

## **CHAPTER 4: GENERAL GOVERNMENT SECTOR ASSET INVESTMENT**

### **Key findings of the Committee:**

- 4.1** The 2009-10 Budget provides \$20 billion for General Government Sector investment in fixed assets over the next four years, with \$7 billion budgeted for 2009-10 – a significant increase compared to previous years. Capital expenditure is expected to return to around 1 per cent of GSP towards the end of the forward estimates period.
- 4.2** The infrastructure investment program is funded through a combination of the cash operating surplus (51 per cent) and borrowings (49 per cent). Supporting the cash operating surplus is funding from the Commonwealth Government (see Chapter 3).
- 4.3** The 2009-10 Budget provides funding for \$9.4 billion (total estimated investment) worth of new asset investment projects, of which \$3.1 billion is budgeted to be spent in 2009-10.
- 4.4** Ninety-four per cent of the funding for new asset investment projects was provided to three departments (the Department of Education and Early Childhood Development, the Department of Human Services and the Department of Transport).
- 4.5** Given the increased funding for infrastructure projects, the Committee emphasises the need for ensuring that this funding is spent appropriately and for meaningful reporting on the progress and outcomes of asset investment projects.

## 4.1 Introduction

The budget deals with the General Government Sector and hence this chapter covers asset investment in that sector (covering departments and their constituent entities. Other agencies outside the General Government Sector (eg. public non-financial corporations and public financial corporations) report asset investment separately.

## 4.2 Trend analysis of net investment in fixed assets as a percentage of Gross State Product

Between 2000-01 and 2005-06 the total net investment in fixed assets in the General Government Sector grew in absolute terms, while being a relatively stable proportion of the Gross State Product (GSP). Since 2006-07, the amount of investment has increased significantly with each budget, both in absolute terms and as a proportion of GSP. A particularly large increase has occurred with the 2009-10 Budget (see Table 4.1).

The investment for 2009-10 is estimated at just under \$7 billion (2.7 per cent of GSP). This is an almost 60 per cent increase on the 2008-09 budget and almost four times the investment in 2000-01. The substantial rise in the proportion of the GSP represented by net investment in assets in 2009-10 is a result of both the increased amount budgeted for asset investment and limited growth in the estimated GSP.

After the exceptional rise in the 2009-10 Budget, the Treasurer has indicated the Government's intention to return its capital expenditure to around 1 per cent of the GSP towards the end of the forward estimates period (2012-13).<sup>98</sup>

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<sup>98</sup> Department of Treasury and Finance, Budget Paper No.1, *2009-10 Treasurer's Speech*, May 2009, p.6

**Table 4.1: Net investment on fixed assets as a percentage of Gross State Product**

	2000-01 (\$ million)	2001-02 (\$ million)	2002-03 (\$ million)	2003-04 (\$ million)	2004-05 (\$ million)	2005-06 (\$ million)	2006-07 (\$ million)	2007-08 (\$ million)	2008-09 (\$ million)	2009-10 (\$ million)
Total net investment in fixed assets (actual) <sup>(a)</sup>	1,796.6	2,087.2	2,109.6	2,378.4	2,373.3	2,691.5	3,281.5	3,926.9	4,352.6	6,960.6
Gross State Product <sup>(b)</sup>	164,365	179,369	187,013	201,133	217,047	228,198	242,595	255,705	256,984	257,626
Total net investment in fixed assets as a percentage of Gross State Product	1.1	1.2	1.1	1.2	1.1	1.2	1.4	1.5	1.7	2.7

Notes: (a) *the total net investment in fixed assets for the period 2000-01 to 2007-08 is derived from the Annual Financial Reports for the State of Victoria. The 2008-09 and 2009-10 figures are derived from the revised and budget estimate figures shown in Budget Paper No. 2, 2009-10 Strategy and Outlook, p.49*

(b) *Gross State Product (GSP) is the total market value of goods and services produced in a state or territory within a given period, after deducting the cost of goods and services used up in the process of production, but before deducting allowances for the consumption of fixed capital. Typically, when calculating GSP, the Australian Bureau of Statistics adjusts historical GSP to reflect current prices. To ensure a valid comparison with the total net investment in fixed assets figures, the Committee has used the unadjusted GSP figures published in the 'Australian National Accounts State Accounts 5220.0' for each year for the period 2000-01 to 2007-08. The GSP figures for 2008-09 and 2009-10 have been calculated by the Committee using the forecast increases identified in Budget Paper No. 2, 2009-10 Strategy and Outlook, p.21*

Sources: *Australian Bureau of Statistics, Australian National Accounts State Accounts 5220.0 1999-00 to 2007-08*

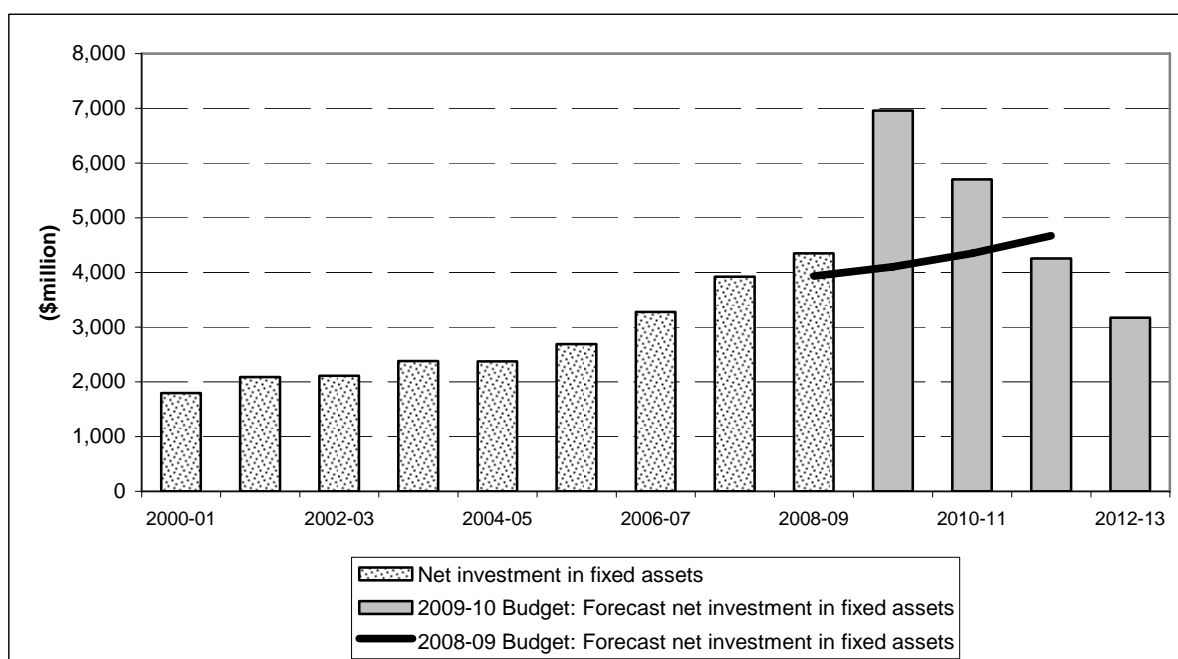
*Department of Treasury and Finance, 2000-01 to 2007-08 Financial Reports for the State of Victoria*

*Department of Treasury and Finance, Budget Paper No. 2, 2009-10 Strategy and Outlook*

### 4.3 Asset investment provisions within the 2009-10 Budget Estimates

The global financial crisis has led the Government to accelerate its infrastructure program and to work with the Commonwealth Government to fast-track infrastructure investment from the Commonwealth Government’s programs.<sup>99</sup> As a result, the 2009-10 Budget provides for a total net investment in fixed assets in excess of \$20 billion over the next four years, starting with almost \$7 billion for 2009-10.<sup>100</sup> The net asset investment is not planned to continue to the same degree over the remaining three years of the estimates period (see Figure 4.1), and will reduce as it is expected that the economy will start recovering.

**Figure 4.1: Government sector asset investment program 2001-01 to 2012-13**



Sources: Department of Treasury and Finance, 2000-01 to 2007-08 Annual Financial Reports for the State of Victoria, Department of Treasury and Finance, Budget Paper No. 2, 2008-09 Strategy and Outlook, p.49, and Department of Treasury and Finance, Budget Paper No. 2, 2009-10 Strategy and Outlook, p.49

In addition to the global financial crisis, the bushfires in February 2009 also required the Government to modify its budget from what had been anticipated. Nearly \$1 billion (including Commonwealth funding) is to be spent on dealing with and recovering from the bushfires. However, much of this was spent in 2008-09 and the vast majority of it on outputs rather than asset investment. \$41.4 million is to be spent on asset initiatives as part of the bushfire response and recovery program in 2009-10.<sup>101</sup>

The total investment in infrastructure forecast in the 2009-10 Budget is expected to significantly exceed depreciation and amortisation, resulting in a growth in the General Government Sector’s real capital stock of 9 per cent between 2009-10 and 2012-13.<sup>102</sup>

<sup>99</sup> ibid., and p.5, Mr J Lenders MLC, Treasurer, 2009-10 Budget Estimates hearing, transcript of evidence, 12 May 2009, p.21

<sup>100</sup> Department of Treasury and Finance, Budget Paper No. 2, 2009-10 Strategy and Outlook, May 2009, pp.49–50

<sup>101</sup> Department of Treasury and Finance, Budget Paper No. 3, 2009-10 Service Delivery, May 2009, pp.284-5, 304-5

<sup>102</sup> Department of Treasury and Finance, Budget Paper No. 2, 2009-10 Strategy and Outlook, May 2009, p.10

The Government has indicated that 51 per cent of the funding for this program over the next four years is expected to come from cash operating surpluses and 49 per cent to come from increased borrowing.<sup>103</sup>

### **4.3.1 Operating surplus**

In the 2008-09 Budget, prior to the main effects of the global financial crisis, the Government estimated an operating surplus of \$851.1 million for 2009-10 and an average of \$906.6 million per year for the period from 2009-10 to 2011-12.<sup>104</sup> In that budget, the government reassessed its target for the operating surplus from at least \$100 million per year to at least 1 per cent of revenue per year.<sup>105</sup>

In the 2009-10 Budget, however, the estimated operating surplus was revised from \$851.1 million to \$165.1 million for 2009-10, and to \$195.3 million and \$290.3 million for the following years (growing to \$562.1 million in 2012-13).<sup>106</sup> This is a result of reduced revenue from taxation (due to the global financial crisis and consequent economic downturn), combined with various policy measures taken by the government, including recovery from the 2009 bushfires.<sup>107</sup> As a result, the Government has revised its target operating surplus back to at least \$100 million per year but intends to return to the 1 per cent of revenue target in the future.<sup>108</sup>

### **4.3.2 Commonwealth Government funding**

Supporting this operating surplus and offsetting the revenue lost from taxation is a significant amount of funding from the Commonwealth Government. This includes considerable funding for schools, social housing and the transport system.<sup>109</sup> For further discussion of the implications of the increase in Commonwealth funding, see Chapters 3 and 5 of this report.

### **4.3.3 General government sector borrowing**

The government intends to borrow \$3.3 billion in 2009-10 and an average of \$1.7 billion per year between 2010-11 and 2012-13.<sup>110</sup> As a result, net debt for the General Government Sector is expected to increase from \$5.2 billion (1.9 per cent of GSP) in June 2009 to 16.0 billion (5.1 per cent of GSP) in June 2013 (see Table 4.2).<sup>111</sup>

This trend of growing debt is not expected to continue indefinitely and it is expected that the reduction in the amount forecast to be spent on infrastructure by 2012-13 will facilitate repayment of the debt.<sup>112</sup> A reduction in the amount of infrastructure investment and an increasing operating surplus also mean that the Government expects to be able to fund over 60 per cent of its net infrastructure investment in the General Government Sector from its operating surplus by 2011-12.<sup>113</sup>

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<sup>103</sup> *ibid.*, p.17

<sup>104</sup> *ibid.*, pp.7-9

<sup>105</sup> *ibid.*, p.7

<sup>106</sup> *ibid.*, p.37

<sup>107</sup> *ibid.*, pp.8-9

<sup>108</sup> *ibid.*, p.8

<sup>109</sup> *ibid.*, p.12

<sup>110</sup> *ibid.*, p.38

<sup>111</sup> *ibid.*, p.56

<sup>112</sup> *ibid.*, pp.18, 56

<sup>113</sup> *ibid.*, p.57

**Table 4.2: Net debt over the forward estimates period as at 30 June each year**

	2008 (Actual)	2009 (Revised)	2010 (Budget)	2011 (Estimate)	2012 (Estimate)	2013 (Estimate)
General government net debt (\$ billion)	2.2	5.2	9.9	13.4	15.7	16.0
Net debt as a percentage of GSP	0.8	1.9	3.7	4.7	5.3	5.1

Source: Department of Treasury and Finance, Budget Paper No. 2, 2009-10 Strategy and Outlook, p.56

#### 4.4 Asset funding by department during 2009-10

Table 4.3 summarises the bulk of budgeted asset investment expenditure for 2009-10 by department, as provided to the Committee by departments in response to the *2009-10 Budget Estimates* questionnaire. Commonwealth funding was not included in the figures for the Department of Education and Early Childhood Development, the Department of Innovation, Industry and Regional Development and the Department of Human Services. For all departments, this table includes funding for both new and existing asset investment programs.

**Table 4.3: Departmental asset investments for funding during 2009-10**

Department	Project	2009-10 Budget (\$ million)	2009-10 Budget total (\$ million)
Education and Early Childhood Development	Land acquisition	31.0	475.9
	Modernisation	117.0	
	New and replacement schools	120.0	
	Regeneration	102.6	
	Relocatable classroom renewal	16.6	
	Secure the Future of Small Rural Schools	24.7	
	Technical wings and trade equipment for government (various)	16.0	
	Ultranet	25.5	
	Other projects	22.5	
Human Services	Caulfield General Medical Centre	20.2	424.8
	Frankston Hospital	18.3	
	Hospital Energy Supply Project	12.0	
	Kingston Centre	22.1	
	Medical Equipment Replacement Program	35.0	
	Northern Hospital	18.4	
	Olivia Newton-John Cancer Centre	20.0	
	Statewide Infrastructure Renewal Program	20.0	
	Sunshine Hospital	38.7	
	Warrnambool Hospital	24.5	
	Western Hospital	12.6	
	Other projects	183.0	
Innovation, Industry and Regional Development	Automotive Centre of Excellence	10.0	68.9
	Improving TAFE equipment (various)	12.0	
	Princess Pier restoration	10.0	
	Other projects	36.9	

Department	Project	2009-10 Budget (\$ million)	2009-10 Budget total (\$ million)
Justice	Traffic camera office	20.0	257.0
	Building Confidence in Corrections	53.0	
	Melbourne Legal Precinct Master Plan	14.0	
	Response to Victorian bushfire emergency	10.2	
	Road safety	22.1	
	Police stations	85.2	
	Other projects	52.7	
Parliament	None	0	0
Planning and Community Development	Footscray transit city	22.4	108.8
	Rectangular Sports Stadium	25.5	
	State sports facilities upgrade	25.0	
	Other projects	25.9	
Premier and Cabinet	Cultural asset management fund	5.0	29.5
	Southbank cultural precinct redevelopment	18.0	
	Various other projects	6.5	
Primary Industries	Melbourne Wholesale Market redevelopment	120.2	231.6
	New Biosciences Research Centre	97.6	
	Other projects	13.8	
Sustainability and Environment	Fire protection access: bridge replacement	9.1	244.8
	Foodbowl modernisation projects	153.7	
	Living Murray initiatives	9.1	
	Point Nepean Quarantine Station	10	
	Water infrastructure projects – Shepparton Irrigation Area	8.5	
	Other projects	54.4	
Transport	Accessible public transport in Victoria – DDA compliance	36.8	2,652.2
	New ticketing solution	133.6	
	Rail network and station works	631.0	
	Rolling stock	408.5	
	Train safety initiatives	67.6	
	Other public transport projects	82.9	
	Geelong Ring Road (stages 3 and 4)	60.0	
	Peninsula Link	72.7	
	Separating road and rail lines	133.5	
	Road Safety Infrastructure Program 3	83.0	
	West-Gate Monash Freeways Improvement Project	395.4	
	Other road works	547.2	
Treasury and Finance	Efficient technology services	22.7	27.0
	Other projects	4.3	
<b>Total</b>			<b>4,497.2</b>

Note: Table 4.3 excludes Commonwealth funding for some Departments

Source: Departmental responses to the Committee's 2009-10 Budget Estimates questionnaire (see Public Accounts and Estimates Committee, Report on the 2009-10 Budget Estimates Part One, Volume 1, June 2009, Appendix 1)





**Table 4.4: New asset funding in 2009-10 Budget by department**

Department	TEI <sup>(a)</sup> (\$ million)	2009-10 Budget (\$ million)	Proportion of 2009-10 Budget new asset funding (per cent)
Education and Early Childhood Development	2,677.1	1,446.5	46.9
Human Services	1,074.9	556.9	18.1
Innovation, Industry and Regional Development	92.7	31.6	1.0
Justice	80.2	38.7	1.3
Planning and Community Development	118.5	13.1	0.4
Premier and Cabinet	31.8	9.5	0.3
Primary Industries	0.0	0.0	0.0
Sustainability and Environment	24.5	14.0	0.5
Transport	4,450.3	911.2	29.5
Treasury and Finance	39.2	22.7	0.7
Parliament	0.0	0.0	0.0
Government-wide	78.3	41.4	1.3
<b>Total 2009-10 Budget asset funding</b>	<b>8,667.6</b>	<b>3,085.6</b>	<b>100.0</b>
Add: 2008-09 Budget Update asset funding	780.8	223.1	
<b>Asset funding since the 2008-09 Budget</b>	<b>9,448.4</b>	<b>3,308.7</b>	

Note: (a) includes projects which are to be delivered through the public non-financial corporations sector on behalf of the Government

Source: Department of Treasury and Finance, Budget Paper No. 2, 2009-10 Strategy and Outlook, p.51

The departmental responses to the Committee's *2009-10 Budget Estimates* questionnaire (summarised in Table 4.3) include both new and ongoing capital projects (but, in some cases do not include Commonwealth Government funding). In regards to these figures, the Department of Education and Early Childhood Development, the Department of Human Services and the Department of Transport are the major expenders of funds on assets investments in 2009-10. However, the questionnaire responses also show significant budgets for asset investment for:

- the Department of Justice;
- the Department of Primary Industries; and
- the Department of Sustainability and Environment.

The nature and scale of departments' asset investment programs depend to a large extent on departmental and agency responsibilities in the delivery of services to meet projected community needs. As such, certain types of infrastructure, such as transport networks, water projects and health service facilities are more capital intensive.

The Committee offers the following comments on the six departments with the largest capital expenditure programs during 2009-10.

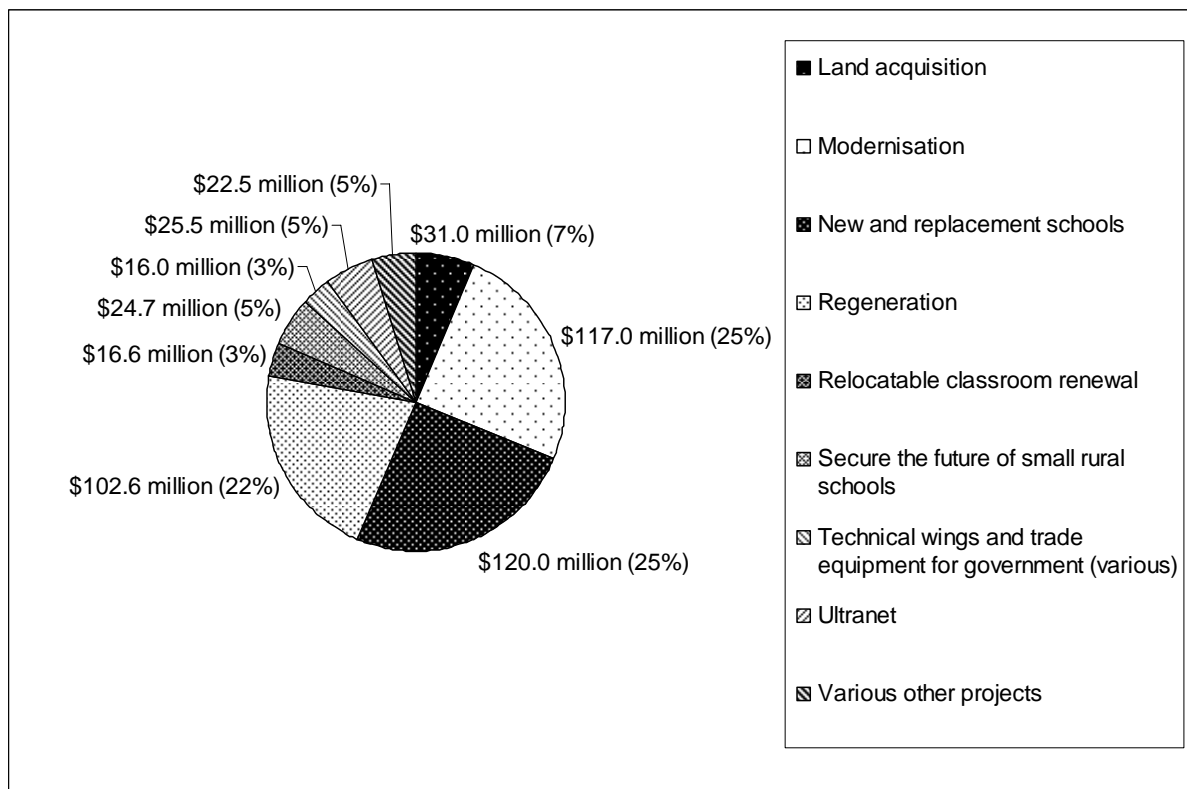
#### **4.5.1 The Department of Education and Early Childhood Development**

The Department of Education and Early Childhood Development provided details of \$475.9 million dollars that it expects to invest in assets in 2009-10. Grants provided through the *Nation Building – Economic Stimulus Plan (Building the Education Revolution)* for the 2009-10 Budget total \$1.99 billion. The bulk of that comes through the Primary Schools for the 21<sup>st</sup> Century program, which is divided between government schools (\$1.07 billion) and non-

government schools (\$508.6 million).<sup>117</sup> In total, the Department’s capital budget of \$2.4 billion is a significant increase on the previous year’s. This program is discussed further in this chapter.

The Department’s allocation of investment expenditure from State funding in 2009-10 can be seen in Figure 4.1.

**Figure 4.1: Department of Education and Early Childhood Development budgeted expenditure 2009-10 (net of Commonwealth grants)**



Source: Public Accounts and Estimates Committee, Report on the 2009-10 Budget Estimates Part One, Volume 1, June 2009, p.108

The majority of this money, as well as the funding from the Commonwealth Government, is for the building or upgrade of school facilities. In 2007, the Committee recommended that:<sup>118</sup>

*Recommendation 17:*

*Asset investment connected with the upgrading and construction of education facilities be monitored from the viewpoint of ensuring that this spend occurs in an equitable manner so that the more disadvantaged areas receive appropriate support to meet their infrastructure and educational needs.*

This recommendation from 2007 was accepted in principle by the Government. In response to a question on notice at the 2009-10 Budget Estimates hearing, the Department explained that:<sup>119</sup>

- for government schools, the Department’s *Building Futures* policy and process were designed to ensure that the State government’s ‘expenditure on educational assets generates significant gains in student educational achievements’;

<sup>117</sup> Department of Treasury and Finance, Budget Paper No. 4, 2009-10 Statement of Finances, May 2009, p.209

<sup>118</sup> Public Accounts and Estimates Committee, Report on the 2007-08 Budget Estimates Part Three, September 2007, p.98

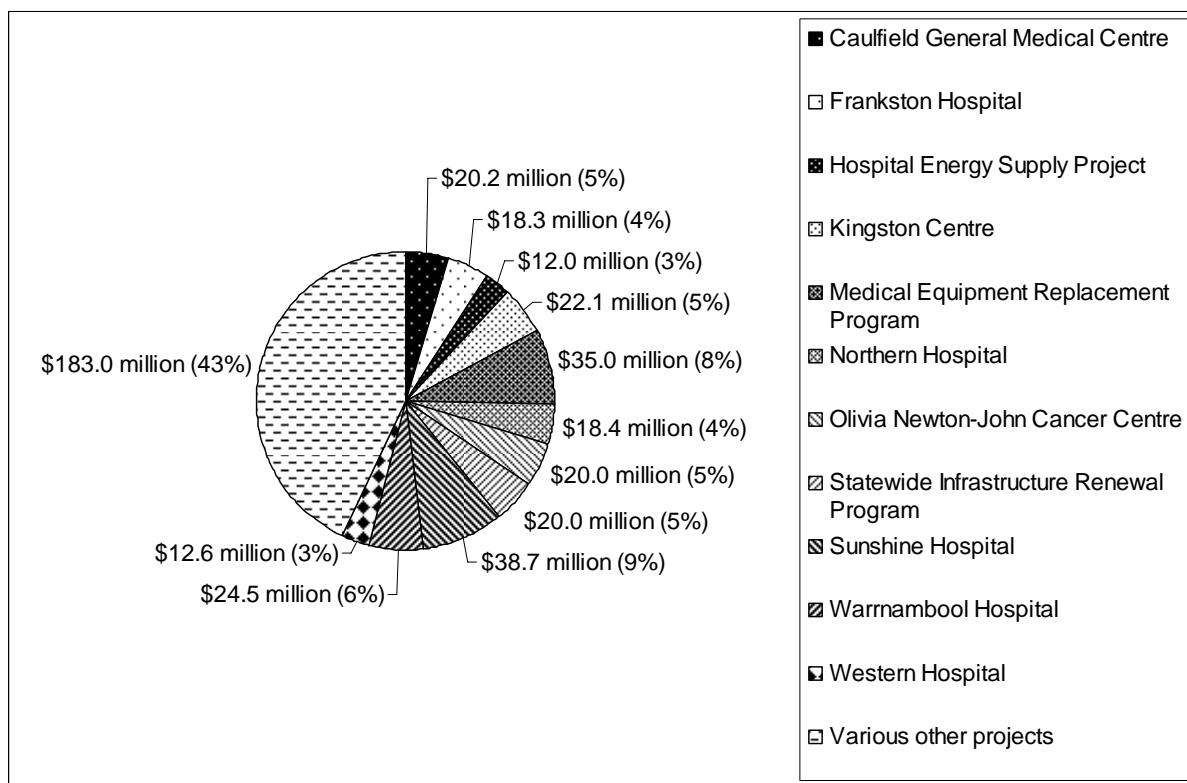
<sup>119</sup> Ms B Pike, Minister for Education, 2009-10 Budget Estimates hearing, transcript of evidence, 13 May 2009, p.22



### 4.5.2 The Department of Human Services

In response to the Committee’s questionnaire, the Department of Human Services detailed how \$424.8 million of State funds would be spent on assets in 2009-10. This is to be spent predominantly on hospitals. The largest projects are shown in Figure 4.2.

**Figure 4.2: Department of Human Services budgeted expenditure 2009-10 (net of Commonwealth grants)**



Source: Department of Human Services, response to PAEC Budget Estimates questionnaire – see Public Accounts and Estimates Committee, Report on the 2009-10 Budget Estimates Part One, Volume 1, June 2009, pp.136-7

In addition, over \$1 billion of Commonwealth funding was provided for social housing projects for 2009-10 as part of the *Nation Building – Economic Stimulus Plan*, of which \$495.4 is allocated to asset initiatives.<sup>124</sup>

<sup>124</sup> Department of Treasury and Finance, Budget Paper No. 4, 2009-10 Statement of Finances, May 2009, p.210; Department of Treasury and Finance, Budget Paper No. 3, 2009-10 Service Delivery, May 2009, p.320

As in previous years, the Department's budget is characterised by a large number of projects – the Department's response to the questionnaire listed 67 projects, with TEIs ranging from \$1 million to \$145 million. Forty of those projects had TEIs in excess of \$10 million. Noting the large number of projects and the increased amount of funding compared to previous years, the Committee recommended in its *Report on the 2008-09 Budget Estimates* that:<sup>125</sup>

*Recommendation 6:*

*The Department of Human Services include in their annual report, details of expenditure to date and progress made on all major infrastructure projects with a TEI in excess of \$10 million.*

The Government rejected this recommendation on the grounds that expenditure to date is reported in *Budget Information Paper No. 1* and that no department provides details of the progress of individual projects in their annual reports.<sup>126</sup> In this context, the Committee notes Recommendation 6 below and cites the Department of Human Services as an example of a department where the many projects mean that the Parliament would benefit from such reporting in terms of ensuring that the projects are being well managed and delivered.

The future infrastructure challenges identified by the Department include:<sup>127</sup>

- the appropriateness, fitness-for-purpose and location of facilities to meet known and emerging service requirements;
- building and maintaining a value-for-money health system across all areas;
- the existing asset base size and the age and scale of periodic asset investment essential to sustain existing services at appropriate standards;
- meeting ongoing service demand pressures efficiently and effectively with acceptable risk (which requires a significant increase in the capacity of the public health system);
- service reconfiguration requirements to efficiently accommodate new technologies, models of care and redistribution of Department of Human Services funded services to meet changing community needs; and
- the need for higher performing, more efficient plant and equipment to achieve the Government's environmental policy/climate change objectives.

### **4.5.3 The Department of Justice**

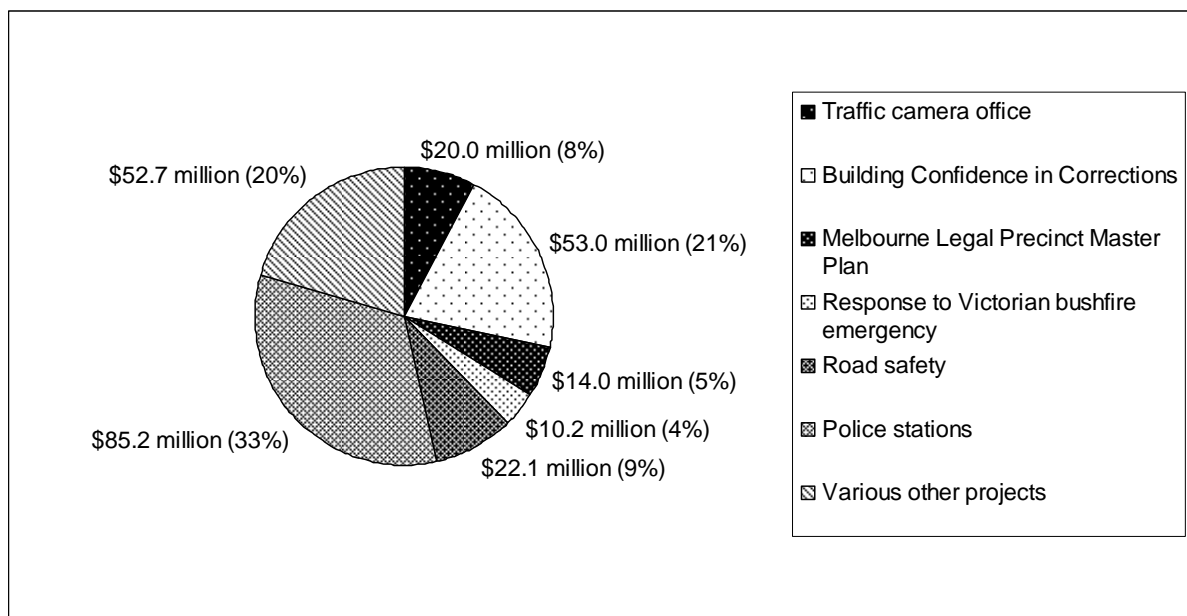
Although the Department of Justice received a relatively small amount of new asset funding in the 2009-10 Budget (see Table 4.4), but note that the vast majority of new funding categorised as 'government-wide' also goes to the Department of Justice), ongoing projects mean that the Department has a budget of \$257 million for asset investment this year. That is split amongst a number of projects (see Figure 4.3).

<sup>125</sup> Public Accounts and Estimates Committee, *Report on the 2008-09 Budget Estimates Part Three*, October 2008, p.72

<sup>126</sup> Victorian Government, response to the Committee's report on the 2008-09 Budget Estimates, May 2009, p.5

<sup>127</sup> Public Accounts and Estimates Committee, *Report on the 2009-10 Budget Estimates Part One, Volume One*, June 2009, p.137

**Figure 4.3: Department of Justice budgeted expenditure 2009-10**



Source: *Public Accounts and Estimates Committee, Report on the 2009-10 Budget Estimates Part One, Volume 1, June 2009, pp.194-5*

Victoria Police receive \$102.7 million (40 per cent) of the 2009-10 asset budget, of which \$85.2 million is for police stations. Other key areas of investment include the fire emergency infrastructure, the court system and road safety initiatives. Most of the new investment in the 2009-10 Budget is for road safety initiatives and response and recovery from the 2009 Victorian bushfires.<sup>128</sup>

The Department considers its biggest infrastructure challenges for the future to include:<sup>129</sup>

- increasing prison system capacity;
- improving security at and access to courts;
- supporting police and emergency services in responding to the impacts of climate change, particularly the expected increase in fire, storm and flood activity;
- addressing population growth by investing in new technologies, new security measures, new justice centres and new police facilities in growth corridors and regional communities;
- improving police operations through upgraded police stations, administration complexes, rural residences and forensic equipment;
- improving the police’s IT and communications infrastructure; and
- rolling out new firearms.

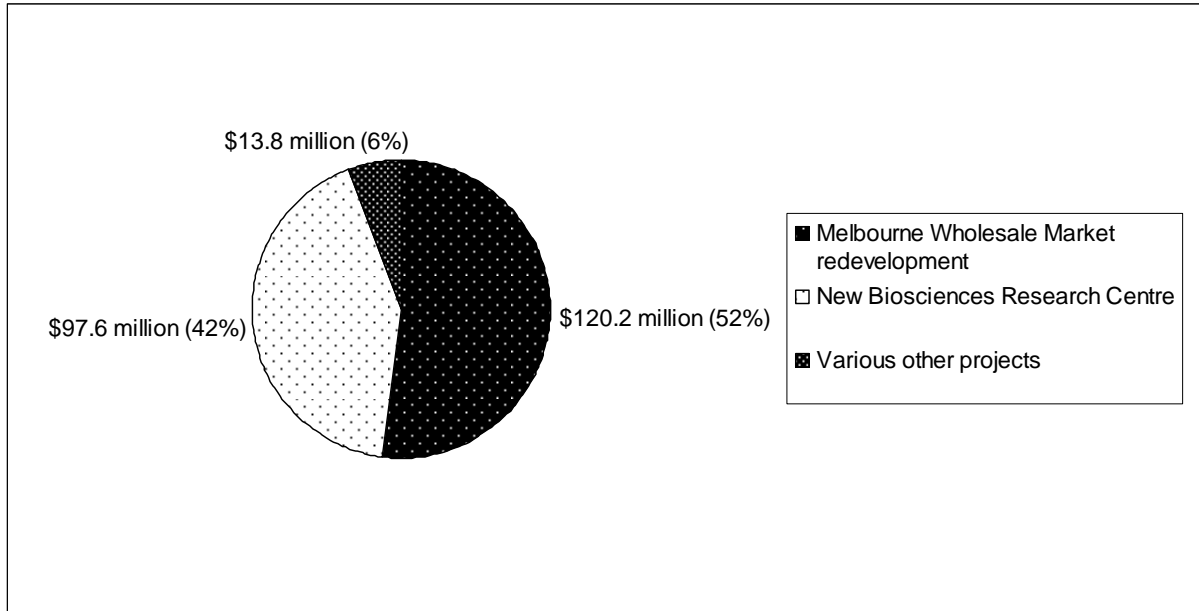
<sup>128</sup> Department of Treasury and Finance, Budget Paper No. 3, *2009-10 Service Delivery*, May 2009, pp.304, 337

<sup>129</sup> Public Accounts and Estimates Committee, *Report on the 2009-10 Budget Estimates Part One, Volume One*, June 2009, pp.195-7

#### 4.5.4 The Department of Primary Industries

The Department of Primary Industries received no new funding in the 2009-10 Budget, but continued to administer projects announced in previous budgets (see Figure 4.4).

**Figure 4.4: Department of Primary Industries budgeted expenditure 2009-10**



Source: Department of Primary Industries, response to PAEC Budget Estimates questionnaire – see Public Accounts and Estimates Committee, Report on the 2009-10 Budget Estimates Part One, Volume 1, June 2009, p.267

Although the funding for 2009-10 is more than double what it was in 2008-09, in both years the vast majority of the funding (94 per cent for 2009-10) is invested in two projects – the Melbourne Wholesale Market redevelopment and the new Biosciences Research Centre.

Looking forward, the Department identified four major infrastructure challenges:<sup>130</sup>

- planning the locations of facilities and infrastructure in a changing environment;
- consolidating its operations into fewer, larger sites to re-focus and strengthen services for farm businesses and rural communities;
- reducing emissions from primary and energy industries in response to concerns about climate change; and
- identifying and developing infrastructure to support the growth of major coal-based industries in regional Victoria.

In its response to the Committee Budget Estimates questionnaire,<sup>131</sup> the Department also noted that funding was provided in this budget to facilitate the development of a new large-scale solar power station and to identify infrastructure developments to support coal-based industries. These are expected to lead to future asset investments.

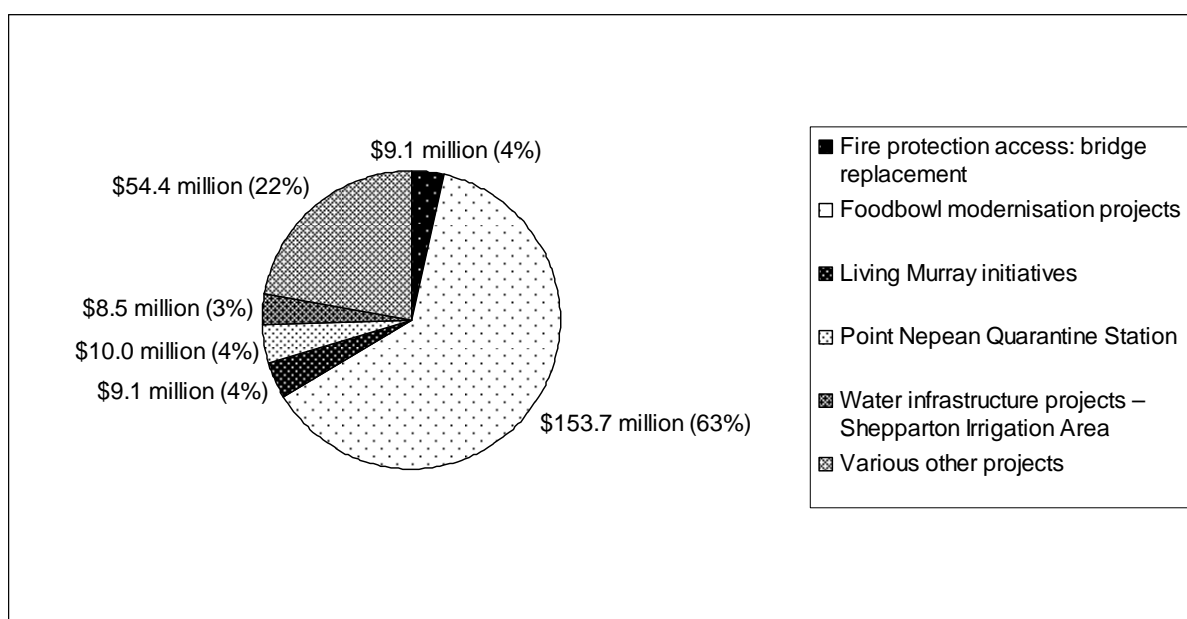
<sup>130</sup> Public Accounts and Estimates Committee, Report on the 2009-10 Budget Estimates Part One, Volume One, June 2009, pp.267-8

<sup>131</sup> Department of Treasury and Finance, Budget Paper No. 3, 2009-10 Service Delivery, May 2009, p.351

### 4.5.5 The Department of Sustainability and Environment

The Government provided \$18 million<sup>132</sup> of funding for new assets to be spent in 2009-10 for the Department of Sustainability and Environment. This added to over \$227 million<sup>133</sup> to be spent in 2009-10 that had been announced in previous budgets. This funding goes to a variety of projects, as shown in Figure 4.5.

**Figure 4.5: Department of Sustainability and Environment budgeted expenditure 2009-10**



Source: *Public Accounts and Estimates Committee, Report on the 2009-10 Budget Estimates Part One, Volume 1, June 2009, p.286 (final response only)*

The majority of the funding is for foodbowl modernisation projects (the Northern Victoria Infrastructure Renewal Project). As well as the Departmental funding of \$154 million for 2009-10, Melbourne Water is supplying an additional \$85 million for this project.<sup>134</sup>

The Department’s three most significant infrastructure projects for the future are:<sup>135</sup>

- recovery and rehabilitation works in the areas affected by the bushfires;
- securing Victoria’s water supply; and
- addressing the impacts of climate change.

<sup>132</sup> Department of Treasury and Finance, Budget Paper No. 3, *2009-10 Service Delivery*, May 2009, p.353

<sup>133</sup> Note that this figure only includes the 15 projects with the highest budgeted capital expenditure for 2009-10.

<sup>134</sup> Hon. T Holding MP, Minister for Water, 2009-10 Budget Estimates hearing, transcript of evidence, 15 May 2009, p.3

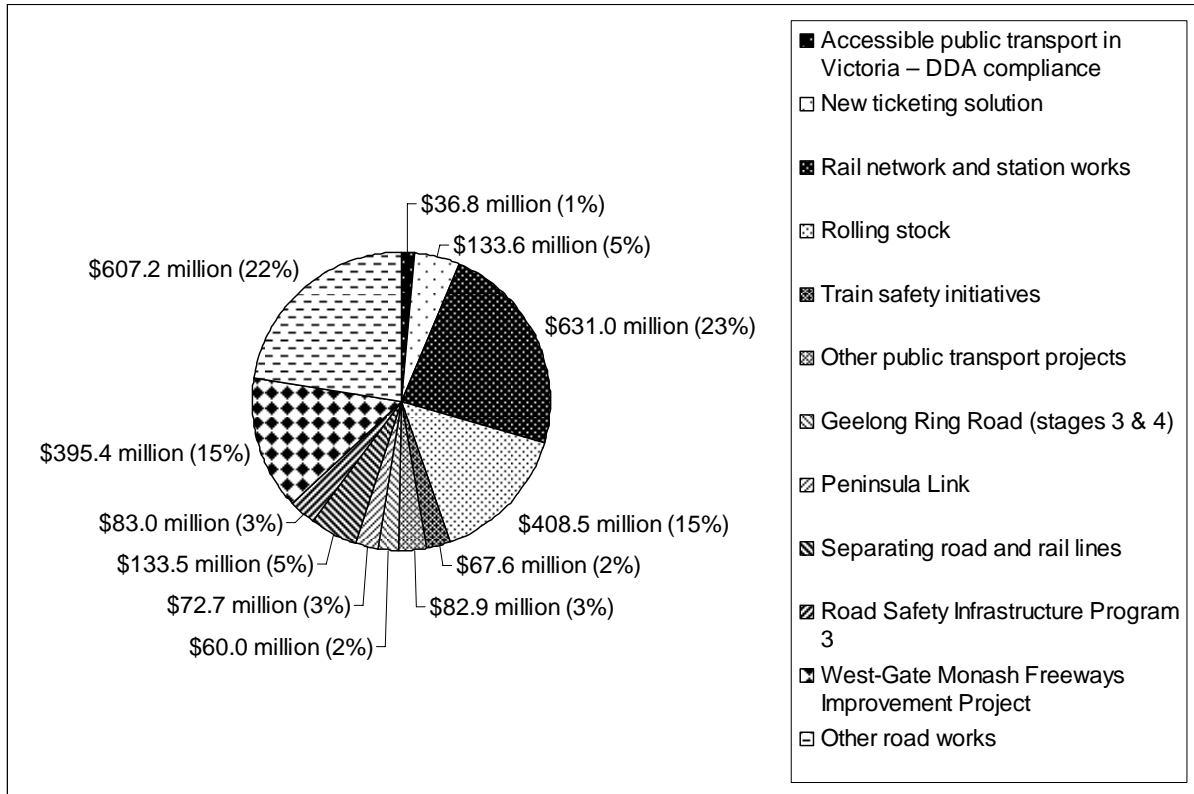
<sup>135</sup> Public Accounts and Estimates Committee, *Report on the 2009-10 Budget Estimates Part One, Volume One*, June 2009, p.286



### 4.5.6 The Department of Transport

The Department of Transport's budgeted asset expenditure for 2009-10 exceeds \$2.6 billion. This year's budget is more than \$900 million more than 2008-09, due to a combination of Commonwealth funding and the initial stages of the \$38 billion Victorian Transport Plan (VTP). The funds invested relatively evenly between public transport (\$1.36 billion, 51 per cent) and roads (\$1.2 billion, 49 per cent). The largest projects can be seen in Figure 4.6.

**Figure 4.6: Department of Transport budgeted expenditure 2009-10**



Source: Department of Transport, response to PAEC Budget Estimates questionnaire – see Public Accounts and Estimates Committee, Report on the 2009-10 Budget Estimates Part One, Volume 1, June 2009, pp.302-4

Of the \$1.36 billion budgeted for public transport investment, the majority of the funding is to be spent on new rolling stock (\$409 million) and rail network and station works (\$631 million). The Department also expects to spend \$134 million on the new ticketing system in 2009-10.

For roads, the largest projects include Peninsula Link (\$73 million), Stages 3 and 4 of the Geelong Ring Road (\$60 million) and improvements to the West Gate and Monash Freeways (\$395 million), with many other smaller projects around the State, such as duplications, upgrades, road widening and roundabouts, bringing the total to \$1.29 billion.

The VTP is discussed further, with a number of recommendations, in Chapter 12 of this report. The Department identified five major responsibilities that it had under the plan:<sup>136</sup>

- moving Melbourne’s rail system to a modern metro-style rail network through major investments such as Regional Rail Link and the Melbourne Metro as well as delivery of new trains to boost capacity;
- closing the gaps in Melbourne’s road network, including through construction of the Peninsula Link, the alternative to the West Gate and the North East Link;
- managing the growth in freight traffic by improving supply chain efficiency and protecting the amenity of the inner West through investments in the Port of Melbourne, rail and the Truck Action Plan;
- improving transport links across regional Victoria and Melbourne to support jobs and population growth; and
- minimising transport’s impact on the environment and ensuring that transport infrastructure can withstand the effects of climate change.

## 4.6 Reporting by departments on net benefits derived from asset investments

In its last two reports on the Budget Estimates, the Committee has noted the Government’s significant increases in the level of asset investment. In the 2008-09 reports, the Committee recommended:<sup>137</sup>

*Recommendation 7:*

*Given the increased levels of asset investment by the government, the Department of Treasury and Finance examine the effectiveness of current reporting practices to ensure that public sector agencies keep Parliament and the community informed of progress made in terms of project completion and outcomes delivered through meaningful disclosure in their annual reports.*

The Government in its response accepted this recommendation and pointed to each year’s *Budget Information Paper No. 1* and *Annual Financial Report for the State of Victoria* as supplying much of that information.<sup>138</sup> *Budget Information Paper No. 1* provides details of the funds to be spent on a project-by-project basis, and comparing those papers from year to year certainly enables tracking of funds on each project and identifications of variations. The *Annual Financial Report* provides details of expenditure by department and some analysis of what was achieved in the year.

Neither of these documents, however, provides details of the outcomes achieved by projects. In addition, while these documents provide information on how much has been spent on a project, there are other measures of completion which may be meaningful to keep people informed about the progress of infrastructure projects.

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<sup>136</sup> Public Accounts and Estimates Committee, *Report on the 2009-10 Budget Estimates Part One, Volume One*, June 2009, pp.304–5

<sup>137</sup> Public Accounts and Estimates Committee, *Report on the 2008-09 Budget Estimates Part Three*, October 2008, p.78. See also recommendation 18 from 2007 – Public Accounts and Estimates Committee, *Report on the 2007-08 Budget Estimates Part Three*, September 2007, p.99

<sup>138</sup> Victorian Government, response to the Committee’s report on the 2008-09 Budget Estimates, p.5 (see Public Accounts and Estimates Committee, *Report on the 2009-10 Budget Estimates Part One, Volume One*, June 2009, p.370)

In its response, the Government also noted that the Department of Treasury and Finance is conducting a review into practices and legislation to do with public finance in Victoria. A move to outcomes-based reporting is being considered as part of that, and has been recommended by the PAEC in its report, *New Directions in Accountability*.<sup>139</sup>

In line with these recommendations, the Committee believes that reporting on the outcomes and progress of asset investment projects would provide an increased level of transparency that would benefit Parliament and the community. This is all the more relevant as the level of the Government's infrastructure investment reaches record levels.

**Recommendation 6:**

**The Government ensure that public sector agencies keep Parliament and the community informed of progress made on asset investment projects through their annual reports in terms of:**

- (a) progress towards project completion; and**
- (b) outcomes delivered against departmental and government objectives.**

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<sup>139</sup> Public Accounts and Estimates Committee, *New Directions in Accountability: Inquiry into Victoria's Public Finance Practices and Legislation*, June 2009.