

# CHAPTER 1: INTRODUCTION AND RESPONSES TO THE PREVIOUS FINANCIAL AND PERFORMANCE OUTCOMES REPORT

## 1.1. Background

In 2008-09, the Victorian Government raised \$39.3 billion and spent \$39.0 billion on service delivery for Victorians.<sup>1</sup> Net infrastructure spending in the general government sector in 2008-09 totalled \$4.1 billion.<sup>2</sup> Throughout the State of Victoria as a whole, revenue was \$45.4 billion and expenses were \$45.5 billion.<sup>3</sup> The total net worth of Victoria rose by \$26.4 billion, while that of the general government sector rose by \$26.3 billion.<sup>4</sup>

Through this Inquiry into the 2008-09 Financial and Performance Outcomes, the Committee aims to further inform Parliament and the people of Victoria on key financial outcomes and performance against established goals.

This Inquiry complements and completes the accountability cycle, which follows the Committee's Inquiry into the 2008-09 Budget Estimates, which reviewed the new initiatives, programs and services to be delivered in 2008-09 and beyond. This report includes analyses of key aspects of what departments and agencies intended to achieve in 2008-09 compared with what was actually achieved, together with recommendations designed to improve accountability and enhance financial and resource management.

## 1.2. Objectives of the Inquiry

The overall objective of the Committee's Inquiry into the 2008-09 Financial and Performance Outcomes is to review the Government's financial and performance outcomes for the previous financial year.

The Inquiry focuses on financial, service and capital outcomes across the State of Victoria and examines outputs delivered and outcomes achieved by departments and other government agencies. This year's report:

- undertakes a comparative analysis across departments and other government agencies on a range of key issues, including:
  - the public sector infrastructure and asset investment program;
  - revenue and revenue foregone;
  - staffing;
  - procurement;
  - program outcomes;

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1 Department of Treasury and Finance, *Financial Report for the State of Victoria 2008-09*, 14 October 2009, p.45. This relates to the general government sector.

2 *ibid.*, p.29

3 *ibid.*, p.45

4 *ibid.*

- performance against targets;
  - environmental outcomes;
  - regional and rural outcomes; and
  - progress towards the *Growing Victoria Together* visions.
- ensures that there is sufficient articulation of performance against performance indicators encompassing equity, efficiency and effectiveness measures.

In 2008-09, the State and Commonwealth governments also introduced significant programs in response to the Global Financial Crisis and the February 2009 bushfires. This year's inquiry examined how departments and agencies initially performed on these programs.

In previous reports, there has been a recurrent chapter looking at the performance of the Victorian Auditor-General's Office. The Committee has not looked at this topic in this inquiry because independent financial and performance audits of the Victorian Auditor-General's Office will be conducted in 2010. It is anticipated that the Committee will review the performance of the Victorian Auditor-General's Office in the light of the audits' recommendations in its next inquiry into financial and performance outcomes.

This inquiry also comments on the scope, timeliness and appropriateness of information presented to Parliament in annual and other reports.

In addition, the Committee in the past year presented its report on *New Directions in Accountability: Inquiry into Victoria's Public Finance Practices and Legislation*, which dealt in part with possible measures to improve financial and performance reporting to Parliament.

### **1.3. Scope of the Inquiry**

For the purpose of conducting this inquiry, a financial year outcome is defined as a result that has been achieved, either in a financial or performance context, from an activity funded by the Parliament or through internally generated revenue. These outcomes are recorded in the public accounts of departments and agencies which are formally audited by the Auditor-General. The inquiry also examines key areas of performance against indicators in terms of equity, effectiveness and efficiency.

The Committee's inquiry analyses the public accounts and related financial and performance information contained in a range of documents that includes:

- the quarterly financial reports for the State;
- the annual financial report for the State;
- annual reports of departments, the Department of Parliamentary Services and key government agencies;
- departmental responses to the Committee's 2008-09 outcomes questionnaires;
- the Government's budget papers for 2008-09 and 2009-10; and
- reports of the Victorian Auditor-General and other authoritative organisations.

The inquiry looks at public expenditure against the Government's expressed purposes for that expenditure as contained in documents tabled in Parliament and in public policy statements. The scope of the Committee's inquiry remains within the context of accepted government policy. The Committee does not generally seek to explore alternative policy questions or to compare fiscal outcomes against other policy contexts.

### 1.3.1 Coverage of departments and other government agencies

During its Inquiry into the 2006-07 Financial and Performance Outcome, the Committee extended the range of agencies whose outcomes were subjected to specific analysis and reporting. This approach was adopted to enable a more comprehensive analysis of outcomes across general government, public non-financial corporations and public financial corporations.

This approach uses a different selective sample of agencies each year to explore to different levels of depth. Table 1.1 details the government entities examined in this inquiry into the 2008-09 outcomes.

**Table 1.1: Departments and related agencies covered in the review**

Department/Agency	Questionnaire Part One	Questionnaire Part Two	Review of annual reports
Alfred (Bayside) Health	Yes	-	Yes
Austin Health	Yes	-	Yes
Barwon Health	Yes	-	Yes
Barwon Water (Barwon Region Water Authority)	Yes	Yes	-
City West Water Limited	Yes	-	-
Country Fire Authority	Yes	-	-
Department of Education and Early Childhood Development	Yes	Yes	Yes
Department of Human Services (including the Department of Health)	Yes	Yes	Yes
Department of Innovation, Industry and Regional Development	Yes	Yes	Yes
Department of Justice	Yes	Yes	Yes
Department of Parliamentary Services	Yes	Yes	-
Department of Planning and Community Development	Yes	Yes	Yes
Department of Premier and Cabinet	Yes	Yes	Yes
Department of Primary Industries	Yes	Yes	Yes
Department of Sustainability and Environment	Yes	Yes	Yes
Department of Transport	Yes	Yes	Yes
Department of Treasury and Finance <sup>(a)</sup>	Yes	Yes	Yes
Eastern Health	Yes	-	Yes
Goulburn Murray Rural Water Authority	Yes	-	-
Melbourne Health	Yes	-	Yes
Melbourne Water Corporation	Yes	-	-

Department/Agency	Questionnaire Part One	Questionnaire Part Two	Review of annual reports
Metropolitan Fire and Emergency Services Board	Yes	-	-
National Gallery of Victoria	Yes	-	-
Ombudsman Victoria	-	-	Yes
Parks Victoria	Yes	-	-
Port of Melbourne Corporation	Yes	-	-
Royal Children's Hospital	Yes	-	Yes
Rural Finance Corporation	Yes	-	-
South East Water Limited	Yes	-	-
Southern Health	Yes	Yes	Yes
Transport Accident Commission	Yes	-	-
Treasury Corporation of Victoria	Yes	-	-
V/Line	Yes	-	-
VicRoads	Yes	-	-
Victoria Police	Yes	Yes	-
Victorian Commission for Gambling Regulation	-	Yes	-
Victorian Electoral Commission	-	-	Yes
Victorian Energies Network Corporation (VENCorp)	Yes	-	-
Victorian Funds Management Corporation	Yes	Yes	-
Victorian Managed Insurance Authority	Yes	-	-
Victorian Skills Commission	Yes	Yes	-
Victorian Urban Development Authority	Yes	-	-
Victorian WorkCover Authority	Yes	-	-
VicTrack	Yes	-	-
Western Health	Yes	-	Yes
Yarra Valley Water Limited	Yes	-	-

Note:

- (a) *The Department of Treasury and Finance also provided details of a number of additional agencies in its response to Questionnaire Part One that were not part of the Committee's focus.*

Source: *Public Accounts and Estimates Committee*

### **1.3.2 Analysis of annual reports**

In addition to general analyses of agencies' performance and reporting, the inquiry included a specific analysis of the annual reports of all departments, a selection of health-related government agencies (as detailed in Table 1.1), the Ombudsman Victoria and the Victorian Electoral Commission (see Chapter 19 for detailed findings from this analysis).

## 1.4. The review process

As in the last two inquiries, the Committee's investigation included a two-part questionnaire process. The questionnaires covered selected issues predominantly across budget-funded agencies that are deemed by the Committee to be of public interest.

The Questionnaire Part One covered financial and performance outcomes and consisted of generic questions applicable to all departments, the Department of Parliamentary Services and 33 related agencies. It included questions on:

- asset investment;
- public sector workforce;
- revenue and revenue foregone;
- procurement;
- the fiscal stimulus package;
- output cost variations;
- the agency's financial result;
- program outcomes; and
- departments' responses to the February 2009 bushfires.

This questionnaire was issued to the departments and agencies identified in Table 1.1 in October 2009.

Following a review of annual reports relating to departments and agencies that were tabled around 31 October 2009, together with an examination of other relevant information, the Committee issued a Questionnaire Part Two to the 10 departments, the Department of Parliamentary Services and six selected agencies (as identified in Table 1.1). This questionnaire more specifically related to performance measure variations, asset investment and the achievement of the Government's *Growing Victoria Together* outcomes and focused on the achievement of deliverables by individual departments and agencies. The Questionnaire Part Two was distributed in December 2009.

Matters are reported as part of across-the-board themes or individually under policy visions articulated by the Government in its *Growing Victoria Together* ten-year vision. This approach is also followed by the Auditor-General in his annual plan.

For the *Report on the 2008-09 Financial and Performance Outcomes*, where possible, information from previous years is used for comparative purposes when assessing achievements in 2008-09.

The Committee wishes to reiterate that in appreciating the importance of evaluating program outcomes on an ongoing basis to assess whether planned objectives and outcomes are being achieved, the concept of outcome evaluation is primarily a role for departments and government agencies to foster as part of formulating policy and performing their governance role.

With this concept in mind, the Committee's Inquiry into the 2008-09 Financial and Performance Outcomes does not propose to examine impacts at a micro-level, but intends to provide information at a macro-level that will be useful to program administrators at a policy and operational level for the purposes of promoting:

- the concept of continuous improvement in performance and disclosure; and
- consistency and cohesiveness in whole-of-government reporting, target-setting, disclosure and the achievement of performance measures.

#### **1.4.1 Timeliness of departmental responses**

Table 1.2 shows the dates on which departmental responses to the Committee's questionnaires were received. The Committee wishes to thank Departmental Secretaries and their officers for their time and continued cooperation on this inquiry.

Overall, the Committee was pleased that some departments submitted Questionnaire Part One and Part Two as well as their responses to clarification questions on time. The Committee is disappointed with the lack of timeliness shown by some departments, evident in the table below, in submitting questionnaires and responses to clarification questions. Such delays impede the important work for timely Parliamentary and public reporting undertaken by the Committee and its secretariat.

The Committee, conscious of the workload of departments, seeks to provide adequate time for departments to complete questionnaires and responses to clarification questions. Proper regard should be given to Parliamentary processes and the need for timely scrutiny in the public interest. The Committee considers that a number of departments in future should make serious and concerted efforts to improve their internal processes and adhere to the deadlines provided by the Committee.

**Table 1.2: Timeliness of departmental responses to the Public Accounts and Estimates Committee's questionnaires for the Inquiry into the 2008-09 Financial and Performance Outcome**

Department	Questionnaire Part One		Questionnaire Part Two		Clarification Questions	
	Due Date	Date Received	Due Date	Date Received	Due Date	Date Received
Education and Early Childhood Development	1/12/2009	1/12/2009	28/01/2010	28/01/2010	23/03/2010	25/03/2010
Human Services (includes Health)	1/12/2009	18/01/2010	28/01/2010	18/02/2010	23/03/2010	15/04/2010
Innovation, Industry and Regional Development	1/12/2009	15/12/2009	28/01/2010	8/02/2010	23/03/2010	24/03/2010
Justice	1/12/2009	3/12/2009	28/01/2010	9/02/2010	23/03/2010	25/03/2010
Parliamentary Departments	1/12/2009	10/12/2009	28/01/2010	1/02/2010	6/04/2010	22/03/2010
Planning and Community Development	1/12/2009	23/12/2009	28/01/2010	24/02/2010	6/04/2010	23/04/2010
Premier and Cabinet	1/12/2009	7/12/2009	28/01/2010	2/02/2010	23/03/2010	30/03/2010
Primary Industries	1/12/2009	3/12/2009	28/01/2010	4/02/2010	23/03/2010	24/03/2010
Sustainability and Environment	1/12/2009	1/12/2009	28/01/2010	29/01/2010	6/04/2010	7/04/2010
Transport	1/12/2009	9/12/2009	28/01/2010	25/02/2010	23/03/2010	23/03/2010
Treasury and Finance	1/12/2009	10/12/2009	28/01/2010	12/02/2010	6/04/2010	15/04/2010

Source: Public Accounts and Estimates Committee

## 1.5. Response to the Committee's Report on the 2007-08 Financial and Performance Outcomes

The Committee made 88 recommendations in its *Report on the 2007-08 Financial and Performance Outcomes*. Fifteen recommendations related specifically to the operations of the Victorian Auditor General's Office.

Section 36 of the *Parliamentary Committees Act 2003* requires responsible Ministers to respond, within six months, to recommendations in the Committee's reports tabled in Parliament.

The Government Response to the Public Accounts and Estimate Committee's *Report on the 2006-07 Financial Performance Outcomes* was tabled in Parliament on 10 November 2009. The Auditor-General provided a separate response to the recommendations that related to his office on 4 August 2009.

### 1.5.1 Auditor-General's response

The Auditor-General responded to 16 of the Committee's recommendations (the 15 recommendations that specifically related to the Victorian Auditor-General's Office plus one recommendation which was not specifically related to the Office but which mentioned it and was therefore 'noted').

Of the 15 recommendations specifically about the Victorian Auditor-General's Office, the Auditor-General agreed with 10, noted one for future consideration and did not support four.

The four recommendations which were not supported all related to performance measures suggested by the Committee for the Office. In three cases, the Auditor-General argued that the suggested performance measures involved factors outside the Victorian Auditor-General's Office's control and were therefore not appropriate. The Auditor-General argued that:

- Parliamentarians' participation rates in the annual survey of Parliamentarians '*cannot be influenced substantially by the Office*'<sup>5</sup>;
- the Victorian Auditor-General's Office should not set a target for 100 per cent of financial audits to be completed within three months of the end of the financial year as '*achievement of this target is often outside the Office's control*'<sup>6</sup>; and
- it would not be appropriate for the Victorian Auditor-General's Office to include the impact of its reports and recommendations in its performance measures as '*it remains the primary accountability of public sector entities to implement and report on change and improvements arising from audit reports ... this cannot be enforced by VAGO.*'<sup>7</sup>

One recommendation was rejected because the Auditor-General considered that, while the suggested measure was useful internally, the activity (the production of better practice guides) was too infrequent to warrant being an external performance indicator.

The Committee does not fully accept the Auditor-General's argument that these performance measures could not be considered. The appropriateness of performance measures for the Victorian

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5 Mr D Pearson, Auditor-General, correspondence to the Committee, received 10 August 2009, p.2

6 *ibid.*, p.4

7 *ibid.*, p.1



Auditor-General's Office will be considered as part of the independent performance audit this year.

## 1.5.2 Government's response

The Government's response to the *Report on the 2007-08 Financial and Performance Outcomes* covered the 73 recommendations that were not directed at the Victorian Auditor-General's Office. Table 1.3 shows what proportion of recommendations were accepted, under review and rejected, and compares that to the previous four inquiries (2005-06 was considered as part of the 2006-07 report and did not have a report of its own).

**Table 1.3: Government's responses to recommendations in Financial and Performance Outcomes reports 2002-03 to 2007-08**

Response	2002-03 (%)	2003-04 (%)	2004-05 (%)	2006-07 (%)	2007-08 (%)
Accept	71	84	80	68	73
– fully	44	55	25	32	37
– in part	12	14	14	17	3
– in principle	15	15	41	19	33
Under review	6	8	10	14	16
Reject	23	8	10	18	11

Sources: *Government responses to recommendations of the Public Accounts and Estimates Committee's reports on Financial and Performance Outcomes 2002-03 to 2007-08*

Recommendations were generally classified as 'under review' because the Government considered that they required further discussion to determine their practicability or because similar matters were already planned to be considered through another process. Examples of such processes include the Public Finance and Accountability Bill (which is currently being considered by the Parliament), planned reviews of the Financial Reporting Directions and the regular budget process (which includes the review of performance measures).

Recommendations were mostly classified as 'accept in principle' where the Government considered that a practice it currently undertakes is equivalent to the Committee's recommendation. In some cases, recommendations were accepted in principle because the Government was of the view that the matters should be given further consideration as part of processes that already regularly take place or are planned.

Those recommendations that were rejected primarily related to suggestions by the Committee to publish or provide additional information. In some cases, the Government considered that the level of detail suggested by the Committee was unnecessary. In other cases, where the Committee recommended that information be made publicly available, the Government considered that current (internal) reporting practices were sufficient or more appropriate. In one case, the Government indicated that it is not possible for the recommended information to be determined. For one recommendation, the Government indicated that the matter was not appropriate for a department to determine.

A chapter-by-chapter breakdown of responses is set out in Table 1.4, while the Government's response can be downloaded in full from [www.parliament.vic.gov.au/paec](http://www.parliament.vic.gov.au/paec).

**Table 1.4: Summary of the Government's response to recommendations in the 2007-08 Financial and Performance Outcomes Report, by report chapter**

Chapter	Accept fully	Accept in part	Accept in principle	Under review	Reject	Total <sup>(a)</sup>
Introduction	1	-	-	-	-	1
Overview of the State's 2007-08 Financial and Performance Outcomes	-	-	-	-	-	0
Revenue and Revenue Foregone	1	-	-	1	1	3
Update on Risk Management Practices in the Public Sector	1	-	-	-	-	1
Public Sector Infrastructure and Asset Investment Program	2	-	-	-	-	2
Staffing	-	-	-	-	2	2
Procurement	-	-	2	-	-	2
Grants	1	-	1	1	-	3
Efficiencies	-	-	2	-	-	2
Report Card by Departments on Portfolio Outcomes Achievements	1	1	-	1	-	3
Performance Targets	2	-	1	-	1	4
Environmental Outcomes	2	1	2	2	-	7
Regional and Rural Outcomes	2	-	2	-	1	5
Thriving Economy	2	-	2	1	-	5
Quality Health and Education	2	-	7	-	1	10
Healthy Environment	3	-	2	-	-	5
Caring Communities	4	-	1	2	-	7
Vibrant Democracy	-	-	2	1	2	5
Review of Annual Reports of Departments and Agencies	3	-	-	3	-	6
Victorian Auditor-General's Office	-	-	-	-	-	0
<b>Total number of recommendations</b>	<b>27</b>	<b>2</b>	<b>24</b>	<b>12</b>	<b>8</b>	<b>73</b>
<b>Proportion of total recommendations (%)</b>	<b>37</b>	<b>3</b>	<b>33</b>	<b>16</b>	<b>11</b>	<b>100</b>

Note:

- (a) Does not include the 15 recommendations specifically relating to the Victorian Auditor-General's Office.

Source: Victorian Government, response to the Committee's Report on the 2007-08 Financial and Performance Outcomes, November 2009

## 1.6. Cost of Inquiry

The cost of this inquiry was approximately \$125, 057.