



PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

2013-14 AND 2014-15 FINANCIAL AND PERFORMANCE OUTCOMES – ENTITY-SPECIFIC QUESTIONNAIRE

DEPARTMENT OF ENVIRONMENT, LAND, WATER AND PLANNING

Question 1

The result for the performance measure ‘Cumulative water savings (permanent reduction in irrigation distribution system delivery losses) realised through water recovery projects’ was listed in the annual report as an estimate,¹ and that the final result will be available in ‘late 2015’. Please advise where the final result will be published.

The final result for the ‘Cumulative water savings (permanent reduction in irrigation distribution system delivery losses) realised through water recovery projects’ performance measure will be published on the Department of Environment, Land, Water and Planning’s (DELWP) website. Please refer to <http://www.depi.vic.gov.au/water/rural-water-and-irrigation/improving-irrigation-efficiency/water-savings-protocol/2013-2014-audit-of-water-savings>

Question 2

The cash flow statement in the budget portfolio outcomes section in the Annual Report (p.243) shows that owner contributions by Government were \$338.6 million above target and the repayment of finance leases was \$248.8 million above target. The note to the report points to machinery-of-government changes as reasons for these variances. Please provide a list and description of:

- a. what the additional owner contributions by Government were for.

The variance of \$338.6 million predominately relates to net contributed capital from the machinery-of-government changes. Net assets of \$98.8 million transferred from the former Department of Transport, Planning and Local Infrastructure (DTPLI) to DELWP in line with the allocation statement signed on 17 September 2015. Net liabilities of \$240.0 million transferred from DELWP to the Department of Economic Development, Jobs, Transport and Resources (DEDJTR) per the allocation statement signed on 9 July 2015.

- b. the finance leases that contributed to the variance.

The transfer of the Biosciences Research Centre (\$202 million) and the Showgrounds (\$46 million) finance leases to DEDJTR under the machinery-of-government changes contributed to the variance.

Question 3

Referring to the refinancing activities for the Desalination Plant,² please explain:

- a. why these refinancing activities are occurring

The Victorian Desalination Project is a 30 year Public Private Partnership (PPP) contract under the Partnerships Victoria Policy between the State Government (State) and AquaSure, a single purpose private company.

The project is fully privately financed, and AquaSure has to secure that finance (debt and equity) to the end of the contract in 2039.

¹ Department of Environment, Land, Water and Planning, *Annual Report 2015* (2015), p.60

² Department of Environment, Land, Water and Planning, *Annual Report 2015* (2015), p.245

Since the Global Financial Crisis, debt markets have contracted and there is an unavailability of long term debt to 2039. Therefore refinancing is now common practice and like other current PPP's and as per the government's own debt management agency, Treasury Corporation of Victoria, AquaSure seeks to obtain the most competitive blend of debt costs and tenure, in order to maximise savings and to minimise exposure to any market volatility. This has generally resulted in debt terms of between five and 12 years in both local and overseas markets.

A refinancing occurs before each debt instrument expires. Under the contract (Project Deed) between the State and AquaSure, the State takes a share in savings or losses made due to refinancing of AquaSure's debt (the State takes the majority of the gains). While refinancing debt is the responsibility of AquaSure, DELWP Capital Projects Group and its advisors play a significant role in managing the required State consent for refinancing, and particularly, in ensuring maximum benefits are achieved for the State and water customers.

b. what the benefits of these activities are expected to be

The first refinancing in 2013 resulted in \$187 million (nominal) in savings to the State and therefore water customers (i.e. a reduction in the value of AquaSure's invoices that would otherwise have been issued to the State).

The second refinancing in 2015 resulted in a further \$160 million (nominal) in savings to the State and water customers. This has also been disclosed on page 148 of the DELWP 2015 Annual Report.

The financial benefit to the State from refinancing to date is \$347 million (nominal).

c. why these activities affect six line items in the administered items statement.

Due to accounting requirements, savings from refinancing and resulting reductions in payments between entities will impact a number of sections within the administered items statement of the DELWP Annual Report.

Question 4

The 2014-15 budget papers indicate that the *Goulburn Murray Water Connections Project* is one of the major projects contributing to net cash flows from investments in financial assets for policy purposes for the general government sector.³ However, the Department indicated to the Committee that 'the Department does not have any projects funded for which funding is included in the "net cash flows from investments in financial assets for policy purposes"'.⁴ Please explain why the *Goulburn Murray Water Connections Project* did not contribute to this line item in 2014-15 as expected.

The Goulburn Murray Water Connections Project did contribute to net cash flows from investments in financial assets for policy purposes for the general government sector.

There are, however, two different classifications for the same transactions, one at a departmental level and one at a whole of government level.

³ Department of Treasury and Finance, *Budget Paper No.4: 2014-15 State Capital Program* (2014), p.16

⁴ Department of Environment, Land, Water and Planning, Response to the Committee's 2013-14 and 2014-15 Financial and Performance Outcomes General Questionnaire, received 17 November 2015, p.11

DELWP's accounts are prepared on Generally Accepted Accounting Principles (GAAP). Payments for capital are treated in the Department's cash flow statement as payments of contributed capital. This treatment is consistent with the departmental budget presented in Budget Paper 5 – *Statement of Finances* (BP5). BP 5 page 91 estimates a zero net cash flows from investments in financial assets for policy purposes included in the Department's statement of cash flows.

Payments relating to the Connections Project are treated as a payment of capital to GMW with a corresponding investment for the state in the GMW entity also being recorded. Within the general government sector, this investment eliminates. This is consistent with the disclosures outlined in BP5.

For the Public Non Financial Corporations (PNFC) sector, however there would be no elimination and the resultant investment in GMW through the Department's Administered Items is classified in the budget papers and the Annual Financial Report (AFR) as Net Cash Flows from investments in Financial Assets. This different classification is required by the Commonwealth's Government Financial Statistic Classifications which for this type of transaction differs from GAAP.

The same transaction is therefore classified differently in the departmental financial statements and the whole of the government financial statements.

Question 5

The cash flow statement in the budget portfolio outcomes section in the Annual Report (p.243) shows a variance of 9,100% on 'proceeds from sale of non-financial assets' and the note to the report points to additional disposal of plant, property and equipment during the year. Please provide further details on what additional plant, property and equipment was disposed.

The published budget anticipated \$0.1 million in proceeds from the sale of non-financial assets. Proceeds of \$11.3 million were actually received and related to land sales of \$7.5 million.

Proceeds also included sales of plant, equipment and motor vehicles of \$3.8 million, mainly due to the return of leased vehicles to VicFleet. This is consistent with the directions outlined in the Victorian Government Standard Motor Vehicle Policy where all fleet vehicles are to be disposed of via public auction once they reach 60,000 kms or three years from the date of initial delivery.

These transactions were not included in the published budget as they were not planned (or not known) at the time of budget preparation.

Question 6

The cash flow statement in the budget portfolio outcomes section in the Annual Report (p.243) shows a variance of \$118.3m on 'payments of grants and other transfers' and the note to the report points to additional funds received for the *Goulburn-Murray Connections Project* and machinery of government change transferring the Planning, Land Victoria and Local Government Portfolios in the Department and transferring out the Agriculture portfolio. Please provide further details describing what these payments are.

The \$118.3 million variance is due to the change in payment arrangements for Stage 2 of the Connections Project.

The payments to Goulburn Murray Rural Water Corporation for Stage 2 of the project were reclassified from 'payments of grants and other transfers' to 'payments to suppliers and employees' to reflect the reciprocal nature of the transactions. The previous arrangement was reflected in the published budget.