Government responses to the recommendations of

PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE'S

Report on the 2016-17 Budget Estimates

Pursuant to Section 36 of the *Parliamentary Committees Act 2003*, this paper provides a response to the recommendations contained in the Public Accounts and Estimates Committee's (PAEC) Report on the 2016-17 Budget Estimates.

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

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Row 1: Indicates the title of this paper.
Row 2: Indicates the number and topic of the response to the PAEC recommendations.
Column 1: Contains PAEC's recommendations as published in its Report on the 2016-17 Budget Estimates.
Column 2: Indicates the Government's response to each recommendation: 'Support', 'Support-in-Principle', 'Not Support' or ;'Under Review'.
Column 3: Provides an explanation of the Government's position on the recommendation indicates the actions that have been taken to date, relevant to the implementation of the recommendation and outlines commitment to further action, relevant to the implementation of the recommendation.

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

Report on the 2016-17 Budget Estimates		
Recommendation 1, p37, Chapter 3: Key Aspects of the 2016-17 Budget		
When defining a target such as 'a sustainable level of net debt' with a reference to a time period, future budget papers identify the time period as specific years rather than using relative terms	Not support	The Government specifies its financial management targets and long-term objectives in a manner consistent with the requirements of the *Financial Management Act 1994*. The Government has quantified its view of what constitutes a sustainable level of net debt in a separate part of the budget papers (Budget Paper No. 5, Chapter 1 page 16).
Recommendation 2, p65, Chapter 4: Revenue		
The Department of Treasury and Finance use a consistent time frame to calculate average annual growth rates over the forward estimates period.	Support	The Government uses two timeframes consistently throughout the Budget papers to calculate annual growth rates: - Over the budget and forward estimates (four years); and - Over the forward estimates (three years following the budget year). The Government notes that the budget papers include information to enable the reader to calculate growth rates over various timeframes if desired.
Recommendation 3, p77, Chapter 4: Revenue		
Estimates for all revenue items appear in the budget papers under the revenue initiatives section of Budget Paper No.3. If the initiative relates to revenue foregone, this information should also be detailed in the Tax Expenditures and Concession chapter of Budget Paper No.5.	Support	The Tax Expenditures and Concessions chapter (Budget Paper No. 5, Chapter 5) already incorporates initiatives relating to foregone revenue.

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

Recommendation 4, p81, Chapter 4: Revenue		
Future budget papers provide a detailed explanation for changes to any item of any part of the budget estimates where the change from one year to the next or from previous estimates is: (a) close to or over $1.0 billion or (b) more than 50 per cent for any item with a value over $200.0 million.	Support-in-Principle	The Government supports the principle that explanations are provided where there are material changes from one year to the next or from previous estimates. Explanations may be contained in commentary or in footnotes in the budget papers. The Government does not support in full a fixed rules based approach to analysis in its budget papers as some judgement is required on the appropriate level of detail in the papers depending on the context.
Recommendation 5, p82, Chapter 4: Revenue		
Future budget papers include a disaggregation of provision of services by major category.	Support	The Department of Treasury and Finance implemented this recommendation as part of the 2017-18 budget.
Recommendation 6, p97, Chapter 4: Revenue		
Future budget papers specify the intended purpose (provision of outputs, additions to the net asset base, or payments on behalf of the State) of money received by departments from trust accounts.	Not support	Income received by departments from trust accounts may ultimately be used for a broad range of purposes (for example delivery of outputs or/and acquisition of assets), which may not be readily determinable at the time of receipt and when the income is recognised, therefore the intended purpose of money received by departments from trust accounts cannot be specified. The three purpose categories identified in the recommendation are related to expenditure categories identified in the annual Appropriation Acts and *the Financial Management Act 1994* and therefore cannot be applied to trust accounts.

PAEC recommendation	Response	Action taken to date and commitment to further action
Recommendation 7, p97, Chapter 4: Revenue		
The Department of Treasury and Finance require departments, in their annual reports, to disclose their income from the Trust Fund, broken down into the provision of outputs, additions to the net asset base and payments made on behalf of the State. Any variances between the initial budget estimates and the actual amounts should be identified and explained.	Support-in-Principle	The three purpose categories identified in the recommendation are related to expenditure categories identified in the annual Appropriation Acts and *the Financial Management Act 1994*. Trust Funds are typically established to receive moneys to meet specific purposes or objectives as prescribed by the relevant trust deed or establishing instrument. As the stated purposes or objectives of a trust can be broadly defined, the purpose for which received funds are ultimately applied (for example delivery of outputs, acquisition of assets and/or making payment on behalf of the State) may not be readily determinable at the time of receipt and when income is recognised. The Government acknowledges the objective of the Committee's recommendation and will require departments to provide additional disclosures in their accounting policy note to clarify for users that payments out of controlled trusts are typically for the delivery of outputs and for the acquisition of assets, and payments out of administered trusts are typically for payments made on behalf of the State. This will be implemented through the 2016-17 Model Report.
Recommendation 8, p97, Chapter 4: Revenue		
Future budget papers separately detail the income expected from funds held outside the Public Account for each department, broken down into the provision of outputs, additions to the net asset base and payments made on behalf of the State.	Not support	The three purpose categories identified in the recommendation are related to expenditure categories identified in the annual Appropriation Acts and *the Financial Management Act 1994*. Funds held outside the Public Account receive income to meet the endorsed expenditure consistent with the purpose of the fund. While the objectives of the fund are known at the time the income is received, the Government may not have determined how the income from the fund is to be expended including whether it will be spent on the provision of outputs, additions to the net asset base or as payments made on behalf of the State. In many cases funds may grow for a number of years until they are drawn down.
Recommendation 9, p97, Chapter 4: Revenue		
The Department of Treasury and Finance require departments, in their annual reports, to disclose their income from funds held outside the Public Account, broken down into the provision of outputs, additions to the net asset base and payments made on behalf of the State. Any variances between the initial budget estimates and the actual amounts should be identified and explained.	Support-in-Principle	The three purpose categories identified in the recommendation are related to expenditure categories identified in the annual Appropriation Acts and *the Financial Management Act 1994*. Income received and funds held outside the public account may ultimately be used for a broad range of purposes (for example delivery of outputs, acquisition of assets and/or making payment on behalf of the State) and may not be readily determinable at the time of receipt and when the income is recognised. The Government acknowledges the objective of the Committee's recommendation and will require departments to provide additional disclosures in their accounting policy note to clarify for users that payments out of controlled funds outside the public account are typically for the delivery of outputs or for the acquisition of assets, and payments out of administered funds are typically for payments made on behalf of the State. This will be implemented through the 2016-17 Model Report.
Recommendation 10, p97, Chapter 4: Revenue		

PAEC recommendation	Response	Action taken to date and commitment to further action
In future budget papers, the Department of Treasury and Finance: (a) note the total value of accumulated applied appropriations unspent, broken down into the major components (including payables, accruals related to employee entitlements, prior years' surpluses and depreciation equivalent revenue) (b) indicate the estimated change to these values over the forward estimates period (c) indicate the reasons for the anticipated changes for each component.	Not support	The Public Account disclosures for the budget are currently confined to the current year and the budget year. Forward estimates are presently not able to be disclosed to the level of granularity proposed in (a) however, the importance of monitoring the accumulated applied appropriations unspent balance is acknowledged. In the 2017-18 Budget, the Government included a more efficient approach aligned to current budgeting processes, which is to break-out the receivables line on the balance sheet in Chapter 3 into 'receivables from government' and 'other'. In addition, commentary in Chapter 3 of future Budget papers will also be included where the extent of the movement of the receivables from Government is material. This will provide further transparency around key movements that are driving any major variances at an aggregate level.
Recommendation 11, p103, Chapter 5: Borrowings and Net Debt		
In future budget papers, the Government explain its strategy for net debt in the public non-financial corporations sector.	Support-in-Principle	The Government monitors the level of net debt for the general government and public non-financial corporation (PNFC) sectors. The current overall level of general government and PNFC sectors net debt and projections is consistent with the State's triple-A credit rating. All PNFCs submit corporate plans (including debt forecasts and future capital expenditure programs) to the Treasurer and relevant portfolio ministers on an annual basis. The Treasurer considers all requests for increases in PNFC borrowings, and, based on the individual PNFC's business needs and the overall PNFC sector debt levels, debt arrangements for PNFCs are adjusted on an annual basis.
Recommendation 12, p108, Chapter 5: Borrowings and Net Debt		
Future budget papers disclose and explain the assumptions considered when making forecasts beyond the end of the forward estimates period.	Support-in-Principle	The Government notes that the period beyond the forward estimates is not the primary focus of the budget papers and long-term forecasts are not usually included. Where including such forecasts adds to the budget narrative, the Government will include the relevant assumptions where appropriate.

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

Recommendation 13, p125, Chapter 6: Output Expenditure		
Future budget papers provide a detailed reconciliation (that is, not in net terms) and explanation of changes between estimates for output expenditure between the current budget and the previous year's budget.	Not support	A detailed reconciliation of the movements in estimated output expenses between budget publications has been included as part of DTF's 2017-18 Budget estimates questionnaire. The response provided in the questionnaire also includes a reconciliation of variations in revenue between budget publications. The 'Reconciliation of Estimates' table in Budget Paper No. 2, Chapter 4 consolidates the output and revenue variations tables to provide an overall view of the drivers affecting one of the Government's key financial measures (changes in the operating surplus).
Recommendation 14, p129, Chapter 6: Output Expenditure		
Future budget papers provide a break-down of total output expenses by government purpose classification for each department.	Not Support	The General Purpose Classification (GPC) is a classification system used by the Australian Bureau of Statistics to enable consistent reporting across jurisdictions under the uniform presentation framework. The purpose of this reporting framework is to allow aggregated national reporting on a common basis, facilitating inter-jurisdictional comparison. Recasting of sub-departmental information (such as output expenses) on a GPC basis will establish an inconsistency with the current basis of financial reporting across public sector entities which is based on Generally Accepted Accounting Principles (GAAP).
Recommendation 15, p129, Chapter 6: Output Expenditure		
Future budget papers discuss and provide details of significant changes in estimates from one year to another for output expenditure according to the government purpose classification.	Support-in-Principle	The budget papers will continue to provide details of the significant changes in the budget across the forward estimates for GPC expenditure in the notes accompanying the table in Budget Paper 5. It should be noted however that provisions are held in the "Other Purposes" classification in the forward estimates which will in the future be allocated to the appropriate classification/project when the items which have not been finalised at the time of publication are approved. Such reallocations may result in significant changes to the "Other Purposes" classification over time.

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

Recommendation 16, p150, Chapter 7: Asset Investment		
Future budget papers include all significant projects included in previous budget updates, either as completed or ongoing projects.	Support	Budget Paper No. 4 reports on all significant projects that contribute to the State's balance sheet. All capital projects that meet this criteria that have been reported in previous budget papers (including budget updates) will continue to be reported in Budget Paper No. 4 until completed.
Recommendation 17, p151, Chapter 7: Asset Investment		
Future budget papers reinstate the practice of listing significant projects that contribute to 'decisions made but not yet allocated'.	Support-in-Principle	Where appropriate, Government will seek to provide additional information or footnotes. At times there are circumstances where disclosing such information could potentially prejudice the State's commercial interests or where early disclosure would pre-empt a future Government decision.
Recommendation 18, p153, Chapter 7: Asset Investment		
Future budget papers separately disclose cash inflows and outflows from investments in financial assets for policy purposes, and use 'not for publication' for gross figures in years where disclosing such information could potentially prejudice the State's commercial interests related to major future proposed transactions.	Not support	The Government does not support sources of cash inflows and destinations of cash outflows being itemised as this potentially prejudices the State's commercial interests where 'not for publication' numbers can be calculated using other disaggregated figures. Sources of cash inflows and the destination of cash outflows in recent years have been small relative to the Government's cash flow statement.

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

Recommendation 19, p155, Chapter 7: Asset Investment		
Future budget papers include a list of partner entities in the public financial corporations and the public non-financial corporations sectors that are the sources of cash inflows and destination of cash outflows through net cash flows from investments in financial assets for policy purposes. The list should also show the amount of funds coming from and flowing to each partner entity.	Not support	The Government does not support sources of cash inflows and destinations of cash outflows being itemised as this potentially prejudices the State's commercial interests where 'not for publication' numbers can be calculated using other disaggregated figures. Sources of cash inflows and the destination of cash outflows in recent years have been small relative to the Government's cash flow statement.
Recommendation 20, p157, Chapter 7: Asset Investment		
Future budget papers include a discussion of the Government's strategy with respect to the proportion of asset investment provided by the private sector.	Not support	The Government provides commentary on the State's capital program in Budget Paper 4, Chapter 1, including sources of funding from private sector contributions with specific reference made to market-led proposals, the Market-led Proposals Guideline and public private partnerships. A reconciliation table provides a breakdown of the components in Government Infrastructure Investment, including those from PPP and other investments. The Government has also previously set out its medium term asset investment strategy in the 2016-17 Budget (Budget Paper No. 2, Chapter 3). This included exploring alternative funding sources to leverage private sector delivery.

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Recommendation 21, p164, Chapter 7: Asset Investment		
Future budget papers include commentary on the relationship between: (a) net direct investment (net cash flows from investments in non-financial assets), and (b) depreciation in the public non-financial corporations sector. This should also include discussion on the anticipated rate of net asset creation in the sector.	Support-in-Principle	Comparisons of net direct investment (in non-financial assets) to depreciation over time may provide a very broad indication 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 individual assets that are approaching the end of their service lives. Such comparisons should also recognise that net direct investment nets off sales of non-financial assets that are surplus to entities' operational requirements, so this measure tends to not fully reflect direct investment. For example in 2015-16, excluding sales of non-financial assets ($263 million), investing cash flows for purchase of non-financial assets in the PNFC sector were $2,381 million which was higher than depreciation ($2,154 million). Budget Paper No. 2 *Strategy and Outlook* provides details of the Government's asset investment strategy (Chapter 3) and the main PNFC sector infrastructure projects under development (Chapter 5). Further details of the Government's Capital Program, including the PNFC sector, are provided in Budget Paper No. 4. Future budget papers will continue to provide data and discussion on asset creation in the PNFC sector that is considered material.
Recommendation 22, p169, Chapter 7: Asset Investment		
Once the long-term lease of the Port of Melbourne has been entered into, the Government provide the Parliament with more detailed information about the structure of the transaction and the allocation of the proceeds.	Support-in-Principle	This information has already been provided through various other means including the Budget Papers and the Department of Treasury and Finance website.
Recommendation 23, p171, Chapter 7: Asset Investment		
Future budget updates include an explanation of revisions made to government infrastructure investment estimates for both the latest completed year and the budget year.	Support-in-Principle	The Government provides a reconciliation of general government sector capital expenditure aggregates in Budget Paper No.4, including net investment in fixed assets, PPP and other investment and Government Infrastructure Investment. Commentary will be provided on significant movements, in addition to commentary already provided in Budget Paper 2, Chapter 4.

PAEC recommendation	Response	Action taken to date and commitment to further action
Recommendation 24, p187, Chapter 9: Performance Measurement		
In future versions of the Performance Management Framework for Victorian Government Departments, the Department of Treasury and Finance include a description of circumstances under which changes to departmental objectives or objective indicators are required.	Under review	The Department of Treasury and Finance is undertaking a holistic review of performance measurement and reporting requirements. This review will result in extensive modifications to the Performance Management Framework and performance measurement in the State Budget, rolling out from Budget 2018-19. This recommendation will be addressed through this review.
Recommendation 25, p189, Chapter 9: Performance Measurement		
The Department of Treasury and Finance update its guidance documentation to explicitly specify that departmental objective indicators must be clearly quantifiable or measurable.	Support	Government advises that sections 3.1 and 4.2.3 of the Performance Management Framework require objective indicators to be quantifiable or measureable. The Department of Treasury and Finance will update the Performance Management Framework to better link these two sections.
Recommendation 26, p190, Chapter 9: Performance Measurement		
The Department of Premier and Cabinet update its departmental objective indicators in order to make them quantifiable.	Support-in-Principle	In its 2015–16 annual report, the Department of Premier and Cabinet (DPC) mapped the relevant BP3 measures against its departmental objective indicators (pp.18–19). Further work on indicators and measures will be undertaken as part of a broader review of DPC's objectives and outcomes. All indicators will be reviewed through this process, to ensure they are measureable and to bring them in line with the revised objectives and outcomes. This work will commence in the fourth quarter of 2016–17.
Recommendation 27, p192, Chapter 9: Performance Measurement		
The Department of Treasury and Finance update its guidance to specify that explanations provided in the budget papers for modifications to departmental objectives and departmental objective indicators include a discussion of the reason why changes were made to objectives or objective indicators.	Under review	The Department of Treasury and Finance is undertaking a holistic review of performance measurement and reporting requirements. This review will result in extensive modifications to the Performance Management Framework and performance measurement in the State Budget, rolling out from Budget 2018-19. This recommendation will be addressed through this review.
Recommendation 28, p198, Chapter 9: Performance Measurement		

PAEC recommendation	Response	Action taken to date and commitment to further action
Future versions of the Performance Management Framework for Victorian Government Departments contain specific guidance as to what constitutes a 'wide' range when referring to performance measure targets.	Under Review	The Department of Treasury and Finance is undertaking a holistic review of performance measurement and reporting requirements. This review will result in extensive modifications to the Performance Management Framework and performance measurement in the State Budget, rolling out from Budget 2018-19. This recommendation will be addressed through this review.
Recommendation 29, p205, Chapter 9: Performance Measurement		
The Government not discontinue the performance measures that are listed in Table 9.5 of this report.	Under review	The Government will consider the Committee's report and respond to the recommendations within the legislated timeline. All agreed changes to output performance measures will be reflected in the next budget publication.