed necessary, the Auditor-General from legislative requirements applicable to government agencies on staff employment conditions and financial reporting practices.

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This report is also available online at the Committee's website.

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# Acronyms and terms

<b>AASB</b>	Australian Accounting Standards Board
<b>ABS</b>	Australian Bureau of Statistics
<b>Agency</b>	Government entities which generally receive their funding through ‘departments’ and for which ‘departments’ are responsible for reporting. Examples include: Victoria Police; hospitals; and TAFEs. Agencies, like ‘departments’, are directly accountable through one or more ministers to the Parliament.
<b>Appropriation</b>	The authority to withdraw funds from the Consolidated Fund. This may be a once-off authority (as provided in the annual appropriation acts) or a standing authority (a special appropriation provided by another act).
<b>Asset initiative</b>	A new program or project (‘initiative’) that delivers assets. See ‘asset investment’.
<b>Asset investment</b>	Expenditure on assets (generally infrastructure such as roads or hospitals) as opposed to expenditure on the delivery of products and services (‘outputs’). See Output.
<b>(Asset) investment through other sectors</b>	<p>‘Asset investment’ funded through another sector (most commonly funded by the ‘general government sector’ and through the ‘public non-financial corporations sector’) for an asset that becomes part of that other sector. May be reported as gross inflows and gross outflows or as net cash flows. Reported on the cash flow statement as <i>cash flows from investments in financial assets for policy purposes</i>.</p> <p>Because the resulting asset is part of the other sector, the ‘general government sector’ makes a ‘financial investment’ in the relevant business, rather than a ‘non-financial investment’ in a physical asset.</p>
<b>Asset sales</b>	Cash received from the sale of surplus assets owned by the Government. This cash does not constitute operational revenue and cannot affect the net operating balance, but will contribute to changes in borrowings and net debt.
<b>Budget estimates</b>	Forecasts for future years (the ‘forward estimates period’) made in the budget papers about matters such as revenue, expenditure, assets, liabilities and goods and services to be delivered.
<b>Budget papers</b>	The set of documents released with the annual budget. These normally include the Treasurer’s speech and volumes on: Strategy and Outlook; Service Delivery; Capital Investment; and the Estimated financial statements. The set also includes the annual financial report, published after the end of the budget period.
<b>Cash resources</b>	Cash (and cash equivalent) available to the Government as a result of operating surplus, asset sales, capital returns from other investments, increases in borrowings or non-cash cost allowances such as depreciation. This cash may be used for asset investment (direct or through other sectors) or for paying down debt.

<b>Department</b>	<p>Large government entities. Funding for most ‘agencies’ is generally provided through departments and departments are required to report on the financial and performance results of the agencies for which they are responsible. Departments, like ‘agencies’, are directly accountable through one or more ministers to the Parliament.</p> <p>At 30 June 2016, there were seven departments in Victoria, plus Courts Victoria and the Parliamentary Departments.</p>
<b>Depreciation</b>	<p>The amount of money it would require to keep the State’s assets in the same condition as they were in last year. This amount is listed as an expense in the operating statement, and the cash equivalent to that amount is usually used to partially fund ‘asset investment’.</p>
<b>Direct (asset) investment</b>	<p>‘Asset investment’ by the ‘general government sector’ managed by an ‘entity’ within that sector for an asset that becomes part of that sector. Reported in the cash flow statement as <i>purchases of non-financial assets</i>.</p>
<b>Dividends</b>	<p>Cash received from Government-owned enterprises representing a return on the investment made in the enterprise. Cash received in dividends is included in operational revenue and therefore contribute to the net operating balance.</p>
<b>DTF</b>	<p>Department of Treasury and Finance</p>
<b>EBA</b>	<p>Enterprise Bargaining Agreement</p>
<b>Efficiency initiative</b>	<p>See ‘Expenditure reduction initiative’.</p>
<b>Entity</b>	<p>Either a ‘department’ or an ‘agency’.</p>
<b>EO1 to EO3</b>	<p>Executive officer categories within the Victorian Public Service. Payment is lowest for EO3 and highest for EO1.</p>
<b>ESSSuper</b>	<p>Emergency Services and State Super</p>
<b>Executive officer</b>	<p>Senior manager within the Victorian Public Service, responsible for delivery of Government objectives for relevant organisations.</p>
<b>Expenditure reduction initiative</b>	<p>Changes in the provision of ‘outputs’ that result in reductions to the cost of the ‘output’. This may be done by reducing the services provided or providing the same services more efficiently. Expenditure reduction initiatives are only one factor affecting ‘output expenditure’. Thus, they may not reduce a department’s total ‘output expenditure’ compared to the previous year if other factors (such as ‘output initiatives’) are greater in value. Expenditure reduction initiatives are usually perpetual.</p>
<b>FIF</b>	<p>Future Industries Fund</p>
<b>Financial investment</b>	<p>An investment in a business which increases the investor’s equity in the business. See ‘non-financial investment’.</p>
<b>Forward estimates period</b>	<p>The four-year period consisting of the budget year and the three following ‘out-years’.</p>

<b>FRD</b>	Financial Reporting Directions: A set of guidance documents provided and updated by the Department of Treasury and Finance setting out the annual reporting requirements for Government entities.
<b>FTE</b>	Full-time equivalent, a way to measure both full and part-time staff.
<b>GBE</b>	Government business enterprise
<b>General government sector (GGS)</b>	Government ‘entities’ which provide services either with no charge to the user or with charges significantly below the cost of providing the services. This includes all ‘departments’ and many ‘agencies’.
<b>General-purpose (GST) grants</b>	Grants from the Commonwealth Government to the State Government sourced from Goods and Services Tax (GST) revenue. There are no restrictions imposed by the Commonwealth Government on how the funding can be spent.
<b>GFC</b>	Global financial crisis
<b>Goods and Services Tax (GST)</b>	Value added tax collected at point of retail sale and redistributed from a central fund by the Commonwealth Government on advice from the Commonwealth Grants Commission.
<b>Government infrastructure investment (GII)</b>	A measure of ‘general government sector’ expenditure on infrastructure which includes: ‘direct asset investment’ (net of proceeds from asset sales); ‘asset investment through other sectors’; and estimates of investment expenditure (made by the private sector) for ‘public private partnerships’. This last component also includes any other unpublished expenditure on asset investment projects.
<b>GPC</b>	Government Purpose Classification
<b>Gross domestic product (GDP)</b>	The total value of goods and services produced by the whole of Australia in a year, including net exports. See also GSP.
<b>Gross state product (GSP)</b>	The total value of goods and services produced by the state in a year. This includes the goods and services delivered by the Government and the private sector.
<b>GST</b>	Goods and Services Tax
<b>HECS</b>	Higher Education Contribution Scheme
<b>ICT</b>	Information and Communications Technology
<b>Income tax equivalent revenue</b>	Revenue received from Government-owned corporations in payments that are levied to ensure the corporations operate on a competitively neutral basis with the private sector.
<b>Initiative</b>	A specific program or project detailed in the budget papers. Budget papers can include: ‘asset initiatives’; ‘output initiatives’; ‘revenue initiatives’; ‘revenue foregone initiatives’; and ‘expenditure reduction initiatives’.
<b>Investment through other sectors</b>	‘Asset investment’ funded through another sector (most commonly funded by the ‘general government sector’ and through the ‘public non-financial corporations sector’) for an asset that becomes part of that other sector. May be reported as: gross inflows; gross outflows; or net cash flows.

<b>Investments in financial assets for policy purposes</b>	See ‘investment through other sectors’.
<b>Liabilities</b>	Amounts that an organisation is obliged to pay in future years. Examples include borrowings and defined benefits superannuation plans.
<b>National Partnership Agreement</b>	Grant programs funded by the Commonwealth Government through State governments for purposes specified by the Commonwealth.
<b>Net debt</b>	A calculation based on the difference between the value of selected categories of financial assets and financial liabilities. Essentially, the difference in value between what the Government owes and assets that it could easily convert to cash. Not all financial assets and liabilities are included.
<b>Net lending/ borrowing</b>	A measure of financial performance in a year. This indicator is similar to ‘operating surplus/deficit’, but also includes some asset investment transactions, including some public private partnerships (PPPs). A negative figure indicates a net borrowing position and a positive figure indicates a net lending position. The indicator does not take investments through other sectors into account.
<b>Net result</b>	A measure of an entity’s financial performance in a year which is calculated by taking the ‘net result from transactions’ and then adding other economic flows, such as changes in the values of financial assets and liabilities. The ‘net result’ is different to the ‘net result from transactions’ (see below). ‘Asset investment’ is not included in either the ‘net result’ or the ‘net result from transactions’.
<b>Net result from transactions</b>	See ‘operating result/operating balance’.
<b>Non-financial investment</b>	An investment in a physical asset, with the investor owning the new or improved asset. See ‘financial investment’.
<b>Non-financial public sector (NFPS)</b>	The ‘general government sector’ and ‘public non-financial corporations sector’ consolidated together.
<b>NPP</b>	National Partnership Payment (see also National Partnership Agreement).
<b>Operating result/ operating balance</b>	<p>A measure of an entity’s financial performance in a year. This is calculated by subtracting the entity’s expenses in the year from its income. A positive result is referred to as an operating surplus; a negative result is an operating deficit.</p> <p>Also known as the ‘net result from transactions’ or ‘net operating balance’. ‘Asset investment’ is not included in the operating balance.</p>
<b>Output</b>	An aggregate of goods and services (such as health care or policing services) delivered by a ‘department’ or its ‘agencies’. Outputs are identified in the budget papers.

<b>Output expenditure/expenses</b>	Expenditure on 'outputs' (that is, goods and services). This is distinct from 'asset investment', although it includes some expenditure on 'public private partnerships'.
<b>Output initiative</b>	A new program or project ('initiative') that delivers goods and services (part of a department's 'outputs'). Output initiatives are usually for a limited period of time, although they are sometimes perpetual.
<b>Own-source revenue</b>	See 'State-sourced revenue'.
<b>Performance measure</b>	A quantified description of goods and/or services produced by agencies in the public sector. Performance measures may describe the quality, quantity, timeliness and cost of outputs produced by the public sector (see also 'output').
<b>PJIF</b>	Premier's Jobs and Investment Fund
<b>Public private partnership (PPP)</b>	An arrangement in which the private sector delivers an asset on behalf of the Government. Ownership of the asset usually passes to the Government after a defined period of time.
<b>PPP infrastructure investment</b>	An estimate of the amount invested each year by the private sector on behalf of the State on PPP projects under construction.
<b>Public financial corporations (PFC) sector</b>	Government 'agencies' which provide financial services, such as the Treasury Corporation of Victoria or the Transport Accident Commission.
<b>Public non-financial corporations (PNFC) sector</b>	Government 'agencies' which provide goods and/or services with charges that recover most of the cost of producing them, such as water authorities and trusts administering certain facilities. Does not include 'agencies' providing financial services (see 'public financial corporations sector').
<b>Public sector as a whole</b>	The 'general government sector', 'public non-financial corporations sector' and 'public financial corporations sector' consolidated together. Referred to in the budget papers and Annual Financial Report as the 'State of Victoria'.
<b>Purchase of non-financial assets</b>	See 'direct investment'.
<b>Revenue</b>	Income received by the Government, mostly from State taxes and grants from the Commonwealth Government.
<b>Revenue initiative</b>	Changes in policy which result in an increase in 'revenue'. Examples include new taxes or increasing existing taxes. Revenue initiatives are usually perpetual.
<b>RGF</b>	Regional Growth Fund
<b>RJIF</b>	Regional Jobs and Infrastructure Fund

<b>Savings initiative</b>	Changes in the provision of ‘outputs’ that result in reductions to the cost of the ‘output’. This may be done by reducing the services provided or providing the same services more efficiently. Savings initiatives are only one factor affecting ‘output expenditure’. Thus, they may not reduce a department’s total ‘output expenditure’ compared to the previous year if other factors (such as ‘output initiatives’) are greater in value. Savings initiatives are usually perpetual.
<b>Specific-purpose grants</b>	Grants from the Commonwealth Government to the State Government with restrictions on how the funding can be spent.
<b>State of Victoria</b>	See ‘public sector as a whole’.
<b>State final demand</b>	A broad measure of the demand for goods and services in the State’s economy. This includes demand for goods and services for interstate and international export.
<b>State-sourced revenue</b>	Revenue raised by the Government using its own powers, such as taxes, fees, sales, fines and dividends. Contrasts to grants received from the Commonwealth Government.
<b>STS</b>	Senior technical specialist, also known as VPS7 (see also VPS1 to VPS6)
<b>TAC</b>	Transport Accident Commission
<b>TAFE</b>	Technical and Further Education: A range of State-funded tertiary institutions that provide mainly vocational education. This is in contrast to universities, which are mostly funded by the Commonwealth.
<b>TCV</b>	Treasury Corporation of Victoria
<b>Total estimated investment (TEI)</b>	An estimate of the total amount of expenditure required to deliver an ‘asset investment’ project.
<b>VAGO</b>	Victorian Auditor-General’s Office
<b>VCCC</b>	Victorian Comprehensive Cancer Centre
<b>VET</b>	Vocational Education and Training
<b>VET FEE-HELP</b>	Student loan system for VET courses, similar to HECS system for university students, where the loan is repaid once the student has completed the course and is in employment. The VET FEE-HELP system ceased on 31 December 2016 and was replaced by a system of more conventional student loans.
<b>VMIA</b>	Victorian Managed Insurance Authority
<b>VPS</b>	Victorian Public Service
<b>VPS1 to VPS6</b>	Employment categories within- the Victorian Public Service. Payment is lowest for VPS1 and highest for VPS6.
<b>VPSC</b>	Victorian Public Sector Commission
<b>WIES</b>	Weighted Inlier Equivalent Separations: a quantified unit allowing calculation and comparison of casemix funding for public hospitals.

# Chair's foreword

This report presents the Committee's review of the government's financial and performance outcomes for 2015-16. In 2015-16 the government spent \$54 billion on services and infrastructure. The Committee found that the Victorian economy performed better in 2015-16 than the previous year. The government's operating surplus was larger than expected driven by revenue for property related taxes.

For the second year in a row, the Committee invited the Secretaries and senior officials of the seven government departments to public hearings to answer questions about public funding and achievements over 2015-16. The Secretaries and officials who appeared before the Committee for the most part provided valuable responses to the Committee's questions. Preparations for the hearings and written responses to questionnaires and questions taken on notice require a significant investment by the departments and their entities. The Committee acknowledges this work undertaken by the Secretaries and departmental staff.

One of the determinants of Public Accounts Committees' success is their ability to strive for consensus. I would like to thank my fellow members of the Committee for their work delivering another unanimous report. The report reflects the strong PAEC tradition of multi-partisanship.

I also wish to acknowledge the research and administrative support of the Committee's secretariat.

We hope that adoption of the Committee's 28 recommendations will lead to further improvements in public spending and administration and in the way in which the government reports to the Parliament and Victorian community.



**Mr Danny Pearson MP**  
**Chair**





# Findings and recommendations

<b>2</b>	<b>Economic Overview</b>	<b>page</b>
	<b>FINDING 1:</b> Victoria's GSP growth rate for 2015-16 of 3.3 per cent was above the trend rate of 2.75 per cent and initial 2015-16 Budget estimate of 2.5 per cent. . . . .	<b>11</b>
	<b>FINDING 2:</b> Out of all the Australian states, Victoria's GSP growth rate for 2015-16 was second highest after New South Wales. The influence of resource-rich states on Australia's economy is now waning and economic growth at the national level is driven by the non-mining states. . . . .	<b>13</b>
	<b>FINDING 3:</b> Victoria recorded strong gross state product and population growth compared to other Australian states for 2015-16. Victoria's gross state product per capita is less remarkable with growth of 1.3 per cent. Victoria ranked second after New South Wales and was in line with the overall national figure. . . . .	<b>14</b>
	<b>FINDING 4:</b> Although forecasts made in the budget papers predicted a correction in the Victorian property market over 2015-16, it continued to perform strongly. Property prices grew by 9.4 per cent and transactions increased by 7.7 per cent over the previous year. The rental, hiring and real estate sector experienced the largest growth by percentage compared to any other industry sector in Victoria over the same period. . . . .	<b>16</b>
	<b>FINDING 5:</b> Victoria's population growth was a key factor in overall employment growth and the main driver behind employment increases in the health care and social assistance and construction industries for 2015-16. . . . .	<b>19</b>
	<b>FINDING 6:</b> A comparison of the actual outcomes for 2015-16 against sensitivity analysis forecasts shows large differences across the main budget outcomes of revenue, expenses and net debt. The actual general government sector revenue for 2015-16, for example, was \$1.2 billion above the Budget estimate, whereas the variances in the forecasting assumptions made in the sensitivity analysis placed revenue at \$753 million above the Budget estimate. . . . .	<b>21</b>
	<b>FINDING 7:</b> Over \$1.3 billion in funding was allocated to the four labour market initiatives announced in the 2015-16 Budget for the period 2014-15 to 2019-20. . . . .	<b>23</b>
	<b>FINDING 8:</b> The Department of Economic Development, Jobs, Transport and Resources met one of the two performance measures regarding the <i>Future Industries Fund</i> for 2015-16. . . . .	<b>24</b>
	<b>FINDING 9:</b> The Department of Economic Development, Jobs, Transport and Resources spent \$6.6 million on 28 projects in 2015-16 as part of the four-year \$200 million <i>Future Industries Fund</i> initiative. The department expects these 28 projects will create approximately 85 new jobs. . . . .	<b>25</b>

**FINDING 10:** The Department of Economic Development, Jobs, Transport and Resources does not measure the specific contribution made by the *Premier's Jobs and Investment Fund* towards departmental outputs. . . . . 26

**FINDING 11:** Department of Economic Development, Jobs, Transport and Resources does not currently publish reports on the outcomes of their major labour market programs. . . . . 27

**RECOMMENDATION 1:** 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:

The *Future Industries Fund*

The *Premiers Job and Investment Fund*

The *Regional Jobs Fund*. . . . . 27

**3 Overall financial outcomes for 2015-16** page

**FINDING 12:** The Government describes its long-term financial management objectives as guiding principles that cannot be effectively evaluated using a narrow set of metrics. . . . . 30

**FINDING 13:** The Government's financial and management objectives are aspirational and it is difficult to measure progress made towards their attainment. . . . . 31

**RECOMMENDATION 2:** The Government develop a set of metrics, using quantifiable data, in order to monitor progress towards meeting its long-term financial management objectives. . . . . 31

**FINDING 14:** The operating surplus of \$2.7 billion achieved in 2015-16 for the general sector is consistent with the Government's sustainability objective of achieving a 'net operating surplus in each year of the forward estimates period'. . . . . 32

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<b>FINDING 18:</b> Victoria had an operating surplus of \$2.7 billion for 2015-16. This was due to the higher-than-expected operating revenue and the lower-than-expected operating expenses. The operating surplus was \$1.4 billion more than originally predicted. These factors also led to a net lending position for the general government sector of \$1.9 billion, compared to the original budget estimate of a \$191.4 million net borrowing position.....	<b>40</b>
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<b>4</b>	<b>Borrowings and net debt</b>	<b>page</b>
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	<b>FINDING 27:</b> While the outstanding borrowings for the general government sector rose fivefold, the interest expenditure sector only doubled over the last decade. ....	<b>55</b>
	<b>FINDING 28:</b> Net debt for the general government sector at 30 June 2016 was \$22.3 billion, 0.1 per cent greater than net debt for 30 June 2015. This was \$5.4 billion or 32 per cent greater than the 2015-16 Budget estimate of \$16.9 billion, 0.8 per cent lower than the revised 2015-16 figure of \$22.5 billion. ....	<b>56</b>
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	<b>FINDING 30:</b> Net debt for the general government sector was \$22.3 billion, \$5.4 billion or 32 per cent higher than the 2015-16 Budget estimate. This was primarily due to the delay in the Port of Melbourne lease transaction, which was entered into in 2016-17. ....	<b>57</b>
	<b>FINDING 31:</b> The Victorian Comprehensive Cancer Centre, procured through a public private partnership agreement, was commissioned in 2015-16. The project contributed \$1.1 billion to public sector net debt at June 2016, in line with the original 2015-16 budget estimate. ....	<b>57</b>
	<b>FINDING 32:</b> The superannuation liability for 2015-16 was \$29.3 billion at 30 June 2016, a \$3.3 billion or 12.9 per cent increase over the year. Increases in the liability are largely determined by movements in Commonwealth bond yields, however these movements do not impact on the amount of cash required to meet the future superannuation liability obligations. ....	<b>59</b>
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- FINDING 34:** Information on the contribution made by the Government in 2015-16 towards fully funding the superannuation liability forms part of general, superannuation-related line items in the *2015-16 Financial Report*. The \$1.0 billion contribution is listed in the summary of special appropriations for 2015-16 in the Department of Treasury and Finance’s *Annual Report 2015-16*. The *Emergency Services & State Superannuation Scheme – 2015 Triennial Valuation* report also provides more details regarding the payment..... **62**
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- FINDING 38:** As a proportion of gross state product, Victorian general government sector net debt for 2015-16 was 5.9 per cent, the highest proportion of the Australian states. Other jurisdictions have used a number of methods, including transferring debt to other sectors and using proceeds from the Commonwealth Government’s asset recycling programs to reduce GGS sector net debt in 2016. These states anticipate an increase in GGS net debt in the future. .... **66**
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<b>6</b>	<b>Output expenditure and delivery</b>	<b>page</b>
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**RECOMMENDATION 5:** 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. .... 99

**RECOMMENDATION 6:** 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. .... 99

**FINDING 58:** Despite an expenditure reduction initiative to *Reduce the Number of Executive Officers* in the Victorian public service, the number of executive officers in the Victorian public service rose by 2.4 per cent over 2015-16. The *State of the Public Sector in Victoria* does not report total remuneration of executives in the Victorian public service and other public sector entities. .... 101

**RECOMMENDATION 7:** Future publications of the *State of the Public Sector in Victoria* report total remuneration of executives in the Victorian public service and other public entities. .... 101

**FINDING 59:** Since 2010, the proportion of jobs in the Victorian Public Service in the lower categories has fallen, while the proportion in the higher four categories has risen. The same trend has occurred within executive levels, with the share of executive positions represented by the lowest band falling over time. .... 103

**RECOMMENDATION 8:** 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 *The State of the Public Sector in Victoria* publication. .... 103

**FINDING 60:** During 2015-16, 40 enterprise bargaining agreements were finalised and approved by the Government. Pay rises included in these agreements contributed to unbudgeted increases in employee expenditure during 2015-16. .... 104

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**FINDING 62:** Funding for certain major events within the Department of Economic Development, Jobs, Transport and Resources' *Tourism, Major Events and International Education* output is held by the Department of Treasury and Finance until the contractual arrangements are finalised, and is not included in the original budgeted figure for the output. This has led to considerable under-budgeting for the *Tourism, Major Events and International Education* output. .... 112



**RECOMMENDATION 9:** 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. .... 113

**FINDING 63:** A list of specific events that contribute to budget and actual figures for the *Tourism, Major Events and International Education* output would enhance the transparency of this output. .... 113

**RECOMMENDATION 10:** 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. .... 113

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**FINDING 65:** Costs for two outputs, one in the Department of Economic Development, Jobs, Transport and Resources and one in the Department of Justice and Regulation, were more than \$50 million greater than the target. However, these variances are small in terms of percentage so the departments are not required to publish explanations under the current guidance in the *2015-16 Model Report for Victorian Government Departments*. .... 114

**RECOMMENDATION 11:** 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. .... 114

**FINDING 66:** Over the past three years, under-estimation of employee expenses in health agencies and hospitals have resulted in under-estimation of employee expenses at the State level. The Department of Health and Human Services forecasts demand for hospital activities, using this as the primary source for forecasting employee expenses. Inaccurate forecasts of employee expenses over the past three years are a result of underestimating demand in hospitals. .... 116

**RECOMMENDATION 12:** 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. .... 116

**RECOMMENDATION 13:** 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. .... 117

**FINDING 67:** Only two out of the 13 performance measures for the Department of Education and Training’s *Higher Education and Skills* output were met in 2015-16. The Department of Education and Training attributes this in part to policy changes including:

- tightened eligibility for subsidised training and foundation courses
- the shift of students to VET FEE-HELP funded training
- the increase in demand-driven places in Higher Education
- fewer enrolments in sub-standard training as part of the Government’s implementation of the Review of Quality Assurance. . . . . 120

**7 Asset Investment** page

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**RECOMMENDATION 14:** All variances reported or discussed in the Annual Financial Report are calculated against a published estimate. . . . . 124

**FINDING 71:** The *2015-16 Financial Report* contains revised figures for 2014-15. However, these changes are not updated and reflected on electronic datasets available on the Department of Treasury and Finance website. . . . . 125

**RECOMMENDATION 15:** 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. . . . . 125

**FINDING 72:** While the actual direct investment expenditure of \$4.2 billion was in line with the 2015-16 budget estimate, actual investment through other sectors for 2015-16 was a cash inflow of \$92.6 million, \$6.4 billion or 98.6 per cent less than the expected inflow of \$6.5 billion. The variance is due to the delay in signing the Port of Melbourne lease transaction. . . . . 126

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**FINDING 82:** The Department of Economic Development, Jobs, Transport and Resources has reported that nine asset projects listed as completed, or estimated to be completed by 30 June 2016, were not completed during 2015-16. Unlike other projects, those which are listed as complete are presented in the budget papers with no financial information. For such projects, subsequent budget papers do not reveal how much was expected to be spent, or how much was actually spent in the final year of completion. . . . . 142

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- (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. . . . . 148

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**FINDING 87:** There was a significant underspend by the Department of Education and Training on the *Inclusive Schools Fund – Funding to Improve Facilities for Students with Disabilities* project, whereby the originally budgeted 2015-16 expenditure of \$10.0 million was reduced by the Department to \$2.5 million, and actual spending on the project for the year was \$120,000.. .... 153

## 8 Review of 2015-16 annual reports page

**FINDING 88:** The seven major departments provided budget portfolio outcomes sections in their 2015-16 annual reports. Not all annual reports explained variances between budget and actual results. The *2015-16 Model Report for Victorian Government Departments* does not explicitly specify what constitutes a significant or material variance for the budget portfolio outcomes section.. .... 159

**RECOMMENDATION 23:** 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.. .... 159

**FINDING 89:** Four departments published budget figures in their annual report budget portfolio outcomes sections that differed from those in the original 2015-16 budget papers.. .... 159

**RECOMMENDATION 24:** 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. .... 159

**FINDING 90:** The Department of Parliamentary Services and Court Services Victoria do not publish the budget portfolio outcomes in their annual reports. This is despite having budgets for line items set in the budget papers.. .... 160

**RECOMMENDATION 25:** 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.. .... 160

**FINDING 91:** All seven major departments complied with the five-year financial summary section in their annual reports for 2015-16, together with the five non-departmental entities and Court Services Victoria. The Department of Parliamentary Services did not provide a five-year summary of finances. . . . . 161

**FINDING 92:** All seven departments complied with the updated guidance regarding the presentation of information and communication technology expenditure in their annual reports. However, the Department of Education and Training did not present the data to the specified level of disaggregation. Of the remaining entities examined by the Committee, only the Department of Parliamentary Services did not provide information on information and communication technology expenditure. . . . . 161

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**9 Implementation of previous recommendations** page

**RECOMMENDATION 26:** 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. . . . . 167

**FINDING 95:** The Committee made 22 recommendations in its *Report on the 2013-14 and 2014-15 Financial and Performance Outcomes*. The Government supported 17 of these recommendations. . . . . 169

**FINDING 96:** Of the 17 recommendations made by the Committee in the *Report on the 2013-14 and 2014-15 Financial and Report Outcomes* that were supported by the Government, three have been implemented, one has been partially implemented, two recommendations have not been implemented to date and 12 are not yet able to be assessed. . . . . 169

**FINDING 97:** There is a substantial amount of information in the online datasets, only available on the Department of Treasury and Finance’s website, which is difficult to access, interpret and analyse. The difficulty in accessing these datasets inhibits use of the data. . . . . 172

**RECOMMENDATION 27:** 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. . . . . 172

**FINDING 98:** The Government has indicated that in responses to recommendations it has committed to review, an expected date for the completion of this review will also be given. Guidance documentation requires that, when possible, estimated expected timeframes for review and/or implementation should be included in responses to Committee recommendations. However, recent responses have not included such timelines. .... 174

**RECOMMENDATION 28:** 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. .... 174





## 1.1 Introduction

This report presents the Committee's findings from its inquiry into the 2015-16 financial and performance outcomes. It completes the Committee's involvement in Victoria's regular cycle of financial and budget accountability that begins with a report into the budget estimates presented by the Government at the outset of each financial year, and concludes with an analysis of the actual financial and performance outcomes once the financial year is completed.

## 1.2 Aims of this report

The aims of this report are to:

- examine the financial and performance achievements for 2015-16, comparing these to the expectations set out in the 2015-16 Budget
- determine if there is sufficient transparency and adequate disclosure of what occurred over the 2015-16 financial year
- identify key areas for improvement.

## 1.3 Key components of the budget

The State's public financial system is divided into three sectors:

- the **general government sector (GGS)** is made up of Government departments and other entities that provide goods and services for no charge (or for charges significantly less than the cost of their provision)
- the **public non-financial corporations (PNFC)** sector is made up of Government business enterprises, such as water providers, that are run on more commercial lines and therefore charge market-based rates for their services
- the **public financial corporations (PFC)** sector is made up of Government-owned financial institutions, such as insurance providers.

Figure 1.1 illustrates the major components of the State's finances for the GGS for 2015-16. This presents an overview of the sector, showing ongoing operational sources and uses of funds, as well as specific investment transactions. While this figure depicts the GGS, the other sectors are similar, although the scale of the components can be different.

**Revenue and output expenses** represent the transactions in the Government's day-to-day operations. **Revenue** is separated, at the highest level, into money the Government is able to raise on its own, such as taxes and charges, and grants it receives from the Commonwealth Government. Own-source and Commonwealth revenue is discussed in more detail in Chapter 5.

**Output expenses** provide the goods and services that are produced on a day-to-day basis by the Government. Output expenses are discussed in further detail in Chapter 6.

For 2015-16 there were four broad sources of cash for investments. They are known as the '**operating surplus**', '**depreciation and similar**', '**asset sales**' and '**net returns from investment through other sectors**'.

The **operating result** is the amount remaining after output expenditure has been deducted from revenue. In times when revenue is greater than operating expenditure, this is known more specifically as an **operating surplus**. Conversely, if output expenditure is greater than operating revenue, the result is a deficit. The operating surplus then becomes one of the sources of investment funds.

Victoria uses an accrual-based accounting system, which represents the costs of long-lived items over every year of their life through **depreciation**, rather than a single cash transaction at the start. Similarly, the system recognises changes in values of funds or liabilities in each year, even though there may have been no cash transactions involved. These representations of conceptual transactions are known in the budget papers as 'non-cash transactions'. As a result, the actual cash set aside in **depreciation and similar** expenses can be used for asset investment.

The State owns enterprises in the PNFC and PFC sectors. Each year, capital investments may be made by the GGS in these enterprises, and capital returns may also be received. In 2015-16, **net returns from investment in other sectors** was an overall cash inflow, meaning that the capital returns were greater than investments. Net cash received from returns is also a source of funds for investment.

The final source for investment funds is **asset sales**. The Government may sell unused or unproductive assets, or privatise an existing publicly owned asset and use the funds to invest in other productive assets.

There were three uses for investment funds for 2015-16.

**Direct investment** is the principal method used by the Government for asset provision. These projects are funded and delivered by the general government sector, with the resulting asset being owned by the Government.

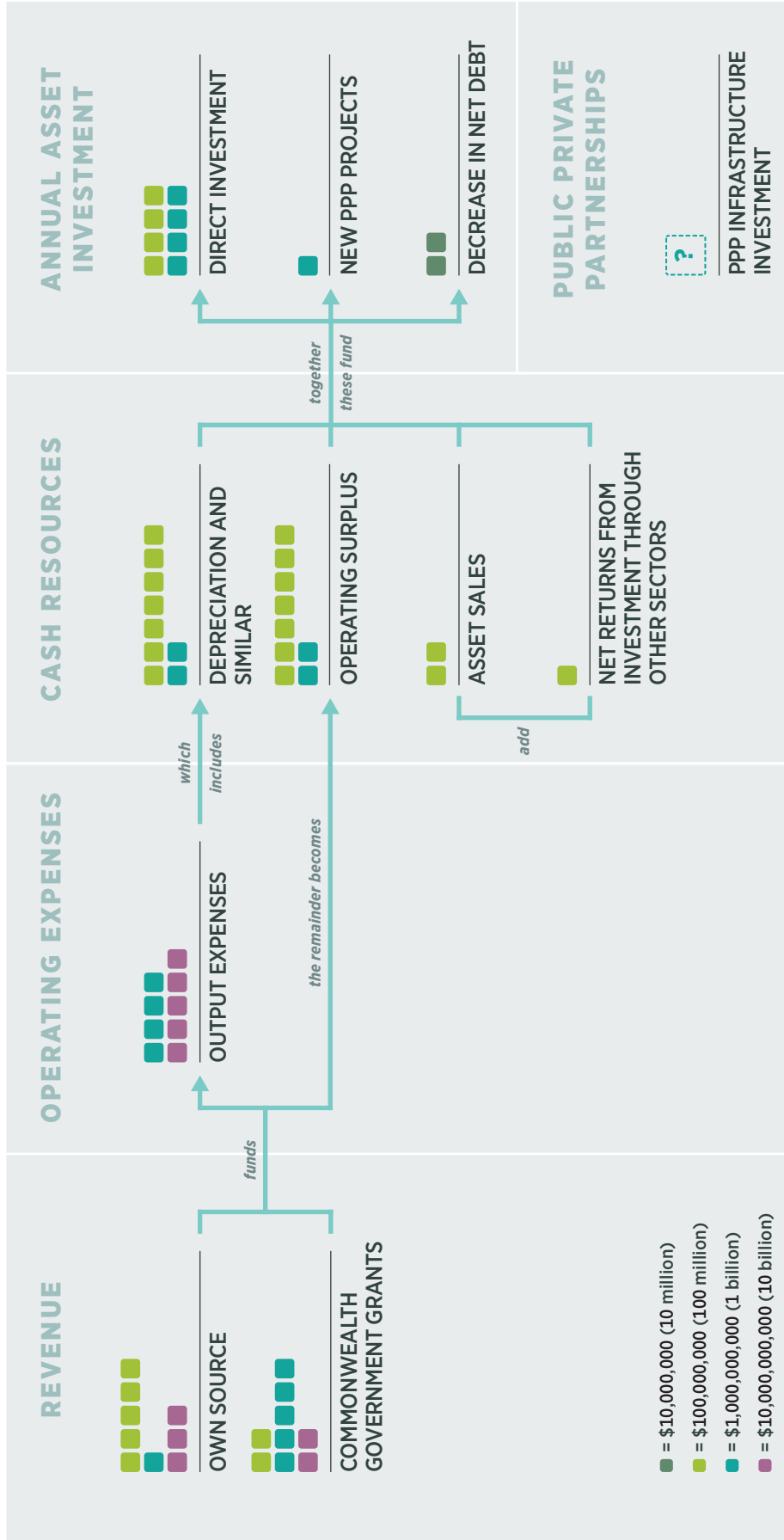
**New PPP projects** are the Government's receipt of a newly-commissioned public private partnership. PPP arrangements are treated as finance leases, with repayments having a capital and an interest component. On acceptance of the infrastructure, the sum of all capital components over the life of the arrangement

is recognised as a single capital transaction. It is similar to purchasing the asset. Interest repayments are part of operational expenditure. Asset investment (including PPP projects) is outlined in greater detail in Chapter 7.

The final significant 'use' for investment funds is the **decrease in net debt** for the Government. That is, funds that are not used for other purposes are used to pay down loans. In years when available funds are not sufficient to fund the required investments, cash borrowings make up the shortfall. For 2015-16, there was a small decrease in net debt. This is discussed in further detail in Chapter 4.

Figure 1.1 shows the actual results for the GGS for 2015-16.

Figure 1.1 Key components of the financial outcomes for 2015-16



Source: Public Accounts and Estimates Committee, based on Department of Treasury and Finance, 2015-16 Financial Report (2015), p.10, 28, 39

## 1.4 Key findings for 2015-16

For the **general government sector** the Committee found:

- Although forecasts made in the budget papers predicted a fall in the Victorian property market over 2015-16, it continued to perform strongly with property prices growing by 9.4 per cent and transactions increasing by 7.7 per cent over the previous year. The strength of the Victorian property market throughout 2015-16 contributed towards \$5.8 billion raised in land transfer duty. This, in turn, drove the general government sector revenue result of \$56.7 billion, an increase of 5.5 per cent compared to the previous year and \$1.2 billion more than was forecast in the initial budget estimate. In addition, greater revenue from property-related taxes drove the operating surplus of \$2.7 billion.
- The amount of general government sector borrowings and net debt have levelled in recent years and this trend continued in June 2016. There was a 0.8 per cent decrease in borrowings and a 0.1 per cent decrease in net debt between 2015 and 2016. The average annual growth rate of general government sector debt plateaued between 2013 and 2016 at 3.8 per cent. In contrast, the annual growth rate was 55.6 per cent between 2008 and 2013.
- The delay in the Port of Melbourne lease transaction meant that the decrease in the general government sector's net debt was less than expected. The impact of the delay in the lease transaction is noted in various sections of this report as original estimates made at the time of the 2015-16 Budget assume this transaction was going to take place in 2015-16. The delay resulted in large variances across a number of budget components for the year.
- Output expenditure for the general government sector for 2015-16 was \$54.1 billion. Over forty per cent of expenditure in 2015-16 was on two items related to public sector employment; employee expenses and other superannuation. The Government also made an additional \$1.0 billion contribution towards the State Superannuation liability in 2015-16. The target is to fully fund the liability by 2035.
- Government infrastructure investment for 2015-16 was \$4.7 billion, comprised of \$4.1 billion of investment expenditure and \$590.9 million of public private partnership infrastructure investment expenditure. Most asset investment spending in 2015-16 was on transport and communications (\$2.0 billion, or 46.3 per cent), followed by health (\$919 million, or 20.8 per cent) and public order and safety (\$677 million or 15.3 per cent).

In terms of the **PFC sector**, weak investment returns from global financial markets contributed towards a net result for the sector of a \$2.4 billion deficit, \$3.0 billion less than the initial budget estimate. Dividends from the PFC sector to the general government sector were \$239 million in 2015-16, less than half the amount of PFC dividends in 2014-15 and the original budget estimate of \$620 million.

In terms of the **PNFCs**, the sector's rate of asset creation was lower than asset usage for 2015-16. While the general government sector has continued to build up assets over the past decade, the PNFC asset stocks have remained static.

The Committee also examined levels of net debt to GSP across the sectors and compared this with other jurisdictions. The Committee found that while Victoria's general government sector net debt to GSP ratio was amongst the highest of all Australian states in 2016, when PNFC sector debt is also taken into account, Victoria's net debt ratios are amongst the lowest in Australia.

This year the Committee focused on the performance of three major departments for 2015-16; Department of Economic Development, Jobs, Transport and Resources; Department of Health and Human Services and Department of Education and Training. These three departments account for 82.7 per cent of output expenses and 83.6 per cent of asset investment funding for 2015-16.<sup>1</sup>

Major findings for the Department of Economic Development, Jobs, Transport and Resources include:

- The Department is responsible for delivering labour market programs worth \$1.3 billion over 2015-16 and the forward estimates period, including the Future Industries Fund (FIF), the Regional Jobs Fund (RJF) and the Premier's Jobs and investment Fund (PJIF)
- Funding for major events for the Department's *Major Events and International Education* output is held centrally by the Department of Treasury and Finance until the contractual arrangements are finalised, leading to considerable under-budgeting
- Wheel-wear issues in V/Line vehicles contributed to the significant cost over-run within the Department's *Train Services* output. The Department received two budgetary supplements related to regional rail in 2015-16.

Major findings regarding the Department of Health and Human Services include:

- The \$99 million variance between the original budget estimate of \$19.9 billion and the 2015-16 actual figure of \$20.0 billion for overall employee expenses for the general government sector was due to higher-than-expected demand for hospital services. The increased hospital demand saw salaries in the health sector rise beyond initial forecasts
- The Department had the largest overspend in 2015-16 out of all the Departments, driven by extra spending in the *Admitted Services* and *Sport and Recreation* outputs.

Major findings for the Department of Education and Training include:

- The Department had the greatest underspend out of all the departments due to a shortfall in the *Higher Education and Skills* output. Only two out of the 13 performance measures within the *Higher Education and Skills* output were met in 2015-16
- The Department significantly underspent on 92 per cent of their ongoing asset investment projects in 2015-16.

<sup>1</sup> Department of Treasury and Finance, *2015-16 Financial Report* (2016), p.46

## 1.4.1 Key areas for improvement

Following the Committee's key findings, this report contains a series of recommendations for the Government and various departments aiming to improve transparency and accountability. These include:

- More publically available information on the State Superannuation Fund liability in light of an additional \$1.0 billion payment made in 2015-16
- Improvements in the publication of data related to the public sector and public service workforces, including the provision of detailed data on executive numbers and salaries
- A series of recommendations regarding explanations of variances between actual financial year figures reported in departmental annual reports and the original budget estimates. The Committee finds this particularly important given the large variances across certain outputs for the three departments examined closely in this report
- Improvements in departmental-level forecasting, particularly in terms of employee numbers after a significant overspend in employee expenses for the Department of Health and Human Services and project expenditure underspends at the Department of Education and Training.

## 1.5 The inquiry process

### 1.5.1 Committee questionnaires

As part of this inquiry, the Committee sent departments and selected entities two questionnaires:

- a General Questionnaire with the same questions for all entities
- an Entity-Specific Questionnaire with questions largely derived from annual reports and tailored to each organisation.

The Committee is aware of the significant time and effort allocated by departments and other entities across the public sector in preparing responses to the questionnaires. While the Committee appreciates the assistance, it also notes a number of poor responses to the questionnaires sent out as part of this inquiry. This includes 'cut and paste' responses from questionnaires sent the previous year,<sup>2</sup> pro forma answers across a number of questions<sup>3</sup> and answers that did not respond to the Committee's question.<sup>4</sup> The Committee also notes increasingly late responses to the questionnaire on the part of some departments.<sup>5</sup>

2 For example, Department of Treasury and Finance, *Response to the Committee's 2015-16 Financial and Performance Outcomes General Questionnaire*, received 22 December 2016, pp.39-40; cf. Department of Treasury and Finance, *Response to the Committee's 2013-14 and 2014-15 Financial and Performance Outcomes General Questionnaire*, received 19 November 2015, p.41

3 For example, Department of Health and Human Services, *Response to the Committee's 2015-16 Financial and Performance Outcomes General Questionnaire*, received 14 December 2016, pp.52-3

4 For example, Department of Treasury and Finance, *Response to the Committee's 2015-16 Financial and Performance Outcomes General Questionnaire*, received 22 December 2016, p.41

5 The Department of Treasury and Finance's *Response to the Committee's 2015-16 Financial and Performance Outcomes General Questionnaire* was due on 9 December 2016 and was submitted on 22 December 2016.

At the time of the preparation of this report, three departments had not fully responded to the Committee's request for information through questions on notice — the Department of Treasury and Finance; the Department of Premier and Cabinet and the Department of Health and Human Services.

The Committee notes that some questions on notice responses were deficient. These related to:

- the ambulance dispatch grid<sup>6</sup>
- classification of code one and code two ambulance callouts<sup>7</sup>
- the details regarding the reprioritisation of \$32.9 million of Department of Health and Human Services funding including impacts<sup>8</sup>
- the Department of Economic Development, Jobs, Transport and Resources Future Industries Funds (FIF).<sup>9</sup>

## 1.5.2 Public hearings

The Committee held public hearings from 13 to 16 February 2017 with secretaries, deputy secretaries and other senior executive staff across the seven major government departments. A total of 127 questions were taken on notice from the hearings.

Transcripts from the public hearings, slideshows, the secretaries' presentations and responses to questions taken on notice can be found on the Committee's website ([www.parliament.vic.gov.au/paec](http://www.parliament.vic.gov.au/paec)).

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6 Associate Professor Tony Walker, Chief Executive Officer, Ambulance Victoria, *2015-16 Financial and Performance Outcomes Transcript of Evidence*, 15 February 2017, p.21; Response to questions on notice from Associate Professor Tony Walker, Chief Executive Officer, Ambulance Victoria to Chair, Public Accounts and Estimates Committee, 28 March 2017, p.7

7 *ibid.*

8 Mr Greg Stenton, Chief Finance Officer, Department of Health and Human Services, *2015-16 Financial and Performance Outcomes Transcript of Evidence*, 15 February 2017, p.33; Response to questions on notice from Mr Greg Stenton, Chief Finance Officer, Department of Health and Human Services, to Chair, Public Accounts and Estimates Committee, 28 March 2017, p.10

9 Mr Justin Hanney, Lead Deputy Secretary, Department of Economic Development, Jobs, Transport and Resources, *2015-16 Financial and Performance Outcomes Transcript of Evidence*, 14 February 2017, p.34; Response to questions on notice from Mr Justin Hanney, Lead Deputy Secretary, Department of Economic Development, Jobs, Transport and Resources, to Chair, Public Accounts and Estimates Committee, 14 March 2017, p.18



## Key findings

The Victorian economy performed better in 2015-16 than the previous year across all the key economic indicators with the exception of wage prices growth.

Victoria's gross state product (GSP) growth rate for 2015-16 of 3.3 per cent was above the initial 2015-16 Budget estimate of 2.5 per cent. Victoria's GSP per capita was in line with the national figure.

Victoria's population growth rate of 2.1 per cent was the highest since 2008-09 and was a key driver of high employment growth for the construction and health care and social assistance industries.

Although forecasts made in the budget papers predicted a correction in the Victorian property market over 2015-16, it continued to perform strongly. Property prices grew by 9.4 per cent and transactions increased by 7.7 per cent over the previous year. The rental, hiring and real estate sector experienced the largest growth rate compared to any other industry sector in Victoria over the same period.

A comparison of the actual outcomes for 2015-16 against sensitivity analysis forecasts shows large differences across the main budget outcomes of revenue, expenses and net debt.

The Department of Economic Development, Jobs, Transport and Resources spent \$6.6 million on 28 projects in 2015-16 as part of the four-year \$200 million *Future Industries Fund* initiative. The department expects that these 28 projects will create approximately 85 new jobs.

## 2.1 Introduction

The performance of Victoria's economy has a large influence on the State's financial outcomes. Each year, the Government frames the State's budget based on economic forecasts and assumptions. These forecasts and assumptions determine the anticipated levels of the Government's revenue, and consequently, the expected levels of output expenditure, asset investment and net debt. Government policies also have an impact on the State's economic environment expectations.

This chapter discusses the Victorian economy and its relationship with the Government's financial outcomes in 2015-16.

## 2.2 The Victorian economy in 2015-16

In 2015-16 the Victorian economy experienced:

- Above-trend gross state product (GSP) growth
- higher-than-expected population growth, with Victoria recording the largest population growth rate of all Australian jurisdictions
- strong increases in both property prices and the number of property transactions
- strong growth in household consumption
- favourable labour market conditions in terms of growth in employment and a fall in the unemployment rate.

The outcomes across these main economic areas and a comparison of the 2015-16 result against the estimates are shown in Table 2.1. The Victorian economy performed better in 2015-16 when compared to 2014-15 across all the key economic indicators with the exception of wage prices growth. The economic outcomes for the year were also more positive in relation to the initial budget forecasts for growth across real gross state product, employment, household consumption, and property prices and transactions. The actual results for wage price growth and enterprise bargaining agreement increases were less than the original Department of Treasury and Finance budget forecasts.

**Table 2.1** Main economic variables in Victoria, 2014-15 and 2015-16

Economic variable	Difference between 2014-15 and 2015-16 actual results		Difference between 2015-16 actual result and 2015-16 budget estimate	
		(percentage points)		(percentage points)
Real gross state product growth	↑	0.7	↑	0.8
Employment growth	↑	0.2	↑	0.9
Unemployment rate	↓	-0.5	↓	-0.3
Consumer price index growth	↑	0.2	↓	-1.2
Wage price index growth	↓	-0.4	↓	-0.9
Population growth	↑	0.3	↑	0.3
Interest rates <sup>(b)</sup>	↓	0.4		-
Household consumption growth	↑	0.7	↑	0.3
Property prices growth <sup>(a)</sup>	↑	3.3	↑	7.6
Property transaction volume growth <sup>(a)</sup>	↑	7.6	↑	7.7
Enterprise bargaining agreement increases <sup>(a)</sup>	↑	1.6	↓	-1.5
Exchange rate <sup>(b)</sup>	↓	-4.8	↓	-9.5

(a) As defined for the sensitivity analysis in Budget Paper No.2.

(b) Trade weighted index points

Sources: Department of Treasury and Finance, *Response to the Committee's 2015-16 Financial and Performance Entity-Specific Questionnaire*, received 3 February 2017, pp.8-9; Department of Treasury and Finance, *Response to the Committee's 2015-16 Financial and Performance General Questionnaire*, received 22 December 2016, pp.40-1

At the public hearings conducted in February 2017, the Secretary of the Department of Treasury and Finance made the following comments on the economy over 2015-16 and the factors behind Victoria's GSP growth rate of 3.3 per cent:

... It is certainly above trend growth. So trend growth in the Victorian economy is generally around 2.75. That is how we kind of define trend. So it was growing much stronger than trend — as I said, higher than the 2.5 we originally forecast.

A lot of it was driven by strong investment, particularly dwelling investment, and the higher population growth than we originally forecast — originally we forecast population growth of 1.8 per cent — that actually came in for 2015-16 at 2.1 per cent. Certainly a low interest rate environment and a depreciating Australian dollar have all contributed to quite a bit of strength in the Victorian economy over that period. But certainly a lot of both public and private investment are going on, not just in 2015-16 but certainly since 2015-16.

I guess the other important point to make about the Victorian economy is confidence is really important to the Victorian economy. We are in an environment where particularly consumers feel confident — and the latest survey results still have consumer sentiment for Victoria in a positive situation, compared to nationally, where it is slightly negative — and confident consumers also help drive growth here in Victoria. So it is sort of a combination of those factors that has led to a very good outcome.<sup>10</sup>

**FINDING 1:** Victoria's GSP growth rate for 2015-16 of 3.3 per cent was above the trend rate of 2.75 per cent and initial 2015-16 Budget estimate of 2.5 per cent.

## 2.2.1 Gross state product

GSP reflects the total market value of goods and services produced in the economy within a given period. It is used as the main measure of a jurisdiction's economic performance.<sup>11</sup>

Victorian GSP growth rate of 3.3 per cent between 2014-15 and 2015-16 was higher than the national economic growth rate of 2.8 per cent. New South Wales (3.5 per cent) had the highest growth rate for the period followed by Victoria.<sup>12</sup>

The annual economic growth across the jurisdictions for 2015-16 is illustrated in Figure 2.1. The compound average growth rate (CAGR) between 2006-07 and 2015-16 is also set out in the figure, to demonstrate the impact of the mining boom on economic growth rates across the resources-rich states and territories.

<sup>10</sup> Mr David Martine, Secretary, Department of Treasury of Finance, *2015-16 Financial and Performance Outcomes Transcript of Evidence*, 13 February 2017, pp.3-4

<sup>11</sup> GSP is defined by the Department of Treasury and Finance as 'the sum of its expenditure components; household consumption, dwelling investment and ownership transfer costs, business investment, government expenditure, net international trade and the balancing item' (Department of Treasury and Finance, *Method for Making Forecasts of Macro-economic Indicators* (2014), p.2)

<sup>12</sup> Australian Bureau of Statistics, *Australian National Accounts: State Accounts, 2015-16*, Cat. No.5220.0. Available at <[www.abs.gov.au/AUSSTATS/abs@.nsf/Latestproducts/5220.0Main%20Features22015-16?opendocument&tabname=Summary&prodno=5220.0&issue=2015-16&num=&view=>](http://www.abs.gov.au/AUSSTATS/abs@.nsf/Latestproducts/5220.0Main%20Features22015-16?opendocument&tabname=Summary&prodno=5220.0&issue=2015-16&num=&view=>)>, viewed 29 November 2016

**Figure 2.1** Gross state product, Australian states

(a) Gross Domestic Product

(b) Compound annual growth rate

Source: Australian Bureau of Statistics, *Australian National Accounts: State Accounts, 2015-16*, Cat. No.5220.0. Available at <[www.abs.gov.au/AUSSTATS/abs@.nsf/Latestproducts/5220.0Main%20Features22015-16?opendocument&tabname=Summary&prodno=5220.0&issue=2015-16&num=&view=>](http://www.abs.gov.au/AUSSTATS/abs@.nsf/Latestproducts/5220.0Main%20Features22015-16?opendocument&tabname=Summary&prodno=5220.0&issue=2015-16&num=&view=>)>, viewed 29 November 2016

If the GSP is viewed over the longer term period of 2006-07 to 2015-16, the Victorian economy is shown to have grown by a more moderate average annual rate of 2.2 per cent. This was in line with that of New South Wales, and less than the national average annual growth rate of 2.8 over the same period. The national average annual growth was driven by the economic growth experienced by mining states such as Western Australia, and Queensland as a result of the resources boom.<sup>13</sup>

The transition of national economic growth away from the resource-rich states towards the more populous non-mining states such as New South Wales and Victoria has been commented on by the Department of Treasury and Finance in recent Budget papers.<sup>14</sup> In response to the Committee's questionnaire for this inquiry, the Department of Treasury and Finance explained:

At the time the 2015-16 Budget was prepared, the nation had commenced the slow transition from an economy led by mining investment to more broad-based drivers. Following seven years of below trend growth, the Victorian economy was expected to start to see the benefits of this transition, with a lower exchange rate and low interest rates underpinning growth. However, the impact of car industry closures also had to be factored in. As it turned out, the economies of the larger non-mining states grew well above trend in 2015-16, with the benefits of the national transition greater than expected. In particular, dwelling investment in Victoria grew much more strongly than anticipated (at its fastest pace in 14 years).<sup>15</sup>

<sup>13</sup> *ibid.*

<sup>14</sup> Department of Treasury and Finance, *Budget Paper No.2: 2015-16 Strategy and Outlook* (2015), pp.22-23; Department of Treasury and Finance, *Budget Paper No.2: 2016-17 Strategy and Outlook* (2016), p.22

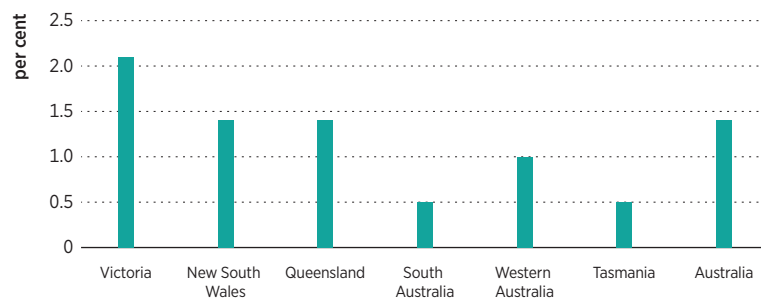
<sup>15</sup> Department of Treasury and Finance, *Response to the Committee's 2015-16 Financial and Performance General Questionnaire*, received 22 December 2016, p.40

**FINDING 2:** Out of all the Australian states, Victoria's GSP growth rate for 2015-16 was second highest after New South Wales. The influence of resource-rich states on Australia's economy is now waning and economic growth at the national level is driven by the non-mining states.

## 2.2.2 Impact of population growth

The population growth rate for 2015-16 was predicted to be in line with the 2014-15 actual figure of 1.8 per cent. The actual growth rate was 2.1 per cent which is the highest growth since 2008-09.<sup>16</sup> Victoria had the highest population growth rate out of all the Australian jurisdictions for 2015-16 (Figure 2.2). The Victorian rate was 0.7 per cent greater than the following highest rate of 1.4 per cent achieved in New South Wales and Queensland which represent the Australian average.

**Figure 2.2** Population growth rates for 2015-16, Australian states



Source: Australian Bureau of Statistics, *Australian Demographic Statistics, June 2016*, Cat. No.3101.0. Available at <[www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/3101.0Main+Features1Jun%202016?OpenDocument](http://www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/3101.0Main+Features1Jun%202016?OpenDocument)>, viewed 19 February 2017

Victoria's high population growth rate for 2015-16 is partly a result of the overall national economic transition away from the mining states. The main component of Victoria's population growth remains overseas immigration. However, net interstate immigration, whereby residents from other Australian states resettle in Victoria, is an increasingly important component of Victoria's population growth. The Secretary of the Department of Treasury and Finance explained to the Committee that the:

... net interstate migration here into Victoria has actually increased quite substantially since the global financial crisis, and a lot of that has to do with the downturn in mining. So we are particularly seeing migration coming back from states such as Western Australia and Queensland. That is one important point — so we are seeing strong interstate migration here into Victoria.<sup>17</sup>

<sup>16</sup> Australian Bureau of Statistics, *Australian Demographic Statistics, June 2016*, Cat. No.3101.0. Available at <[www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/3101.0Jun%202016?OpenDocument](http://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/3101.0Jun%202016?OpenDocument)>, viewed 19 February 2017

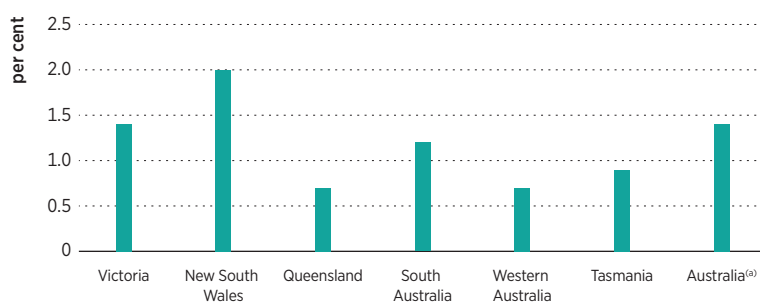
<sup>17</sup> Mr David Martine, Secretary, Department of Treasury of Finance, *2015-16 Financial and Performance Outcomes Transcript of Evidence*, 13 February 2017, p.4

### 2.2.3 Gross state product per capita in Australian states

While Victoria recorded high levels of GSP and population growth for 2015-16 compared to both the initial 2015-16 budget estimates and other jurisdictions, it is worthwhile comparing Victorian GSP per capita growth against that of other states. As the Australian Bureau of Statistics (ABS) explains: ‘different rates of population growth explain some of the differences between states in GSP growth and for analytical purposes it is useful to look at movements in GSP per capita’.<sup>18</sup>

As shown in Figure 2.3, the Victorian GSP per capita grew by 1.4 per cent in 2015-16, in line with the national figure calculated using GDP. The state with the highest GSP per capita growth was New South Wales (NSW) which recorded 2.0 per cent growth for 2015-16. States that recorded the lowest GSP per capita growth for 2015-16 were Queensland and Tasmania at 0.7 per cent.<sup>19</sup>

**Figure 2.3** Gross state product per capita, Australian states, 2015-16



(a) Gross Domestic Product

Source: Australian Bureau of Statistics, *Australian National Accounts: State Accounts, 2015-16*, Cat. No.5220.0. Available at <Available at <[www.abs.gov.au/AUSSTATS/abs@.nsf/Latestproducts/5220.0Main%20Features22015-16?opendocument&tabname=Summary&prodno=5220.0&issue=2015-16&num=&view=>](http://www.abs.gov.au/AUSSTATS/abs@.nsf/Latestproducts/5220.0Main%20Features22015-16?opendocument&tabname=Summary&prodno=5220.0&issue=2015-16&num=&view=>)>, viewed 29 November 2016

**FINDING 3:** Victoria recorded strong gross state product and population growth compared to other Australian states for 2015-16. Victoria’s gross state product per capita is less remarkable with growth of 1.3 per cent. Victoria ranked second after New South Wales and was in line with the overall national figure.

### 2.2.4 Industry gross value added

The industry gross value added (GVA) measure is another economic indicator that shows the contribution of each industry towards the total GSP figure. The ABS defines GVA as ‘the value of output at basic prices minus the value of intermediate consumption at purchasers’ prices’.<sup>20</sup>

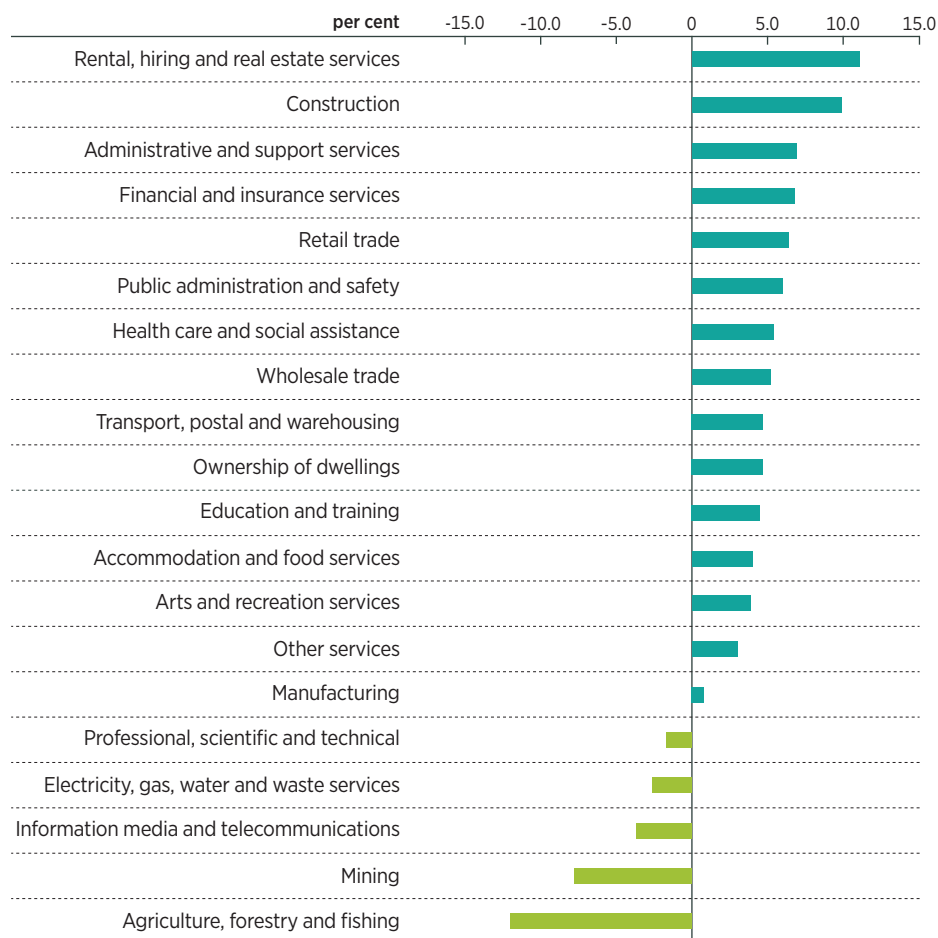
The annual percentage change in GVA by Victorian industry in 2015-16 is shown in Figure 2.4.

<sup>18</sup> Australian Bureau of Statistics, *Australian National Accounts: State Accounts, 2015-16*, Cat. No.5220.0. Available at <[www.abs.gov.au/AUSSTATS/abs@.nsf/Latestproducts/5220.0Main%20Features22015-16?opendocument&tabname=Summary&prodno=5220.0&issue=2015-16&num=&view=>](http://www.abs.gov.au/AUSSTATS/abs@.nsf/Latestproducts/5220.0Main%20Features22015-16?opendocument&tabname=Summary&prodno=5220.0&issue=2015-16&num=&view=>)>, viewed 29 November 2016

<sup>19</sup> *ibid.*

<sup>20</sup> Australian Bureau of Statistics, *Glossary, 2016*, Cat. No.5220.0 Available at <[www.abs.gov.au/Ausstats/abs@.nsf/glossary/5220.0](http://www.abs.gov.au/Ausstats/abs@.nsf/glossary/5220.0)>, viewed 29 November 2016

**Figure 2.4** Industry gross value added percentage change by industry in Victoria, 2014-15 to 2015-16



Source: Australian Bureau of Statistics, *Australian National Accounts: State Accounts, 2015-16*, Cat. No.5220.0. Available at <[www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/5220.02015-16?OpenDocument](http://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/5220.02015-16?OpenDocument)>, viewed 19 February 2017

Two industries connected to the property sector recorded the highest levels of growth in terms of percentage change by industry between 2014-15 and 2015-16; rental, hiring and real estate services (11.1 per cent) and construction (9.9 per cent). Industries where employment declined over 2015-16 included agriculture, forestry and fishing by 12.0 per cent and mining by 7.8 per cent.<sup>21</sup>

## 2.2.5 Dwelling investment and the property market

The performance of Victoria's property market has a direct impact on the State's budget outcomes, as 44.5 per cent of Victoria's state-based revenue is derived from property-based taxes. In 2015-16 they were worth \$8.9 billion.<sup>22</sup>

<sup>21</sup> Australian Bureau of Statistics, *Australian National Accounts: State Accounts, 2015-16*, Cat. No.5220.0. Available at <[www.abs.gov.au/AUSSTATS/abs@.nsf/Latestproducts/5220.0Main%20Features22015-16?opendocument&tabname=Summary&prodno=5220.0&issue=2015-16&num=&view=>](http://www.abs.gov.au/AUSSTATS/abs@.nsf/Latestproducts/5220.0Main%20Features22015-16?opendocument&tabname=Summary&prodno=5220.0&issue=2015-16&num=&view=>)>, viewed 29 November 2016

<sup>22</sup> Department of Treasury and Finance, *2015-16 Financial Report* (2016), p.36

In the 2015-16 Budget, the Department of Treasury and Finance predicted property price growth would be 1.8 per cent for the year, while property transactions would remain flat.<sup>23</sup> These projections indicate that at the time the 2015-16 budget was prepared, the Department was anticipating a fall, or correction, in what had been a buoyant property market over 2014-15.

Instead the Victorian property market continued to perform strongly throughout 2015-16. According to the Department of Treasury and Finance, dwelling investment in Victoria ‘grew much more strongly than anticipated (at its fastest pace in 14 years)’<sup>24</sup> and that ‘positive sentiment in the property market lasted longer than had been expected [and the] continuation of upward property price cycle encouraged higher listings and increased seller activity’.<sup>25</sup> In relation to factors driving property prices and transaction volume growth in 2015-16, the Department also noted:

- property prices grew by 9.4 per cent in 2015-16, 3.3 percentage points higher than the previous year’s growth rate. This was a result of ‘higher population growth (in particular, higher net overseas migration) in 2015-16 compared to 2014-15 and relatively lower interest rates’<sup>26</sup>
- property transaction volume grew by 7.7 per cent (7.6 percentage points higher than the previous year’s growth rate) also due to ‘higher population growth in 2015-16 (including higher net interstate and overseas migration) which drove higher demand. Auction clearance rates remained stable with a higher number of properties offered at auction in 2015-16 leading to the increase in transaction volumes’.<sup>27</sup>

**FINDING 4:** Although forecasts made in the budget papers predicted a correction in the Victorian property market over 2015-16, it continued to perform strongly. Property prices grew by 9.4 per cent and transactions increased by 7.7 per cent over the previous year. The rental, hiring and real estate sector experienced the largest growth by percentage compared to any other industry sector in Victoria over the same period.

## 2.2.6 Household consumption growth

According to the Department of Treasury and Finance, increases in household consumption ultimately lead to higher revenue from state taxes and the goods and services tax (GST).<sup>28</sup>

<sup>23</sup> Department of Treasury and Finance, *Response to the Committee’s 2015-16 Financial and Performance General Questionnaire*, received 22 December 2016, p.41

<sup>24</sup> *ibid.*, p.40

<sup>25</sup> *ibid.*, p.41

<sup>26</sup> Department of Treasury and Finance, *Response to the Committee’s 2015-16 Financial and Performance Entity-Specific Questionnaire*, received 3 February 2017, p.8

<sup>27</sup> *ibid.*, p.9

<sup>28</sup> Department of Treasury and Finance, *Budget Paper No.2: 2015-16 Strategy and Outlook* (2015), p.80



The Department of Treasury and Finance anticipated household consumption growth to increase from 2.5 per cent in 2014-15 to 3.0 per cent the following year.<sup>29</sup> The actual result of 3.2 per cent exceeded this.<sup>30</sup> The Department of Treasury and Finance informed the Committee that this result was driven by ‘Stronger growth in Food and Clothing and footwear sectors [which] more than offset weaker growth in Communications and Hotels, cafes and restaurants’.<sup>31</sup>

### 2.2.7 Inflation and wage costs

Inflation in Victoria was 1.6 per cent, reaching a similar level to the 2014-15 result (1.4 per cent). This was lower than the 2015-16 Budget forecast figure of 2.8 per cent.<sup>32</sup> The Department of Treasury and Finance explained that this was a result of ‘the increase in oil prices [which] was not as strong as expected...’.<sup>33</sup>

The wage price index grew also grew at a slower rate — by 2.3 per cent against a budget estimate of 3.25 per cent.<sup>34</sup> The Department of Treasury of Finance informed the Committee that reasons for this variance:

... can be attributed to a range of related factors, including a moderation in inflation expectations to below average levels, an improvement in the flexibility of wages (allowing firms greater scope to adjust wages in response to demand for goods and services), and broader measures of labour market spare capacity remaining elevated, with the underemployment rate (the proportion of persons in the labour force who have a job but would like to work additional hours) at near-record levels.<sup>35</sup>

### 2.2.8 Employment

Employment in Victoria rose by 2.3 per cent in 2015-16.<sup>36</sup> This was higher than both the expected growth rate of 1.5 per cent in the 2015-16 Budget<sup>37</sup> and the 2.1 per cent growth rate in 2014-15.<sup>38</sup>

29 Department of Treasury and Finance, *Response to the Committee's 2015-16 Financial and Performance General Questionnaire*, received 22 December 2016, p.41; Department of Treasury and Finance, *Response to the Committee's 2015-16 Financial and Performance Entity-Specific Questionnaire*, received 3 February 2017, p.8

30 *ibid.*

31 *ibid.*

32 Department of Treasury and Finance, *Response to the Committee's 2015-16 Financial and Performance General Questionnaire*, received 22 December 2016, p.41

33 *ibid.*

34 *ibid.*; Department of Treasury and Finance, *Response to the Committee's 2015-16 Financial and Performance Entity-Specific Questionnaire*, received 3 February 2017, p.8

35 Department of Treasury and Finance, *Response to the Committee's 2015-16 Financial and Performance General Questionnaire*, received 22 December 2016, p.41

36 Department of Treasury and Finance, *Response to the Committee's 2015-16 Financial and Performance Entity-Specific Questionnaire*, received 3 February 2017, p.8

37 Department of Treasury and Finance, *Response to the Committee's 2015-16 Financial and Performance General Questionnaire*, received 22 December 2016, p.41

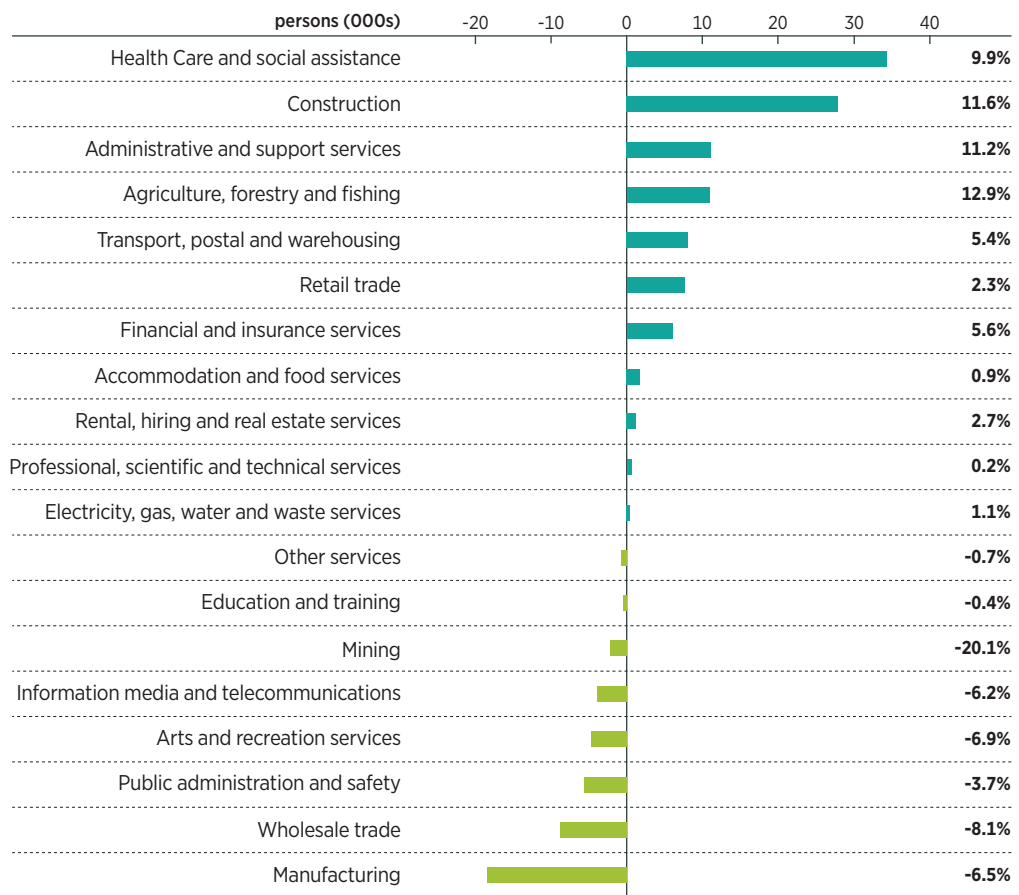
38 Department of Treasury and Finance, *Response to the Committee's 2015-16 Financial and Performance Entity-Specific Questionnaire*, received 3 February 2017, p.8

The Department explained that employment growth between 2014-15 and 2015-16 was primarily driven by:

- health care and social assistance, consistent with the growing and ageing population; and
- construction, consistent with low interest rates and strong population growth supporting strong growth in building activity.<sup>39</sup>

These factors are shown in Figure 2.5, which also shows that employment in the manufacturing and wholesale trade industries fell over the year.

**Figure 2.5** Victorian employment growth and percentage change by industry, 2014-15 to 2015-16



Source: Australian Bureau of Statistics, *Labour Force, Australia, Detailed, Quarterly, Nov 2016*, Cat. No. 6291.0.55.003 Available at <[www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/6291.0.55.003Nov%202016?OpenDocument](http://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/6291.0.55.003Nov%202016?OpenDocument)>, viewed 19 February 2017

39 *ibid.*

The unemployment rate in Victoria was 5.94 per cent in 2015-16.<sup>40</sup> This result is lower than the budget estimate of 6.25 per cent<sup>41</sup> and the 2014-15 result of 6.4 per cent.<sup>42</sup>

**FINDING 5:** Victoria's population growth was a key factor in overall employment growth and the main driver behind employment increases in the health care and social assistance and construction industries for 2015-16.

## 2.3 The impact of economic variables on the State's finances

The estimates for revenue and expenditure over the budget year and the forward estimates period are based on assumptions regarding the Victorian economy, the national economy and the global economic outlook. These assumptions inform the estimates made by the Department of Treasury and Finance regarding a series of economic variables.

The Department of Treasury and Finance has also identified the relationship between these economic variables and major revenue items for the general government sector in Table 2.2.

**Table 2.2** Impact of variances between budget estimates and actuals of selected economic variables on revenue, expenses and net debt for the general government sector, 2015-16

Economic variable	Impacted revenue items
Gross State Product (GSP)	All taxes are influenced by GSP
State final demand <sup>(a)</sup>	Insurance taxes
Household consumption	Gambling taxes; GST (national consumption)
Employment Growth	Payroll tax, gambling taxes
Consumer Price Index	GST, motor vehicle taxes, gambling and insurance taxes
Wages Growth	Payroll tax, land transfer duty and gambling taxes
Housing prices	Land transfer duty
Interest rates	Land transfer duty
Population	All taxes are influenced by population

(a) A broad measure of the demand for goods and services in the economy, including for export.

Source: Department of Treasury and Finance, *Response to the Committee's 2015-16 Budget Estimates General Questionnaire*, received 12 June 2016, p.32

<sup>40</sup> Department of Treasury and Finance, *Response to the Committee's 2015-16 Financial and Performance General Questionnaire*, received 22 December 2016, p.40

<sup>41</sup> *ibid.*

<sup>42</sup> Department of Treasury and Finance, *Response to the Committee's 2015-16 Financial and Performance Entity-Specific Questionnaire*, received 3 February 2017, p.8

The Department of Treasury and Finance publishes a 'sensitivity analysis' within the budget papers every year. This analysis uses the Department's model to estimate the impact of changes in the economic variables listed in Table 2.2 on the key outcomes. The outcomes include revenue, expenses and net debt for the general government sector.

The sensitivity analysis contained in the budget papers 'attempts to capture some, though not all, of the interrelationships between economic variables. This provides a better understanding of the fiscal impact where the general economic environment is materially different from forecast'.<sup>43</sup>

An information paper produced by the Australian Capital Territory's Department of Treasury made the following observations on the accuracy of budget forecasts:

In general, budget forecasts follow the process of converting forecasts of economic variables (such as GDP/GSP growth, employment, inflation etc.) into forecasts of fiscal variables. Besides the inaccuracies in economic forecasts being translated into inaccuracies in fiscal forecasts, the conversion process itself is based on statistical and regression methods that yield projections within certain tolerance bands and margins of error.

It should be no surprise that forecasts are not always accurate – they are essentially about predicting the future with incomplete information.<sup>44</sup>

In keeping with this sentiment, the Victorian Department of Treasury and Finance specifies that the actual impact of economic indicators on the budget 'cannot be precisely determined'.<sup>45</sup>

The Department also warns that 'care should be exercised in interpreting these [sensitivity analysis] results. The relationships between economic and fiscal aggregates are complex, and typically depend on the specific characteristics of the economic shock'.<sup>46</sup>

Taking these caveats into consideration, Table 2.3 shows how widely economic forecasts and actual results can vary. The actual general government sector revenue for 2015-16, for example, was \$1.2 billion above the Budget estimate, whereas the variances in the forecasting assumptions made in the sensitivity analysis placed revenue at \$753 million above the Budget estimate.

<sup>43</sup> Department of Treasury and Finance, *Budget Paper No.2: 2015-16 Strategy and Outlook* (2015), p.77

<sup>44</sup> Australian Capital Territory Government, Department of Treasury, *Forecasting Accuracy of the ACT Budget Estimates* (2008), p.2

<sup>45</sup> Department of Treasury and Finance, *Response to the Committee's 2015-16 Financial and Performance General Questionnaire*, received 22 December 2016, p.43

<sup>46</sup> Department of Treasury and Finance, *Budget Paper No.2: 2015-16 Strategy and Outlook* (2015), p.77

Table 2.3 Impact of sensitivity analysis on Budget outcomes

Economic outcome	Impact on revenue	Impact on expenses	Impact on net
	(\$ million)	(\$ million)	(\$ million)
Higher-than-expected real gross state product growth	128	6	-122
Higher-than-expected employment growth	53	-2	-55
Lower-than-expected consumer price index growth	-252	-82	170
Higher-than-expected wage price index growth	31	-9	-40
Higher-than-expected property prices growth	438	-15	-467
Higher-than-expected property transaction volume growth	400	-8	-408
Lower-than-expected enterprise bargaining agreement increases	-45	-320	-275
<b>Total impact on budget from sensitivity analysis</b>	<b>753</b>	<b>-430</b>	<b>-1,197</b>
<b>Actual 2015-16 result against budget estimate</b>	<b>1,187</b>	<b>-258</b>	<b>5,411</b>

Sources: Department of Treasury and Finance, *Response to the Committee's 2015-16 Financial and Performance General Questionnaire*, received 22 December 2016, pp.42-3; Department of Treasury and Finance, *2015-16 Financial Report* (2016), p.113, 116

**FINDING 6:** A comparison of the actual outcomes for 2015-16 against sensitivity analysis forecasts shows large differences across the main budget outcomes of revenue, expenses and net debt. The actual general government sector revenue for 2015-16, for example, was \$1.2 billion above the Budget estimate, whereas the variances in the forecasting assumptions made in the sensitivity analysis placed revenue at \$753 million above the Budget estimate.

The Committee has previously made a series of recommendations regarding the economic forecasting by the Department of Treasury and Finance.<sup>47</sup> While the Government has not supported all the Committee's previous recommendations regarding economic forecasting, the Department of Treasury and Finance has informed the Committee that they are currently undertaking a review of the budget paper's sensitivity analysis and this will be completed by May 2017.<sup>48</sup> The Committee welcomes this review.

<sup>47</sup> These recommendations included:

- quantifying the impact of household consumption on the main budget items via the sensitivity analysis in the budget papers (Public Accounts and Estimates Committee, *Report on the 2013-14 and 2014-15 Financial and Performance Outcomes* (2016), Recommendation 1, p.27)
- publishing data on the impact of the State's main economic variables on the public non-financial corporations sector and the public financial corporations sector (Public Accounts and Estimates Committee, *Report on the 2013-14 and 2014-15 Financial and Performance Outcomes* (2016), Recommendations 2 and 3, p.29)
- including all variables listed in Note 1 to the financial statements as key economic assumptions (including population growth and the unemployment rate) (Public Accounts and Estimates Committee, *Report on the 2015-16 Budget Estimates* (2015), Recommendation 11, p.59)
- quantifying the impact of the main risks to the Victorian economy identified in the discussion in Budget Paper No.2 by including all of the identified risks in the sensitivity analysis. (Public Accounts and Estimates Committee, *Report on the 2015-16 Budget Estimates* (2015), Recommendation 12, p.61)

<sup>48</sup> Department of Treasury and Finance, *Response to the Committee's 2015-16 Financial and Performance Entity-Specific Questionnaire*, received 3 February 2017, p.22

## 2.4 Labour market programs announced in the 2015-16 Budget

A series of labour markets policies and programs intended to ‘support job creation by boosting confidence, encouraging new business formation, undertaking regulatory reform and improving linkages between people and jobs’ were announced in the 2015-16 Budget.<sup>49</sup> At the time the Government also stated that these policies and projects would assist in realising their job creation target of 100,000 jobs over the following two years.<sup>50</sup>

In its *Report on the 2015-16 Budget Estimates*, the Committee made a recommendation that ‘the Government release regular reports to assess the progress and efficacy of the Government’s programs to stimulate employment’.<sup>51</sup> The Government supported this recommendation ‘in principle’, noting:

Where appropriate, the Government will release regular reports to assess the progress and efficacy of the Government’s programs to stimulate employment. This includes the State Revenue Office which already provides quarterly reports on outcomes of the Back to Work initiative. Other portfolios will need to decide the approach related to programs for which they are responsible.<sup>52</sup>

Due to the lack of public information, as part of this inquiry the Committee asked the Government (via the departments) to provide detail on the nature, content and progress of the labour market programs and initiatives announced in the 2015-16 Budget. This included providing information on the implementation of these programs and initiatives, their expected outcomes and actual outcomes in 2015-16, and any further information regarding their implementation.

The labour market related programs were:

- the *Back to Work Scheme*, an initiative announced in the *2014-15 Victorian Budget Update* for \$100 million over 2015-16 and 2016-17<sup>53</sup>
- the *Future Industries Fund*, a four year \$200 million initiative commencing in 2015-16<sup>54</sup>
- the *Premier’s Jobs and Investment Fund*, a five year \$508 million initiative commencing in 2014-15<sup>55</sup>
- the *Regional Jobs and Infrastructure Fund*, a \$500 million initiative over four years.<sup>56</sup>

<sup>49</sup> Department of Treasury and Finance, *Budget Paper No.2: 2015-16 Strategy and Outlook* (2015), p.40

<sup>50</sup> Public Accounts and Estimates Committee, *Report on the 2015-16 Budget Estimates* (2015), p.64

<sup>51</sup> Public Accounts and Estimates Committee, *Report on the 2015-16 Budget Estimates* (2015), Recommendation 14, p.64

<sup>52</sup> *Government Responses to the Recommendations of the Public Accounts and Estimates Committee’s Report on the 2015-16 Budget Estimates*, Tabled 4 May 2016, p.6

<sup>53</sup> Department of Treasury and Finance, *2014-15 Victorian Budget Update* (2014) p.125

<sup>54</sup> Department of Treasury and Finance, *Budget Paper No.3: 2015-16 Service Delivery* (2015), p.19

<sup>55</sup> *ibid.*

<sup>56</sup> *ibid.*

**FINDING 7:** Over \$1.3 billion in funding was allocated to the four labour market initiatives announced in the 2015-16 Budget for the period 2014-15 to 2019-20.

### ***Back to Work Scheme***

The Department of Treasury and Finance explained that ‘the \$100 million *Back to Work Scheme* provided financial assistance to the non-Government sector to increase employment levels in Victoria. It was specifically designed to help get young unemployed, retrenched workers, out-of-trade apprentices, and people who have been looking for work for more than 12 months back to work’.<sup>57</sup>

The Department informed the Committee that the scheme ‘is fully subscribed and closed on 18 July 2016, with almost 16,000 payments made to employers taking on disadvantaged jobs seekers since it was introduced in April 2015.’ The Department also indicated that:

- \$15 million has been set aside for dairy workers and automotive workers, who have been affected by the recent downturns in these industries.
- The scheme has also contributed \$6 million to the establishment of four pilot interventions in areas of socio-economic disadvantage and workers in transition in Victoria, as well as \$15 million to support disadvantaged workers through Jobs Victoria.<sup>58</sup>

### ***Future Industries Fund***

The *Future Industries Fund* (FIF) is managed by the Department of Economic Development, Jobs, Transport and Resources. The initiative ‘seeks to build Victoria’s competitive advantage across priority industry sectors’.<sup>59</sup> The sectors are:

- medical technology and pharmaceuticals
- new energy technology
- food and fibre
- transport, defence and construction technology
- international education
- professional services.<sup>60</sup>

<sup>57</sup> Department of Treasury and Finance, *Response to the Committee’s 2015-16 Financial and Performance Entity-Specific Questionnaire*, received 3 February 2017, p.43

<sup>58</sup> *ibid.*

<sup>59</sup> Department of Economic Development, Jobs, Transport and Resources, *Response to the Committee’s 2015-16 Financial and Performance Entity-Specific Questionnaire*, received 23 January 2017, p.6

<sup>60</sup> Department of Treasury and Finance, *Budget Paper No.2: 2015-16 Strategy and Outlook* (2015), p.40

The Department informed the Committee that:

[The] FIF supports a number of programs and initiatives such as the Sector Growth Program, New Energy Jobs Fund and Manufacturing Program. The department administers a formal assessment process against program criteria, allocates funding to successful applicants and monitors the progress of projects against contracted outcomes.<sup>61</sup>

Two performance measures related to the FIF under the Department of Economic Development, Jobs, Transport and Resources' 'Industry and Enterprise Innovation' output were included in 2015-16. They were:

- 'Future industry sector strategies delivered' (Target: six)
- 'Companies supported by the Future Industries Fund' (Target: 100).<sup>62</sup>

The Department states that it delivered eight strategies for the 'Future industry sector strategies delivered' performance measure in 2015-16, two above the initial target of six.<sup>63</sup> The Department explained that 'the Transport, Defence and Construction Technology sector strategy was split into three separate strategies due to the disparate needs of these sectors, resulting in eight priority sector strategies being released'.<sup>64</sup>

At the public hearings conducted in February 2017, Lead Deputy Secretary Mr Justin Hanney provided further comment on the expansion of the number of future industries:

Future Industries Fund, when it was established what it looked at was the changing nature of the Victorian economy away from a lot of the blue collar into advanced manufacturing and other parts of the economy.<sup>65</sup>

In relation to the second performance measure, the Department did not meet its target of 100 'Companies supported by the Future Industries Fund'. Instead 50 companies received FIF support in 2015-16. The Department explained that:

Commencement of the Future Industries and New Energy Jobs Fund programs was deferred to Quarters 3 and 4 2015-16 to allow for extensive industry consultation to inform the development of the sector strategies and grant programs.<sup>66</sup>

**FINDING 8:** The Department of Economic Development, Jobs, Transport and Resources met one of the two performance measures regarding the *Future Industries Fund* for 2015-16.

61 Department of Economic Development, Jobs, Transport and Resources, *Response to the Committee's 2015-16 Financial and Performance Entity-Specific Questionnaire*, received 23 January 2017, p.6

62 Department of Treasury and Finance, *Budget Paper No.3: 2015-16 Service Delivery* (2015), p.133

63 Department of Economic Development, Jobs, Transport and Resources, *2015-16 Annual Report* (2016), p.210

64 *ibid.*

65 Mr Justin Hanney, Lead Deputy Secretary, Department of Economic Development, Jobs, Transport and Resources, *2015-16 Financial and Performance Outcomes Transcript of Evidence*, 14 February 2017, p.34

66 Department of Economic Development, Jobs, Transport and Resources, *2015-16 Annual Report*, p.210



The Department also provided the following information to the Committee regarding the funding expended and the number of jobs created in 2015-16 as part of the FIF:

The New Energy Jobs Fund was allocated \$20 million and was launched in December 2015 (see Budget Paper No. 3 2015-16, pages 3 and 19). Round one of the New Energy Jobs Fund closed for applications on 16 March 2016. As at 30 June 2016, 24 projects had been approved for a total of \$5.88 million of grant funding. These projects are expected to create approximately 50 direct jobs.

The Future Industries Manufacturing Program was allocated \$5 million, and launched in October 2016. As at 30 June 2016, four projects were announced for a total of \$682,381 of grant funding.

The Sector Growth Program was allocated \$20 million, which was launched in March 2016. As at 30 June 2016, no funds had been allocated from this program [See Table 2.4].<sup>67</sup>

**Table 2.4** *Future Industries Fund, expected new jobs and funding, 2015-16*

FIMP Project Sector	Financial Year 2015-16	
	Expected New Jobs (FTE)	Funding Announced
Construction Technologies	15	195,247
Food and Fibre	0	79,670 <sup>(a)</sup>
Transport Technologies	5	42,464
Med Tech/Pharmaceuticals	15	365,000
<b>Grand Total</b>	<b>35</b>	<b>682,381</b>

(a) This project was supported on the basis of new exports and higher value employment being generated for existing workers at the recipient business.

Source: Response to questions on notice from Mr Justin Hanney, Lead Deputy Secretary, Department of Economic Development, Jobs, Transport and Resources, to Chair, Victorian Parliament Public Accounts and Estimates Committee, 14 March 2017, p.18

**FINDING 9:** The Department of Economic Development, Jobs, Transport and Resources spent \$6.6 million on 28 projects in 2015-16 as part of the four-year \$200 million Future Industries Fund initiative. The department expects these 28 projects will create approximately 85 new jobs.

### **Premier's Jobs and Investment Panel and the *Premier's Jobs and Investment Fund***

The Premier's Jobs and Investment Panel was established as an independent body of senior business and industry leaders, to provide direct advice to the Premier on the allocation of \$508 million *Premier's Jobs and Investment Fund* (PJIF) over five years.<sup>68</sup>

<sup>67</sup> Response to questions on notice from Mr Justin Hanney, Lead Deputy Secretary, Department of Economic Development, Jobs, Transport and Resources, to Chair, Victorian Parliament Public Accounts and Estimates Committee, 14 March 2017, p.18

<sup>68</sup> Department of Treasury and Finance, *Budget Paper No.2: 2015-16 Strategy and Outlook* (2015), p.40

While the Committee inquired about the outcomes achieved by the Panel, the Department of Economic Development, Jobs, Transport and Resources provided a response that only related to the PJIF. The Department indicated that:

- the PJIF supports a range of programs, initiatives and projects that seek to create jobs and build competitive industries
- the department prioritises initiatives, allocates funding, and monitors the progress of projects against contracted outcomes
- the department also provides direct support and services to clients.<sup>69</sup>

Although the Department indicated that the PJIF contributes to a number of departmental outputs,<sup>70</sup> it did not measure the specific contribution made by the PJIF, nor the funding amounts spent from the PJIF, towards achieving the various outputs.<sup>71</sup>

**FINDING 10:** The Department of Economic Development, Jobs, Transport and Resources does not measure the specific contribution made by the *Premier's Jobs and Investment Fund* towards departmental outputs.

### **Regional Jobs Fund**

The \$200 million *Regional Jobs Fund*, with the aim to support job-creating projects in Regional Victoria, was announced in the 2015-16 Budget.<sup>72</sup>

The Department of Economic Development, Jobs, Transport and Resources advised the Committee that the *Regional Jobs Fund* is part of a larger fund referred to as the *Regional Jobs and Infrastructure Fund* (RJIF), which contributes to the 'Regional Development' departmental output.<sup>73</sup>

The Department indicated that the RJIF 'supports regional projects and initiatives under three key streams':

- Regional Infrastructure Fund
- Regional Jobs Fund
- Stronger Regional Communities Plan<sup>74</sup>

69 Department of Economic Development, Jobs, Transport and Resources, *Response to the Committee's 2015-16 Financial and Performance Entity-Specific Questionnaire*, received 23 January 2017, p.6

70 'Employment resulting from government investment facilitation services and assistance'; 'New investment resulting from government facilitation services and assistance'; 'Engagements with businesses'; 'Number of companies or new entrants supported through the Start Up initiative'; 'Businesses whose growth and productivity issues are resolved by the department; and 'Actual export sales generated as a result of participation in government programs'.

71 Department of Economic Development, Jobs, Transport and Resources, *Response to the Committee's 2015-16 Financial and Performance Entity-Specific Questionnaire*, received 23 January 2017, p.6

72 Department of Treasury and Finance, *Budget Paper No.2: 2015-16 Strategy and Outlook* (2015), p.40

73 Department of Economic Development, Jobs, Transport and Resources, *Response to the Committee's 2015-16 Financial and Performance Entity-Specific Questionnaire*, received 23 January 2017, p.7

74 *ibid.*

The Department stated '[it] administers a formal assessment process against program criteria, allocates funding to successful applicants and monitors the progress of projects against contract deliverables'. In addition, the Department indicated that the RJIF contributes to the following outputs:

- Employment in regional Victoria resulting from government investment facilitation services and assistance
- New investment in regional Victoria resulting from government facilitation services and assistance
- Participant satisfaction with implementation of Regional Development Victoria programs
- Economic development and service delivery projects supported.<sup>75</sup>

Although the Committee welcomes the information provided by the Department of Economic Development, Jobs, Transport and Resources, the findings from this review of existing labour market programs demonstrate the desirability of the provision of current data and reporting.

The Committee notes the Government's response to its recommendation that regular reports are released to assess labour market programs' progress and efficacy,<sup>76</sup> whereby the Committee was informed '... portfolios will need to decide the approach related to programs for which they are responsible'.<sup>77</sup>

As over \$1.0 billion of funding has been allocated to the labour market programs outlined above, and only the *Back to Work Scheme* currently has a reporting system in place regarding outcomes, the Committee considers it would be useful for the Department of Economic Development, Jobs, Transport and Resources to publish regular reports on the outcomes of the other three programs.

**FINDING 11:** Department of Economic Development, Jobs, Transport and Resources does not currently publish reports on the outcomes of their major labour market programs.

**RECOMMENDATION 1:** 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:

- The *Future Industries Fund*
- The *Premiers Job and Investment Fund*
- The *Regional Jobs Fund*.

<sup>75</sup> *ibid.*

<sup>76</sup> Public Accounts and Estimates Committee, *Report on the 2015-16 Budget Estimates* (2015), Recommendation 14, p.65

<sup>77</sup> Victorian Government, *Government Responses to the Recommendations of the Public Accounts and Estimates Committee's Report on the 2015-16 Budget Estimates*, Tabled 4 May 2016, p.6



# 3

## Overall financial outcomes for 2015-16

### Key findings

The Government's operating surplus of \$2.7 billion was larger than expected, driven by greater revenue from property related taxes.

The delay in the Port of Melbourne lease transaction meant the decrease in the general government sector's net debt was less than expected.

The net result for the public financial corporations sector was a \$2.4 billion deficit. This was \$3.0 billion less than the initial budget estimate, due to weak investment returns from global financial markets.

The Committee considers the Government met one of its three financial targets for 2015-16, but was unable to determine whether the other two targets were met. The net debt target is not yet able to be assessed by the Committee as it does not include a set target date. The superannuation liability measure is also not able to be evaluated as no interim target has been set.

### 3.1 Introduction

This chapter presents an overview of Victoria's financial performance in 2015-16. The key components of the State's finances are discussed in terms of what was anticipated in the 2015-16 budget papers and the actual outcomes. The reasons behind the most significant variations are discussed. It describes the financial outcomes across the three sectors – general government sector (GGS), public financial corporations (PFC) sector and public non-financial corporations (PNFC) sector. The flow of funds into and out of these sectors in 2015-16 is also examined.

### 3.2 The Government's financial strategy for 2015-16

The Government's financial strategy for 2015-16 is comprised of two elements:

- four long-term financial management objectives
- three financial measures and targets for 2015-16.

### 3.2.1 The Government's long-term financial management objectives

At the time of the 2015-16 Budget, the Government revised its set of long-term financial management objectives (Table 3.1):<sup>78</sup>

**Table 3.1** Long-term financial management objectives included in the 2015-16 budget papers

Priority	Objective
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.

Source: Department of Treasury and Finance, *Budget Paper No.2: 2015-16 Strategy and Outlook* (2015), p.14

The Department of Treasury and Finance was asked by the Committee to outline the progress that has been made against each of the four objectives, and supply supporting data. The Department did not provide such data, but instead stated:

The Government's long-term financial management objectives are provided in annual budget papers in accordance with the Financial Management Act 1994 (FMA). These objectives are a set of principles that guide the development of State budgets and financial estimates.

Long-term financial management objectives incorporate a wide range of qualitative and quantitative assessments, and cannot be effectively assessed using a narrow selection of metrics. However, the Government does outline the key financial measures and targets it considers important in assessing responsible financial management as part of annual budget papers and budget updates. The *2015-16 Financial Report* includes the results for these measures, and states that 'the 2015-16 results were consistent with the Government's fiscal objectives and strategy'.<sup>79</sup>

The Committee notes that the same response was provided by the Department of Treasury and Finance to a similar question made as part of the *Inquiry into the 2013-14 and 2014-15 Financial and Performance Outcomes*.<sup>80</sup>

**FINDING 12:** The Government describes its long-term financial management objectives as guiding principles that cannot be effectively evaluated using a narrow set of metrics.

<sup>78</sup> Department of Treasury and Finance, *Budget Paper No.2: 2015-16 Strategy and Outlook* (2015), p.14

<sup>79</sup> Department of Treasury and Finance, *Response to the Committee's 2015-16 Financial and Performance Outcomes General Questionnaire*, received 22 December 2016, pp.39-40

<sup>80</sup> Public Accounts and Estimates Committee, *Report on the 2013-14 and 2014-15 Financial and Performance Outcomes* (2016), p.33

While the Government describes the four priorities as ‘long-term financial management objectives’, it does not provide evidence demonstrating progress towards them. In 2015, the international credit rating agency Standard and Poor’s commented that the Victorian Government’s financial objectives and targets were ‘not particularly onerous’ and that their ‘qualitative nature makes measuring success challenging’.<sup>81</sup>

**FINDING 13:** The Government’s financial and management objectives are aspirational and it is difficult to measure progress made towards their attainment.

**RECOMMENDATION 2:** The Government develop a set of metrics, using quantifiable data, in order to monitor progress towards meeting its long-term financial management objectives.

### 3.2.2 Financial measures and targets for 2015-16

The Government also set shorter-term targets for 2015-16 across three measures, shown in Table 3.2. The budget papers noted that these measures would support progress towards the long-term financial management objectives.

**Table 3.2** The Government’s financial measures and targets for 2015-16

Financial measures	Targets
Operating surplus	A net operating surplus consistent with maintaining general government net debt at a sustainable level over the medium-term.
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.

Source: Department of Treasury and Finance, *Budget Paper No.2: 2015-16 Strategy and Outlook* (2015), p.14

In introducing the *2015-16 Financial Report*, the Department of Treasury and Finance states ‘the 2015-16 results were consistent with the Government’s fiscal objectives and strategy’. The following three financial results for 2015-16 are listed in the report:

- a net operating surplus of \$2.7 billion for the 2015-16 financial year
- net debt to GSP of 5.9 per cent at 30 June 2016, decreasing from 6.2 per cent at 30 June 2015
- the general government being on track to fully fund the unfunded superannuation liability by 2035 with an additional contribution of \$1.0 billion being made to the State Superannuation Fund in 2015-16 under section 90(2) of the State Superannuation Act.<sup>82</sup>

<sup>81</sup> Standard and Poor’s Australia, *Ratings on Australian State of Victoria Affirmed at ‘AAA/A-1+’; Outlook Remains Stable*, 27 August 2015, p.3

<sup>82</sup> Department of Treasury and Finance, *2015-16 Financial Report* (2016), p.3

The Committee conducted its own analysis of these financial results in light of the targets for 2015-16.

### 3.2.3 Net operating surplus for 2015-16

The Government's 2015-16 target for the net operating surplus is that it is:

... consistent with maintaining general government net debt at a sustainable level over the medium term.<sup>83</sup>

Further to this, the Government also set the following 'sustainability objective' in the 2015-16 budget papers:

Net operating surplus in each year of the forward estimates period; and net debt as a percentage of GSP reducing from the commencement of the budget year to the end of the forward estimates period.<sup>84</sup>

The target for the operating surplus was given by the Government in terms of its effect on the level of net debt as a percentage of gross state product (GSP). The Government did not specify a level of surplus that should be reached in order to have met this target.

The general government sector's operating surplus was \$2.7 billion in 2015-16, which was \$1.5 billion higher than the budget estimate of \$1.2 billion.<sup>85</sup> On this basis, the Committee considers the operating surplus target to have been met by the Government.

**FINDING 14:** The operating surplus of \$2.7 billion achieved in 2015-16 for the general sector is consistent with the Government's sustainability objective of achieving a 'net operating surplus in each year of the forward estimates period'.

### 3.2.4 Net debt as a percentage of gross state product

One of the key indicators Governments use to assess the sustainability of their level of debt is to compare it against the value of the State's economy, represented by the economic measure of GSP. The Victorian Auditor General's Office notes in its report on the 2015-16 financial results:

A stable or declining ratio for this measure means that a state's debt is growing slower than its economy is. When such a situation is combined with operating surpluses (after taking account interest payments), this is regarded as a sustainable position.<sup>86</sup>

<sup>83</sup> Department of Treasury, *Budget Paper No.2: 2015-16 Strategy and Outlook* (2015), p.14

<sup>84</sup> Department of Treasury and Finance, *Budget Paper No.5: 2015-16 Statement of Finances* (2015), p.20

<sup>85</sup> Department of Treasury and Finance, *2015-16 Financial Report* (2016), p.113

<sup>86</sup> Victorian Office of the Auditor-General, *Auditor-General's Report on the Annual Financial Report of the State of Victoria 2015-16* (2016), p.12



As mentioned previously, the Government's target for net debt is referred to as 'a sustainable level over the medium-term'.<sup>87</sup> This was specified in Budget Paper No. 5 as 'net debt as a percentage of GSP reducing from the commencement of the budget year to the end of the forward estimates period'.<sup>88</sup>

For 2015-16, the net debt as a percentage of GSP objective was deemed to have been met by the Government as:

... net debt to GSP ... [was] 5.9 per cent at 30 June 2016, decreasing from 6.2 per cent at 30 June 2015...<sup>89</sup>

As part of the *Inquiry into the 2016-17 Budget Estimates*, the Committee sought further details on the Government's definition of 'sustainable', as it was not clear which budget year the target was commencing from. While this was further clarified by the Department of Treasury and Finance, the Committee made a recommendation that in future budget papers the target for debt sustainability should include a specific time period.<sup>90</sup>

As the Committee has yet to receive the Government's response to the recommendations made in the *Report on the 2016-17 Budget Estimates*, it remains unable to assess whether the Government's net debt target has been met.

### 3.2.5 Fully fund the unfunded superannuation liability

Most superannuation schemes in operation now are known as 'defined contribution' schemes, whereby contributions towards a superannuation fund are made over a worker's career. The accumulated contributions plus interest are returned to the worker on retirement. For some years 'defined benefits' superannuation schemes were in place, which guaranteed retirees a set, indexed pension, regardless of their contribution. These schemes are now mostly closed to new members, but certain State Government defined benefit schemes, such as the 'Revised Scheme' (part of ESSSuper), continue to pay retirees the indexed pension.

While the State is obliged to pay retirees, the amount to be paid is set out in the budget papers is an estimate. The estimate is determined by how long retirees live and how much indexation occurs. A fund is allocated for these payments and typically grows over time through investments. However, current projections for the fund's growth are less than projections of payments from the fund. This is recorded in the State's finances as an 'unfunded liability'.<sup>91</sup> At the start of 2015-16, this was \$25.9 billion.<sup>92</sup>

<sup>87</sup> Department of Treasury and Finance, *Budget Paper No.2: 2015-16 Strategy and Outlook* (2015), p.14

<sup>88</sup> Department of Treasury and Finance, *Budget Paper No.5: 2015-16 Statement of Finances* (2015), p.20

<sup>89</sup> Department of Treasury and Finance, *2015-16 Financial Report* (2016), p.3

<sup>90</sup> Public Accounts and Estimates Committee, *Report on the 2016-17 Budget Estimates* (2016), Recommendation 1, p.37

<sup>91</sup> The vast majority (over 99.7 per cent) of this liability is with the general government sector, although the Financial Report discusses the liability at a whole-of-State level.

<sup>92</sup> Department of Treasury and Finance, *2015-16 Financial Report* (2016), p.29

The initial 2015-16 Budget forecast was that by the end of 2015-16 the superannuation liability would be \$29.8 billion.<sup>93</sup> The Government made an additional contribution of \$1.0 billion to the State Superannuation Fund in 2015-16 under section 90(2) of the State Superannuation Act.<sup>94</sup> This contribution helped to slow the increase of the overall liability, which increased to \$29.3 billion in June 2016.<sup>95</sup>

The *2015-16 Financial Report* states that the general government sector is 'on track to fully fund the unfunded superannuation liability by 2035'.<sup>96</sup> The Committee understands that the year 2035 was chosen as an attainable target in 1999 in order to spread the funding burden over a reasonable number of years. While the actual liability at the end of 2015-16 was less than anticipated, the Committee cannot determine whether the Government is on track meet the superannuation liability's 2035 deadline without interim targets.

**FINDING 15:** One of the Government's three financial targets for 2015-16 has been met. The net debt target is not yet able to be assessed by the Committee as it does not include a set target date. The superannuation liability measure is also not able to be evaluated as no interim target has been set.

### 3.3 Key financial outcomes for the general government sector for 2015-16

Section 1.3 described the components of Victoria's public financial outcomes. The following section presents the 2015-16 financial results for the general government sector according to these elements of the budget:

- *Revenue* was \$56.7 billion. This was \$1.2 billion greater than the 2015-16 budget estimate and \$2.9 billion greater than the \$53.7 billion in revenue for 2014-15.<sup>97</sup>
- *Expenses* were \$54.1 billion, \$258.0 million less than the initial estimate of \$54.3 billion. This was an increase of \$1.5 billion compared to the \$52.6 billion spent on expenses for 2014-15.<sup>98</sup>
- These two combined to provide an *operating result* of a \$2.7 billion surplus, \$1.4 billion (118.5 per cent) greater than the budget estimate of \$1.2 billion. This was \$1.4 billion (119.0 per cent) greater than the \$1.2 billion operating surplus in 2014-15.<sup>99</sup>

<sup>93</sup> Department of Treasury and Finance, *Budget Paper No.5: 2015-16 Statement of Finances* (2015), p.9

<sup>94</sup> Department of Treasury and Finance, *2015-16 Financial Report* (2016), p.3

<sup>95</sup> *ibid.*, p.29

<sup>96</sup> *ibid.*, p.3

<sup>97</sup> *ibid.*, pp.28, 113

<sup>98</sup> *ibid.*

<sup>99</sup> *ibid.*

- *Depreciation and similar* was \$2.7 billion, \$159.4 million greater than the budget estimate. In 2014-15 depreciation and similar was \$2.6 billion.<sup>100</sup>
- There were \$190 million in *asset sales* for 2015-16, \$132 million (41 per cent) less than the budget estimate. This is a decrease of \$208 million (52 per cent) on the 2014-15 figure of \$398 million.<sup>101</sup>
- The Government received \$92.6 million returns from *net investment through other sectors*, \$6.4 billion (98.6 per cent) less than the budget estimate. This is the major reason for variances in the year's outcomes, and a result of the delay of the lease of the Port of Melbourne's operations from 2015-16 to 2016-17. In 2014-15, net investment through other sectors was a cash outflow of \$858.1 million.<sup>102</sup>

The four sources (operating result, depreciation and similar, asset sales and returns from investments through other sectors) combined to provide the Government with \$5.6 billion in cash resources for 2015-16. In 2014-15, the cash resources were \$3.4 billion, \$2.2 billion or 68 per cent less than the 2015-16 figure.

Government infrastructure investment measures the total spending on asset investment. It is comprised of asset expenditure by the general government sector and expenditure made by the private sector on behalf of the government for the construction and development of projects that are public private partnerships (PPPs). Government infrastructure investment for 2015-16 was reported as \$4.7 billion, \$462.9 million (8.9 per cent) less than the initial estimate, and \$86.9 million (1.9 per cent) higher than the previous year.<sup>103</sup>

The Government's net debt decreased by \$18.8 million between June 2015 and June 2016, compared to an expected decrease of \$4.3 billion. This was due to the revised timing of the Port of Melbourne lease. This was originally anticipated to occur in the 2015-16 and the majority of the proceeds were allocated to pay down debt. The net debt position in June 2016 was \$22.3 billion, a similar level to the previous year.<sup>104</sup>

The variance between the actual results and 2015-16 Budget for key government sector components is set out in Figure 3.1.

<sup>100</sup> *ibid.*, p.10; Department of Treasury and Finance, *Budget Paper No.2: 2015-16 Strategy and Outlook* (2015), p.59

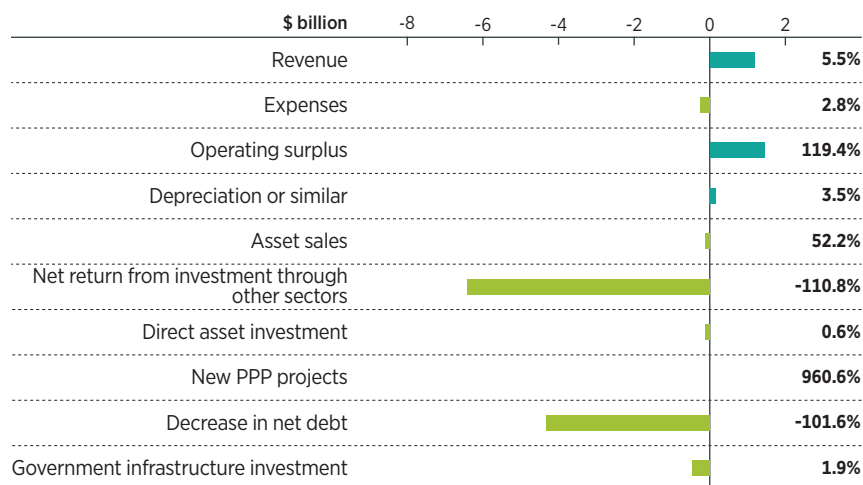
<sup>101</sup> Department of Treasury and Finance, *2015-16 Financial Report* (2016), p.30, 118

<sup>102</sup> *ibid.*

<sup>103</sup> Department of Treasury and Finance, *Net Infrastructure Investment* (2016). Available at <[www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Other-financial-aggregates](http://www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Other-financial-aggregates)>, viewed 26 October 2016 (this is not part of the audited financial statements)

<sup>104</sup> Department of Treasury and Finance, *2015-16 Financial Report* (2016), p.29

**Figure 3.1** Variance from budget for key general government sector budget components, 2015-16



Sources: Committee calculations based on: Department of Treasury and Finance, *Budget Paper No.3: 2015-16 Service Delivery* (2015), pp.7, 10, 28; Department of Treasury and Finance, *Budget Paper No.2: 2015-16 Strategy and Outlook* (2015), p.59; Department of Treasury and Finance, *2015-16 Financial Report* (2016), pp.10, 28, 39

In 2015-16 the broad result for the general government sector, as illustrated in Figure 3.1, was that:

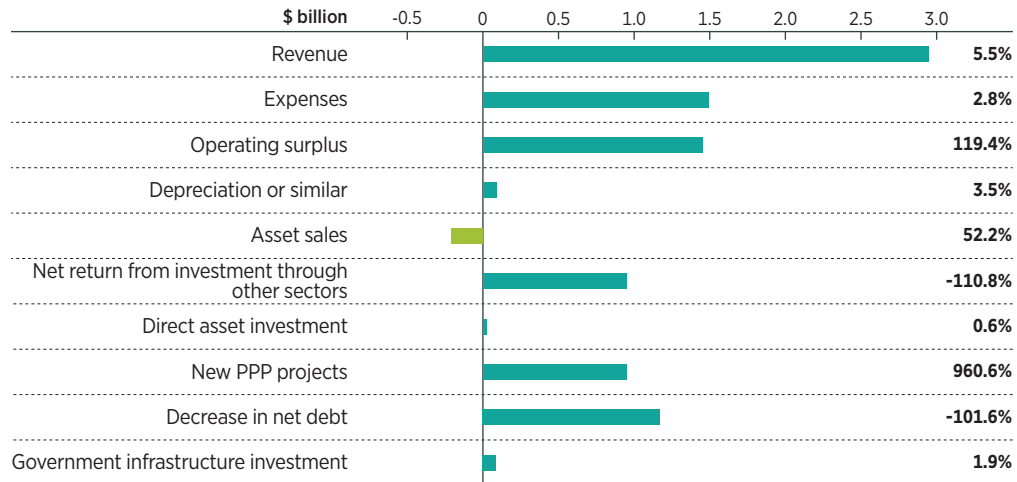
- the higher-than-expected revenue caused a higher-than-expected surplus. The higher revenue figure was driven by an extra \$1.2 billion in property related taxes in 2015-16 over the initial budget estimate.
- this surplus partially offset a much lower-than-expected capital return from other sectors, resulting in a less-than-expected decrease in net debt. The actual decrease in net debt was less than the budget estimate due to the revised timing of the Port of Melbourne lease transaction.

A table comparing the actual 2015-16 results against the original budget estimates can be found in Appendix A1.1.

**FINDING 16:** When comparing the actual results for 2015-16 against the initial budget estimates for the general government sector, the decrease in net debt was less than expected due to the delay in the Port of Melbourne lease transaction. The operating surplus was higher-than-expected, driven by greater revenue from property related taxes.

A comparison of the general government sector's actual 2015-16 results with the previous year is set out in Figure 3.2.

**Figure 3.2** Growth between the 2014-15 and 2015-16 key general government sector budget components



Sources: Committee calculations based on: Department of Treasury and Finance, *Budget Paper No.3: 2015-16 Service Delivery* (2015), pp.7, 10, 28; Department of Treasury and Finance, *Budget Paper No.2: 2015-16 Strategy and Outlook* (2015), p.59; Department of Treasury and Finance, *2015-16 Financial Report* (2015), pp.10, 28, 39

Both revenue and expenses increased in comparison to the previous year. The operating surplus rose in 2015-16 by a large percentage (119.4 per cent) in comparison with the 2014-15 figure. This is a result of the greater level of revenue growth for 2015-16 over the previous year which outstripped the level of expenses growth over the same period.

Details of results compared to the amounts anticipated in the initial budget, and compared to the previous year, are included in Appendix A1.2.

The results for the key components of the budget for the general government sector for 2015-16 are discussed in further detail below.

### 3.3.1 Revenue

Total revenue for the general government sector for 2015-16 was \$56.7 billion. The *2015-16 Financial Report* notes that the main contributors to the higher-than-anticipated revenue were from State sources, with:

- overall taxation revenue (both State-based taxation revenue and Commonwealth revenue streams) being \$871 million (4.6 per cent) higher than anticipated
- other revenue, including the sum received following the Tatts Group legal proceedings, being \$937 million (43.2 per cent) higher than budget.<sup>105</sup>

<sup>105</sup> *ibid.*, p.114

Mitigating these higher-than-expected revenue streams, the State received:

- \$296 million less than expected in dividends and similar revenue
- \$45 million less than expected in interest receipts
- \$108 million less than anticipated in goods and services revenue.<sup>106</sup>

Grants received from the Commonwealth were \$25.2 billion, which was \$202 million (0.8 per cent) less than anticipated in the initial budget.

### 3.3.2 Expenses

Total operating expenses for the general government sector in 2015-16 were \$54.1 billion, close to levels anticipated in the initial budget.<sup>107</sup> Reasons behind the lower-than-anticipated expenses figure for 2015-16 include:

- the depreciation allowance was \$73 million less than originally anticipated
- interest expense was \$20 million less than the initial budget
- grant expenses were \$123 million less than the initial budget
- other operation expenses were \$153 million less than originally anticipated.<sup>108</sup>

Countering these factors, overall employee expenses were \$98.5 million higher than the initial estimate. Consequent superannuation contributions were \$21.4 million higher than originally expected.<sup>109</sup>

**FINDING 17:** General government sector revenue for 2015-16 was \$56.7 billion, \$2.9 billion higher than anticipated. This was due to higher taxation revenue and other revenue. Expenses for the year were \$25.2 billion. This equates to \$202.1 million less than anticipated mainly due to lower-than-expected grants and other expenses.

### 3.3.3 Operating results for 2015-16

The general government sector is made up of Government departments and other entities that provide goods and services for no charge, or for charges significantly less than the cost of their provision. This includes health agencies, fire and emergency services and other departmental entities (such as Parks Victoria and the Victorian Institute of Teaching). In terms of both operating revenue and expenses, the sector comprised over 85 per cent of the whole of the public sector (that is, GGS, PNFC and PFC combined) in 2015-16.<sup>110</sup>

<sup>106</sup> *ibid.*

<sup>107</sup> *ibid.*, p.113

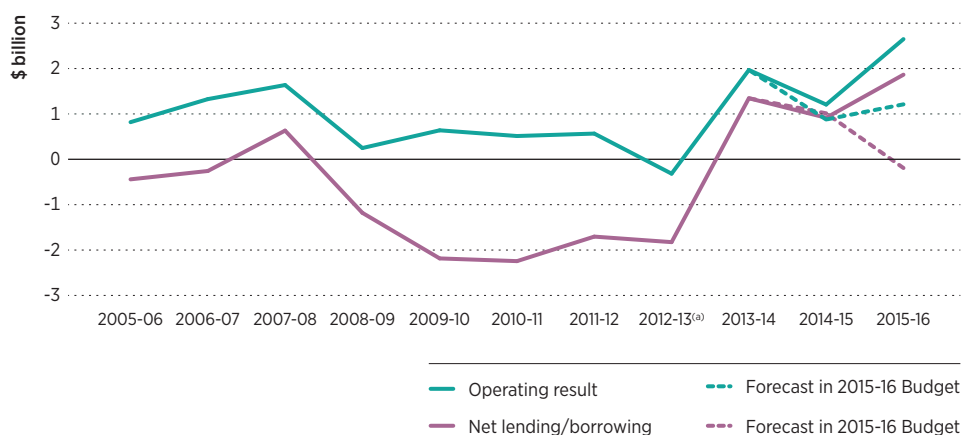
<sup>108</sup> *ibid.*, pp.114-15

<sup>109</sup> *ibid.*, p.114

<sup>110</sup> This does not take into account inter-sectoral eliminations, where revenue flows from one sector to another without actually leaving the public sector as a whole. Ignoring eliminations, the general government sector was 76.0 per cent of the sum of the three sectors' revenue (Department of Treasury and Finance, *2015-16 Financial Report* (2016), pp.136-7).

Operating results for the general government sector are normally summarised using two indicators, the *operating result* and *net lending/borrowing*.

**Figure 3.3** Operating result and net lending/borrowing, general government sector, 2005-06 to 2015-16



(a) Figures for 2012-13 were restated at the time of the *2013-14 Financial Report* to reflect changes to AASB 119, which changed the way expenses relating to defined benefits superannuation are presented. Actuarial gains are now no longer included in the State's operating surplus. The effect of this was to change an initial surplus in 2012-13 to a deficit.

Note: Dotted lines represent ratios calculated from forecasts included in the 2015-16 budget papers.

Sources: Department of Treasury and Finance, *Consolidated Comprehensive Operating Statement – General Government Sector* (2016). Available at <[www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Aggregate-financial-statements](http://www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Aggregate-financial-statements)>, viewed 18 October 2016; Department of Treasury and Finance, *Budget Paper No.5: 2015-16 Statement of Finances* (2015), pp.7-8, 225-6

### Operating result

The operating result for 2015-16 was a surplus of \$2.7 billion, a higher-than-expected result.<sup>111</sup> The operating result, often described as the 'surplus' or 'deficit', is the most well-known indicator discussed in the budget papers and other commentary. It is a sector's remaining operating revenue after the operating expenses have been subtracted.

### Net lending/borrowing

The net lending/borrowing indicator expands on the operating result indicator by including some asset acquisition by the sector.<sup>112</sup> As it includes some levels of asset investment, the Committee considers this indicator to be a more comprehensive measure of the performance of the sector.

Net lending/borrowing for 2015-16 was a net lending position of \$1.9 billion.<sup>113</sup> This was \$2.1 billion higher than had been anticipated at the time of the initial 2015-16 Budget, which had forecast a net borrowing position of \$191.4 million.<sup>114</sup>

<sup>111</sup> Department of Treasury and Finance, *2015-16 Financial Report* (2016), p.28

<sup>112</sup> Primarily direct asset investment expenditure (partly funded by asset sales and the depreciation allowance) and changes in asset values caused by PPP commissioning. It does not include capital investment (or returns) to (or from) other sectors.

<sup>113</sup> Department of Treasury and Finance, *2015-16 Financial Report* (2016), p.28

<sup>114</sup> Department of Treasury and Finance, *Budget Paper No.5: 2015-16 Statement of Finances* (2015), p.8

This was predominantly a result of the higher-than-expected operating surplus, and expanded by movements of fixed assets from the general government sector to the PNFC sector.<sup>115</sup>

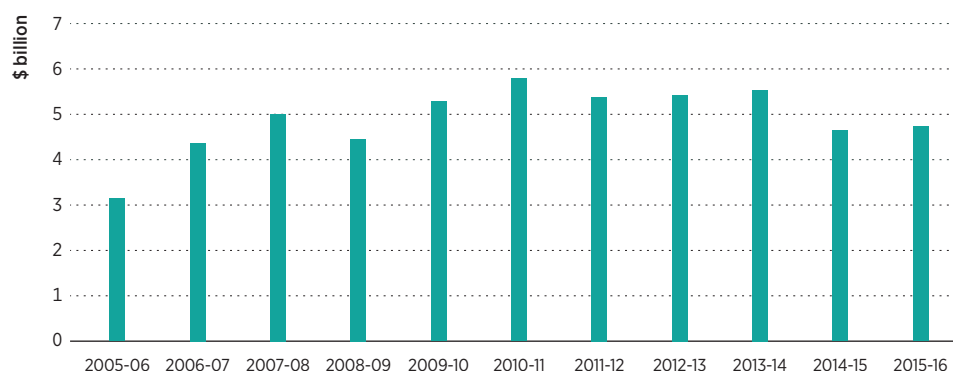
**FINDING 18:** Victoria had an operating surplus of \$2.7 billion for 2015-16. This was due to the higher-than-expected operating revenue and the lower-than-expected operating expenses. The operating surplus was \$1.4 billion more than originally predicted. These factors also led to a net lending position for the general government sector of \$1.9 billion, compared to the original budget estimate of a \$191.4 million net borrowing position.

### 3.3.4 Asset investment

The government infrastructure investment indicator shows the amount of investment spent each year on infrastructure provision by, or on behalf of, the public sector.

Government infrastructure investment for 2015-16 was \$4.7 billion, fractionally less (\$0.5 million) than the original forecast for the year.<sup>116</sup> The 2015-16 actual result was 1.9 per cent greater than for 2014-15, but the second-lowest amount since 2008-09. This can be seen in Figure 3.4.

**Figure 3.4** Government Infrastructure Investment, 2005-06 to 2015-16



Source: Department of Treasury and Finance, *Net Infrastructure Investment* (2016). Available at <[www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Other-financial-aggregates](http://www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Other-financial-aggregates)>, viewed 26 October 2016

**FINDING 19:** Government infrastructure investment for 2015-16 was \$4.7 billion, \$0.5 million less than was originally forecast for the year.

The Committee notes that 2015-16 is the first year in which government infrastructure investment has been included in the Annual Financial Report. The Committee welcomes this inclusion, as it accounts for the figures presented in the budget papers for the year.

<sup>115</sup> This was largely due to the 'higher than budgeted transfers of fixed assets from the Department of Economic Development, Jobs, Transport and Resources to VicTrack in the PNFC sector. These fixed asset transfers are primarily in relation to rail investment mainly the Level Crossing Removal Program' (Department of Treasury and Finance, *Response to the Committee's 2015-16 Financial and Performance Outcomes Entity-specific Questionnaire*, received 3 February 2017, p.15).

<sup>116</sup> Department of Treasury and Finance, *Budget Paper No.4: 2015-16 State Capital Program* (2015), p.12; Department of Treasury and Finance, *2015-16 Financial Report* (2016), p.10



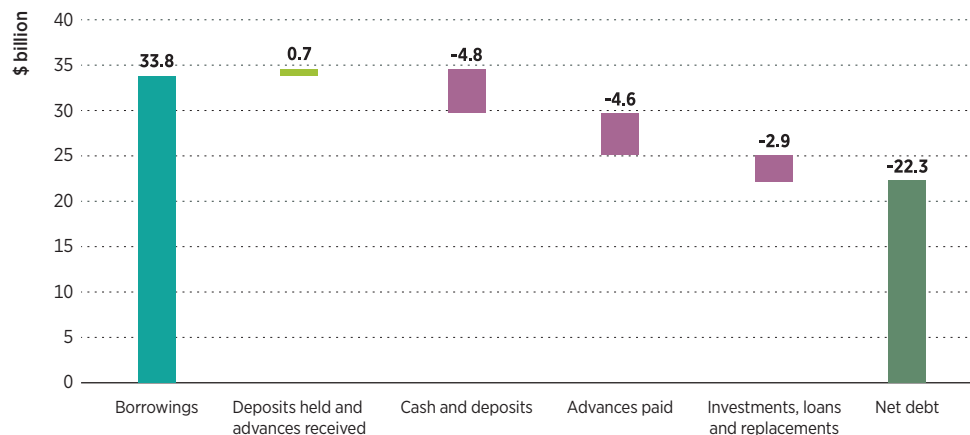
**FINDING 20:** The Committee welcomes the inclusion in the Annual Financial Report of a figure for government infrastructure investment, which was reported for the first time in the *2015-16 Financial Report*.

### 3.3.5 Borrowings and net debt

After asset investments have been paid for out of the cash resources, the residual is available to pay down borrowings. This aspect of the state's finances is illustrated in Figure 1.1.

Borrowings, or gross debt, are mainly raised through public debt arrangements made by the Government's agent, the Treasury Corporation of Victoria. Borrowings for the general government sector were \$33.8 billion at June 2016.<sup>117</sup> Borrowings are normally higher than net debt, as borrowings include liquid assets and liabilities. These components are illustrated for the general government sector in 2015-16 in Figure 3.5, resulting in net debt for the general government sector being \$22.3 billion.<sup>118</sup>

**Figure 3.5** Components of borrowings and net debt, general government sector, 2015-16



Source: Department of Treasury and Finance, *2015-16 Financial Report* (2016), p.29

#### Change in net debt from 30 June 2015

During 2015-16, the total cash available to the Government (shown under 'cash resources' in Figure 1.1) was \$5.4 billion.

Of this, the Government spent \$4.3 billion in direct asset investment, and the commissioning of the only public private partnership (PPP) project in 2015-16, the Victorian Comprehensive Cancer Centre (VCCC). The VCCC accounted for \$1.1 billion with future payment obligations recognised as a liability. After smaller adjustments, the net debt was nearly unchanged from the previous year.<sup>119</sup>

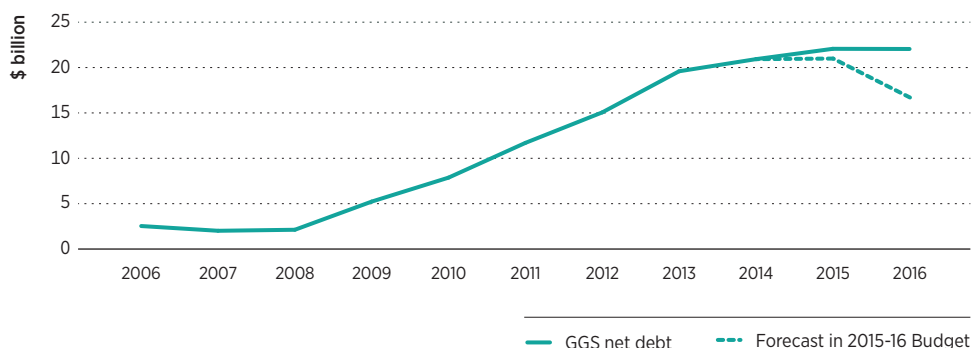
<sup>117</sup> *ibid.*, p.29

<sup>118</sup> *ibid.*

<sup>119</sup> *ibid.*, p.10

Net debt for the general government sector between June 2006 and June 2016 is shown in Figure 3.6.

**Figure 3.6** Net debt, general government sector, June 2006 to June 2016



Note: Dotted lines represent ratios calculated from forecasts included in the 2015-16 budget papers.

Source: Department of Treasury and Finance, *Consolidated Comprehensive Operating Statement - General Government Sector* (2016). Available at <[www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Aggregate-financial-statements](http://www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Aggregate-financial-statements)>, viewed 18 October 2016

Net debt for the general government sector at June 2016 was \$22.3 billion, which is \$5.4 billion higher than had been anticipated in the initial budget papers.<sup>120</sup> The *2015-16 Financial Report* notes that this result is primarily due to lower debt retirement associated with the revised timing from entering into a medium-term lease over the operations of the Port of Melbourne.<sup>121</sup>

The lease would have provided funds that would have lowered net debt for June 2016, as shown by the forecast figure in Figure 3.6. The expected delay was recognised in the 2016-17 Budget.<sup>122</sup> The delayed transaction resulted in net debt for June 2016 being slightly lower than for June 2015.

**FINDING 21:** Net debt for the general government sector in June 2016 was \$22.3 billion. This was \$5.4 billion higher than had been anticipated in the initial budget papers and due to the delay in the lease of the Port of Melbourne's operations.

### 3.4 Public non-financial corporations sector

The public non-financial corporations (PNFC) sector is made up of Government business enterprises, such as water providers, that are run on commercial lines and therefore charge market-based rates for their services. This includes Government-owned businesses that provide goods and services to individuals and companies, and can charge for these goods and services in order to recover their costs. This sector is dominated by the metropolitan, rural and regional water

<sup>120</sup> *ibid.*, p.116

<sup>121</sup> *ibid.*, p.117

<sup>122</sup> Department of Treasury and Finance, *Budget Paper No.2: 2016-17 Strategy and Outlook* (2016), p.57

providers, although there are other diverse service producing agencies operating as PNFCs, including the Director of Housing, cemetery trusts, V/Line and the regional rail track owner.

Revenue for the PNFC sector for 2015-16 was \$10.4 billion, \$791 million greater than the initial estimate. This was also a growth of \$888 million (9.4 per cent) over PNFC revenue in 2014-15 (Table 3.3).

Expenses for the PNFC sector were \$10.2 billion in 2015-16. This is a variance of 1.1 per cent above the original budget estimate and 5.9 per cent increase on the PNFC expenses figure of \$9.6 billion in 2014-15.

**Table 3.3** Key components of the public non-financial corporations sector for 2015-16 compared to the 2015-16 budget estimates and the 2014-15 actual result

	2014-15 actual	2015-16 Budget	2015-16 actual	Growth 2014-15 to 2015-16		Variation from 2015-16 Budget	
	(\$ million)	(\$ million)	(\$ million)	(\$ million)	(per cent)	(\$ million)	(per cent)
Total revenue	9,485	9,582	10,373	888	9.4	791	8.3
Total expenses	9,647	10,105	10,219	572	5.9	114	1.1
Operating result	-162	-523	154	316	-195.1	677	-129.4
Own-account asset investment <sup>(a)</sup>	2,015	4,424	2,118	103	5.1	-2,306	-52.1
Net lending/borrowing	-1,716	4,572	-1,984	-268	15.6	-6,556	-143.4

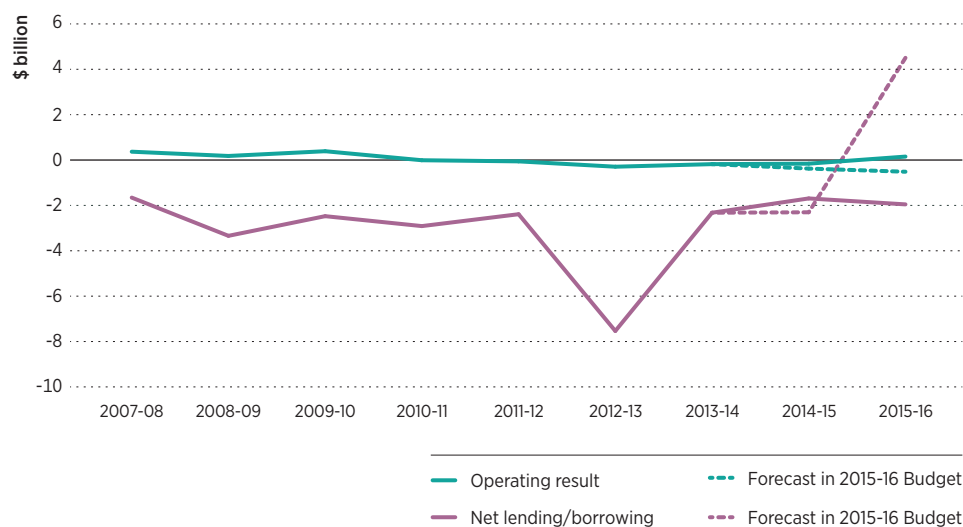
(a) Known in the budget papers as 'cash flows from investments in non-financial assets'. Net of asset sales.

Sources: Department of Treasury and Finance, *2015-16 Financial Report* (2016), pp.136-7, 140-1; Department of Treasury and Finance, *Budget Paper No.5: 2015-16 Statement of Finances* (2015), pp.50, 52

The reasons behind the large variances between the 2015-16 Budget estimate and actual results are explored in further detail below.

Operating results and net lending/borrowing for the PNFC sector are shown in Figure 3.7.

**Figure 3.7** Operating result and net lending/borrowing, public non-financial corporations sector, 2007-08 to 2015-16



Note: Dotted lines represent ratios calculated from forecasts included in the 2015-16 budget papers.

Sources: Department of Treasury and Finance, *Annual Financial Reports 2007-08 to 2015-16*; Department of Treasury and Finance, *Budget Paper No.5: 2015-16 Statement of Finances* (2015), pp.49-50

The operating result for the PNFC sector for 2015-16 was a surplus of \$154 million.<sup>123</sup> This was \$677 million higher than the initially forecast deficit of \$523.4 million.<sup>124</sup> This result was primarily due to revenue for the sector being \$791 million higher than originally forecast. This was an improved result from the previous year, with 2014-15 being a deficit of \$162 million.<sup>125</sup>

The *2015-16 Financial Report* notes that the surplus:

... reflects improved performance from the metropolitan water businesses and the one-off effect of forgiving Director of Housing debt repayment obligations.<sup>126</sup>

The Department of Treasury and Finance informed the Committee that the debt forgiveness:

... has been taken to simplify the financial arrangements of the Director of Housing with respect to the debt repayment until 2021-22 to provide the Director with greater flexibility in relation to the Director of Housing's expenditure. This approach will enable the Director to allocate revenue provided by the general government sector to either operating or capital expenditure to meet asset renewal and maintenance pressures.<sup>127</sup>

<sup>123</sup> Department of Treasury and Finance, *2015-16 Financial Report* (2016), p.136

<sup>124</sup> Department of Treasury and Finance, *Budget Paper No.5: 2015-16 Statement of Finances* (2015), p.49

<sup>125</sup> Department of Treasury and Finance, *2015-16 Financial Report* (2016), p.136

<sup>126</sup> *ibid.*, p.16

<sup>127</sup> Department of Treasury and Finance, 2015-16 Financial and Performance Outcomes hearings, response to questions on notice, received 8 March 2017, p.8

Without the debt forgiveness transaction the PNFC operating result would have been a \$160 million deficit, instead of the actual result of a \$154 million surplus.<sup>128</sup>

In contrast to the PNFC sector's operating result, the net lending/borrowing result was quite different. The original budget estimate was for the PNFC to end 2015-16 in a net lending position of \$4.1 billion.<sup>129</sup> The actual position for the PNFC sector for 2015-16 was a net borrowing position of \$2.0 billion. This equates to a difference of \$6.1 billion from the original estimate.<sup>130</sup> This significant change in position was a result of the delay of the lease of the operations of the Port of Melbourne.

**FINDING 22:** For the public non-financial corporations sector, the operating result for 2015-16 was a surplus of \$154 million, \$677 million higher than the initially forecast deficit of \$523.4 million. The sector had a net borrowing position for 2015-16 of \$2.0 billion, compared to the forecast of a net lending position of \$4.1 billion. The variance was a result of the delay of the Port of Melbourne lease transaction.

For the PNFC sector, net debt at June 2016 was \$14.3 billion, a 0.3 per cent increase over the previous year.<sup>131</sup> This growth in net debt is significantly (92.6 per cent) less than the \$651.4 million increase had been anticipated in the 2015-16 Budget.<sup>132</sup>

The primary reason for this lower-than-expected growth in net debt is the forgiveness by the Department of Treasury and Finance (in the general government sector) of a \$314.8 million debt to the Director for Housing (in the PNFC sector). The Department of Health and Human Services notes that:

The Director of Housing had an existing loan with the Government which was provided to grow public housing and homeownership. For administrative simplicity, the Government has forgiven the outstanding balance of the loan on 14 April 2016 and the Director of Housing will no longer be required to make repayments. Instead, grant revenue provided to the Director of Housing will be reduced by an amount equal to the annual repayment.<sup>133</sup>

Net debt for the public non-financial sector is shown in Figure 3.8. This was \$14.2 billion in June 2016.<sup>134</sup> This was higher than the \$8.3 billion anticipated in the 2015-16 budget papers.<sup>135</sup>

128 *ibid.*

129 Department of Treasury and Finance, *Budget Paper No.5: 2015-16 Statement of Finances* (2015), p.50

130 Department of Treasury and Finance, *2015-16 Financial Report* (2016), p.136

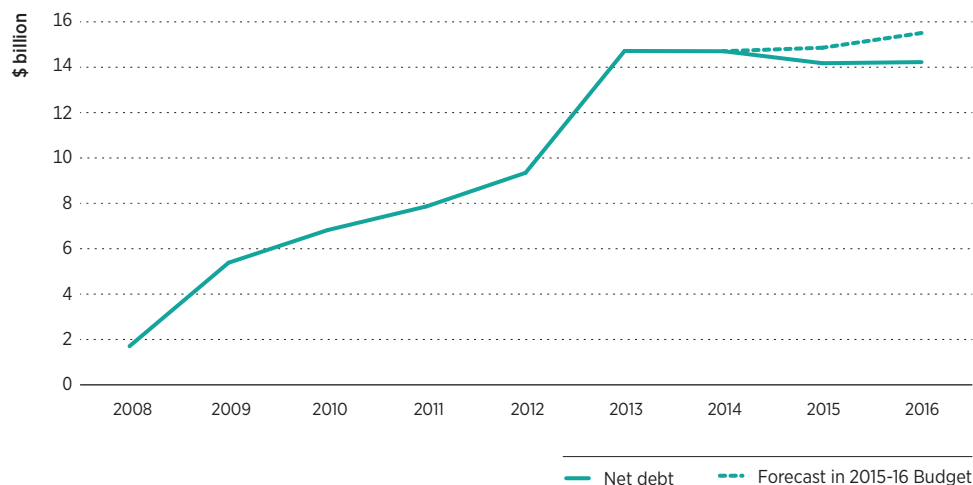
131 *ibid.*, p.138

132 Department of Treasury and Finance, *Budget Paper No.5: 2015-16 Statement of Finances* (2015), p.51

133 Department of Health and Human Services, *Annual Report 2015-16*, p.190

134 Department of Treasury and Finance, *2015-16 Financial Report* (2016), p.139

135 Department of Treasury and Finance, *Budget Paper No.5: 2015-16 Statement of Finances* (2015), p.75

**Figure 3.8** Net debt, public non-financial corporations sector, June 2008 to 2016

Note: Dotted lines represent ratios calculated from forecasts included in the 2015-16 budget papers.

Sources: Department of Treasury and Finance, *Consolidated Comprehensive Balance Sheet – Whole of State* (2016). Available at <[www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Aggregate-financial-statements](http://www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Aggregate-financial-statements)>, viewed 18 October 2016; Department of Treasury and Finance, *Budget Paper No.5: 2015-16 Statement of Finances* (2015), p.75

The initial budget had forecast a \$5.1 billion decrease in net debt for the sector.<sup>136</sup> This decrease was associated with the then-anticipated lease of the operations of the Port of Melbourne, which was expected to cause a significant cash flow into the public sector.

As noted previously, this transaction was delayed, and is now expected during 2016-17. The Committee notes that the 2016-17 budget papers estimated that net debt for the public sector as a whole would fall by \$4.5 billion during 2016-17.<sup>137</sup> In the absence of this cash inflow, net debt for the State rose by \$1.2 billion.

**FINDING 23:** Net debt in the public non-financial corporations sector grew slower-than-expected, and was \$14.3 billion at June 2016. This was mostly due to a \$314.8 million debt forgiveness for the Director of Housing. Net debt for the public sector as a whole was initially expected to fall to \$8.3 billion following the Port of Melbourne's lease transaction. This was delayed until 2016-17, and net debt increased to \$14.2 billion in June 2016.

### 3.5 Public financial corporations sector

The PFC sector is made up of Government-owned financial institutions, such as insurance providers. The PFC entities provide financial services, such as loan brokerage or insurance provision, to entities from the other two sectors of the Victorian public sector. As in the PNFC sector, entities in the PFC sector charge for their services, but their financial performance can also be affected by changes in the values of funds they manage.

<sup>136</sup> *ibid.*

<sup>137</sup> Department of Treasury and Finance, *Budget Paper No.5: 2016-17 Statement of Finances* (2016), p.66

Total revenue for the PFC sector for 2015-16 was \$7.5 billion, marginally less than the original budget estimate (Table 3.4). The revenue was \$337 million more than for 2014-15. Expenses for the PFC sector in 2015-16 were \$8.3 billion, a negative variance of \$153 million from the budget estimate, and a \$116 million increase on expenses for the sector in 2014-15.

**Table 3.4** Key budget components of the public financial corporations sector for 2015-16 compared to the 2015-16 Budget estimates and the 2014-15 actual result

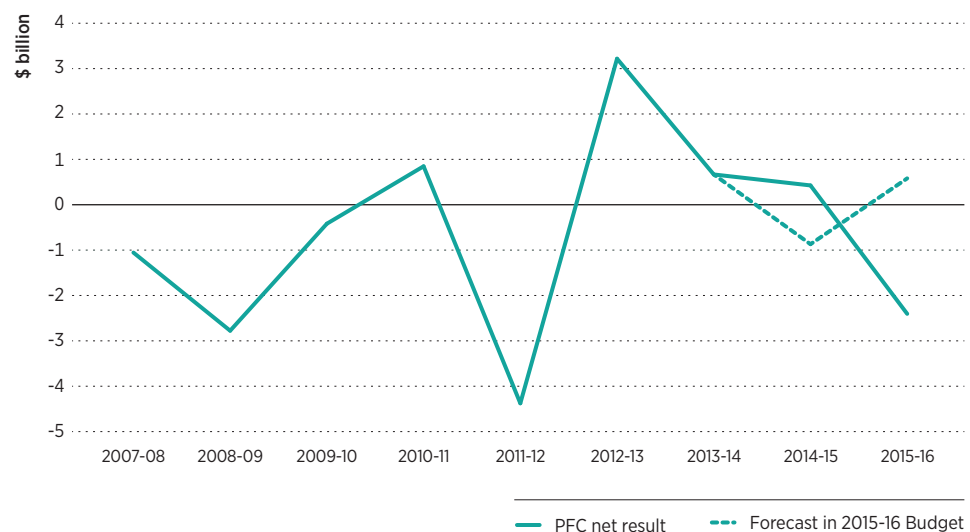
	2014-15 actual	2015-16 Budget	2015-16 actual	Growth 2014-15 to 2015-16		Variation from 2015-16 Budget	
	(\$ million)	(\$ million)	(\$ million)	(\$ million)	(per cent)	(\$ million)	(per cent)
Total revenue	7,189	7,581	7,526	337	4.7	-55	-0.7
Total expenses	8,207	8,476	8,323	116	1.4	-153	-1.8
Net result	430	587	-2,438	-2,868	-667.0	-3,025	-515.3

Sources: Department of Treasury and Finance, *2015-16 Financial Report* (2016), pp.136-7, 140-1; Department of Treasury and Finance, *Budget Paper No.5: 2015-16 Statement of Finances* (2015), p.65

The calculation of the operating result and the net lending/borrowing indicators include revenue, expenses and asset investment. However, the PFC sector is also affected by changes in fund values. These capital gains may be used to fund insurance claims. Therefore, the Committee considers that the net result gives a more comprehensive picture for the PFC sector.<sup>138</sup>

If there is volatility in the funds management market, this will be reflected in the PFC's net result. This volatility can be seen over time in Figure 3.9.

**Figure 3.9** Net result, public financial corporations sector, 2007-08 to 2015-16



Notes: Dotted lines represent ratios calculated from forecasts included in the 2015-16 budget papers.

Sources: Department of Treasury and Finance, *Annual Financial Reports 2007-08 to 2015-16*; Department of Treasury and Finance, *Budget Paper No.5: 2015-16 Statement of Finances* (2015), p.65

138 Department of Treasury and Finance, *Budget Paper No.5: 2015-16 Statement of Finances* (2015), p.66

For 2015-16, the net result for the PFC was a deficit of \$2.4 billion.<sup>139</sup> This was \$3.0 billion less than the initial budget estimate of \$600 million (see Figure 3.9).<sup>140</sup> This was mainly a result of ‘other economic flows included in the net result’. The budget papers anticipated that this component of the net result would be a gain of \$1.5 billion, whereas the result was a loss of \$1.6 billion.<sup>141</sup>

Overall the PFC sector experienced ‘weak investment returns’ in 2015-16 as a result of:

... unfavourable conditions in global financial markets, with TAC, WorkSafe and Victorian Managed Insurance Authority (VMIA) recording a return of approximately 3 per cent on their investment portfolios, compared with returns of approximately 12 per cent in 2014-15.<sup>142</sup>

**FINDING 24:** The net result for the public financial corporations sector for 2015-16 was a deficit of \$2.4 billion. This was \$3.0 billion less than the initial budget estimate of a \$0.6 billion surplus, primarily due to weak investment returns from global financial markets affecting the Transport Accident Commission and Victoria’s public insurers.

## 3.6 Public sector as a whole

The Victorian public sector is made up of the three sectors discussed above: those of general government entities, public non-financial corporations and public financial corporations. Transactions between the Victorian public sector and other parts of the economy (such as other jurisdictions or the private sector) affect results for the year. However, as both revenue and expenses funds flow between the three sectors and as these transactions are internal, this will not affect the overall result.

The Committee requested information from the Department of Treasury and Finance on flows between the general government sector and the other two sectors for 2015-16. This is summarised in Table 3.5.

**Table 3.5** Transfers to and from the general government sector from the public non-financial corporations and public financial corporations sectors, 2015-16

	From / to the PNFC sector	From / to the PFC sector
	(\$ million)	(\$ million)
Total revenue (funds flowing to the general government sector)	2,968.5	607.2
Total expenses (funds flowing from the general government sector)	3,333.1	1,827.2
Net flows from the general government sector	364.6	1,220.0

Source: Department of Treasury and Finance, *Response to the Committee’s Financial and Performance Outcomes General Questionnaire*, received 22 December 2016, pp.34-5

<sup>139</sup> Department of Treasury and Finance, *2015-16 Financial Report* (2016), p.137

<sup>140</sup> Department of Treasury and Finance, *Budget Paper No.5: 2015-16 Statement of Finances* (2015), p.65

<sup>141</sup> *ibid.*; Department of Treasury and Finance, *2015-16 Financial Report* (2016), p.137

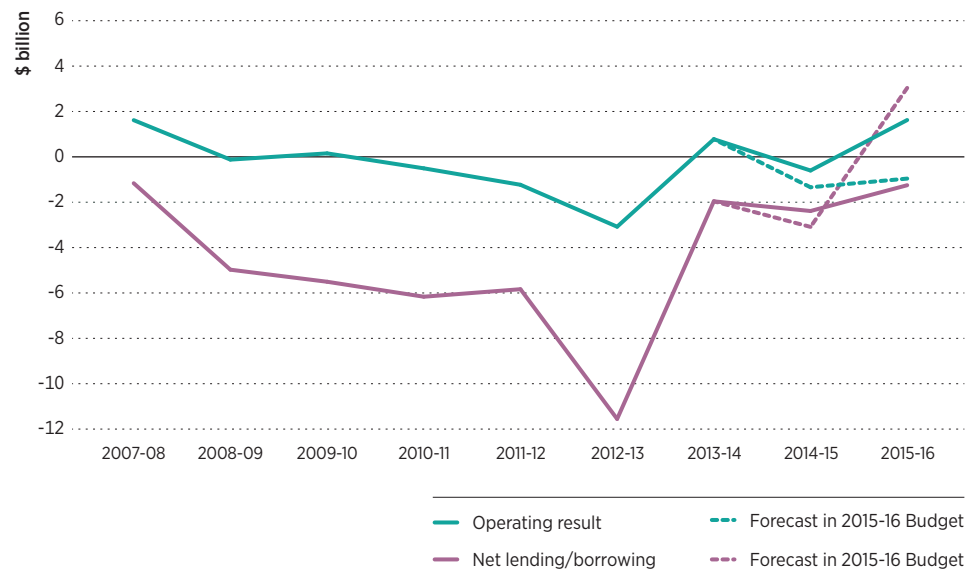
<sup>142</sup> *ibid.*, p.15



Overall, funds flowed out of the general government sector to the PNFC and PFC sectors.

These transfers between the three sectors result in the overall results for the public sector as illustrated in Figure 3.10.

**Figure 3.10** Operating result and net lending/borrowing, public sector as a whole, 2007-08 to 2015-16



Note: Dotted lines represent ratios calculated from forecasts included in the 2015-16 budget papers.

Sources: Department of Treasury and Finance, *Consolidated Comprehensive Operating Statement – Whole of State* (2016). Available at <[www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Aggregate-financial-statements](http://www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Aggregate-financial-statements)>, viewed 18 October 2016; Department of Treasury and Finance, *Budget Paper No.5: 2015-16 Statement of Finances* (2015), pp.73-4

The operating result for the public sector as a whole was a surplus of \$1.6 billion. This was \$2.6 billion higher than the \$1.0 billion deficit that had been forecast in the 2015-16 budget papers.<sup>143</sup> This was a combined result of the higher-than-anticipated operating results in the general government sector and the PNFC sectors discussed above.

The net lending/borrowing outcome for the public sector as a whole for 2015-16 was a net borrowing position of \$1.3 billion, which was \$4.3 billion lower than the originally-predicted lending position of \$3.0 billion.<sup>144</sup> This was primarily due to the delay in the lease of the Port of Melbourne's operations.

**FINDING 25:** For the public sector as a whole, the operating surplus was \$1.6 billion, which was higher than anticipated due to higher results in the general government and public non-financial corporations sectors. However, the net borrowing position of \$1.3 billion was lower-than-expected due to the delay of the lease of the Port of Melbourne's operations.

<sup>143</sup> Department of Treasury and Finance, *2015-16 Financial Report* (2016), p.137; Department of Treasury and Finance, *Budget Paper No.5: 2015-16 Statement of Finances* (2015), p.73

<sup>144</sup> *ibid.*, p.137; Department of Treasury and Finance, *Budget Paper No.5: 2015-16 Statement of Finances* (2015), p.74

## 3.7 Performance measures overview and implementation of previous recommendations

### Performance measures overview

Performance measures describe the quality, quantity, timeliness and cost of goods or services produced by agencies in the public sector. A review of departmental performance measures was conducted by the previous Public Accounts and Estimates Committee in 2014, and the present Committee continues to monitor these in the interest of public accountability.<sup>145</sup>

The 2015-16 budget papers contained a total of 1,374 performance measures that described activities in the seven Government departments, Court Services Victoria and Parliament. In the budget papers, 258 of these measures were identified to be discontinued, and reasons were given for this.

The Committee considered the performance measures that were to be discontinued, and recommended that 45 of these measures be retained.<sup>146</sup>

Of the 45 measures that the Committee recommended be retained, 17 were included in the 2016-17 budget papers to be reported on by departments and were included in the departments' 2015-16 annual reports.<sup>147</sup> The Committee was not advised as to why the remaining 28 performance measures were discontinued.

As a result, the Committee anticipated results on 1,133 measures in departmental annual reports for 2015-16. The total number of performance measures reported on in departmental annual reports for 2015-16 was 1,128, five short of the 1,133 measures the Committee expected.<sup>148</sup> Of the 1,128 measures that were reported on in departmental annual reports, six had 'not applicable' results.

The proportion of measures reported by departments that were more than five per cent under, close to and more than five per cent over targets set in the budget papers for 2015-16 are set out in Figure 3.11.

<sup>145</sup> Public Accounts and Estimates Committee, *Review of the Performance Measurement and Reporting System*, (2014)

<sup>146</sup> Public Accounts and Estimates Committee, *Report on the 2015-16 Budget Estimates* (2015), Recommendation 66, p.228

<sup>147</sup> Department of Treasury and Finance, *Budget Paper No.3: 2016-17 Service Delivery* (2016), Chapter 2

<sup>148</sup> Of these missing performance measures; two were from the Department of Treasury and Finance, two were from the Department of Economic Development, Jobs, Transport and Resources and one was from the Department of Health and Human Services.

**Figure 3.11** Performance measures significantly under, close to, and significantly over targets as a percentage of departmental performance measures, 2015-16<sup>(a)</sup>

	Significantly <sup>(b)</sup> under budget	Within 5 percent of target	Significantly <sup>(b)</sup> over budget	Measures
Economic Development, Jobs and Transport	13.8	61.4	24.8	298
Education and Training	22.5	59.6	18.0	89
Environment, Land, Water and Planning	11.1	54.5	34.3	99
Health and Human Services	18.9	59.3	21.8	285
Justice and Regulation	13.8	60.2	26.0	123
Premier and Cabinet	19.5	49.4	31.0	87
Treasury and Finance	16.9	60.0	23.1	65
Parliament	9.5	52.4	38.1	42
Court Services Victoria	23.5	41.2	35.3	34
<b>All departments</b>	<b>16.3</b>	<b>58.0</b>	<b>25.7</b>	<b>1,122<sup>(c)</sup></b>

(a) Measures include both cost and non-cost measures.

(b) Greater than 5 per cent.

(c) Of the 1,128 performance measures included in departments' annual reports, six had results of 'not applicable'. For these measures, no variance is calculable.

Source: Departmental annual reports, 2015-16



# 4

## Borrowings and net debt

### Key findings

The amount of general government sector borrowings and net debt have levelled in recent years and this trend continued in 2016. There was a 0.7 per cent decrease in borrowings and a 0.1 per cent increase in net debt between 2015 and 2016.

While the outstanding borrowings for the general government sector rose fivefold, the interest expenditure for the sector only doubled over the last decade.

The average annual growth rate of general government sector debt plateaued between 2013 and 2016 at 3.8 percent. In contrast between 2008 and 2013 the annual growth rate was 55.6 per cent.

The Government made a \$1.0 billion contribution towards the State Superannuation liability in 2015-16. It has a target of fully funding the liability by 2035.

Victoria's general government sector net debt to gross state product (GSP) ratio was amongst the highest of the Australian states in June 2016. When PNFC sector debt is also taken into account, Victoria's net debt ratios are amongst the lowest in Australia.

At June 2016, Victorian non-financial public sector net debt was less than half that of NSW and Queensland. Combined net debt (for the general government and public non-financial corporations sectors) as a proportion of GSP for Victoria was less than Queensland and Western Australia, but higher than New South Wales. Over the next few years, non-financial public sector net debt as a proportion of GSP is projected to rise for New South Wales, Queensland and Western Australia, whereas Victoria's share is expected to remain static.

### 4.1 Introduction

This chapter discusses the State's borrowings and net debt position at 30 June 2016, and how this differs from that at 30 June 2015. It contains a discussion of the main factors driving borrowings and net debt over 2015-16 for the general government sector. How this actual performance compares to the budget estimates and government targets outlined for 2015-16 is also examined.

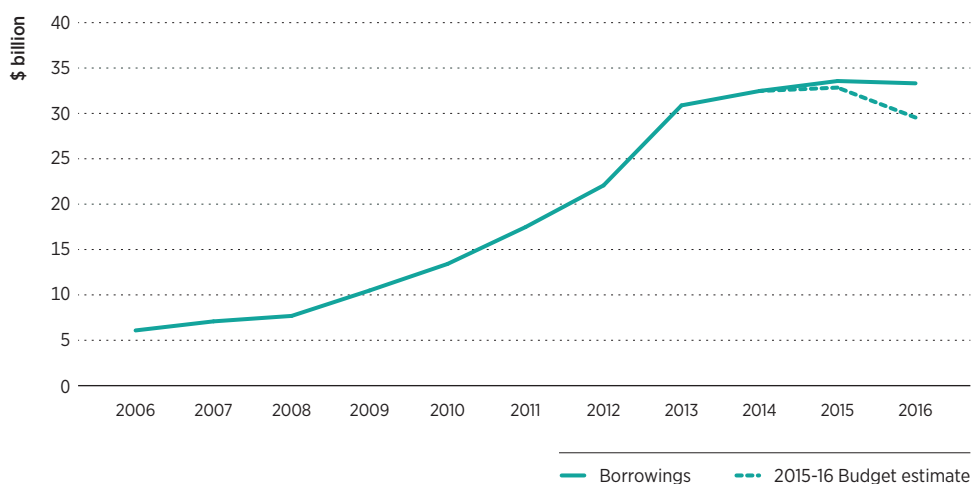
The chapter examines how the actual results affect fiscal sustainability in the State, as well as how Victoria's debt position compares with other states.

## 4.2 Borrowings for the general government sector

Government borrowings mainly consist of loans to assist with the cost of infrastructure projects funded by the Government. The loans are mainly public debt arrangements made on behalf of the Victorian Government by the Treasury Corporation of Victoria (TCV). Liabilities for future payments delivered through public private partnerships (PPPs) are included in borrowings. For 2015-16, this includes the Victorian Comprehensive Cancer Centre (VCCC).

Government borrowings at June 2016 were \$33.8 billion (Figure 4.1).<sup>149</sup> This was \$258 million less than the June 2015 figure<sup>150</sup> and the first decrease in borrowings in the last ten years.<sup>151</sup> In the initial 2015-16 budget estimates, the Government had anticipated a 10 per cent decrease in borrowings at June 2016 (originally estimated to be \$29.2 billion) compared to the revised 2015 figure (revised estimate \$33.3 billion).<sup>152</sup>

**Figure 4.1** General government sector borrowings, 2006 to 2016



Source: Department of Treasury and Finance, *Consolidated Balance Sheet* (2016). Available at <[www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Aggregate-financial-statements](http://www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Aggregate-financial-statements)>, viewed 23 November 2016

The higher-than-expected borrowings at June 2016 was the main factor behind the increase in liabilities. *The 2015-16 Financial Report* explained that the higher borrowings balance was due to:

... lower than originally budgeted debt retirement associated with the revised timing from entering into a medium-term lease over the operations of the Port of Melbourne from 2015-16 to 2016-17.<sup>153</sup>

<sup>149</sup> Department of Treasury and Finance, *2015-16 Financial Report* (2016), p.9

<sup>150</sup> *ibid.*

<sup>151</sup> Department of Treasury and Finance, *Consolidated Balance Sheet* (2016). Available at <[www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Aggregate-financial-statements](http://www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Aggregate-financial-statements)>, viewed 23 November 2016

<sup>152</sup> Department of Treasury and Finance, *Budget Paper No.2: 2016-17 Strategy and Outlook* (2016), p.62

<sup>153</sup> Department of Treasury and Finance, *2015-16 Financial Report* (2016), p.117

**FINDING 26:** Government borrowings were \$33.8 billion in June 2016, a \$258 million decrease over the June 2015 figure and the first decrease in the amount of borrowings in the last ten years. This was \$4.6 billion, or 16 per cent, greater than the initial 2015-16 Budget estimate for borrowings of \$29.2 billion and was mostly due to the delay in the sale of the Port of Melbourne lease.

## 4.2.1 Interest cost

Government borrowings necessarily involve paying interest. Interest cost on debt is a cost of operation for the Government, and it contributes to the net operating result.

There are two factors that influence the amount of interest paid each year:

- the amount of debt held by the Government
- the interest rate of the day.

Changes in the interest rate have had a significant effect on the cost of holding debt, as shown in Table 4.1. While the outstanding borrowings for the general government sector rose fivefold, the interest expenditure only doubled between June 2006 and June 2016.

**Table 4.1** Factors influencing interest cost for the general government sector, June 2006 and June 2016

	Year ended June 2006	Year ended June 2016
General government sector borrowings (\$ million)	6,174	33,811
RBA cash rate (per cent)	5.75	1.75
General government sector interest cost (\$ million)	390	786

Sources: Department of Treasury and Finance, *Consolidated Balance Sheet* (2016). Available at <[www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Aggregate-financial-statements](http://www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Aggregate-financial-statements)>, viewed 23 November 2016; Department of Treasury and Finance, *Consolidated Comprehensive Operating Statement - General Government Sector* (2016). Available at <[www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Aggregate-financial-statements](http://www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Aggregate-financial-statements)>, viewed 18 October 2016; Reserve bank of Australia, *Cash Rate* (2017). Available at <[www.rba.gov.au/statistics/cash-rate/](http://www.rba.gov.au/statistics/cash-rate/)>, viewed 17 February 2017

The current low interest rates may have the effect of making higher levels of debt more sustainable to carry.

**FINDING 27:** While the outstanding borrowings for the general government sector rose fivefold, the interest expenditure sector only doubled over the last decade.

### 4.3 Net debt for the general government sector

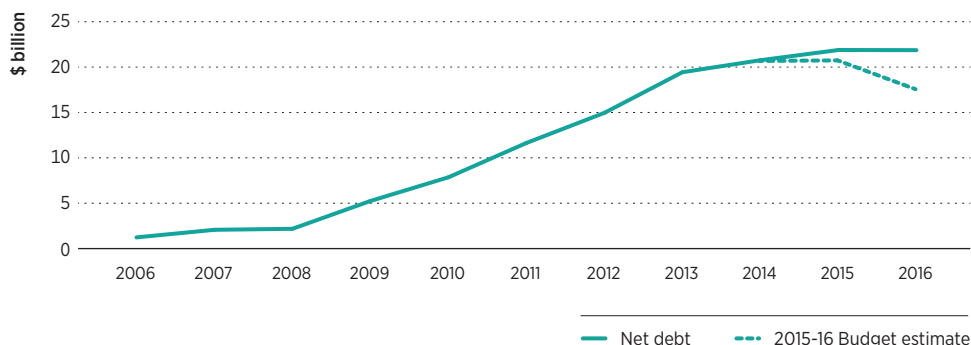
Net debt is calculated by subtracting liquid assets from borrowings and other financial liabilities. Net debt at 30 June 2016 was \$22.3 billion.<sup>154</sup> This is \$5.4 billion, or 32 per cent, greater than the initial 2015-16 estimate of \$16.9 billion.<sup>155</sup> Net debt at 30 June 2016 was 0.1 per cent lower than the net debt position at 30 June 2015.<sup>156</sup>

The actual net debt figure at June 2016 was 0.8 per cent lower than the revised 2015-16 figure of \$22.5 billion.<sup>157</sup>

**FINDING 28:** Net debt for the general government sector at 30 June 2016 was \$22.3 billion, 0.1 per cent greater than net debt for 30 June 2015. This was \$5.4 billion or 32 per cent greater than the 2015-16 Budget estimate of \$16.9 billion, 0.8 per cent lower than the revised 2015-16 figure of \$22.5 billion.

The level of general government sector net debt is set out in Figure 4.2. After a decision was made by a previous government to increase debt in order to pay for a series of infrastructure projects, net debt then increased several fold from year to year.<sup>158</sup> Between 2008 and 2013, net debt increased at an average annual growth rate of 55.6 per cent. However, between 2013 and 2016, the average annual growth rate for net debt slowed to 3.8 per cent.

**Figure 4.2** General government sector net debt, 2006 to 2016



Source: Department of Treasury and Finance, *Consolidated Balance Sheet* (2016). Available at <[www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Aggregate-financial-statements](http://www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Aggregate-financial-statements)>, viewed 23 November 2016

**FINDING 29:** The average annual growth rate of general government sector net debt between 2013 and 2016 was 3.8 per cent. This compares to the average annual growth rate of 55.6 per cent between 2008 and 2013.

<sup>154</sup> *ibid.*, p.29

<sup>155</sup> Department of Treasury and Finance, *Budget Paper No.2: 2015-16 Strategy and Outlook* (2016), p.44

<sup>156</sup> Department of Treasury and Finance, *2015-16 Financial Report* (2016), p.29

<sup>157</sup> *ibid.*, p.116

<sup>158</sup> Public Accounts and Estimates Committee, *Report on the 2008-09 Budget Estimates, Part Three* (2008), p.66



While the average annual growth rate of net debt has slowed, the 2016 figure was \$5.4 billion or 32 per cent greater than the 2015-16 Budget estimate of \$16.9 billion.<sup>159</sup> The 2015-16 Budget estimated a considerable decrease in the level of net debt, where it was forecast to be \$16.9 billion, a 15 per cent decrease on the revised 2014-15 figure of \$21.2 billion.<sup>160</sup>

According to the *2015-16 Financial Report*, the discrepancy between the net debt budget estimate and June 2016 actual figure was:

... primarily due to lower than originally budgeted debt retirement associated with the revised timing from entering into a medium-term lease over the operations of the Port of Melbourne from 2015-16 to 2016-17.<sup>161</sup>

**FINDING 30:** Net debt for the general government sector was \$22.3 billion, \$5.4 billion or 32 per cent higher than the 2015-16 Budget estimate. This was primarily due to the delay in the Port of Melbourne lease transaction, which was entered into in 2016-17.

## 4.4 Factors influencing changes in net debt for the State

The Government's operations in 2015-16 raised \$5.4 billion in cash (consisting of the operating surplus and allowances for depreciation and similar costs). The Government allocated \$4.2 billion for asset creation. The commissioning of the Victorian Comprehensive Cancer Centre added \$1.1 billion to net debt. Overall, the State's net debt was nearly unchanged from the previous year.<sup>162</sup>

Once a PPP initiative has been commissioned (that is, the construction phase is completed and the PPP is in operation), the value of the PPP commitment is included in the public sector borrowings. This also increases net debt. The Victorian Comprehensive Cancer Centre (VCCC) was the only PPP project commissioned in 2015-16.<sup>163</sup> The contribution to net debt by the VCCC commissioned in 2015-16 was \$1.1 billion, in line with the 2015-16 Budget estimate.<sup>164</sup>

**FINDING 31:** The Victorian Comprehensive Cancer Centre, procured through a public private partnership agreement, was commissioned in 2015-16. The project contributed \$1.1 billion to public sector net debt at June 2016, in line with the original 2015-16 budget estimate.

<sup>159</sup> Department of Treasury and Finance, *2015-16 Financial Report* (2016), p.116

<sup>160</sup> Department of Treasury and Finance, *Budget Paper No.2: 2015-16 Strategy and Outlook* (2016), p.44

<sup>161</sup> Department of Treasury and Finance, *2015-16 Financial Report* (2016), p.117

<sup>162</sup> *ibid.*, p.10

<sup>163</sup> *ibid.*, pp.66-7

<sup>164</sup> Department of Treasury and Finance, *Budget Paper No.2: 2015-16 Strategy and Outlook* (2015), p.59; Department of Treasury and Finance, *2015-16 Financial Report* (2016), p.10

## 4.5 Superannuation liability

Defined benefit superannuation schemes pay retirees a fixed income which is indexed into the future. The total value of the Government's commitment to pay retirees is estimated using the Commonwealth bond rate. Shifts in the bond rate can have large effects on the value of the commitment. Superannuation liability does not add to net debt, but remains a liability on the State's balance sheet.

Superannuation liabilities increased from \$25.9 billion at 30 June 2015 to \$29.3 billion at 30 June 2016, driven by 'a reduction in bond yields which resulted in the value of the superannuation liability increasing'.<sup>165</sup> This represents a \$3.3 billion, or 12.9 per cent increase over the year. The Victorian Auditor-General notes that 'movements in the reported superannuation liability resulting from bond yield movements have no impact on the amount of nominal cash flows required to meet the future obligations'.<sup>166</sup>

Section 3.5 of this report notes that the performance of the public financial corporations (PFC) sector is affected by changes in fund values, and these are also influenced by bond yields.

The Victorian Auditor-General further explains that the reported value of the liability is largely outside the Government's control due to financial and demographic factors including:

- the amount of benefits the schemes have paid during the year
- contributions made by members during the year
- the expected return on assets held by the schemes
- the expected rate of future salary increases
- the expected length of employee tenure
- mortality rates of members
- discount rates.<sup>167</sup>

The Victorian Auditor-General's report further notes 'small movements in these bond yields can significantly affect the value of the liability'.<sup>168</sup> For example, the 43 per cent increase in the superannuation liability between 2011 and 2012 seen in Figure 4.3 was the result of a drop in the Commonwealth bond yields.<sup>169</sup> A similar reduction in bond rates resulted in an increase in the estimated superannuation liability between 2015 and 2016.

<sup>165</sup> *ibid.*, p.9

<sup>166</sup> Victorian Auditor-General's Office, *Auditor-General's Report on the Annual Financial Report of the State of Victoria, 2015-16* (2016), p.18

<sup>167</sup> *ibid.*, p.17

<sup>168</sup> *ibid.*

<sup>169</sup> *ibid.*, p.18

**Figure 4.3** Victorian superannuation liability for the general government sector, 2006 to 2016

Source: Department of Treasury and Finance, *Consolidated Balance Sheet* (2016). Available at <[www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Aggregate-financial-statements](http://www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Aggregate-financial-statements)>, viewed 23 November 2016

**FINDING 32:** The superannuation liability for 2015-16 was \$29.3 billion at 30 June 2016, a \$3.3 billion or 12.9 per cent increase over the year. Increases in the liability are largely determined by movements in Commonwealth bond yields, however these movements do not impact on the amount of cash required to meet the future superannuation liability obligations.

**RECOMMENDATION 3:** 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.

#### 4.5.1 Measuring progress towards meeting the 2035 superannuation liability target

One of the Government's three financial measurements and targets for 2015-16 was to fully fund the State's superannuation liability by 2035.<sup>170</sup>

No interim targets have been set which would track progress towards meeting this objective. In the *Report on the 2015-16 Budget Estimates*, the Committee recommended the inclusion in the budget appears of 'a diagram showing the expected level of unfunded superannuation liability in each year between the budget year and 2035, similar to the disclosure in earlier budget papers. Commentary should also be provided on the achievement of interim goals'.<sup>171</sup>

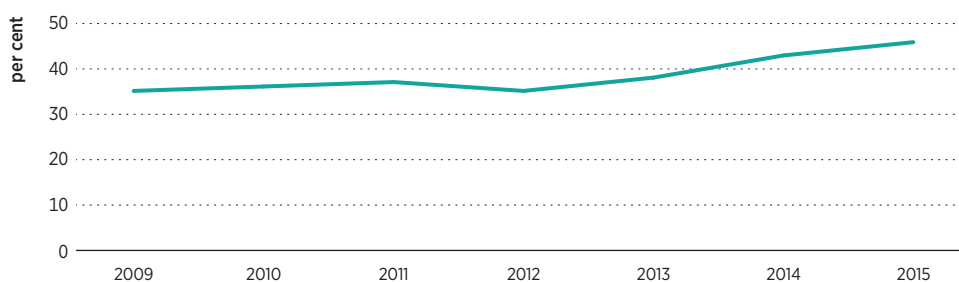
<sup>170</sup> Department of Treasury and Finance, *Budget Paper No.2: 2015-16 Strategy and Outlook* (2015), p.14

<sup>171</sup> Public Accounts and Estimates Committee, *Report on the 2015-16 Budget Estimates* (2015), Recommendation 35, p.123

The Government supported this recommendation ‘in principle’,<sup>172</sup> and advised that the inclusion of such a chart or diagram would ‘feed into the 2016-17 annual reporting and the 2017-18 Budget’.<sup>173</sup>

In the meantime, information provided by PwC Securities to the Emergency Services and State Superannuation Scheme (ESSSuper) shows the funding level of the State Superannuation Scheme increased from 36 per cent in 2009 to 47 per cent by 2015 as shown in Figure 4.4.<sup>174</sup>

**Figure 4.4** Proportion of the State Super Fund that is funded, 2009 to 2015



Source: PwC Securities Ltd (2016) *Emergency Services & State Superannuation Scheme – 2015 Triennial Valuation*, Attachment p.18

**FINDING 33:** The funded proportion of the State Superannuation Scheme liability has been increasing in recent years, from 36 per cent in 2009 to 47 per cent in 2015.

The Government stated it made a \$1.0 billion contribution to the State Superannuation Fund in 2015-16.<sup>175</sup> The Victorian Auditor-General notes that the State will need to continue to generate operating surpluses or borrow to continue such payments in order to meet the 2035 target.<sup>176</sup> The most recent estimates provided to ESSSuper in 2015, together with projections for additional contributions required until 2035 is presented in Figure 4.5.

<sup>172</sup> Victorian Government, *Government Responses to the recommendations of Public Accounts and Estimates Committee's Report on the 2015-16 Budget Estimates*, tabled 4 May 2016, p.13

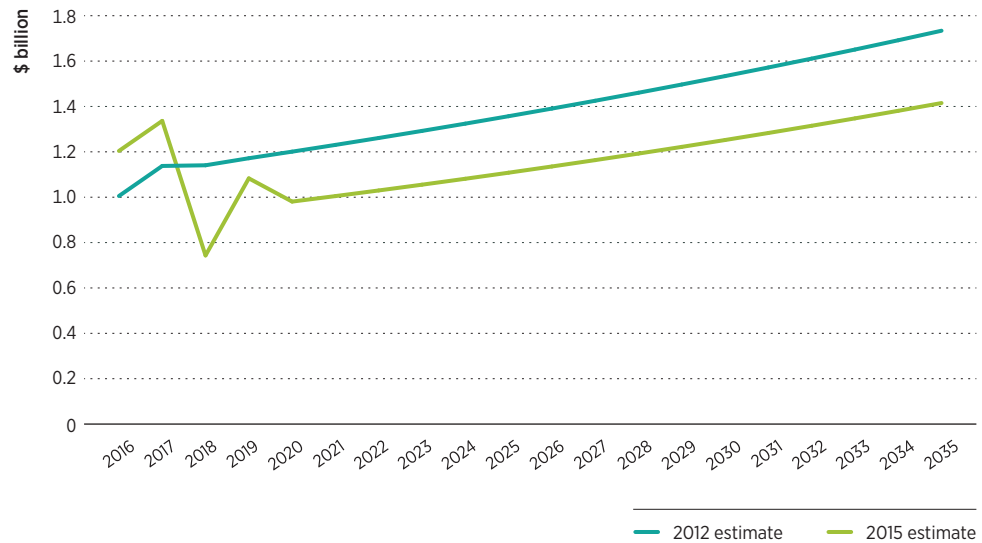
<sup>173</sup> Department of Treasury and Finance, *Response to the 2016-17 Budget Estimates Questionnaire – Supplementary: Previous Recommendations*, received 7 June 2016, p.2, 8

<sup>174</sup> PwC Securities Ltd, *Emergency Services & State Superannuation Scheme – 2015 Triennial Valuation* (2016), Attachment p.18

<sup>175</sup> Department of Treasury and Finance, *2015-16 Financial Report* (2016), p.3

<sup>176</sup> Victorian Auditor-General's Office, *Auditor-General's Report on the Annual Financial Report of the State of Victoria, 2015-16* (2016), p.19

**Figure 4.5** Estimated payments to reduce the superannuation liability, actual and estimated for 2016 to 2035



Source: PwC Securities Ltd, *Emergency Services & State Superannuation Scheme – 2015 Triennial Valuation* (2016), p.38

As a result of the most recent evaluation made in 2015, the Government contribution was readjusted upwards to \$1.2 billion for 2015-16 from the previously recommended contribution of \$1.0 billion made in 2012. After upward revisions for 2015-16 and 2016-17, the estimated contributions required until 2035 are smaller than the previous 2012 predictions. The main reason for this adjustment was strong investment returns post 2012. Other reasons included a decrease in the liability due to changes in the demographic assumptions, lower pension increases and a reduction in the 15 per cent contribution tax liability as a result of the deficit reduction between 2014 and 2015.<sup>177</sup>

#### 4.5.2 Reporting the \$1.0 billion contribution to the State Superannuation Fund in the *2015-16 Financial Report*

The Committee sought further information from the Department of Treasury and Finance regarding the contribution made to the State Superannuation Fund in 2015-16, and how this has been reported in the *2015-16 Financial Report*.

The contribution forms part of the \$2.9 billion ‘superannuation’ line item in cash flow statement in the *2015-16 Financial Report*.<sup>178</sup> It is also forms part of the \$1.5 billion ‘employer contributions’ reported in the table entitled ‘reconciliation of the fair value of plan assets’ in Note 6.5 on Superannuation.<sup>179</sup>

<sup>177</sup> PwC Securities Ltd (2016) *Emergency Services & State Superannuation Scheme – 2015 Triennial Valuation*, p.5

<sup>178</sup> Department of Treasury and Finance, *2015-16 Financial Report* (2016), p.30

<sup>179</sup> *ibid.*, p.75

The Department of Treasury and Finance also published details of the \$1.0 billion special appropriation that related to this contribution in its *Annual Report 2015-16*.<sup>180</sup> The Committee notes that the purpose of this appropriation was stated as ‘superannuation contributions’, but did not specify whether these related to the Department or the State as a whole.

The Committee notes the discussion of the payment, including its recommended amount, also appears in the *Emergency Services & State Superannuation Scheme – 2015 Triennial Valuation* report from PwC Securities to ESSSuper.

**FINDING 34:** Information on the contribution made by the Government in 2015-16 towards fully funding the superannuation liability forms part of general, superannuation-related line items in the *2015-16 Financial Report*. The \$1.0 billion contribution is listed in the summary of special appropriations for 2015-16 in the Department of Treasury and Finance’s *Annual Report 2015-16*. The *Emergency Services & State Superannuation Scheme – 2015 Triennial Valuation* report also provides more details regarding the payment.

‘Fully funding the superannuation liability’ is one of the Government’s three key fiscal strategies. The Committee considers that measures the Government takes to meet this, such as the contribution made in 2015-16, should be more transparent in the budget papers and the *Annual Financial Report*, and listed separately.

**RECOMMENDATION 4:** 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.

## 4.6 Sustainability of debt

In the 2015-16 Budget, the Government estimated that net debt as a proportion of GSP would be 4.4 per cent at 30 June 2016.<sup>181</sup> The 2015-16 budget papers noted:

Investment in services and infrastructure has not resulted in increasing net debt as there are significant savings from not proceeding with the East West Link. Net debt as a percentage of GSP is projected to peak at 5.8 per cent in June 2015 before declining to 4.4 per cent of GSP by June 2019, lower than the June 2018 estimate published in the *2014 Pre-Election Budget Update*. This level and trajectory of net debt is consistent with the Government’s commitment to maintaining the State’s triple A credit rating.<sup>182</sup>

<sup>180</sup> Department of Treasury and Finance, *2015-16 Annual Report* (2016) p.70

<sup>181</sup> Department of Treasury and Finance, *Budget Paper No.2: 2015-16 Strategy and Outlook* (2015), p.13

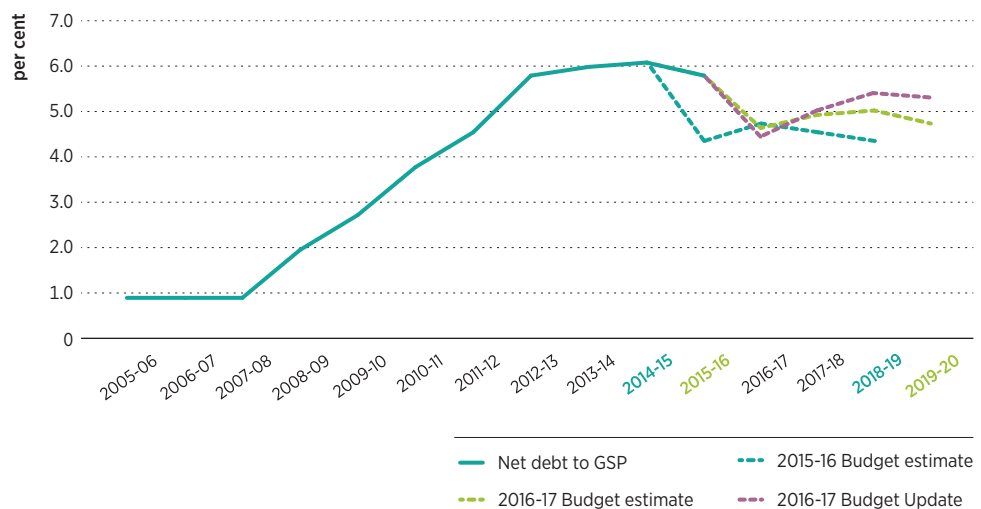
<sup>182</sup> *ibid.*, p.12

At the time of the 2015-16 Budget, the forward estimates for net debt as a percentage of GSP (that is, projections from June 2016 to 2019) were all below 5 per cent.<sup>183</sup> By the time the 2016-17 Budget was tabled in Parliament in April 2016, the estimate for net debt as a percentage of GSP at June 2016 had been raised from 4.4 per cent to 5.9 per cent.<sup>184</sup> The increase was a result of the delay in the Port of Melbourne lease transaction, the proceeds from the transaction then having been associated with debt retirement.<sup>185</sup> The actual net debt to GSP percentage for 2015-16 was 5.9 per cent.<sup>186</sup>

At the financial and performance outcomes inquiry hearings in February 2017, the Secretary of the Department of Treasury and Finance made the following comments on Victoria's net debt to GSP percentage:

In terms of the final outcome ... the most recent document, which is the budget update released in December [2016] ... shows net debt falling to ... 4.5 per cent of GSP in 2016-17, before then returning to 5.4 per cent at the end of the forward estimates. So obviously the key driver of that fall in net debt in 2016-17 has been the long-term lease of the Port of Melbourne.<sup>187</sup>

**Figure 4.6** General government sector net debt to GSP, 2005-06 to 2019-20



Sources: Committee calculations based on: Department of Treasury and Finance, *Historical Financial Aggregates – Net Debt General Government* (2016). Available at <[www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Other-financial-aggregates](http://www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Other-financial-aggregates)>, viewed 30 November 2016; Department of Treasury and Finance, *Macroeconomic Indicators* (2016). Available at <[www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Macroeconomic-indicators](http://www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Macroeconomic-indicators)>, viewed 30 November 2016; Department of Treasury and Finance, *2016-17 Budget Update* (2016), p.12

<sup>183</sup> *ibid.*, p.13

<sup>184</sup> Department of Treasury and Finance, *Budget Paper No.2: 2016-17 Strategy and Outlook* (2016), p.13

<sup>185</sup> *ibid.*, p.44

<sup>186</sup> Department of Treasury and Finance, *2015-16 Financial Report* (2016), p.4

<sup>187</sup> Mr David Martine, Secretary, Department of Treasury and Finance, *Inquiry into 2015-16 Financial and Performance Outcomes Transcript of Evidence*, 13 February 2017, p.17

**FINDING 35:** The percentage of net debt to GSP in the general government sector for June 2016 was initially forecast to be 4.4 per cent. The percentage of net debt to GSP was anticipated to remain below 5.0 per cent across the 2015-16 Budget forward estimates period, from June 2016 to June 2019.

**FINDING 36:** The actual net debt for the general government sector in June 2016 was 5.9 per cent of GSP. The increase was largely due to the delay in the Port of Melbourne lease transaction until the following financial year.

**FINDING 37:** The Government now expects the percentage of net debt to GSP for the general government sector to fall to under 5.0 per cent in 2016-17. Estimates in the 2016-17 Budget Update indicate it will increase to over 5.0 per cent for the remainder of the forward estimates period to 2019-20.

#### 4.6.1 Comparison of Victoria's net debt against other states

The Secretary of the Department of Treasury and Finance, Mr David Martine, made the following comment regarding Victoria's level of net debt at the Financial and Performance outcomes hearing on 13 February 2017:

You might recall that the Treasurer has spoken on various occasions about increasing borrowings to fund productivity enhancing infrastructure.

...

My advice to many governments over many years, both here and also in Canberra, always has been do not borrow for recurrent; always make sure that you are living within your means and your revenues are covering your spending. But when it comes to infrastructure, provided it is for productivity enhancing, then there is a legitimate discussion about a prudent level of debt.

...

Provided that debt is for the right sort of infrastructure, then that actually is something that rating agencies are a bit more comfortable with. Clearly with population growing at 2.1 per cent, we do need to ensure that there is adequate investment in infrastructure to support that population.<sup>188</sup>

The Secretary further explained Victoria's net debt to GSP levels in relation to other Australian jurisdictions:

As a way of comparison, our net debt — you might recall I used the figure of 4.5 per cent for 2016–17. The equivalent number in the commonwealth is 18.1 per cent. That is their net debt as a proportion of GDP. All the states vary a bit, so some are a bit lower than us at the moment but are heading in a different trajectory. Some are higher and are going to continue higher. Western Australia at the moment is the worst of the states, sitting a bit below 8 per cent, crawling up to about 9 per cent by the end of the forward estimates. There are some states that have lower levels of debt, and New South Wales is one of those examples.<sup>189</sup>

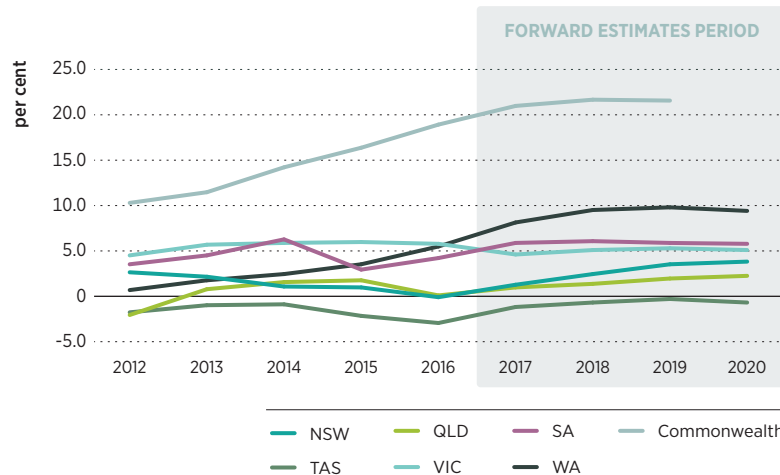
<sup>188</sup> *ibid.*

<sup>189</sup> *ibid.*



General government sector net debt for the states and the Commonwealth, including projections to June 2020<sup>190</sup> is shown in Figure 4.7. Net debt across all jurisdictions, both in absolute terms and as a proportion of GSP are shown in Appendix A2.1 and A2.2.

**Figure 4.7** General government sector net debt as a proportion of GSP by state and Commonwealth, June 2012 to June 2020



Source: (as per Appendix A2.2)

Victoria's general government sector net debt of 5.9 per cent of GSP for 2016 was the highest of all jurisdictions in Australia when measured as a proportion of GSP. This was followed by Western Australia's at 5.7 per cent.

New South Wales and Queensland both reduced their levels of general government sector net debt in 2016. The Queensland Government notes that its *Debt Action Plan*, which transferred debt to Government-owned power companies,<sup>191</sup> played a significant role in the decrease in general government sector borrowings, and hence its net debt.<sup>192</sup> The Committee notes that a factor contributing to the decrease in net debt for New South Wales is a:

... payment of around \$1 billion from the Commonwealth Government pursuant to the National Partnership Agreement on Asset Recycling.<sup>193</sup>

The Victorian Government also anticipates funds from the Commonwealth following its lease of the operations of the Port of Melbourne.<sup>194</sup> These funds will contribute to Victoria's anticipated decrease in net debt over the forward estimates period as shown in Figure 4.7 above.

<sup>190</sup> Projections are based on each jurisdiction's projections of gross state product as well as those of net debt

<sup>191</sup> Queensland Audit Office, *Queensland State Government: 2015-16 Results of Financial Audits* (2016), p.43

<sup>192</sup> Queensland Government, *Report on State Finances 2015-16* (2016), p.4-02

<sup>193</sup> New South Wales Treasury, *About Transgrid*, <[www.treasury.nsw.gov.au/electricity\\_network\\_transactions/about\\_transgrid](http://www.treasury.nsw.gov.au/electricity_network_transactions/about_transgrid)>, viewed 20 February 2017

<sup>194</sup> Daniel Andrews MP, Premier, *Promise Delivered: Port of Melbourne Leased to Remove Level Crossings and Create Thousands of Jobs* (Media release, 19 September 2016)

Over the period to June 2020, New South Wales, Western Australia and Queensland all expect that their general government sector net debt as a proportion of GSP will rise. In the case of New South Wales, that government has associated this increase with a series investments in productive infrastructure.<sup>195</sup> In addition to infrastructure investment, the Western Australian Government cites continued operating deficits as a reason for that state's expected rise in net debt.<sup>196</sup> The Queensland Government notes that net debt will rise over the forward estimates period in order to fund priority infrastructure projects.<sup>197</sup> It also notes that its Debt Action Plan has lowered the projection from previous estimates.<sup>198</sup>

**FINDING 38:** As a proportion of gross state product, Victorian general government sector net debt for 2015-16 was 5.9 per cent, the highest proportion of the Australian states. Other jurisdictions have used a number of methods, including transferring debt to other sectors and using proceeds from the Commonwealth Government's asset recycling programs to reduce GGS sector net debt in 2016. These states anticipate an increase in GGS net debt in the future.

### Public non-financial corporations sector net debt

Net debt for the Victorian PNFC at June 2016 was \$14.3 billion.<sup>199</sup> By way of comparison, the figures for New South Wales, Queensland and Western Australia were \$29.5 billion,<sup>200</sup> \$35.4 billion,<sup>201</sup> and \$16.8 billion<sup>202</sup> respectively. The Committee notes that figures for both Queensland and New South Wales are more than double that of Victoria.

### Non-financial public sector net debt

The combination of the general government and the public non-financial corporations sectors is known in the State's finances as the 'non-financial public sector' (NFPS), and the Committee considers that this the NFPS provides a more comprehensive picture of government debt.

Victorian NFPS net debt for June 2016 was \$36.6 billion, unchanged from the previous year.<sup>203</sup> NFPS net debt as a proportion of GSP fell from 10.1 to 9.8 per cent of GSP due to the rising GSP for the State.

The NFPS net debt for the states and the Commonwealth, including projections to June 2020 is shown in Figure 4.8.

<sup>195</sup> New South Wales Treasury, *Budget Paper No.1: 2016-17 Budget Statement* (2016), p.1-3

<sup>196</sup> Western Australian Government, *Budget Paper No.3: 2016-17 Economic and Fiscal Outlook* (2016), p.31

<sup>197</sup> Queensland Government, *Budget Paper No.2: Budget Strategy and Outlook* (2016), p.137

<sup>198</sup> *ibid.*, p.134

<sup>199</sup> Department of Treasury and Finance, *2015-16 Financial Report* (2016), p.138

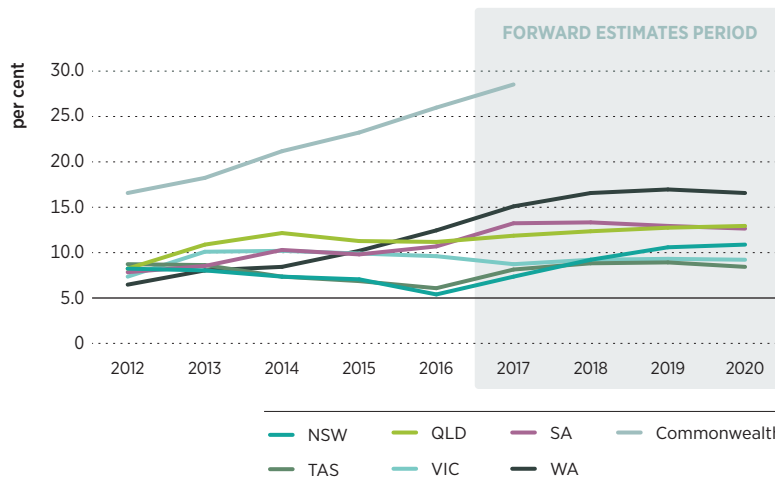
<sup>200</sup> New South Wales Treasury, *Report on State Finances* (2016), p.8-5

<sup>201</sup> Queensland Government, *2015-16 Report on State Finances* (2016) p.4-08

<sup>202</sup> Government of Western Australia, *2015-16 Annual Report on State Finances* (2016), p.51

<sup>203</sup> Department of Treasury and Finance, *2015-16 Financial Report* (2016), p.138

**Figure 4.8** Non-financial public sector net debt as a proportion of GSP by state and Commonwealth, June 2012 to June 2020



Source: (as per Appendix A2.2)

Using this indicator, Victoria's NFPS net debt as a proportion of GSP was less than that of Queensland and Western Australia in June 2016.<sup>204</sup>

The NFPS net debt for Queensland fell slightly in 2016, as transferring net debt to government-owned enterprises has no effect.

The Committee notes that over the four years to June 2020, net debt for New South Wales, Queensland and Western Australia are all projected to rise as a proportion of GSP. By contrast, Victoria's share is expected to remain constant at around 9.5 per cent of GSP.

**FINDING 39:** In dollar terms, Victorian public non-financial corporations sector debt in June 2016 was less than half that of NSW and Queensland. Non-financial public sector net debt for Victoria (combining the general government and public non-financial corporations sectors) as a proportion of gross state product was less than Queensland and Western Australia, but higher than New South Wales. Over the next few years, non-financial public sector net debt as a proportion of gross state product is projected to rise for New South Wales, Queensland and Western Australia, whereas Victoria's share is expected to remain static.

<sup>204</sup> South Australia's combined net debt for June 2016 was 10.9 per cent, also higher than Victoria's (see Appendix A2.2)



# 5 Revenue

## Key findings

Revenue for the general government sector was \$56.7 billion in 2015-16, an increase of 5.5 per cent compared to 2014-15. This represents \$1.2 billion more than was forecast in the initial budget estimate.

Victoria received Commonwealth grants totalling \$25.2 billion in 2015-16. General-purpose (GST) grants were \$13.0 billion or just over half of the Commonwealth grant total.

The Victorian property market continued to perform strongly throughout 2015-16. It contributed towards the \$5.8 billion raised in land transfer duty in 2015-16, an increase of \$900.5 million, or 18.2 per cent, over the 2014-15 figure. This was \$887.0 million, or 11.1 per cent, higher than the original estimate. Revenue from land transfer duty has increased at a compound annual growth rate of 21 per cent since 2012-13, compared to the growth rate of 6.1 per cent between 2001-02 and 2011-12.

Payroll tax raised \$5.4 billion in 2015-16, an increase of \$230.0 million or 4.5 per cent. The Department of Treasury and Finance has noted that the long-term relationship between total employment and payroll tax revenue has diverged in recent years. The strong upswing in total employment since mid-2014 has not seen an equivalent rise in payroll tax revenue. This is due to the recent concentration of employment growth in part-time jobs.

Dividends from both the public financial corporation (PFC) and public non-financial corporation (PNFC) sectors to the general government sector significantly decreased in 2015-16.

## 5.1 Introduction

This chapter discusses the revenue outcomes of the general government sector and the main factors driving the performance of the various revenue streams for 2015-16. State based taxes, or 'own-source' revenue includes property based taxes such as land transfer duty and land tax, payroll tax, motor vehicle and gambling taxes. The chapter examines how much revenue was raised across each of the own-source revenue streams, comparing the 2015-16 outcomes to the previous financial year, and the original 2015-16 Budget estimates.

General government sector (GGS) revenue includes dividends paid into the sector each financial year from the public financial corporation (PFC) and public non-financial corporation (PNFC) sectors. The chapter discusses the dividends paid into the GGS by the PFC and PNFC sectors for 2015-16, and compares these amounts against the dividends paid in previous financial year, as well as the original 2015-16 Budget estimates.

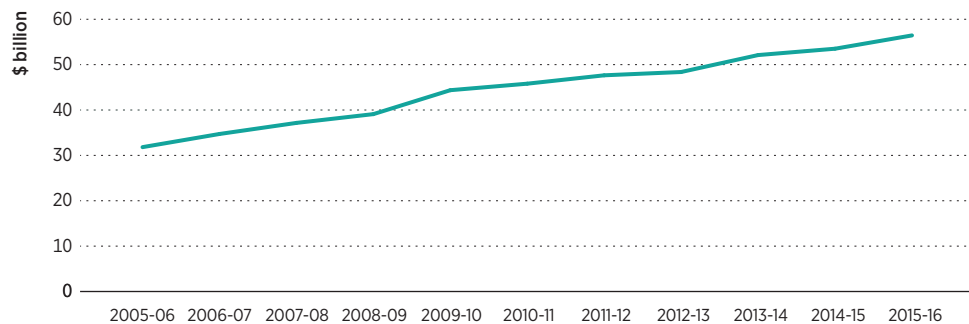
Revenue derived from Commonwealth grants, the largest revenue source for Victoria in 2015-16, is also discussed.

## 5.2 Overall revenue outcomes

Revenue for the general government sector was \$56.7 billion in 2015-16, increasing by 5.5 per cent in comparison to 2014-15.<sup>205</sup> This represents \$1.2 billion additional revenue than was forecast in the initial budget estimate.<sup>206</sup>

General government sector revenue from 2005-06 to 2015-16 is shown in Figure 5.1.

**Figure 5.1** General government sector revenue, 2005-06 to 2015-16



Source: Department of Treasury and Finance, *2015-16 Consolidated Comprehensive Operating Statement – General Government Sector* (2016). Available at <[www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Aggregate-financial-statements](http://www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Aggregate-financial-statements)>, viewed 29 November 2016

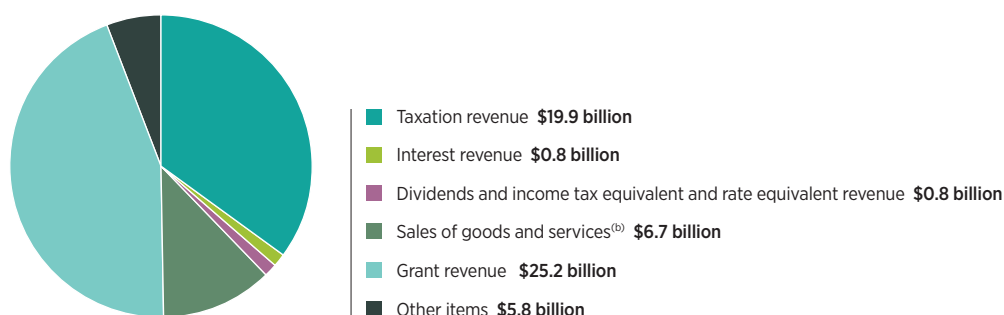
The annual revenue growth rate in 2015-16 was 5.5 per cent, which compares to the long term compound annual growth rate of 5.9 per cent between 2005-06 and 2015-16.

### 5.2.1 Components of revenue and variations against budget estimates

The major components of the general government sector's revenue as a percentage of total revenue for 2015-16 are illustrated in Figure 5.2.

<sup>205</sup> Department of Treasury and Finance, *2015-16 Financial Report* (2016), p.6

<sup>206</sup> *ibid.*, p.113

**Figure 5.2** Major components of general government sector revenue, 2015-16

Source: Department of Treasury and Finance, *2015-16 Consolidated Comprehensive Operating Statement – General Government Sector* (2016). Available at <[www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Aggregate-financial-statements](http://www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Aggregate-financial-statements)>, viewed 29 November 2016

The largest source of revenue for the general government sector was grants from the Commonwealth, accounting for \$25.2 billion or 44.5 per cent of total revenue in 2015-16.<sup>207</sup> The balance of revenue comes from the State's own sources. Of this, taxation (mainly comprised of taxes related to property, payroll, gambling, motor vehicle and insurance) contributed \$19.9 billion to the State. This accounted for more than one-third (35.1 per cent) of revenue for the general government sector.<sup>208</sup> Revenue from the sales of goods and services was \$6.7 billion in 2015-16, amounting to 11.8 per cent of total revenue.<sup>209</sup>

Variances for revenue components in 2015-16 from amounts expected in the 2015-16 Budget can be seen in Table 5.1.

**Table 5.1** Variances between estimates and results for major components of revenue, 2015-16

	2015-16 Budget	2015-16 actual	Variance	
	(\$ million)	(\$ million)	(\$ million)	(per cent)
Own-source income <sup>(a)</sup>	30,100.6	31,489.6	1,388.9	4.6
• Taxation revenue	19,024.5	19,895.8	871.3	4.6
• Interest revenue	830.8	786.2	-44.7	-5.4
• Dividends and similar	1,144.3	847.9	-296.3	-25.9
• Sales of goods and services	6,779.1	6,671.4	-107.6	-1.6
• Other items of revenue	2,322.0	3,287.7	965.7	41.6
Commonwealth grants revenue <sup>(b)</sup>	25,428.1	25,226.0	-202.1	-0.8
<b>Total revenue</b>	<b>55,528.7</b>	<b>56,715.6</b>	<b>1,186.8</b>	<b>2.1</b>

(a) The sum of 'taxation revenue', 'interest revenue', 'dividends and income tax equivalent and rate equivalent revenue', 'sales of goods and services' and 'other items of revenue'.

(b) Excludes 'other contributions and grants', which are included under 'other items of revenue'.

Sources: Department of Treasury and Finance, *2015-16 Financial Report* (2016), p.113, 39; Department of Treasury and Finance, *Budget Paper No.5: 2015-16 Statement of Finances* (2015), p.7, 29

<sup>207</sup> Department of Treasury and Finance, *2015-16 Consolidated Comprehensive Operating Statement – General Government Sector* (2016). Available at <[www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Aggregate-financial-statements](http://www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Aggregate-financial-statements)>, viewed 29 November 2016

<sup>208</sup> Department of Treasury and Finance, *2015-16 Financial Report* (2016), p.6

<sup>209</sup> *ibid.*

Table 5.1 shows that total revenue for the general government sector was 2.1 per cent higher than forecast in the 2015-16 budget estimate. This was mainly driven by higher-than-anticipated taxation and 'other miscellaneous' revenue (which is included in 'other items of revenue' in the table). Variances for each revenue component are discussed in the following sections.

**FINDING 40:** General government sector's revenue was \$56.7 billion in 2015-16. This is an increase of 5.5 per cent in comparison to the previous year. Nearly half (44.5 per cent) of the total came from Commonwealth grants, while State taxation provided approximately one-third of the total (35.1 per cent).

**FINDING 41:** Total revenue was 2.1 per cent higher than forecast in the 2015-16 budget estimate. This was primarily driven by higher-than-expected State taxation and 'other miscellaneous' revenue, and partially offset by other items being lower than forecast in the budget papers.

## 5.3 Own source revenue

### 5.3.1 State taxation revenue

The major State taxes are:

- property based taxes such as land transfer duty and land tax
- payroll tax
- motor vehicle taxes
- insurance taxes
- gambling taxes
- other smaller revenue streams such as liquor licence fees and levies on statutory corporations.

The level of State taxation is primarily driven by economic activity in relation to the labour market (particularly in terms of salaries and wages growth), the property market, insurance activity and the motor vehicle sector. Victoria's economic performance over 2015-16 is discussed in detail in Chapter 2. The Government can also influence the amount it receives from these revenue sources through policy initiatives such as changes to tax rates or exemptions (known as 'revenue initiatives' and 'revenue foregone initiatives' in the budget).<sup>210</sup>

State taxation revenue accounts for more than one third (35.1 per cent) of the general government sector's total revenue. It provided the State a total of \$19.9 billion in 2015-16, a \$1.6 billion or 8.5 per cent increase over the previous year.<sup>211</sup> Property taxes were the highest source of State taxation, bringing in

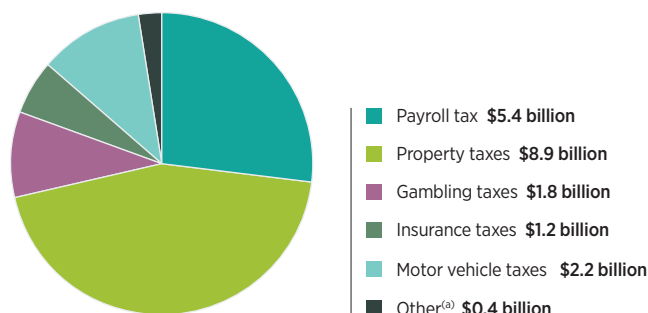
<sup>210</sup> Department of Treasury and Finance, *Budget Paper No.3: 2015-16 Service Delivery* (2015), p.104

<sup>211</sup> Department of Treasury and Finance, *2015-16 Financial Report* (2016), p.6



\$8.9 billion in 2015-16. This was followed by payroll tax of \$5.4 billion and motor vehicle taxes of \$2.2 billion. Figure 5.3 shows the major revenue items for taxation revenue in Victoria in further detail.

**Figure 5.3** State taxation revenue main items, 2015-16

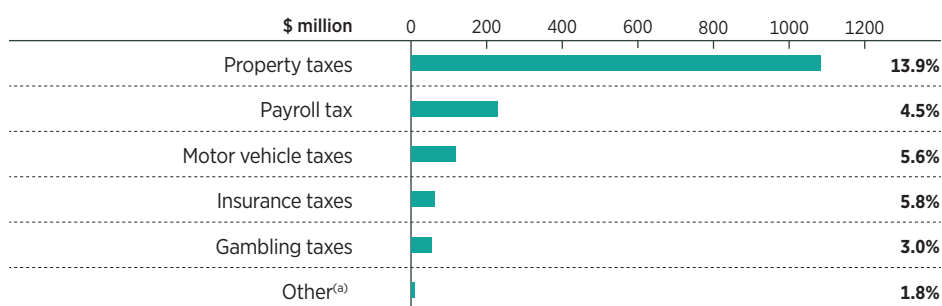


(a) 'Other' includes: 'levies on statutory corporations', 'liquor licence fees' and 'other'.

Source: Department of Treasury and Finance, *2015-16 Financial Report* (2016), p.36

The overall increase in State taxation was driven by the increase in property taxes, which increased by \$1.1 billion or 13.9 per cent over the previous year.<sup>212</sup> The *2015-16 Financial Report* indicates that this increase was 'due to an increase in land transfer duty of \$901.0 million on the back of continued strength in the property market'.<sup>213</sup> The growth of other State taxes over 2015-16 was less pronounced, with payroll tax increasing by \$230 million (or 4.5 per cent) and motor vehicle taxes increasing by \$119.0 million (or 5.6 per cent) over the previous year. Figure 5.4 shows the change between 2014-15 and 2015-16 across all components of State taxation revenue.

**Figure 5.4** Components of State taxation revenue, growth from 2014-15 to 2015-16



(a) 'Other' includes: 'levies on statutory corporations', 'liquor licence fees' and 'other'.

Source: Department of Treasury and Finance, *2015-16 Financial Report* (2016), p.36

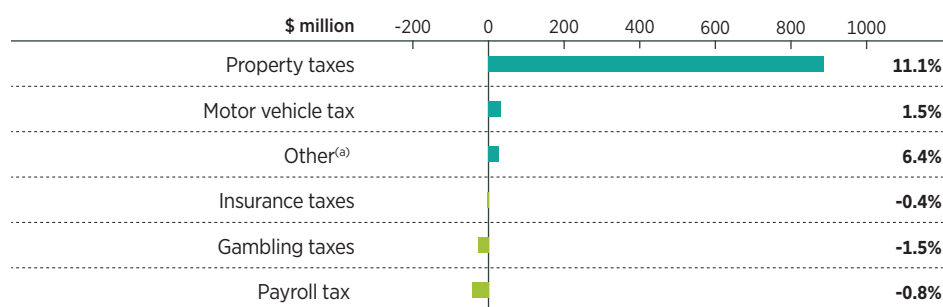
Figure 5.5 shows the variance between the 2015-16 budget estimates and actual results for the various State taxes. The greatest variance was for property taxes, where the actual revenue raised was \$1.1 billion, or 13.9 per cent greater than the original estimate.

212 *ibid.*, p.36

213 *ibid.*, p.2

As discussed in Chapter 2, the Department of Treasury and Finance had assumed a correction or slowdown would take place in the Victorian property market over 2015-16. The estimates made for property taxes in the 2015-16 Budget reflected these assumptions. However, the Victorian property market continued to perform strongly throughout 2015-16, increasing in terms of both prices and sale volumes. This had a marked effect on the overall 2015-16 outcomes, driving the increase in overall revenue and, following this, the higher-than-anticipated operating surplus.

**Figure 5.5** Variances between estimates and results for components of State taxation revenue, 2015-16



(a) 'Other' includes: 'levies on statutory corporations', 'liquor licence fees' and 'other'.

Sources: Department of Treasury and Finance, *2015-16 Financial Report* (2016), p.36; Department of Treasury and Finance, *Budget Paper No.5: 2015-16 Statement of Finances* (2015), p.27

Property tax revenue is discussed in further detail in the following section.

### 5.3.2 Property taxes

The two major revenue sources for property taxes were land transfer duty and land tax. Land transfer duty raised \$5.8 billion. This was an increase of \$900.5 million, or 18.2 per cent, over the 2014-15 figure and \$887.0 million, or 11.1 per cent, higher than the original estimate.<sup>214</sup> Land tax raised \$1.8 billion in 2015-16, which was a slight increase over the 2014-15 figure and close to the original estimate.<sup>215</sup>

As part of its 2015-16 Budget, the Government announced a 3.0 per cent *Land Transfer Duty Surcharge on Foreign Buyers of Residential Property* and a 0.5 per cent *Absentee Landowner Surcharge* applied to landowners who do not ordinarily reside in Australia.<sup>216</sup> The Department of Treasury and Finance informed the Committee that the *Land Transfer Duty Surcharge on Foreign Buyers of Residential Property* raised \$66.8 million, \$27.3 million or 69.1 per cent greater than the original estimate.<sup>217</sup> The *Absentee Landowner Surcharge* raised \$19.3 million, \$7.4 million or 62.2 per cent over the budget estimate, for 2015-16.<sup>218</sup>

<sup>214</sup> *ibid.*, p.36; Department of Treasury and Finance, *Budget Paper No.5: 2015-16 Statement of Finances* (2015), p.27

<sup>215</sup> Department of Treasury and Finance, *2015-16 Financial Report* (2016), p.36; Department of Treasury and Finance, *Budget Paper No.5: 2015-16 Statement of Finances* (2015), p.27

<sup>216</sup> Department of Treasury and Finance, *Budget Paper No.3: 2015-16 Service Delivery* (2015), p.104

<sup>217</sup> Department of Treasury and Finance, *Response to the Committee's 2015-16 Financial and Performance Outcomes General Questionnaire*, received 22 December 2016, p.23

<sup>218</sup> *ibid.*

### 5.3.3 Victorian property taxes

Property taxes are calculated based on the value of properties. A recent report by the Grattan Institute noted:

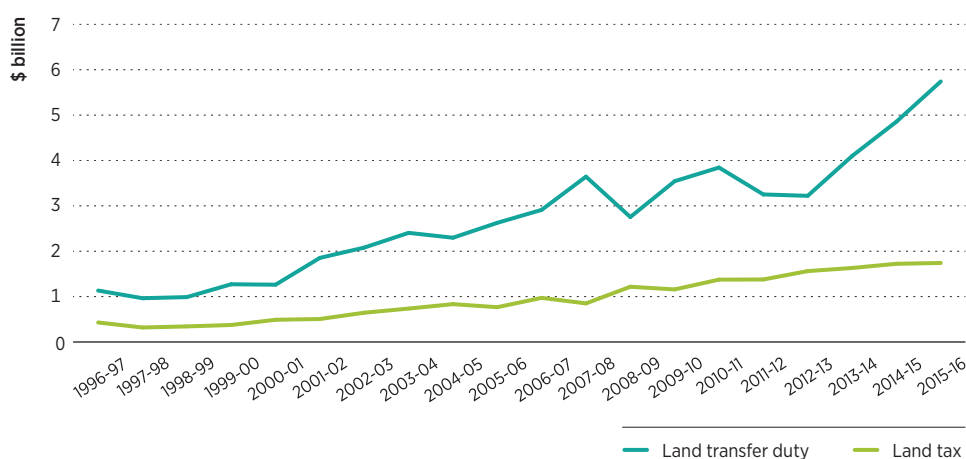
If they are designed well and applied broadly, property taxes do little to change incentives to work, save and invest. Unlike capital, property is immobile – it cannot shift offshore to avoid higher taxes. Concerns about the risks of multinational tax avoidance, the increasing mobility of capital around the world, and the increasing value of residential property relative to incomes, should make property taxes a priority in any tax reform.

...

Calls to reform property taxes are not new. Property taxes are often unpopular precisely because they are highly visible and difficult to avoid. Yet they are also efficient and fair, and don't distort behaviour.<sup>219</sup>

Property taxes in Victoria have steadily increased over the last fifteen years mainly due to higher demand in Victoria's residential property market. In recent years, this higher demand has been primarily driven by low interest rates, investor activity and high population growth. Figure 5.6 shows the long-term performance of land transfer duty, and the significant growth experienced since 2012-13 where it has increased at a compound annual growth rate of 21 per cent. This compares to the growth rate of 6.1 per cent between 2001-02 and 2011-12.<sup>220</sup>

**Figure 5.6** Value of Victorian land transfer duty and land tax, 1996-97 to 2015-16



Source: Department of Treasury and Finance, *2016-17 Taxation Revenue - Annual* (2017). Available at <[www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/State-taxation-revenue](http://www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/State-taxation-revenue)>, viewed 1 March 2017

<sup>219</sup> Daly, J and Coates, B, *Property Taxes* (2015), The Grattan Institute, p.1

<sup>220</sup> Committee calculations based on Department of Treasury and Finance, *2016-17 Taxation Revenue - Annual* (2017). Available at <[www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/State-taxation-revenue](http://www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/State-taxation-revenue)>, viewed 1 March 2017

The Department of Treasury and Finance has previously highlighted the volatility of property taxes, particularly land transfer duty. The Department explained that 'land transfer duty follows the property market cycle and is characterised by large increases in revenue during periods of strong growth, reflecting increases in property prices and transactions, followed by periods of negative or flat growth in revenue'.<sup>221</sup> Further, the Department states that 'importantly, the longer the current upswing in the property market lasts the greater is the likelihood a slowdown will emerge'.<sup>222</sup>

### 5.3.4 Payroll taxes

Payroll taxes provided \$5.4 billion of revenue for 2015-16, accounting for 27.0 per cent of State taxation. The 2015-16 result was an annual increase of \$230.0 million or 4.5 per cent. However, this was \$43.0 million or 0.8 per cent less than the original budget estimate.<sup>223</sup> According to the Department of Treasury and Finance, the 2015-16 payroll tax figure reflects '... growth in aggregate employment and wages'.<sup>224</sup>

Payroll tax is set on the total wage bill for companies, which is determined by the number of hours worked as well as the hourly rate paid. The number of hours worked can be either full-time and part-time. Over the five-year period to November 2016, part-time employment in Victoria has grown faster (3.2 per cent per annum) than full-time employment (1.2 per cent per annum).<sup>225</sup>

At the time of the 2015-16 Budget, the Department of Treasury and Finance explained that:

In the years since the global financial crisis of 2008-09, the long-run relationship between total employment and payroll tax revenue has diverged. While Victoria has seen a strong upswing in total employment since mid-2014, there has not been an equivalent rise in payroll tax revenue

...

Contributing to the divergence between employment and payroll tax growth is the recent concentration of employment growth in part-time jobs.<sup>226</sup>

Figure 5.7 shows the Victorian payroll tax from 1996-97 to 2015-16.

<sup>221</sup> Department of Treasury and Finance, *Budget Paper No.5: 2015-16 Statement of Finances* (2015), p.166

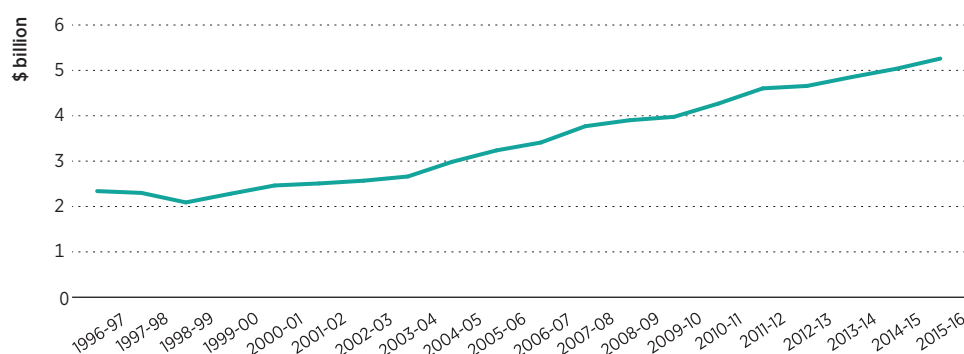
<sup>222</sup> *ibid.*, p.167

<sup>223</sup> Department of Treasury and Finance, *2015-16 Financial Report* (2016), p.36; Department of Treasury and Finance, *Budget Paper No.5: 2015-16 Statement of Finances* (2015), p.27

<sup>224</sup> Department of Treasury and Finance, *2015-16 Financial Report* (2016), p.6

<sup>225</sup> Committee calculations based on Australian Bureau of Statistics, *Labour Force, Australia, Detailed, Nov 2016*, Cat No.6291.0.55.003, Table 5. Available at <[www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/6291.0.55.003Nov 2016](http://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/6291.0.55.003Nov%202016)>, Viewed 16 March 2017

<sup>226</sup> Department of Treasury and Finance, *Budget Paper No.5: 2015-16 Statement of Finances* (2015), p.169

**Figure 5.7** Victorian payroll tax, 1996-97 to 2015-16

Source: Department of Treasury and Finance, *Taxation Revenue - Annual* (2017). Available at <[www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/State-taxation-revenue](http://www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/State-taxation-revenue)>, viewed 1 March 2017

### 5.3.5 Other own-source taxes

Of the remaining components of State taxation revenue in 2015-16:

- motor vehicle taxes contributed \$2.2 billion, an increase of \$119.0 million or 5.6 per cent on the previous year, and \$32.8 million or 1.5 per cent more than the original budget estimate
- gambling taxes were \$1.8 billion, a \$53.0 million or 3.0 per cent increase over the previous year, but \$27.3 million or 1.5 per cent less than the original budget estimate
- insurance taxes were \$1.2 billion which was \$63.0 million or 5.8 per cent higher than the previous year, but \$5.2 million (0.4 per cent) less than the 2015-16 Budget estimate
- other revenue (comprised of ‘levies on statutory corporations’, ‘liquor licence fees’ and ‘other’) was \$449.0 million, \$8.0 million or 1.8 per cent more than the previous year, and \$27 million or 6.4 per cent more than the budget estimate.<sup>227</sup>

**FINDING 42:** State taxation was \$19.9 billion in 2015-16. The largest components of this revenue stream were property taxes (accounting for 44.5 per cent of the total), followed by payroll tax (27.0 per cent) and motor vehicle taxes (11.2 per cent).

**FINDING 43:** State taxation increased by 8.5 per cent (\$1.6 billion) in 2015-16. This was primarily driven by higher revenue from property taxes, which, according to the *2015-16 Financial Report*, increased by 13.9 per cent over 2014-15 because of the continued strength of the property market.

**FINDING 44:** State taxation was 4.6 per cent higher than the 2015-16 budget estimate. This was primarily driven by higher-than-expected property taxes, which were \$887.0 million higher than the original 2015-16 Budget estimate.

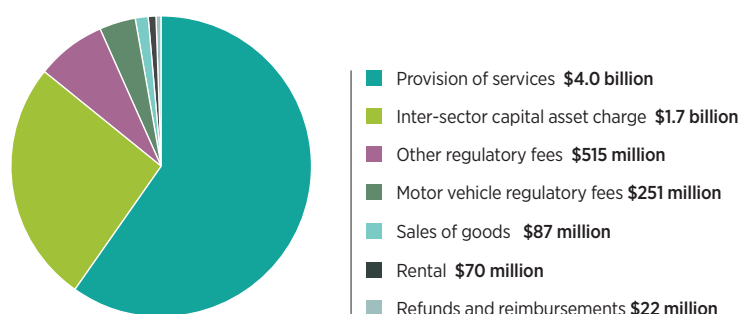
<sup>227</sup> Department of Treasury and Finance, *2015-16 Financial Report* (2016), p.36; Department of Treasury and Finance, *Budget Paper No.5: 2015-16 Statement of Finances* (2015), p.165

## 5.4 Sales of goods and services

Sales of goods and services represent 11.8 per cent of the Government's revenue.<sup>228</sup> This includes revenue from the provision of services such as regulatory fees (for example, motor vehicle regulatory fees), rental, refunds and reimbursements, user charges and public transport fares, and the inter-sector capital asset charge. The inter-sector capital asset charge is a levy imposed by the Government on the value of non-current physical assets (accounting for depreciation) held by public entities, and is intended to encourage the disposal of assets that are not in active use.

Sales of goods and services by the general government sector provided revenue of \$6.7 billion in 2015-16.<sup>229</sup> This result was \$189.0 million (2.9 per cent) higher than the 2014-15 figure but \$108 million (or 1.6 per cent) less than the original estimate.<sup>230</sup> Within this revenue source, the largest items were the provision of services worth \$4.0 billion (59.8 per cent of the total), and the inter-sector capital asset charge of \$1.7 billion (or 26.0 per cent).<sup>231</sup> Figure 5.8 shows the 2015-16 results for the components of revenue from sales of goods and services.

**Figure 5.8** Sales of goods and services revenue, 2015-16



Source: Department of Treasury and Finance, *2015-16 Financial Report* (2016), p.38

The *2015-16 Financial Report* explains that the annual increase in sales of goods and services revenue was 'primarily related to the higher capital asset charge for increased capital asset holdings in Victorian Rail Track in 2015-16'.<sup>232</sup> As seen in Figure 5.9, the inter-sector capital asset charge was \$152.0 million or 9.6 per cent higher compared to the previous year.

<sup>228</sup> Committee calculations based on Department of Treasury and Finance, *2015-16 Financial Report* (2016), p.28

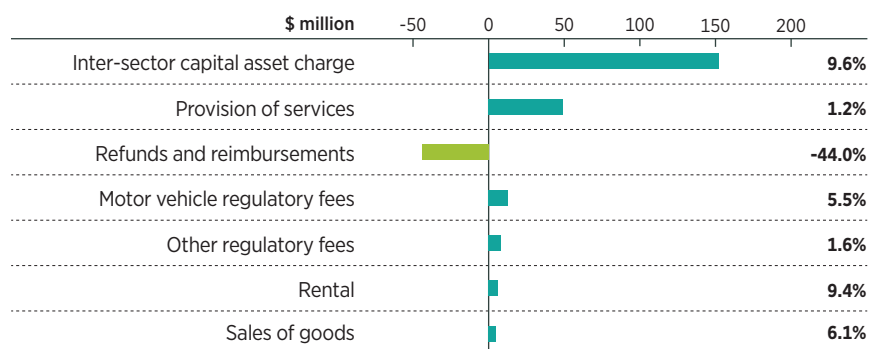
<sup>229</sup> Department of Treasury and Finance, *2015-16 Financial Report* (2016), p.38

<sup>230</sup> *ibid.*; Department of Treasury and Finance, *Budget Paper No.5: 2015-16 Statement of Finances* (2015), p.184

<sup>231</sup> Department of Treasury and Finance, *2015-16 Financial Report* (2016), p.38

<sup>232</sup> *ibid.*, p.7

**Figure 5.9** Components of sales of goods and services revenue, growth from 2014-15 to 2015-16



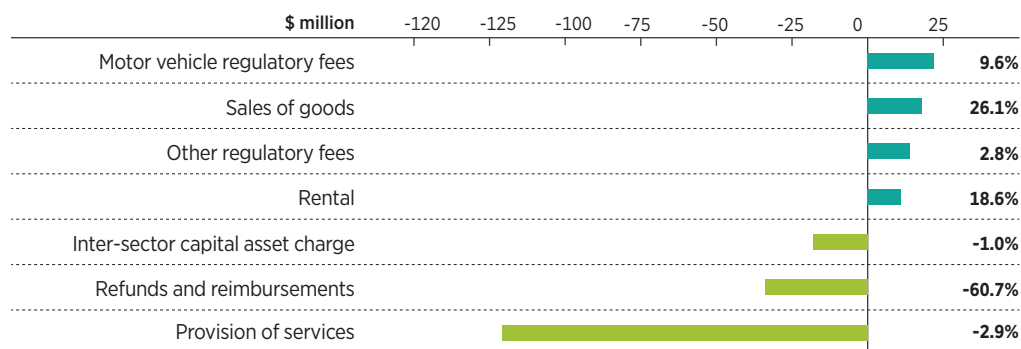
Source: Department of Treasury and Finance, *2015-16 Financial Report* (2016), p.38

This increase in the inter-sector capital asset charge was expected at the time of the 2015-16 Budget, as Figure 5.10 shows the 2015-16 result was only \$18 million or 1.0 per cent less than the original estimate. Figure 5.10 also shows that the ‘provision of services,’ while the highest category in the overall ‘sales of goods and services’ category raising \$4.0 billion, was \$121.0 million or 2.9 per cent less than the original estimate. The *2015-16 Financial Report* explains that the shortfall in the provision of services category drove the overall negative variation between the actual 2015-16 result for sales of goods and services and the original estimate, as the result:

... primarily reflect[s] lower than budgeted provision of services revenue of \$170 million for health and hospital services.<sup>233</sup>

The Committee notes that higher-than-expected levels of service delivery hospitals was the main cause of higher-than-expected employment costs in the health sector for 2015-16. This is discussed in Section 6.5.2.

**Figure 5.10** Variances between estimates and results, components of sales of goods and services, 2015-16



Sources: Department of Treasury and Finance, *2015-16 Financial Report* (2016), p.36; Department of Treasury and Finance, *Budget Paper No.5: 2015-16 Statement of Finances* (2015), p.184

233 *ibid.* p.114

**FINDING 45:** Revenue from sales of goods and services accounted for 11.8 per cent of the general government sector’s revenue, providing \$6.7 billion in 2015-16. This is an increase of 2.9 per cent over the previous year, and was primarily related to a higher capital asset charge for increased capital asset holdings by Victorian Rail Track.

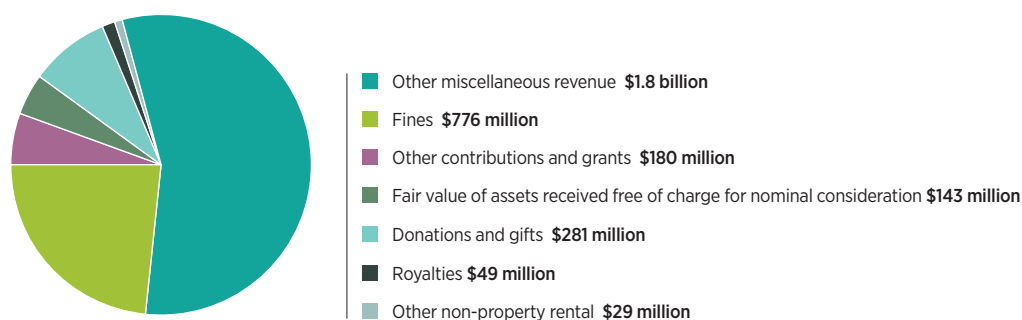
## 5.5 Other items of revenue

Other items of revenue accounted for \$3.3 billion or 5.8 per cent of total revenue in 2015-16 and includes:

- fines
- donations and gifts
- assets received free of charge or for nominal consideration
- royalties
- other contributions and grants
- other non-property rental
- other miscellaneous revenue (for example, schools’ revenue and research funding from non-government organisations).<sup>234</sup>

Other items of revenue grew by \$642.7 million or 24.3 per cent higher between 2014-15 and 2015-16, and was \$965.7 million (41.6 per cent) higher than the original estimate of \$2.3 billion. Figure 5.11 shows ‘other miscellaneous revenue’ was the major item in this category, raising \$1.8 billion in 2015-16, followed by fines which were worth \$776 million and donations and gifts worth \$281 million.<sup>235</sup> Together, these items make up nearly 80 per cent of ‘other items of revenue’.

**Figure 5.11** Other items of revenue, 2015-16



Sources: Department of Treasury and Finance, *2015-16 Financial Report* (2016), p.39, 40; Department of Treasury and Finance, *Budget Paper No.5: 2015-16 Statement of Finances* (2015), pp.171, 185

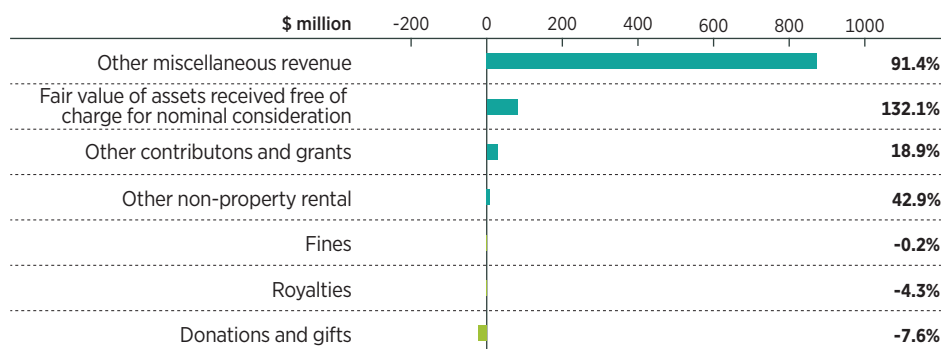
Figure 5.12 shows how components of other items of revenue contributed to the variance of this group.

<sup>234</sup> Committee calculations based on Department of Treasury and Finance, *2015-16 Financial Report* (2016), p.39,40

<sup>235</sup> *ibid.*



**Figure 5.12** Variances between estimates and results for components of 'other items of revenue', 2015-16



Source: Department of Treasury and Finance, *2015-16 Financial Report* (2016), p.114

The figure shows that the overall variance was principally due to variances in the large item 'other miscellaneous revenue', and a smaller item 'fair value of assets received free of charge or for nominal consideration'. The amount received in the second-most significant component by size, fines, was close to what was expected in the budget.

According to the *2015-16 Financial Report*, the higher-than-expected value of assets received free of charge, which provided \$81 million more than anticipated was:

... the recognition of assets received free of charge of \$35 million, largely from roads provided to VicRoads from local council.<sup>236</sup>

Other miscellaneous revenue for 2015-16 was \$874 million or 91.4 per cent greater than the original estimate of \$956 million. The *2015-16 Financial Report* also states that this was:

... mainly attributable to the one-off revenue from the High Court of Australia's decision to overturn the Court of Appeal's previous decision relating to Tatts Group Limited's (Tatts) 'Gambling Licenses' proceedings, which resulted in an additional \$541 million of revenue plus interest recorded for the financial year.<sup>237</sup>

In addition to this, the variance was partly due to:

... higher-than-expected miscellaneous income received from health and hospital services of \$161 million. Miscellaneous income in health and hospital services is largely from own source revenue.<sup>238</sup>

The other major contributor to 'other miscellaneous revenue' is described in the *2015-16 Financial Report* as:

Schools revenue comprising locally raised funds from school fetes, fundraising events, and voluntary contributions made by parents, recognised on a cash basis.<sup>239</sup>

<sup>236</sup> Department of Treasury and Finance, *2015-16 Financial Report* (2016), p.114

<sup>237</sup> *ibid.*, p.7

<sup>238</sup> *ibid.*, p.114

<sup>239</sup> *ibid.*, p.40

The Committee notes that the balance of the \$874 million variance in 'other miscellaneous revenue' after the Tatts Group payment and the health and hospital services revenue are taken into account is about \$172 million.

The actual revenue in 2015-16 for fines, royalties and donations and gifts were all slightly less than the original budget estimate.

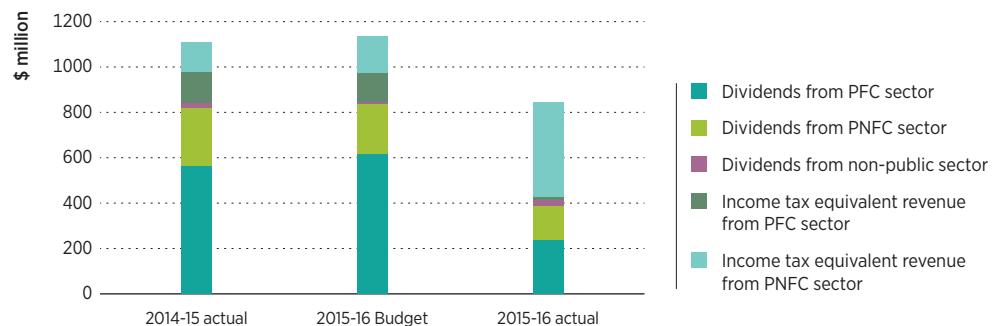
## 5.6 Dividends and similar income

Revenue from dividends and similar income includes:

- dividends, which are comprised of payments made by government business enterprises (GBEs) in the public financial corporations (PFC) and public non-financial corporations (PNFC) sectors to the general government sector
- payments equivalent to income tax or local government rates, which are paid by the GBEs to the general government sector to ensure they do not have an unfair advantage over private sector companies as the GBEs are not subject to normal taxes and rates.

Dividends and similar income provided the general government sector with \$848 million in revenue 2015-16, a decrease of \$265 million or 23.8 per cent compared to the previous year,<sup>240</sup> and \$296 million or 26 per cent less than the original estimate.<sup>241</sup> (see Figure 5.13).

**Figure 5.13** Dividends and similar income, 2014-15 actual, 2015-16 Budget estimate and 2015-16 actual



Source: Department of Treasury and Finance, *2015-16 Financial Report* (2016), p.37

The Committee notes that the lower amount received in 2015-16 was primarily a result of a significant reduction of 51.0 per cent (\$429.0 million) of total dividends. The *2015-16 Financial Report* notes was primarily 'due to the Government's commitment not to take dividends from WorkSafe Victoria across the budget and forward estimates'.<sup>242</sup> The Committee notes that this was known at the time of the

<sup>240</sup> *ibid.*, p.37

<sup>241</sup> Department of Treasury and Finance, *Budget Paper No.5: 2015-16 Statement of Finances* (2015), p.28

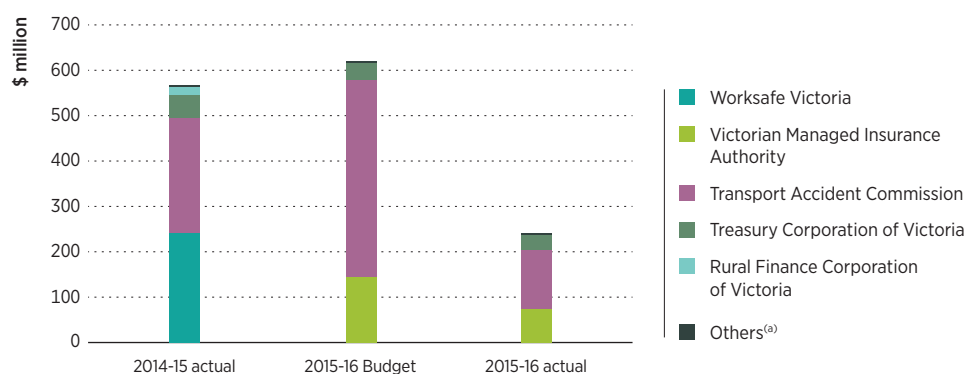
<sup>242</sup> Department of Treasury and Finance, *2015-16 Financial Report* (2016), p.7

2015-16 Budget.<sup>243</sup> The decrease in dividends in 2015-16 was partially offset by an increase of 'income tax equivalent revenue' of \$285.0 million received from the PNFC sector for 'higher-than-expected profit by the metropolitan water sector and Port of Melbourne Corporation'.<sup>244</sup>

Figure 5.14 shows the amount of dividends paid by relevant PFC entity in 2015-16 and compares this to the previous year and the 2015-16 Budget estimates. The impact of the WorkSafe Victoria decision can be seen in the figure as the 2015-16 Budget estimate contains no dividend payment from WorkSafe Victoria.

The 2015-16 Budget estimated that the Transport Accident Commission (TAC) and the Victorian Managed Insurance Authority (VMIA) would pay \$578.6 million in dividends.<sup>245</sup> The actual dividends from the VMIA and TAC were \$73.0 million (50.0 per cent) and \$302.0 million (70.0 per cent) respectively below the original estimate.<sup>246</sup>

**Figure 5.14** PFC dividends by entity, 2014-15 actual, 2015-16 Budget estimate and 2015-16 actual



(a) 'Others' includes State Trustees Ltd and Victorian Funds Management Corporation.

Sources: Department of Treasury and Finance, *2015-16 Financial Report* (2016), p.38; Department of Treasury and Finance, *Budget Paper No.5: 2015-16 Statement of Finances* (2015), p.28

The Committee inquired about the lower level of dividends in 2015-16 as part of its questionnaire sent to the Transport Accident Commission. However, the entity did not provide an explanation for the change in dividends between 2014-15 and 2015-16, reporting that:

The dividend paid relates to:

- an ordinary dividend of \$115.9m relating to the 2014-15 financial year
- an interim dividend of \$15.7m relating to the 2015-16 financial year.<sup>247</sup>

<sup>243</sup> Public Accounts and Estimates Commitments, *Report on the 2015-16 Budget Estimates* (2015), p. 94

<sup>244</sup> Department of Treasury and Finance, *2015-16 Financial Report* (2016), p.7

<sup>245</sup> Department of Treasury and Finance, *Budget Paper No.5: 2015-16 Statement of Finances* (2015), p.28

<sup>246</sup> Committee calculations based on Department of Treasury and Finance, *2015-16 Financial Report* (2016), p.38; Department of Treasury and Finance, *Budget Paper No.5: 2015-16 Statement of Finances* (2015), p.28

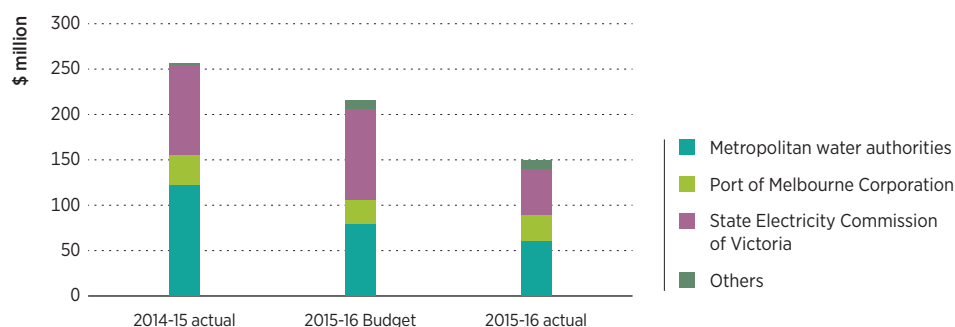
<sup>247</sup> Transport Accident Commission, *Response to the Committee's 2015-16 Financial and Performance Outcomes General Questionnaire*, received 22 December 2016, p.11

The *2015-16 Financial Report* also notes that:

The PFC sector experienced weak investment returns overall due to unfavourable conditions in global financial markets, with TAC, WorkSafe and Victorian Managed Insurance Authority (VMIA) recording a return of approximately 3 per cent on their investment portfolios, compared with returns of approximately 12 per cent in 2014-15.<sup>248</sup>

In terms of dividends from the PNFC sector, the 2015-16 result of \$149.0 million was \$107.0 million or 41.8 per cent less than for 2014-15 and \$66.7 million or 50 per cent less than the 2015-16 Budget estimate.<sup>249</sup> Figure 5.15 shows that \$60.0 million or 40 per cent of PNFC dividends in 2015-16 came from the four metropolitan Melbourne water authorities. While this was less than the 2014-15 figure (\$122.0 million) and the original budget estimate (\$78.8 million), one of the metropolitan water authorities, City West Water, informed the Committee that the dividend would have ‘Cash and borrowing position impacts’ on the authority.<sup>250</sup>

**Figure 5.15** PNFC dividends by entity, 2014-15 actual, 2015-16 Budget estimate and 2015-16 actual



Sources: Department of Treasury and Finance, *2015-16 Financial Report* (2016), p.38; Department of Treasury and Finance, *Budget Paper No.5: 2015-16 Statement of Finances* (2015), p.28

**FINDING 46:** Dividends paid to the general government sector decreased by \$429 million between 2014-15 and 2015-16. This was primarily related due to the Government’s decision not to take dividends from WorkSafe Victoria (which paid \$242 million in dividends during 2014-15) and a significant reduction in dividends paid by the Transport Accident Commission (which paid \$121 million less dividends in comparison to 2014-15). Dividends for the Victorian Managed Insurance Agency were \$73.0 million less than the initial budget estimate.

<sup>248</sup> Department of Treasury and Finance, *2015-16 Financial Report* (2016), p.15

<sup>249</sup> *ibid.*, p.38; Department of Treasury and Finance, *Budget Paper No.5: 2015-16 Statement of Finances* (2015), p.28

<sup>250</sup> City West Water, *Response to the Committee’s 2015-16 Financial and Performance Outcomes General Questionnaire*, received 13 December 2016, p.11

## 5.7 Commonwealth grants

Commonwealth grants revenue assists the State, through different payment arrangements, to meet general or specific delivery obligations.<sup>251</sup>

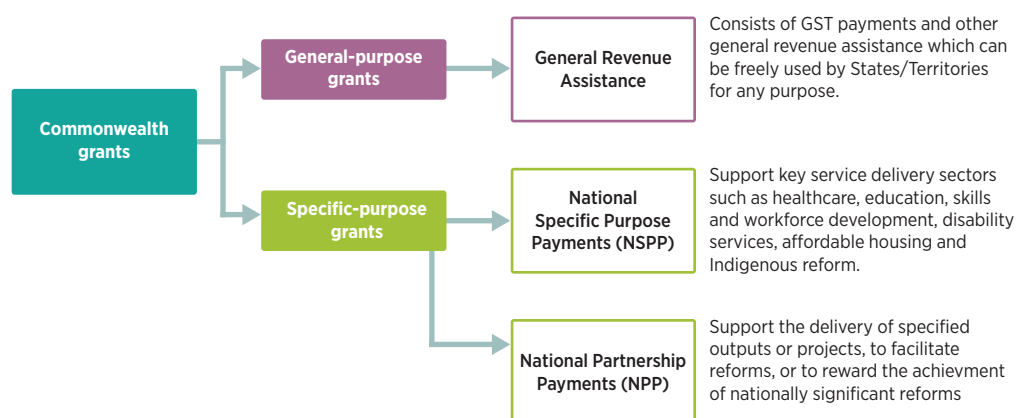
The Commonwealth provides funds in the form of general revenue assistance and payments for specific purposes as shown in Figure 5.16.

General revenue assistance, mainly the Goods and Services Tax (GST) revenue, is available to the States to spend according to their own budget priorities.

Payments for specific purposes are ruled by:

- ‘six agreements covering healthcare, schools, skills and workforce development, disability services, housing and Indigenous reform. National Payments for Specific Purpose are made from the Commonwealth to the States in each of these key service delivery sectors, with the aim of achieving outcomes agreed between the Commonwealth and the States. States have considerable flexibility as to how these funds may be spent, provided the agreed outcomes are achieved’.
- ‘sixteen National Partnerships that are developed in the six areas covered by National agreements, as well as other service areas, including the environment, transport, and infrastructure. National Partnership Payments (NPPs) help the States to deliver large projects, and to facilitate and encourage reforms. All payments are made by the Commonwealth Treasury directly to State Treasuries which are responsible for distributing the funding to their line departments’.<sup>252</sup>

**Figure 5.16** Commonwealth grants components



Source: Public Accounts and Estimates Committee

Commonwealth budget papers disaggregate grants to the states in a different way to the Commonwealth Grants Commission. Payments (other than general-purpose grants) are split into National Specific Purpose Payments and National Partnership payments, but also National Health Reform funding and Students First funding.<sup>253</sup>

<sup>251</sup> Department of Treasury and Finance, *2015-16 Financial Report* (2016), p.39

<sup>252</sup> Commonwealth Grants Commission, *Federal Relations*. Available at <[www.cgc.gov.au/index.php?option=com\\_content&view=article&id=34&Itemid=313](http://www.cgc.gov.au/index.php?option=com_content&view=article&id=34&Itemid=313)>, viewed 22 February 2017

<sup>253</sup> Commonwealth Government, *Budget Paper No.3: Federal Financial Relations 2016-17* (2016), p.10

Victoria presents Commonwealth grants in a different way again, creating challenges in making comparisons between the two. In Victoria, grants received (other than general-purpose grants) are divided into two categories; 'specific-purpose grants for on-passing' and 'specific-purpose grants'.<sup>254</sup> A further disaggregation provided in the budget papers is more detailed, but this still does not allow a reconciliation to the Commonwealth budget papers due to various 'other' categories.<sup>255</sup> The Annual Financial Report does not report actual figures on this, more detailed, disaggregation.

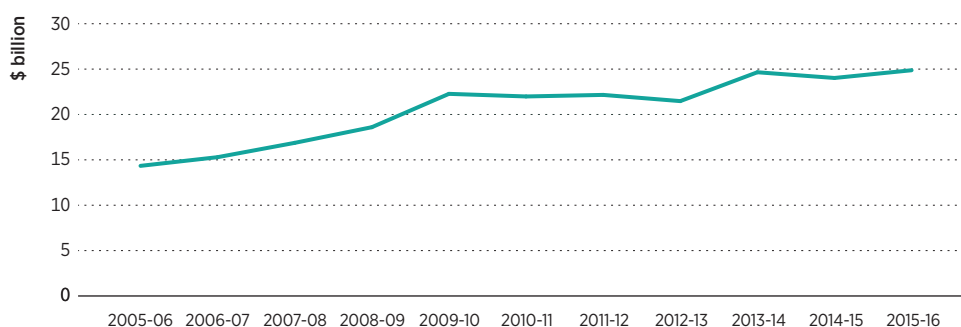
The Committee noted this difficulty in its recent *Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements*.<sup>256</sup>

**FINDING 47:** The Commonwealth and Victorian Governments present grant information differently in their respective budget papers. This creates difficulties in comparing the grant information.

This section discusses Commonwealth grants as they are disaggregated in Victorian documents.

Commonwealth grants were \$25.2 billion in 2015-16, an increase of \$860.0 million, or 3.5 per cent from 2014-15. Commonwealth grants revenue was also \$202.1 million (0.8 per cent) lower than the original 2015-16 estimate of \$25.4 billion.<sup>257</sup> Figure 5.17 shows Commonwealth grants revenue over the last ten financial years. The Committee notes that the level of Commonwealth grants steadily increased from 2005-06 to 2009-10, levelled from 2009-10 to 2012-13, and then increased to the current levels which have fluctuated around the \$25.0 billion mark since 2013-14.

**Figure 5.17** Commonwealth grants revenue, 2005-06 to 2015-16



Source: Department of Treasury and Finance, *2015-16 Consolidated Comprehensive Operating Statement – General Government Sector* (2016). Available at <[www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Aggregate-financial-statements](http://www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Aggregate-financial-statements)>, viewed 29 November 2016

<sup>254</sup> Department of Treasury and Finance, *2015-16 Financial Report* (2016), p.39

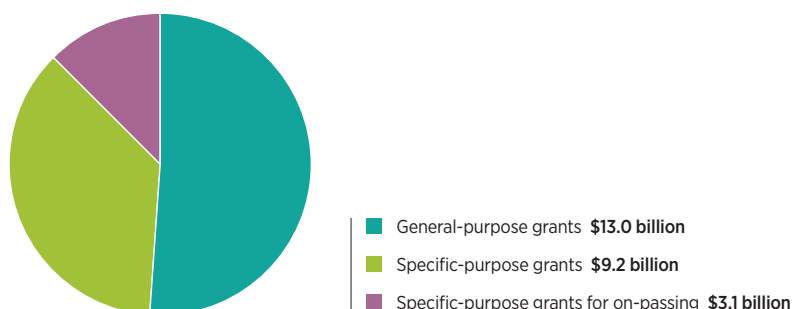
<sup>255</sup> Department of Treasury and Finance, *Budget Paper No.5: 2015-16 Statement of Finances* (2015), pp.176-83

<sup>256</sup> Public Accounts and Estimates Committee, *Inquiry into the Impact on Victorian Government Service Delivery of Changes to National Partnership Agreements* (2016), pp.48-50

<sup>257</sup> Department of Treasury and Finance, *Budget Paper No.5: 2015-16 Statement of Finances* (2015), p.29

General-purpose (GST) grants (derived from Goods and Services Tax) accounted for \$13.0 billion or 51 per cent of total Commonwealth grants in 2015-16 as illustrated in Figure 5.18.<sup>258</sup> Specific-purpose grants of \$9.2 billion and specific-purpose grants for on-passing of \$3.1 billion were received in 2015-16.<sup>259</sup>

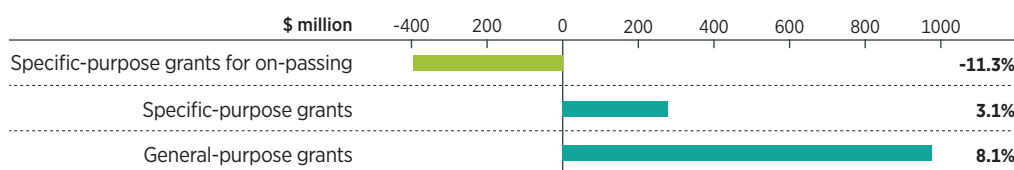
**Figure 5.18** Revenue from Commonwealth grants, 2015-16



Source: Department of Treasury and Finance, *2015-16 Financial Report* (2016), p.39

As shown in Figure 5.19, general-purpose grants increased by \$976 million or 8.1 per cent and specific-purpose grants increased \$279.0 million or 3.1 per cent. There was decrease in specific-purpose grants for on-passing over 2015-16 of \$395.0 million or 11.3 per cent.

**Figure 5.19** Commonwealth grant revenue change, 2014-15 and 2015-16



Source: Department of Treasury and Finance, *2015-16 Financial Report* (2016), p.39

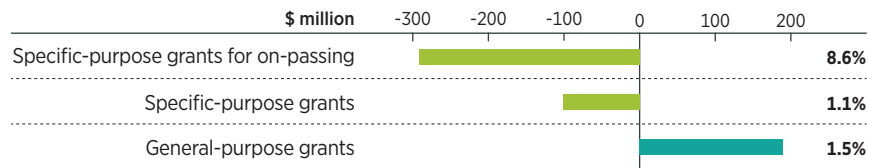
Figure 5.20 shows the variance between the 2015-16 estimates and results for components of Commonwealth grant revenue. The Committee notes that, within the Commonwealth grants revenue categories, specific-purpose grants for on-passing showed the largest variance between actual spending and the budget estimates (\$291.7 million or 8.6 per cent lower). The *2015-16 Financial Report* indicates that the bulk of this variance (\$198.0 million) was 'due to an advance payment of 2015-16 in the 2014-15 year'.<sup>260</sup>

<sup>258</sup> Department of Treasury and Finance, *2015-16 Financial Report* (2016), p.39

<sup>259</sup> *ibid.*

<sup>260</sup> *ibid.*, p.114

**Figure 5.20** Variances between estimates and results for components of Commonwealth grant revenue, 2015-16



Sources: Department of Treasury and Finance, *2015-16 Financial Report* (2016), p.39; Department of Treasury and Finance, *Budget Paper No.5: 2015-16 Statement of Finances* (2015), p.171

The lower-than-expected specific-purpose grants were primarily a result of ‘a \$300 million reduction in capital grants received from the Commonwealth for road and rail infrastructure investments’.<sup>261</sup> The Department of Treasury and Finance also notes that this reduction was offset by higher-than-expected grants relating to health and hospital services.<sup>262</sup> The Department of Health and Human Services further informed the committee that they received ‘higher than budgeted Commonwealth contributions under the National Health Reform Agreement and Commonwealth grants paid directly to hospitals’ in 2015-16 and ‘The additional funding was mainly used to fund hospital activity’.<sup>263</sup>

**FINDING 48:** Revenue from Commonwealth grants was \$25.2 billion in 2015-16, which is an increase of 3.5 per cent compared to the previous year. Most of the Commonwealth grants received for 2015-16 were general-purpose (GST) grants, accounting for \$13.0 billion or 51 per cent of total.

<sup>261</sup> *ibid.*

<sup>262</sup> *ibid.*

<sup>263</sup> Department of Health and Human Services, *Response to the Committee’s 2015-16 Financial and Performance Outcomes General Questionnaire*, received 14 December 2016, p.42



# 6

## Output expenditure and delivery

### Key findings

Output expenditure for the general government sector for 2015-16 was \$54.1 billion. This was an increase of \$1.5 billion (2.8 per cent) on 2014-15. The growth rate for 2015-16 was the lowest in a decade.

Over 40 per cent of expenditure in 2015-16 was on two items related to public sector employment: employee expenses and other superannuation. These expense items exceeded the initial budget estimates for 2015-16, in part due to salaries rising as a result of higher-than-expected hospital activity.

Full-time equivalent (FTE) employment in the Victorian public sector increased over the year by 3.0 per cent to 229,738 employees by June 2016. Public health care providers and government schools employed 60.8 per cent of all public sector workers. Workers in these sectors accounted for most of the overall growth in the public sector workforce in recent years.

Despite the expenditure reduction initiative *Reduce the Number of Executive Officers* in the Victorian public service, the number of executive officers in the Victorian public service rose by 2.4 per cent in 2015-16.

Funding for major events for the Department of Economic Development, Jobs, Transport and Resources' *Tourism, Major Events and International Education* output is held centrally until the contractual arrangements are finalised, leading to considerable under-budgeting.

The Department of Health and Human Services had the largest overspend in 2015-16 out of all the Departments, driven by extra spending in the *Admitted Services* and *Sport and Recreation* outputs. The Department of Education and Training had the greatest underspend due to a shortfall in the *Higher Education and Skills* output.

Only two out of the 13 performance measures for the Department of Education and Training's *Higher Education and Skills* output were met in 2015-16.

Compliance among Departments to the Model Report guidance regarding public sector workforce data is mixed. This means it is not always clear in departments' annual reports which entities were included in the workforce data sections.

Expenditure reduction targets for 2015-16 were \$1.2 billion. All departments advised that target measures had been met despite the expenditure reduction initiatives in place. Only one department and the Parliament noted that the expenditure reduction initiatives had an impact on service delivery.

Wheel-wear issues in V/Line vehicles contributed to the significant cost over-run within the Department of Economic Development, Jobs, Transport and Resources' *Train Services* output. The Department received two budgetary supplements related to regional rail.

## 6.1 Introduction

Output expenditure relates to the cost of goods and services delivered by the Government such as employee expenses, costs associated with superannuation, depreciation costs, interest expenses and grant expenses. Output expenditure is distinct from asset expenditure, as output expenditure is intended to deliver goods and services to clients who may be members of the public, private companies or other departments and entities.

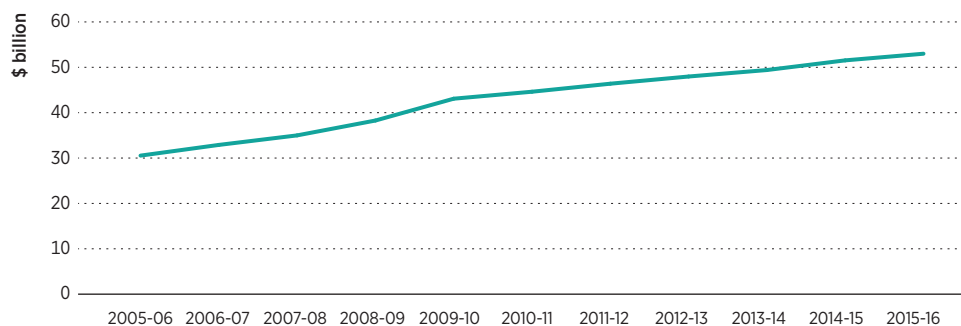
This chapter on the output expenditure and delivery for the general government sector focusses on employee expenses and measures taken by Government departments to reduce spending in 2015-16. The actual output delivery results for 2015-16 for three departments: the Department of Economic Development, Jobs, Transport and Resources; the Department of Health and Human Services; and the Department of Education and Training are also examined in detail.

## 6.2 Overall outcomes

Output expenditure for the general government sector for 2015-16 was \$54.1 billion. This was an increase of \$1.5 billion (2.8 per cent) on the previous year's expenditure of \$52.6 billion.<sup>264</sup> It was also \$258 million less than the amount anticipated in the 2015-16 budget papers.<sup>265</sup>

The trend for expenditure for the sector is shown in Figure 6.1 below.

**Figure 6.1** General government sector output expenditure, 2005-06 to 2015-16



Source: Department of Treasury and Finance, *2015-16 Consolidated Comprehensive Operating Statement - General Government Sector* (2016). Available at <[www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Aggregate-financial-statements](http://www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Aggregate-financial-statements)>, viewed 9 December 2016

Figure 6.1 shows that prior to 2009-10, growth rates for total expenditure were higher than in more recent years. Between 2005-06 and 2009-10 expenditure increased by a compound annual growth rate of 9.0 per cent. Over this time Victoria received additional economic stimulus expenditure aimed at countering the impact of the global financial crisis (GFC). Between 2010-11 and 2015-16,

<sup>264</sup> Department of Treasury and Finance, *2015-16 Financial Report* (2016), p.28

<sup>265</sup> Department of Treasury and Finance, *Budget Paper No.5: 2015-16 Statement of Finances* (2015), p.7

expenditure growth slowed to the compound annual growth rate of 3.5 per cent. The annual growth rate in 2015-16 of 2.8 per cent was the lowest recorded in the past decade.

**FINDING 49:** The general government sector's total output expenditure grew by 2.8 per cent from \$52.6 billion in 2014-15 to \$54.1 billion in 2015-16. This was \$258 million (0.5 per cent) less than the initial budget estimate. The 2014-15 growth rate was the lowest in the past decade.

Output expenditure is disaggregated in the State's finances in a number of ways, including:

- financial components of expenditure
- expenditure by government purpose classification
- expenditure by Government department.

## 6.2.1 Financial components of expenditure

The primary components of expenditure that are used in the State's finances are shown in Table 6.1.

**Table 6.1** Total output expenditure, budget and actual results, 2015-16

	2015-16 Budget	2015-16 actual	Variance	
	(\$ million)	(\$ million)	(\$ million)	(per cent)
Employee expenses	19,903	20,002	99	0.5
Net superannuation interest expense	886	878	-8	-0.9
Other superannuation	2,102	2,123	21	1.0
Depreciation	2,577	2,504	-73	-2.8
Interest expenses	2,096	2,076	-20	-1.0
Grant expense	8,687	8,564	-123	-1.4
Other operating expenses	18,058	17,905	-153	-0.8
<b>Total expenditure</b>	<b>54,310</b>	<b>54,052</b>	<b>-258</b>	<b>-0.5</b>

Source: Department of Treasury and Finance, *2015-16 Financial Report* (2016), p.113

Table 6.1 shows that two components relating to employment in the State's finances, employee expenses and other superannuation, comprise 40.9 per cent of total output expenses for the general government sector.<sup>266</sup> The table also shows that expenditure for both these components was higher than anticipated in the 2015-16 Budget.

<sup>266</sup> Mostly employer contributions to employees' superannuation funds

The Department of Treasury and Finance notes that the higher-than-expected employee expenses was 'due to higher actual salaries in hospitals to meet higher-than-expected demand, offset by departmental underspends compared to the original budget'.<sup>267</sup> In turn, the Department notes that the variation in other superannuation is 'in line with increased employee expenses'.<sup>268</sup>

Grant expenses are mainly Commonwealth grants passed through to local governments. These were \$123 million lower than anticipated<sup>269</sup> as a result of an early payment of part of the expected 2015-16 grants, which was instead received during the 2014-15 financial year.<sup>270</sup>

Other operating expenses are primarily made up of purchases of services, supplies and consumables by departments. These were also less than originally anticipated. The Department of Treasury and Finance explained that 'this was primarily due to unexpected underspend across departments'.<sup>271</sup> The overall underspend was mostly by the departments of Education and Training and Health and Human Services.<sup>272</sup>

**FINDING 50:** Over 40 per cent of expenditure in 2015-16 was on two items related to public sector employment: employee expenses and other superannuation. These expense items exceeded the initial budget estimates for 2015-16, in part due to salaries rising as a result of higher-than-expected hospital activity.

Results for all other expense items were less than amounts anticipated in the budget papers.

## 6.2.2 Expenditure by government purpose classification

The government purpose classification provides a more meaningful description of expenditure, classifying it into purpose, sector or industry. Total output expenditure in 2015-16 disaggregated by government purpose classification is shown in Figure 6.2.

<sup>267</sup> Department of Treasury and Finance, *2015-16 Financial Report* (2016), p.114

<sup>268</sup> *ibid.*

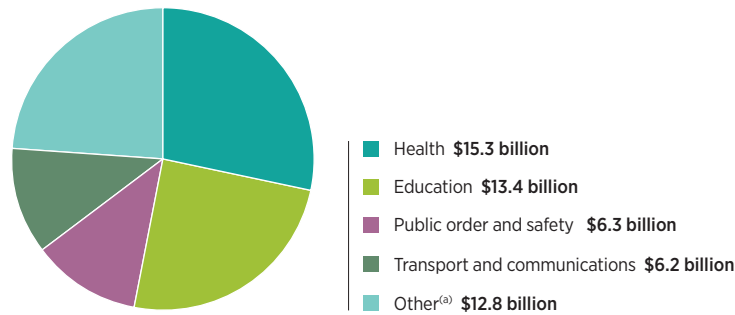
<sup>269</sup> *ibid.*, p.115

<sup>270</sup> Department of Treasury and Finance, *2015-16 Victorian Budget Update* (2015), p.12, 29

<sup>271</sup> Department of Treasury and Finance, *2015-16 Financial Report* (2016), p.115

<sup>272</sup> Department of Treasury and Finance, *2015-16 Consolidated Comprehensive Operating Statement - General Government Sector* (2016). Available at <[www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Aggregate-financial-statements](http://www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Aggregate-financial-statements)>, viewed 9 December 2016

**Figure 6.2** Output expenditure by purpose, 2015-16



(a) 'Other' relates to: social security and welfare; general public services; housing and community amenities; recreation and culture; agriculture, forestry, fishing and hunting; fuel and energy; other economic affairs; and other purposes

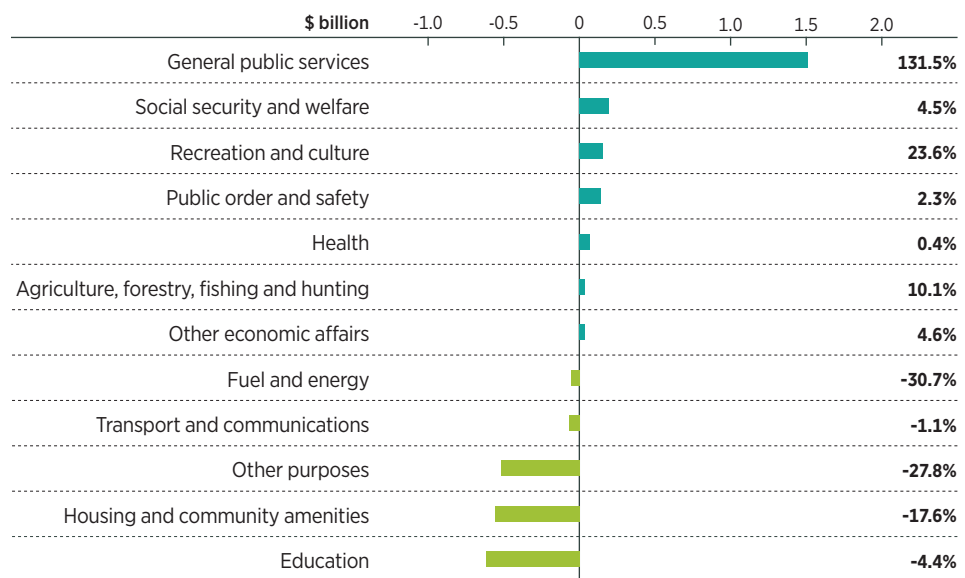
Source: Department of Treasury and Finance, 2015-16 Consolidated Government Purpose Classification Data (2016). Available at <[www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Aggregate-financial-statements/](http://www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Aggregate-financial-statements/)>, viewed 9 December 2016

Figure 6.2 shows that more than half of Government output spending was on health (\$15.3 billion or 28.1 per cent) and education (\$13.4 billion or 24.6 per cent). The next most significant use of output expenditure was public order and safety (\$6.3 billion or 11.5 per cent). The Committee notes that transport and communications was less significant in terms of output expenditure (\$6.2 billion or 11.4 per cent). Transport and communications figure more prominently in terms of asset investment expenditure which is discussed further in Chapter 7.

**FINDING 51:** In 2015-16, health and education were the most significant uses for output expenditure, accounting for more than half of all non-investment expenditure.

Variance from amounts expected in the 2015-16 budget papers for output expenditure by government purpose classification are shown in Figure 6.3.

**Figure 6.3** Variances between budget estimates and actual expenses by government purpose classification, general government sector, 2015-16



Source: Committee calculations based on Department of Treasury and Finance, 2015-16 Consolidated Government Purpose Classification Data (2016). Available at <[www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Aggregate-financial-statements/](http://www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Aggregate-financial-statements/)>, viewed 9 December 2016

Figure 6.3 shows that six out of 12 government purpose classifications vary significantly (more than 10 per cent) from the 2015-16 Budget estimates.

Some of the variances can be explained by changes in definition within the classifications; the largest variation, 'general public services', was a result of \$1.6 billion in interest costs on defined benefit superannuation schemes reclassified from the 'other purposes' category.

Apart from variances resulting from definition changes:

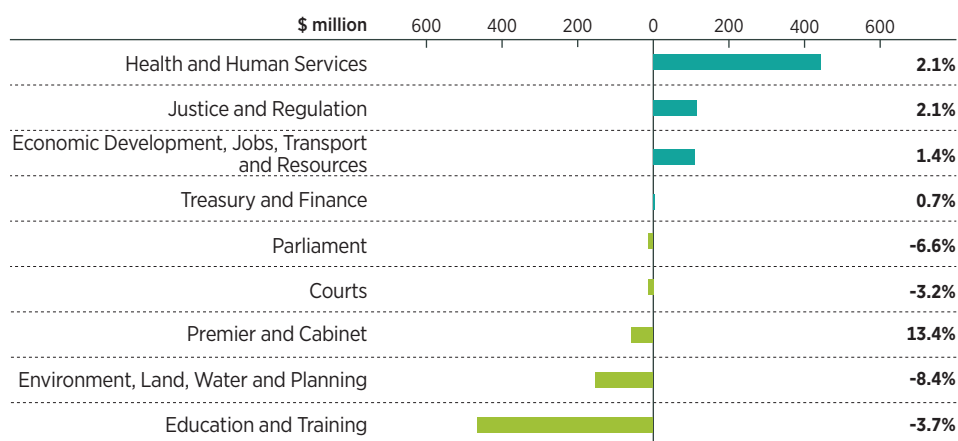
- expenditure on 'housing and community amenities' was lower than anticipated due to grants from the Commonwealth government to local governments being paid in advance during 2014-15
- funds spent on education were less than anticipated, reflecting 'lower-than-expected demand in the Victorian Training Guarantee due to changes in policy settings and delayed timing of spending on projects such as schools infrastructure (including maintenance related projects), as well as decreased expenditure within TAFEs, matching lower-than-expected third party revenue collected'.<sup>273</sup>

**FINDING 52:** 'Housing and community amenities' and 'education' experienced shortfalls in actual expenditure compared to the original 2015-16 Budget estimates.

### 6.2.3 Expenses by department

Total output costs are also disaggregated by department. These are shown in Figure 6.4.

**Figure 6.4** Variances between budget estimates and actual expenses by government departments, 2015-16



Sources: Department of Treasury and Finance, *Budget Paper No.5: 2015-16 Statement of Finances* (2015), Chapter 3; departmental annual reports

<sup>273</sup> Department of Treasury and Finance, *Response to the Committee's 2015-16 Financial and Performance Outcomes General Questionnaire*, received 22 December 2016, pp.29-30

The \$441.7 million overspend for the Department of Health and Human Services was a result of an extra \$285.0 million variance in the *Admitted Services* output over the original budgeted figure<sup>274</sup>, and \$96.1 million in extra spending falling under the *Sport and Recreation* output.<sup>275</sup> The Department of Education and Training experienced the greatest underspend, \$464.7 million under the original Budget estimate. This was due to a \$450.1 million underspend for the *Higher Education and Skills* output. A further discussion on the output expenditure for the departments of Economic Development, Jobs, Transport and Resources, Education and Training and Health and Human Services is in Section 6.5.

**FINDING 53:** The Department of Health and Human Services had the largest overspend in 2015-16 compared to the original budget estimate out of all the Departments, driven by extra spending in the *Admitted Services* and *Sport and Recreation* outputs.

**FINDING 54:** The Department of Education and Training had the greatest underspend in 2015-16 compared to the original budget estimate, due to a shortfall in output expense spending in the *Higher Education and Skills* output.

## 6.3 Employee expenses

Employee expenditure for the general government sector 2015-16 was \$20.0 billion, \$98.5 million (0.5 per cent) higher than had been anticipated in the 2015-16 budget papers. This is the single largest expense item in the State's finances, absorbing 37.0 per cent of all output expenditure for the year.<sup>276</sup>

Expenditure on employees each year is primarily determined by three factors:

- the number of employees during the year
- the classification levels assigned to individual jobs
- the amount individuals are paid.

### 6.3.1 Number of employees

The Victorian Public Sector Commission (VPSC) provides 'headcount' numbers and full-time equivalents (FTEs) of all employees in the Victorian public sector.<sup>277</sup> In terms of FTEs, the number of employees in the Victorian public sector as a whole increased by 3.0 per cent to 229,738 in June 2016.<sup>278</sup> Figure 6.5 shows that this increase continues a long-term trend, with only 2013 showing a reduction in employment.

<sup>274</sup> Department of Health and Human Services, *Annual Report 2015-16*, (2016), p.37

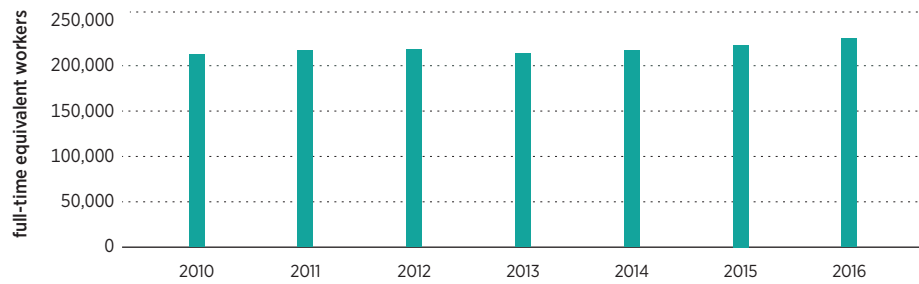
<sup>275</sup> *ibid.*, p.57

<sup>276</sup> Department of Treasury and Finance, *Budget Paper No.5: 2015-16 Statement of Finances* (2015), p.7; Department of Treasury and Finance, *2015-16 Financial Report* (2016), p.28

<sup>277</sup> The VPSC defines headcount as 'The number of people employed' and FTE as 'The number of full time employees that would be required to deliver the total number of hours that employees are actually employed to work. This enables the comparison of organisations that have different rates of part time and full time employment' (Victorian Public Sector Commission, *The State of the Public Sector in Victoria 2015-2016* (2016), p.iv-v)

<sup>278</sup> Victorian Public Sector Commission, *The State of the Public Sector in Victoria 2015-2016* (2016), p.13

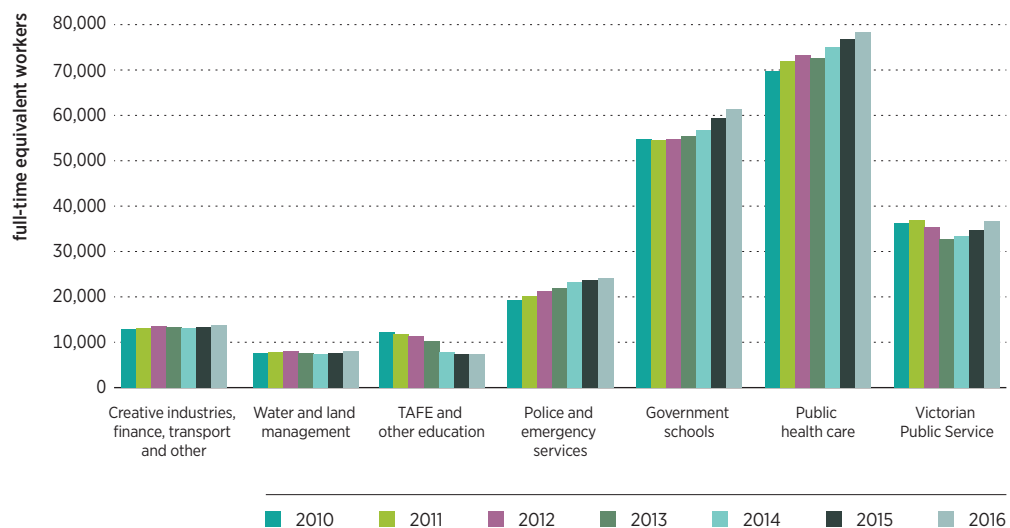
**Figure 6.5** Total employment (full-time equivalent), Victorian public sector, June 2010 to 2016



Source: Victorian Public Sector Commission, *The State of the Public Sector in Victoria*, 2009-2010 to 2015-2016

Together, public health care providers and government schools employed 139,720 FTEs, or 60.8 per cent of all employment in the public sector, in June 2016 (see Figure 6.6). This is consistent with the proportion of total expenses on education and health shown earlier in Figure 6.2.

**Figure 6.6** Victorian public sector employment (full-time equivalent) by industry group, June 2010 to 2016



Source: Victorian Public Sector Commission, *The State of the Public Sector in Victoria*, 2009-2010 to 2015-2016

Figure 6.6 shows that FTE employment in ‘police and emergency services’, ‘government schools’ and ‘public health care’ industry groups have grown consistently over the past six years. In contrast, FTE employment in the ‘TAFE and other education’ group have consistently decreased. FTE employment in the ‘creative industries, finance, transport and other’ and ‘water and land management’ groups has remained roughly stable since June 2010. The Committee notes that while number of FTE employees in the ‘Victorian public service’ in June 2016 was similar to the June 2010 level, employment declined to 2013 before rising in recent years.



**FINDING 55:** Full-time equivalent employment in the Victorian public sector in June 2016 was 229,738 employees. This was an increase of 3.0 per cent over June 2015. Public health care and government schools employed 60.8 per cent of all public sector employees in June 2016, and accounted for most of the overall growth in the public sector workforce in recent years.

### Employment in the Victorian public service

The Victorian public service includes Government departments as well as other public service employing bodies such as Court Services Victoria, non-sworn officers in the Victoria Police, and the Environmental Protection Authority. It does not include teachers and public hospital staff. Table 6.2 shows full-time employment numbers in the Victorian public service.

**Table 6.2** Full-time employment by Victorian public service, June 2016

Entity	FTE <sup>(a)</sup>
<b>DEPARTMENTS</b>	
Economic Development, Jobs, Transport and Resources	2,839
Education and Training	2,545
Environment, Land, Water and Planning <sup>(b)</sup>	3,201
Health and Human Services	11,563
Justice and Regulation <sup>(c)</sup>	7,081
Premier and Cabinet	655
Treasury and Finance <sup>(d)</sup>	1,007
<b>OTHER AGENCIES AND OFFICES WITHIN THE PUBLIC SERVICE</b>	
CenITex	469
Court Services Victoria	1,639
Environment Protection Agency	388
Office of Public Prosecutions	304
Victoria Police (public service)	3,019
Other (27 offices and agencies)	3,090
<b>Total public service</b>	<b>36,799</b>

(a) Figures may not add due to rounding.

(b) Includes Sustainability Victoria (excluding CEO) and the Office of the Commissioner for Environmental Sustainability.

(c) Includes non-executive and non-forensic staff at the Victorian Institute for Forensic Medicine.

(d) Includes the State Revenue Office and Commission for Better Regulation.

Source: Victorian Public Sector Commission, *The State of the Public Sector in Victoria 2015-2016* (2016), pp.52-3

Current guidance from the Model Report published by the Department of Treasury and Finance requires public service entities to provide workforce data, broken down by age, gender and job classification in their annual reports.<sup>279</sup> However, not all agencies publish annual reports.<sup>280</sup> The guidance further specifies that where an authority or office does not produce its own annual report, the employee numbers are to be included in the annual report of the ‘parent’ department.<sup>281</sup>

Compliance with this requirement can vary. The Committee found:

- data from some offices and agencies that publish their own annual reports are also included in the ‘parent’ department leading to the risk of double-counting<sup>282</sup>
- data from some offices and agencies that do not publish their own annual reports are excluded from the ‘parent’ department’s annual report, meaning disaggregated data for relevant staff are not published anywhere<sup>283</sup>
- data from some offices and agencies are included in the office’s annual report, but are not disaggregated as required.<sup>284</sup>

In addition, while some departments set out explicitly which offices and agencies contribute to disaggregated data, others do not.<sup>285</sup>

The Committee considers that it is important for transparency (at the time of the budget) and accountability (at the end of the financial year) for stakeholders to be able to find and understand details of the Victorian Public Service workforce, including employment at various departments and agencies.

The Committee considers that users would find it helpful to find required disaggregated figures in the departments’ annual reports, which include specified offices and agencies, as well as a list of offices and agencies that are contained in separate annual reports. This would reduce the number of annual reports required for a comprehensive assessment.

**FINDING 56:** The Victorian Public Sector Commission publishes total headcounts and full-time equivalents for all public sector entities in Victoria. More detailed data can be included in annual reports. Government guidance provided by the Model Report is intended to ensure that all public employees are counted once in an annual report.

<sup>279</sup> Department of Treasury and Finance, *FRD 22G: Financial Reporting Directions – Standard Disclosures in the Report of Operations* (2015), p.2; Department of Treasury and Finance, *Model Report for Victorian Government Departments* (2016), pp.41-2

<sup>280</sup> For example, CenITex publishes an annual report but the Level Crossing Removal Authority does not.

<sup>281</sup> Department of Treasury and Finance, *FRD 29A: Financial Reporting Directions – Workforce Data Disclosures in the Report of Operations – Public Service Employees*, (2015), pp.2-3

<sup>282</sup> For example, the Game Management Authority

<sup>283</sup> For example, the Victorian Government Solicitor’s Office

<sup>284</sup> For example, the Road Safety Camera Commissioner

<sup>285</sup> For example, Department of Justice and Regulation, *Annual Report 2015-16* (2016), pp.164-5; Department of Economic Development, Jobs, Transport and Resources, *Annual Report 2015-16* (2016), pp.263-6; Department of Health and Human Services, *Annual Report 2015-16* (2016), p.72

**FINDING 57:** The Committee has found varying levels of compliance with the Model Report guidance regarding public sector workforce data. Some data are published more than once, other data are not included in any publication, and other data are not presented in the required form. It is not always clear in departments' annual reports which entities contribute to consolidated workforce data tables.

**RECOMMENDATION 5:** 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.

**RECOMMENDATION 6:** 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.

### Executive officers in the Victorian public service

The Committee notes that the 2015-16 Budget included an expenditure reduction initiative to *Reduce the Number of Executive Officers*. The Government intended that 'the number of executive officers will be reduced across the Victorian public service following machinery of government changes effective from 1 January 2015'.<sup>286</sup> This expenditure reduction method was intended to decrease output expenditure by \$8.7 million in 2015-16, and \$10.4 million each following year to 2018-19.<sup>287</sup>

Executive officers in the Victorian public sector are heads of public service bodies or senior managers and are 'responsible for delivering the Government's objectives for their organisations'.<sup>288</sup>

Figures from the VPSC indicate that, in terms of headcount, the number of executive officers in the Victorian public service rose by 16 executives (2.4 per cent) from 675 in June 2015 to 691 in June 2016.<sup>289</sup> Although the initiative was specifically intended for the Victorian public service, when executives in other public entities such as schools, hospitals and water authorities are included, numbers fell by 24 executives (1.2 per cent) from 1,982 in June 2015 to 1,958 in June 2016.<sup>290</sup>

<sup>286</sup> Department of Treasury and Finance, *Budget Paper No.3: 2015-16 Service Delivery* (2015), p.106

<sup>287</sup> *ibid.*, p.105

<sup>288</sup> Victorian Public Sector Commission, *The State of the Public Sector in Victoria 2015-2016*, (2016), p.39

<sup>289</sup> *ibid.*, p.40

<sup>290</sup> *ibid.*

**Table 6.3** Victorian public service executive numbers by department, June 2015 and 2016

Department	Headcount		Change
	June 2015	June 2016	
Economic Development, Jobs, Transport and Resources	131	139	8
Education and Training	75	74	-1
Environment, Land, Water and Planning	73	72	-1
Health and Human Services	123	120	-3
Justice and Regulation <sup>(a)</sup>	97	100	3
Premier and Cabinet	67	78	11
Treasury and Finance	85	84	-1
Victorian Auditor-General's Office <sup>(b)</sup>	24	24	0
<b>Victorian public service</b>	<b>675</b>	<b>691</b>	<b>16</b>

(a) Including Court Services Victoria.

(b) The VPSC includes the Victorian Auditor-General's Office in the Victorian public service headcount but not the Parliamentary departments, which are public entities under the *Public Administration Act 2004*.

Sources: Victorian Public Sector Commission, *The State of the Public Sector in Victoria 2014-2015* (2015), pp.45-6; Victorian Public Sector Commission, *The State of the Public Sector in Victoria 2015-2016* (2016), pp.44-5

According to the VPSC data presented in Table 6.3, the number of executives in three departments (Department of Premier and Cabinet; Department of Economic Development, Jobs, Transport and Resources; and Department of Justice and Regulation) have increased.

The *State of the Public Sector in Victoria* includes headcount data and disaggregates the number into remuneration bands.<sup>291</sup> However, the Committee notes that the publication does not publish total remuneration amounts for executives in the public service. This prevents an assessment of whether remuneration of executives in the Victorian public service has increased or decreased, as intended by the expenditure reduction initiative.

The Department of Premier and Cabinet provided a whole of government response regarding executive salary increases in 2015-16 to the Committee, indicating across the seven departments:

- 78.6 per cent of executives received a pay increase between 0 and 3 per cent
- 2.3 per cent of executives received a pay increase between 3 to 5 per cent
- 7.9 per cent of executives received a pay increase between 5 to 10 per cent
- 4.8 per cent of executives received a pay increase between 10 and 15 per cent
- 6.4 per cent of executives received a pay increase over 15 per cent.<sup>292</sup>

<sup>291</sup> *ibid.*, pp.40-1

<sup>292</sup> Department of Premier and Cabinet, *Revised departmental responses to question 27 in PAEC's general questionnaire*, received 7 February 2017, pp.1-4

Further to this, the Secretary of the Department of Treasury and Finance gave the following explanation of the Victorian public service's executive pay system to the Committee at the public hearing held on 13 February 2017:

Essentially all executive officers, similar to VPS, would have received, and in fact they did receive, in that period [2016] a 2.5 per cent pay rise. That is kind of the standard. In addition to that, judgements are then made on an additional amount for an executive officer, which is similar to a VPS officer going up to the next increment. For example, we have three executive officer bands, EO3, EO2, EO1, and perhaps I will use the EO2 as an example. The current band for an EO2 is \$202 489 to \$324 100. So a new EO2 who gets promoted into that band would start off towards the bottom ....

Each year they will get their 2.5 per cent but, similar to a VPS officer progressing through that salary range, from time to time an executive officer's salary is increased on top of the 2.5 per cent, which is similar to moving through notional increments. We do not have a formal increments system. It is important to do that because as someone progresses through their career — and they might be an EO2 for, let us say, five years before promotion to an EO1 — unless you are making adjustments along the way to reflect more skills and a greater experience, then you will end up with all of your EOs at the bottom of each band. So in a sense it is similar to increment ranges for a VPS officer ... while there was a large proportion of officers in the executive officer band who got 0 to 3 per cent, there are those who, for example, got 3 to 5 per cent. That reflects 2.5 per cent plus an adjustment to progress them through the band.<sup>293</sup>

**FINDING 58:** Despite an expenditure reduction initiative to *Reduce the Number of Executive Officers* in the Victorian public service, the number of executive officers in the Victorian public service rose by 2.4 per cent over 2015-16. The *State of the Public Sector in Victoria* does not report total remuneration of executives in the Victorian public service and other public sector entities.

**RECOMMENDATION 7:** Future publications of the *State of the Public Sector in Victoria* report total remuneration of executives in the Victorian public service and other public entities.

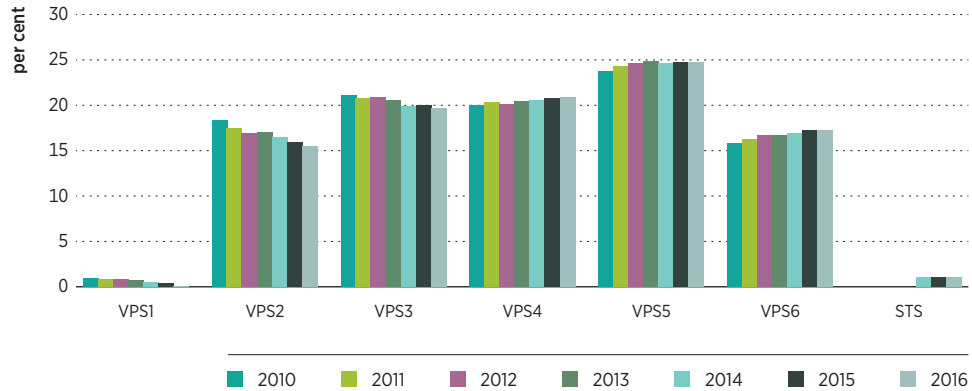
### 6.3.2 Classification of jobs in the Victorian public service

Within the Victorian public service, jobs are separated into a series of classifications, determined by the complexity and responsibility of the positions. Higher classifications attract higher rates of pay. While there are other technical classifications, most positions in the Victorian Public Service fall into VPS1 to VPS6 categories, with an additional category known as Senior Technical Specialist (STS), alternatively known as VPS7.

<sup>293</sup> Mr David Martine, Secretary, Department of Treasury and Finance, *Inquiry into 2015-16 Financial and Performance Outcomes Transcript of Evidence*, 13 February 2017, p.13

Headcounts for these grades and how they have changed since June 2010 are shown in Figure 6.7 below.

**Figure 6.7** Proportion of VPS headcount by grade classifications, June 2010 to 2016

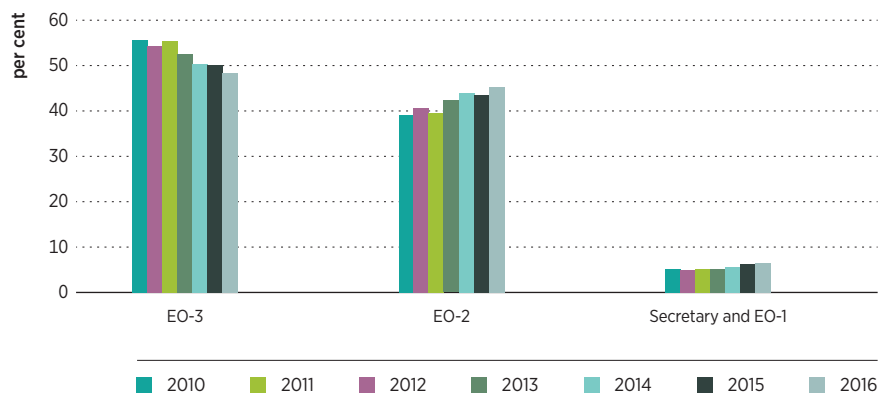


Source: Victorian Public Sector Commission, *The State of the Public Sector in Victoria*, 2009-2010 to 2015-2016

Figure 6.7 shows that the proportion of jobs in the Victorian Public Service in the lower three categories has fallen consistently since 2010, while the proportion in the higher four categories has risen consistently. Because higher grades attract higher rates of pay, this trend contributes to higher expenditure on staff over time.

Figure 6.8 shows the situation for the executive bands in the Victorian Public Service displays a similar trend, with the proportion of executive positions in the lower band falling over time, while the proportions in the upper bands have consistently risen over the same period.

**Figure 6.8** Proportion of executive headcount by grade classifications, June 2010 to 2016



Source: Victorian Public Sector Commission, *The State of the Public Sector in Victoria*, 2009-2010 to 2015-2016

This trend can be caused by factors including:

- lower classified jobs becoming redundant and not being refilled, while new jobs are created at higher classification levels
- continuing jobs being reclassified at higher levels.

For example, under the new *Victorian Public Service Enterprise Agreement 2016*, the current VPS Grade 1 will be considered a training grade, and current VPS1 employees will be transitioned to VPS Grade 2.<sup>294</sup>

The Committee considers that a greater understanding of this issue, including its causes and reasons, would enhance transparency of the Victorian Public Service, however the trend is currently not addressed by the VPSC in the annual *The State of the Public Sector in Victoria* report.

**FINDING 59:** Since 2010, the proportion of jobs in the Victorian Public Service in the lower categories has fallen, while the proportion in the higher four categories has risen. The same trend has occurred within executive levels, with the share of executive positions represented by the lowest band falling over time.

**RECOMMENDATION 8:** 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 *The State of the Public Sector in Victoria* publication.

### 6.3.3 Rates of pay (enterprise bargaining agreements)

The principal factor that affects rates of pay for the public sector workforce is the number, significance, and conditions of enterprise bargaining agreements (EBAs) concluded during the year.

The Department of Economic Development, Jobs, Transport and Resources informed the Committee that 40 enterprise bargaining agreements were finalised and approved by the Government in 2015-16, consisting of 37 minor agreements and 3 major agreements.<sup>295</sup>

The three major EBAs were:

- *The Victorian Public Service Enterprise Agreement 2016*
- *Victoria Police (Police Officers (Excluding Commanders), Protective Services Officers, Police Reservists and Police Recruits) Enterprise Agreement 2015*
- *Victorian Public Sector Nurses and Midwives Enterprise Agreement 2016-2020*<sup>296</sup>

<sup>294</sup> Victorian Public Service Enterprise Agreement 2016, May 2016, p.44

<sup>295</sup> Response to questions on notice from Mr Matthew O'Connor, Deputy Secretary, Department of Economic Development, Jobs, Transport and Resources, to Chair, Victorian Parliament Public Accounts and Estimates Committee, 14 March 2017, pp.4-7

<sup>296</sup> *ibid.*, p.4

The Committee approached the Department of Treasury and Finance for the target for EBA increases for 2015-16, along with the corresponding result, and reasons for any variance. The Department of Treasury and Finance responded that the overall increase in EBAs was 6.2 per cent, which was 1.5 per cent lower than the initial estimate of 7.7 per cent.<sup>297</sup> The Department commented that:

The variance is due to the 2014-15 actual employee expenses being \$356 million higher than the revised 2014-15 forecast in the 2015-16 Budget. The higher actual employee expenses in 2014-15 was largely the result of delivering additional health services and hospital demand.<sup>298</sup>

The Committee has had difficulty interpreting this explanation as it refers to a variance in 2014-15 and the variance it refers to is one higher than budget, rather than lower than budget.

**FINDING 60:** During 2015-16, 40 enterprise bargaining agreements were finalised and approved by the Government. Pay rises included in these agreements contributed to unbudgeted increases in employee expenditure during 2015-16.

## 6.4 Measures to reduce spending

Each year the budget papers set out ways the Government intends to reduce spending, or otherwise increase the operating surplus. These methods can include:

- expenditure reduction (also known as efficiency or savings) initiatives
- reprioritisation of funds allocated in past budgets.

### 6.4.1 Expenditure reduction initiatives from past budgets

Expenditure reduction measures are intended to reduce output spending over a number of years, and may be included in budgets or budget updates. Expenditure reduction initiatives may stipulate how the saving is intended to be made,<sup>299</sup> or leave the task to the discretion of departments.<sup>300</sup>

Initiatives to reduce spending during 2015-16 may have been introduced as early as the 2012-13 Budget. For example, the Department of Treasury and Finance was expected to reduce expenditure (compared to previous estimates) by \$5.0 million over 2015-16 'through operational efficiencies' as a result of an initiative announced in the 2012-13 Budget.<sup>301</sup>

<sup>297</sup> Department of Treasury and Finance, *Response to the Committee's 2015-16 Financial and Performance Outcomes General Questionnaire*, received 22 December 2016, p.41

<sup>298</sup> *ibid.*

<sup>299</sup> Such as the initiatives in the 2012-13 Budget, where the budget papers described for each department how the savings would be made (Department of Treasury and Finance, *Budget Paper No.3: 2012-13 Service Delivery* (2012), Chapter 1)

<sup>300</sup> Such as the *Application of an Efficiency Dividend to Non-Frontline Departmental Expenditure* initiative introduced in the 2012-13 Budget Update (Department of Treasury and Finance, *2012-13 Victorian Budget Update* (2012), p.124)

<sup>301</sup> Department of Treasury and Finance, *Budget Paper No.3: 2012-13 Service Delivery* (2012), pp.76-7



The Committee notes that the total amount set out for expenditure reduction for 2015-16 in budget papers and budget updates since 2012-13 totalled \$942.6 million.<sup>302</sup> Departments may also have internal expenditure reduction initiatives that are not included in budget papers.

The Committee requested information from departments on expenditure reduction targets, both in terms of targets set internally and initiatives from past budgets and budget updates.<sup>303</sup> A summary of the expenditure reduction targets for 2015-16 provided by the departments is shown in Table 6.4.

**Table 6.4** Expenditure reduction targets<sup>(a)</sup> for 2015-16, Government departments, Courts and Parliament

Department	Total expenditure reduction target, 2015-16 (\$ million)
Economic Development, Jobs, Transport and Resources	222.3
Education and Training	103.2
Environment, Land, Water and Planning	119.5
Health and Human Services	489.1
Justice and Regulation	152.7
Premier and Cabinet	25.8
Treasury and Finance	23.4
Courts	19.5
Parliament	4.0
<b>Total expenditure reduction</b>	<b>1,159.5</b>

(a) Total expenditure reduction in 2015-16 for all measures allocated to departments.

Source: Departmental responses to the Committee's 2015-16 Financial and Performance Outcomes General Questionnaire, q.20

The Committee asked for explanations of instances where these targets had not been met. All departments advised the Committee that they had met all required targets.<sup>304</sup> In some cases, departments provided specific descriptions of how savings targets were met. For example, the Department of Education and Training explained that in order to achieve the expenditure reduction included in the 2013-14 Budget:

The Trade Bonus for apprentices was not paid to apprentices commencing after 30 June 2013. This measure had negligible impact as these payments duplicated incentives such as the Commonwealth Government's 'tools for your trade' payments.<sup>305</sup>

<sup>302</sup> Committee calculations based on: Department of Treasury and Finance, *Budget Paper No.3: Service Delivery*, 2012-13 to 2015-16; Department of Treasury and Finance, *Victorian Budget Update*, 2012-13 to 2014-15. There were no expenditure reduction initiatives contained in the 2015-16 Budget Update.

<sup>303</sup> The Committee also notes that a number of machinery-of-government changes have made it more difficult to assess expenditure reduction initiatives as the allocation of required savings is not clear.

<sup>304</sup> Departmental responses to the Committee's 2015-16 Financial and Performance Outcomes General Questionnaire, q.20

<sup>305</sup> Department of Education and Training, *Response to the Committee's 2015-16 Financial and Performance Outcomes General Questionnaire*, received 21 December 2016, p.49

In other cases, departments provided more general descriptions, such as the Department of Premier and Cabinet, which for all measures advised that it had:

... met its contribution to the savings through a range of measures to reduce departmental expenses by consolidating activities and minimising duplication and waste in administration, corporate and management functions.<sup>306</sup>

The Committee notes that the Department of Economic Development, Jobs, Transport and Resources advised that it had met its \$7.2 million target through methods including a reduction in executive officer appointments.<sup>307</sup> However VPSC data analysed earlier and summarised in Table 6.3 indicates an increase in the number of executives in the Department over 2015-16.<sup>308</sup>

### Changes in service delivery following expenditure reduction initiatives

The Committee also asked departments to outline changes in service delivery resulting from the expenditure reduction measures.

Two departments<sup>309</sup> responded that there were no effects on service delivery, and Court Services Victoria noted that it had 'maintained service delivery'.<sup>310</sup> Further, the Department of Premier and Cabinet responded with 'nil response'.<sup>311</sup>

The Department of Education and Training advised the Committee that:

Savings from the 2012-13 Budget were achieved through ceasing the School Start Bonus and removing the school funding portion of the Education Maintenance Allowance (EMA). To contribute to the additional funding for the Victorian/ Commonwealth school funding commitments, EMA payments to parents ceased on 31 December 2014. Funding to disadvantaged schools was increased and the introduction of the *Camps, Sports and Excursions Fund* minimised any effect on disadvantaged students.<sup>312</sup>

Parliament advised that it had:

... made changes to MP support services and implemented cost containment strategies including delayed staff replacement and non-replacement of staff to accommodate a budget cut of \$4.0m in 2012-13. ... MP electorate office and communication budgets were reduced proportionally to accommodate the budget cuts.<sup>313</sup>

<sup>306</sup> Department of Premier and Cabinet, *Response to the Committee's 2015-16 Financial and Performance Outcomes General Questionnaire*, received 9 December 2016, pp.21-2

<sup>307</sup> Department of Economic Development, Jobs, Transport and Resources, *Response to the Committee's 2015-16 Financial and Performance Outcomes General Questionnaire*, received 16 December 2016, p.50

<sup>308</sup> Victorian Public Sector Commission, *The State of the Public Sector in Victoria 2014-2015* (2015), pp.45-6; *ibid.*, pp.44-5

<sup>309</sup> Departments of Education and Training; Department of Health and Human Services; and Department of Environment, Land, Water and Planning

<sup>310</sup> Court Services Victoria, *Response to the Committee's 2015-16 Financial and Performance Outcomes General Questionnaire*, received 12 December 2016, p.26

<sup>311</sup> Department of Premier and Cabinet, *Response to the Committee's 2015-16 Financial and Performance Outcomes General Questionnaire*, received 9 December 2016, p.22

<sup>312</sup> Department of Education and Training, *Response to the Committee's 2015-16 Financial and Performance Outcomes General Questionnaire*, received 21 December 2016, p.49

<sup>313</sup> Department of Parliamentary Services, *Response to the Committee's 2015-16 Financial and Performance Outcomes General Questionnaire*, received 9 December 2016, p.22

Other departments gave responses that did not refer directly to service delivery changes resulting from expenditure reduction initiatives. Rather, they noted that services were delivered within available resources.

The Department of Treasury and Finance is committed to finding efficiencies while continuing to deliver services through its allocated resources.<sup>314</sup>

Service delivery indicators have been adjusted to reflect the total annual increase in the budgeted output costs of \$1,166.3 million.<sup>315</sup>

Services are delivered in line with initiatives outlined in the State Budget each year.<sup>316</sup>

**FINDING 61:** Departments advised that expenditure reduction targets for 2015-16 resulting from past expenditure reduction initiatives were \$1.2 billion. All departments advised that target measures had been met despite the expenditure reduction initiatives in place. Only one department and the Parliament noted that the expenditure reduction initiatives had had effects on service delivery.

### The *Reduce the Use of Labour Hire Firms* initiative

The Committee also asked departments about the service delivery consequences of the expenditure reduction initiative *Reduce the Use of Labour Hire Firms*, announced in the 2015-16 Budget.<sup>317</sup> This initiative stated \$7.4 million was to be saved in 2015-16 as well as \$7.4 million every year across the forward estimate period to 2018-19. It was intended to reduce:

Expenditure by departments and authorities on labour contractor expenditure ... through the development of more effective use of internal expertise.<sup>318</sup>

Three departments<sup>319</sup> advised that there was no impact from the expenditure reduction on service delivery, while the Department of Premier and Cabinet provided a 'nil response'.<sup>320</sup>

When asked about the change in service delivery resulting from the reduction in use of labour hire firms, the Department of Economic Development, Jobs, Transport and Resources advised that:

Services are delivered in line with initiatives outlined in the State Budget each year.<sup>321</sup>

<sup>314</sup> Department of Treasury and Finance, *Response to the Committee's 2015-16 Financial and Performance Outcomes General Questionnaire*, received 22 December 2016, p.27

<sup>315</sup> Department of Health and Human Services, *Response to the Committee's 2015-16 Financial and Performance Outcomes General Questionnaire*, received 14 December 2016, p.53

<sup>316</sup> Department of Economic Development, Jobs, Transport and Resources, *Response to the Committee's 2015-16 Financial and Performance Outcomes General Questionnaire*, received 16 December 2016, p.51

<sup>317</sup> Department of Treasury and Finance, *Budget Paper No.3: 2015-16 Service Delivery* (2015), p.105

<sup>318</sup> *ibid.*, p.106

<sup>319</sup> Departments of Education and Training; Department of Health and Human Services; and Department of Environment, Land, Water and Planning

<sup>320</sup> Department of Premier and Cabinet, *Response to the Committee's 2015-16 Financial and Performance Outcomes General Questionnaire*, received 9 December 2016, p.22

<sup>321</sup> Department of Economic Development, Jobs, Transport and Resources, *Response to the Committee's 2015-16 Financial and Performance Outcomes General Questionnaire*, received 16 December 2016, p.51

The Department of Treasury and Finance advised that:

The Department of Treasury and Finance is committed to finding efficiencies while continuing to deliver services through its allocated resources.<sup>322</sup>

In contrast, the Department of Justice and Regulation provided a more comprehensive response that showed not only the savings amount, but also where it had been allocated and the behavioural effect that the savings measure has had:

The department's savings allocation for this expenditure reduction category was \$1.9m (split \$1.1m for the department and \$0.8m for Victoria Police). The department has proportionately distributed this saving across business areas with a higher usage of labour hire firms to minimise the effect on service delivery. This has encouraged business areas to convert positions to VPS where possible, or use internal resources first, before considering the need for external assistance in order to become more efficient and cost effective.<sup>323</sup>

### 6.4.2 Reprioritisation of output funds

The 2015-16 Budget included \$490 million in 'funding from reprioritisation of existing resources'.<sup>324</sup> This involves reducing output funding set aside in previous budgets and using those resources for other purposes, including new output initiatives.<sup>325</sup>

The 2015-16 Budget papers do not give further details about which purposes the funds were previously intended for or which departments are affected. Further reprioritisations may have been made at the time of the *2015-16 Budget Update*, although the update document does not disclose reprioritisations. The Committee is pleased to note that following its recommendation, the *2016-17 Budget Update* includes such a table.<sup>326</sup>

The Committee asked departments for details on how much funding was reprioritised, where the reprioritised funds came from and what impacts resulted from the reprioritisation. Responses are summarised in Table 6.5.

<sup>322</sup> Department of Treasury and Finance, *Response to the Committee's 2015-16 Financial and Performance Outcomes General Questionnaire*, received 22 December 2016, p.27

<sup>323</sup> Department of Justice and Regulation, *Response to the Committee's 2015-16 Financial and Performance Outcomes General Questionnaire*, received 21 December 2016, p.43

<sup>324</sup> Department of Treasury and Finance, *Budget Paper No.2, 2015-16 Strategy and Outlook* (2015), p.58

<sup>325</sup> The Committee understands that this is primarily made up of funds earmarked in previous budgets for output initiatives.

<sup>326</sup> Public Accounts and Estimates Committee, *Report on the 2013-14 and 2014-15 Financial and Performance Outcomes* (2016), Recommendation 10, p.83; Department of Treasury and Finance, *2016-17 Victorian Budget Update* (2016), p.18

**Table 6.5** Reprioritisation of output funds for 2015-16, Government departments, Courts and Parliament

Department	Funding reprioritised in 2015-16 (\$ million)
Economic Development, Jobs, Transport and Resources	334.0
Education and Training	8.0
Environment, Land, Water and Planning	1.0
Health and Human Services	32.9
Justice and Regulation	45.7
Premier and Cabinet	7.0
Treasury and Finance	0.0
Courts	2.7
Parliament	0.0
<b>All departments</b>	<b>431.3</b>

Source: Departmental responses to the Committee's 2015-16 Financial and Performance Outcomes General Questionnaire, q.22

Table 6.5 shows that departments advised a total of \$431.3 million of reprioritised funds, compared to the budget estimate of \$490 million.

Table 6.5 also shows that the bulk of the funds that were reprioritised were within the Department of Economic Development, Jobs, Transport and Resources. These were:

- reprioritisation of funds from the *Regional Growth Fund* (RGF) to the *Regional Jobs and Infrastructure Fund* (RJIF) (\$125.0 million)
- the 'reform of industry and innovation policy reprioritisation' to the *Premier's Jobs and Investment Fund* (PJIF) and the *Future Industries Fund* (FIF) (\$199.9 million).<sup>327</sup>

The funding arrangements and output measures for these labour market programs administered by the Department of Economic Development, Jobs, Transport and Resources were discussed in Chapter 2.

## 6.5 Departmental performance in output delivery

The Committee intends to examine a number of departments each year as part of its examination of expenses and output delivery. For 2015-16, the Committee focussed on the three largest departments: the Department of Economic Development, Jobs, Transport and Resources; the Department of Health and Human Services; and the Department of Education and Training. For each department, the Committee examined significant variances, as well as the underlying reasons, between the budget and actual output expenditure.

<sup>327</sup> Department of Economic Development, Jobs, Transport and Resources, *Response to the Committee's 2015-16 Financial and Performance Outcomes General Questionnaire*, received 16 December 2016, pp.51-2

### 6.5.1 Department of Economic Development, Jobs, Transport and Resources

The Department of Economic Development, Jobs, Transport and Resources is a relatively new department in the Victorian public sector, formed out of five predecessor departments as part of the machinery of government changes that took place in late 2014.<sup>328</sup> Therefore, 2015-16 is the first full year of operations for the Department.

At the inquiry's public hearing held on 14 February 2017, the Secretary described the department in the following terms:

... our vision and mission, the key words are productivity, competitiveness, sustainability, prosperity and inclusion through collaboration with the private and public sectors and with an emphasis also on innovation and creativity. It is an outward looking trade and investment focused agenda but also with a significant emphasis, as I said, on economic inclusion so that the gains are able to be shared across the Victorian community.<sup>329</sup>

The Department's main programs include:

- the *Target One Million Initiative*, which relates to the Department's effort to improve recreational fishing outcomes
- a *Drought Response Package*, targeted at supporting farmers, small businesses, families and communities to manage drought conditions in 2015-16
- the *TARGET Minerals Exploration Initiative*, which is a co-funded minerals exploration grants program
- the *Organisations Investment Program*, which 'invests in the creativity, capability and continuity of organisations that make a valuable contribution to Victoria's creative and cultural ecosystem'
- *Regional Development and Touring*, a program that 'provides Victorian regional communities with access to a wide variety of quality arts experiences'
- the *Boating Safety and Facilities Program*, which 'plays an important role in making boating safer and more accessible for all Victorians'
- the *Local Ports Program*, which is intended to deliver infrastructure and services to 'ensure the provision of a safe and accessible network of 14 Victorian local ports'
- the *Future Industries Fund (FIF)* and the *Premier's Jobs and Investment Fund (PJIF)*, which are funds which seek to create jobs and build competitive industries in areas of competitive advantage across priority industry sectors.<sup>330</sup>

<sup>328</sup> Public Accounts and Estimates Committee, *Report into the 2015-16 Budget Estimates* (2015), p.11

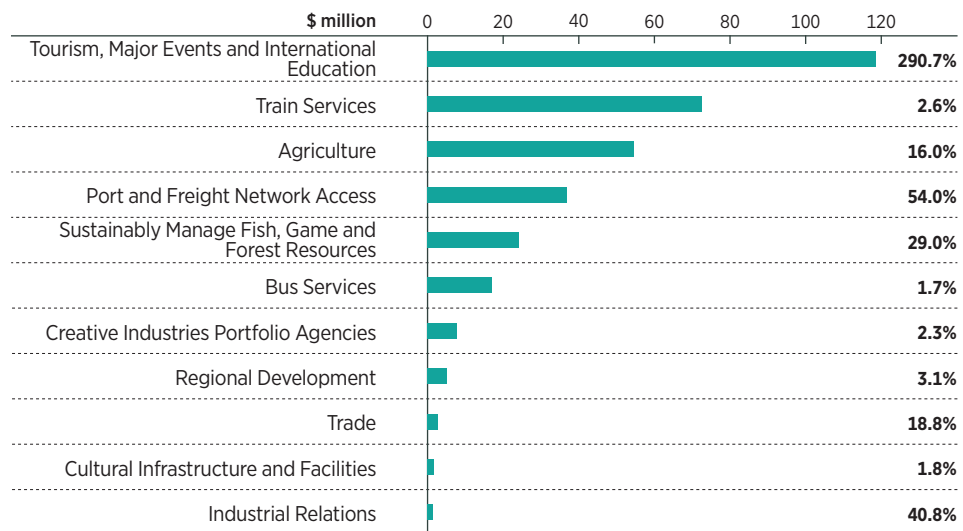
<sup>329</sup> Mr Richard Bolt, Secretary, Department of Economic Development, Jobs, Transport and Resources, *Inquiry into 2015-16 Financial and Performance Outcomes Transcript of Evidence*, 14 February 2017, p.2

<sup>330</sup> Department of Economic Development, Jobs, Transport and Resources, *Response to the Committee's 2015-16 Financial and Performance Outcomes - Entity-specific Questionnaire*, received 23 January 2017, pp.2-7

The total output expenditure of the Department was \$8.1 billion, \$109 million (or 1.4 per cent) higher than the budget estimates of \$8.0 billion.<sup>331</sup> This variance was mainly due to grants expenses being \$163 million higher-than-expected, which was a result of ‘payments associated with major events funding and Regional Rail Sustainability expenditure approved post budget’.<sup>332</sup>

Figure 6.9 shows the outputs for the Department of Economic Development, Jobs, Transport and Resources where the actual costs for 2015-16 exceeded the original Budget estimate. Major events funding and regional rail sustainability expenditure fall under the first two output categories in Figure 6.9 — *Tourism, Major Events and International Education* and *Train Services*.

**Figure 6.9** Department of Economic Development, Jobs, Transport and Resources outputs where costs exceeded the budget estimate, 2015-16



Source: Department of Economic Development, Jobs, Transport and Resources, *2015-16 Annual Report* (2016), pp.200-45

### The *Tourism, Major Events and International Education* output

The total output cost of *Tourism, Major Events and International Education* was \$159.4 million, which was \$118.6 million higher than its original budget of \$40.8 million.<sup>333</sup> The Department commented that the higher-than-budget result mainly reflected ‘funding received for the delivery of major events’,<sup>334</sup> but did not provide any further specific reasons for the variance against budget.

<sup>331</sup> Department of Economic Development, Jobs, Transport and Resources, *2015-16 Annual Report* (2016), p.249

<sup>332</sup> Department of Economic Development, Jobs, Transport and Resources, *Response to the Committee’s 2015-16 Financial and Performance Outcomes General Questionnaire*, received 16 December 2016, p.49

<sup>333</sup> Department of Economic Development, Jobs, Transport and Resources, *2015-16 Annual Report*, p.215; The over-expenditure for 2015-16 was largely anticipated at the time of the 2016-17 Budget (Department of Treasury and Finance, *Budget Paper No.3: 2016-17 Service Delivery* (2016), p.138).

<sup>334</sup> Department of Economic Development, Jobs, Transport and Resources, *2015-16 Annual Report* (2016), p.215

Over the past two years the budget papers note that funding for this output is ‘held centrally until contractual arrangements are finalised’.<sup>335</sup> At the public inquiry hearings, the Lead Deputy Secretary for Economic Development, Employment and Innovation, explained the funding differential is a result of:

... the timing of the drawing down of the funds to pay for some of the events. Some of the events funding sits within Treasury so it is the timing of the drawdown of the payments of those funds.<sup>336</sup>

In response to a question taken on notice, the Lead Deputy Secretary further explained:

In Tourism and Major Events, budget figures are set before funding arrangements for major events are finalised. For this reason, not all funding for major events is included in the budget figure.

Funding for major events is held centrally by DTF until contractual arrangements are finalised. Once arrangements are finalised, the funding is transferred from DTF to DEDJTR and is added to the actual figure for the year. This results in a variation between the budget figure and the actual figure.<sup>337</sup>

If budgets for the output are estimated on the assumption that major events that are still under negotiation will not take place, this will lead to significant under-budgeting for the output. While the Committee understands that detailed negotiation for some major events can be time consuming and protracted, there is little suggestion that the event will not actually occur.

The Committee also notes that the only non-cost performance measure that reports major events, ‘Major sporting and cultural events facilitated’, had a result of 18 events in 2015-16, compared to a target of ‘>12’.<sup>338</sup> The expected 2015-16 outcome for this indicator included in the 2016-17 budget papers (shortly before May 2016) was also ‘>12’.<sup>339</sup> This also suggests that events that eventually contribute to this output are not included in its budget figures until very late in the financial year.

**FINDING 62:** Funding for certain major events within the Department of Economic Development, Jobs, Transport and Resources’ *Tourism, Major Events and International Education* output is held by the Department of Treasury and Finance until the contractual arrangements are finalised, and is not included in the original budgeted figure for the output. This has led to considerable under-budgeting for the *Tourism, Major Events and International Education* output.

<sup>335</sup> Department of Treasury and Finance, *Budget Paper No.3: 2016-17 Service Delivery* (2016), p.138; cf. Department of Treasury and Finance, *Budget Paper No.3: 2015-16 Service Delivery* (2015), p.139

<sup>336</sup> Mr Justin Hanney, Lead Deputy Secretary, Department of Economic Development, Jobs, Transport and Resources, *Inquiry into 2015-16 Financial and Performance Outcomes Transcript of Evidence*, 14 February 2017, p.27

<sup>337</sup> Response to questions on notice from Mr Justin Hanney, Lead Deputy Secretary, Department of Economic Development, Jobs, Transport and Resources, to Chair, Victorian Parliament Public Accounts and Estimates Committee, 14 March 2017, p.10

<sup>338</sup> Department of Economic Development, Jobs, Transport and Resources, *2015-16 Annual Report* (2016), p.214

<sup>339</sup> Department of Treasury and Finance, *Budget Paper No.3: 2016-17 Service Delivery* (2016), p.137



**RECOMMENDATION 9:** 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.

The Committee also notes that the actual events that contribute to the *Tourism, Major Events and International Education* output are not explicitly listed in the Department's annual report. The Department notes that of the 18 events facilitated, only one, the National Gallery of Victoria Summer Program, was identified.<sup>340</sup>

This output has displayed large variances in both output cost and number of events. The Committee considers that due to this, transparency in the output would be greatly enhanced by a full list of events that occurred during the year that contribute to the output, as well as a provisional list of events that make up successive estimates for the output.

**FINDING 63:** A list of specific events that contribute to budget and actual figures for the *Tourism, Major Events and International Education* output would enhance the transparency of this output.

**RECOMMENDATION 10:** 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.

### ***Train Services* output**

Regional rail activities of the Department contribute to the *Train Services* output. The cost over-run for this output was \$72.5 million.<sup>341</sup> However, as the output is large (the actual cost was \$2.8 billion), this variance (2.6 per cent) is below the 'significant' level of 5 per cent that requires an explanation, according to guidance in the *2015-16 Model Report for Victorian Government Departments*.<sup>342</sup> Therefore, no explanation was provided for the output cost variance, despite its significance within the \$118.6 million variation in total expenses for the Department.

Within the *Train Services* output, the Committee notes that a \$91 million variance in 'Payments Made for Regional Train and Coach Services' was a result of 'additional funding to ensure the sustainability of V/Line's operations as a result of wheel-wear issues'.<sup>343</sup>

<sup>340</sup> Department of Economic Development, Jobs, Transport and Resources, *2015-16 Annual Report* (2016), p.214

<sup>341</sup> *ibid.*, p.240

<sup>342</sup> Department of Treasury and Finance, *2015-16 Model Report for Victorian Government Departments* (2016), p.23

<sup>343</sup> Department of Economic Development, Jobs, Transport and Resources, *2015-16 Annual Report* (2016), p.239

During the year, the Department received two supplementary budget payments from the Treasurer. An advance from the Treasurer of \$34.2 million was received ‘to ensure sustainability and adequacy of the regional rail network’, and a temporary advance of \$24.3 million was received ‘to restore regional rail services’.<sup>344</sup>

**FINDING 64:** Wheel-wear issues in V/Line vehicles contributed to the significant cost over-run within the *Train Services* output. The Department received two budgetary supplements related to regional rail.

The Committee notes that as well as the *Train Services* output, *Policing Services* within the Department of Justice and Regulation exceeded budget output cost by \$95.4 million. Again, however, due to the size of the output, this variance was only 3.8 per cent of the budgeted amount (\$2.5 billion) and so no explanation was required.<sup>345</sup>

The Committee considers that, for large outputs such as these, a threshold of 5 per cent for an explanation of variances does not provide sufficient accountability for departments. An additional threshold of a \$50 million (negative or positive) variation would enhance accountability.

**FINDING 65:** Costs for two outputs, one in the Department of Economic Development, Jobs, Transport and Resources and one in the Department of Justice and Regulation, were more than \$50 million greater than the target. However, these variances are small in terms of percentage so the departments are not required to publish explanations under the current guidance in the *2015-16 Model Report for Victorian Government Departments*.

**RECOMMENDATION 11:** 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.

## 6.5.2 Department of Health and Human Services

The Department of Health and Human Services advises that its primary function is to ‘support and enhance the wellbeing of all Victorians’. To facilitate this, the Department advises that it delivers programs to:

- help Victorians to be as healthy as they can be
- assist people to access opportunities that lead to positive, fulfilling lives
- build people’s capacity to participate in social, economic and community life
- contribute to a society that is inclusive, provides fair access to opportunities for all, and in which health and social inequality is minimised

<sup>344</sup> Department of Economic Development, Jobs, Transport and Resources, *response to the Committee’s 2015-16 Financial and Performance Outcomes General Questionnaire*, received 16 December 2016, p.7

<sup>345</sup> Department of Justice and Regulation, *Annual Report 2015-16 (2016)*, p.17

- provide services and protection for the most vulnerable members of society
- build resilience to overcome the challenges that communities and individuals face.<sup>346</sup>

### Departmental expenditure

The Department of Health and Human Services' total output expenditure exceeded budget estimates by 2.1 per cent (or about \$441.5 million).<sup>347</sup>

The Department advised the Committee that:

- employee benefits were \$280 million higher than anticipated due to 'increased activity at health services and general Enterprise Bargaining Agreement increases'
- grants and other transfers were \$232 million higher than the initial budget, due to an apparent change in accounting procedure relating to the *Rapid Housing Assistance Fund*.<sup>348</sup>

### Employee expenses against the budget estimate

In the *2015-16 Financial Report*, the Department of Treasury and Finance linked overall higher than budgeted employee expenses for the general government sector to demand for hospital services being higher-than-expected for the year (see Section 6.3.1).

The Committee notes that the same explanation has been provided for positive variances against 'employee expenses' for the general government sector for the past three years.<sup>349</sup> The Committee considers that this warrants special attention by both the departments of Health and Human Services and Treasury and Finance.

Last year, the Committee requested the Department of Health and Human Services to identify the budget and actual salary figure for the six largest health agencies. These cover approximately \$4 billion, or 20 per cent, of the total employee expenses for the general government sector.<sup>350</sup> The Department advised that for these agencies, there was little variance in salaries from their initial budget.<sup>351</sup> The Committee was therefore unable to identify the underlying source of the variance.

<sup>346</sup> Department of Health and Human Services, *Policy and Funding Guidelines* <[www2.health.vic.gov.au/about/policy-and-funding-guidelines](http://www2.health.vic.gov.au/about/policy-and-funding-guidelines)>, viewed 21 February 2017

<sup>347</sup> Department of Health and Human Services, *Annual Report 2015-16* (2016), p.230

<sup>348</sup> Department of Health and Human Services, *Response to the Committee's 2015-16 Financial and Performance Outcomes General Questionnaire*, received 14 December 2016, p.51

<sup>349</sup> Department of Treasury and Finance, *2015-16 Financial Report* (2016), p.114; Department of Treasury and Finance, *2014-15 Financial Report* (2015), p.117; Department of Treasury and Finance, *2013-14 Financial Report* (2014), p.140

<sup>350</sup> Calculations based on Department of Health and Human Services, *Response to the Committee's 2013-14 and 2014-15 Financial and Performance Outcomes Entity-specific Questionnaire*, received 11 January 2016, p.6; Department of Treasury and Finance, *2014-15 Annual Financial Report* (2015), p.26

<sup>351</sup> Department of Health and Human Services, *Response to the Committee's 2013-14 and 2014-15 Financial and Performance Outcomes Entity-Specific Questionnaire*, received 11 January 2016, p.6

The Department advised the Committee in January 2017 that it forecasts demand for hospital services, and following this, ‘most employee expenses, such as nursing and medical staff can be linked directly to demand’.<sup>352</sup> Thus, the Department’s forecasts for hospital activity demand is the key data source for formulating budgets for employee expenses. Hence when demand for hospital activities are under-estimated, additional funds are required for employee expenses. The Department notes that for 2015-16:

The budget figure of \$8,044,753,600 was based on preliminary estimates of service delivery activity. Subsequent service activity exceeded these estimates requiring increased expenditure on employee expenses.<sup>353</sup>

This indicates to the Committee that the problems with forecasting employee expenses over the past three years may be the result of inaccurate forecasts of service delivery activity, or demand, for hospitals.

The Department advises the Committee that in making forecasts for service delivery activity, it considers ‘population data and various hospital activity data’.<sup>354</sup> Results for two performance measures that relate to overall hospital activity have also been higher than the targets for the past three years. These are:

- the ‘Weighted Inlier Equivalent Separations (WIES) – all hospitals except small rural health services’ performance measure, which has been under-estimated in seven of the last eight years
- the ‘Total separations – all hospitals’ performance measure, which has been under-estimated in six of the last eight years.<sup>355</sup>

The Committee considers that publication of forecast and actual service activity for health agencies would help to identify areas where budgeting is inaccurate. Without this information, improvements in the accuracy of employee expenditure budgets will be difficult.

**FINDING 66:** Over the past three years, under-estimation of employee expenses in health agencies and hospitals have resulted in under-estimation of employee expenses at the State level. The Department of Health and Human Services forecasts demand for hospital activities, using this as the primary source for forecasting employee expenses. Inaccurate forecasts of employee expenses over the past three years are a result of underestimating demand in hospitals.

**RECOMMENDATION 12:** 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.

<sup>352</sup> Department of Health and Human Services, *Response to the Committee’s 2015-16 Financial and Performance Outcomes Entity-specific Questionnaire*, received 27 January 2017, p.10. The Department also lists a number of other factors that affect forecasts for employee expenses, such as employee entitlements, training and development costs, etc.

<sup>353</sup> Department of Health and Human Services, *Response to the Committee’s 2015-16 Financial and Performance Outcomes Entity-specific Questionnaire*, received 27 January 2017, p.9

<sup>354</sup> *ibid.*, p.10

<sup>355</sup> ‘Weighted Inlier Equivalent Separations (WIES) – all hospitals except small rural health services’, which has been under-estimated in seven of the last eight years and ‘Total separations – all hospitals’, which has been under-estimated in six of the last eight years.

**RECOMMENDATION 13:** 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.

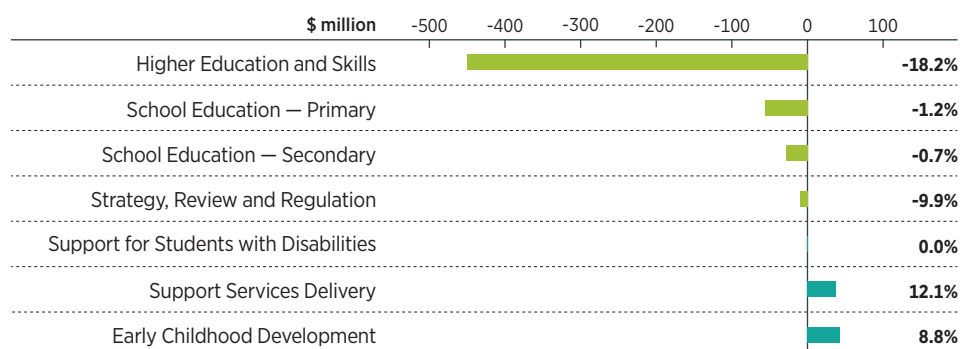
### 6.5.3 Department of Education and Training

The Department of Education and Training is responsible for education at pre-school, primary school, secondary school and post-school (non-university) levels. In the financial and outcomes inquiry hearing, the Secretary noted that:

... the Department of Education and Training provides vital services that impact on every Victorian. We are responsible for delivering and regulating statewide learning and development services across the early childhood, school education, training and TAFE sectors, and we engage daily with hundreds of thousands of children, students and families...<sup>356</sup>

The Committee notes that total expenditure for the Department was \$465 million (3.7 per cent) below the initial estimate of \$12.7 billion.<sup>357</sup> Figure 6.10 below shows this underspend was driven by a \$450.1 million shortfall in spending for the *Higher Education and Skills* output.

**Figure 6.10** Department of Education 2015-16 output variations against the Budget estimate



Source: Department of Education and Training, *Annual Report 2015-2016* (2016), pp.21-33

#### The *Higher Education and Skills* output

At \$2.4 billion, the *Higher Education and Skills* output accounts for around 20 per cent of the Department's \$12.7 billion total output budget for 2015-16.<sup>358</sup> The actual cost for this output was \$450.1 million less than that estimated in the 2015-16 Budget.<sup>359</sup> Table 6.6 demonstrates the department's actual performance against the targets within this output for 2015-16, whereby only two out of the 13 performance measure targets were achieved.

<sup>356</sup> Ms Gill Callister, Secretary, Department of Education and Training, *Inquiry into 2015-16 Financial and Performance Outcomes Transcript of Evidence*, 16 February 2017, p.2

<sup>357</sup> Department of Education and Training, *Annual Report 2015-2016* (2016), p.174

<sup>358</sup> Department of Treasury and Finance, *Budget Paper No.3: 2015-16 Service Delivery* (2015), p.171

<sup>359</sup> Department of Education and Training, *Annual Report 2015-2016* (2016), p.31

**Table 6.6** Department of Education and Training *Higher Education and Skills* output performance measures results, 2015-16

Performance measures	2015-16 Target	2015 -16 Actual	Result
<b>QUANTITY</b>			
Annual government-subsidised module enrolments (million)	5.3	4.5	✗
Government-subsidised student contact hours of training and further education provided (million)	181	154	✗
Number of apprenticeship/ traineeship commencements by new employees	40,000	38,272	■
Number of government subsidised course enrolments	557,846	466,681	✗
Number of pre-accredited module enrolments government subsidised through the Adult Community and Further Education (ACFE) Board – Adult Community Education organisations and Adult Education Institutes	45,000	46,801	✓
Number of students enrolled in government subsidised courses	443,687	377,831	✗
Number of students without Year 12, Certificate II or above enrolled in foundation courses	26,762	19,775	✗
Participation rate of 15–24-year-olds in government subsidised training and further education in Victoria (per cent)	22.5	18.7	✗
Participation rate of 25–64-year-olds in government subsidised training and further education in Victoria (per cent)	8	6.7	✗
<b>QUALITY</b>			
Proportion of VET completers who are satisfied with their training (per cent)	87.6	78.4	✗
Proportion of VET completers with an improved employment status after training (per cent)	61.7	50.7	✗
Proportion of employers satisfied with the training provided by the Registered Training Organisation for apprenticeship and traineeship completers (per cent)	81	83	✓
Successful training completions as measured by module load completion rate (per cent)	81.5	80.7	■
<b>COST</b>			
Total output cost (\$ million)	2,476.3	2,026.2	

✓ Target achieved or succeeded ■ Target not achieved – less than 5 per cent variance  
✗ Target not achieved – more than 5 per cent variance

Source: Department of Education and Training, *Response to the Committee's 2015-16 Financial and Performance General Questionnaire*, received 21 December 2016, pp.2-3

The Committee notes the considerable change in policy direction the VET and higher education sectors have undergone recently. The Secretary of the Department of Education and Training informed the Committee:

In higher education and training, in terms of the challenges in that sector, training activity in 2015–16 continued to be lower than previous years. In this year the department focused on identifying poor training providers, terminating contracts and assessing poor quality training practices. Our preliminary estimates show that this action accounted for approximately 43 per cent of the total decline in enrolments. Rapid growth of VET FEE HELP and continuing growth in the higher education sector have also contributed to the changes in demand. We do have a high quality and increasingly sustainable TAFE sector, and we have worked hard in 2015–16 to establish this.

... we implemented a number of key reforms that will drive ongoing improvements in the sector’s quality and sustainability. I particularly want to highlight strengthening quality assurance through 1200 reviews and audit activities that led to 18 terminated VET funding contracts and \$41.4 million identified for recovery. We appointed Victoria’s first skills commissioner, who has already consulted with 200 employer and industry representatives, and we also released Skills and Jobs in the Education State, following the Mackenzie VET funding review.<sup>360</sup>

The Committee also notes that the performance measure targets for 2016-17 have been changed to more closely align with the 2015-16 actual results.<sup>361</sup>

In the department’s annual report, explanations of variances between the target and actual results for 2015-16, were often followed by the comment that:

The 2015-16 Actual is lower than the 2015-16 Target primarily due to past policy changes including tightened eligibility for subsidised training and foundation courses, and reduction in subsidies. It has also been impacted by the shift of students to VET FEE-HELP funded training, demand-driven places in Higher Education, and fewer enrolments in sub-standard training as part of the Government’s implementation of the Review of Quality Assurance. The 2015-16 Actual is also lower due to adjustments in the timing of certain programs, and reinvestment in training and workforce development initiatives in future years.<sup>362</sup>

In terms of identifying poor training providers, the Department indicated it conducted 236 compliance audits, 453 performance reviews and 62 targeted investigations during 2015-16.<sup>363</sup> Further to this, the Committee was informed by the Department at the public hearings of the ‘quality blitz’ undertaken 2015-16, whereby:

... we undertook 62 investigations, we had contracts terminated for 18 registered training organisations and we have identified overall in addition to some other activity we have done with other contracted providers \$41.4 million for recovery.<sup>364</sup>

<sup>360</sup> Ms Gill Callister, Secretary, Department of Education and Training, *Inquiry into 2015-16 Financial and Performance Outcomes Transcript of Evidence*, 16 February 2017, p.3

<sup>361</sup> Department of Treasury and Finance, *Budget Paper No.3: 2016-17 Service Delivery* (2016), pp.184-7

<sup>362</sup> Department of Education and Training, *Annual Report 2015-2016* (2016), p.32

<sup>363</sup> Department of Education and Training, *Response to the Committee’s 2015-16 Financial and Performance Entity-Specific Questionnaire*, received 23 January 2017, p.23

<sup>364</sup> Mr Craig Robertson, Deputy Secretary, Department of Education and Training, *Inquiry into 2015-16 Financial and Performance Outcomes Transcript of Evidence*, 16 February 2017, p.28

When the Committee asked if the fewer enrolled students for training in 2015-16 was a result of the implementation of the review of quality assurance, the Department replied:

It is very difficult to estimate the reduction in the number of students enrolled in government-subsidised training in Victoria due to the implementation of the review of quality assurance.

The Government's response to the review of quality assurance was multi-faceted including a 'Quality Blitz' on 62 providers, strengthened conditions under the 2016 contract, more rigorous selection of providers in 2016, better student information and widespread auditing of the majority of government-funded providers. These changes will have had both a direct and indirect impact on the behaviour of all training providers, including enrolment of students. Implementation of the Government response occurred simultaneously with other unrelated changes in the VET market, higher education policy and the economy which will have affected the number of enrolments in VET.

The Victorian Training Market Report Half Year 2016 (page 28) analysed the impact on historical activity from training providers no longer in the government-subsidised system and concluded that 'some of the historical high levels of activity were being delivered by training providers who are no longer in the system'.

For example, in 2015, 41,500 enrolments were with training providers who, by mid-2016, were no longer contracted with the Victorian Government. Training providers that did not have a funding contract as at 30 June 2016 may have withdrawn from government-subsidised accredited training, had their contract cancelled or not renewed, or were no longer in operation.<sup>365</sup>

The Department also advised the Committee that overall under-expenditure in 2015-16 was due to 'delayed timing of spending on projects such as schools infrastructure (including maintenance related projects) and the *TAFE Structural Adjustment Fund*'.<sup>366</sup> The underspend by the Department on the *TAFE Structural Adjustment Fund* is discussed further in Chapter 7.

**FINDING 67:** Only two out of the 13 performance measures for the Department of Education and Training's *Higher Education and Skills* output were met in 2015-16. The Department of Education and Training attributes this in part to policy changes including:

- tightened eligibility for subsidised training and foundation courses
- the shift of students to VET FEE-HELP funded training
- the increase in demand-driven places in Higher Education
- fewer enrolments in sub-standard training as part of the Government's implementation of the Review of Quality Assurance.

<sup>365</sup> Response to questions on notice from Ms Gill Callister, Secretary, Department of Education and Training, to Chair, Victorian Parliament Public Accounts and Estimates Committee, 10 March 2017, p.21

<sup>366</sup> Department of Education and Training, *Amended Response to the Committee's 2015-16 Financial and Performance Outcomes General Questionnaire*, received 21 December 2016, p.48



# 7

## Asset Investment

### Key findings

Government infrastructure investment for 2015-16 was \$4.7 billion, \$462.9 million (8.9 per cent) less than the 2015-16 Budget estimate of \$5.2 billion, and \$86.9 million (1.9 per cent) greater than the 2014-15 figure of \$4.6 billion. It was comprised of \$4.2 billion of direct investment expenditure and \$590.0 million of public private partnership infrastructure investment expenditure.

While the general government sector has continued to build up assets over the past decade, the overall asset stocks have remained static in the public non-financial corporations (PNFC) sector. In 2015-16, the PNFC sector's rate of asset creation was lower than asset usage.

Most asset investment spending in 2015-16 was on transport and communications (\$2.1 billion, or 46.3 per cent), followed by health (\$919 million, or 20.8 per cent) and public order and safety (\$677 million or 15.4 per cent).

Nine Department of Economic Development, Jobs, Transport and Resources asset projects listed as completed, or estimated to be completed by 30 June 2016 in the 2016-17 budget papers were not completed during 2015-16. For these projects, subsequent budget papers do not reveal how much was expected to be spent, or how much was actually spent in the final year of completion.

The Department of Education and Training significantly underspent on 92 per cent of their ongoing asset investment projects in 2015-16. One of these, the *Inclusive Schools Fund – Funding to Improve Facilities for Students with Disabilities* project, was originally budgeted in 2015-16 for \$10.0 million and was reduced by the Department to \$2.5 million, while the actual spending on the project for the year was \$120,000.

### 7.1

### Introduction

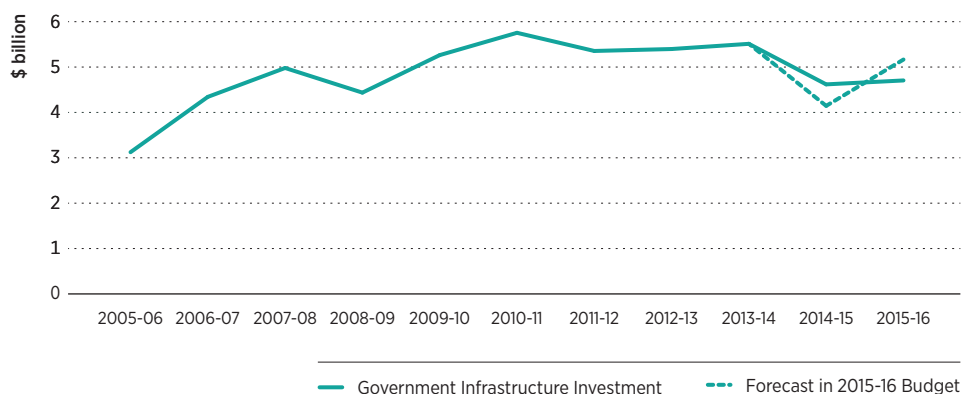
This chapter examines what was spent on asset provision in 2015-16 and the purpose of the asset projects. The chapter details the major asset and infrastructure projects undertaken by the Government in 2015-16 and discusses any notable revisions to project timelines, as well as significant over or underspending during 2015-16.

The focus of the major asset investment projects undertaken by the Government centres on the three major departments: the Department of Economic Development, Jobs, Transport and Resources; the Department of Health and Human Services; and the Department of Education and Training. These three departments accounted for 83.6 per cent of total asset investment in 2015-16.

## 7.2 Actual government infrastructure investment for 2015-16

Government infrastructure investment for 2015-16 was \$4.7 billion, \$462.9 million or 8.9 per cent less than the 2015-16 Budget estimate of \$5.2 billion.<sup>367</sup> Actual government infrastructure investment for 2015-16 was \$86.9 million, or 1.9 per cent, greater than the 2014-15 actual figure of \$4.6 billion.<sup>368</sup>

**Figure 7.1** Government infrastructure investment, 2005-06 to 2015-16



Source: Department of Treasury and Finance, *Net Infrastructure Investment* (2016). Available at <[www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Other-financial-aggregates](http://www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Other-financial-aggregates)>, viewed 5 January 2017

For 2015-16 the actual government infrastructure investment figure of \$4.7 billion was comprised of \$4.2 billion of direct investment expenditure, \$92.6 million of investment expenditure through other sectors and \$590.0 million of public private partnership (PPP) infrastructure investment expenditure.<sup>369</sup>

**FINDING 68:** Government infrastructure investment for 2015-16 was \$4.7 billion, \$462.9 million or 8.9 per cent less than the 2015-16 Budget estimate of \$5.2 billion, and \$86.9 million, or 1.9 per cent, greater than the 2014-15 actual figure of \$4.6 billion.

### 7.2.1 Components of government infrastructure investment

The 2015-16 budget papers record three components of government infrastructure investment. These are:

- **direct investment expenditure** (referred to in the budget papers as ‘cash flows from investments in non-financial assets’)

<sup>367</sup> Department of Treasury and Finance, *Budget Paper No.2: Strategy and Outlook* (2015), p.13; Department of Treasury and Finance, *Net Infrastructure Investment* (2016). Available at <[www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Other-financial-aggregates](http://www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Other-financial-aggregates)>, viewed 5 January 2017

<sup>368</sup> Department of Treasury and Finance, *Net Infrastructure Investment* (2016). Available at <[www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Other-financial-aggregates](http://www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Other-financial-aggregates)>, viewed 5 January 2017

<sup>369</sup> Department of Treasury and Finance, *Budget Paper No.4: 2015-16 State Capital Program* (2015), p.12; Department of Treasury and Finance, *General Government Consolidated Cash Flow Statement* (2016). Available at <[www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Aggregate-financial-statements](http://www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Aggregate-financial-statements)>, viewed 5 January 2017; Department of Treasury and Finance, *Net Infrastructure Investment* (2016). Available at <[www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Other-financial-aggregates](http://www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Other-financial-aggregates)>, viewed 5 January 2017

- **investment expenditure through other sectors** (referred to in the budget papers as ‘net cash flows from investments in financial assets for policy purposes’)
- **‘PPP infrastructure investment expenditure and other’**.<sup>370</sup> For direct investment, the process of building assets is managed directly by government departments, who own the asset once the building or construction of the asset is completed. For 2015-16, direct asset investment was \$4.2 billion.<sup>371</sup>

Investments through other sectors occur when the Government invests in a government-owned entity, which then constructs or purchases the asset. Because this is an investment, capital payments can flow outwards or inwards. Capital flowing back to the general government sector is known as a ‘capital repatriation’. This was the case for 2015-16, where investment through other sectors was a cash inflow of \$92.6 million.<sup>372</sup> This cash inflow helped offset the capital costs of other investments.

‘PPP infrastructure investment expenditure’ is an estimate of how much is spent by the private sector on behalf of the public sector in the construction of PPP projects. As a result, it does not correspond to any cash payment made by the public sector and does not appear in the State’s cash flow statement. By elimination, for 2015-16, PPP infrastructure investment expenditure was \$590.9 million.<sup>373</sup>

**Table 7.1** Components of government infrastructure investment, budget and actual, 2015-16

	2015-16 Budget	2015-16 actual	Variance from initial budget	
	(\$ million)	(\$ million)	(\$ million)	(per cent)
Direct investment expenditure	4,229.7	4,229.7	0.0	0.0
Investment expenditure through other sectors	-6,510.8 <sup>(a)</sup>	-92.6 <sup>(a)</sup>	6,418.2	-98.6
PPP infrastructure investment expenditure	7,472.0 <sup>(b)</sup>	590.9 <sup>(c)</sup>	-6,881.1 <sup>(d)</sup>	-92.1
Government infrastructure investment	5,190.9	4,728.0	-462.9	-8.9

(a) A negative number indicates a net cash inflow.

(b) Includes PPP infrastructure investment and other commercially sensitive items.

(c) Calculated by the Committee as a residual.

(d) The variance reflects the delay in signing the Port of Melbourne lease transaction.

Sources: Department of Treasury and Finance, *Budget Paper No.4: 2015-16 State Capital Program* (2015), p.12; Department of Treasury and Finance, *General Government Consolidated Cash Flow Statement* (2016). Available at <[www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Aggregate-financial-statements](http://www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Aggregate-financial-statements)>, viewed 5 January 2017; Department of Treasury and Finance, *Net Infrastructure Investment* (2016). Available at <[www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Other-financial-aggregates](http://www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Other-financial-aggregates)>, viewed 5 January 2017

<sup>370</sup> Department of Treasury and Finance, *Budget Paper No.4: 2015-16 State Capital Program* (2015), p.12

<sup>371</sup> Department of Treasury and Finance, *2015-16 Financial Report* (2016), p.30

<sup>372</sup> *ibid.*

<sup>373</sup> Committee calculations based on Department of Treasury and Finance, *2015-16 Financial Report* (2016), p.10

**FINDING 69:** Actual government infrastructure investment for 2015-16 comprised \$4.2 billion of direct investment expenditure and \$590.0 million of public private partnership infrastructure investment expenditure, partly funded by \$92.6 million of returned capital from investments through other sectors.

## 7.2.2 Revisions to estimates for government infrastructure investment

In its *2015-16 Financial Report*, the Department of Treasury and Finance reported that government infrastructure investment was:

... \$4.7 billion. This is a \$260 million increase compared to the revised budget...<sup>374</sup>

The Committee notes that this indicates the ‘revised budget’ referred to in the *2015-16 Financial Report* was approximately \$4,468 million. However, the Committee understands that the revised figure was not included in any public document.

**FINDING 70:** The Department of Treasury and Finance compared the result for government infrastructure investment reported in the *2015-16 Financial Report* to an estimate that was not made publicly available.

**RECOMMENDATION 14:** All variances reported or discussed in the Annual Financial Report are calculated against a published estimate.

The Committee also notes that the *2015-16 Financial Report* contains revised figures for direct asset investment and net investment through other sectors for 2014-15. Direct asset investment has been revised downwards by approximately \$25 million to a cash outflow of \$4.369 billion and net investment through other sectors has been revised upwards by the same amount to a cash outflow of \$883 million.<sup>375</sup>

The Department of Treasury and Finance also publishes figures from successive estimates as a dataset available on the Department’s website. The Committee notes that the 2014-15 revision does not appear in the dataset that was available on the Department of Treasury and Finance’s website at the time of the publication of the *2015-16 Financial Report*. The Committee notes that the subsequent version of the electronic dataset released at the time of the *2016-17 Budget Update* also reports the unadjusted figures.<sup>376</sup>

<sup>374</sup> Department of Treasury and Finance, *2015-16 Financial Report* (2016), p.10

<sup>375</sup> *ibid.*, p.30

<sup>376</sup> Department of Treasury and Finance, *General Government Consolidated Cash Flow Statement* (2016). Available at <[www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Aggregate-financial-statements](http://www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Aggregate-financial-statements)>, viewed 15 March 2017

While a note included in the *2015-16 Financial Report* states that ‘June 2015 comparative figures have been restated to correct contributed capital and accumulated fund balances from the prior year machinery of government changes’, there is no note in the electronic dataset.<sup>377</sup>

**FINDING 71:** The *2015-16 Financial Report* contains revised figures for 2014-15. However, these changes are not updated and reflected on electronic datasets available on the Department of Treasury and Finance website.

**RECOMMENDATION 15:** 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.

### 7.2.3 Asset investment outcomes for 2015-16

Asset investment (other than investment through PPP arrangements) is comprised of two components: direct asset investment and investment through other sectors.

Direct investment expenditure, where the Government provides assets through projects owned and managed by departments, was \$4.2 billion for 2015-16. This was in line with the 2015-16 budget estimate, as lower-than-expected asset purchases were exactly balanced by lower-than-expected asset sales.<sup>378</sup>

The 2015-16 result for investment through other sectors was a cash inflow of \$92.6 million, 98.6 per cent less than the \$6.4 billion cash inflow anticipated in the original budget. This is opposed to an actual cash outflow of \$883 million in 2014-15.<sup>379</sup> The principal reason for this large variance was that the planned lease of the operations of the Port of Melbourne, originally expected during 2015-16, did not occur until 2016-17.<sup>380</sup>

The Department of Treasury and Finance advised the Committee that the cash inflow for investment through other sectors in 2015-16 was primarily due to:

... capital repatriations, which were not factored in the original budget estimates, including \$125 million from the State Electricity Commission of Victoria.<sup>381</sup>

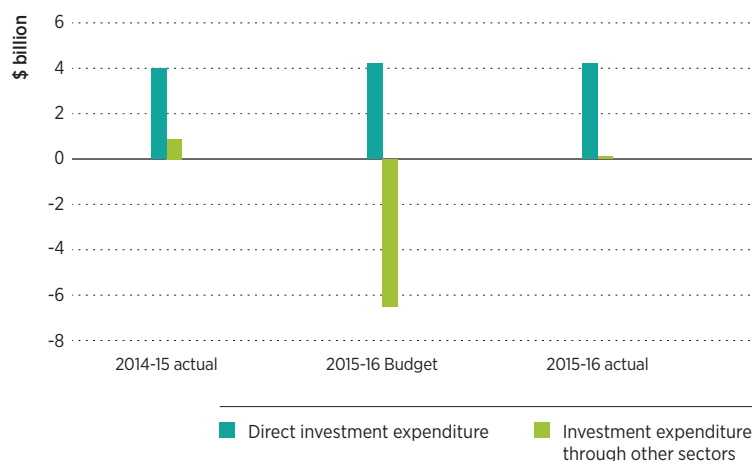
<sup>377</sup> Department of Treasury and Finance, *2015-16 Financial Report* (2016), p.31

<sup>378</sup> *ibid.*, p.30; Department of Treasury and Finance, *Budget Paper No.5: 2015-16 Statement of Finances* (2015), p.10

<sup>379</sup> Department of Treasury and Finance, *2015-16 Financial Report* (2016), p.30 (Note that this figure is different to the on-line dataset and therefore has no decimal point).

<sup>380</sup> Department of Treasury and Finance, *2015-16 Financial Report* (2016), p.119

<sup>381</sup> Department of Treasury and Finance, *Response to the Committee's 2015-16 Financial and Performance Outcomes - Entity-specific Questionnaire*, received 3 February 2017, p.13

**Figure 7.2** Asset investment, 2014-15 to 2015-16

Sources: Department of Treasury and Finance, *Budget Paper No.4: 2015-16 State Capital Program* (2015), p.12; Department of Treasury and Finance, *Cash Flow General Government* (2016). Available at <[www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Aggregate-financial-statements](http://www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Aggregate-financial-statements)>, viewed 5 January 2017

**FINDING 72:** While the actual direct investment expenditure of \$4.2 billion was in line with the 2015-16 budget estimate, actual investment through other sectors for 2015-16 was a cash inflow of \$92.6 million, \$6.4 billion or 98.6 per cent less than the expected inflow of \$6.5 billion. The variance is due to the delay in signing the Port of Melbourne lease transaction.

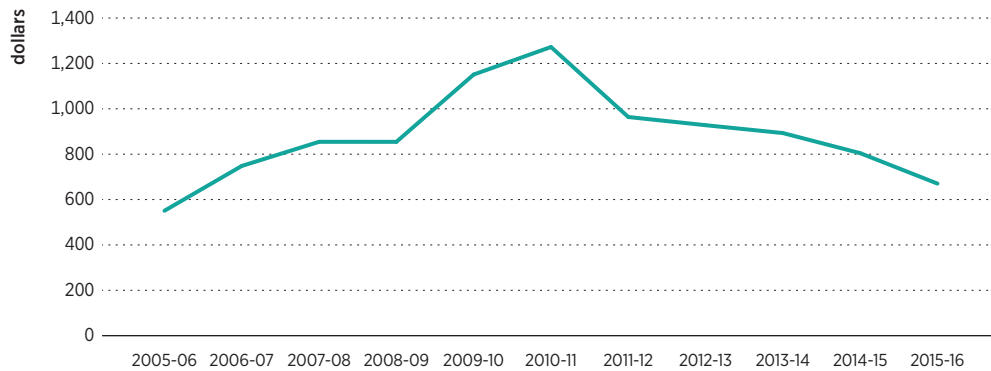
### Asset investment measured against other economic indicators

Asset investment as a proportion of gross state product (GSP) was 1.1 per cent in 2015-16. This is a decrease from the 2014-15 figure of 1.3 per cent.<sup>382</sup>

Real asset investment per resident of Victoria in 2015-16 was \$681.78, a decrease of \$136.50 or 26.7 per cent on the 2014-15 figure of \$818.29. This compares to real asset investment per resident of New South Wales of \$675.13 in 2015-16.<sup>383</sup> Figure 7.3 demonstrates the latest Victorian figure continues the gradual downward trend starting in 2011-12. The peak seen in that year was associated with one-off payments from the Commonwealth. Annual asset investment represented in Figure 7.3 is net of asset sales and includes net cash flows from investments in financial assets for policy purposes. Inflation is corrected using the implicit GSP deflator.

<sup>382</sup> Committee calculations based on: Department of Treasury and Finance, *Macroeconomic Indicators* (2016). Available at <[www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Macroeconomic-indicators](http://www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Macroeconomic-indicators)>, viewed 9 January 2017; Department of Treasury and Finance, *Net Infrastructure Investment* (2016). Available at <[www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Other-financial-aggregates](http://www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Other-financial-aggregates)>, viewed 5 January 2017.

<sup>383</sup> Australian Bureau of Statistics, Cat No.3101.0 *Australian Demographic Statistics* (2016) Table 4 – population, and New South Wales Treasury, *Report on State Finances, 2015-16* (2016) pp.7-10

**Figure 7.3** Real asset investment per Victorian, 2005-06 to 2015-16

Source: Committee calculations based on: Department of Treasury and Finance, *Cash Flow General Government* (2016). Available at <[www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Aggregate-financial-statements](http://www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Aggregate-financial-statements)>, viewed 5 January 2017; Department of Treasury and Finance, *Macroeconomic Indicators* (2016). Available at <[www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Macroeconomic-indicators](http://www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Macroeconomic-indicators)>, viewed 9 January 2017

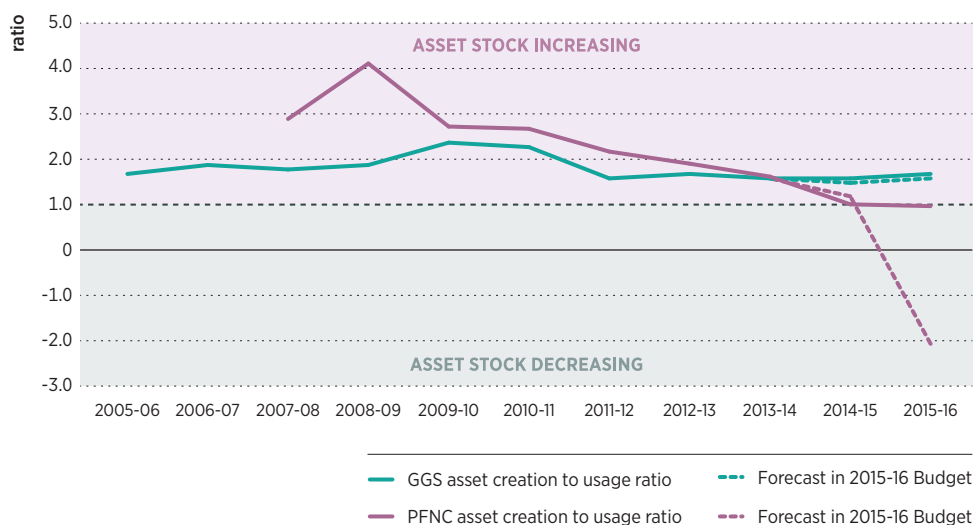
**FINDING 73:** The level of asset investment for 2015-16 was equivalent to 1.1 per cent of gross state product, or \$681.78 per Victorian.

### Asset sustainability

To understand the overall asset base in Victoria, the Committee compares how rapidly assets are being provided compared to how quickly existing assets are becoming depleted. Additions to the asset base are recorded in the State's finances as the 'purchases of non-financial assets'. The amount of depleted assets is reflected in the depreciation allowance. If the amount spent on asset purchasing is greater than the depreciation rate, then the overall stock of assets is considered to be increasing. On the other hand, if depreciation is greater than asset purchasing, this is a sign that the overall stock of assets is eroding.

The Committee looks at the ratio of asset provision to usage over time. A ratio of greater than 1.0 shows that the overall stock of assets is increasing, and a ratio of less than 1.0 is an indicator that the stock is decreasing. Asset replacement ratios for the general government sector (GGS) and PNFC sector are shown in Figure 7.4.

**Figure 7.4** Asset replacement ratios, general government sector and public non-financial corporations sector, 2005-06 to 2015-16



Note: Dotted lines represent ratios calculated from forecasts included in the 2015-16 budget papers

Sources: Committee calculations based on Department of Treasury and Finance, *Consolidated Comprehensive Operating Statement – General Government Sector* (2016). Available at <www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Aggregate-financial-statements>, viewed 18 October 2016; Department of Treasury and Finance, Annual Financial Reports 2007-08 to 2015-16; Department of Treasury and Finance, *Budget Paper No.5: 2015-16 Statement of Finances* (2015), pp.7, 10, 49, 52, 225, 228

For the general government sector, the asset replacement ratio has been on a gradual downward trend since peaking between 2009-10 and 2010-11, which was associated with Commonwealth stimulus investment at the time of the global financial crisis (GFC). The asset replacement ratio has remained above 1.0 over the whole of the last decade, indicating that assets have consistently built up over that period.

However, the asset replacement ratio for the PNFC sector has shown a more significant downward trend since the start of the series in 2007-08. Figure 7.4 shows that the ratio has approached the point at which overall assets are degrading in the sector. The Committee notes that the ratio in 2015-16 is less than 1.0, as net asset investment was slightly less than the depreciation allowance for the year.<sup>384</sup> The Auditor-General has examined a similar ratio<sup>385</sup> and also noted a decline over the past five years.<sup>386</sup>

The Committee considers that this situation may be a cause for concern, as if it is sustained into the future it would indicate an overall decrease in assets in the sector.

<sup>384</sup> Department of Treasury and Finance, *2015-16 Financial Report* (2016), p.136, 140

<sup>385</sup> The ratio used by the Auditor-General uses gross asset expenditure, whereas the Committee uses asset expenditure net of asset sales. The Committee is unable to use the gross asset expenditure measure, as the data is not consistently published in the budget papers.

<sup>386</sup> Victorian Auditor-General's Office, *Auditor-General's Report on the Annual Financial Report of the State of Victoria, 2015-16* (2016), p.16



The Committee asked the Department of Treasury and Finance whether the Government considers that the PNFC sector is renewing or replacing assets at an acceptable rate. The Department responded:

The Department considers that the PNFC sector is renewing/replacing assets at an acceptable rate. For the larger PNFC entities such as the 19 water corporations, VicTrack, Director of Housing, V/Line Passenger Corporation, and Places Victoria, the Department monitors proposed capital investment through the established corporate planning and quarterly performance reporting framework.<sup>387</sup>

Furthermore, the Department indicated it does not see the asset replacement ratio as a representative indicator for the PNFC sector's asset stock due to the variety and size of the PNFC sector as a whole:

The ratio of investment expenditure to depreciation may serve as a very broad long-term indicator of the extent to which the service potential that is being consumed in service provision (as measured by depreciation) is being replaced/renewed. For the PNFC sector in aggregate, this indicator encompasses the capital investment decisions of a large number of individual entities. Capital investment by individual entities tends to vary from year to year, and relative to depreciation in any single year. This reflects the large number of assets in service, the different service lives of individual assets, and the quantum of investment required to replace or renew those assets that are approaching the end of their service lives.

A prolonged period of capital investment being less than depreciation may therefore reflect the timing of asset replacement/renewal needs. It may also reflect a range of other factors, including changes in technology, customer demand, and Government priorities. An assessment of the implications of a prolonged period of capital investment being less than depreciation is best made at the individual entity level (eg for the larger PNFC entities, through the established corporate planning and quarterly performance reporting framework).<sup>388</sup>

**FINDING 74:** The asset replacement ratio for 2015-16 indicates the general government sector has continued to build up assets over the past decade. However, overall asset stocks have remained static in the public non-financial corporations sector, and in 2015-16 the rate of asset creation was slightly lower than asset usage.

#### 7.2.4 Public Private Partnership projects in 2015-16

The Victorian Comprehensive Cancer Centre (VCCC) was the only PPP project commissioned in 2015-16.<sup>389</sup> The contribution to net debt by PPPs commissioned in 2015-16 was \$1.1 billion, in line with the 2015-16 Budget estimate.<sup>390</sup>

<sup>387</sup> Department of Treasury and Finance, *Response to the Committee's 2015-16 Financial and Performance Outcomes Entity-Specific Questionnaire*, received 3 February 2017, p.18

<sup>388</sup> *ibid.*

<sup>389</sup> Department of Treasury and Finance, *2015-16 Financial Report* (2016), pp.66-7

<sup>390</sup> Department of Treasury and Finance, *Budget Paper No.2: 2016-17 Strategy and Outlook* (2016), p.59; Department of Treasury and Finance, *2015-16 Financial Report* (2016), p.10

The *2015-16 Financial Report* noted three PPP projects contracts were entered into for 2015-16. These were:

- the *New Schools PPP project*, which had a net present cost of \$497 million at October 2015 and is expected to reach the commissioning stage by 2017<sup>391</sup>
- the *CityLink–Tulla widening* project, which has a total estimated capital cost of \$1.28 billion, with the State component estimated to cost \$415 million and the Transurban (the private partner for the project) component estimated to be \$867 million. This project is expected to be completed in 2018<sup>392</sup>
- the *Melbourne Convention and Exhibition Centre – Stage 2 development*, which has ‘funding approval’ for \$205 million and is expected to be completed in 2018.<sup>393</sup>

Information on new PPP projects can be found in Chapter 5 of the Annual Financial Report, under the ‘New infrastructure projects with private sector involvement’ section. While the Committee welcomes the disclosure of these projects, the information in the Annual Financial Report regarding PPP projects can vary, and the Committee considers this section would be enhanced if standard elements of new PPP projects were identified and reported on consistently. In the *2015-16 Financial Report*, differences include whether the proportion and amount of private provision for the project is disclosed and the terminology used to describe the cost of the project varies (e.g. ‘net cost’, ‘capital cost’ ‘funding approval’).<sup>394</sup>

In addition to this, the same details given in the *2014-15 Financial Report* on the *CityLink Tulla Widening* project appear again in the *2015-16 Financial Report*, which is unnecessary if the project commenced in 2014-15.<sup>395</sup>

**FINDING 75:** One public private partnership project, the Victorian Comprehensive Cancer Centre, was commissioned in 2015-16.

**FINDING 76:** Public private partnership projects that were contracted in 2015-16 were the *New Schools PPP Project*, the *CityLink Tulla Widening* project and the *Melbourne Convention and Exhibition Centre – Stage 2 development*.

**FINDING 77:** Information provided by the Department of Treasury and Finance in the *2015-16 Financial Report* regarding the three public private partnership projects contracted in 2015-16 differs in terms of costing, value and project details.

<sup>391</sup> Department of Treasury and Finance, *2015-16 Financial Report* (2016), p.165

<sup>392</sup> *ibid.*

<sup>393</sup> *ibid.*

<sup>394</sup> *ibid.*

<sup>395</sup> *ibid.*

A previous Public Accounts and Estimates Committee released the *Report on Private Investment in Public Infrastructure*, which made, in part, the following recommendation regarding public information of PPP contracts:

That:

- (a) after public private partnership contracts are signed, the contracts be published on the Partnerships Victoria website within three months;
- (b) a succinct (approximately three page) summary of the contract and a value for money report be prepared, modelled on the British Columbia value for money report, and include the following information:
  - the assets that are to be transferred from the Victorian Government to the private sector;
  - the price to be paid by the Government and the basis for future changes in the price;
  - the provisions for renegotiation;
  - the risk sharing in the construction and operational phases;
  - significant guarantees or undertakings;
  - details of the public sector comparator.<sup>396</sup>

The then Government ‘Agreed in part’ to this recommendation, stating in its response:

The Treasurer announced a new PV disclosure policy in March this year. A key requirement of this policy is the introduction of Project Summaries for PV projects within three months of financial close. These summaries will detail, among other things, how the project delivered value for money and met the public interest. They will also detail a summary of key elements of the contract. A template will be provided to detail these requirements. Consistent with the policy, these project summaries will be tabled in Parliament by the responsible project minister and will also be available publicly on the Partnerships Victoria website.<sup>397</sup>

Although the then Committee recommended a two to three page summary of PPP contracts be released publicly, ‘including summary financial payment information’<sup>398</sup> The document that developed as a result of these recommendations by Partnerships Victoria (the PPP ‘Project Summary’) are typically over thirty pages and do not provide summary financial payment information about the PPP project that is easily understandable by the public.<sup>399</sup>

**FINDING 78:** Project summaries on public private partnership projects provided by Projects Victoria do not provide summary financial payment information that can be readily understood by the public.

<sup>396</sup> Public Accounts and Estimates Committee, *Report on Private Investment in Public Infrastructure* (2006), Recommendation 13, p.104

<sup>397</sup> Victorian Government, *Government Response to the Public Accounts and Estimates Committee Report on Private Investment in Public Infrastructure*, October 2006, tabled 2007, p.15

<sup>398</sup> Public Accounts and Estimates Committee, *Report on Private Investment in Public Infrastructure* (2006), p.104

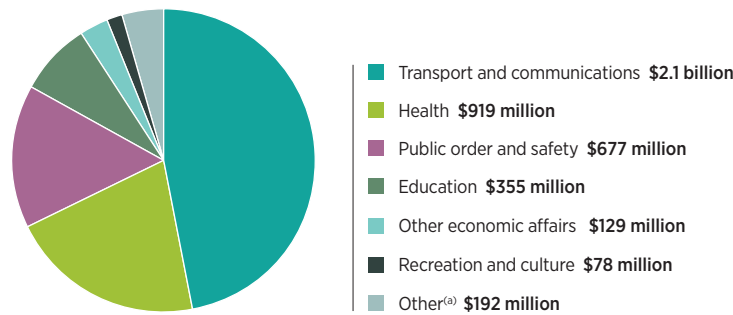
<sup>399</sup> For example, Department of Education and Training, *New Schools Public Private Partnership (PPP) Project – Project Summary* (2016). Available at [www.dtf.vic.gov.au/Publications/Infrastructure-Delivery-publications/Partnerships-Victoria/New-Schools-PPP-Project-Summary-March-2016](http://www.dtf.vic.gov.au/Publications/Infrastructure-Delivery-publications/Partnerships-Victoria/New-Schools-PPP-Project-Summary-March-2016), viewed 22 March 2017

**RECOMMENDATION 16:** 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.

### 7.3 Asset provision by purpose

In 2015-16, most direct investment funding was for transport and communications, which was worth \$2.1 billion, or 46.3 per cent of the \$4.2 billion total. This was followed by health, worth \$919 million (or 20.8 per cent) and public order and safety totalling \$677 million or 15.4 per cent.

**Figure 7.5** Asset provision by major government purpose classification, 2015-16



(a) 'Other' includes 'Social security and welfare', 'General public services', 'Housing and community amenities', 'Fuel and energy' and 'Agriculture, forestry, fishing and hunting'.

Source: Department of Treasury and Finance, *2015-16 Financial Report* (2016), p.48

**FINDING 79:** Most asset investment spending in 2015-16 was on transport and communications, worth \$2.1 billion, or 46.3 per cent of total asset investment. Asset investment on health spending was \$919 million, or 20.8 per cent of the total, and public order and safety was worth \$677 million or 15.4 per cent of the 2015-16 total.

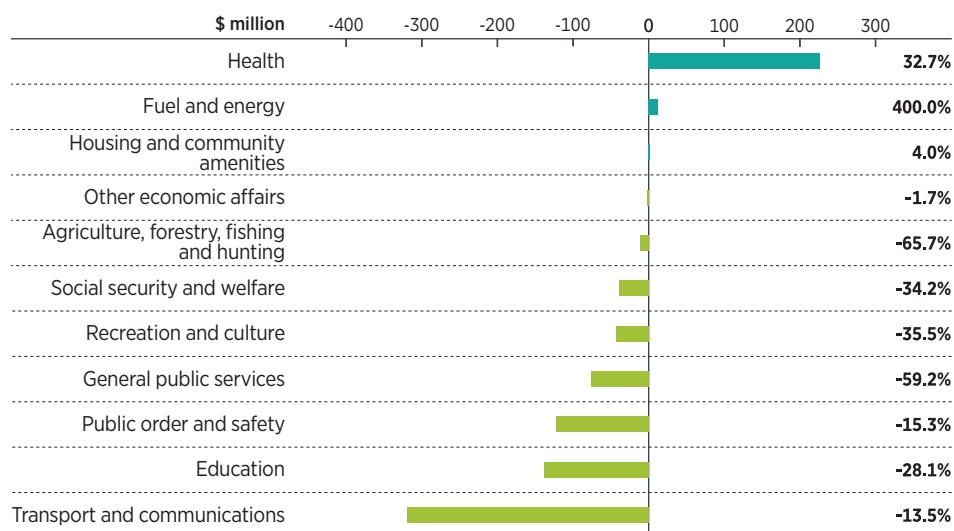
In terms of variances against the 2015-16 budget estimate and the levels of actual direct investment for the year, asset expenditure in health exceeded the budget estimate by \$226.6 million or 32.7 per cent. This was due to 'asset purchases funded directly by health services and hospitals from their own source revenue which were not factored in the 2015-16 original budget estimates'.<sup>400</sup>

The Committee considers that if initial budget estimates vary from outcomes due to factors not counted in the initial budget estimate, there is scope for improvement in determining the initial budget estimate.

These variances are shown in Figure 7.6.

<sup>400</sup> Department of Treasury and Finance, *Response to the Committee's 2015-16 Financial and Performance Outcomes General Questionnaire*, received 14 December 2016, p.14

**Figure 7.6** Variances between initial estimates and actual direct asset investment, 2015-16 by general government purpose classification



Sources: Department of Treasury and Finance, *2015-16 Financial Report* (2016), p.48; Department of Treasury and Finance, *Budget Paper No.5: 2015-16 Statement of Finances* (2015), p.39

Actual direct investment for transport and communications was \$320.0 million, or 13.5 per cent under the original budget estimate, and ‘primarily relates to capital expenditure relating to Level Crossing Removals which was accrued compared with budget, and a number of VicRoads projects’.<sup>401</sup> The \$138.4 million or 28 per cent variance in education was ‘related to the schools capital program, mainly the timing of land acquisition’.<sup>402</sup> For public order and safety, the \$122.2 million or 15.3 per cent variance against the original budget estimate ‘primarily relates to a number of capital projects’.<sup>403</sup>

The Committee notes that these explanations were provided by the Department of Treasury and Finance in response to a questionnaire from the Committee. In its *Report on the 2013-14 and 2014-15 Financial and Performance Outcomes*, the Committee recommended that explanations be provided for variances in operating expenditure against budget estimates for government purpose classification (GPC).<sup>404</sup> The Government supported this recommendation, advising the Committee that the Department of Treasury and Finance:

... will seek to provide further clarification within the existing GPC tables by way of footnote where reclassifications between purposes or significant changes between budget estimates and actual results for operating expenditure have occurred in areas that have not already been explained in the commentary provided for significant variations on the financial statements.<sup>405</sup>

<sup>401</sup> Department of Treasury and Finance, *Response to the Committee’s 2015-16 Financial and Performance Outcomes General Questionnaire*, received 22 December 2016, pp.14-15

<sup>402</sup> *ibid.*, p.14

<sup>403</sup> *ibid.*

<sup>404</sup> Public Accounts and Estimates Committee, *Report on the 2013-14 and 2014-15 Financial and Performance Outcomes* (2016), Recommendation 4, p.43

<sup>405</sup> Victorian Government, *Government Response to PAEC’s Report on the 2013-14 and 2014-15 Financial and Performance Outcomes*, tabled 9 November 2016, p.1

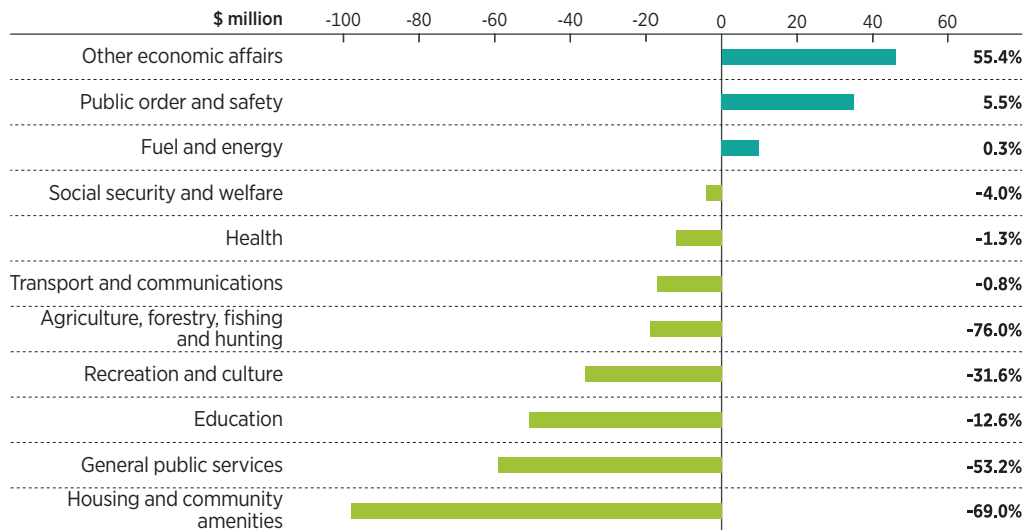
The Committee considers that similar explanations for significant variations against budgets for asset expenditure by government purpose classification would also be appropriate, as they would promote accountability in asset provision.

**FINDING 80:** Compared to the asset investment spending estimates in the 2015-16 Budget, the greatest positive variances were for health and fuel and energy. The greatest negative variances were for transport and communications, education and public order and safety. The Annual Financial Report does not explicitly discuss variances against budget for asset expenditure by government purpose classification.

**RECOMMENDATION 17:** 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.

In comparing the levels of direct investment in 2015-16 against the previous year, the greatest increases occurred under the other economic affairs category, followed by public order and safety and fuel and energy. Spending on housing and community amenities decreased by \$98.0 million or 69.0 per cent over the previous year, followed by general public services (\$59 million in 2015-16 or a 53.2 per cent decrease), and education (\$51.0 million less or a 12.6 per cent decrease).

**Figure 7.7** Changes between the 2014-15 and 2015-16 actual direct asset investment by general government purpose classification



Source: Department of Treasury and Finance, 2015-16 Financial Report (2016), p.48

The Committee notes that, similar to variations against the budget estimate, changes from previous results are not explicitly discussed in the section in the 2015-16 Financial Report that deals with government purpose classification.

**FINDING 81:** Compared to asset investment spending in 2014-15, the greatest increases for 2015-16 in spending across the government purpose classification categories was in other economic affairs, public order and safety and fuel and energy. In terms of decreases compared to 2014-15, housing and community amenities had the largest decrease, followed by general public services and education.

## 7.4 Major projects for 2015-16

The 2015-16 budget papers include 397 asset investment projects for the general government sector, including the Country Fire Authority and the Metropolitan Fire and Emergency Services Board.<sup>406</sup> This included 157 projects that were new for 2015-16. In addition, a smaller number of projects were listed for PNFC entities.<sup>407</sup>

The Committee sought information from all the departments regarding ongoing and completed significant asset investment projects in 2015-16. This information included:

- Details of any project delays that may have effected timelines originally published in the budget papers
- Changes in estimated costings for 2015-16, both in terms of under- and overspends
- Changes made to total estimated investment (TEI) figures for projects, which may have been caused by timeline or costing changes mentioned above.

This section examines the major projects undertaken by three departments: the Department of Economic Development, Jobs, Transport and Resources; the Department of Health and Human Services; and the Department of Education and Training in 2015-16. It compares their progress in terms of adherence to timelines and spending for their major projects against the department-wide average.

### 7.4.1 Department of Economic Development, Jobs, Transport and Resources

The Department of Economic Development, Jobs, Transport and Resources manages the largest budget in terms of asset projects, largely a result of the transport portfolio.<sup>408</sup> The Department had 71 asset investment projects in 2015-16, including 20 new projects for 2015-16.<sup>409</sup> In the 2015-16 Budget, \$173.0 million was expected to be spent on new asset investment projects that

<sup>406</sup> Department of Treasury and Finance, *Budget Paper No.4: 2015-16 State Capital Program* (2015), chapter 2

<sup>407</sup> Department of Treasury and Finance, *Budget Paper No.4: 2015-16 State Capital Program* (2015), chapter 3

<sup>408</sup> Department of Treasury and Finance, *Budget Paper No.4: 2015-16 State Capital Program* (2015), p.11

<sup>409</sup> *ibid.*, pp.17-22

had a total estimated investment (TEI) worth \$5.7 to \$6.7 billion.<sup>410</sup> A further \$1.0 billion was expected to be spent in 2015-16 on existing projects, with an overall TEI of \$4.74 billion.<sup>411</sup>

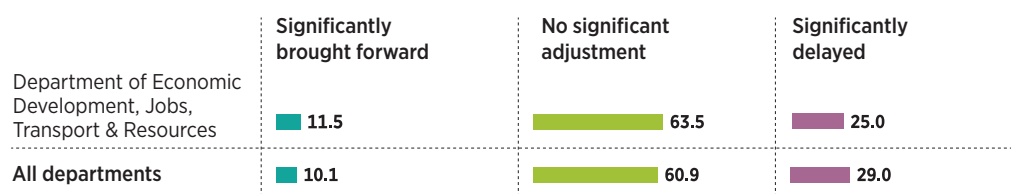
As part of its inquiry, the Committee received details on 55 significant ongoing asset projects and 28 completed projects from the Department, including projects managed by VicTrack.<sup>412</sup>

### Changes to estimated practical completion dates for projects

Of the 55 significant ongoing asset investment projects the Department of Economic Development, Jobs, Transport and Resources reported to the Committee, three were unable to be assessed in terms of revised timelines and completion dates. These were: the *Port-Rail Shuttle (Metropolitan Intermodal System)* project; the *Echuca-Moama Bridge*; and the *Melbourne Exhibition Centre – Stage 2 Development*. The Committee notes that the description in the original 2015-16 budget papers for the last project does not specify whether the project is a PPP or a smaller supporting project such as site preparation works funded by the Government.<sup>413</sup> There are no further details in the budget papers relating to this project.<sup>414</sup>

For the remaining 52 projects, the Committee was able to assess their actual progress in 2015-16 against timelines set out in the Budget, as well as their progress against the department-wide average.

**Figure 7.8** Proportion of revisions of completion date to ongoing projects and department-wide average



Note: A 'significant' revision to date of completion is considered to be three months or greater.

Source: Departmental responses to the Committee's 2015-16 Financial and Performance Outcomes General Questionnaire

Figure 7.8 shows the Department of Economic Development, Jobs, Transport and Resources had a higher proportion (11.5 per cent against a departmental average of 10.1 per cent) of projects that were significantly brought forward. On average, expected dates of completion for these projects were brought forward by 6.5 months, against a department-wide average of 7.8 months.

<sup>410</sup> *ibid.*, p.18

<sup>411</sup> *ibid.*, p.21

<sup>412</sup> 'Significant' projects are projects with an overall TEI over \$10 million, projects managed by Major Projects Victoria and/or High Value High Risk (HVHR) projects.

<sup>413</sup> Department of Treasury and Finance, *Budget Paper No.3: 2015-16 Service Delivery* (2015), p.38

<sup>414</sup> Department of Treasury and Finance, *Budget Paper No.4: 2016-17 State Capital Program* (2016), p.24



Projects running three months ahead of schedule were the *Sneydes Road Interchange* and the *Relieving Congestion on Suburban Roads* projects. The *Melbourne Metro Rail Project*, *Calder Highway Interchange Ravenswood* and the *Murray Basin Rail Project* were running six months ahead of schedule. The *Road and Rail Minor Works Fund – Rail Project* was running 15 months ahead of schedule.

In most cases the Committee was informed that these projects were ahead of the original schedule due to ‘project acceleration’.<sup>415</sup>

Compared to all departments, the Department of Economic Development, Jobs, Transport and Resources has a lower proportion (25.0 per cent against a departmental average of 29.0 per cent) of projects where expected completion dates have been significantly delayed. The average delay for the Department’s projects running overschedule was 10.2 months against a department-wide average of 11.3 months.

The Department reported eight projects with delays of 12 months or more:

- *Box Hill to Ringwood Bikeway*
- *Transport Solutions - Regional Roads Package*
- *Railway Crossing Upgrades*
- *Metropolitan Rail Infrastructure Renewal Program*
- *Road and Rail Minor Works Fund – Road*
- *Trial of High-Capacity Signalling (HCS) – Stage 1*<sup>416</sup>
- *Doncaster Area Rapid Transit*
- *Transport Solutions*.

Reasons for the delays in these projects include ‘program adjustments’, changes to ‘scope’ and delays in awarding contracts.<sup>417</sup> The *Transport Solutions* project was extended for 15 months, due to ‘a delay in completing the delivery of the Intelligent Transport System Facilities of the Transport Solutions program’.<sup>418</sup> The *Metropolitan Rail Infrastructure Renewal Program* project was delayed by 12 months, although the Committee was informed it is ‘a rolling program of works and the estimated completion date varies from year to year’.<sup>419</sup> Further to this, the project’s TEI ‘varies from year to year’ due to the ‘rolling’ nature of the program.<sup>420</sup>

<sup>415</sup> Department of Economic Development, Jobs, Transport and Resources, *Response to the Committee’s 2015-16 Financial and Performance Outcomes General Questionnaire*, received 16 December 2016, pp.12-13

<sup>416</sup> This project was renamed *High Capacity Signalling Trial – Stage 1* in the 2016-17 budget papers (Department of Treasury and Finance, *Budget Paper No.4: 2016-17 State Capital Program* (2016), p.114)

<sup>417</sup> Department of Economic Development, Jobs, Transport and Resources, *Response to the Committee’s 2015-16 Financial and Performance Outcomes General Questionnaire*, received 16 December 2016, p.15, pp.21-22

<sup>418</sup> *ibid.*, p.17

<sup>419</sup> *ibid.*, p.25

<sup>420</sup> *ibid.*

### Budget and actual asset expenditure for 2015-16

As mentioned earlier, the 2015-16 Budget indicated the Department of Economic Development, Jobs, Transport and Resources was expected to spend \$173.0 million on new asset investment projects that had a TEI worth between \$5.7 and \$6.7 billion. A further \$1.0 billion was expected to be spent in 2015-16 on existing projects, with an overall TEI of \$4.7 billion.

The largest TEI project for 2015-16 was the *Level Crossing Removal Program* which had a TEI of between \$5 and \$6 billion at the time of the 2015-16 Budget.<sup>421</sup> While no exact estimate for the project spending was published in the 2015-16 Budget, the budget papers noted:

[The] TEI relates to funding for the full eight-year program. Funding will be released progressively as planning for packages of work is completed and projects released to market for tender. Includes the remaining funding for Metro Level Crossing Blitz.<sup>422</sup>

The actual expenditure on the project for 2015-16 was \$434.4 million, the largest amount spent on any project across the general government sector for the year.

Referring to both the *Level Crossing Removal Program* and *Metro Level Crossing Blitz*, the CEO, Level Crossing Removal Authority told the Committee at the public hearings:

... we have made significant progress. We are now at 10 level crossings removed following the Heatherdale and Blackburn level crossings over January this year. There are also a number of level crossings under construction—essentially 13 under construction as well—in addition to those 10, including eight station rebuilds in those 10 complete.<sup>423</sup>

**Figure 7.9** Proportion of actual spending compared to budget estimate, ongoing asset investment projects

	Significantly underspent	Within 10 percent	Significantly overspent
Department of Economic Development, Jobs, Transport & Resources	58.8	19.6	21.6
All departments	66.4	17.9	15.7

Note: A 'significant' variance is 10 per cent or more in either direction.

Source: Departmental responses to the Committee's 2015-16 Financial and Performance Outcomes General Questionnaire

421 This included funding from the *Getting on with it* statement made on February 2015 and represented funding for the full eight-year program (estimated to finish Quarter 2, 2022-23)

422 Department of Treasury and Finance, *Budget Paper No.4: 2015-16 State Capital Program 2015-16* (2015), p.18

423 Mr Kevin Devlin, CEO, Level Crossing Removal Authority, *2015-16 Financial and Performance Outcomes Transcript of Evidence*, 14 February 2017, p.32

In comparing expenditure by the Department of Economic Development, Jobs, Transport and Resources in 2015-16 against department-wide patterns:

- the proportion of underspend by the Department of Economic Development, Jobs, Transport and Resources (58.8 per cent) was less than the overall average (65.7 per cent)
- the proportion of departmental expenditure on projects that was within ten percent of the 2015-16 Budget estimate was 18.6 per cent, which is very close to the department wide average of 19.6 per cent
- the proportion of overspend on asset projects was 21.6 per cent, which was greater than the departmental average of 15.7 per cent.

The projects where actual expenditure was most significantly higher-than-expected were:

- *Melbourne Metro Rail Project*
- *CityLink-Tulla Widening Project - Tullamarine Freeway Widening*
- *High-Capacity Metro Trains*

The *Melbourne Metro Rail Project* was budgeted to invest \$122.4 million over 2015-16, but actually spent \$184.7 million over the year, 51 per cent higher than anticipated.<sup>424</sup> The overall TEI for the project in the 2015-16 budget papers was \$9.0 to \$11.0 billion, and this was refined to \$10.9 billion in the 2016-17 budget papers. The Department informed the Committee:

The Metro Tunnel project design and geotechnical work was brought forward during the 2015-16 financial year which contributed to a higher expenditure for that year by \$62.3m. During the year, the project finalised its Business Case and released to market various work packages. The project is on track to be completed by 2026.<sup>425</sup>

The *CityLink-Tulla Widening Project – Tullamarine Freeway Widening* is a supporting project for a wider PPP project.<sup>426</sup> This publicly funded element of the project had a published TEI of \$272.8 million at the time of the 2015-16 Budget, however the TEI increased to \$496.9 million in the 2016-17 Budget due to ‘the scope including Section 2 of the project’.<sup>427</sup> In 2015-16, \$71.9 million was spent on this project, \$26.3 million greater than the originally budgeted \$45.6 million, as a result of ‘the program being expedited’.<sup>428</sup> This ‘scope change’ has in turn brought the practical completion date for the project forward from December 2018 to December 2017.

<sup>424</sup> Department of Treasury and Finance, *Budget Paper No.4: 2015-16 State Capital Program* (2015), p.98

<sup>425</sup> Department of Economic Development, Jobs, Transport and Resources, *Response to the Committee’s 2015-16 Financial and Performance Outcomes General Questionnaire*, received 16 December 2016, p.23

<sup>426</sup> Department of Treasury and Finance, *Budget Paper No.4: 2015-16 State Capital Program* (2015), p.21

<sup>427</sup> Department of Economic Development, Jobs, Transport and Resources, *Response to the Committee’s 2015-16 Financial and Performance Outcomes General Questionnaire*, received 16 December 2016, pp.12-13

<sup>428</sup> *ibid.*, p.11

The *High-Capacity Metro Trains* project has an overall TEI of \$1.3 billion and was budgeted for \$21.9 million in 2015-16. The \$34.0 million actual expenditure on the project was 55.3 per cent greater than the original budget estimate and:

Reflects acceleration of works in line with aspects of the Cranbourne Pakenham Line Upgrade (Conventional signalling upgrade - Caulfield to Dandenong).<sup>429</sup>

**Infrastructure projects completed during 2015-16**

The 2016-17 budget papers indicated that the Department of Economic Development, Jobs, Transport and Resources expected to complete 29 asset projects during 2015-16, and that VicTrack expected to complete another 13 projects.<sup>430</sup> Of these, the Committee inquired about 28 projects: 16 for the Department; and 12 for VicTrack. The Department advised that of these, nine projects were not completed in 2015-16.<sup>431</sup>

**Figure 7.10** Proportion of actual expenditure on completed projects against the department-wide average



Note: A 'significant' variance is 10 per cent or more in either direction.

Source: Departmental responses to the Committee's 2015-16 Financial and Performance Outcomes General Questionnaire

Figure 7.10 compares the actual expenditure on completed projects with the expected spending for those projects in the 2015-16 budget papers. It shows that the Department had a smaller proportion of projects where it correctly predicted the final expenditure than the department-wide average. For projects where it underspent, it did so to a greater extent (36.8 per cent) than the department-wide average (26.5 per cent).

In terms of the TEI published in the 2015-16 Budget, the largest completed projects were:

- *The Metropolitan Rolling Stock* project
- *The Melbourne Wholesale Markets Redevelopment*
- *40 New Trains for Melbourne Commuters – Stage 1*
- *Dingley Bypass between Warrigal Road to Westall Road*
- *New Trains for Melbourne Commuters.*

<sup>429</sup> *ibid.*

<sup>430</sup> Department of Treasury and Finance, *Budget Paper No.4: 2016-17 State Capital Program* (2016), p.27, 115

<sup>431</sup> Department of Economic Development, Jobs, Transport and Resources, *Response to the Committee's 2015-16 Financial and Performance Outcomes General Questionnaire*, received 16 December 2016, p.32

The *Metropolitan Rolling Stock* project, *40 New Trains for Melbourne Commuters – Stage 1* and *New Trains for Melbourne Commuters* were administered by VicTrack, and involved the procurement of train carriages and other rolling stock. In all three projects, the actual amount invested was less than the TEI stated in the 2015-16 budget papers.<sup>432</sup> For the *40 New Trains for Melbourne Commuters – Stage 1* and the *New Trains for Melbourne Commuters* projects, the Department reported that the reasons for the early completion were ‘project completed ahead of schedule’ and ‘trains delivered earlier than anticipated’ respectively.<sup>433</sup> The Committee considers these explanations do not reveal reasons for the earlier than expected completion.

The *Melbourne Wholesale Markets Redevelopment* was included in the ‘completed’ list<sup>434</sup>, although the Department notes that ‘residual works will be completed in 2016-17, mainly relating to the precinct rather than the market facility’.<sup>435</sup> The total actual investment was \$429.7 million against the TEI of \$484.4 in the 2015-16 Budget, ‘driven by the reduction of \$46.3 million in TEI as a result of overall project savings and the transfer of capital to output funding’.<sup>436</sup> The project has also been the subject of a number of reports and inquiries over the years.<sup>437</sup>

The *Dingley Bypass between Warrigal Road to Westall Road* project was completed in 2015-16 with a total actual investment of \$139.8 million against the 2015-16 Budget TEI of \$155.7 million, however the Committee was informed that ‘Remaining funding [will be] required for defect works and outstanding contractors’ claims’.<sup>438</sup>

### Projects expected to be completed in 2015-16 but not completed

Of the projects listed by the Department and VicTrack as completed (or estimated to be completed) noted above, the Department advised that nine had not actually been completed during the year.<sup>439</sup> These projects are:

- The *Princes Highway West – Colac to Winchelsea – Planning* project
- The *Targeted Road Restoration* project
- The *Pioneer Road Duplication*
- The *Western Highway Upgrade – Stawell to South Australian Border* project
- The *Frankston Station Precinct Development*

<sup>432</sup> *ibid.*, pp.31-2

<sup>433</sup> *ibid.*

<sup>434</sup> Department of Treasury and Finance, *Budget Paper No.4: 2016-17 State Capital Program* (2016), p.27

<sup>435</sup> Department of Economic Development, Jobs, Transport and Resources, *Response to the Committee’s 2015-16 Financial and Performance Outcomes General Questionnaire*, received 16 December 2016, p.29

<sup>436</sup> *ibid.*

<sup>437</sup> Including: Victorian Auditor-General’s Office, *Melbourne Markets Redevelopment* (2012); Public Accounts and Estimates Committee, *Inquiry into Effective Decision Making for the Successful Delivery of Significant Infrastructure Projects* (2012), pp.220-45

<sup>438</sup> Department of Economic Development, Jobs, Transport and Resources, *Response to the Committee’s 2015-16 Financial and Performance Outcomes General Questionnaire*, received 16 December 2016, p.32

<sup>439</sup> *ibid.*, p.29

- The *Kilmore Wallan Bypass*
- The *Regional Rail Network Major Periodic Maintenance (Passenger and Freight)* project
- The *Improving Train Operations – Rail Service Efficiencies* project
- The *New Stations in Growth Areas* initiative.

The Committee notes that no financial information is provided for projects that are marked as completed (or estimated to be completed by the end of the financial year) in the budget papers. For projects that are anticipated to be completed in the current financial year, the amount expected to be invested in the upcoming financial year should naturally be zero. However, the estimated expenditure to the end of the current financial year would be useful to stakeholders, and is not published elsewhere.

In the past, a number of projects have been prematurely included in the ‘complete’ list, and have also been listed in the ‘complete’ list in the following year’s budget papers.<sup>440</sup> The Committee anticipates that the projects listed above will appear in the ‘complete’ list in the 2017-18 budget papers.

The Committee considers that projects that appear a second time in the ‘completed’ list compromise transparency. This is because expenditure in the year (or years) following the first report of completion is not included in a public budget, and no amount spent is reported.

Using a past example, it was intended that the former Department of Transport, Planning and Local Infrastructure invest \$363,000 during 2013-14 as its part of the *Bushfire Recovery Package* initiative. This was included in the 2014-15 budget papers, noting that no expenditure was expected during 2014-15.<sup>441</sup> The initiative was also noted as ‘estimated to be completed before 30 June 2014’.<sup>442</sup>

However, the subsequent 2015-16 budget papers noted that the project had been completed during 2014-15.<sup>443</sup> The budget papers did not include an updated TEI figure for the project, or an estimate of the amount invested during 2014-15. If these two items were included for ‘completed’ projects, stakeholders would be informed how much was spent, and whether this was more or less than anticipated.

**FINDING 82:** The Department of Economic Development, Jobs, Transport and Resources has reported that nine asset projects listed as completed, or estimated to be completed by 30 June 2016, were not completed during 2015-16. Unlike other projects, those which are listed as complete are presented in the budget papers with no financial information. For such projects, subsequent budget papers do not reveal how much was expected to be spent, or how much was actually spent in the final year of completion.

<sup>440</sup> One project, *Redevelopment of Community Facilities – Building Inclusive Communities*, has been noted as ‘completed’ in the 2012-13, 2015-16 and 2016-17 budget papers.

<sup>441</sup> Department of Treasury and Finance, *Budget Paper No.4: 2014-15 State Capital Program* (2014), p.48

<sup>442</sup> *ibid.*, p.53

<sup>443</sup> *ibid.*, p.23

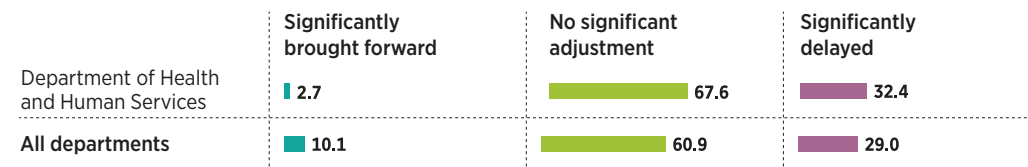
**RECOMMENDATION 18:** For projects that are either completed or expected to be completed by the financial year in which the budget is drafted, future budget papers include updated estimates of total estimated investment (TEI) and the estimated expenditure to June (as is currently the case for other projects).

## 7.4.2 Department of Health and Human Services

The Department of Health and Human Services reported on 37 significant projects, including five managed by the Director of Housing and one managed by Sport and Recreation Victoria.

### Changes to estimated practical completion dates for projects

**Figure 7.11** Proportion of revisions of completion date to ongoing projects and department-wide average



Note: A 'significant' change to completion date is three months or more in either direction.

Source: Departmental responses to the Committee's 2015-16 Financial and Performance Outcomes General Questionnaire

Figure 7.11 shows around two thirds of ongoing projects were progressing according to the 2015-16 budget schedule, a higher proportion than the departmental average of 60.9 per cent. The Department had one ongoing asset investment project brought forward in 2015-16, the *Melbourne Park Redevelopment – Stage Two*, managed by Sport and Recreation Victoria.

In terms of delayed projects, 32.4 per cent of ongoing projects for the Department experienced delays of three months or more, greater than the department-wide average of 29.0 per cent. There were seven projects that had delays of 12 months or more. They were:

- *Expanding Accommodation with Support*
- *Rural Capital Support*
- *Services Connect*
- *Health and Medical Precinct and Community-Based Ambulatory Care Centre*
- *Box Hill Hospital – Redevelopment*
- *Geelong Hospital – Major Upgrade*
- *Efficient Government Building.*

The completion of the *Box Hill Hospital – Redevelopment* has been delayed by 18 months. The project has an overall TEI of \$447.5 million and the estimated practical completion date has been extended from December 2015 to June 2017, although 'the main construction is complete and operational' and the 'completion

date [was] changed to reflect the implementation of electronic medical records'.<sup>444</sup> While the project was expected to cost \$35.7 million in 2015-16 according to the budget papers, the actual cost was \$30.4 million. The Department advised that 'Cashflow rephasings occurred to reflect the approved program including refurbishment of the existing hospital and implementation of electronic medical records'.<sup>445</sup>

The *Geelong Hospital – Major Upgrade* project has a TEI of \$118.2 million and was delayed by 33 months. The Department provided the following explanation on the cause of the project delay:

This initiative has included six significant projects, funded in multiple stages which have impacted overall timelines.

Construction associated with the initiative is complete and all new facilities are operational.

As part of the final stage of works, construction of a rooftop Heliport, a holistic Fire Safety Audit was undertaken to assess the facility as a whole, as well as the heliport facility specifically.

This audit revealed a number of fire compliance issues which are being rectified within the project budget.

The revised timelines relate only to these rectification issues.<sup>446</sup>

The *Efficient Government Building* project, managed by the Director of Housing, has had its estimated completion date moved from June 2016 to June 2019. The Department advised that:

Funding was received in advance of the completion of the detailed facility studies (DFS).

The final DFS is expected to be complete in 2016-17 with works to be completed by Q4 2018-19.<sup>447</sup>

The Committee notes that this was a new project in 2015-16 for the Director of Housing. The 2015-16 budget papers did not describe the project in more detail, suggesting that the Director of Housing, rather than the Department of Health and Human Services, may have initiated it.

### **Budget and actual asset expenditure for 2015-16**

Figure 7.12 shows that 50.0 per cent of Department of Health and Human Services' asset investment projects experienced a significant underspend, which was considerably less than the department-wide average of 66.4 per cent.

<sup>444</sup> Department of Health and Human Services, *Response to the Committee's 2015-16 Financial and Performance Outcomes General Questionnaire*, received 14 December 2016, p.21

<sup>445</sup> *ibid.*

<sup>446</sup> *ibid.*, p.18

<sup>447</sup> *ibid.*, p.25



The Department's expenditure according to the original budget estimates was also greater than the department-wide average — 27.8 per cent opposed to 17.9 per cent. However the Department did have a greater percentage of projects that were overspent compared to the average.

**Figure 7.12** Proportion of actual spending compared to budget estimate, ongoing asset investment project

	Significantly underspent	Within 10 percent	Significantly overspent
Department of Health and Human Services	50.0	27.8	22.2
All departments	66.4	17.9	15.7

Note: A 'significant' variance is 10 per cent or more in either direction.

Source: Departmental responses to the Committee's 2015-16 Financial and Performance Outcomes General Questionnaire

The projects with the greatest underspend were the *Joan Kirner Western Women's and Children's Centre* and the *Geelong Hospital – Major Upgrade*.

The *Joan Kirner Western Women's and Children's Centre* is a \$200.0 million TEI project that is expected to be completed in June 2020. While \$14.7 million was due to be spent on the project in 2015-16, the actual expenditure was \$3.9 million, as the 'original cashflow was overstated in early years of project. [The] Actual expenditure reflects project timelines'.<sup>448</sup>

The *Geelong Hospital – Major Upgrade* was expected to spend \$43.2 million in 2015-16, whereas the actual amount was \$10.7 million. The Department explained the 'Cashflow has been rephased as a result of additional funded works and a revised schedule'<sup>449</sup>, as noted above.

The *Efficient Government Building* project, managed by the Director of Housing, was expected to invest \$13.4 million during 2015-16. However, the Department reports that no expenditure occurred during the year. The Department advised the Committee that:

Funding was appropriated in full at the commencement of the project. The project is tracking to DHHS forecast time, cost and scope.<sup>450</sup>

The projects with the greatest overspend were the *Monash Children's Hospital* and the *Latrobe Regional Hospital Redevelopment – Stage 2A*.

The *Monash Children's Hospital* project had a TEI of \$250.0 million at the time of the 2015-16 Budget. This has since increased to \$258.2 million because of the inclusion of a separate \$3.5 million initiative from the 2015-16 budget papers for a helipad and 'additional funding provided by Monash University for accommodation space'.<sup>451</sup> In 2015-16, \$110.0 million was expected to be expended

448 *ibid.*, p.14

449 *ibid.*, p.18

450 *ibid.*, p.25

451 *ibid.*, p.20

on the project, however \$137.8 million was spent due to the extra elements of the project listed above.<sup>452</sup> There has been no change to the expected practical completion date of December 2016.<sup>453</sup>

The *Latrobe Regional Hospital Redevelopment – Stage 2A* project had a TEI of \$73.0 million, and was expected to expend \$12.5 million in 2015-16. The actual expenditure of \$20.6 million was due to ‘work on the project being ahead of schedule.’<sup>454</sup>

### Infrastructure projects completed during 2015-16

The Department of Health and Human Services reported that 16 projects were completed in 2015-16.<sup>455</sup> Figure 7.13 shows that total actual expenditure for 81.2 per cent of the Department’s completed projects fell within 10 per cent of the overall TEI for the project reported in the 2015-16 budget papers. This was higher than the department-wide average of 69.4 per cent.

There were no completed projects with significant overspend, and the 18.8 per cent of completed projects with a significant underspend for the Department was less than the department-wide average of 26.5 per cent.

**Figure 7.13** Proportion of actual expenditure on completed projects against the department-wide average

	Significantly lowered TEI	No significant change	Significantly raised TEI
Department of Health and Human Services	18.8	81.2	0.0
All departments	26.5	69.4	4.1

Note: A ‘significant’ variance is 10 per cent or more in either direction.

Source: Departmental responses to the Committee’s 2015-16 Financial and Performance Outcomes General Questionnaire

The completed projects that experienced the greatest underspend were two projects related to regional hospitals: the *Swan Hill Hospital – Aged Care Redevelopment* and the *Numurkah Hospital – Reinstatement of Acute Services*.

The *Numurkah Hospital – Reinstatement of Acute Services* was a \$18.3 million TEI project that had an actual total expenditure of \$16.2 million. The Department informed the Committee that a ‘favourable tender outcome resulted in project savings’.<sup>456</sup>

452 *ibid.*

453 *ibid.*

454 *ibid.*, p.13

455 *ibid.*, pp.27-31

456 *ibid.*, p.30

The *Swan Hill Hospital – Aged Care Redevelopment* was a \$18 million TEI project that is now marked as complete, with \$15.4 million expended. The shortfall was explained as:

The total end investment of the project is not yet finalised.

Construction is complete and the project is operational, however, there is some further expenditure remaining relating to fire pumps in the new facility.

This expenditure had not been finalised at the end of 2015-16.

It is expected that the project will come in ahead of budget due to favourable tender outcomes.<sup>457</sup>

The Committee notes that the definition of completion dates for projects is given in the budget papers as ‘the date of practical project completion’<sup>458</sup>, that is, the date when the asset begins operation. For many projects, significant costs may be incurred after ‘practical’ completion and prior to ‘financial’ completion, which is when all payments relating to the project have been made.

In the case of the *Swan Hill – Aged Care Redevelopment*, total expenditure at the date of practical completion was \$2.6 million less than the original TEI of \$18.0 million. This may give the incorrect impression that the project was completed under budget. No estimate of additional costs is provided, so it is not possible to tell if the project will eventually be under or over budget.

The 2015-16 Model Report requires departments to list capital projects (above \$10 million in value) that were completed during the financial year, and provides a template for this list and guidance, including specifying ‘practical completion’.<sup>459</sup> The Model Report also states that:

Departments are not required to provide further reporting on a project which reaches financial completion in a subsequent period (unless there is a material variation) if it has been reported as practically complete in an earlier reporting period.<sup>460</sup>

That is, future annual reports are not required to report any additional expenditure that was expected after practical completion.

The Committee considers that Parliament and the community would be better informed if departments provided cost information on capital projects when they have reached financial completion rather than practical completion. This would report costs of capital expenditure more fully. The inclusion of a list of projects that have reached practical completion, showing the dates that the asset began operating, would be useful for readers.

457 *ibid.*, p.29

458 Department of Treasury and Finance, *Budget Paper No.4: 2015-16 State Capital Program* (2015), p.120

459 Department of Treasury and Finance, *2015-16 Model Report for Victorian Government Departments* (2016), pp.29-30

460 *ibid.*, p.30

**FINDING 83:** Expenditure for projects may continue after ‘practical’ completion dates and prior to ‘financial’ completion dates. No reporting of expenditure is required in annual reports after practical completion unless there is a material variation. Reporting total expenditure for projects that have reached ‘practical’ completion may give the incorrect impression the project finished under budget.

**RECOMMENDATION 19:** 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.

### 7.4.3 Department of Education and Training

In the 2015-16 Budget, the Department of Education and Training managed asset investment projects with a combined TEI of \$1.2 billion.<sup>461</sup> Overall, 79 of the 80 asset projects announced in the 2015-16 Budget fell under the schools education area, and the average TEI of these projects was \$7.2 million.<sup>462</sup>

The Department’s school education asset programs are mainly comprised of smaller projects across Victorian schools that focus on refurbishing or upgrading existing facilities or constructing new ones. In the Higher Education and Skills area, one project was funded in the 2015-16 Budget, the *TAFE Rescue Fund*, a \$100 million TEI program.

In terms of overall TEI, the largest asset projects announced for the entire Department in the 2015-16 Budget were:

- *TAFE Rescue Fund*
- *Land Acquisitions – Taylors Hill West, Davis Creek, Edgars Creek, Gum Scrub Creek*
- *Relocatable Classroom Program – Purchase of 126 new Relocatable Buildings to Meet Growing Demand*
- *Asbestos Removal Program – Replacement of 200 Relocatable Classrooms Containing Asbestos.*

<sup>461</sup> Department of Treasury and Finance, *Budget Paper No.4: 2015-16 State Capital Program* (2015), p.35

<sup>462</sup> *ibid.*, pp.24-30

In addition, to these projects, the Government expanded the PPP arrangement for provision of new schools and schools already under construction in Bannockburn and Mernda.<sup>463</sup> As this is a PPP arrangement, no payment will be made by the Government during the construction phase of this project.

**FINDING 84:** The government has expanded public private partnership arrangements for new schools and schools already under construction Bannockburn and Mernda. No payments will be made by the Government until after the construction phase of the projects.

The Committee made a recommendation regarding Partnerships Victoria providing easily accessible and understandable public information for PPP projects earlier in this chapter. The Parliament requires a degree of visibility regarding the PPP financial commitments made by government on behalf of the State. The Committee maintains an ongoing interest in the level and content of public information of PPP projects on behalf of the Parliament and the community. Accordingly, a global figure of PPP payment commitments for the next thirty years should be contained in the Budget Papers.

**RECOMMENDATION 20:** A global figure of public private partnership payment commitments for the next thirty years be contained in the budget papers.

The Department of Education and Training had existing asset programs, announced prior to 2015-16, worth a combined TEI of \$646.2 million at the time of the 2015-16 Budget. The largest of these in terms of TEI were:

- *Trade Training Centre – Government Schools*
- *TAFE Structural Adjustment Fund*
- *Chisholm Institute Frankston Campus – Centre for Advanced Manufacturing and Trade*
- *Prahran Secondary School – New School.*<sup>464</sup>

<sup>463</sup> *ibid.*, p.28

<sup>464</sup> Department of Education and Training, *Response to the Committee's 2015-16 Financial and Performance Outcomes General Questionnaire*, received 21 December 2016, pp.10-30

### Changes to estimated practical completion dates for projects

Figure 7.14 shows that the Department had a greater propensity to alter expected completion dates for projects when compared to department-wide averages.

**Figure 7.14** Proportion of revisions of completion date to ongoing projects and department-wide average

	Significantly brought forward	No significant adjustment	Significantly delayed
Department of Education and Training	22.7	45.5	31.8
All departments	10.1	60.9	29.0

Note: A 'significant' change to completion date is three months or more in either direction.

Source: Departmental responses to the Committee's 2015-16 Financial and Performance Outcomes General Questionnaire

Projects that were brought forward included:

- *Asbestos Removal Program – Replacement of 200 Relocatable Classrooms Containing Asbestos*
- *Horsham College*

The Department informed the Committee that project completion dates were altered for the *Asbestos Removal Program – Replacement of 200 Relocatable Classrooms Containing Asbestos* due to 'Additional funding received in the 2016-17 Budget resulted in a revised earlier completion date'.<sup>465</sup>

For the Horsham College project, the Department commented that:

The initial project was forecast for a 12-month build. Construction commenced in June 2016 and was scheduled to end in June 2017. The tender response from the builder identified a longer build of 14 months, and there have been further time delays due to weather.<sup>466</sup>

Major projects that have had extensions to completion dates include:

- *Geelong High School – Regeneration – New Classrooms, Upgrade of Hospitality and Arts Facilities, Administration Buildings and Toilet Blocks*
- *TAFE Structural Adjustment Fund*
- *Hazel Glen College – New School – Stages 3 and 4*
- *Maroondah Education Plan – Regeneration – Melba College, Ringwood Secondary College, Mullum Primary School, Norwood Secondary College*
- *Sunshine College – Regeneration – Consolidate the School into Three Campuses and Rebuild the Sunshine West Site*
- *Trade Training Centres – Government Schools.*

<sup>465</sup> *ibid.*, p.30

<sup>466</sup> *ibid.*, p.17

For most projects, the Department noted that changes to completion dates were due to changes in scope of the project (that is, changes in the physical asset being constructed). For the project at Hazel Glen College, the Committee notes that stages 3 and 4 the project follow stage 2, which was named *Doreen Secondary College – Stage 2*. The Department noted that:

... stage 2 was completed August 2016, 5 months behind the date specified in the 2014-15 BP4. Delays for Stage 2 at the time required the VSBA to revise the estimated completion date for Stages 3 and 4 in the 2016-17 BP4.<sup>467</sup>

### Budget and actual asset expenditure for 2015-16

Figure 7.15 shows that the majority of ongoing asset investment projects undertaken by the Department in 2015-16 did not achieve the spending level originally anticipated in the budget.

The Department was unable to report any projects that invested close to what was anticipated in the 2015-16 budget papers. Further, it reported that 92.0 per cent of asset projects spent significantly (10 per cent or more) less than anticipated. The Committee considers that this is a sign that planning and budgeting in the Department is not of sufficient quality.

**Figure 7.15** Proportion of actual spending compared to budget estimate, ongoing asset investment projects

	Significantly underspent	Within 10 percent	Significantly overspent
Department of Education and Training	92.0	0.0	8.0
All departments	66.4	17.9	15.7

Note: A 'significant' variance is 10 per cent or more in either direction.

Source: Departmental responses to the Committee's 2015-16 Financial and Performance Outcomes General Questionnaire

**FINDING 85:** The Department of Education and Training significantly underspent on 92 per cent of their ongoing asset investment projects in 2015-16.

The projects with the greatest level of underspend for 2015-16 for the Department of Education and Training were:

- *Land acquisitions – Taylors Hill West, Davis Creek, Edgars Creek, Gum Scrub Creek*
- *TAFE Structural Adjustment Fund*
- *Trade Training Centres – Government Schools*
- *Chisholm Institute Frankston Campus - Centre for Advanced Manufacturing and Trade*
- *Inclusive Schools Fund – Funding to Improve Facilities for Students with Disabilities*
- *TAFE Rescue Fund*

467 *ibid.*, p.16

The *Land Acquisitions – Taylors Hill West, Davis Creek, Edgars Creek, Gum Scrub Creek* project was expected to spend \$39.7 million in 2015-16. The actual spend on the project was \$1.5 million, due to delays in the settlements of the land acquisitions. The Committee was further informed by the Department that:

Taylor Hill and Gum Scrub Creek are now [December 2016] settled. Edgars Creek due to settle in January 2017. Davis Creek is being progressed by the Department... to settle following further negotiations with vendor.<sup>468</sup>

These delays have caused the project's estimated practical completion date to be extended from Quarter 1 2016-17 to Quarter 2 2016-17.

The 2015-16 budget papers indicate \$28.9 million was expected to be spent on the *TAFE Structural Adjustment Fund* project in 2015-16. Actual spending was \$14.0 million, 'due to delays in meeting project milestones and, therefore, delays in releasing the associated payments'.<sup>469</sup> The Department explained further:

Initial consideration of a particular project by an inter-departmental steering group took longer than expected, resulting in a delay to the project's initiation.<sup>470</sup>

Further to these delays, the estimated practical completion date of the project has been extended from quarter 4 2016-17 to quarter 4 2017-18 and the original TEI of the project (\$56.8 million) has been reduced by \$9.5 million to \$47.2 million as it was 'uncommitted'.<sup>471</sup> The Department has informed the Committee: 'This was redirected to the \$320 million *TAFE Rescue Fund*'.<sup>472</sup>

In terms of the *Trade Training Centres*:

The variance is due to a number of Round 5 Trade Training Centre projects running behind agreed milestones. Two key projects are behind schedule: Corangamite TTC and Goulburn Murray TTC.<sup>473</sup>

The Committee notes that in 18 of the 24 explanations for variances in project expenditure (both upwards and downwards), the Department cites schedule changes as contributing to the variance.<sup>474</sup> The Committee considers that better project scheduling is likely to contribute to better accuracy in predicting asset expenditure for the upcoming year at budget time.

**FINDING 86:** Of the 24 explanations for variances in project expenditure reported on by the Department of Education and Training, 18 relate to changes in project schedules.

**RECOMMENDATION 21:** 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.

<sup>468</sup> *ibid.*, p.23

<sup>469</sup> *ibid.*, p.30

<sup>470</sup> *ibid.*

<sup>471</sup> *ibid.*

<sup>472</sup> *ibid.*

<sup>473</sup> *ibid.*, p.18

<sup>474</sup> Including one delay caused by a fire at the school, which could not have been forecast.



**RECOMMENDATION 22:** 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.

The Committee notes that there are other reasons given by the Department for variances. In 2015-16 \$13.5 million was budgeted to be spent on the *Chisholm Institute Frankston Campus – Centre for Advanced Manufacturing and Trade* project however, no spending was made over the year, as:

This project was re-scoped as a result of additional funding being allocated by the government. Consequently, the project schedule and associated payments were pushed out.<sup>475</sup>

Despite the re-scoping, the Department reports that the estimated practical completion date for the project in Quarter 4 2016-17 remains unchanged.<sup>476</sup>

The Committee also notes variations in details for projects reported by the Department in the Committee's General Questionnaire. For example, the *Inclusive Schools Fund – Funding to Improve Facilities for Students with Disabilities* had an overall TEI of \$10.0 million at the time of the 2015-16 Budget. Although the Department stated in their response to the Committee's General Questionnaire that the TEI of the project had been increased to \$20 million in the 2016-17 Budget, it was still published as \$10.0 million in the actual budget papers.<sup>477</sup> In 2015-16, \$10.0 million was expected to be spent on the program, although this was subject to an internal departmental revision of \$2.5 million.<sup>478</sup> The actual expenditure for this project was \$120,000 'due to delays in Round 1 project assessments being finalised. Round 2 application assessment is underway'.<sup>479</sup>

**FINDING 87:** There was a significant underspend by the Department of Education and Training on the *Inclusive Schools Fund – Funding to Improve Facilities for Students with Disabilities* project, whereby the originally budgeted 2015-16 expenditure of \$10.0 million was reduced by the Department to \$2.5 million, and actual spending on the project for the year was \$120,000.

<sup>475</sup> Department of Education and Training, *Response to the Committee's 2015-16 Financial and Performance Outcomes General Questionnaire*, received 21 December 2016, p.19

<sup>476</sup> *ibid.*

<sup>477</sup> Department of Treasury and Finance, *Budget Paper No.3: 2015-16 Service Delivery* (2015), p.65

<sup>478</sup> Department of Education and Training, *Response to the Committee's 2015-16 Financial and Performance Outcomes General Questionnaire*, received 21 December 2016, p.24

<sup>479</sup> *ibid.*



# 8

## Review of 2015-16 annual reports

### Key findings

The seven major departments provided budget portfolio outcomes sections in their 2015-16 annual reports. Not all annual reports explained variances between budget and actual results. The *2015-16 Model Report for Victorian Government Departments* does not explicitly specify what constitutes a significant or material variance for the budget portfolio outcomes section.

All seven departments complied with the updated guidance regarding information and communication technology expenditure in their annual reports. However, the Department of Education and Training did not present the data to the specified level of disaggregation. Of the remaining entities examined by the Committee, only the Department of Parliamentary Services did not provide information on information and communication technology expenditure.

Most of the major departments complied with the occupational health and safety requirements specified in the *2015-16 Model Report for Victorian Government Departments* in their annual reports for 2015-16. The Department of Justice and Regulation did not provide data required in the *2015-16 Model Report for Victorian Government Departments*.

The Department of Justice and Regulation and the Department of Health and Human Services did not provide the required information on capital projects completed during 2015-16 in their annual reports, despite projects over \$10 million having been completed during the year.

### 8.1 Introduction

Annual reporting is an essential component of the State's accountability framework, enabling Government departments and public sector entities to communicate their performances each year to the Parliament and the community.

Departments and other public sector entities are required to produce annual reports every financial year that provide details of their financial performance together with general information regarding their key activities and operations. Annual reports should contain a discussion of the goals set at the start of the year and what was actually achieved, and how and why goals and achievements differed, if they did so.

The Department of Treasury and Finance provides financial reporting directions (FRDs) and an annually-updated 'Model Report' to assist Government departments and other public sector entities with annual reporting.

This chapter assesses whether departments and other selected entities have adhered to the relevant guidance set out in the *2015-16 Model Report for Victorian Government Departments* on annual reporting. This includes:

- a brief description on updates and changes to the FRDs contained in the *2015-16 Model Report for Victorian Government Departments*
- budget portfolio outcomes
- standard disclosures
- capital projects/asset investment programs.

The chapter examines annual reports from all seven major departments. In addition, it examines reports from the Department of Parliamentary Services and Court Services Victoria.

The Committee notes that annual reporting requirements for some non-departmental entities (such as PFCs and PNFCs) are different to those for departments. However, all these entities are 'encouraged' to apply the directions where this would enhance financial accountability.<sup>480</sup> The chapter examines the following five non-department entities, which the Committee considered to represent a sample of activities within the two sectors:

- Eastern Health
- Barwon Region Water
- Yarra Valley Water
- Treasury Corporation of Victoria
- Victorian Managed Insurance Authority.

## 8.2 Compliance with Financial Reporting Directions and *2015-16 Model Report for Victorian Government Departments*

For 2015-16, the Department of Treasury and Finance updated a number of guidance documents.

The Committee chose to examine compliance with FRD 8D (Consistency of Budget and Departmental Reporting) and FRD 22G (Standard Disclosures in the Report of Operations) as these documents, together with the *2015-16 Model Report for Victorian Government Departments*, provide guidance for a large number of sections within annual reports. Other guidance documents are concerned with more specific aspects of annual reporting.

<sup>480</sup> Department of Treasury and Finance, *Standing Directions of the Minister for Finance 2016 Under the Financial Management Act 1994* (2016), p.3

FRD 8D provides guidance for the ‘budget portfolio outcomes’ section in annual reports, where outcomes for the year are compared to targets that were set in the budget papers. The 2015-16 update for this guidance removed some duplications between different guidance documents, specifying the FRDs as the appropriate guidance instrument for annual reports.<sup>481</sup>

FRD 22G updated disclosure requirements of an entity’s Information and Communication Technology (ICT) expenditure and government advertising expenditure.<sup>482</sup>

The *2015-16 Model Report for Victorian Government Departments* provided specific guidance and examples on how these updates were to apply, including the disclosure of information for significant completed capital projects.<sup>483</sup>

## 8.2.1 Adherence to the budget portfolio outcomes guidance in annual reports

The budget portfolio outcomes section of annual reports ‘promotes accountability and consistency between budget and actual results’.<sup>484</sup> According to the *2015-16 Model Report for Victorian Government Departments*:

The comparison between portfolio budget and actual figures must be presented as a set of financial statements in the same format and consolidation basis as those for the portfolio, set out in [the original budget papers] ... for that financial year.<sup>485</sup>

Departments are required to report a number of items, comparing actual achievements against the Government budget. This allows readers to understand how actual results differed from initial estimates originally made in the budget papers.

Budget portfolio outcomes sections in annual reports are often a consolidation of the department and a number of other entities related to the department. This consolidation may be different to the department’s main financial statements. The consolidation in the budget portfolio outcomes section allows readers to compare the department’s performance directly with targets set out in the budget papers.

<sup>481</sup> Department of Treasury and Finance, *FRD 8D: Consistency of Budget and Departmental Reporting* (2016), p.3

<sup>482</sup> Department of Treasury and Finance, *FRD 22G: Standard Disclosures in the Report of Operations* (2015), p.7

<sup>483</sup> Department of Treasury and Finance, *Summary of Changes Applied to the 2015-16 Model Report* (2016), p.2, 4

<sup>484</sup> Department of Treasury and Finance, *FRD 8D: Consistency of Budget and Departmental Reporting* (2016), p.1

<sup>485</sup> Department of Treasury and Finance, *2015-16 Model Report for Victorian Government Departments* (2016), p.25

The budget portfolio outcomes comprise the following five financial statements:

- the comprehensive operating statement
- the balance sheet statement
- the cash flow statement
- the statement of changes in equity
- the administered item statement.<sup>486</sup>

The *2015-16 Model Report for Victorian Government Departments* further states that disclosure for any significant or material variances between the initial budget estimates presented in the portfolio financial statements published in the budget papers and the actual results for the corresponding financial year must be presented as part of budget portfolio outcomes reporting, including explanations for any variances.<sup>487</sup>

In its review, the Committee found that annual reports for all seven major departments contained budget portfolio outcomes sections. In these sections, all but the Department of Health and Human Services explained some, but not all variances between budget and actual result. For example, the Department of Treasury and Finance explained a positive 128.3 per cent variance in other comprehensive income, but not a negative 21.2 per cent variance in other income.<sup>488</sup> The Department of Health and Human Services did not provide explanations for any variance in the budget portfolio outcomes section.<sup>489</sup>

Overall, the Committee considered that there was only partial compliance with the requirements for the budget portfolio outcomes sections of departments' annual reports.

The *2015-16 Model Report for Victorian Government Departments* requires explanations for 'any significant or material variances between the initial budget estimates ... and the actual results' in the budget portfolio outcomes section.<sup>490</sup> However, this document does not provide specific guidance on what constitutes such a 'significant or material' variance for budget portfolio outcomes, as it does for performance measures.<sup>491</sup> This lack of specificity may explain why the departments did not provide explanations for certain variances. The Committee considers that provision of such specific guidance would improve departments' compliance with FRD 8D. A similar section defining significant or material variances as a variance of five per cent above or below the budget estimate is already in place for performance measures.<sup>492</sup>

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486 *ibid.*

487 *ibid.*, p.26

488 Department of Treasury and Finance, *Annual Report 2015-16*, p.35

489 Department of Health and Human Services, *Annual Report 2015-16*, pp.230-4

490 Department of Treasury and Finance, *2015-16 Model Report for Victorian Government Departments* (2016), p.26

491 *ibid.*, p.23

492 *ibid.*

**FINDING 88:** The seven major departments provided budget portfolio outcomes sections in their 2015-16 annual reports. Not all annual reports explained variances between budget and actual results. The *2015-16 Model Report for Victorian Government Departments* does not explicitly specify what constitutes a significant or material variance for the budget portfolio outcomes section.

**RECOMMENDATION 23:** 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.

The Committee also notes that four departments (the Department of Health and Human Services, the Department of Economic Development, Jobs, Transport and Resources, the Department of Premier and Cabinet, and the Department of Treasury and Finance) included a different budget estimate in the budget portfolio outcomes section to that originally published in the budget papers.

For example, the budget papers listed the Department of Treasury and Finance's 'cash and cash equivalent in the beginning of the financial year' in the statement of cash flow as \$72.5 million<sup>493</sup>, but this was revised to \$104.5 million in the Department's annual report.<sup>494</sup> In this instance, the figure in the budget papers was an estimate of what the Department's cash and cash equivalent position would be at the start of June, made some months earlier when the Budget was being prepared. The revised figure of \$104.5 million was the actual position at the start of the financial year.

The Committee understands that the reasons for such restatements are often valid, and that an administrative adjustment does not reflect on departmental performance during the year. However, presenting adjusted or restated budget figures without explanations could lead to inaccurate or non-transparent reporting.

**FINDING 89:** Four departments published budget figures in their annual report budget portfolio outcomes sections that differed from those in the original 2015-16 budget papers.

**RECOMMENDATION 24:** 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.

## 8.2.2 Non-departmental reporting of budget portfolio outcomes

As noted previously, non-departmental entities are not required to comply with the Financial Reporting Directions (FRDs) and the *2015-16 Model Report for Victorian Government Departments* but are encouraged to follow the guidance set out in these documents in their annual reports.

<sup>493</sup> Department of Treasury and Finance, *Budget Paper No.5: 2015-16 Statement of Finances* (2015), p.134

<sup>494</sup> Department of Treasury and Finance, *2015-16 Financial Report* (2016), p.37

The PFC and PNFC agencies examined by the Committee do not have budget figures reported in the original budget papers. For this reason, no comparison to actual outcomes is possible and there are no budget portfolio outcomes sections in annual reports for these entities.

However, the Committee found that the Department of Parliamentary Services and Court Services Victoria do not include budget portfolio outcomes sections in their annual reports, despite having targets set out in the budget papers.

Inclusion of this information would allow readers to compare the budget and actual results for these entities, and to be informed why any variation occurred. This would be an improvement in accountability for the Department of Parliamentary Services and Court Services Victoria.

The Committee appreciates that the Parliament is independent of the Government, and that the Courts are independent from both the Parliament and the Government. However, the Committee does not consider that identifying variances between budget and actual figures and explanation for those variances compromises this independence.

**FINDING 90:** The Department of Parliamentary Services and Court Services Victoria do not publish the budget portfolio outcomes in their annual reports. This is despite having budgets for line items set in the budget papers.

**RECOMMENDATION 25:** 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.

## 8.3 Standard disclosures

Principal guidance for the standard disclosures reporting requirement is given in FRD 22G. The Committee examined three aspects of this updated guidance:

- the five-year financial summary
- information and communication technology (ICT) expenditure
- occupational health and safety.

### 8.3.1 Five-year financial summary

The five-year financial summary provides a snapshot of the entity's overall financial performance. FRD 22G contains guidance relating to the minimum disclosure of an entity's five-year financial summary<sup>495</sup> while the *2015-16 Model Report for Victorian Government Departments* gives a table showing the required information.<sup>496</sup> The Committee examined the annual reports for 2015-16 for compliance with this requirement.

<sup>495</sup> Department of Treasury and Finance, *FRD 22G: Standard Disclosures in the Report of Operations* (2015), p.3

<sup>496</sup> Department of Treasury and Finance, *2015-16 Model Report for Victorian Government Departments* (2016), p.26



The Committee notes that all seven major Departments have provided five-year financial summaries. Further, of the non-departmental entities the Committee examined, only the Department of Parliamentary Services did not provide the summary of finances.

**FINDING 91:** All seven major departments complied with the five-year financial summary section in their annual reports for 2015-16, together with the five non-departmental entities and Court Services Victoria. The Department of Parliamentary Services did not provide a five-year summary of finances.

### 8.3.2 Information and communication technology expenditure

FRD 22G requires entities to disclose information communication technology (ICT) expenditure in order to ‘increase government transparency in managing ICT expenditure and promote consistency in tracking ICT expenditure’.<sup>497</sup> The guidance specifies elements that are to be reported.<sup>498</sup> A table showing the required information is also provided in FRD 22G<sup>499</sup> and the *2015-16 Model Report for Victorian Government Departments*.<sup>500</sup>

All major departments have complied with the requirements. However, the Committee notes that the Department of Education and Training presented the data in a different format to the example. This has resulted in a loss of clarity, as it is not clear which expenses in the ICT Non-Business as Usual (BAU) expenditure are considered operational expenditure (OPEX) or capital expenditure (CAPEX).<sup>501</sup>

Of the remaining entities examined by the Committee, only the Department of Parliamentary Services did not provide information on ICT expenditure. As mentioned earlier, some entities are not specifically required to follow guidance. However, the Minister for Finance encourages such entities to enhance their accountability by providing the information in their annual reports.

**FINDING 92:** All seven departments complied with the updated guidance regarding the presentation of information and communication technology expenditure in their annual reports. However, the Department of Education and Training did not present the data to the specified level of disaggregation. Of the remaining entities examined by the Committee, only the Department of Parliamentary Services did not provide information on information and communication technology expenditure.

### 8.3.3 Occupational health and safety

FRD 22G requires departments and entities to provide a statement on occupational health and safety (OHS) in their annual reports, and provides minimum requirements for reporting.<sup>502</sup> This is to ‘identify and adopt OHS

<sup>497</sup> Department of Treasury and Finance, *FRD 22G: Standard Disclosures in the Report of Operations* (2015), p.7

<sup>498</sup> *ibid.*, p.4

<sup>499</sup> *ibid.*, p.10

<sup>500</sup> Department of Treasury and Finance, *2015-16 Model Report for Victorian Government Departments* (2016), p.52

<sup>501</sup> Department of Education and Training, *Annual Report 2015-2016*, p.65

<sup>502</sup> Department of Treasury and Finance, *FRD 22G: Standard Disclosures in the Report of Operations* (2015), p.3

performance indicators for monitoring and report the entity's performance against these performance indicators.<sup>503</sup> This is further described in the *2015-16 Model Report for Victorian Government Departments*, which gives a table showing the required information.<sup>504</sup>

The Committee found that five of the seven major departments complied with the requirements specified in the guidance documents. Of the remaining two departments:

- the Department of Justice and Regulation did not provide data in the form set out in the *2015-16 Model Report for Victorian Government Departments*.<sup>505</sup> In particular, it did not include the table prescribed in the *2015-16 Model Report for Victorian Government Departments* to measure performance against OHS management measures, and in doing so did not include all of the required information<sup>506</sup>
- the Department of Economic Development, Jobs, Transport and Resources was unable to provide three years of data as it was only established on 1 January 2015.

The non-departmental entities provided a range of OHS reports. Two entities (Court Services Victoria and Barwon Water) provided reports that met or exceeded the requirements for departments, while two entities (Treasury Corporation, Yarra Valley Water) did not provide an OHS report.

**FINDING 93:** Most major departments complied with the occupational health and safety requirements specified in the *2015-16 Model Report for Victorian Government Departments* in their annual reports for 2015-16. The Department of Justice and Regulation did not provide data required in the *2015-16 Model Report for Victorian Government Departments*.

## 8.4 Capital projects and asset investment programs

The *2015-16 Model Report for Victorian Government Departments* includes a disclosure of:

... the actual and budgeted cost and the completion dates of all asset investments funded through the State budget with a total estimated investment of \$10 million or greater that reach practical completion by the department or portfolio agencies in the current reporting period.<sup>507</sup>

This amendment follows a recommendation from a previous Committee's *Review of the Performance Measurement and Reporting System* in 2014.<sup>508</sup>

<sup>503</sup> *ibid.*

<sup>504</sup> Department of Treasury and Finance, *2015-16 Model Report for Victorian Government Departments* (2016), p.39

<sup>505</sup> Department of Justice and Regulation, *Annual Report 2015-16*, pp.172-4

<sup>506</sup> For example, the Annual Report's OHS section did not include a return-to-work index for the last three years.

<sup>507</sup> Department of Treasury and Finance, *2015-16 Model Report for Victorian Government Departments* (2016), p.30

<sup>508</sup> Public Accounts and Estimates Committee, *Review of the Performance Measurement and Reporting System* (2014), Recommendation 51, p.115

The *2015-16 Model Report for Victorian Government Departments* also provides an example table specifying the required information.<sup>509</sup>

The Committee found that five of the seven major departments provided the required information in their annual reports.

The remaining two departments (the Department of Justice and Regulation and the Department of Health and Human Services) did not provide information on completed projects with a total investment over \$10 million in their annual reports for 2015-16. However, the two departments did provide this information in their responses to the Committee's general questionnaire sent as part of this inquiry.<sup>510</sup>

Similarly, the Department of Parliamentary Services and Court Services Victoria both advised the Committee that they had completed capital projects of this size during 2015-16 as part of their general questionnaire responses but did not provide the information in their annual reports.<sup>511</sup>

The 2016-17 budget papers reported completed capital projects for other (PFC and PNFC) entities, such as Barwon Water.<sup>512</sup> However, the budget papers do not report the total investment for completed projects. Therefore, it is not possible to determine if these projects are large enough to be included in the entities' annual reports.

**FINDING 94:** The Department of Justice and Regulation and the Department of Health and Human Services did not provide the required information on capital projects completed during 2015-16 in their annual reports, despite projects over \$10 million having been completed during the year.

<sup>509</sup> Department of Treasury and Finance, *2015-16 Model Report for Victorian Government Departments* (2016), p.29

<sup>510</sup> Department of Justice and Regulation, *Response to the Committee's 2015-16 Financial and Performance Outcomes General Questionnaire*, received 21 December 2016, pp.14-16; Department of Health and Human Services, *Response to the Committee's 2015-16 Financial and Performance Outcomes General Questionnaire*, received 14 December 2016, pp.27-31

<sup>511</sup> Department of Parliamentary Services, *Response to the Committee's 2015-16 Financial and Performance Outcomes General Questionnaire*, received 9 December 2016, pp.5-6; Court Services Victoria, *Response to the Committee's 2015-16 Financial and Performance Outcomes General Questionnaire*, received 12 December 2016, p.8

<sup>512</sup> Department of Treasury and Finance, *Budget Paper No.4: 2016-17 State Capital Program* (2016), p.68



# 9 Implementation of previous recommendations

## 9.1 Introduction

Each year, the Committee assesses the Government's progress towards implementing recommendations made in previous inquiries.

As the Committee has previously found that recommendations can take some time to be fully implemented, this section will also assess the implementation of supported recommendations from two previous Committee reports: the *Report on the 2012-13 Financial and Performance Outcomes*; and the *Report on the 2013-14 and 2014-15 Financial and Performance Outcomes*.

## 9.2 Recommendations from the *Report on the 2013-14 and 2014-15 Financial and Performance Outcomes*

The Committee's *Report on the 2013-14 and 2014-15 Financial and Performance Outcomes* was tabled in May 2016 and the Government tabled its response to the report on 9 November 2016.

The report contained 22 recommendations, 17 of which received some level of support (including 'support in principle' and 'under review') and five which were not supported by the Government.

### 9.2.1 Recommendations not supported by the Government

#### **Measuring the impact of enterprise bargaining agreements and employee expenses increases in the sensitivity analysis**

Chapter 6 of the report found that the largest expenditure item for the general government sector in 2015-16 was employee expenses, worth \$20.0 billion. The chapter also examined the growth of public sector workforce numbers, the trend whereby increasing numbers of staff move over time to higher VPS job classification levels and, the impact of enterprise agreements on employee expenses. In the *Report on the 2013-14 and 2014-15 Financial and Performance Outcomes*, the Committee made the following recommendation regarding incorporating this information into the sensitivity analysis of the budget papers:

The Department of Treasury and Finance incorporate existing information on workforce numbers, job levels and existing enterprise bargaining agreements to estimate the impact of increases from newly finalised enterprise bargaining agreements and employee expenses on superannuation liabilities, transactions and net debt via the sensitivity analysis in the budget papers.<sup>513</sup>

This recommendation was not supported by the Government which responded:

The impact[s] of newly finalised enterprise bargaining agreements are already incorporated in Budget estimates of total employee expenses. The sensitivity analysis in the 2016-17 Budget included a 1 per cent change to total employee expenses due to a combination of factors to derive the impact on the State's fiscal aggregates.<sup>514</sup>

The Committee has previously noted the lack of information regarding employee expenses in the budget papers and annual financial reports.<sup>515</sup> The Committee also notes that the impact of enterprise bargaining agreements was removed from the sensitivity analysis in the 2016-17 budget papers.<sup>516</sup> The Committee believes this is problematic as information on the composition of employee expenses, the largest general government sector expenditure item, increasingly lacks transparency.

#### Land tax assessments performance measure

As part of the *Report on the 2013-14 and 2014-15 Financial and Performance Outcomes*, the Committee found land tax revenue for 2014-15 was \$150.8 million under the initial budget estimate and the shortfall was 'driven mostly by fewer assessments from the State Revenue Office than expected'.<sup>517</sup> The Committee made the following recommendation in relation to the finding:

The number of land tax assessments made by the State Revenue Office becomes a quantity performance measure for the Department of Treasury and Finance.<sup>518</sup>

This was not supported by the Government on the basis that:

Accuracy of estimating State taxation revenue in the State budget is a performance measure for the Department of Treasury and Finance and provides a clear link between forecast estimates and actual receipts. Setting a target for the number of land tax assessments as a performance measure would not improve the forecast accuracy of land tax revenue.<sup>519</sup>

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- 513 Public Accounts and Estimates Committee *Report on the 2013-14 and 2014-15 Financial and Performance Outcomes* (2016), Recommendation 9, p.77
- 514 Government Response to PAEC's *Report on the 2013-14 and 2014-15 Financial and Performance Outcomes*, received 9 December 2016, p.3
- 515 Public Accounts and Estimates Committee *Report on the 2013-14 and 2014-15 Financial and Performance Outcomes* (2016) pp.76-7
- 516 Department of Treasury and Finance, *Budget Paper No.2: 2015-16 Strategy and Outlook* (2015) p.78; Department of Treasury and Finance, *Budget Paper No.2: 2016-17 Strategy and Outlook* (2016) p.72
- 517 Public Accounts and Estimates Committee *Report on the 2013-14 and 2014-15 Financial and Performance Outcomes* (2016) p.91
- 518 Public Accounts and Estimates Committee *Report on the 2013-14 and 2014-15 Financial and Performance Outcomes* (2016) Recommendation 13, p.92
- 519 Government Response to PAEC's *Report on the 2013-14 and 2014-15 Financial and Performance Outcomes*, received 9 December 2016, p.4

The number of land tax assessments made by the State Revenue Office is a factor in the amount of land tax revenue raised. This is within the Government's control. The Committee considers that because this activity directly affects land tax revenue, it is significant and important enough to become a performance measure.

In light of this the Committee restates its previous recommendation:

**RECOMMENDATION 26:** 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.

### Changes in expenditure as a result of a change of Government

Last year's report presented findings from the first financial and performance outcomes inquiry undertaken for the 58<sup>th</sup> Parliament. As there was a change in Government after the Victorian State election held in November 2014, many of the Committee's findings from the inquiry concerned how changes in expenditure, resulting from a change in Government during an election year, are reported in the budget. The Committee recommended that:

In years where there is a change in Government, the budget papers (including budget updates) include additional discussion on changes in expenditure that are a result of the change in Government.<sup>520</sup>

The Government did not support this recommendation, stating:

Changes in expenditure between budget publications are the result of various drivers. These are largely attributable to new policy decisions by an incoming Government. Currently, any new policy decisions are disclosed in budget papers, either in Chapter 1 of Budget Paper 3, or Appendix A in Budget Update. Information currently provided in these documents is generally sufficient to identify the changes in expenditure that are a result of a change in Government.<sup>521</sup>

Further to this the Government indicated it supported another recommendation made by the Committee regarding the impact of machinery of Government changes — endorsing the recommendation for Departments to track and report direct machinery of government costs, as well as the creation of relevant guidelines.<sup>522</sup> The Committee considers that it is important to have information in the budget papers and Budget updates regarding changes in expenditure derived from a change in Government.

<sup>520</sup> Public Accounts and Estimates Committee *Report on the 2013-14 and 2014-15 Financial and Performance Outcomes* (2016), Recommendation 6, p.45

<sup>521</sup> Government Response to PAEC's Report on the 2013-14 and 2014-15 Financial and Performance Outcomes, received 9 December 2016, p.2

<sup>522</sup> *ibid.*

## Changes to the Model Report

The previous inquiry made two recommendations regarding changes to the Model Report. These recommendations concerned reviewing the disclosure index section of annual reports and applying greater use of 'nil reporting' in annual reports, as opposed to omitting sections that are not applicable.<sup>523</sup> The Government did not support either of these recommendations, stating that requiring departments to undertake these adjustments would produce unnecessary 'additional clutter'.<sup>524</sup> The Committee was further informed:

The Annual Financial Report was recently approved by the Treasurer to use a streamlined approach to reduce clutter and make information more readable. It is expected the Model Report format will follow the streamlined approach of the AFR.<sup>525</sup>

The Committee welcomes format changes that streamline Department of Treasury and Finance reports to make the information more accessible and useful to readers.

### 9.2.2 Implementation of recommendations

Of the 17 recommendations that were supported by the Government, the Committee found that three have been fully implemented, one has been partially implemented, one has not been implemented to date and twelve are not yet able to be assessed.

One of the recommendations that has been fully implemented involved the Auditor-General examining whether public sector entities are correctly following guidance from the Department of Treasury and Finance, including guidance in the Model Report, related to public private partnership projects.<sup>526</sup> Another recommendation regarding PPPs, whereby Annual Financial Reports include an actual result or an updated estimate of the value of asset investment carried out by the private sector on public private partnership projects, has been partially implemented.<sup>527</sup> The Committee welcomes these developments.

A recommendation that Budget updates compiled by the Department of Treasury and Finance include an analysis of post budget reprioritisations and adjustments has been implemented and the Committee was pleased to see this analysis incorporated into the *2015-16 Budget Update*.

<sup>523</sup> Government Response to PAEC's *Report on the 2013-14 and 2014-15 Financial and Performance Outcomes*, received 9 December 2016, Recommendations 21 and 22, p.6

<sup>524</sup> *ibid.*

<sup>525</sup> *ibid.*

<sup>526</sup> Victorian Auditor-General Office Response to PAEC's *Report on the 2013-14 and 2014-15 Financial and Performance Outcomes*, received 21 July 2016

<sup>527</sup> Government Response to PAEC's *Report on the 2013-14 and 2014-15 Financial and Performance Outcomes*, received 9 December 2016, pp.5-6



The Committee recommended that the Model Report be adjusted to take into account changes to the risk management framework and processes in the Standing Directions of the Minister for Finance under the *Financial Management Act 1994*. This inconsistency was subsequently removed from the 2015-16 version of the Model Report.

### 9.2.3 Recommendations that cannot be assessed as yet

The Committee considers that 12 recommendations cannot be assessed as yet, given that the Government has not had the opportunity to implement them.<sup>528</sup> However, in five of these recommendations, the Department of Treasury and Finance has indicated that implementation will occur in future publications (for example, in the *2016-17 Financial Report* and the *2016-17 Model Report for Victorian Government Departments*).<sup>529</sup>

The Committee found two instances where the recommendations have not yet been implemented, despite the Government having had the opportunity to do so.<sup>530</sup>

**FINDING 95:** The Committee made 22 recommendations in its *Report on the 2013-14 and 2014-15 Financial and Performance Outcomes*. The Government supported 17 of these recommendations.

**FINDING 96:** Of the 17 recommendations made by the Committee in the *Report on the 2013-14 and 2014-15 Financial and Report Outcomes* that were supported by the Government, three have been implemented, one has been partially implemented, two recommendations have not been implemented to date and 12 are not yet able to be assessed.

### 9.2.4 Recommendations ‘under review’

The Committee notes that there are five recommendations from last year’s inquiry that are advised as ‘under review’ by the Government.<sup>531</sup> Three of those recommendations relate to the impact of economic variables on the three public sectors (that is, the general government sector, the public non-financial corporations (PNFC) sector, and the public financial corporations (PFC) sector).<sup>532</sup>

<sup>528</sup> Government Response to PAEC’s *Report on the 2013-14 and 2014-15 Financial and Performance Outcomes*, received 9 December 2016, Recommendations 1, 2, 3, 4, 5, 7, 11, 12, 14, 15, 17, 19

<sup>529</sup> *ibid.*, Recommendations 4, 11, 14, 15 and 17

<sup>530</sup> *ibid.*, Recommendations 12 and 16

<sup>531</sup> Department of Treasury and Finance, *Response to the Committee’s 2015-16 Financial and Performance Entity-Specific Questionnaire*, received 3 February 2017, Recommendations 1, 2, 3, 7 and 19, pp.21-2, 24

<sup>532</sup> Government Response to PAEC’s *Report on the 2013-14 and 2014-15 Financial and Performance Outcomes*, received 9 December 2016, Recommendations 1, 2 and 3

For these three recommendations, the Department of Treasury and Finance indicated that a review of the sensitivity analysis is currently underway.<sup>533</sup> In addition, the Department indicated that ‘as part of this review, Department of Treasury and Finance is evaluating the capacity of its macro-models to adequately specify the economic impacts on this sector [referring to both the PNFC and the PFC sectors]’ and noted May 2017 as the intended implementation date.<sup>534</sup> The Committee intends to follow up on this issue after May 2017 to examine the outcomes of the Department’s evaluation process.

### **Improving the estimation of the completion date for asset investment projects**

The Committee recommended that:

The Department of Treasury and Finance work with other departments to improve the estimation of completion date for asset investment projects.<sup>535</sup>

In response, the Department of Treasury and Finance advised that it:

... has worked closely with departments to improve the estimation of completion dates of capital projects. This includes measures such as improving the development of project business cases, and enhancing internal performance reporting projects to Cabinet.<sup>536</sup>

The Department also indicated that publicly available information advising the implementation of this recommendation states that ‘completion dates will continue to be published in Budget Paper No.4 of the Annual State Budget.’<sup>537</sup>

The Committee acknowledges that providing public evidence supporting the implementation of this recommendation might be challenging for the Department of Treasury and Finance, including the assessment of actual completion dates for capital projects.

Nevertheless, the Committee notes that, with the exception of the Director of Housing, the average delay revealed by each department for 2015-16 was 2.5 months, which is less than the average delay of 4.3 months noted in 2014-15.<sup>538</sup>

The Committee acknowledges the progress made on this issue and will continue to monitor the accuracy of departments’ completion date estimates for asset investment projects.

<sup>533</sup> Department of Treasury and Finance, *Response to the Committee’s 2015-16 Financial and Performance Entity-Specific Questionnaire*, received 3 February 2017, pp.21-2

<sup>534</sup> *ibid.*, p.22

<sup>535</sup> Government Response to PAEC’s *Report on the 2013-14 and 2014-15 Financial and Performance Outcomes*, received 9 December 2016, Recommendation 12

<sup>536</sup> Department of Treasury and Finance, *Response to the Committee’s 2015-16 Financial and Performance Entity-Specific Questionnaire*, received 3 February 2017, p.28

<sup>537</sup> *ibid.*

<sup>538</sup> Departmental responses to the *2013-14 and 2014-15 Financial and Performance General Questionnaire*, Question 4 and *2015-16 Financial and Performance General Questionnaire*, Question 4

### 9.3 Recommendations from the *Report on the 2012-13 Financial and Performance Outcomes*

After a second assessment regarding the implementation of the seven recommendations that were supported by the Government in the *Report on the 2012-13 Financial and Performance Outcomes*, the Committee has found:

- three have been fully or partially implemented
- two have not been implemented and information received by the Committee indicates they will not be implemented in the future
- one has not yet been implemented despite the Government having had the opportunity to do so
- one is not able to be determined due to a lack of available evidence.

### 9.4 Matters arising from the implementation of past recommendations from the *Report on the 2012-13 Financial and Performance Outcomes*

#### 9.4.1 Additional data included on the Department of Treasury and Finance's website

In response to recommendations 3<sup>539</sup> and 4<sup>540</sup> from the Committee's *Report on the 2012-13 Financial and Performance Outcomes*, the Government initially indicated that these were supported 'in principle' and stated that the information would be provided on the Department of Treasury and Finance's website rather than in the printed budget papers:

[The Department of Treasury and Finance will] provide a disaggregation of 'other operating expenses' for the PNFC [and PFC] sector[s] as part of future online budget data sets, via the DTF website, rather than in the printed budget papers.<sup>541</sup>

Subsequently, the Department advised the Committee that it could provide this information separately if requested and offered the following explanation:

The Annual Financial Report discloses dis-aggregated information for the General Government sector and for the State of Victoria in the notes to the accounts but does not provide this break-up for the public non-financial corporations sector. Providing

539 'The Department of Treasury and Finance provide a further disaggregation of 'other operating expenses' for the public non-financial corporations sector in the Annual Financial Report and in the budget papers to the same level as is disclosed for the general government sector.'

540 'The Department of Treasury and Finance provide a further disaggregation of 'other operating expenses' for the public financial corporations sector in the Annual Financial Report and in the budget papers to the same level as is disclosed for the general government sector.'

541 Victorian Government, *Government Responses to the Recommendations of Public Accounts and Estimates Committee's 119<sup>th</sup> Report to Parliament – Report on the 2012-13 Financial and Performance Outcomes*, tabled 25 June 2015, p.2

further disaggregated information for only one particular item of expenditure would be inconsistent with presentation format of the entire publication. DTF can provide this detail separately if requested.<sup>542</sup>

Finally, as part of this inquiry, the Department of Treasury and Finance stated that it would include this information as part of the following year's budget papers and Annual Financial Report:

The Government response to this recommendation was to support in principle and include the disaggregation of the "other operating expenditure" for the Public Non-Financial Corporations sector in the on-line data set. This will be provided for in the 2017-18 Budget and the 2016-17 Annual Financial Report.<sup>543</sup>

The Department of Treasury and Finance's website contains a substantial amount of data located under various sections (for example, net investment historical spreadsheets, the budget and financial reports and the glossary). The Committee considers that the organisation of the data is confusing and has made it difficult for the Committee to do its work. The current website reduces accessibility, as users not only have to be aware that the data is available, but also have to know where the data is located.

Therefore, the Committee considers that it would be useful for the Department of Treasury of Finance to add a summary index to its website indicating all the publicly available data online. This summary could also be included as part of the budget papers and the Annual Financial Report.

**FINDING 97:** There is a substantial amount of information in the online datasets, only available on the Department of Treasury and Finance's website, which is difficult to access, interpret and analyse. The difficulty in accessing these datasets inhibits use of the data.

**RECOMMENDATION 27:** 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.

<sup>542</sup> Department of Treasury and Finance, *Response to the Committee's 2013-14 and 2014-15 Financial General Questionnaire*, received 19 November 2015, pp.57-8

<sup>543</sup> Department of Treasury and Finance, *Response to the Committee's 2015-16 Financial and Performance Entity-Specific Questionnaire*, received 3 February 2017, pp.35-6

## 9.4.2 Proposed timelines for action on recommendations

The Committee had noted in the past that responses to recommendations commit the Government to some action, but sometimes no timelines for the actions have been provided. The Committee also recommended that responses proposing some review action also include expected completion dates for those reviews.<sup>544</sup>

The Government response at the time did not commit to any action or timeline, stating ‘The Government notes the Committee’s request regarding its responses’.<sup>545</sup>

However, the Committee notes that, as part of its response to last year’s general questionnaire, the Department indicated that the recommendation had been implemented:

The Government supports in principle including, to the extent possible, specific details of planned reviews and associated timelines of proposed review action.

Information will be made publicly available when the Government is next required to respond to Committee recommendations and where the Government responses cite proposed review action.<sup>546</sup>

The above response was reiterated by the Department of Treasury and Finance in February 2017.<sup>547</sup> However, this commitment has not always been implemented.<sup>548</sup>

The Committee considers that the omission of specific steps and implementation dates in the Department of Treasury and Finance’s response does not inform the Committee nor the community about the Government’s intention to implement the recommendations. Including this information would increase measurability and accountability regarding the Government’s progress in implementing the Committee’s recommendations.

This particular issue is addressed in the *Guidelines for Victorian Government Submissions and Responses to Inquiries*, which states that ‘when possible, estimated expected timeframes for the review and/or implementation should be included in the response’.<sup>549</sup> The Committee notes that this covers recommendations that are both under review and undergoing implementation.

<sup>544</sup> Public Accounts and Estimates Committee, *Report on the 2012-13 Financial and Performance Outcomes*, May 2014, p.118

<sup>545</sup> Victorian Government, *Government Responses to the Recommendations of Public Accounts and Estimates Committee’s 119<sup>th</sup> Report to Parliament – Report on the 2012-13 Financial and Performance Outcomes*, tabled 25 June 2015, p.6

<sup>546</sup> Department of Treasury and Finance, *Response to the Committee’s 2013-14 and 2014-15 Financial General Questionnaire*, received 19 November 2015, p.60

<sup>547</sup> Department of Treasury and Finance, *Response to the Committee’s 2015-16 Financial and Performance Entity-Specific Questionnaire*, received 3 February 2017, p.38

<sup>548</sup> For example, recommendations 1, 2 and 3 from Public Accounts and Estimates Committee, *Report on the 2013-14 and 2014-15 Financial and Performance Outcomes*, May 2014, p.27, 29; and recommendations 15, 16 and 17 from Victorian Government, *Government Response to PAEC’s Report on the 2013-14 and 2014-15 Financial and Performance Outcome*, tabled 9 November 2016, p.5

<sup>549</sup> Department of Premier and Cabinet, *Guidelines for Victorian Government Submissions and Responses to Inquiries*, May 2016, p.5

**FINDING 98:** The Government has indicated that in responses to recommendations it has committed to review, an expected date for the completion of this review will also be given. Guidance documentation requires that, when possible, estimated expected timeframes for review and/or implementation should be included in responses to Committee recommendations. However, recent responses have not included such timelines.

**RECOMMENDATION 28:** 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.

# Appendix 1

## Overall outcomes for 2015-16

### A1.1 Budget estimates and results, general government sector, 2015-16

	2015-16 Budget	2015-16 actual	Variance from initial budget	
	(\$ million)	(\$ million)	(\$ million)	(per cent)
<b>REVENUE</b>				
State-sourced	30,100.6	31,489.6	1,388.9	4.6
Commonwealth Government grants	25,428.1	25,226.0	-202.1	-0.8
Total revenue	55,528.7	56,715.6	1,186.8	2.1
<b>EXPENSES</b>				
Output expenses	54,309.8	54,051.9	-258.0	-0.5
<b>CASH RESOURCES</b>				
Operating surplus	1,218.9	2,663.7	1,444.8	118.5
Depreciation and similar	2,536.0	2,695.4	159.4	6.3
Asset sales	322.0	190.0	-132.0	-41.0
Investment through other sectors (net)	6,510.8	92.6	-6,418.2	-98.6
Total cash resources	10,587.6	5,641.6	-4,946.0	-46.7
<b>ANNUAL ASSET INVESTMENT</b>				
Direct asset investment	4,551.7	4,419.7	-132.0	-2.9
Commissioned PPP projects <sup>(b)</sup>	1,050	1,050	0.0	0.0
Government infrastructure investment	5,190.9	4,728.0	-462.9	-8.9
<b>REPAYMENT OF BORROWINGS</b>				
Decrease in net debt <sup>(a)</sup>	4,342.2	18.8	-4,323.5	-99.6

(a) Figures for changes in net debt are based on net debt estimates for June 2015 and June 2016 at the time of the 2015-16 Budget (May 2015) and the 2015-16 Financial Report (October 2016). Between these estimates, the final net debt figure for June 2015 was calculated.

(b) Referred to in the budget papers as 'finance leases'. These figures are reported to the nearest million-dollar figure.

Sources: Committee calculations based on: Department of Treasury and Finance, *Consolidated Comprehensive Operating Statement – General Government Sector* (2016). Available at <[www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Aggregate-financial-statements](http://www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Aggregate-financial-statements)>, viewed 18 October 2016; Department of Treasury and Finance, *Consolidated Cash Flow Statement – General Government Sector* (2016). Available at <[www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Aggregate-financial-statements](http://www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Aggregate-financial-statements)>, viewed 18 October 2016; Department of Treasury and Finance, *Consolidated Balance Sheet – General Government Sector* (2016). Available at <[www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Aggregate-financial-statements](http://www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Aggregate-financial-statements)>, viewed 18 October 2016; Department of Treasury and Finance, *Net Infrastructure Investment* (2016). Available at <[www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Other-financial-aggregates](http://www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Other-financial-aggregates)>, viewed 26 October 2016; Department of Treasury and Finance, *Budget Paper No.2: 2015-16 Strategy and Outlook* (2015), p.59; Department of Treasury and Finance, *Budget Paper No.5: 2015-16 Statement of Finances* (2015), p.28; Department of Treasury and Finance, *2015-16 Financial Report* (2016), p.3, 10, 39

## A1.2 Results for 2014-15 and 2015-16, general government sector

	2014-15 actual	2015-16 actual	Growth	
	(\$ million)	(\$ million)	(\$ million)	(per cent)
<b>REVENUE</b>				
State-sourced	29,405.0	31,489.6	2,084.6	7.1
Commonwealth Government grants	24,367.0	25,226.0	859.0	3.5
Total revenue	53,772.0	56,715.6	2,943.6	5.5
<b>EXPENSES</b>				
Output expenses	52,558.0	54,051.9	1,493.9	2.8
<b>CASH RESOURCES</b>				
Operating surplus	1,214.0	2,663.7	1,449.7	119.4
Depreciation and similar	2,605.0	2,695.4	90.3	3.5
Asset sales	397.7	190.0	-207.7	-52.2
Investment through other sectors (net)	-858.1 <sup>(a)</sup>	92.6	950.7	-110.8
Total cash resources	3,358.7	5,641.6	2,283.0	68.0
<b>ANNUAL ASSET INVESTMENT</b>				
Direct asset investment	4,393.7	4,419.7	26.0	0.6
Commissioned PPP projects <sup>(b)</sup>	99	1,050	951	960.6
Government infrastructure investment	4,641.1	4,728.0	86.9	1.9
<b>REPAYMENT OF BORROWINGS</b>				
Decrease in net debt	-1,152.8	18.8	1,171.5	-101.6

(a) A negative number indicates a net inflow (that is, a net investment) to other sectors.

(b) Referred to in the budget papers as 'finance leases'. These figures are reported to the nearest million-dollar figure.

Sources: Committee calculations based on: Department of Treasury and Finance, *Consolidated Comprehensive Operating Statement – General Government Sector* (2016). Available at <[www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Aggregate-financial-statements](http://www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Aggregate-financial-statements)>, viewed 18 October 2016; Department of Treasury and Finance, *Consolidated Cash Flow Statement – General Government Sector* (2016). Available at <[www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Aggregate-financial-statements](http://www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Aggregate-financial-statements)>, viewed 18 October 2016; Department of Treasury and Finance, *Consolidated Balance Sheet – General Government Sector* (2016). Available at <[www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Aggregate-financial-statements](http://www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Aggregate-financial-statements)>, viewed 18 October 2016; Department of Treasury and Finance, *Net Infrastructure Investment* (2016). Available at <[www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Other-financial-aggregates](http://www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Other-financial-aggregates)>, viewed 26 October 2016



### A1.3 Performance measures expected but not included in annual reports for 2015-16

Department	Output	Measure name
Economic Development, Jobs, Transport and Resources	Taxi and Hire Vehicle Services	Average safety and quality rating for metropolitan taxi vehicles
	Sustainably Manage Fish, Game and Forest Resources	Proportion of uniformed fisheries officers maintaining operational coverage for priority fishing activity periods, as defined by the Compliance Strategic Assessment
Health and Human Services	Admitted Services	Healthcare worker immunisation – influenza
Treasury and Finance	Business Environment Policy Advice	Completion of inquiry reports and regulatory improvement studies by due date
		Number of inquiry reports and regulatory improvement studies submitted to Government

Sources: Department of Treasury and Finance, *Budget Paper No.3: 2015-16 Service Delivery* (2015), Chapter 2; departmental annual reports, 2015-16



# Appendix 2

## Borrowings and net debt

### A2.1 Net debt by state, years ending June 2012 to June 2020

	2012 <sup>(a)</sup>	2013 <sup>(a)</sup>	2014 <sup>(a)</sup>	2015 <sup>(a)</sup>	2016 <sup>(b)</sup>	2017 <sup>(c)</sup>	2018 <sup>(c)</sup>	2019 <sup>(c)</sup>	2020 <sup>(c)</sup>
	(\$ million)	(\$ million)	(\$ million)	(\$ million)	(\$ million)	(\$ million)	(\$ million)	(\$ million)	(\$ million)
<b>GENERAL GOVERNMENT SECTOR</b>									
NSW	13,238	10,898	5,899	5,453	-57	7,539	15,023	21,856	23,994
QLD	-5,865	2,513	5,184	5,752	654	3,525	5,072	7,309	8,641
SA	3,401	4,459	6,296	3,108	4,393	6,246	6,561	6,541	6,536
TAS	-409	-220	-208	-537	-746	-301	-174	-57	-162
VIC	15,287	19,927	21,262	22,327	22,309	18,601	20,896	22,304	22,208
WA	2,050	4,742	6,973	9,306	13,717	20,393	24,434	25,862	25,429
Commonwealth <sup>(d)</sup>	147,334	152,982	202,463	238,721	285,684	325,962	346,842	356,373	n/a
<b>PUBLIC NON-FINANCIAL CORPORATIONS</b>									
NSW	25,907	28,528	31,227	31,280	29,460	34,190	38,661	41,257	42,513
QLD	30,109	29,848	32,283	29,810	35,359	36,378	37,678	38,438	38,996
SA	3,867	3,760	3,933	6,805	6,518	7,524	7,618	7,623	7,558
TAS	2,592	2,379	2,088	2,345	2,368	2,530	2,627	2,594	2,591
VIC	9,377	14,757	14,766	14,229	14,272	15,714	16,201	16,550	16,932
WA	13,966	15,507	16,166	16,783	16,769	16,862	17,502	18,145	19,047
Commonwealth <sup>(e)</sup>	93,594	104,052	111,257	110,931	117,918	130,152	n/a	n/a	n/a

	2012 <sup>(e)</sup>	2013 <sup>(a)</sup>	2014 <sup>(a)</sup>	2015 <sup>(a)</sup>	2016 <sup>(b)</sup>	2017 <sup>(c)</sup>	2018 <sup>(c)</sup>	2019 <sup>(c)</sup>	2020 <sup>(c)</sup>
	(\$ million)	(\$ million)	(\$ million)	(\$ million)	(\$ million)	(\$ million)	(\$ million)	(\$ million)	(\$ million)
<b>NON-FINANCIAL PUBLIC SECTOR</b>									
NSW	39,146	39,426	37,126	36,733	29,403	41,729	53,684	63,113	66,507
QLD	24,244	32,361	37,468	35,562	36,013	39,903	42,750	45,747	47,637
SA	7,267	8,219	10,229	9,913	10,911	13,770	14,179	14,164	14,094
TAS	2,183	2,159	1,880	1,808	1,622	2,229	2,452	2,537	2,429
VIC	24,664	34,684	36,028	36,557	36,581	34,315	37,097	38,854	39,140
WA	16,016	20,248	23,139	26,088	30,486	37,255	41,936	44,007	44,476
Commonwealth <sup>(e)</sup>	251,274	283,798	342,057	380,591	437,721	500,684	n/a	n/a	n/a

(a) Net debt for years ended June 2012 to June 2015 from Australian Bureau of Statistics.

(b) Net debt for year ended June 2016 from jurisdictional financial publications.

(c) Net debt projections for years ended June 2017 to June 2020 from jurisdictional budget papers.

(d) General government sector net debt projections made by the Commonwealth only extend to June 2019.

(e) Public non-financial corporations and non-financial public sector net debt projections made by the Commonwealth only extend to June 2017.

Sources:  
 Australian Bureau of Statistics, Cat. No.5512.0 *Government Finance Statistics, Australia, 2014-15* (2016). Available at <www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/5512.02014-15>, viewed 9 February 2017;  
 New South Wales Treasury, *Outcomes Report 2015-16* (2016), p.8-5; New South Wales Treasury, *Budget Statement 2016-17: Statement of Finances* (2016), pp.A1-9, A1-17; Queensland Government, *Report on State Finances of the Queensland Government 30 June 2016* (2016), p.4-08; Queensland Government, *2016-17 Budget Paper No.2: Budget Strategy and Outlook* (2016), pp.183-4; South Australian Government, *Final Budget Outcome 2015-16 Budget* (2016), pp.22-3; South Australian Government, *Budget Paper No.3: 2016-17 Budget Statement* (2016), pp.123-4; Tasmanian Department of Treasury and Finance, *Treasurer's Annual Financial Report 2015-16* (2016), p.31, 42; Tasmanian Department of Treasury and Finance, *Budget Paper No.1: The Budget 2016-17* (2016), p.128; Victorian Department of Treasury and Finance, *2015-16 Financial Report* (2016), p.138; Victorian Department of Treasury and Finance, *Budget Paper No.3: 2016-17 Service Delivery* (2016), p.8, 45; Western Australian Government, *2015-16 Annual Report on State Finances* (2016), p.47, 51; Western Australian Government, *Budget Paper No.3: 2016-17 Economic and Fiscal Outlook* (2016), pp.31, 209; Commonwealth of Australia, *Budget Paper No.3: 2016-17: Federal Financial Relations* (2016), p.115

## A2.2 Net debt by state, years ending June 2012 to June 2020, proportion of gross state product

	2012 (per cent)	2013 (per cent)	2014 (per cent)	2015 (per cent)	2016 (per cent)	2017 (per cent)	2018 (per cent)	2019 (per cent)	2020 (per cent)
<b>GENERAL GOVERNMENT SECTOR</b>									
NSW	2.8	2.3	1.2	1.1	0.0	1.4	2.6	3.7	4.0
QLD	-2.0	0.9	1.7	1.9	0.2	1.1	1.5	2.1	2.4
SA	3.7	4.7	6.5	3.1	4.4	6.1	6.3	6.1	6.0
TAS	-1.7	-0.9	-0.8	-2.1	-2.9	-1.1	-0.6	-0.2	-0.6
VIC	4.7	5.9	6.1	6.2	6.0	4.8	5.3	5.5	5.3
WA	0.8	1.9	2.6	3.7	5.7	8.4	9.8	10.1	9.7
Commonwealth <sup>(a)</sup>	9.9	10.0	12.8	14.8	17.3	18.9	19.2	18.8	n/a
<b>NON-FINANCIAL PUBLIC SECTOR</b>									
NSW	8.4	8.2	7.5	7.2	5.5	7.5	9.4	10.8	11.1
QLD	8.4	11.1	12.4	11.5	11.4	12.1	12.6	13.0	13.2
SA	8.0	8.7	10.5	10.0	10.9	13.5	13.6	13.2	12.9
TAS	8.9	8.8	7.5	7.0	6.2	8.3	9.0	9.1	8.6
VIC	7.5	10.3	10.4	10.1	9.8	8.9	9.4	9.5	9.4
WA	6.6	8.2	8.6	10.4	12.7	15.4	16.9	17.3	16.9
Commonwealth <sup>(b)</sup>	16.9	18.6	21.6	23.6	26.5	29.1	n/a	n/a	n/a

(a) General government sector net debt projections made by the Commonwealth only extend to June 2019.

(b) Non-financial public sector net debt projections made by the Commonwealth only extend to June 2017.

Sources:

Committee calculations based on: Australian Bureau of Statistics, Cat. No.5512.0 Government Finance Statistics, Australia, 2014-15 (2016). Available at <www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/5512.02014-15>, viewed 9 February 2017; New South Wales Treasury, *Outcomes Report 2015-16* (2016), p.8-5; New South Wales Treasury, *Budget Statement 2016-17: Statement of Finances* (2016), p.A1-9, A1-17; Queensland Government, *Report on State Finances of the Queensland Government 30 June 2016* (2016), p.4-08; Queensland Government, *2016-17 Budget Paper No.2: Budget Strategy and Outlook* (2016), pp.183-4; South Australian Government, *Final Budget Outcome 2015-16 Budget* (2016), pp.22-3; South Australian Government, *Budget Paper No.3 2016-17 Budget Statement* (2016), pp.123-4; Tasmanian Department of Treasury and Finance, *Treasurer's Annual Financial Report 2015-16* (2016), p.31, 42; Tasmanian Department of Treasury and Finance, *Budget Paper No.1: The Budget 2016-17* (2016), p.128; Victorian Department of Treasury and Finance, *2015-16 Financial Report* (2016), p.138; Victorian Department of Treasury and Finance, *Budget Paper No.3: 2016-17 Service Delivery* (2016), p.8, 45; Western Australian Government, *2015-16 Annual Report on State Finances* (2016), p.47, 51; Western Australian Government, *Budget Paper No.3: 2016-17 Economic and Fiscal Outlook* (2016), p.31, 209; Commonwealth of Australia, *Budget Paper No.3: 2016-17: Federal Financial Relations* (2016), p.115

