



PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

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

DEPARTMENT OF TREASURY AND FINANCE

Question 1

Regarding 'net cash flows from investments in financial assets for policy purposes' for the general government sector, the original budget for this item was a net outflow of \$676.5 million and the actual result was a net outflow of \$858.1 million.¹

(a) For asset investment projects previously identified² as contributing to this item below, please advise:

Project	Estimated cash inflow (outflow) in 2014-15 (2014-15 budget papers) (\$ million)	Actual cash inflow (outflow) in 2014-15 (\$ million)	Explanation for any variances greater than ±10 per cent or \$100 million	Non-financial assets created as a result of the project (\$ million)
Regional Rail Link	577.0	300.0	Variance is due to project savings. The Commonwealth have agreed to redirect \$151m of savings to part-fund the Main Roads St Albans level crossing removal.	300.0
Port of Hastings Development	30.0	22.6	Due to a change in Government policy components of the project transferred from capital to output funding.	22.6
Goulburn Murray Water Connections Project	81.6	11.6	Delivery of the project has been tracking behind schedule for 2014-15. This is due to significantly higher project	11.6

¹ Department of Treasury and Finance, *2014-15 Financial Report* (2015), p.120

² Department of Treasury and Finance, *Budget Paper No.4: 2014-15 State Capital Program* (2014), p.16

Project	Estimated cash inflow (outflow) in 2014-15 (2014-15 budget papers) (\$ million)	Actual cash inflow (outflow) in 2014-15 (\$ million)	Explanation for any variances greater than ±10 per cent or \$100 million	Non-financial assets created as a result of the project (\$ million)
			delivery milestones in 2014-15 compared to those in 2013-14 (e.g. number of gates and meters installed, length of the automated network of channels extended etc.), delays with landowners signing legal agreements, and the timing of on-farm works.	
Equity investment in Director of Housing	44.5	42.1		42.1

(b) Please describe other significant transactions (above \$100 million) that contributed to net cash flows from investments in financial assets for policy purposes for the general government sector in 2014-15 as in the table below:

Description of transaction	Cash inflow (outflow) (\$ million)
na	na

Question 2

Net cash flows from investments in financial assets for policy purposes for the State of Victoria in 2014-15 was an inflow of \$1,595.0 million, consisting of a gross cash inflow of \$2,143.7 million and a gross cash outflow of \$548.8 million.³ The original budget figure for this was a cash inflow of \$105.5 million in 2013-14⁴ and \$139.1 million in 2014-15.⁵ The Department's response to the Committee's General Questionnaire (question 8) provided cash inflow and outflow figures for 2013-14 and 2014-15, but did not list projects that were related to transactions. Please resubmit the Department's response, using the format provided in the questionnaire. If the transactions involved are not related to projects contained in Budget Paper No.4, please provide information about each transaction over \$100 million.

At a State of Victoria level, capital projects which are contained in Budget Paper No.4 are not included within investments in financial assets for policy purposes. This is because investments in financial assets for policy purposes associated with these items relate to transfers from the general government sector to other sectors of the Victorian Government which are eliminated at a State of Victoria level. Therefore, the residual investments in financial assets for policy purposes at a State of Victoria level reflect the acquisition and repayment / liquidation of investments in financial assets, including loans made by government that are driven by Government policies. As such, the higher balance of the inflows recorded at a State of Victoria level in the 2014-15 actuals primarily reflects the following transaction:

Project		Estimated cash flow in 2013-14	Actual cash flow in 2013-14	Estimated cash flow in 2014-15	Actual cash flow in 2014-15
		(\$ million)	(\$ million)	(\$ million)	(\$ million)
Cash flows from investments in financial assets for policy purposes Proceeds from the sale of Rural Finance Corporation's loan book on 1 July 2014 resulted in a significant inflow in 2014-15, which was not budgeted for in the 2014-15 Budget. Also, the inflows / outflows in the 2013-14 year relate to other movements in RFC's loan book i.e. purchase & repayment of RFC loans, which occurred prior to the sale.	Cash inflows		812.3		1 762.1
	Cash outflows		(866.1)		(310.5)
	Net cash flow	111.8	(53.8)	119.7	1 451.6

³ Department of Treasury and Finance, *2014-15 Financial Report* (2015), p.63

⁴ Department of Treasury and Finance, *Budget Paper No.5: 2013-14 Statement of Finances* (2013), p.72

⁵ Department of Treasury and Finance, *Budget Paper No.5: 2014-15 Statement of Finances* (2014), p.70

Question 3

Regarding specific-purpose grants from the Commonwealth Government, please provide the following details for actual results in the form they were provided in the 2014-15 budget papers. Please provide explanations for variances of greater than 10 per cent or \$100 million in either direction.

Grant type	Original budget (\$ million)	Actual (\$ million)	Variance (\$ million)	Explanation for variance
Financial assistance grants to local government (operating)	417.2	593.1	175.9	Advance payment of 2015-16 first two quarter grants in 2014-15.
Identified local roads grants to local government	153.2	218.4	65.2	Advance payment of 2015-16 first two quarter grants in 2014-15.
National Education Agreement: support for school services	N/A	N/A	N/A	This is the old name for the Students First specific purpose payment.
Students First – A fairer funding agreement for schools: support for school services	2,569.8	2,684.2	114.4	Victoria's budget papers contain an estimate of what Commonwealth funding will be provided. Final Commonwealth payments for schools vary due to enrolment and demographic changes. Payment is calculated on a per student basis, with additional loadings for disadvantage.
Specific purpose grants for on-passing	3,140.1	3,492.5	352.4	

Grant type	Original budget	Actual	Variance	Explanation for variance
	(\$ million)	(\$ million)	(\$ million)	
Health	4,407.0	4,491.2	84.2	
Education	1,750.5	1,829.8	79.3	
Community services	445.8	372.3	-75.5	Variance is driven by Commonwealth Government cuts under the National Partnership Agreement on Certain Concessions for Pension Concession Card and Seniors Card Holders, which was announced in 2014-15 Commonwealth Budget.
Environment	309.1	294.1	-15.0	
<i>National Partnership: Regional Rail Link</i>	<i>535.0</i>	<i>143.5</i>	<i>-391.5</i>	<i>The variance is due to bringing forward grants from 2014-15 into 2013-14, and project savings. The Commonwealth have agreed to redirect \$151m of savings to part-fund the Main Roads St Albans level crossing removal.</i>
<i>National Partnership: Nation Building – AusLink (Road and Rail)</i>	<i>382.6</i>	<i>230.3</i>	<i>-152.3</i>	<i>Mainly due to the Commonwealth grant payments for Princes Hwy West - Winchelsea to Colac and Western Hwy - Duplication from Ballarat to Stawell, now expected to be received in future years.</i>
<i>East West Link – Eastern Section</i>	<i>600.0</i>	<i>0.0</i>	<i>-600.0</i>	<i>No payments were made to Victoria for this project in 2014-15.</i>
Infrastructure	1,586.9	394.8	1,192.1	

Grant type	Original budget (\$ million)	Actual (\$ million)	Variance (\$ million)	Explanation for variance
Affordable housing	326.0	362.8	36.8	Variance is driven by: <ul style="list-style-type: none"> ▪ a one year extension to the National Partnership Agreement on Homelessness, which was announced in the 2014-15 Commonwealth budget, and ▪ a change to the National Partnership Agreement on Remote Indigenous Health (NPARIH) in Victoria which provided a one off final payment for municipal and essential services and for the early conclusion of the NPARIH.
Contingent/Other	967.6	1067.6	100.1	Variance is primarily due to the recognition of revenue received from other States for interstate hospital patients.
Grants for specific purposes	9,792.8	8,890.0	-902.8	

Question 4

Regarding the \$1.5 billion Commonwealth grant for the East West Link that was referred to on p.25 of the *2014-15 Financial Report*:

- (a) Please advise dates and amounts that were received from the Commonwealth
The State received \$1.5 billion from the Commonwealth government on 30 June 2014.
- (b) How much of what was received during 2013-14 had been anticipated in 2014-15 at the time of the 2014-15 Budget, and hence what was its contribution to the variance between budget and actual outcomes discussed in the *2014-15 Financial Report*?⁶

At the time of 2014-15 budget, there was \$500 million which was anticipated to be received but was received in 2013-14 as part of the \$1.5 billion.

Question 5

Please provide explanations for variances of greater than 5 per cent for the items in the operating statement, balance sheet and cash flow statement in the budget portfolio outcomes (that have not already been explained in footnotes). See *2014-15 Annual Report*, pp.27-9.

Comprehensive operating statement for the year ended 30 June 2015				
Controlled	Ref	2014-15	2014-15	Variation
		actual	budget	
		\$m	\$m	%
Income from transactions				
Output appropriations	2	250.7	236.9	5.8
Interest	3	0.9	12.2	-92.6
Sale of goods and services	1	90.7	19.4	367.5
Fair value of assets and services received free of charge or for nominal consideration		1.6	–	n/a
Other income	4	20.6	26.6	-22.6
Total income from transactions		364.5	295.1	23.5
Expenses from transactions				
Employee benefits	1	150.7	124.2	21.3

⁶ Department of Treasury and Finance, *2014-15 Financial Report* (2015), p.116

Comprehensive operating statement for the year ended 30 June 2015				
Controlled	Ref	2014-15	2014-15	Variation
		actual	budget	
		\$m	\$m	%
Depreciation ^(a)	1	42.9	38	12.9
Interest expense	5	0.1	13.4	-99.3
Grants and other transfers	6	6.8	5.6	21.4
Capital asset charge		21.2	21.2	–
Other operating expenses	1	128.3	87.1	47.3
Total expenses from transactions		350	289.5	20.9
Net result from transactions		14.5	5.6	158.9
Other economic flows included in net result				
Net loss on non-financial assets		-1.1	–	n/a
Net gain on financial instruments and statutory receivables/payables		0.1	–	n/a
Other losses from other economic flows		-0.4	–	n/a
Total other economic flows included in net result		-1.4	–	n/a
Net result		13.1	5.6	133.9
Other economic flows – other comprehensive income		–	29.7	-100
Comprehensive result		13.1	35.3	-62.9

Commentary

- 1) The variations in sale of goods and services, employee benefits, depreciation and other operating expenses largely reflect the transfer of CenITex during the year, from the Department of Economic Development, Jobs, Transport and Resources, in accordance with Administrative Arrangements Order (No. 219) 2014. This transfer was not reflected in the 2014-15 budget amounts.
- 2) The variance is due to \$18.3m Treasurer's Advance received for the medium term lease of the Port of Melbourne, partially offset by \$3.4m of machinery of government transfers for the Victorian Competition and Efficiency Commission and Workplace Relations Unit to the

Department of Premier and Cabinet and Department of Economic Development, Jobs, Transport and Resources respectively.

- 3) The variance is due to the reclassification of the WoVG portion of the Motor Vehicle Lease Trust from Controlled to Administered after discussion with VAGO. 2014-15 budget not adjusted for this change.
- 4) The variance is due to the higher than anticipated surplus payment from the Government Accommodation Trust to the Consolidated Fund.
- 5) The variance is due to the reclassification of the WoVG portion of the Motor Vehicle Lease Trust from Controlled to Administered after discussion with VAGO. 2014-15 budget not adjusted for this change.
- 6) The variance is due to unbudgeted funding provided to the Department of Premier and Cabinet (under the former government) for the media campaign for Fire Services Property Levy.

Budget portfolio outcomes				
Balance sheet as at 30 June 2015				
Controlled	Ref	2015	2015	Variation
		actual	budget	
		\$m	\$m	%
Financial assets				
Cash and deposits	7	116.8	62.3	87.5
Receivables	8	174.2	187.2	-6.9
Total financial assets		291	249.5	16.6
Non-financial assets				
Inventories	9	–	6.2	-100
Property, plant and equipment	7	524.4	532.6	-1.5
Intangible assets (a)	7	54.2	27.1	100
Other assets (a)	7	16.8	5.9	184.7
Total non-financial assets		595.4	571.8	4.1
Total assets		886.4	821.3	7.9
Liabilities				

Budget portfolio outcomes				
Balance sheet as at 30 June 2015				
Controlled	Ref	2015	2015	Variation
		actual	budget	
		\$m	\$m	%
Payables	7	100.4	68.8	45.9
Borrowings	10	4.5	9.6	-53.1
Provisions	7	48.1	39.9	20.6
Total liabilities		153	118.3	29.3
Net assets		733.4	703	4.3
Equity				
Contributed capital	7	368	251.7	46.2
Reserves		237.1	266.8	-11.1
Accumulated surplus	7	128.3	184.5	-30.5
Total equity		733.4	703	4.3

- 7) The variations in cash and deposits, property, plant and equipment, intangible assets, other assets, payables, provisions, contributed capital and accumulated surplus largely reflect the transfer of CenITex during the year, from the Department of Economic Development, Jobs, Transport and Resources, in accordance with Administrative Arrangements Order (No. 219) 2014. This transfer was not reflected in the 2014-15 budget amounts.
- 8) The variance is due to the reclassification of the WoVG portion of the Motor Vehicle Lease Trust from Controlled to Administered after discussion with VAGO.
- 9) The variance is due to the property sale at 191 Rosamond Road Maribyrnong.
- 10) The variance is due to the reclassification of the WoVG portion of the Motor Vehicle Lease Trust from Controlled to Administered after discussion with VAGO.

Budget portfolio outcomes				
Cash flow statement for the year ended 30 June 2015				
Controlled		2014-15	2014-15	Variation
	Reference	actual	budget	
		\$m	\$m	%
Cash flows from operating activities				
Receipts from government	12	245.2	219.6	11.7
Receipts from other entities	13	6.3	–	n/a
Interest received	14	0.9	12.2	-92.3
Other receipts (a)	11	104.5	46.4	125.3
		357	278.2	28.3
Payments of grants and other transfers		-18.5	-11	-68.1
Payments to suppliers and employees	11	-279.2	-206.8	-35
Goods and services tax recovered from the ATO		-2.5	–	n/a
Capital asset charge		-21.2	-21.2	0.2
Interest and other finance costs	14	-0.1	-13.4	99.5
		-321.47	-252.4	-27.3
Net cash flows from operating activities		35.72	25.8	38.2
Cash flows from investing activities				
Net payments for non-financial assets	15	-30.5	-32.6	6.3
Proceeds from sale of non-financial assets		0.5	–	n/a
Net loans to other parties		-0.1	-0.1	45
Net cash flows used in investing activities		-30.1	-32.7	7.9

Budget portfolio outcomes				
Cash flow statement for the year ended 30 June 2015				
Controlled		2014-15	2014-15	Variation
	Reference	actual	budget	
		\$m	\$m	%
Cash flows from financing activities				
Owner contributions by state government	16	5	7.8	-36.5
Cash received from administrative restructure	11	48.6	–	n/a
Net borrowings		-3.5	0.3	(1 277.7)
Net cash flows used in financing activities		50	8.1	517.6
Net increase/(decrease) in cash held		55.6	1.2	4 530.5
Cash at the beginning of the financial year		61.2	61.2	–
Cash at the end of the financial year		116.8	62.4	87.1

- 11) The variations in other receipts, payments to suppliers and employees and cash received from administrative restructure largely reflect the transfer of CenITex during the year, from the Department of Economic Development, Jobs, Transport and Resources, in accordance with Administrative Arrangements Order (No. 219) 2014. This transfer was not reflected in the 2014-15 budget amounts.
- 12) The variance is mainly due to Treasurer's Advances received of \$18.3m for the medium term lease of the Port of Melbourne and \$2.6m for SRO compliance activities; and Output Appropriation carried over from 2013-14 of \$1.9m.
- 13) The variance is due to retaining \$2.9m of the Rural Finance Corporation sale proceeds for advisory fees and a reduction in account receivables for the Shared Services Provider Trust.
- 14) The variance is due to the reclassification of the WoVG portion of the Motor Vehicle Lease Trust from Controlled to Administered after discussion with VAGO.
- 15) Annual provision for minor works was not fully spent.
- 16) The variance is related to the State Revenue Office not taking up \$2.8m in Additions to Net Asset Base (ATNAB) funding as a result of using Depreciation Equivalent funding.

Question 6

As part of the general questionnaire (q.38), the Department was asked to show whether it had implemented a number of recommendations from past Committee reports. One of these recommendations was to include an aggregate total estimated investment (TEI) figure in Budget Paper No.4 for minor asset projects for departments. In Budget Paper No.4 for 2013-14, TEI figures for 'other capital expenditure' for departments was given as 'na', whereas for PNFC entities a dollar figure had been included under 'all remaining projects with a TEI less than \$1 million'.⁷ The Department's response to the general questionnaire was that the action specified in the recommendation had been implemented, and that 'Since 2013-14, Budget, Budget Paper 4 has included, for each department, the value of aggregate capital expenditure on minor asset projects not individually disclosed in the budget paper'.⁸ As evidence, the Department provided a series of examples from 2015-16 Budget Paper No.4. However, for all of these examples, the TEI for 'other capital expenditure' was given as 'na' in Budget Paper No.4,⁹ unchanged from Budget Paper No.4 for 2013-14. Please explain:

- (a) what disclosure of TEI figures for 'other capital expenditure' for departments has changed since the 2013-14 budget papers

Since the 2013-14 Budget, Budget Paper 4 (BP4) Chapter 2 has included estimates of aggregate capital expenditure on minor capital projects and capital purchases to be made in the budget year for each department ('Other capital expenditure'). The estimates of 'Other capital expenditure' include all capital expenditure in the budget year other than expenditure on capital projects listed separately in BP4. Prior to the 2013-14 Budget this figure had not been included in the budget papers.

This aggregate figure includes all minor capital purchases (e.g. ICT replacement) and smaller infrastructure projects whose TEI is under the individual project disclosure threshold. The 'Other capital expenditure' is reported for the budget year to enable BP4 to be reconciled to Budget Paper 5, which only discloses departmental level cash flow statements for the budget year.

- (b) what quality control processes the Department has that ensure the accuracy of responses to the Committee's questionnaires.

The Department is ISO 9001:2008 certified. All responses to the Committee's questionnaires are reviewed and cleared prior to release by a senior executive.

⁷ For example, Department of Treasury and Finance, *Budget Paper No.4: 2013-14 State Capital Program* (2013), p.20, cf p.74

⁸ Department of Treasury and Finance, *Response to the Committee's 2013-14 and 2014-15 Financial and Performance Outcomes General Questionnaire*, received 19 November 2015, p.59

⁹ For example, Department of Treasury and Finance, *Budget Paper No.4: 2015-16 State Capital Program* (2015), p.21, cf p.63

Question 7

Regarding question 27 of the general questionnaire, the Committee compared the Department's response to the response to an identical question that formed the basis for the Committee's *Report into the 2015-16 Budget Estimates*. The Committee notes that the two responses appear to be incompatible with each other. For example, taxation revenue received by the GGS sector from the PNFC sector is nil for 2013-14 and 2014-15, but was reported to be an estimate of \$243.8 million for 2015-16. Please supply the following, using a method that is compatible over all years:

(a) general government sector revenue from transactions

Line item	Amount coming from PNFC sector (\$ million)						Amount coming from the PFC sector (\$ million)					
	2013-14 actual	2014-15 actual	2015-16 estimate	2016-17 estimate	2017-18 estimate	2018-19 estimate	2013-14 actual	2014-15 actual	2015-16 estimate	2016-17 estimate	2017-18 estimate	2018-19 estimate
Taxation revenue	115.3	104.5	138.0	152.0	166.0	180.0	Nil	Nil	Nil	Nil	Nil	Nil
Interest revenue	486.5	477.2	473.2	469.3	465.4	460.9	92.5	80.7	108.0	117.6	124.1	124.2
Dividends	83.9	256.0	229.7	219.1	175.3	212.6	136	566.2	613.6	514.7	526.5	336.0
Income tax equivalent and local government rate equivalent revenue	182.6	132.8	248.8	139.5	162.3	181.0	22.2	138.7	7.3	74.7	91.8	132.8
Grants	25.1	7.9	10.3	7.3	6.3	6.3	106.6	124.3	129.6	134.7	121.9	114.2
Sales of goods and services – inter-sector capital assets charge	1,524.4	1,582.2	1,743.5	1,900.2	1,949.6	1,971.6	Nil	Nil	Nil	Nil	Nil	Nil
Sales of goods and services – provision of services	110.9	118.6	121.5	123.6	124.6	135.9	151.3	153.5	155.5	153.9	155.2	156.4
Total revenue from transactions	2,330.1	2,668.9	2,965.0	3,010.9	3,049.6	3,148.3	355.4	1,174.5	1,014.2	995.6	1,019.4	863.7
Other line items with >\$100 million coming from the PNFC or PFC sector (please specify)												

(b) general government sector expenses from transactions

Line item	Amount going to PNFC sector (\$ million)						Amount going to the PFC sector (\$ million)					
	2013-14 actual	2014-15 actual	2015-16 estimate	2016-17 estimate	2017-18 estimate	2018-19 estimate	2013-14 actual	2014-15 actual	2015-16 estimate	2016-17 estimate	2017-18 estimate	2018-19 estimate
Interest expense	Nil	Nil	Nil	Nil	Nil	Nil	1,289.5	1,273.9	1,260.4	1,144.4	1,144.4	1,135.1
Dividends	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Grants and other transfers	2,576.9	2,779.2	2,872.4	2,956.1	3,003.8	2,956.3	4.6	2.8	38.6	1.4	1.4	1.4
Other operating expenses – purchase of supplies and consumables	1.7	0.6	Nil	Nil	Nil	Nil	2.4	0.0	Nil	Nil	Nil	Nil
Other operating expenses – purchase of services	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Total expenses from transactions	2,799.6	2,665.1	2,872.4	2,956.1	3,003.8	2,956.3	1,309.9	1,300.3	1,298.9	1,145.9	1,145.8	1,136.6
Other line items with >\$100 million going to the PNFC or PFC sector (please specify)												

Question 8

The Department’s response to the Committee’s 2013-14 and 2014-15 Financial and Performance Outcomes General Questionnaire (p.4) indicates that \$0.96 million of additional funding was provided for the ‘Risk Management Services’ output in 2013-14 related to the sale of the Rural and Finance Corporation. Please provide further details about:

- (a) what activities these payments funded

These payments funded various transaction costs relating to the sale of the Rural and Finance Corporation.

- (b) why these costs were funded out of the Advance to the Treasurer.

DTF determined that a Treasurer’s Advance of \$0.96 million was the appropriate funding mechanism for these costs.

Question 9

The Department’s response to the Committee’s 2013-14 and 2014-15 Financial and Performance Outcomes General Questionnaire (p.4) indicates that \$18.34 million of additional funding was provided to the ‘Financial Management Services’ output in 2013-14 for negotiating the medium-term lease of the Port of Melbourne. Please provide further details about:

- (c) what activities these payments funded

These payments funded commercial/transaction advice, framework development and policy research for the Port of Melbourne lease, including the development of the transaction's legislation - Delivering Victorian Infrastructure (Port of Melbourne lease transaction) Bill 2015.

- (d) why these costs were funded out of the Advance to the Treasurer.

DTF determined that a Treasurer’s Advance of \$18.34 million (for 2014-15, rather than 2013-14 as per the question) was the appropriate funding mechanism for these transaction costs.

Question 10

Regarding the outputs included in the Department’s response to question 3 of the Committee’s general questionnaire,

- (e) please provide: the original invoice amount **for the output**; any adjustment made to the invoice **for the output**; and the amount of revenue certified **for the output** by DTF.

Departments' invoice amount and revenue certified are not available at the output level. Departments provide an invoice for revenue claimed for the financial year at the aggregate department level. DTF assesses actual departmental performance at the output level, which is considered in DTF’s determination of whether the revenue claim should be fully certified. Revenue is certified at the department level.

Output	Budget for the year (\$ million)	The amount of the department’s original invoice (\$ million)	The amount of the department’s final invoice (\$ million)	The amount of revenue certified (\$ million)

For 2013-14:				
Higher Education and Skills	2 268.2			
Environmental Programs	109.3			
Public Land	118.9			
Land and Fire Management	338.7			
Effective Water and Management and Supply	343.7			
Development of Primary Industries	440.3			
Small Rural Services - Primary Health	17.0			
Small Rural Services - Aged Care	176.3			
Small Rural Services - Acute Health	305.4			
Emergency Services	604.2			
Ambulance Emergency Services	554.7			
Public Transport Infrastructure Development	n/a ^(a)			
Transport Safety Regulation and Investigations	211.8			
Rural and Regional Public Transport Services	n/a ^(a)			
For 2014-15:				
Transport Safety Regulation and Investigations	212.1			
Transport Safety and Security Management	116.2			
Public Transport Network Improvements and Maintenance	69.7			
Major Events	n/a ^(b)			
Higher Education and Skills	2,323.3			
Fire and emergency management	357.6			

Planning, Building and Heritage	109.3			
Ambulance Emergency Services	579.9			
Small Rural Services – Acute Health	322.0			
Land and Infrastructure Investment Management	26.1			

Notes:

(a) These outputs did not exist in the form specified in the 2013-14 budget papers

(b) This output did not exist in the form specified in the 2014-15 budget papers

- (f) Please indicate what metrics the Department utilises to determine that expenditure was demand driven:

DTF determines that expenditure was demand driven based on the level of activity delivered, which are often indicated via quantitative performance measures.

- (g) Please describe the Department’s methodology to adjust the amount to ‘reasonably reflect actual performance’ as indicated by the Department:

Departments adjust their invoice based on the level of activity actually delivered compared to budget. This is why a departments’ revenue invoice can be less than the total appropriation authority available.

- (h) Please indicate the criteria used by the Department to determine that ‘there was no significant performance risk’ as stated by the Department:

When assessing performance risk of an output, DTF considers a range of factors including (but not limited to):

- performance of all measures within the output
- the extent to which the underperforming measure/s contribute to total output
- the drivers of performance, including whether these are internal or external factors
- reforms and interventions that have been or will be implemented to address performance issues.

Question 11

The Department has explained that the variance between the initial budget estimate and the actual expenditure on ‘transport and communications’ in 2014-15 ‘relates to the reclassification of costs from capital expenditure to operating expenditure...’.¹⁰ Please indicate in which instances this reclassification took place.

¹⁰ Department of Treasury and Finance, *Response to the Committee’s 2013-14 and 2014-15 Financial and Performance Outcomes General Questionnaire*, received 19 November 2015, p.32

A total of \$68.4 million has been transferred from capital expenditure to operating expenditure for the Department of Economic Development, Jobs, Transport and Resources, and the former Department of Transport, Planning and Local Infrastructure. Transfers relate to the following projects:

- East West Link
- Port of Hastings
- Local Ports critical infrastructure works (Parks Victoria)
- Melbourne Markets
- Arts and Cultural Maintenance Fund
- Collingwood Contemporary Arts Precinct
- Creative Victoria minor capital works

Question 12

The Department has indicated to the Committee that the property market ‘was stronger than expected’.¹¹ Please provide the reasons why the property market grew more than expected in 2013-14.

The property market was stronger than forecast largely reflecting a greater volume of properties transacted relative to the projections. This reflected the early stages of what became very strong (well above trend – around 6 per cent) investor demand for existing properties in Melbourne supported by strengthening demand from owner occupier purchasers. Property market cycles are difficult to project accurately, as much of the demand reflects behavioural preferences that are difficult to predict, especially in the beginning of a property cycle. Given the subdued performance of property markets in major economies as a result of the global financial crisis the Department of Treasury and Finance anticipated similar caution in the Victorian property market at the time of formulating the 2013-14 Budget forecasts. In the event, the behavioural response of local purchasers and the sudden and renewed appetite for risk in Victoria was more positive than the experience of other countries.

Question 13

Please provide the reason(s) why the economic variables ‘unemployment rate’ and ‘household consumption growth’ and ‘exchange rate’ are not modelled by the Department in assessing the impact of variances between forecasts and actuals on the main budgetary items.¹²

Unemployment rate:

The impact of variations in the unemployment rate on main budgetary items is broadly reflected in the sensitivity of the main budgetary items to employment growth, which is already modelled by the Department.

Household consumption growth:

Household consumption accounts for approximately 60 per cent of Victorian GSP. The impact of variations in household consumption growth on main budgetary items is reflected in the sensitivity of major budgetary items to changes in real GSP as modelled by the Department.

¹¹ Department of Treasury and Finance, *Response to the Committee’s 2013-14 and 2014-15 Financial and Performance Outcomes General Questionnaire*, received 19 November 2015, p.43

¹² Department of Treasury and Finance, *Response to the Committee’s 2013-14 and 2014-15 Financial and Performance Outcomes General Questionnaire*, received 19 November 2015, pp.47-8

Exchange rate:

The effects of exchange rate fluctuations on the main budget items are largely indirect, and more adequately reflected through changes in the consumer price index (CPI) and GSP growth.

Question 14

Please provide the reason(s) why the Department does not quantify the impact of variances between forecast and actuals of the main economic variables on the main budgetary items for the public non-financial corporations sector and the public financial corporations sector (see 2013-14 and 2014-15 Financial and Performance Outcomes General Questionnaire, pp.49-52).

While the general government sector can be viewed as one entity controlled by central government, there are 71 PNFCs and 8 PFCs that have separate boards to manage changes in the economic environment, manage their performance against corporate plan key performance indicators and mitigate risks. Changes to economic variables can affect each entity differently requiring the boards to take appropriate actions depending on the level of impact on that entity. The information required to assess impacts of variances between forecasts and actuals is not collected. Boards currently have the means to collect relevant information and monitor their own performances against various criteria.

The aggregate performance of the PNFCs and PFCs flows into the budget via the receipt of dividends and income tax equivalents (ITEs). Consequently, this impact is reflected in the sensitivity analysis of the various economic parameters on revenues, net result from transactions, and net debt of the General Government sector.

Question 15 (This is an additional question referred to DTF from DET in consultation with DTF and PAEC)

The Department's (DET) response to the Committee's general questionnaire¹³ refers to instances where additional sources of funding were required for outputs. There are three different types of funding that the Department accessed: Unused Appropriation (carryovers from the previous year); Temporary Advances (which must be paid back to the consolidated fund once Parliamentary approval has been gained); and Treasurer's Advances (which are 'to meet urgent and unavoidable requirements'.¹⁴ Please explain under what circumstances each type of funding supplement is considered appropriate, using the instances from the Department's response to the questionnaire as examples.

Carryover (Section 32)

Carryover arises when amounts appropriated annually to departments or to Parliament, which remain unapplied at the end of one financial year, are approved by the Treasurer for application in the following financial year (i.e. amounts are carried over to the following financial year). This approval is granted under the authority of Section 32(1) of the Financial Management Act 1994. Carryover requests usually arise when a department has experienced delays in the delivery of outputs or capital projects in the budget year, giving rise to the need to access the originally budgeted funding in the following financial year. There is no automatic right to carryover and it is dependent on approval by the Treasurer.

¹³ Department of Education and Training, Response to the Committee's 2013-14 and 2014-15 Financial and Performance Outcomes General Questionnaire, received 18 November 2015, pp.11-12

¹⁴ Department of Treasury and Finance, BFMG – 42: Budget Supplementation (2007), p.39

Treasurer's Advance

Treasurer's Advance (TA) is an appropriation to the Treasurer to enable the Treasurer to provide funds to departments to meet urgent and unavoidable requirements which arise during a budget year.

Total available Treasurer's Advance is limited to the amount which appears in Schedule 1 under DTF in the Appropriation Act. As such, the Treasurer will initially only provide approval in principle for successful funding requests. The final source of funding for this supplementation will be reviewed at the end of the financial year, taking into account total TA capacity and other available sources of appropriation authority.

Temporary Advance (Section 35)

Under section 35 of the Financial Management Act, a temporary advance from the Public Account can be provided by the Treasurer to meet urgent claims. The total authority under section 35 must not exceed 0.5 per cent of the total amount appropriated by the annual Appropriation Act for that year.

Payments issued under section 35 are generally issued for departments to meet urgent claims in the current budget year of a capital nature.

Other

It should be noted that there are alternative funding sources that should be applied prior to calls on TA or section 35. This can include the drawdown of legally available appropriation authority enabled by previously approved re-phrasings, access to savings/surplus and reductions in carryover. This approach effectively reinstates previously reduced appropriations to minimise the call on limited TA/section 35 capacity.