

# **SECTION A: OVERVIEW**

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# CHAPTER 1: INTRODUCTION AND RESPONSES TO THE REPORT ON THE 2006-07 FINANCIAL AND PERFORMANCE OUTCOMES

## 1.1 Background

In 2007-08, the Victorian Government raised \$43.6 billion and spent \$42.1 billion on service delivery for Victorians.<sup>1</sup> Net infrastructure spending in the general government sector in 2007-08 totalled \$3.9 billion.<sup>2</sup> Through this Inquiry on the 2007-08 Financial and Performance Outcomes, the Committee aims to further inform Parliament and the people of Victoria on key aspects of Government's accountability for funds appropriated and expended.

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. This report includes analysis of key aspects of what departments and agencies intended to achieve in 2007-08 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 2007-08 Financial and Performance Outcomes* is to review the Government's financial and performance outcomes for the previous financial year.

The Inquiry focuses on financial and service outcomes across the whole government sector and examines outputs delivered and outcomes achieved by departments and other government agencies. This year's report:

- examines whether information was provided to Parliament and the public in a meaningful, comprehensive and timely manner;
- 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;
  - regional and rural outcomes;
  - efficiencies;
  - revenue and revenue foregone;
  - environmental outcomes; and
  - performance against targets.
- ensures that there is sufficient articulation of performance against performance indicators encompassing equity, efficiency and effectiveness measures.

The issues examined this year compared to the previous year includes three new areas: risk management, procurement and grants. Issues examined last year and excluded this year could be examined in the 2008-09 inquiry.

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<sup>1</sup> Department of Treasury and Finance, *2007-08 Annual Financial Report for the State of Victoria*, p.57  
<sup>2</sup> *ibid.*, p.30

This process complements the Committee's ex-ante responsibilities of reviewing the budget estimates by bringing to the forefront of the Parliament and the community's attention, analytical comment designed to enhance performance and accountability and provide a catalyst for change for the public good.

By reviewing the Government's financial and performance outcomes for the previous financial year, the Committee's outcomes report completes the yearly cycle of ongoing accountability.

### **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. While the financial year outcomes inquiry examines the public accounts in terms of outputs delivered and outcomes achieved by departments and other government agencies, it 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 include:

- the quarterly financial reports;
- the annual financial report;
- annual reports of departments and key government agencies, the Department of Parliamentary Services and the Victorian Auditor-General's Office;
- departmental responses to the Committee's 2007-08 outcomes questionnaires;
- the Government's budget papers for 2007-08; and
- reports of the Victorian Auditor-General and other authoritative organisations.

The inquiry looks at public expenditure against the expressed purposes of government for that expenditure as contained in documents tabled in Parliament as well as 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 Outcomes*, the Committee extended the range of agencies whose outcomes were subjected to specific analysis and reporting. This approach was adopted to facilitate a more comprehensive analysis of outcomes across general government, public non-financial corporations and public financial corporations. This approach has used a selective sample and been further developed for the *Report on the 2007-08 Financial and Performance Outcomes* (see section 1.4).

This modified approach allowed the inclusion of a further six new agencies whose outcomes have been specifically examined by the Public Accounts and Estimates Committee for the first time in an outcomes report (detailed in Table 1.1).

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

| Department/Agency  | Questionnaire Part One | Questionnaire Part Two | Review of Annual Reports |
|--|------------------------|------------------------|--------------------------|
| <b>Department of Education and Early Childhood Development</b>     | Yes                    | Yes                    | Yes                      |
| <b>Department of Human Services</b>                                | Yes                    | Yes                    | Yes                      |
| Austin and Repatriation Medical Centre                             | Yes                    | -                      | -                        |
| Bayside Health / Alfred Health                                     | Yes                    | -                      | -                        |
| Eastern Health   | Yes                    | -                      | -                        |
| Melbourne Health   | Yes                    | Yes                    | -                        |
| Western Health   | Yes                    | -                      | -                        |
| Southern Health  | Yes                    | -                      | -                        |
| Royal Children's Hospital  | Yes                    | -                      | -                        |
| Barwon Health  | Yes                    | -                      | -                        |
| <b>Department of Innovation, Industry and Regional Development</b> | Yes                    | Yes                    | Yes                      |
| Victorian Learning and Employment Skills Commission                | Yes                    | -                      | -                        |
| Regional Development Victoria (a)                                  | -                      | Yes                    | -                        |
| <b>Department of Justice</b>                                       | Yes                    | Yes                    | Yes                      |
| Metropolitan Fire and Emergency Services Board                     | Yes                    | -                      | -                        |
| Victorian Commission for Gambling Regulation                       | Yes                    | -                      | -                        |
| Victoria Police  | Yes                    | Yes                    | -                        |
| <b>Department of Planning and Community Development</b>            | Yes                    | Yes                    | Yes                      |
| Victorian Urban Development Authority                              | Yes                    | -                      | -                        |
| <b>Department of Premier and Cabinet</b>                           | Yes                    | Yes                    | Yes                      |
| National Gallery of Victoria                                       | Yes                    | -                      | -                        |
| <b>Department of Primary Industries</b>                            | Yes                    | Yes                    | Yes                      |
| Victorian Energies Network Corporation (VenCorp)                   | Yes                    | -                      | -                        |
| <b>Department of Sustainability and Environment</b>                | Yes                    | Yes                    | Yes                      |
| Barwon Region Water Authority                                      | Yes                    | -                      | -                        |
| Goulburn Murray Rural Water Authority                              | Yes                    | -                      | -                        |
| Melbourne Water Corporation  | Yes                    | -                      | -                        |
| Parks Victoria   | Yes                    | -                      | -                        |
| Environmental Protection Agency (a)                                | -                      | Yes                    | -                        |
| Metropolitan Waste Management Group (a)                            | -                      | Yes                    | -                        |
| <b>Department of Transport</b>                                     | Yes                    | Yes                    | Yes                      |
| Port of Melbourne Corporation                                      | Yes                    | -                      | Yes                      |
| Vic Roads  | Yes                    | -                      | Yes                      |
| Vic Track  | Yes                    | Yes                    | Yes                      |
| Southern Cross Station Authority                                   | Yes                    | -                      | Yes                      |
| V/Line (a)   | -                      | -                      | Yes                      |
| Transport Ticketing Authority (a)                                  | -                      | -                      | Yes                      |

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

| Department/Agency                                       | Questionnaire Part One | Questionnaire Part Two | Review of Annual Reports |
|---|------------------------|------------------------|--------------------------|
| Southern and Eastern Integrated Transport Authority (a) | -                      | -                      | Yes                      |
| <b>Department of Treasury and Finance</b>               | <b>Yes</b>             | <b>Yes</b>             | <b>Yes</b>               |
| Rural Finance Corporation                               | Yes                    | -                      | -                        |
| Transport Accident Commission                           | Yes                    | -                      | -                        |
| Treasury Corporation of Victoria                        | Yes                    | Yes                    | -                        |
| City West Water Limited                                 | Yes                    | -                      | -                        |
| South East Water Limited                                | Yes                    | -                      | -                        |
| Yarra Valley Water Limited                              | Yes                    | -                      | -                        |
| Victorian Managed Insurance Authority                   | Yes                    | Yes                    | -                        |
| Victorian WorkCover Authority                           | Yes                    | -                      | -                        |
| Victorian Funds Management Corporation                  | Yes                    | -                      | -                        |
| <b>Department of Parliamentary Services</b>             | <b>Yes</b>             | <b>Yes</b>             | -                        |
| <b>Victorian Auditor-General's Office</b>               | -                      | -                      | -                        |

Notes: (a) new agencies whose outcomes have been specifically examined by the Public Accounts and Estimates Committee for the first time in an outcomes report

Source: Public Accounts and Estimates Committee

### 1.3.2 Analysis of annual reports

The scope of the inquiry covered an extensive analysis of annual reports of not only departments but also a selection of Transport related government agencies as detailed in Table 1.1 (refer to chapter 19 for detailed findings emanating from this analysis).

## 1.4 The review process

The Committee continued the two-part Questionnaire process established during the *Inquiry on the 2006-07 Financial and Performance Outcomes*. The questionnaires covered selected issues, predominantly across budget funded agencies, that are deemed by the Committee in the public interest.

The Part One Questionnaire covering financial and performance outcomes consisted of generic questions applicable to all departments, the Department of Parliamentary Services and 32 related agencies. It included questions on public sector workforce, taxation, procurement, efficiencies, grants, financial sustainability, output cost variations and program outcomes. This questionnaire was issued to the departments and agencies identified in Table 1.1 in October 2008.

Following a review of Annual Reports relating to departments and agencies that were tabled around 31 October 2008, together with the examination of other relevant information, the Committee issued supplementary questionnaires to the 10 departments, The Department of Parliamentary Services and eight selected agencies identified in Table 1.1. This Part Two Questionnaire more specifically related to the achievement of the Government's *Growing Victoria Together* outcomes and focused on the achievement of deliverables by individual departments and agencies. The Part Two Questionnaire was distributed in early December 2008.

A separate questionnaire was distributed to the Victorian Auditor-General's Office in October 2008.

Matters are reported as part of across-the-board themes or individually under policy visions articulated by the Government in its *Growing Victoria Together* 10 year vision. This approach is also followed by the Auditor-General in his annual plan.

For the Report on the 2007-08 Financial and Performance Outcomes, where possible, information from 2005-06 and 2006-07 is used for comparative purposes when assessing achievements in 2007-08. For example, information in tables may include data from all three years for comparative purposes, in addition to any financial or statistical information provided in the narrative or in graphical form.

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 2007-08 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 achievement of performance measures.

## **1.5 Government response to the Committee's Report on the 2006-07 Financial and Performance Outcomes**

The Committee made 88 recommendations in its Report on the 2006-07 Financial and Performance Outcomes. Nine 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 the Parliament. The Government Response to the Public Accounts and Estimate Committee's *Report on the 2006-07 Financial Performance Outcomes* was tabled in the Parliament on 11 November 2008. The Auditor-General provided a separate response to the nine recommendations that related to his Office on 8 August 2008.

### **1.5.1 Auditor-General's Response**

The Auditor-General agreed with eight of the nine recommendations made by the Committee concerning his Office and indicated that appropriate actions would be taken to address these issues.

In the remaining recommendation, the Committee recommended that quantified impacts emanating in full or in part from the work of the Victorian Auditor-General's Office (VAGO) be measured and discussed in the Office's annual report. The Auditor-General indicated that attempts by other audit institutions to establish such measures have proved difficult and that this matter is currently under review by VAGO.

The Committee is of the belief that while difficult to establish, quantifiable measures of the impact of the Auditor-General's reports are critical to his ongoing accountability to Parliament and encourages the Auditor-General to expedite the development of such measures.

**Recommendation 1:**                            **The Auditor-General expedite the development of quantifiable measures of the impacts of his reports and recommendations on audited departments and agencies.**

**1.5.2      Government's Response**

The Government's response to the *Report on the 2006-07 Financial and Performance Outcomes* covered the 79 recommendations that were not directed at the Victorian Auditor-General's Office. Four recommendations included multiple parts. The Government's response treated these multiple parts as individual recommendations, bringing the total number of recommendation responses to 90. Table 1.2 provides a comparative analysis of the Government's response to the 2004-05 and the 2006-07 Outcomes reports. The 2006-07 report covered a review of two years of Outcomes achievements, 2005-06 and 2006-07.

**Table 1.2:    Government's response to recommendations in the 2004-05 and the 2006-07 Financial and Performance Outcomes Reports**

| Response     |              | 2004-05<br>Recommendation<br>Responses (a) |            | 2006-07<br>Recommendation<br>Responses (b) |            |
|--------------|--------------|--|------------|--|------------|
|              |              | (number)                                   | (per cent) | (number)                                   | (per cent) |
| Accept       | Wholly       | 23   | 25         | 29   | 32         |
|              | In Part      | 13   | 14         | 15   | 17         |
|              | In Principle | 38   | 41         | 17   | 19         |
| Under Review |              | 9  | 10         | 13   | 14         |
| Rejected     |              | 9  | 10         | 16   | 18         |
| <b>Total</b> |              | <b>87</b>                                  | <b>100</b> | <b>90</b>                                  | <b>100</b> |

Sources: (a) *Public Accounts and Estimates Committee, Report on the 2006-07 Financial and Performance Outcomes, May 2008, p.30*

(b) *Victorian Government, Response to the Public Accounts and Estimates Committee's Report on the 2006-07 Financial and Performance Outcomes, tabled in Parliament on 11 November 2008.*

A chapter by chapter breakdown of responses is set out in Table 1.3, 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 1.3: Summary of the Government's response to recommendations in the 2006-07 Financial and Performance Outcomes Report**

| Chapter  | Accept    |           |              | Under Review | Reject    | Total      |
|--|-----------|-----------|--------------|--------------|-----------|------------|
|  | Wholly    | In Part   | In Principle |              |           |            |
| Introduction   | -         | -         | -            | -            | -         | 0          |
| Overview of the State's 2006-07 Financial Outcomes   | -         | 3         | 2            | 1            | -         | 6          |
| National Reform Agenda                               | -         | -         | 1            | 1            | -         | 2          |
| Productivity Improvement                             | -         | -         | -            | 3            | 1         | 4          |
| Regulation Reduction                                 | 3         | 2         | -            | -            | 3         | 8          |
| Departmental Savings                                 | -         | -         | -            | -            | 4         | 4          |
| Revenue and Revenue Foregone                         | -         | 2         | -            | 1            | -         | 3          |
| Public Sector Asset Investment Program               | -         | -         | 3            | -            | -         | 3          |
| Trust Fund Accounts                                  | -         | 3         | -            | -            | -         | 3          |
| Drought Relief                                       | 2         | 1         | -            | 1            | 1         | 5          |
| Performance Bonuses                                  | 1         | -         | 2            | 1            | -         | 4          |
| Employment Within the Public Sector                  | -         | -         | -            | -            | 3         | 3          |
| Report Card by Departments on Portfolio Achievements | -         | -         | -            | -            | -         | 0          |
| Performance Targets                                  | 9         | -         | 1            | -            | -         | 10         |
| Environmental Outcomes                               | 2         | 1         | -            | -            | -         | 3          |
| Regional and Rural Outcomes                          | -         | 1         | 2            | -            | -         | 3          |
| Advertising and Promotion                            | -         | 1         | -            | -            | -         | 1          |
| Thriving Economy                                     | 1         | -         | 2            | -            | -         | 3          |
| Quality Health and Education                         | 4         | 1         | -            | -            | 1         | 6          |
| Healthy Environment                                  | 1         | -         | -            | -            | -         | 1          |
| Caring Communities                                   | -         | -         | -            | -            | -         | 0          |
| Vibrant Democracy                                    | 1         | -         | -            | 1            | 1         | 3          |
| Review of Annual Reports                             | 4         | -         | 4            | 2            | 2         | 12         |
| Victorian Auditor-General's Office                   | 1         | -         | -            | 2            | -         | 3          |
| <b>Total Number of Recommendations</b>               | <b>29</b> | <b>15</b> | <b>17</b>    | <b>13</b>    | <b>16</b> | <b>90</b>  |
| <b>Percentage of Total Recommendations (%)</b>       | <b>32</b> | <b>17</b> | <b>19</b>    | <b>14</b>    | <b>18</b> | <b>100</b> |

Source: Government Response to the Public Accounts and Estimates Committee Report on the 2006-07 Financial and Performance Outcomes.



The Committee noted that the proportion of recommendations that were accepted fell from 80 per cent in the 2004-05 response to 68 per cent in the 2006-07 response. However, analysis of the individual responses identified two particular factors which had a major impact on these figures.

Six out of the 13 (14 per cent of total) recommendations that the Government deemed 'under review' fell under the auspices of the Department of Treasury and Finance's ongoing review of Victoria's public finance practices and legislation<sup>3</sup>. Further detailed consideration of these issues can be found in the Committee's preliminary report *New Directions in Accountability*.<sup>4</sup>

Nine out of the sixteen (10 per cent of total) recommendations rejected by the Government related to the current departmental reporting framework.<sup>5</sup> In relation to these nine recommendations, the Government Response indicated that:<sup>6</sup>

*The financial management and accountability framework for Victorian government departments focuses on the delivery of outputs and outcomes rather than the management of inputs.*

However, the Committee believes that there is sufficient scope within the terms of Section 4.2 of the Standing Directions of the Minister for Finance under the *Financial Management Act 1994* and *FRD 22B - Standard Disclosures in the Report of Operations* to allow for the recommendation of the inclusion of additional reporting requirements, such as those identified by the Committee, within an agency's report of operation. The Committee considers all matters identified in its reports to be of significance to the Victorian Parliament and encourages the Government to give further consideration to these particular recommendations.

**Recommendation 2:**                                **The Government revisits the rejected recommendations from the *Report on the 2006-07 Financial and Performance Outcomes* when preparing its response to the *Report on the 2007-08 Financial and Performance Outcomes*.**

## **1.6 Cost of Inquiry**

The cost of this inquiry was approximately \$151,048

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<sup>3</sup> Recommendation Numbers: 9, 19, 68, 70, 76, 85.

<sup>4</sup> Public Accounts and Estimates Committee, *New Directions in Accountability*, November 2008.

<sup>5</sup> Recommendation Numbers 4, 18a-d, 33, 38, 39, 57.

<sup>6</sup> Victorian Government, Government Response to the Public Accounts and Estimates Committee Report on the 2006-07 Financial and Performance Outcomes, November 2009, p.25, recommendation 33.

## **CHAPTER 2: OVERVIEW OF THE STATE'S 2007-08 FINANCIAL AND PERFORMANCE OUTCOMES**

### **Key Findings of the Committee:**

- 2.1** The consolidated operating surplus (net result from transactions) of the State for 2007-08 was \$1.4 billion, \$235.5 million (19.3 per cent) higher than the result for 2006-07. The Government has indicated that this result was largely influenced by outcomes in the general Government sector.
- 2.2** After taking into account actuarial losses of \$3.4 billion on defined benefit superannuation plans and \$1.4 billion on financial instruments held by Government authorities measured at fair value, the State's consolidated net result for 2007-08 was a deficit of \$3.1 billion compared with a surplus of \$7.7 billion in 2006-07.
- 2.3** The Auditor-General has informed Parliament that the consolidated 2007-08 net result demonstrates the State's exposure to financial markets and economic conditions outside of its control.
- 2.4** Net assets of the State increased by \$5.3 billion (6.2 per cent) in 2007-08 to \$91.6 billion, compared to \$86.3 billion in 2006-07. The growth in net assets was largely due to increases in capital stock in the general Government and public non-financial corporations sectors, partly offset by the actuarial losses noted in 2.2.
- 2.5** The 2007-08 operating result in the general Government sector was a surplus of \$1.5 billion, substantially in excess of the Government's minimum target of \$100 million. The operating surplus was also \$486 million (48.8 per cent) higher than the estimate revised in May 2008 and \$1.2 billion (357 per cent) higher than the initial estimate disclosed in the 2007-08 budget papers.
- 2.6** Based on May 2008 revised estimates, the higher operating surplus in the general Government sector was attributable to increased revenue, from sources other than taxation, offset by slightly higher operating expenses.
- 2.7** The Committee shares the view expressed by the Auditor-General that the extraordinary global economic downturn poses a major risk to the sustainability of the State's income and expense policy settings. It considers the circumstances require robust monitoring by the Government of its operating performance against revised budget outcomes and full reporting to Parliament of any significant variations to key estimates and related financial management policy.
- 2.8** Net infrastructure spending in the general Government sector in 2007-08 amounted to a record \$3.9 billion, \$645 million higher than in 2006-07 although \$229 million lower than the May 2008 estimate for 2007-08 of \$4.2 billion.

- 2.9** Net general Government sector debt increased by \$145 million in 2007-08 and brought total net debt at 30 June 2008 to \$2.2 billion (0.8 per cent) of GSP compared with a revised estimated position of \$2.3 billion (0.9 per cent) of GSP. The smaller than estimated increase in net debt reflects the cost of infrastructure investment in 2007-08 modestly exceeding the net cash flow available to the Government from operating activities.
- 2.10** Net debt of the non-financial public sector, which combines the general Government and the public non-financial corporation sectors, at 30 June 2008 totalled \$3.9 billion (1.5 per cent of GSP) compared with a revised estimated position of \$5.7 billion (2.2 per cent of GSP). The annual financial report identifies that the difference of \$1.8 billion between the estimated and actual position at 30 June 2008 is predominately associated with the public non-financial corporations sector.
- 2.11** The Committee intends to cover in its reports on 2009-10 budget estimates and 2008-09 outcomes the impact of major post-June 2008 developments in financial markets and global economic conditions.

## 2.1 Introduction

The Treasurer tabled the government's 2007-08 annual financial report in Parliament on 14 October 2008. The report culminates the extensive financial and budget reporting process established by the government under the *Financial Management Act 1994* for each financial year. This process involves reporting quarterly, at mid-year and at year-end.

The tabled year-end report documents the 2007-08 financial results and position for the State of Victoria which, as a whole of government reporting entity, has three sectors, namely:

- the general government sector (212 entities comprising government departments and other budget-funded agencies which are largely responsible for the delivery of government policy as set out in the annual State Budget);
- the public non-financial corporations sector (92 entities such as water, rail and port authorities that provide goods and services of a non-financial nature to the public while meeting commercial principles through cost recovery via user charges and fees); and
- the public financial corporations sector (7 entities, including the Transport Accident Commission, the Treasury Corporation of Victoria, the Victorian Funds Management Corporation and the Victorian WorkCover Authority), that provide financial services in accordance with financial principles.

The 2007-08 annual financial report includes commentary by the government on particular financial and economic outcomes compared with expected results revised in May 2008. The report also includes the State's consolidated financial statements for the year, as audited by the Auditor-General. A confirming opinion on the financial statements was issued by the Auditor-General on 24 September 2008.

In addition to providing an audit opinion on the annual financial statements, the Auditor-General has a legislative responsibility to report to the Parliament on the results of an audit of the annual financial report. The Auditor-General's report for 2007-08 was presented to Parliament on 13 November 2008.

The Auditor-General views the annual financial report as ... *a key part of the accountability of the government to Parliament for the management and stewardship of the State's finances*.<sup>7</sup>

<sup>7</sup> Victorian Auditor-General, *Auditor-General's Report on the Annual Financial Report of the State of Victoria*, 2007-08, November 2008, p.1

## 2.2 Summary of government's consolidated financial result for 2007-08

Table 2.1 compares the audited consolidated operating statement for 2007-08 and 2006-07 for the State of Victoria as presented in the annual financial report. It shows two measures for the period, a 'net result from transactions' which equates to an operating result, before arriving at a 'net result' after recognising income and expenses derived from other economic flows.

As shown in Table 2.1, the 2007-08 *net result from transactions* for the State is a surplus of \$1.4 billion, \$235.5 million (19.3 per cent) higher than the result for 2006-07. The government has indicated in its annual financial report that the 2007-08 result was strongly influenced by the outcomes of the general government sector<sup>8</sup> which are discussed in later paragraphs.

Table 2.1 also shows that, after taking into account other economic flows, the consolidated 2007-08 *net result* was a net deficit of \$3.1 billion, a decrease of \$10.8 billion when compared with the net (surplus) result of \$7.7 billion in 2006-7. The government has reported that the net deficit of \$3.1 billion was largely driven by actuarial losses of \$3.4 billion (gains of \$3.4 billion in 2006-07) associated with the State's defined benefit superannuation plans and losses of \$1.4 billion (gains of \$3.2 billion in 2006-07) incurred on financial instruments held by government entities measured at fair value.<sup>9</sup>

The government regards these other economic flows as outside of its direct control. It considers the exclusion of these items from the net result from transactions provides a more robust representation of Victoria's financial performance. Accordingly, it is of the view that the net result from transactions is a more appropriate measure of its financial management and gives a clearer representation of the State's underlying position.<sup>10</sup>

The Committee agrees that the underlying reasons for losses associated with superannuation and financial instruments are outside of the government's direct control. It notes however that how financial instruments are managed on a day to day basis, especially with deteriorating external conditions, can be directly linked to management performance.

The Auditor-General informed Parliament that the significant deficit in the consolidated 2007-08 net result clearly demonstrates the State's exposure to financial markets and economic conditions outside its control. The Auditor-General also commented on the risk to longer-term financial sustainability and how this needs to be monitored closely to ensure that current income and expenditure policy settings remain sustainable.<sup>11</sup> The Committee concurs with the views expressed by the Auditor-General which have assumed greater significance because of acute deterioration in financial markets and global economic conditions subsequent to the issue of the Auditor-General's report. The Committee's preliminary consideration of the potential impact of these unique circumstances on Victoria's budget settings forms part of its overview of the 2007-08 operating surplus for the general government sector presented in later paragraphs of this chapter.

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<sup>8</sup> Department of Treasury and Finance, *Financial Report for the State of Victoria 2007-08*, October 2008, p.4

<sup>9</sup> *ibid.*, pp.44-45 and 57

<sup>10</sup> *ibid.*, p.44

<sup>11</sup> Victorian Auditor-General, Auditor-General's Report on the Annual Financial Report of the State of Victoria, 2007-08, October 2008, p.25

**Table 2.1: Consolidated operating statement for the year ended 30 June 2008**

|   | State of Victoria    |                      |                  | General government sector |                      |                  |
|---|----------------------|----------------------|------------------|---------------------------|----------------------|------------------|
|   | 2008<br>(\$ million) | 2007<br>(\$ million) | Variation<br>(%) | 2008<br>(\$ million)      | 2007<br>(\$ million) | Variation<br>(%) |
| <b>Income from transactions</b>   |                      |                      |                  |                           |                      |                  |
| Taxation (a)  | 12,697.5             | 11,554.9             | 9.9              | 12,862.9                  | 11,701.8             | 9.9              |
| Fines and regulatory fees   | 871.9                | 789.2                | 10.4             | 854.3                     | 765.2                | 1.2              |
| Dividends and income tax equivalent and rate equivalent revenue (a)       | 576.1                | 680.7                | -15.3            | 759.9                     | 1,422.3              | -46.6            |
| Interest  | 1,292.6              | 1,100.5              | 17.4             | 451.6                     | 422.7                | 6.8              |
| Grants (a)  | 17,108.5             | 15,493.2             | 10.4             | 17,210.1                  | 15,600.9             | 10.3             |
| Sale of goods and services  | 9,122.2              | 8,703.6              | 4.8              | 3,081.4                   | 2,863.3              | 7.6              |
| Fair value of assets received free of charge or for nominal consideration | 361.7                | 200.7                | 80.2             | 76.7                      | 21.8                 | 251.8            |
| Other income (a)  | 1,524.7              | 1,459.1              | 4.5              | 2,043.4                   | 2,087.6              | -2.1             |
| <b>Total income from transactions</b>                                     | <b>43,555.1</b>      | <b>39,982.0</b>      | <b>8.9</b>       | <b>37,340.3</b>           | <b>34,885.7</b>      | <b>7.0</b>       |
| <b>Expenses from transactions</b>   |                      |                      |                  |                           |                      |                  |
| Employee benefits   | 13,926.9             | 12,985.8             | 7.2              | 13,033.8                  | 12,187.2             | 6.9              |
| Superannuation  | 1,738.6              | 1,706.0              | 1.9              | 1,648.0                   | 1,642.9              | 0.3              |
| Depreciation and amortisation   | 2,353.7              | 2,217.2              | 6.2              | 1,416.2                   | 1,334.7              | 6.1              |
| Finance costs   | 1,151.7              | 1,059.7              | 8.7              | 460.0                     | 479.2                | -4.0             |
| Grants and transfer payments  | 4,516.0              | 4,449.9              | 1.5              | 6,515.0                   | 6,706.0              | -2.8             |
| Supplies and services   | 18,178.6             | 16,134.2             | 12.7             | 12,561.5                  | 11,001.3             | 14.2             |
| Other expenses  | 237.2                | 212.4                | 11.7             | 224.2                     | 200.0                | 10.8             |
| <b>Total expenses from transactions</b>                                   | <b>42,102.8</b>      | <b>38,765.2</b>      | <b>8.6</b>       | <b>35,858.6</b>           | <b>33,551.2</b>      | <b>6.9</b>       |

Table 2.1: Consolidated operating statement for the year ended 30 June 2008

|  | State of Victoria    |                      |                  | General government sector |                      |                  |
|--|----------------------|----------------------|------------------|---------------------------|----------------------|------------------|
|  | 2008<br>(\$ million) | 2007<br>(\$ million) | Variation<br>(%) | 2008<br>(\$ million)      | 2007<br>(\$ million) | Variation<br>(%) |
| <b>Net result from transactions</b>                                    | <b>1,452.3</b>       | <b>1,216.8</b>       | <b>19.3</b>      | <b>1,481.7</b>            | <b>1,334.5</b>       | <b>10.9</b>      |
| <b>Income/(expenses) from other economic flows</b>                     |                      |                      |                  |                           |                      |                  |
| Net gain/(loss) from disposal of physical assets                       | 11.1                 | (51.8)               | 121.4            | 16.0                      | (29.8)               | 153.7            |
| Actuarial gains/(losses) of superannuation defined benefit plans       | (3,398.0)            | 3,434.1              | (198.8)          | (3,378.1)                 | 3,428.1              | (198.5)          |
| Share of net profits/(losses) of associates and joint venture entities | 7.1                  | 35.6                 | (80.0)           | 10.6                      | 5.2                  | 103.8            |
| Net gain/(loss) on financial instruments at fair value                 | (1,452.0)            | 3,228.9              | (145.0)          | (34.8)                    | 21.7                 | (260.4)          |
| Other gains/(losses) from other economic flows                         | 272.9                | (195.4)              | 239.7            | 29.1                      | 546.7                | (94.7)           |
| <b>Total other economic flows</b>                                      | <b>(4,558.9)</b>     | <b>6,451.4</b>       | <b>(170.7)</b>   | <b>(3,357.2)</b>          | <b>3,972.0</b>       | <b>(185.0)</b>   |
| <b>Net result</b>  | <b>(3,106.6)</b>     | <b>7,668.2</b>       | <b>(140.5)</b>   | <b>(1,875.5)</b>          | <b>5,306.5</b>       | <b>(135.3)</b>   |

Note: (a) The consolidated position of the State of Victoria for these revenue items is less than the reported revenue for the general government sector due to inter-sector eliminations, which are identified on pages 86-7 of the government's annual financial report for 2007-08.

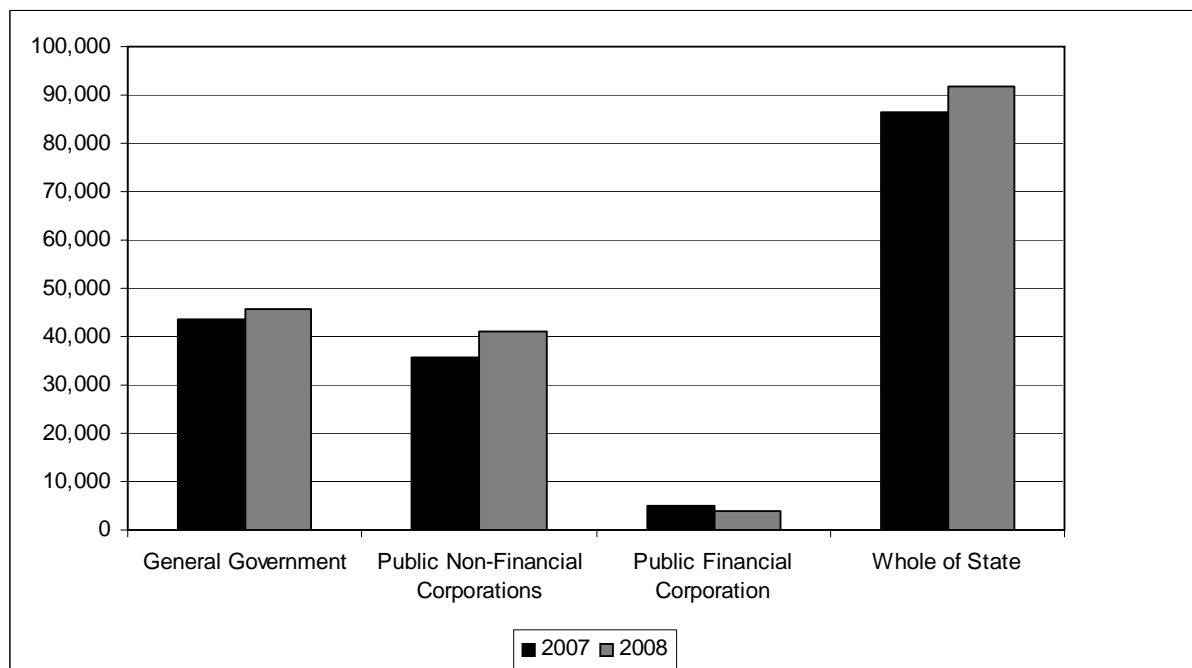
Sources: Department of Treasury and Finance, Financial Report for the State of Victoria 2007-08, October 2008, p.57; percentage variations computed by the PAEC

## 2.3 Summary of government's consolidated financial position at 30 June 2008

The government's annual financial report for 2007-08 identifies that net assets of the State increased by \$5.3 billion (6.2 per cent) in 2007-08 to \$91.6 billion, compared to \$86.3 billion in 2006-07.<sup>12</sup>

Figure 2.2 shows the variation in net assets by sector from 30 June 2007 to 2008 with the growth in net assets largely occurring in the general government and public non-financial corporations sectors.

**Figure 2.2: Movement in net assets by sector at 30 June**



Source: Department of Treasury and Finance, *Financial Report for the State of Victoria 2007-08*, p.46

The government's report shows that the increase in net assets in the general government sector in 2007-08 was mainly due to an increase of \$5.8 billion in capital stock, partly offset by an increase of \$3 billion in the superannuation liability. The latter movement reflected the impact of recent financial market volatility on the sector.<sup>13</sup>

The report also identifies that the principal driver of the increase in net assets in the public non-financial corporations sector was an increase of \$5.2 billion in its capital stock incorporating an increase of \$2.1 billion for the Director of Housing largely associated with revaluation of land and buildings, and an increase of \$1.4 billion in the water sector as a result of higher capital expenditure.<sup>14</sup>

<sup>12</sup> Department of Treasury and Finance, *Financial Report for the State of Victoria 2007-08*, October 2008, p.46

<sup>13</sup> *ibid.*, p.28

<sup>14</sup> *ibid.*, p.39

## 2.4 Operating result for 2007-08 in the general government sector

The general government sector is largely responsible for the delivery of government policy as set out in the annual State Budget. The sector accounts for most of the activities driving each year's operating result (net result from transactions) which are directly influenced by the policy decisions of the government.<sup>15</sup>

For 2007-08, the government's operating surplus in the general government sector was a surplus of \$1.5 billion, substantially above its longstanding minimum operating surplus target of \$100 million. As mentioned in the Committee's report on the 2008-09 budget estimates, the government adopted a new target of maintaining a budget surplus of at least 1 per cent of operating revenue with effect from and inclusive of 2008-09.<sup>16</sup> As mentioned in a later paragraph, the government has recently indicated it will revert to its earlier surplus target of \$100 million.

The 2007-08 operating result exceeded the revised estimate published in May 2008 in the 2008-09 budget papers of \$996 million by \$486 million (48.8 per cent) and the initial estimate disclosed in the 2007-08 budget papers of \$324.3 million by \$1.2 billion (357 per cent).

As explained in the Committee's report on the 2006-07 financial and performance outcomes, the achievement of significant operating surpluses well in excess of expected initial and revised budget outcomes has been a recurring feature of the government's financial management in the general government sector.<sup>17</sup> Over the years, these surpluses have been an important source of funding for the government's infrastructure program. These circumstances were clearly reflected in comments made by the Treasurer at the time of the tabling of the 2007-08 annual financial report on 14 October 2008. The Treasurer stated that the key results in 2007-08 included record infrastructure spending of \$3.9 billion, \$645 million more than the previous year and that '*From 1999-2000 to 2007-08 the Government invested over \$21 billion in infrastructure.*' The Treasurer further stated that '*Victoria's economic fundamentals remain strong....*'<sup>18</sup>

It can be seen that any emerging threats from weakening financial markets and global economic conditions to Victoria's continued capacity to generate significant budget surpluses and to its resultant overall financial sustainability were not evident from the 2007-08 operating result in the general government sector presented to Parliament by the Treasurer in October 2008.

In its reports on Victoria's budget estimates for 2007-08 and 2008-09, the Committee has commented on the government's management of contingencies within its budgetary framework and on the relevance of contingency management for future budgets.<sup>19</sup> When advocating a more robust approach by the government to the reporting of contingencies and of their role in the budgetary process, the Committee identified that adequate allowance for contingencies in budget estimates is a fundamental component of sound risk management in order to guard against unforeseen occurrences or changes in global or local economic conditions. The Committee calculated that output contingencies built into budgetary estimates over the forward estimates period to 2011-12, as presented in the 2008-09 Budget, amounted to a minimum of \$8.6 billion and asset contingencies totalled around \$3.6 billion. Given their magnitude, these provisions are likely to prove invaluable to the government as it strives to minimise the threats emerging from the external economic environment to continuing implementation of its policy of prudent financial management of Victoria's public resources.

This report focuses on the government's financial and performance outcomes in 2007-08. The recent extraordinary global economic circumstances, with immense world-wide ramifications, which have prevailed for much of 2008 and are continuing to prevail, are of great concern to the Committee.

<sup>15</sup> *ibid.*, pp.20 and 44

<sup>16</sup> Public Accounts and Estimates Committee, Report on the 2008-09 Budget Estimates – Part Three, October 2008, p.27

<sup>17</sup> *ibid.*, p.44

<sup>18</sup> Mr J Lenders, Treasurer, media release, *Strong Surplus a Boost for Infrastructure*, 14 October 2008

<sup>19</sup> Public Accounts and Estimates Committee, Report on the 2007-08 Budget estimates – Part Three, September 2007, pp.30-4 and Report on the 2008-09 Budget Estimates – Part Three, October 2008, pp.33-5



The Committee will need to address the government's budgetary strategies in minimising the consequences to Victoria of deteriorating economic conditions in its reports dealing with the 2009-10 Budget Estimates and the 2008-09 financial and performance outcomes. In the meantime, the Committee reiterates the view expressed to Parliament by the Auditor-General, when commenting on the Annual Financial Report for 2007-08, that the global economic downturn poses a major risk to the sustainability of the State's income and expenditure policy settings. The Committee stresses the need for robust ongoing monitoring by the government of its operating performance against budget outcomes. Such monitoring should be accompanied by full reporting through the government's periodic reporting framework of any significant changes to key parameters and any resultant policy action arising from such changes.

### 2.4.1 Analysis of the 2007-08 operating surplus in the general government sector

As mentioned in an earlier paragraph, the 2007-08 operating surplus of \$1.5 billion in the general government sector exceeded the revised estimate published in May 2008 in the 2008-09 budget papers of \$996 million by \$486 million (48.8 per cent). Table 2.3 shows the variation between the revised estimate and final position for the main revenue and expense items as presented in the government's 2007-08 annual financial report.

**Table 2.3: Dissection of 2007-08 operating surplus for general government sector, compared to May 2008 estimates**

| Operating item                                    | Column 1                    | Column 2                              | Column 1-2             | Column 1-2    |
|---|-----------------------------|---------------------------------------|------------------------|---------------|
|   | 2007-08 Actual (\$ million) | 2007-08 Revised Estimate (\$ million) | Variation (\$ million) | Variation (%) |
| <b>Revenue</b>                                    |                             |                                       |                        |               |
| Taxation  | 12,862.9                    | 12,997.4                              | -134.5                 | -1.0          |
| Dividends, Income tax and rate equivalent revenue | 759.9                       | 679.8                                 | 80.1                   | 11.8          |
| Grants  | 17,210.1                    | 17,180.7                              | 29.4                   | 0.2           |
| Sale of goods and services and other income       | 6,507.5                     | 5,930.3                               | 577.2                  | 9.7           |
| <b>Total revenue</b>                              | <b>37,340.3</b>             | <b>36,788.1</b>                       | <b>552.2</b>           | <b>1.5</b>    |
| <b>Expenses</b>                                   |                             |                                       |                        |               |
| Employee benefits                                 | 13,033.8                    | 13,025.9                              | 7.9                    | 0.1           |
| Superannuation                                    | 1,648.0                     | 1,613.0                               | 35.0                   | 2.2           |
| Supplies and services and other expenses          | 21,176.9                    | 21,153.2                              | 23.7                   | 0.1           |
| <b>Total expenses</b>                             | <b>35,858.6</b>             | <b>35,792.1</b>                       | <b>66.5</b>            | <b>0.2</b>    |
| <b>Operating surplus</b>                          | <b>1,481.7</b>              | <b>996.0</b>                          | <b>485.7</b>           | <b>48.8</b>   |

Source: Department of Treasury and Finance, *Financial Report for the State of Victoria, 2007-08, October 2008, p.21*

It can be seen from Table 2.3 that the higher than expected surplus for 2007-08, based on May 2008 estimates, was attributable to increased revenue, from sources other than taxation, of a net \$552 million, offset by slightly higher operating expenses in all three major expense categories of \$66.5 million.

The government's annual financial report for 2007-08 includes commentary on the factors contributing to the above variations. Aspects of this commentary are presented in the following paragraphs.<sup>20</sup>

<sup>20</sup> Department of Treasury and Finance, *Financial Report for the State of Victoria, 2007-08, October 2008, pp.21-7*

## **Reasons for variations between May 2008 revised estimates and actual operating revenue**

### **Taxation**

Unlike the previous year, when the difference between the latest estimated and actual taxation revenue was an increase of \$230.3 million (2 per cent), taxation revenue in 2007-08 was \$135 million (1 per cent) less than the May 2008 revised estimate. The government has identified that this increase was principally attributable to:

- reduced revenue from land transfer duty of \$169 million reflecting lower than expected revenue per transaction consistent with reported declines in property prices; offset by
- higher revenue from some gambling taxes and duty on motor vehicle registrations and transfers.

### **Income tax equivalent receipts**

Higher than estimated income tax equivalents totalling \$79 million were received from the Transport Accident Commission and the Victorian WorkCover Authority, the major reason for the additional revenue received since the May 2008 revised estimate. However, on a full year to year basis, total revenue from this source in 2007-08 was \$662.4 million (46.6 per cent) lower than receipts in 2006-07.

The government has indicated that, in times of financial market volatility, it is extremely difficult to estimate the level of income tax equivalents of public financial corporations with large investment portfolios.

### **Grants**

The overall increase in grants income of \$29.4 million arose from:

- higher than estimated specific purpose Commonwealth grants of \$165 million in the health, sustainability and environment, and primary industries sectors; partially offset by
- reduced general purpose grant revenue of \$136 million, mainly comprising GST revenue, due to a decline in the GST pool as national consumption slowed in the latter half of 2007-08.

### **Sale of goods and services and other income**

Expressed in dollar terms, increased revenue under this category constituted by far the major portion of revenue received in 2007-08 in excess of the May 2008 estimate.

The government has identified that the additional revenue of \$577.2 million comprised sale of goods and services of \$249.2 million, interest of \$78.7 million and other income, including fines and regulatory fees, also of \$249.2 million. The reasons reported by the government for these increases included:

- sale of goods and services – increased third party revenue from several sources including a number of health services, school services such as those for international students, and VicRoads construction activity, as well as higher contributions from the Transport Accident Commission, Victorian WorkCover Authority and the Commonwealth for hospital and ambulance services relating to compensable patients, and additional public transport ticket revenue due to a 12.7 per cent increase in patronage in 2007-08;
- interest – increased cash balances held by agencies arising from increased income; and
- other income – several causal factors including higher regulatory fee income, increased research grants and clinical trial income from the private sector, additional Court Fines revenue mainly flowing from the last State election and greater than expected sponsorship and membership of Arts agencies. The government stated these increases were partially offset by lower revenue from traffic camera fines due mainly to increased public awareness of cameras and higher downtime from increased maintenance requirements and delays transitioning to the new traffic camera services contract.

## **Reasons for variations between May 2008 revised estimates and actual operating expenses**

The government reported that operating expenses covering employee benefits, superannuation and supplies and services and other expenses in 2007-08 in the general government sector were consistent with the May 2008 revised estimates. As shown in Table 2.3, the overall variation between the latest expense estimates and actual figures for 2007-08 was just 0.2 per cent. On a year to year comparative basis, employee benefits in 2007-08 were \$846.6 million (6.9 per cent) higher than in 2006-07 and supplies and services and other expenses was \$1.5 billion (7.5 per cent) higher in 2007-08.

The government's report describes the nature of the three expense categories and identifies that the highest movement between actual and May 2008 estimates was in the 'other expenses' category which totalled \$224 million, 36 per cent greater than the revised budget of \$165 million. The main reason for this difference was the recognition of bad debts resulting from fine related enforcement activities. The government indicated outstanding debts will continue to be vigorously pursued through all legal means and prudent accounting requires that recognition be made for such debts.

## **2.5 Infrastructure investments in 2007-08 in the general government sector**

When announcing the 2007-08 operating results, the Treasurer stated:

*Our strong surplus allows investment in tomorrow's infrastructure in areas like education, health and community safety and also helps us address the new challenges in transport, our changing climate and meeting the demands of our growing population.*

The government's annual financial report for 2007-08 states that net infrastructure investment spending in the general government sector in the year was a record \$3.9 billion. This level of spending was \$645.4 million higher than the previous year but was \$229 million lower than the May 2008 revised estimate for 2007-08 of \$4.2 billion.<sup>21</sup>

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<sup>21</sup> *ibid.*, p.30 and Department of Treasury and Finance, *Financial Report for the State of Victoria 2006-07*, October 2007, p.25

Table 2.4 compares the actual and revised estimates of infrastructure spending figures for 2007-08 and the related funding sources.

**Table 2.4: Funding of government's 2007-08 infrastructure program – general government sector**

| Expense and funding items                          | 2007-08<br>Actual<br>(\$ million) | 2007-08<br>May Estimate<br>(\$ million) |
|--|-----------------------------------|---|
| Net result from transactions                       | 1,481.7                           | 996.0                                   |
| Add back: non-cash revenues and expenses (net) (a) | 2,395.8                           | 2,925.7                                 |
| <b>Net cash flow from operating activities</b>     | <b>3,877.5</b>                    | <b>3,921.7</b>                          |
| Less:  |                                   |   |
| <b>Net investment in fixed assets</b>              |                                   |   |
| Expenditure on approved projects (b)               | 4,104.0                           | 4,368.1                                 |
| Proceeds from asset sales                          | -177.0                            | -212.1                                  |
| <b>Net investment in fixed assets</b>              | <b>3,926.9</b>                    | <b>4,156.0</b>                          |
| Finance leases                                     | 253.3                             | -                                       |
| Other investment activities (net)                  | -157.7                            | 22.4                                    |
| <b>Increase in net debt</b>                        | <b>145.0</b>                      | <b>256.7</b>                            |

Notes: (a) includes depreciation and non-cash movements in liabilities such as superannuation and employee benefits

(b) includes purchase of property, plant and equipment plus contributions to other sectors for capital purposes

Source: Department of Treasury and Finance, *Financial Report for the State of Victoria 2007-08*, October 2008, p.30

The government's report also states that the increase in net debt of \$145 million in 2007-08 brought total net debt at 30 June 2008 to \$2.2 billion (0.8 per cent) of GSP compared with an estimated net debt position of \$2.3 billion (0.9 per cent) of GSP.<sup>22</sup> As indicated in the report, the smaller than estimated increase in net debt reflects the fact that the cost of infrastructure investment in 2007-08 modestly exceeded the net cash flow from operating activities.

Net debt of the non-financial public sector, which combines the general government and the public non-financial corporation sectors, at 30 June 2008 totalled \$3.9 billion (1.5 per cent of GSP) compared with a revised estimated position of \$5.7 billion (2.2 per cent of GSP).<sup>23</sup> The annual financial report identifies that the difference of \$1.8 billion between the estimated and actual position at 30 June 2008 is predominately associated with the public non-financial corporation sector. An analysis of the items making up the definition of net debt shows that a contributing factor to the reduction was an increase of \$1.1 billion in the sector's asset item, *Investments, loans and placements*.<sup>24</sup> The report identifies that the presentation of information relating to the non-financial public sector is consistent with the Uniform Presentation Framework adopted by all Australian jurisdictions.

<sup>22</sup> *ibid.*, p.33 and Budget Paper No.2, *2008-09 Strategy and Outlook*, p.56

<sup>23</sup> Department of Treasury and Finance, *Financial Report for the State of Victoria 2007-08*, October 2008, pp.47, 206-207 and *Budget Paper No.2, 2008-09 Strategy and Outlook*, p.70

<sup>24</sup> Department of Treasury and Finance, *Financial Report for the State of Victoria 2007-08*, p.207

The annual financial report provides a dissection across spending departments, of the government's net investment in fixed assets of \$3.9 billion in 2007-08, compared with the most recent projection for the year of \$4.2 billion.<sup>25</sup> The report describes some of the key areas of infrastructure spending in 2007-08 including:

- major transport projects such as instalment payments for the procurement of new regional and metropolitan rolling stock and expenditure associated with large road projects;
- a range of health, aged care and community services; and
- education outlays on construction of new schools and specialist educational facilities, modernisation of existing schools and land acquisition for future education facilities.

The report also outlines the main factors contributing to lower than estimated asset spending in the Department of Education and Early Childhood Development, where expenditure was \$489.3 million, \$131.2 million (21 per cent) lower than the latest estimate, and the Department of Innovation, Industry and Regional Development (DIIRD), where expenditure was \$71.4 million, \$148.3 million (68 per cent) lower than the most recent estimate.<sup>26</sup> The factors identified as underpinning the lower capital expenditure were:<sup>27</sup>

- in the education sector, lower than budgeted expenditure on school replacement, ICT and modernisation projects as well as lower than budgeted Commonwealth receipts for the *Investing in Our Schools program*; and
- for DIIRD, lower than planned expenditure on the TAFE capital program.

When commenting in its May 2008 *Report on the 2006-07 Financial and Performance Outcomes* on the government's expanding infrastructure program and associated increases in projected levels of net debt, the Committee drew attention to the importance of sound fiscal risk management, should an unexpected and prolonged downturn occur in financial markets and the State's economic condition.<sup>28</sup>

The Committee intends to cover the impact of the major post-June 2008 developments in financial markets and global economic conditions on Victoria's 2008-09 infrastructure outcomes in the general government sector in its future reports on the 2009-10 budget estimates and the 2008-09 financial and performance outcomes.

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<sup>25</sup> *ibid.*, p.30

<sup>26</sup> *ibid.*

<sup>27</sup> *ibid.*, p.31

<sup>28</sup> Public Accounts and Estimates Committee, *Report on the 2006-07 Financial and Performance Outcomes*, May 2008, p.50