CHAPTER 18: VIBRANT DEMOCRACY

Key findings of the Committee:

18.1 The Community Cabinet Program covered 22 local government areas in 2008-09 (including a focus on visiting bushfire-affected areas after the February 2009 bushfires) compared to 14 local government areas in 2007-08.

18.2 The Department of Treasury of Finance generated estimates of lotteries gambling revenue for 2008-09 for all lotteries combined (i.e. Tattersalls and Intralot). No decomposition of the 2008-09 Budget estimates was made between the two operators, Tattersalls and Intralot. The Committee has recommended that in future the Department of Treasury and Finance provide and report expected revenue and actual revenue from the sale of specific lottery products.

18.3 The Department of Treasury and Finance undertook a thorough review of its governance of State risk management and created two new sub-committees to take effect in 2009-10. The review found the overall combination of former sub-committees covered many of the key whole-of-government risks, however, there were some overlaps and gaps. The review found that there was a need to rationalise the agenda of these committees and their relationship with the Treasury and Finance Board to ensure all the key whole-of-government financial and risk management issues were being adequately covered.

18.4 The Department of Treasury and Finance employs a number of practices, frameworks and legislative measures to optimise the State's ongoing financial performance. These include administration of the requirements of the Financial Management Act 1994 (which includes the observance of a set of sound financial management principles) and the pursuit of three key objectives which guide the Department of Treasury and Finance's policy directions to achieve the outcome of sound financial management.

18.5 The latest reports from the two ratings agencies, Standard & Poor's and Moody's Investors Service, confirmed Victoria's triple-A credit rating. Standard & Poor's have specified that the ratio of 'net debt (excluding advances paid) plus superannuation liability to revenue' for the Non-Financial Public Sector is a key element of this assessment. The trigger point for a possible downgrade would be if this ratio exceeds 130-140 per cent. At 30 June 2009, this ratio was 74.8 per cent and is forecast to increase to 105.5 per cent by 30 June 2013.

18.6 The Committee is of the view that the Department of Treasury and Finance could include in the State's annual financial report and Budget Papers, for the benefit of Parliament and the Victorian public, some of the main factors assessed by ratings agencies when forming their credit opinion and should provide commentary on these key factors.

18.7 The Committee recommended that the Department of Treasury and Finance disclose the long-term superannuation projections for the SSF in the budget papers. This will increase the accountability to Parliament and the general public of the Government's progress in achieving its strategy to fully fund the SSF by 2035.

18.8	**The Victorian Government allocated $10.72 million for development work to investigate options for standardising core Information and Communications Technology (ITC) services. The delivery of a business case with detailed financial analysis cost $4.9 million with the remaining funds used to support program mobilisation and planning activities.**
18.9	**The Committee believes that Parliament would benefit from the Department of Treasury and Finance including in their annual report the savings achieved, compared to target, resulting from the Efficient Technology Services (ETS) program.**
18.10	**The Victorian Fund Management Corporation's (VFMC) investment performance, before fees, to 30 June 2009 was –13.74 per cent compared to a benchmark of –10.90 per cent for one year; –2.65 per cent compared to a benchmark of –0.90 per cent for three years and 4.33 per cent compared to a benchmark of 5.45 per cent for five years. The VFMC is undertaking a number of measures to improve investment performance in the future.**

18.1. Introduction

Vibrant Democracy is the fifth *Growing Victoria Together* vision examined by the Committee in this year's Financial and Performance Outcomes Report.

This chapter contains outcome-related comments on selected government activities which support the Vibrant Democracy vision. The Committee asked departments and agencies a range of questions relating to the *Growing Victoria Together* goals of greater public participation and more accountable government and sound financial management.

18.2. Greater public participation and more accountable government

18.2.1 Community Cabinet Program – increasing opportunities for seeking community input

The Department's annual report for 2007-08 foreshadowed that, in terms of future plans, the Cabinet Secretariat would provide recommendations to increase opportunities for community participation and feedback for future Community Cabinet programs.[514]

The Committee noted that the Cabinet Secretariat managed six Community Cabinet visits into metropolitan and regional Victoria during 2008-09 including bushfire-affected areas,[515] compared to 12 in 2007-08.[516] After the 2009 Victorian bushfires in February 2009, the Community Cabinet focussed on visiting bushfire-affected areas.[517]

514 Department of Premier and Cabinet, *2007-08 Annual Report,* p.10

515 ibid., p.16

516 ibid., p.10

517 ibid., p.16

The Committee sought further information on the conduct of the program in 2008-09. DPC told the Committee that:[518]

> *...during 2008 the Community Cabinet program was revised to incorporate a less structured and broader approach to community interaction and participation. The revised program includes extensive open meetings and discussions with members of the community, and covers a greater geographic area than previous visits.*
>
> *During 2007-08, the 12 Community Cabinet visits covered 14 local government areas. The six Community Cabinet visits in 2008-09 covered 22 local government areas, thereby enabling more people the opportunity to attend a Community Cabinet visit.*
>
> *During 2008-09, it was recommended that consideration be given to more extensive advertising of each Community Cabinet visit to promote greater community awareness of visits and therefore maximise access and community engagement. It was recommended that advertisements call for community members to register to attend community discussions in order to enhance event planning, better gauge the impact of community advertising and to enable targeting of community organisations who may not have registered to attend.*
>
> *It was also recommended that community discussion sessions commence later in the day to enhance community participation and access. This recommendation was in response to feedback that some people have difficulty obtaining time off work to attend community discussions scheduled for earlier in the day.*
>
> *These recommendations were implemented during 2008-09 with advertisements covering a broader geographic area, community members registering their interest to attend either online or by telephone, and community discussion being held late-afternoon to enable greater community participation.*

The Committee noted that of the six Community Cabinet visits during 2008-09, two were metropolitan visits (Cities of Hume and Whittlesea and municipalities along the Eastlink Corridor); and four were regional visits (the Wimmera Region of Horsham, Yarriambiack and West Wimmera, and Bushfire Recovery visits to the Yarra Valley, Eaglehawk and Redesdale and the Gippsland region).[519]

The Committee believes that consideration should be given to the inclusion of a performance measure in the Budget Papers relating to public participation in the Community Cabinet program.

Recommendation 58: **The Department of Premier and Cabinet consider including a new performance measure and target in the budget papers relating to public participation in the Community Cabinet program.**

518 Department of Premier and Cabinet, response to the Committee's Financial and Performance Outcomes Questionnaire – Part Two, received 2 February 2010, p.26

519 Department of Premier and Cabinet, *2008-09 Annual Report,* October 2009, p.16

18.3. Sound financial management

18.3.1 Taxation revenue from the sale of Intralot products

The 2008-09 financial year was the first year of operation of Intralot since being awarded a Public Lottery Licence in Victoria. The Victorian Commission for Gambling Regulation's Annual Report details that the amount of taxation revenue collected from the sale of Intralot lotteries products during 2008-09 was $18.5 million.[520] The Committee sought further information on this matter. The Department of Treasury and Finance advised that:[521]

> *…estimates of lotteries revenue (from tax on player loss from the sale of lottery products) were made using a top-down model which generated projections for all lotteries combined (i.e. Tattersalls and Intralot). No decomposition of the 2008-09 Budget estimates, between Tattersalls and Intralot, was made.*
>
> *For this reason it is not possible to indicate how much taxation revenue was originally budgeted for 2008-09 from the sale of Intralot products or the variance between budgeted and actual.*

The Committee believes that the Department of Treasury and Finance should provide and report separate budget estimates of lotteries taxation revenue from the sale of various lottery products. This will enhance information to Parliament and the general public.

Recommendation 59: **The Department of Treasury and Finance should in future budget papers provide and report on expected and actual revenue from the sale of specific lottery products.**

18.3.2 Whole-of-government risk management

In July 2007, the Victorian Government Risk Management Framework (VGRMF) was introduced with the purpose to '*support good practice in public sector risk management.*'[522]

While all government agencies that report in the State's Annual Financial Report are required to apply the VGRMF, three departments and agencies, namely, the Victorian Managed Insurance Authority (VMIA), the Department of Premier and Cabinet (DPC) and the Department of Treasury and Finance (DTF) play a key role in monitoring, reporting and advising government in relation to compliance with risk management requirements under existing legislation, and risks that impact more broadly across the public sector.

The VGRMF identifies that:[523]

> *...the VMIA has a key role to play as a central advisor and source of support for the Victorian State Government in relation to non-financial, insurable and non-insurable risks.*

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520 Victorian Commission for Gambling Regulation, *2008-09 Annual Report,* October 2009, p.87

521 Department of Treasury and Finance, response to the Committee's Financial and Performance Outcomes Questionnaire – Clarification Questions*,* received 15 April 2010, p.9

522 Department of Treasury and Finance, *Victorian Government Risk Management Framework,* July 2007, p.3

523 ibid., p.6

DPC is responsible for*:* [524]

> *…managing risk through its role as a central agency that co-ordinates the cabinet process and supports the Premier on issues affecting all of government, as well as in his portfolio of ministerial responsibilities.*

DTF supports the Treasurer and Minister for Finance in complying with obligations under the *Financial Management Act 1994.* This includes provision of risk management frameworks for capturing, monitoring and reporting on financial risks.[525]

DTF also plays a key role in advising on risks to service delivery through regular reporting against delivery of departmental outputs, whole-of-government performance reports and developing and maintaining a suite of governance frameworks and providing support to the Expenditure Review Committee of Cabinet.

The Committee noted that in 2008-09, the Department undertook a thorough review of its governance of State risk management and created two new sub-committees to take effect in 2009-10. Of these two new sub-committees, the Risk Management Committee provides oversight of the development, operation and effectiveness of the Department's whole-of-government risk management framework related to the State's financial and non-financial risks.[526]

The Department advised that: [527]

> *…the Victorian Government Risk Management Framework (VGRMF) brings together information on governance policies, accountabilities, and roles and responsibilities for all those involved in risk management and mandates a minimum risk management standard across public sector entities.*
>
> *The framework consists of the following elements:*
>
> - *Adoption of a common risk management standard across the public sector, which is consistent with the Australian/New Zealand Risk Management Standard;*
> - *Attestation by the Accountable Officer/Board that their department/agency have risk management processes in place consistent with a common risk management standard and these processes are effective in controlling risks to a satisfactory level; and*
> - *Information on governance policies, accountabilities, roles and responsibilities in relation to risk management.*
>
> *The VGRMF also promotes the need to address inter-agency and state-wide risks when developing and implementing risk management processes. Further, the VGRMF provides a central resource with links to a wide range of risk management information sources.*

524 ibid., p.7

525 ibid.

526 Department of Treasury and Finance, *2008-09 Annual Report,* October 2009, p.13

527 Department of Treasury and Finance, response to the Committee's Financial and Performance Outcomes Questionnaire – Part Two, received 12 February 2010, pp.8–9

To some extent all major risks require some level of oversight at a central level to provide an integrated response across the public sector. Examples of risk which require a centrally co-ordinated response include climate change, demographic trends, economic risks and emergency risks.

It is important to note that the terms of reference for the Risk Management Committee provides a responsibility for oversight and assurance regarding identification of all whole of government financial and non-financial risks. The Risk Management Committee is also charged with the responsibility of assuring that the frameworks in place to manage these risks are effective.

18.3.3 Financial management practices employed to optimise State's ongoing financial performance

In noting the challenging financial and economic conditions and the deterioration in 'Net result from transactions – Net operating balance' for the State of Victoria from $1,638.6 million in 2007-08 to -$62.9 million in 2008-09,[528] the Committee sought an outline of the financial management practices that the Department of Treasury and Finance employs to optimise the State's ongoing financial performance.

The Department advised that it:[529]

…employs a number of practices, frameworks and legislative measures to optimise the State's ongoing financial performance, including the following:

(a) Administration of the requirements of the Financial Management Act 1994 that includes the observance of a set of sound financial management principles, including:

- *prudently manage financial risks faced by the State, taking into consideration economic circumstances;*
- *pursue spending and taxation policies that are consistent with a reasonable degree of stability and predictability in the level of the tax burden;*
- *maintain the integrity of the Victorian tax system;*
- *ensure that government policy decisions have regard to their financial effects on future generations; and*
- *provide full, accurate and timely disclosure of financial information relating to the activities of the Government and its agencies.*

(b) Pursuing its three key objectives, which guide DTF's policy directions to achieve the outcome of sound financial management. As outlined in Budget Paper 3 Service Delivery 2009-10 (page 249), the three objectives are:

- *maintain a substantial budget operating surplus that allows for the delivery of the Government's infrastructure objectives;*

528 Department of Treasury and Finance, *Financial Report for the State of Victoria 2008-09*, October 2009, p.32

529 Department of Treasury and Finance, response to the Committee's Financial and Performance Outcomes Questionnaire – Part Two, received 12 February 2010, pp.9–10

- *guide government actions to best increase living standards for all Victorians through the provision of innovative policy advice; and*

- *champion an integrated whole-of-government 'value for money' approach to ensure optimal service delivery and the provision of world-class infrastructure to benefit all Victorians;*

(c) Development and maintenance of cohesive financial management and compliance assurance frameworks, including the Financial Management Compliance Framework and Financial Reporting Directions;

(d) Provision of strategic budget and financial analysis and advice to Ministers, Cabinet and Cabinet sub-committees, including a robust budget allocation process coordinated by the Expenditure Review Committee, which includes all output and asset investment decisions and other strategic issues considered in the broader budget context;

(e) Management and forecasting of cash balances, management of the public sector's superannuation scheme liabilities, provision of financial risk management and advice, and the review and analysis of the performance of departments, with a focus on delivering value for money services to the community;

(f) Development and implementation of a prudential risk management and reporting framework in respect of Public Financial Corporations and strategies to manage the State's financial risks; and

(g) Provision of advice and frameworks to manage commercial and infrastructure project risks.

The Committee notes that the *Public Finance and Accountability Bill 2009* was introduced into Parliament on 8 December 2009 and is currently being debated. The Bill will replace and consolidate the following acts into one comprehensive Act:

- *Financial Management Act 1994;*
- *Borrowing and Investment Powers Act 1987;*
- *Monetary Units Act 2004;* and
- *Public Authorities (Dividends) Act 1983.*

The Department of Treasury and Finance explained that the purpose of the Bill is to:[530]

- *modernise the framework for public finance, accountability and resource management in Victoria;*
- *enhance governance across the public sector and cover key elements of public finance, including planning, budgeting, reporting, procurement, borrowing and investment, and appropriations; and*
- *make the outcomes that government is trying to achieve the basis for all decision making and accountability.*

530 Department of Treasury and Finance, *Public Finance and Accountability Bill fact sheet, p.1*

Further, the Bill will be underpinned by a number of principles which will aim to further optimise the State's ongoing financial performance. The principles that the Government plans to apply to public finance and public resource management in Victoria include:[531]

- *manage the State's finances and risks prudently, and ensure that policy decisions have regard to present and future generations;*
- *ensure that planning, budgeting and accountability processes will focus on the achievement of outcomes through the provision of outputs;*
- *ensure that the use of public resources is in accordance with a plan and authorised in an appropriate manner;*
- *establish and maintain systems and procedures to ensure that public resources are managed effectively and achieve value for money; and*
- *ensure reporting will be clear, accurate, timely and useful.*

18.3.4 Indicators of the State's financial condition

In reviewing the indicators of financial condition for the State of Victoria, the Committee noted that the ratio of 'Net debt plus superannuation liability to revenue' increased from 41.8 per cent for 2008 to 74.8 in 2009.[532]

The Department of Treasury and Finance advised the Committee that it:[533]

> *…does not have a specific upper limit for this parameter, however it is monitored alongside other key qualitative and quantitative measures. Measures include such things as the local and global economic outlook, net debt and net debt plus superannuation liabilities to GSP, net financial liabilities to GSP, as well as various metrics set out in Moody's rating methodology.*
>
> *Standard and Poor's (S&P), who in addition to Moody's assess the State, look at a number of factors when forming a credit opinion. S&P have specified that 'Net debt (excluding advances paid) plus superannuation liability to revenue' of the Non-Financial Public Sector is a key ratio in this assessment, and that the trigger point for a possible downgrade would be if this ratio exceeds 130-140 per cent. The Government is committed to maintaining the State's triple-A credit rating, hence the Department advised that it works to ensure that the trigger isn't breached.*
>
> *The rise in this ratio in 2009 is partially driven by a $7.8 billion increase in the superannuation liability, equating to 18.5 per cent of revenue. This is mainly driven by a decline in the discount rate used to value the liability and a decline in the value of the superannuation assets invested as a result of financial market conditions. These factors are largely out of the State's control. Changes in the superannuation liability that arise due to movements in the discount rate do not impact on the amount of cash required to fund this liability.*

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531 ibid., p.2

532 Department of Treasury and Finance, *Financial Report for the State of Victoria 2008-09,* October 2009, p.39

533 Department of Treasury and Finance, response to the Committee's Financial and Performance Outcomes Questionnaire – Part Two, received 12 February 2010, pp.12–13

> *Borrowings have also risen to fund the State's capital expenditure program. This includes significant projects being undertaken in the Public Non-Financial Corporations (PNFC) sector. The PNFC sector operates on a commercial basis where expenses are generally covered by revenue earned from charging commercial rates to users. While still monitoring the debt levels of PNFCs to ensure they are manageable, the debt for the larger entities in the sector on the whole can be considered self-sustaining.*
>
> *The result is also compared against DTF's internal target as well as S&P's published guidance.*

Victoria's credit rating is assessed by two international agencies - Standards & Poor's and Moody's Investors Service Limited. Both agencies conduct reviews of the State's economic structure and prospects, financial performance and outlook, balance sheet position, liquidity and debt management strategy, and the Government's fiscal strategy.[534]

The Committee notes that the Government has as one of its five short-term financial objectives to maintain a triple-A credit rating.[535] The latest reports from each ratings agency confirmed Victoria's triple-A credit rating.

In September 2009 Standard & Poor's released their latest credit ratings report for Victoria. The Agency stated:[536]

> *The ratings on Victoria are supported by the state's strong balance sheet, diversified economy, ongoing fiscal discipline and strong system support. These strengths are offset, as with all Australian states, by an institutional framework that contains a degree of vertical fiscal imbalance….. While Victoria's current policy favours partial debt-funding of its capital program, Victoria's debt levels are expected to remain consistent with the rating. However, the state's increased debt and lower revenues, will impact Victoria's fiscal flexibility as debt moves closer to Standard & Poor's trigger of 130% - 140%.*

Standard & Poor's went on to say:[537]

> *The stable outlook reflects the government's commitment to fiscal prudence. This includes a fiscal strategy that seeks to maintain an adequate operating performance and strong balance sheet.*

534 Department of Treasury and Finance, *Victoria's Credit Rating,* <www.dtf.vic.gov.au/CA25713E0002EF43/pages/economic-and-financial-policy-victoria's-credit-rating>, accessed 11 March 2010

535 Department of Treasury and Finance, *Financial Report for the State of Victoria 2008-09,* October 2009, p.7

536 Standard & Poor's, *Ratings Direct - Victoria (State of)*, 2 September 2009, pp.2–3

537 ibid., p.3

Moody's Investors Service Limited provided its latest credit opinion on Victoria in January 2009. The Agency's summary comments relating to Victoria state that:[538]

> *Victoria's credit quality reflects a sound record of financial performance underpinned by the state's prudent fiscal practices along with strength in tax revenues and commonwealth grants, a modest debt burden stemming from positive cash operations over many years, and a sizable and diversified economic base which amply supports the state's financial obligations. A rise in capital spending recently has resulted in modest deficits in the general government sector and somewhat larger deficits in the state's consolidated operations.*
>
> *The state is well positioned to face a more challenging economic and fiscal environment that is unfolding in Australia as a result of the global downturn and credit crisis. Deficits in the general government and consolidated government sector's are expected to widen due to increased investment in state infrastructure and a slowdown in revenues. However, Victoria is well placed to absorb these deficits given its low debt burden.*

Moody's went on to say:[539]

> *The outlook is stable, based on Moody's assessment that the state's strong financial profile and low debt burden position it well to absorb financing deficits (net borrowing result) and an associated increase in debt burden anticipated over the medium term.*

The 2008-09 Financial Report for the State of Victoria contains a number of indicators of financial condition for the State with comparative data for the previous seven years. In particular, the Committee noted that the net debt plus superannuation liability to revenue increased from 41.8 per cent at 30 June 2008 to 74.8 per cent at 30 June 2009. This ratio is forecast to increase to 105.5 per cent by 30 June 2013.[540] This increase is driven by increased debt to fund the State's capital expenditure program. This increase remains below the Standard & Poor's trigger point for a possible ratings downgrade (130 – 140 per cent). The Committee also notes the following other indicators of the State's financial condition:

- the ratio of net debt plus superannuation liability to Gross State Product (GSP) has increased from 6.3 per cent at 30 June 2008 to 11.7 per cent at 30 June 2009;
- the ratio of net debt to GSP has increased from 1.4 per cent at 30 June 2008 to 4.0 per cent at 30 June 2009; and
- net debt has increased from $3,858.3 million at 30 June 2008 to $10,696.4 million at 30 June 2009.

Further detailed analysis on State debt can be found in Chapter 8 (State Debt) of this report.

538 Moody's Investors Service, *Credit Opinion: Victoria (State of) Australia,* 22 January 2009, p.1

539 ibid., p.2

540 Committee's calculation for 30 June 2013 based on information contained in 2009-10 Budget Update

The Committee notes that the State's Annual Financial Report includes commentary within the Chapter on 'Financial Objectives and Economic Conditions' regarding net financial liabilities including that:[541]

> *...the Government is maintaining modest and sustainable levels of net financial liabilities, consistent with both its triple-A credit rating and its commitment to the provision of improved services and infrastructure.*

The commentary also states when Victoria's triple-A credit rating was last re-affirmed by the two ratings agencies.

Recommendation 60:	**The Department of Treasury and Finance include in the State's annual financial report and Budget Papers the main factors ratings agencies assess when forming their credit opinion and provide commentary on these factors.**

18.3.5 Development of superannuation liability management initiatives

Foundation work earmarked to be undertaken in 2008-09 in the Department's Business Plan included the task of developing superannuation liability management initiatives.[542] The Department advised the Committee that during 2008-09 the Department's key initiatives relating to the management of the State's superannuation liability were:[543]

> - *A review of the State's policy of fully funding its superannuation liability by 2035. This involved an analysis of various funding scenarios to ensure that the State's resources were allocated efficiently. Ultimately, the existing approach was deemed most prudent at this stage; and*
> - *The development of a proposal regarding the manner in which the State's superannuation liability is valued for financial reporting purposes. This proposal is likely to result in a significant reduction in the volatility of the reported superannuation liability and is currently with the Victorian Auditor-General's Office (VAGO) for further consideration.*
>
> *The Department also continues to obtain actuarial projections of the State's superannuation liability, expense and cash flows on a six monthly basis and monitors the progression of all of these items closely, especially in light of recent financial market volatility.*

The State's balance sheet contains a superannuation liability in relation to public sector defined benefit superannuation schemes and represents the present value of expected future benefits that scheme members have accrued as a result of past service offset by the value of superannuation assets.

541 Department of Treasury and Finance, *Financial Report for the State of Victoria 2008-09*, October 2009, p.13

542 Department of Treasury and Finance, *2008-09 Business Plan,* p.2

543 Department of Treasury and Finance, response to the Committee's Financial and Performance Outcomes Questionnaire – Part Two, received 12 February 2010, pp.13–14

The value of the superannuation liability increased by $7.7 billion in 2008-09 from $12.9 billion at 30 June 2008 to $20.7 billion at 30 June 2009. The liability decreased by $3.8 billion between revised budget estimate and actual position on 30 June 2009. This change in the superannuation liability was due to a reduction in the discount rate used to value the liability and weak investment markets.[544] The change in the reported superannuation liability arising from the reduction in discount rate has not impacted on the amount of cash required to fund the State's superannuation liability over time. Funding requirements continue to be calculated using a long term investment return, currently 8 per cent a year before tax.[545]

In 2000, the State adopted a funding framework aimed at fully funding the unfunded superannuation liability in respect of the State Superannuation Fund (SSF) by 2035. Despite the significant increase in the superannuation liability in 2008-09, of which the SSF represents approximately 96 per cent, the State has confirmed that: [546]

> *…based on current projections, the state remains on track to achieve the full funding of the unfunded superannuation liability in respect of the State Superannuation Fund by the target date of 2035.*

The State aims to fully fund the SSF by periodically making top-up payments into the SSF from the Consolidated Fund. From 2002-03 to 2008-09, the State had made $5.3 billion in payments. The 2009-10 Budget outlined that over the next four years, 2009-10 to 2012-13, the State plans to make a total of $2.9 billion of payments.

The Committee noted that in each budget since the adoption of the funding framework in 2000, up to and including the 2008-09 Budget, the Government had included the long-term unfunded superannuation liability projections for the SSF. This information was generally contained in Budget Paper No. 2 *Strategy and Outlook*. However, the Committee noted that in the 2009-10 Budget this information was not included in the budget papers.

The Committee believes that including the long-term unfunded superannuation liability projections for the SSF in the Budget Papers increases accountability to Parliament and the general public by clearly showing how the Government is progressing in achieving its strategy to fully fund the SSF by 2035.

Recommendation 61: **The Department of Treasury and Finance disclose the long-term unfunded superannuation liability projections for the SSF in the State Budget Papers. This will enhance the accountability to Parliament and the general public of the government's progress in achieving its strategy to fully fund the SSF by 2035.**

544 Department of Treasury and Finance, *Financial Report for the State of Victoria 2008-09,* October 2009, p.24

545 Budget Paper No. 2, *2009-10 Strategy and Outlook*, May 2009, p.55

546 ibid.

18.3.6 Consolidating and rationalising information technology and administrative services across government

The Committee noted that the 2008-09 Budget provided $14.7 million to improve government productivity and efficiency by consolidating and rationalising administrative services across government.[547] It sought further details from DTF on expenditure and performance in this area.

The following summary table was provided by DTF: [548]

Table 18.1: 2008-09 State Budget Output Allocations

	2008-09 ($ million)
Efficient Technology Services (ETS)	10.72
Ancillary Services	4.0
Total	**14.72**

Source: Department of Treasury and Finance, Response to the Committee's Financial and Performance Outcomes Questionnaire – Part Two, *received 12 February 2010, p.16*

DTF advised the Committee that:[549]

> *...in 2008-09 the Victorian Government allocated $10.72 million for development work to investigate options for standardising core Information Communications Technology (ICT) services. This work focussed on the consolidation of common ICT services across all government departments and four agencies – VicRoads, Environment Protection Authority, State Revenue Office and Victoria Police.*
>
> *The delivery of a business case with detailed financial analysis was achieved at a cost of $4.9 million. The analysis undertaken has provided a solid basis for the Efficient Technology Services (ETS) program.*
>
> *Once the business case was approved, the remaining funds were used to support program mobilisation and planning activities.*
>
> *Planning was undertaken to:*
>
> - *consolidate email and calendar services onto one technical platform; and*
> - *develop a technical pilot for a new desktop for Victorian Government staff.*
>
> *These projects have since been completed or are nearing completion. Other mobilisation activities included development of a comprehensive process to migrate ICT services from departments to CenITex, the government-owned ICT shared service provider.*

The Committee notes that the Government provided funding of $10.7 million for the ETS program in the 2008-09 Budget with a further $95.2 million provided in the 2009-10 Budget.

547 Budget Paper No.3, *2008-09 Service Delivery*, May 2008, p.356

548 Department of Treasury and Finance, response to the Committee's Financial and Performance Outcomes Questionnaire – Part Two, received 12 February 2010, p.16

549 ibid.

CenITex is partnering with the Government Services Group (GSG) within the Department of Treasury and Finance to run the ETS program. The ETS program aims to support the Government's 2007 *Efficient Government* policy by:[550]

- *reducing the cost of providing core ICT services, saving money for other government priorities;*
- *creating a more flexible government, reducing the delays and productivity losses associated with machinery of government changes;*
- *enabling a better 'front line' service delivery, with the Government easily able to coordinate services and collaborate across departments, agencies and services without significant additional investment;*
- *improving workforce productivity, equipping government employees with better information security, access and desktop tools.*

The Committee believes that the Department of Treasury and Finance should report in their annual report the level of savings achieved, compared to target, resulting from the consolidating and rationalising of information technology services through the ETS program.

Recommendation 62: **The Department of Treasury and Finance include in future annual reports the savings achieved, compared to target, resulting from the ETS program.**

18.4. Victorian Funds Management Corporation

18.4.1 Investment performance during 2008-09 against benchmark targets

In terms of investment performance, the 2008-09 annual report details that:[551]

> *Investment returns for VFMCs Department of Treasury and Finance client portfolios in aggregate were -13.74%. This was below the composite benchmark of -10.9%. Over three years our client's portfolios in aggregate returned -2.65% against a benchmark return of -0.68%, while over five years, returns were 4.33%, compared to a benchmark of 5.45%.*

The Committee sought further information from the VFMC in regard to performance against benchmarks and received the following information on investment performance:[552]

550 CenITex, *2008-09 Annual Report,* October 2009, p.35

551 Victorian Funds Management Corporation, *2008-09 Annual Report,* October 2009, p.13–14

552 Victorian Funds Management Corporation, response to the Committee's Financial and Performance Outcomes Questionnaire – Part Two, received 12 February 2010, p.1

Table 18.2: Whole of State Investment Performance – June 2009(a)

Asset Class	Performance (Before Fees)					
	One Year		Three Years		Five Years	
	Fund (% p.a).	Bmk (% p.a.)	Fund (%)	Bmk (%)	Fund (%)	Bmk (%)
Cash	5.55	5.48	6.46	6.40	6.17	6.10
Indexed Linked Bonds	-3.41	-1.04	1.84	3.05	4.63	5.35
Diversified Fixed Interest	-3.41	10.82	1.64	6.43	3.32	6.10
Australian Equities	-20.01	-20.34	-5.19	-3.73	6.19	6.91
International Equities	-20.46	-21.33	-9.31	-8.83	-0.47	-0.40
Property	-11.80	-8.62	4.87	6.18	9.08	10.27
Private Equity	-27.09	-20.34	-3.52	-3.33	3.10	7.39
Infrastructure	6.22	0.94	1.13	5.92	5.40	7.25
Absolute Return Funds	-20.18	7.58	-5.97	7.79		
Total:						
Before Fees	**-13.74**	**-10.90**	**-2.65**	**-0.68**	**4.33**	**5.45**
After Fees	**-14.04**		**-2.95**		**4.04**	

Notes:

(a) *Whole of State Investment Performance includes the six mandated clients (ESSSuper – ESS DB, ESSSuper – SSF DB, PCSF, TAC, VMIA and VWA).*

Source: *Victorian Funds Management Corporation, Response to the Committee's 2008-09 Financial and Performance Outcomes, Questionnaire Part Two, received 12 February 2010, p.1*

VFMC advised it is taking the following measures to improve investment performance in the future:[553]

- *recruiting experienced investment professionals to strengthen the investment team, including improving our in house capabilities. Key roles filled since mid 2009 have included a Head of Strategy and two senior Fixed Income Portfolio Managers;*
- *with the appointment of a Chief Executive Officer (CEO) in November 2009, the Chief Investment Officer (CIO) who had been filling both CEO and CIO roles since March 2009, has been able to focus solely on Investment and improving performance; and*
- *further investment in systems to better track and assess performance.*

It also advised that:[554]

> *...while not within the control of VFMC, the improvement in financial markets will result in improved absolute performance. Direct investment asset classes, such as Infrastructure together with Private Equity have lagged valuation metrics relative to market movements and these are expected to drive performance in 2009-10.*

553 ibid., p.2

554 ibid.

The Committee noted that investment performance, by asset class, did not achieve benchmark targets to 30 June 2009 as follows:

- five of nine asset classes over one year;
- eight of nine asset classes over three years; and
- seven of eight asset classes over five years.

The Committee also notes that due to the effects of the Global Financial Crisis on investment market performance, the established long-term objectives for each of VFMC's six mandated clients were not achieved at 30 June 2009.

The Committee believes that the inclusion of the asset allocation (per cent) for each asset class would be a useful addition to the commentary on investment performance in the VFMC annual report. This will enable Parliament and the general public to assess the relative performance against benchmark targets for each asset class for which VFMC's mandated clients have funds invested.

Recommendation 63: **The Victorian Funds Management Corporation should include in future annual reports the asset allocation (per cent) for each asset class for which VFMC's mandated clients have funds invested.**