

SECTION B: FINANCIAL OUTCOMES

CHAPTER 3: REVENUE AND REVENUE FOREGONE

Key Findings of the Committee:

- 3.1** In relation to the General Government Sector, which comprises departments and other budget-funded agencies, income from transactions increased from \$34.9 billion in 2006-07 to \$37.3 billion in 2007-08, a rise of \$2.4 billion (6.9 per cent).
- 3.2** Total revenue for the State of Victoria, which also includes the Public Financial Corporations and Public Non-Financial Corporations Sectors, rose from \$40.0 billion in 2006-07 to \$43.6 billion, an increase of \$3.6 billion (9.0 per cent).
- 3.3** Major movements in income from transactions raised by the General Government Sector between 2006-07 and 2007-08 consisted of increased revenue to the State derived from grants (\$1.6 billion or 10.3 per cent) and taxation (\$1.2 billion or 9.9 per cent), with a reduction in dividends, income tax and rate equivalent revenue of \$662 million (46.6 per cent).
- 3.4** Major variations in specific revenue items between 2006-07 and 2007-08 in the General Government Sector were as follows:
- land tax reduced by \$123.7 million (-12.5 per cent) due to the reduction in tax rates and an increase in the tax free threshold;
 - land transfer duty increased by \$744.2 million (25.1 per cent) due to increases in the volume of transactions and the average value per transaction stemming from the growth in property prices;
 - dividends decreased by \$194.3 million (-35.1 per cent)
Lower dividends were primarily due to strong financial results by the Transport Accident Commission and the Victorian WorkCover Authority for the year ended 30 June 2007 and the effect of poorer performance of financial markets in 2007-08; and
 - income tax and rate equivalent revenue reduced by \$468.1 million (-53.9 per cent), reflecting the strong investment market performance in 2006-07 that led to higher income tax instalments in that year.
- 3.5** The increase in grants from the Commonwealth of \$1.6 billion (10.3 per cent) was due mainly to higher consumption and an increase in prices flowing into higher GST revenue.
- 3.6** The Government cautioned in November 2007 that despite the improved economic outlook since the budget was handed down in May of that year and the projection of larger surpluses, projections were sensitive to various challenges that needed to be managed over the forward estimates period. In particular, the Government pointed out that inflationary and wage pressures, financial market volatility and the more uncertain outlook for the global economy required close monitoring and foreshadowed that these factors may have material adverse effects on the State's financial position.

- 3.7 Bearing in mind that changes in the economic landscape could have an adverse impact on forecasts, the Government announced in November 2007 that to manage this risk, it would exercise prudent financial management to ensure that any market downturn could be absorbed without impacting on the Government's commitments to the State. Maintaining a strong budget surplus outlook over the forward estimates period would, in the opinion of the Government, provide an important buffer to the State's budget in the event that these issues were to materialise. In such circumstances, the Committee acknowledges that maintaining or even improving the State's revenue position would be crucial.
- 3.8 Given the global financial crisis and the downward trend in certain revenue streams, the Committee believes that the 2009-10 budget papers should include an extensive analysis of the impacts on revenue, including an in-depth sensitivity analysis.
- 3.9 When commenting on revenue variations concerning outcomes for the General Government Sector in its end of year Financial Report for the State of Victoria, a more useful analysis would involve a comparison of actual revenue results with, not only the latest estimate during a financial year, but also the outcome for the previous financial year.
- 3.10 Against an initial estimate of \$11.6 billion in taxation revenue to be received in 2007-08, actual taxation revenue for the year amounted to \$12.9 billion, an increase of 10.9 per cent. This result exceeded the target set for the Department of Treasury and Finance's output measure 'Accuracy of estimating State taxation revenue' for equal to or less than 5.0 per cent accuracy in 2007-08.
- 3.11 The estimated tax expenditures that could be costed (including thresholds) for 2007-08 totalled \$4.1 billion compared to the prior year estimate of \$4.3 billion, a reduction of \$0.2 billion or 4.6 per cent. The largest components of these estimated tax expenditures comprised Land Tax Exemptions (estimated at \$1.3 billion) and Payroll Tax Exemptions (estimated at \$2.4 billion).
- 3.12 Budget estimates of concessions for 2007-08 stood at \$1.2 billion compared to the estimate for 2006-07 of \$1.1 billion. With an estimate of \$456 million for 2007-08, health comprised the largest category of concessions
- 3.13 With regard to the granting of concessions and subsidies in 2007-08, the larger items of revenue foregone noted by the Committee included:
- Department of Human Services:

Ambulance Community Service Obligations	\$280.6 million; and
Public Transport	\$105.8 million;
 - Department of Transport:

Public Transport	\$189.3 million; and
------------------	----------------------
 - VicRoads:
- Net revenue foregone from collections on behalf of the Victorian Government totalled \$60 million and on behalf of the Transport Accident Commission totalled \$100.7 million.

3.1 Introduction

Chapter 2 (*Overview of the State's 2007-08 financial outcomes*) of this report provides an overview of the State's financial outcomes in 2007-08. As part of this overview, summary information is provided on the revenue transactions for the General Government Sector, including reasons for movements in particular revenue items against the revised estimates for 2007-08, as presented in the Government's 2007-08 Annual Financial Report. Comparison between actual revenue raised for 2007-08 to the prior year is also made for various selected revenue items.

Chapter 3, which is devoted solely to Revenue and Revenue Foregone, provides a high level analysis of revenue for 2007-08 for the General Government Sector and the wider State of Victoria compared to the prior year. The Committee's review of revenue foregone in terms of tax expenditures and concessions and subsidies is also included in this chapter.

Selective comments are made by the Committee in this chapter, given the wide coverage of material already made available to the Parliament through publications released by the Department of Treasury and Finance in the form of budget papers and the financial reports, annual reports of agencies and Auditor-General's reports.

3.2 Revenue

3.2.1 Revenue summary

A summary of revenue derived by the General Government Sector and the State of Victoria is presented in Table 3.1. Broadly speaking, it shows that in aggregate terms:

- for the General Government Sector, which comprises departments and other budget funded agencies, income from transactions increased from \$34.9 billion in 2006-07 to \$37.3 billion in 2007-08, a rise of \$2.4 billion (6.9 per cent); and
- total revenue on a whole of State basis for the State of Victoria, which also includes the Public Financial Corporations and Public Non-Financial Corporations Sectors, rose from \$40.0 billion in 2006-07 to \$43.6 billion, an increase of \$3.6 billion (9.0 per cent).

For the purpose of illumination when referring to certain revenue items contained in Table 3.1, a description of the main components of various key items is set out below:²⁹

- **Taxation:** Payroll tax (31.1 per cent of taxation estimates), taxes on property that include land transfer duty and land tax (33.1 per cent), gambling taxes that include taxes imposed on electronic gaming machines (13.2 per cent), taxes on insurance (9.8 per cent) and motor vehicle taxes (11.5 per cent);
- **Dividends, income tax and rate equivalent revenue:** Amounts received by the State from government business enterprises; and
- **Grants:** include GST grants from the Commonwealth (56.5 per cent of total grants).

²⁹ Budget Paper No.4, *Statement of Finances, 2007-08*, pp.135 and 148

Table 3.1: Revenue summary for the General Government Sector and the State of Victoria Comparison of revenue for 2007-08 to the actual for 2006-07, and the initial budget and revised budget for 2007-08

Revenue item	General Government Sector ^(a)						State of Victoria ^(b)			
	Actual	Estimate	Revised Estimate	Actual	Variance ^(c)	Variance ^(c)	Actual	Actual	Variance	Variance
	2006-07 (\$ million)	2007-08 (\$ million)	2007-08 (\$ million)	2007-08 (\$ million)	\$ (\$ million)	%	2006-07 (\$ million)	2007-08 (\$ million)	(\$ million)	%
Taxation	11,701.8	11,589.0	12,997.4	12,862.9	1,161.1	9.9	11,554.9	12,697.5	1,142.6	9.9
Fines and regulatory fees	765.2	842.8	(d)	854.3	89.1	11.6	789.2	871.9	82.7	10.5
Dividends, income tax and rate equivalent revenue	1,422.3	905.4	679.8	759.9	-662.4	-46.6	680.7	576.1	-104.6	-15.4
Interest	422.7	301.9	372.9	451.6	28.9	6.8	1,100.5	1,292.6	192.1	17.5
Grants	15,600.9	16,158.7	17,180.7	17,210.1	1,609.2	10.3	15,493.2	17,108.5	1,615.3	10.4
Sale of goods and services	2,863.3	2,643.8	2,832.2	3,081.4	218.1	7.6	8,703.6	9,122.2	418.6	4.8
Fair value of assets received free of charge or for nominal consideration	21.8	(d)	(d)	76.7	54.9	251.8	200.7	361.7	161.0	80.2
Other income	2,087.6	1,827.6	2,725.2	2,043.4	-44.2	-2.1	1,459.1	1,524.7	65.6	4.5
Total	34,885.7	34,269.2	36,788.1	37,340.3	2,454.6	7.0	39,982.0	43,555.1	3,573.1	8.9

- Notes:
- (a) The General Government Sector consists of government departments, offices and other bodies such as public hospitals that are engaged in providing services free of charge or at prices significantly below their cost of production. This sector is largely responsible for the delivery of government policy as set out in the annual State Budget.
 - (b) The State of Victoria comprises the General Government Sector, the Public Non-financial Corporations Sector which provides goods and services of a non-financial nature, along commercial lines, through the adoption of cost recovery procedures (includes the various water, rail and port authorities) and the Public Financial Corporations sector which provides financial services in accordance with commercial principles (includes the Transport Accident Commission, Victorian WorkCover Authority, Treasury Corporation of Victoria and the Victorian Funds Management Corporation).
 - (c) Change between 2007-08 Actual and 2006-07 Actual.
 - (d) Fines of \$430.0 million and Fair value of assets received free of charge of \$85.5 million are included in the 'Other income' category, while regulatory fees are included in the 'Sale of goods and services' category.

Sources: Budget Paper No.4, Statement of Finances, 2006-07, p.131, Budget Paper No.4, Statement of Finances, 2007-08, p.133, Budget Paper No.4, Statement of Finances, 2008-09, p.177, Department of Treasury and Finance, Financial Report, 2007-08, p.57

3.2.2 Revenue - the Government's strategy and outlook for 2007-08

The Government, in its 2007-08 budget, foreshadowed that:³⁰

- while Victoria continued to experience solid economic growth, in response to a rapidly changing economic landscape, it remained committed to ongoing economic reform;
- it would continue to meet its \$100 million budget surplus target; a surplus of \$324 million was budgeted in 2007-08, averaging \$424 million over the forward estimates period (the buffer above the \$100 million minimum operating surplus was to allow for unforeseen circumstances and provide budget flexibility);
- land tax would be further reformed and average WorkCover premiums would be reduced again in addition to a cut in motor vehicle duty;
- there would be an expected recovery in the rural sector and dwelling investment, and stronger export growth, which would see the national economy expand faster in 2007-08; and
- the main short, to medium, term risks to the Victorian economic projections stemmed from drought conditions, oil price volatility, wage and inflationary pressures, exchange rate movements and global developments.

In the Committee's examination of impacts on revenue generation for the State, the Committee observed that the Government also predicted in May 2007 that Victoria's Gross State Product (GSP) was expected to record stronger growth in 2007-08 (3.24 per cent) and 2008-09 (3.25 per cent) compared to the forecast for 2006-07 of 2.75 per cent, before settling at trend growth of around 3 per cent.³¹ Although high levels of household debt and the lagged effect of interest rate rises may keep consumers relatively cautious, the Government reported continued support for spending from strong labour market outcomes and steady income growth.³² In relation to housing activity, the Government revealed in May that conditions continued to support a recovery in 2007-08, as residential building activity appeared to be running below underlying demand requirements, particularly given strong population growth. Very low residential vacancy rates, which were pushing up housing rents, were also considered by the Government to be a factor likely to support a recovery in residential construction. Although growth moderated through 2006, business investment remained at very high levels and was expected to continue to contribute to the productive capacity of the economy.³³

In terms of global developments, the Government reported in May 2007 that:³⁴

The global economy continues to surprise on the upside, and growth is becoming more broadly based. Nonetheless, there are a number of downside risks to global growth. The main downside risk stems from the correction in the US housing market and the extent to which this weakness spills over into the rest of the US economy. Elsewhere, there is also some uncertainty regarding how the Chinese economy may respond to the government's intentions to slow and rebalance growth.

The Committee noted that in terms of revenue risks, with regard to Commonwealth grants (estimated to be in the order of \$16 billion in 2007-08 or 47 per cent of the estimated General Government Sector revenue), the level of specific purpose payments was determined by the policies of the Commonwealth Government, while the level of Goods and Services Tax (GST) grants was affected by the general level of activity in the Australian economy and the GST relativities as calculated by the Commonwealth Grants Commission.³⁵

³⁰ Budget Paper No.2, *Strategy and Outlook*, 2007-08, pp.1, 3, 19, 26

³¹ *ibid.*, pp.16 and 19

³² *ibid.*, p.19

³³ *ibid.*, pp.20-21

³⁴ *ibid.*, p.74

³⁵ *ibid.*, p.81

3.2.3 Revision to revenue expectations during 2007-08

As reported by the Government in November 2007 in its 2007-08 mid-cycle review of the annual State Budget, the economic outlook has improved since the May 2007 budget. Of particular significance was the finding that Victorian Gross State Product was forecast to grow by 3.75 per cent in 2007-08, faster than the 3.25 per cent expected at Budget time. This reflected a stronger outlook for consumption and business investment, while the previously anticipated recoveries in housing construction and farm output would be more gradual. The Committee also made note of the fact that the Victorian labour market was stronger, with above-trend employment growth and a low unemployment rate.³⁶ In terms of the prospect for a strong recovery in housing construction, given housing affordability concerns and higher interest rates, the strength and timing of the recovery remained uncertain. While some growth was expected in 2007-08, the bulk of the recovery was expected to occur in 2008-09.³⁷

The wider Australian economic outlook at the time was seen as likely to impact on revenue collections for Victoria during 2007-08. As reported by the Victorian Government in November 2007, the outlook for national growth in 2007-08 was revised upwards by the Commonwealth Treasury from 3.75 per cent to 4.25 per cent, reflecting stronger forecasts for most sectors that included household consumption, business investment and the public sector. The outlook for the national labour market in 2007-08 was similarly stronger.³⁸

The Government's 2007-08 mid-cycle review of the annual State Budget, which took into account all decisions of the Government up to 23 November 2007,³⁹ revealed that:⁴⁰

- as a result of stronger economic and population growth, the Government revised State taxation revenue upwards by \$990 million in 2007-08; and
- GST grants were estimated to increase by \$124 million in 2007-08.

The Committee noted that the Government in November 2007 revised its estimate of the operating surplus for 2007-08 upwards to an estimated \$842 million for the General Government Sector, \$517 million greater than at the 2007-08 Budget.⁴¹ This revision was largely due to increases in the above forecasts.⁴²

The Government indicated that these revenue streams were being driven mainly by continued strong growth in employment, business investment and consumption; the latter as a result of strong growth in real after-tax incomes and household wealth.⁴³ The ongoing strength in real estate markets resulted in significant upward revisions to conveyancing duty and land tax revenues.⁴⁴

With regard to the revision of taxation estimates upwards, the Committee noted that the Budget Update disclosed that:⁴⁵

- income from taxes on financial and capital transactions, largely comprising stamp duty on land transfers, was revised upwards by \$700 million in 2007-08, largely due to upward revisions to expectations of prices and activity in the property market;
- income from taxes on immovable property was revised upwards by \$116 million in 2007-08, mainly due to an increase in land tax revenue; and
- payroll tax was revised upwards by \$143 million in 2007-08 as a result of a stronger Victorian labour market (employment growth was revised upwards from 1.25 per cent to 2.5 per cent in 2007-08).

³⁶ Victorian Government, *Budget Update*, 2007-08, p.17

³⁷ *ibid.*, p.20

³⁸ *ibid.*, p.18

³⁹ *ibid.*, p.10

⁴⁰ *ibid.*, p.2

⁴¹ *ibid.*, p.3

⁴² *ibid.*, p.10

⁴³ *ibid.*, p.3

⁴⁴ *ibid.*, p.10

⁴⁵ *ibid.*, p.26

In relation to GST grants, the revision of this item upwards arose from an increase in Victoria's share of the population and an increase in the GST pool. The larger GST pool reflected the strength in household consumption driven by strong growth in real after-tax incomes and household wealth.⁴⁶

Conversely, investment income from dividends, income tax and rate equivalent revenue was revised downwards by \$152 million in 2007-08 and upwards by an average of \$44 million over the forward estimates period to reflect:⁴⁷

- a change in the Government's approach to assessing dividends from the Transport Accident Commission to better reflect the entity's underlying insurance operations; and
- lower dividends from the water sector as a result of lower water consumption.

The Committee notes reservations by the Government concerning the financial situation of the State in its update of the State's 2007-08 Budget, particularly those that relate to implications associated with market downturns in the global economy.⁴⁸

3.2.4 Revenue outcomes for 2007-08

As shown in Table 3.1, the Government received income from transactions enacted by departments and other budget funded agencies (the General Government Sector) totalling \$37.3 billion in 2007-08, around 86 per cent of the State's total revenue for the year of \$43.6 billion.⁴⁹ It is for this reason that the focus of the Committee's comments is directed at income derived for the Government from Victoria's General Government Sector.

The largest revenue items within the General Government Sector for 2007-08 were:

- Grants: \$17.2 billion (46.1 per cent of total General Government Sector revenue); and
- Taxation: \$12.9 billion (34.6 per cent of total General Government Sector revenue).

Major movements in income from transactions raised by the General Government Sector between 2006-07 and 2007-08 consisted of increased revenue to the State derived from grants (\$1.6 billion or 10.3 per cent) and taxation (\$1.2 billion or 10.3 per cent), with a reduction in dividends, income tax and rate equivalent revenue of \$662.4 million (46.6 per cent).

Some of the main reasons for major fluctuations in revenue categories between 2006-07 and 2007-08 are briefly summarised in Table 3.2.

⁴⁶ *ibid.*, p.27

⁴⁷ *ibid.*, pp.26-27

⁴⁸ *ibid.*, pp.5, 10, 17-18

⁴⁹ Department of Treasury and Finance, Financial Report for the State of Victoria, 2007-08, p.57

Table 3.2: General Government Sector Explanation for revenue movements 2006-07 compared to 2007-08

Revenue item	2006-07 Actual (\$ million)	2007-08 Actual (\$ million)	Variation (\$ million)	Variation %	Explanation for variance
Taxation					
Land tax	989.1	865.4	-123.7	-12.5	Measures introduced in the 2007-08 Budget that included reducing the top and middle land tax rates and increasing the tax free threshold. ⁵⁰
Land transfer duty	2,961.4	3,705.6	744.2	25.1	Increases in the volume of transactions and the average value per transaction. The increase in volumes may in part be attributable to changes by the Commonwealth Government to superannuation laws which appear to have generated extra buying and selling of properties, with some of the revenue accruing in 2007-08. The increase in average value per transaction in 2007-08 is consistent with growth in property prices over the year. ⁵¹
Dividends, income tax and rate equivalent revenue					
Dividends	554.3	360.0	-194.3	-35.1	Strong financial results by the Transport Accident Commission and the Victorian WorkCover Authority over the year ended 30 June 2007 compared to the performance of financial markets in 2007-08. ⁵²
Income tax and rate equivalent revenue	868.0	399.9	-468.1	-53.9	The strong investment market performance in 2006-07 resulted in higher income tax instalments in 2006-07. ⁵³ Refer to further Committee comments on this issue.
Grants					
Total grants	15,600.9	17,210.1	1,609.2	10.3	Mainly higher GST revenue due to higher consumption and an increase in prices. ⁵⁴

Sources: Department of Treasury and Finance, *Financial Report for the State of Victoria 2007-08*, pp.90-91, and *Budget Paper No.4 and Statement of Finances 2007-08 and 2008-09*

⁵⁰ *ibid.*, p.22

⁵¹ Budget Paper No.4, *Statement of Finances*, 2008-09, p.184

⁵² Department of Treasury and Finance, response to the Committee's 2007-08 Financial and Performance Outcomes Questionnaire, Part One, p.23

⁵³ Budget Paper No.4, *Statement of Finances*, 2007-08, p.146

⁵⁴ Department of Treasury and Finance, *Financial Report for the State of Victoria*, 2007-08, p.24

The Committee noted that the decline in financial asset values in the Public Financial Corporations Sector during 2007-08 contributed to a reduction in the income tax expense for related agencies (This sector includes agencies such as the Transport Accident Commission and Victorian WorkCover Authority).⁵⁵ As a consequence, revenue derived from the item 'Dividends, income tax and rate equivalent revenue' for that sector decreased by \$91.7 million (13.9 per cent) from \$658.2 million in 2006-07 to \$566.5 million in 2007-08.⁵⁶

The Victorian Funds Management Corporation reported that in terms of investment performance:⁵⁷

Investment returns for 2007-08 were poor in absolute terms due to large falls in equity markets over the second half of the year. Markets struggled to cope with the unfolding credit crisis brought on by downgrades in the sub-prime housing market in the United States. Indeed, 2007-08 was the worst year in the investment industry since 1987. Financial stocks and highly levered sectors such as listed infrastructure and property trusts performed particularly poorly as the credit crisis affected all markets.

A review of financial statements for the Transport Accident Commission for 2007-08, for example, revealed that investments declined from \$7.7 billion at 30 June 2007 to \$6.7 billion at 30 June 2008.⁵⁸

The Committee believes that the impact of the deterioration of global economic conditions on the Victorian economy, with the consequential detrimental effect on the raising of State revenue at expected levels over the forward estimates period, warrants a detailed analysis by government in the 2009-10 budget papers.

The Committee looks forward to a full appraisal in the budget of where the key risks to revenue generation lie and what opportunities exist for revenue in future. It expects that the discussion of budget and financial parameters will be extensive, including in depth sensitivity analysis. Given the global financial crisis, the analysis should cover the public financial and non-financial sectors of the State as well as the General Government Sector.

Recommendation 3:

The Department of Treasury and Finance develop a revenue master plan that will promote the generation of revenue for the State at levels that will enable the Government to deliver on its budget commitments over the forward estimates period.

3.2.5 Subsequent events reporting

The Committee observed that the subsequent events note to the State's Annual Financial Report and Financial Statements for Public Sector Organisations for 2007-08 did not specifically deal with the possible impact from the global economic circumstances.⁵⁹ Due to the importance of this global phenomenon, the Committee questioned the Department of Treasury and Finance about whether these external economic events had any material impact up until the time of reporting and, if so, to explain these effects on Victoria's finances.

⁵⁵ *ibid.*, pp.40-41

⁵⁶ Department *ibid.*, p.40

⁵⁷ Victorian Funds Management Corporation, *Annual Report, 2007-08*, p.4

⁵⁸ Transport Accident Commission, *Annual Report 2008*, p.67

⁵⁹ In terms of the disclosure of 'subsequent events' in the notes to financial statements, disclosure is required to be made about events between the balance date and the date the statements are authorised for issue where the events relate to conditions which arose after the reporting date and which may have a material impact on the results of subsequent years.

The Committee was informed by the Department that:⁶⁰

the consolidated 2007-08 Financial Report of the State of Victoria (AFR), including the results for the general government sector, for the financial year ended 30 June 2008 was authorised for issue by Officers of the Department on 23 September 2008.

Similarly, major financial entities (Public Financial Corporations), which have a material impact on the financial assets and liabilities in the State's consolidated financial report, signed-off or authorised the issue of their 2007-08 annual reports as follows:

- *Treasury Corporation of Victoria* 14 August 2008
- *Victorian Managed Insurance Authority* 21 August 2008
- *Transport Accident Commission* 27 August 2008
- *Emergency Services and State Super* 28 August 2008
- *Victorian WorkCover Authority* 29 August 2008

The impacts of any changes in financial markets up to 30 June 2008 were included in these annual reports as required by accounting standards. From 1 July 2008 to the time of signing the above 2007-08 financial reports, there were no identified changes in financial markets which would have had a material impact on those reports. By way of example, as at 30 September 2008, the ASX all ordinaries index had declined by less than 2 per cent since 30 June 2008, indicating only a minor impact on the operating result and movement in the value of domestic equity investments held by Victorian government entities during the period. Equity prices and market interest rates have been subject to volatility over a prolonged period and at the time of sign-off of the AFR, the full impacts of the global financial crisis had yet to become apparent.

As required by the accounting standards, the financial reports provide extensive disclosures on financial instruments, including sensitivity analysis of the impact of changes in various market conditions. This disclosure also provides information on various risks to the State's financial performance and position. In the AFR, this detailed disclosure is included in Note 32 at pages 133 and 141, including the State's risk management policies, and quantification of the potential impact of changes in interest rates, equity prices, foreign currency, credit and liquidity conditions.

The Committee is of the view that, prior to financial statements being made public, reporting entities and the Auditor-General will need to give careful consideration to the post balance day effect of any material events that may arise from the global financial crisis.

⁶⁰ Department of Treasury and Finance, response to the Committee's 2007-08 Financial and Performance Outcomes Questionnaire - Part Two, p.14

3.2.6 **Financial Report for the State of Victoria – analysis of end of year revenue outcomes with prior year actuals**

The Committee noted that the Government, when commenting on revenue variations concerning outcomes for the General Government Sector in its end of year Financial Report for the State of Victoria, predominantly uses the revised estimates derived in the latter part of the year as the base for comparisons with the end of year outcome rather than prior year revenue.

The Committee maintains that a more useful analysis of General Government Sector outcomes relating to financial performance would involve a comparison between the actual revenue raised in one year to the next, with a column for further comparative purposes on the latest available estimate during the financial year.

Recommendation 4: **As the Government’s end of year Financial Report for the State of Victoria constitutes the Government’s key accountability document for the management and stewardship of the State’s finances, the Department of Treasury and Finance consider including a comparative analysis of actual revenue results for the General Government Sector compared to both the latest estimate during a financial year and the outcome for the previous financial year.**

3.2.7 **Accuracy of revenue estimation**

The Committee noted that in relation to the Department of Treasury and Finance’s output measure ‘*Accuracy of estimating State taxation revenue*’, the target for equal to or less than 5.0 per cent accuracy was exceeded in 2007-08. Against an initial estimate of \$11,589.0 million in taxation revenue to be received in 2007-08, actual taxation revenue for the year amounted to \$12,862.9 million (see Table 3.1), an increase of 10.9 per cent.⁶¹

Given that the Department explained that this variance was due to a strong economy and higher than expected payroll tax, land tax and land transfer revenue,⁶² the Committee was interested in determining whether the Department had implemented any strategies and risk management processes to improve the accuracy of revenue estimation practices in future, particularly in view of the detrimental impact that the global financial crisis and other economic variables may have on Victoria’s revenue base.

Information supplied by the Department indicated that it has implemented improvements to its quality assurance processes and continues to review and update its forecasting procedures to improve forecast accuracy. In view of the global economic and financial crisis, the monitoring of both taxation revenue and the economic variables, and related information that influence it, has been intensified. This includes more regular assessments of risks to the taxation revenue forecasts.⁶³

⁶¹ Department of Treasury and Finance, *2007-08 Annual Report*, p.23

⁶² *ibid.*, p.23

⁶³ Department of Treasury and Finance, response to the Committee’s 2007-08 Financial and Performance Outcomes Questionnaire - Part Two, p.3

3.3 Revenue foregone

3.3.1 Tax expenditures managed by the Department of Treasury and Finance

Tax expenditures are defined as tax concessions granted to certain taxpayers, activities or assets, which constitute a deviation from the normal taxation treatment. Tax concessions can take the form of tax free thresholds as well as exempting or applying a lower rate, deduction or rebate of a tax for a certain class of taxpayer, activity or asset.⁶⁴

The 2007-08 Budget delivered the following tax relief measures for business:⁶⁵

- **land tax** – cut the middle brackets of 1.2 per cent and 1.8 per cent to 0.8 per cent and 1.3 per cent respectively, and cut the top rate from 3.0 per cent to 2.5 per cent; and increased the tax-free threshold (\$123.7 million benefit, 2007-08);
- **motor vehicle duty** – reduced the effective duty rate to 2.5 per cent on passenger vehicles valued between \$35,000 and \$57,009 (\$39.7 million benefit, 2007-08);
- **payroll tax** – brought forward to 1 January 2007 the reduction in the payroll tax rate from 1.15 per cent to 5.05 per cent by 1 July 2007 (\$26.0 million, 2006-07); and
- **land transfer duty** – reduced the marginal rate for properties valued between \$115,000 and \$400,000 from 6 per cent to 5 per cent on 1 January 2007 (\$47.0 million, 2007-08).

The above initiatives were aimed at benefiting taxpayers by \$210.4 million in 2007-08 (this figure does not include the \$26 million payroll tax relief identified above which was attributed to the 2006-07 financial year). In terms of analysing outcomes, the Committee looked for, but did not find, consolidated information in the Government's financial reports to quantify the actual tax relief measures met by the Government in the form of tax concessions. Government financial reporting on this issue is confined to comparing the estimates for the budget year to the estimates for the prior year, the estimates over the forward estimates period in the budget papers and the revised estimates reported in budget updates.

A review of information contained in the budget papers showed that the estimated tax expenditures that could be costed (including thresholds) for 2007-08 totalled \$4.1 billion compared to the prior year estimate of \$4.3 billion, a reduction of \$0.2 billion or 4.6 per cent. The largest components of these estimated tax expenditures comprised Land Tax Exemptions (estimated at \$1.3 billion in total with the main categories within this item comprising \$468 million for principal places of residences and \$184 million in relation to land used for primary production) and Payroll Tax Exemptions (estimated at \$2.4 billion with the main items relating to wages paid by public hospitals and by public benevolent institutions/charities of \$214 million and \$194 million respectively).⁶⁶

⁶⁴ Budget Paper No.4, *Statement of Finances*, 2007-08, p.159

⁶⁵ Budget Paper No.2, *Strategy and Outlook*, 2007-08, pp.9 and 35

⁶⁶ Budget Paper No.4, *Statement of Finances*, 2007-08, pp.162-163

The budget papers also indicate that concessions in 2007-08 had an estimated value of \$1.2 billion (compared with an equivalent estimate in 2006-07 of \$1.1 billion) and were categorised as follows in Table 3.3.

Table 3.3: Estimated concessions by category – 2006-07 and 2007-08

Concession category	2006-07 Estimate (\$ million)	2007-08 Estimate (\$ million)
Energy, municipal rates, water and sewerage	257	263
Education	180	196
Health	432	456
Hardship assistance	25	26
Transport	235	245
Total Estimate	1,130	1,186

Source: *Budget Paper No.3, 2007-08 Statement of Finances, p.166*

The Committee requested agencies to provide an itemised schedule of tax expenditures in the form of tax concessions actually granted in 2007-08 compared to the budget and actual tax relief granted in 2006-07, including the number of tax payers affected. Information provided to the Committee by the Department of Treasury and Finance is set out below in tables 3.4 and 3.5.

A schedule of tax expenditures in the form of tax concessions is presented in Table 3.4. In the absence of information detailing actual tax concessions granted in the year, this schedule compares the most current revised estimates for 2006-07 taken from the 2007-08 budget update (released in November 2007) to the 2007-08 budget released in May 2007.

Table 3.4: Tax expenditures (excluding thresholds) by type of tax

Description	2006-07 Estimate ^(a) (\$ million)	2007-08 Budget ^(b) (\$ million)	2007-08 Estimate ^(c) (\$ million)	Comparison of 2007-08 Estimate ^(c) to 2006-07 Estimate (\$ million)	Comparison of 2007-08 Estimate ^(c) to 2006-07 Estimate (per cent)	Comparison of 2007-08 Estimate ^(c) to 2007-08 Budget (\$ million)	Comparison of 2007-08 Estimate ^(c) to 2007-08 Budget (per cent)
Land tax	1,444	1,285	1,198	-246	-17	-87	-7
Payroll tax	706	716	730	24	3	14	2
Gambling tax	73	71	76	3	4	5	7
Motor vehicle taxes	65 ^(d)	71	75	10 ^(f)	15 ^(g)	4	6
Other stamp duties ^(e)	134	197	152	18	13	-45	-23
Congestion levy	42	43	41	-1	-2	-2	-5

- Notes:
- (a) From 2007-08 Budget Update: estimated outcome.
 - (b) From 2007-08 Budget: projection for following year made in 2006-07.
 - (c) Latest estimated outcome (2008-09 Budget update, page 151).
 - (d) The methodology for estimating motor vehicle tax concessions was revised in the 2008-09 Budget. Using the revised methodology, the estimated outcome for 2006-07 was \$73 million.
 - (e) Principally stamp duty on land transfer.
 - (f) Based on the 2008-09 Budget revised methodology for estimating motor vehicle tax concessions, the difference is \$2 million.
 - (g) Based on the 2008-09 Budget revised methodology for estimating motor vehicle tax concessions, the difference is 3 per cent.

Sources: Department of Treasury and Finance, Response to the Committee's 2007-08 Financial and Performance Outcomes Questionnaire - Part One, pp.19-20

Table 3.5 presents the estimated number of taxpayers, businesses, clubs and vehicles affected by tax concessions in 2006-07 and 2007-08. The Department of Treasury and Finance advised that data not available would be provided to the Committee when it becomes available.

Table 3.5: Tax expenditures: number of taxpayers, businesses, clubs and vehicles affected

Description	2006-07 Estimate	2007-08 Estimate
Land tax (a)	n.y.a.	n.y.a.
Payroll tax (b)	1,832	1,901
Gambling tax (c)	272	269
Motor vehicle taxes (d)	806,141	808,710
Other stamp duties (e)	n.y.a.	n.y.a.
Congestion levy (e)	n.y.a.	n.y.a.

Notes: n.y.a. Not yet available.

- (a) Data on the number of taxpayers affected by tax concessions on land tax is not expected to be available until early 2009; obtaining this data requires the employment of significant resources at the State Revenue Office.
- (b) The number represents the 'Number of businesses' excluding thresholds.
- (c) Number of clubs not paying the Community Support Fund levy.
- (d) Number of vehicles for which owners received tax concessions. Due to the possibility of one owner owning more than one such vehicle (especially primary producers), the number of tax payers is likely to be lower than the number of vehicles presented here.
- (e) Data on the number of tax payers affected by tax concessions on other stamp duties and the congestion levy are expected to be available in January 2009.

Source: Department of Treasury and Finance, Response to the Committee's 2007-08 Financial and Performance Outcomes Questionnaire - Part One, p.20

In terms of explaining variances of over 10 per cent in individual tax concession items between the actual tax concessions/subsidies granted in 2007-08 compared to budget and that of the previous year, the Department provided the following response to the Committee:⁶⁷

- Land tax concessions were 17 per cent lower in 2007-08 compared to 2006-07. This decline was mainly due to policy changes which reduced land tax liabilities, taking effect in the 2008 land tax year (that is, the 2007-08 financial year). These policy changes included raising the tax-free threshold (the effect of which is not included in tables 3.4 and 3.5) and reducing marginal tax rates;
- Motor vehicle tax concessions were 15 per cent higher in 2007-08 compared to 2006-07. This largely reflects improvements in estimation methodology (see footnotes to Table 3.5);
- 'Other stamp duties' tax concessions were 13 per cent higher in 2007-08 compared to 2006-07. The 2006-07 Budget Update announced a reduction in the land transfer duty rate for contracts entered into from 1 January 2007 with respect to principal places of residence. The introduction date fell half way through the 2006-07 financial year, and therefore had greater impact upon tax expenditures in 2007-08 than in 2006-07; and
- 'Other stamp duties' tax concessions were 23 per cent lower in 2007-08 compared to the estimate for 2007-08 in the 2007-08 Budget. This was primarily due to lower than expected tax concessions for corporate reconstructions (which are inherently difficult to predict).

⁶⁷ Department of Treasury and Finance, Response to the Committee's 2007-08 Financial and Performance Outcomes Questionnaire, Part One, pp.20-21

The Committee is of the view that a useful addition to the content of the Government's financial reports would be the inclusion of details relating to actual tax relief provided compared to budget. For example, in relation to 2007-08, the Government could disclose how it actually performed in terms of providing the following tax relief initiatives announced in the 2007-08 budget:⁶⁸

- Land Tax Cuts of \$123.7 million;
- Motor vehicle duty cuts of \$39.7 million; and
- Land Transfer Duty of \$47.0 million.

Recommendation 5:

The Department of Treasury and Finance, as part of its financial strategy to provide full disclosure of financial information, report the quantum of actual tax relief provided during the year against the planned initiatives announced in the budget.

3.3.2 Concessions and subsidies

Concessions can take the form of a direct budget outlay or a reduction in government charges in order to reduce the price of a good or service for particular groups. The granting of concessions to certain groups in the community (e.g. pensioners) enables these groups to access important amenities such as energy, health, transportation and education at a cheaper rate or at no cost.⁶⁹

Information furnished in response to a request for an itemised schedule of concessions and subsidies provided by agencies in 2007-08 to be supplied to the Committee, including the number of concessions and subsidies in each category, is presented below in Table 3.6. This information also includes a variance analysis and comment on the achievement of anticipated outcomes from the granting of concessions and subsidies. This material presented by the Committee covers those agencies that have a key role in providing concessions and subsidies, namely the Department of Human Services, the Department of Transport including VicRoads, the Department of Treasury and Finance and the Department of Justice including Victoria Police.

Department of Human Services

Table 3.6 brings together information supplied by the Department of Human Services with regard to the number of concessions and subsidies provided in 2007-08 compared to 2006-07 according to concession type as well as the value of concessions granted.

⁶⁸ Budget Paper No.2, *Strategy and Outlook*, 2007-08, p.35

⁶⁹ Budget Paper No.4, *Statement of Finances*, 2007-08, p.165

Table 3.6: Department of Human Services Revenue concessions impacting on households 2007-08 compared to 2006-07

Concession Type	Column 1 2006-07 Number of concessions (households – unless otherwise stated)	Column 2 2007-08 Number of concessions (households – unless otherwise stated)	Column (2-1)/1 Variance ^(a) (%)	Column 3 2006-07 (\$ million)	Column 4 2007-08 (\$ million)	Column (4-3)/3 Variance ^(a) (%)
Municipal Rates	404,608	425,918	5.3	68.0	71.6	5.3
Water & Sewerage	631,836	642,345	1.7	82.7	83.1	0.5
Mains Electricity	734,085	739,734	0.8	54.8	59.9	9.3
Mains Gas	543,981	563,479	3.6	39.8	44.5	11.8
Non Mains Energy	21,000	19,534	-7.0	2.2	2.0	-9.1
Public Transport (*million concession ticket sales)	39*	38*	-3.6	101.1	105.8	4.6
Utility Relief Grant Scheme (*grants)	10,154*	9,139*	-10.0	3.3	2.8	-15.1
Capital Grant Scheme (*grants)	1,086*	2,729*	151.3	1.0	2.2	120.0
Water and Sewerage Hardship Relief Grant Scheme (*grants)	139*	73*	-47.5	0.6	0.4	-33.3
Carted Water Rebate	1,601	835	-47.8	0.3	0.1	-66.7
Ambulance Community Service Obligation (CSO)				258.9 ^(b)	280.6	8.4

Notes: (a) Calculated by the Public Accounts and Estimates Committee.

(b) The Department's response to the 2006-07 Financial & Performance Outcomes Questionnaire indicated concessional payments for Ambulance CSOs as \$236 million and not \$258.9 million as presented in this table. This discrepancy results from accounting adjustments administered for invoice reassignments after provision of the 2006-07 response. Invoice re-assignments occur, for example, when a patient is invoiced as a general patient, but upon receipt of the bill, provides pension/health care card details. The invoice is then reassigned as a CSO.

Source: Department of Human Services, Response to the Committee's 2007-08 Financial and Performance Outcomes Questionnaire Part One, pp.43 and 44

Variances of more than 10 per cent were attributable to the following factors as explained by the Department:⁷⁰

- Mains Gas Concessions – 2007-08 expenditure increased by 11.8 per cent from 2006-07. The main reason for the growth in expenditure was the expansion of the natural gas network across the State.
- Utility Relief Grant Scheme – 2007-08 grants and expenditure decreased by 10 per cent and 15.1 per cent respectively. This is an entitlement program and driven by the number of applications received. All applications for assistance that meet program eligibility criteria are entitled to receive a Utility Relief Grant. There has been no change in eligibility criteria from 2006-07 to 2007-08.
- Capital Grant Scheme – 2007-08 grants and expenditure increased by 151.3 per cent and 120 per cent respectively. The main reason for the increase in the number of grants and expenditure was increased promotion and awareness of the scheme during 2007-08.
- Water and Sewerage Hardship Relief Grant Scheme – 2007-08 grants and expenditure decreased by 47.5 and 33.3 per cent respectively. The main reason for the decrease in grants and expenditure was a reduction in the number of homes required to connect to the mains sewerage network.
- Carted Water Rebate – 2007-08 grants and expenditure decreased by 7.8 per cent and 52 per cent respectively. This is an entitlement program and driven by the number of applications received.

On the subject of achieving planned outcomes, the Department informed the Committee that:

- concession programs aim to improve the affordability of energy, water and municipal rates for eligible consumers and concession card holders;
- departmental grant schemes aim to provide assistance to individuals or families who were experiencing immediate and personal distress due to a financial or domestic crisis; and
- the Victorian Government provides pensioners and health care card holders free ambulance and non-emergency patient transport services (where authorised as medically necessary) to the nearest appropriate medical facility. The transport of pensioner health care card holders is referred to as Community Service Obligation (CSO) transportation.

The Committee noted that the expected outcomes were achieved for the above programs.

Department of Transport

Table 3.7 sets out an itemised schedule of payments involved in the following concession and subsidy arrangements handled by the Department:⁷¹

- Public Transport Concessions
- Multi Purpose Taxi Program
- Freight Subsidy

⁷⁰ Department of Human Services, response to the Committee's 2007-08 Financial and Performance Outcomes Questionnaire, Part One, pp.44-45

⁷¹ Department of Transport, Response to the Committee's 2007-08 Financial and Performance Outcomes Questionnaire, Part One, p.29

Table 3.7: Department of Transport Concession and subsidy payment 2007-08 payments compared to the prior year and 2007-08 budget

Concession / Subsidy	2006-07 Actual (\$ million)	2007-08 Budget (\$ million)	2007-08 Actual (\$ million)	Variance (b) (per cent)
Public Transport	198.5	n/a	189.3	-4.6
Multi Purpose Taxi Program	36.0	42.6	42.2	17.2
Rail Freight Support (a)	-	0.7	0.8	

Note: (a) The Rail Freight Support Package commenced in 2007-08.

(b) Comparison of 2007-08 actual to 2006-07 actual included by the Public Accounts and Estimates Committee

Source: Department of Transport, response to the Committee's 2007-08 Financial and Performance Outcomes Questionnaire Part One, p.29

With regard to public transport concessions, the variance between the 2006-07 and 2007-08 actuals was due, in part, to the abolition of Zone 3 in March 2007, resulting in a reduced fare price for travel in the Zone 3 area. In relation to the Multi Purpose Taxi Program, the increase in subsidy payments in 2007-08 largely reflected the impact of the Australian Taxation Office's public ruling that input tax credit could not be claimed by the Department for the Multi Purpose Taxi Program. The Department ceased claiming input tax credits on 1 May 2007. In September 2007, the Department also repaid \$1.7 million owing to claims made in 2006-07.⁷²

VicRoads

VicRoads administers the collection of certain fees, licences and duties on behalf of the Government and the Transport Accident Commission.⁷³

The Committee was advised by the Department that pensioner, health care and Department of Veteran's Affairs gold cardholders receive a 50 per cent concession on their motor registration fee. Pensioner concession cardholders also receive a 50 per cent discount on compulsory third party insurance.⁷⁴

During 2007-08, the net revenue foregone from collections on behalf of the:⁷⁵

- Victorian Government totalled \$60 million compared with \$58.3 million in the previous year; and
- Transport Accident Commission totalled \$100.7 million compared with \$95.8 million in the previous year.

With regard to outcomes, the Committee was informed by the Department that:⁷⁶

- public transport concessions ensure that services remain affordable for lower income groups, including students, Health Care Card holders and pensioners;
- the Multi Purpose Taxi Program ensures that transport services provided by taxis are accessible for all members of the community with a disability or permanent illness;
- the Rail Freight Support Package provides a rebate on rail access fees to ensure that rail freight is a viable alternative to road freight; and
- VicRoads administers the concessions on behalf of the Victorian Government and the Transport Accident Commission with the expectation of providing these discounts as a service to the community.

⁷² *ibid.*, p.30

⁷³ *ibid.*

⁷⁴ *ibid.*

⁷⁵ *ibid.*

⁷⁶ *ibid.*, p.31

Department of Treasury and Finance

Table 3.8 provides a comparison of the number and value of various subsidies made by the Department of Treasury and Finance in 2007-08 and the previous year.

Table 3.8: Department of Treasury and Finance Number and value of subsidies 2007-08 compared to 2006-07

Subsidies	2007-08	2007-08	2007-08	2006-07	2006-07	Variation (c)
	Actual (\$ million)	No. of claims	Revised budget (\$ million)	Actual (\$ million)	No. of claims	(per cent)
Liquor Subsidies (a)	3.1	254.0 (b)	3.5	3.0	261.0	3.3
Petroleum subsidies	2.7	5.0	-	37.9	61.0	-92.9
Duty Exemption – Pensioner and First Home Buyer	11.8	Not available	6.8	8.1	Not available	45.7

Notes: (a) The Federal Government announced modifications to the Wine Equalisation Tax (WET) rebate effective from 1 October 2004. Under the new arrangements the Federal Government provided wine producers with a WET rebate of up to \$290,000 each year. The Victorian Government will continue to pay a cellar door subsidy on eligible cellar door sales once the \$290,000 Federal Government rebate has been exceeded.

The thresholds for WET were increased and as a result a revised budget estimate was made. The previous budget was \$6.7 million. Claims for last two years indicate that expenditure was lower than the estimated budget.

(b) The total number of claims contains a mix of current and prior period claims.

(c) Comparison of 2007-08 actual value of subsidies to prior year actual included by the Public Accounts and Estimates Committee.

Source: Department of Treasury and Finance, Response to the Committee's 2007-08 Financial and Performance Outcomes Questionnaire - Part One, p.21

In terms of explaining variances of more than 10 per cent, the Department advised that with regard to petroleum subsidies, as part of the Government's 2007 State Budget, it was announced that the fuel subsidies currently paid to oil companies would be abolished and that funding from these subsidies would be redirected towards reductions in motor vehicle duty rates. The 2007-08 payments relate to outstanding subsidies owed as at 30 June 2007.⁷⁷

In relation to its question regarding the achievement of outcomes from the granting of subsidies, the Committee was informed that with regard to duty exemptions, the State Revenue Office (SRO) manages several rebate or exemption schemes designed to benefit Victorians. Some of these arrangements are unrelated to taxation, and others are part of, or exemptions from, the tax and duty legislation administered by the SRO.⁷⁸

The duty exemption expenditure referred to above relates to refunds of duty where a pensioner concession has been claimed subsequent to the payment of duty i.e. full duty paid to the SRO prior to lodgement of an exemption request. This represents a smaller proportion of the total exemption claimed as exemptions.⁷⁹

Due to the way that the expenditure is accounted for, the Department advised that it was unable to readily provide a count of the number of claims that make up the \$11.8 million of expenditure.⁸⁰

⁷⁷ Department of Treasury and Finance, Response to the Committee's 2007-08 Financial and Performance Outcomes Questionnaire, Part One, p.22

⁷⁸ *ibid.*

⁷⁹ *ibid.*,

⁸⁰ *ibid.*,

As this expenditure account only records exemptions where payments have been made, the account can fluctuate from year to year depending on the number of claims being made where full payment of duty had previously been made. An increase in the amount paid can usually be attributed to an increase in claims, however can also be impacted by the quantum of the claims.⁸¹

Department of Justice

Table 3.9 discloses a summary of revenue foregone that arose from concessions granted by the Department of Justice in 2006-07 and 2007-08 in relation to 'Working with Children' checks.

Table 3.9: Department of Justice Concessions 'Working with Children' checks 2006-07 and 2007-08

Source of Revenue	2006-07 Revenue foregone (\$ million)	Volunteer applications processed free of charge in 2006-07 (Number)	2007-08 Revenue foregone (\$ million)	Volunteer applications processed free of charge in 2007-08 (Number)
Working with Children Check (a)	3.5	49,954	8.2	115,684

Note: (a) In 2006-07, the fee foregone was \$70.00 per application; 2007-08, \$70.70 per application

Source: Department of Justice, Response to the Committee's 2007-08 Financial and Performance Outcomes Questionnaire - Part One, p.22

As 'Working with Children' checks are cyclical in nature, once completed, the check is valid for five years. These checks commenced in 2005-06 with a range of categories phased over five years. The employment categories, where the fee is applicable, were phased towards the beginning of the five year cycle, with volunteer categories later in the cycle. It is due to this phasing that the revenue foregone for volunteer categories has increased from 2006-07 to 2007-08:

It is expected to increase further in 2008-09.

⁸¹ *ibid.*,

Victoria Police

Concessions granted by Victoria Police in 2007-08 are shown in Table 3.10. The waiver policy applied by Victoria Police to the charging of fees for officiating at events staged in Victoria during 2007-08 resulted in a reduction in fees payable by organisers of \$96,369 (i.e. 33.8 per cent of estimated police charges was foregone).

Table 3.10: Victoria Police Concessions 2007-08

Name of Event	Estimated Police Charge	Waiver Amount	Charges Levied
	(\$)	(\$)	(\$)
Apollo Bay Music Festival 2008	7,190.4	-5,900.4	1,290.0
Arthur's Seat Challenge 2007	1,059.2	-631.9	427.4
Aust Open Road Cycling Championship 2008	19,016.5	-12,313.2	6,703.3
Bay 2 Bay Family Cycling Day 2007	14,193.6	-8,953.2	5,240.4
Coburg v Williamstown 2007	915.6	-274.7	640.9
Dandenong Agricultural Show 2007	7,994.4	-3,185.8	4,808.7
Dandenong Thunder v Westgate 2008	1,191.9	-821.9	370.0
Earthcore Global Carnival 2007	7,577.6	-2,577.6	5,000.0
Easternats Auto Spectacular 2008	14,288.0	-840.0	13,448.0
FFV Finals Series 2007	22,664.1	-1,053.1	21,611.0
Heidelberg United v Preston Lions 2008	12,792.4	-11,728.4	1,064.0
Herald Sun Tour 2007	38,734.5	-2,324.0	36,410.5
Melbourne Marathon 2007	27,100.9	-6,653.3	20,447.7
Mothers Day Classic 2008	1,319.0	-512.0	807.0
Run For The Kids 2008	4,807.6	-4,317.6	490.0
Scott Peoples Memorial Race 2007	7,302.4	-3,335.4	3,967.0
South Melbourne Football Club v Essendon Royals 2007	672.3	-235.3	437.0
South Melbourne Football Club v Fawkner Blues 2007	672.3	-235.3	437.0
South Melbourne Football Club v Kingston City 2007	806.7	-282.4	524.4
South Melbourne Football Club v Oakleigh Cannons 2007	672.3	-235.3	437.0
South Melbourne Football Club v Sunshine Georges 2007	806.7	-282.4	524.4
St.Kilda Festival 2008	77,099.2	-20,957.1	56,142.2
Tour of the Murray River Road Cycling Classic 2007	6,509.3	-2,030.9	4,478.4
Victoria Street Lunar Festival 2008	7,480.8	-6,380.8	1,100.0
Whittlesea Agricultural Show 2007	2,568.0	-308.0	2,260.0
TOTAL	285,435.5	-96,369.6	189,065.9

Source: Department of Justice, Response to the Committee's 2007-08 Financial and Performance Outcomes Questionnaire - Part One, p.23

Victoria Police waiver policy aims to encourage event organisers to budget for a greater share of police costs each year and ultimately to be sufficiently viable to pay for the full cost of policing the event.⁸²

⁸² Department of Justice, response to the Committee's 2007-08 Financial and Performance Outcomes Questionnaire, p.24

The waiver for the Herald Sun Tour reduced by 94 per cent (from \$38,597 in 2006-07 to \$2,324 in 2007-08) and the Melbourne Marathon by 79 per cent (from \$32,189 in 2006-07 to \$6,653 in 2007-08) due to a significant reduction in police resources, which therefore reduced the impact of police costs on the event budget. In addition, the waiver for the St Kilda Festival reduced by 69 per cent (from \$67,343 in 2006-07 to \$20,957 in 2007-08) as the event organizer was in an improved financial position.⁸³

To understand the desired outcomes to be achieved from the policy of granting waivers in relation to police charges, the Department advised the Committee that partial waivers are granted where the imposition of police costs either threatens the viability of the event/event organiser or of the event being held in Victoria. Inherent in the waiver policy is acceptance by event organisers of the user pays policy and the gradual reduction of waivers as event organisers budget for a greater share of the police costs.⁸⁴

In terms of outcome achievement, the Department indicated that no events were cancelled or transferred interstate as a consequence of the Victoria Police User Pays policy for police at sporting and entertainment events.⁸⁵

⁸³ *ibid.*

⁸⁴ *ibid.*

⁸⁵ *ibid.*

CHAPTER 4: UPDATE ON RISK MANAGEMENT PRACTICES IN THE PUBLIC SECTOR

Key Findings of the Committee:

- 4.1** Guidance material and support tools on risk management have been available to departments and agencies from the Department of Treasury and Finance (DTF) and the Victorian Managed Insurance Authority (VMIA) since June 2007, the date of the Auditor-General's most recent report to Parliament on the subject.
- 4.2** The Victorian Government Risk Management Framework, issued by DTF in July 2007, is a comprehensive document which brings together information on governance policies, accountabilities and roles and responsibilities for all involved in risk management.
- 4.3** The 2007 risk management framework developed by DTF includes a requirement for Boards in agencies and departmental secretaries to include an attestation in annual reports that risks have been managed in a manner consistent with the Australian/New Zealand risk management standard and that a responsible body such as an audit committee has verified this position. This requirement constitutes a key accountability obligation of all public sector entities.
- 4.4** Since the widening in 2005 of its risk management services beyond insurable risk, VMIA has assumed an active and valuable lead role in the provision to public sector entities of a wide range of guidance material and support tools to assist their risk management practices.
- 4.5** While material on risk management strategies submitted to the Committee from departments and agencies varied in quality and depth of coverage, the responses generally indicate that risk management practices in most entities are now mature elements of organisational settings and systematically integrated with other organisational processes.
- 4.6** Some departments and agencies disclosed a sound strategic position to identifying and controlling the risk of fraud through the operation of established fraud control plans, while others described more recent management initiatives on fraud control including reviews of policies and procedures. Deteriorating external economic conditions and an increasing incidence of credit card fraud within the community reinforce the importance of sound organisational approaches to fraud management in the public sector.
- 4.7** A feature of responses received from both departments and agencies was the absence of specific references to statewide and inter-agency risks and how such risks are addressed in the overall management framework. While not directly indicative of poor awareness of the significance of such risks, the circumstances point to the need for VMIA to place emphasis on their nature and importance in future guidance disseminated to entities across the public sector.

4.1 Introduction

For some time now, much has been said and written in local, national and international quarters about risk management and its importance as a key factor contributing to effective organisational functioning within the public and private sectors.

The breadth of significance embodied in risk management practices is evident in the following definition:⁸⁶

Risk management is a comprehensive process, supported by appropriate strategies and frameworks that are designed to identify, analyse, evaluate, treat and monitor those risks that could prevent a department or agency from achieving its objectives. It covers strategic as well as operational, financial and compliance related risks.

The importance of sound risk management practices in the Victorian public sector is clearly illustrated when the scope of the above definition is matched with the wide range of essential services that are provided to the community through the public sector. Such services are delivered in many key sectors such as health, education and welfare, in core areas such as infrastructure planning and investment as well as for ensuring vital community security and safety through avenues such as policing, prison management, and provision of ambulance and fire emergency responses. There are also major essential services associated with the environment and the emergence of climate change which encompass sustainable water supplies, prevention and suppression of bushfires and protection from damage of electricity and gas supply networks.

For all of the above services, the government either has direct responsibility or, in the case of situations involving participation by the private sector, ultimate responsibility, for their effective delivery.

The Auditor-General has conducted two audits of the management of risk in the Victorian public sector since 2003.

The first audit was completed in March 2003 and found that risk management was not at the time ‘an established or mature business discipline and that public sector organisations did not rigorously assess risks and evaluate controls.’⁸⁷ The audit recommended improving the statewide risk management framework and risk management in public sector organisations.

A more recent audit was finalised in June 2007 and aimed at assessing whether satisfactory progress had been made since the 2003 audit in departments and selected agencies in developing appropriate risk management frameworks and in applying risk management principles in their organisations.⁸⁸ The main conclusions from this audit were positive and identified that:

- risk management has been promoted through legislation, ministerial directions, and a good practice guide on governance for Victorian public entities;
- formal application of risk management has become an accepted and widespread practice within departments and almost all agencies;
- executive management or boards have both led and adopted adequate strategies, frameworks, and processes that enable them to manage risk; and
- the role of the Victorian Managed Insurance Authority has been widened to provide risk management services to the public service beyond insurable risk.

⁸⁶ Victorian Auditor-General’s Office, *Managing risk across the public sector, Toward good practice*, June 2007, p.1

⁸⁷ Victorian Auditor-General’s Office, *Managing risk across the public sector, Toward good practice*, June 2007, March 2003, p.4

⁸⁸ Victorian Auditor-General’s Office, *Managing risk across the public sector, Toward good practice*, June 2007, p.2

However, a final conclusion from the audit pointed to the need for further improvements to:

- risk management (enterprise-wide) in Victorian public sector organisations by:
 - central agencies issuing risk management (enterprise-wide) guidelines;
 - strengthening risk management practices; and
 - applying the Australian/new Zealand standard (AS/NZS4360 2004) more rigorously.
- statewide risk management by a central agency developing a framework and issuing clear directions and guidelines on how to manage these risks.

The report included eight recommendations to address this final conclusion.

As part of its *2007-08 Financial and Performance Outcomes Inquiry*, the Committee examined the extent of risk management guidance that had been issued to departments and agencies since the June 2007 report of the Auditor-General. It also sought from departments and agencies information on:

- risk management strategies in place including those relating to the prevention, detection and response to the risk of fraud; and
- the level of independent verification that each organisation obtains to ensure that strategies (including internal control frameworks) are operating effectively.

The overall aim of the Committee was to assess the extent to which action had been taken since June 2007 to address the outstanding issues identified by the Auditor-General.

4.2 Guidance and support tools on risk management available to departments and agencies since June 2007

The Committee was pleased to find that high quality guidance and support tools on risk management have been available to departments and agencies in the public sector since June 2007.

An important step occurred in July 2007 with the release by the Department of Treasury and Finance (DTF) of the Victorian Government Risk Management Framework. This comprehensive framework brings together information on governance policies, accountabilities and roles and responsibilities for all involved in risk management. The framework:⁸⁹

- adopts a common risk management standard across public sector agencies which stipulates, as a minimum, adherence to the key principles of the Australian/New Zealand Management Standard 4360;
- requires, as a key accountability initiative, an attestation by Boards and departmental secretaries in annual reports that risk management processes consistent with the standard are in place, the processes are effectively controlling risks and a responsible body or the audit committee has verified that risks have been effectively controlled;
- stresses that risk management is an integral part of good management practice and an essential element of good corporate governance; and
- allocates a chapter to the important area of management of inter-agency and statewide risks.

⁸⁹ Department of Treasury and Finance, *Victorian Government Risk Management Framework*, July 2007

On the latter point, the framework's overview states:

Increasingly the public sector is operating in an environment of shared accountabilities to achieve outcomes which cut across specific departmental responsibilities. In this context it is important that risks with the potential to impact across agencies or at a whole-of-government level are communicated or escalated through to potentially affected agencies to enable a coordinated, effective and timely approach to risk management.

The Committee considers that DTF's Victorian Government Risk Management Framework adequately addresses those areas earmarked by the Auditor-General in 2007 as requiring further improvement. The framework represents a positive contribution to facilitating continuing high quality performance in risk management by agencies across the public sector.

In addition to DTF's work, the Committee also found that the Victorian Managed Insurance Authority (VMIA) has, particularly since the widening in 2005 of the ambit of its risk management services beyond insurable risk, assumed an active and valuable lead role in the provision to public sector agencies of a wide range of guidance material and support tools to assist their risk management practices.

VMIA's website provides an insight into the extensive nature of guidance material and support tools on risk management that the organisation has made available to public sector agencies. The information that can be accessed on the website includes:⁹⁰

- guidance on the fundamental components of the risk management process encompassing the formulation of risk management policies, risk assessment, risk treatment plans, and monitoring and review actions;
- the results of a risk framework quality review conducted in 2006 which led to a greater understanding by VMIA of clients' risk management frameworks, and identified the top five key risk categories across the government sector as well as seven key areas for improvement – these areas were risk management reporting, development of key risk indicators, business continuity management, aligning internal audit and risk management assurance, risk registers, understanding and commitment to risk management at all levels of the organisation, and implementing risk management within project methodology;
- specific guidance for agencies on implementation of the previously - mentioned 'attestation' requirement of the Victorian Government Risk Management Framework incorporating key principles underpinning the attestation obligation of Boards and accountable officers, frequently asked questions, the attestation framework and information on attestation seminars conducted in 2007 and 2008;
- a 'Guide for developing and implementing your risk management framework' released in July 2008 which addresses the development, implementation, and monitoring and enhancement of a risk management framework, with templates and good practice examples presented for each step in the process;
- an outline of the status of a draft international standard on risk management, ISO 31000, the first of its kind scheduled for release later in 2009, its relationship with the current Australian/New Zealand standard and how the transition to ISO 31000 might affect agencies; and
- a 'Profile of Risk Management Professionals in the Victorian Public Sector', dated January 2009, which documents the results of a survey of the competency, capability and seniority of risk management professionals in the Victorian public sector.

⁹⁰ Website of the Victorian Managed Insurance Authority, <www.vmia.vic.gov.au>, accessed 31 March 2009

The latter profile indicates that risk management professionals in the public sector are *'highly educated individuals operating at senior levels within their organisations. To a greater extent, they have acquired their skills and expertise in risk management by means of self-learning, with little formal risk management training and education.'* While respondents to the survey indicated the benefits of risk management are not fully communicated and understood across all levels of the organisation, they felt there was a common understanding of the importance of a shared risk responsibility across senior management and staff. The profile identifies that VMIA is developing a detailed action plan on six areas (training, accreditation framework and awards strategy, client services, mentoring and networking, research and attestation) for the focusing of its future efforts in response to the survey findings.

VMIA's guidance material and support tools are supplemented by periodic risk management seminars and a quarterly risk management publication, *Risky Business*, as well as a series of information bulletins on pertinent topics via periodic risk updates and risk insights. In addition, VMIA is planning to conduct its inaugural Risk Conference in October 2009.

The Committee considers that VMIA has responded proactively and competently to the task of assisting public sector agencies in meeting their responsibilities for managing risk. Its work in this area would have been a major contributor to the positive findings of the Auditor-General in 2007 on the improving quality of risk management in the public sector. Since those findings, the VMIA's risk management initiatives have been substantial and likely to have been a significant facilitator in further advancing the strategic and operational performance of risk management professionals within departments and agencies, and enhancing the effectiveness of governance and overall organisational functioning in the public sector.

4.3 Responses received from departments and agencies on risk management strategies

As mentioned in an earlier paragraph, the Committee sought from departments and agencies information on:

- risk management strategies in place including those relating to the prevention, detection and response to the risk of fraud; and
- the level of independent verification that each organisation obtains to ensure that strategies (including internal control frameworks) are operating effectively.

Against the background of the initiatives taken by DTF and VMIA, as outlined in the above paragraphs, the Committee was interested in assessing the strategic calibre of organisational responses and, in particular, identifying whether the responses reflected the depth of available guidance and support, and were indicative that full advantage had been taken of such assistance.

4.3.1 Analysis of responses from departments

The Committee received responses from all 10 departments. While the responses varied in terms of the quality of their overall content, most departments identified for the Committee the principal elements of their risk management strategies which mainly involved:

- descriptions of the key features of risk management policies and frameworks in place and of their modus operandi;
- references to the alignment of policies and frameworks with the Australian/New Zealand risk management standard;
- the use of specially-established risk management committees to facilitate organisational-wide approaches to the management of risks;
- active involvement of audit committees in periodic scrutiny of organisational performance in identifying and controlling risks;

- details of recent enhancements to policies and management frameworks, including the nature of enhancements that followed reviews conducted by VMIA; and
- summaries of the manner in which fraud is managed and controlled, with some departments indicating a mature strategic position through the operation of established fraud control policies, while others described more recent management initiatives on fraud control including reviews of existing policies and procedures.

On the latter point dealing with fraud risk, deteriorating external conditions and an increasing incidence of credit card fraud within the community reinforce the importance of sound organisational approaches to the management of fraud within the public sector. Against this background, VMIA issued a timely risk update, *Fraud risk on the rise*, in February 2009 which accentuates the importance of organisations understanding where fraud risks exist, and developing and implementing cost effective and robust strategies to manage those risks effectively. The update identifies 10 principles that need to be applied in developing a fraud control plan, including executive buy-in and zero tolerance, as well as those areas that could be subject to increased fraudulent activity in the current economic environment. The Committee considers this risk update would have been useful to those departments that have taken recent steps to upgrade their fraud control strategies.

With regard to independent verification of risk management performance, departments referred to reviews undertaken by the Auditor-General, internal audit, independent contractors and the VMIA, with management performance overviewed by an audit or risk management committee. The responses indicate that significant attention is directed to this important area. Relevant to this issue is the requirement established under the Victorian Government Risk Management Framework for departmental secretaries (as accountable officers) to provide an attestation in annual reports that risks have been managed in a manner consistent with the risk management standard and that a responsible body or the audit committee has verified that position.⁹¹

From an overall perspective, the Committee considers that the departmental responses are encouraging and point to a heightened strategic awareness of the importance of having in place sound risk management practices which are subject to regular independent verification. As mentioned earlier, the valuable guidance material issued by DTF and VMIA and the latter's active leadership role in risk management guidance, training and support would have assisted organisations in strengthening their risk management practices.

One distinctive feature of the departmental responses relating to risk management strategies was the general absence of specific references to inter-agency and statewide risks and how such risks are addressed in the overall management framework. The importance of strong attention to these risks was stressed in the Auditor-General's 2007 report and, as mentioned in an earlier paragraph, highlighted (with accompanying valuable guidance) in DTF's Victorian Government Risk Management Framework. Inter-agency risks were identified by the Auditor-General as resulting from joined-up government where two or more departments or agencies work together, across organisational boundaries, to deliver government services or programs, or to share services.⁹²

The Committee was surprised that only one department made mention of risk management strategies that extend beyond departmental boundaries, which included a reference to the use of a portfolio audit committee. No department referred specifically to the management of statewide and inter-agency risks. Given the importance of such risks and that many departments would have involvement with other agencies in coordinating or delivering across-agency programs or services, the Committee expected there would be greater specific coverage on the subject in the responses. It may be that departments intended that the risk management practices described in their responses should be read as also applicable to statewide and inter-agency risks. Nevertheless, the circumstances indicate to the Committee that there would be merit in the VMIA directing focus in its forward plans to the nature and importance of statewide and inter-agency risks, accompanied by relevant guidance material, training and support tools, to increase awareness and assist performance in this area.

⁹¹ Department of Treasury and Finance, *Victorian Government Risk Management Framework*, July 2007, p.5

⁹² Victorian Auditor-General's Office, *Managing risk across the public sector: Toward good practice*, June 2007, p.45

Recommendation 6: **The Victorian Managed Insurance Authority include, within its forward risk management program, guidance and training for public sector entities to assist their management of statewide and inter-agency risks.**

4.3.2 Analysis of responses from non-departmental agencies

The Committee received responses from 31 agencies outside the departmental sector.

The Committee found that, while some responses from agencies were less informative than those received from departments, most indicated that risk management practices are mature elements of their organisational settings and systematically integrated with other organisational processes.

A small number of agencies simply itemised their risk management policy documents or the elements of their internal control framework without descriptive comment on their strategic significance. In addition, some agencies directed no attention to risk management strategies and practices, but restricted responses to the approach taken to control fraud and corruption, which was often through implementation of fraud and corruption control plans.

The Committee was impressed with the response submitted by South East Water which included the following key macro points:⁹³

South East Water has in place a Risk Management Policy and Risk Management Framework aimed at protecting itself against a potential negative event or the failure to take advantage of an opportunity that may prevent the Company from meeting its objective.

The Company maintains a strong risk management culture with risk management practices embedded across all business functions. The objective is to maintain a uniform approach to the management of risk across the organisation.....

The Committee considers that these comments succinctly describe the main high-level features of a strong organisational approach to risk management.

The Committee was also encouraged by advice provided by City West Water and the National Gallery of Victoria identifying that they had received favourable assessments of their risk management frameworks following quality reviews undertaken by VMIA. City West Water received an admirable 'exemplary' rating from VMIA in 2007-08 and the National Gallery of Victoria was assessed as 'very good' and improving over time. The Committee regards the involvement of VMIA in periodic quality reviews of agencies' risk management frameworks as a source of valuable external feedback to agencies.

With regard to independent verification of risk management performance, agencies provided broadly similar responses to departments and cited the work of the Auditor-General, internal audit (generally involving external audit practitioners), independent contractors and the VMIA, with verification overviewed by an audit or risk management committee. Some agencies cited verification arrangements peculiar to their organisational environment. For example, the Treasury Corporation of Victoria referred to reviews undertaken by the Prudential Supervisor who monitors compliance with the Prudential Policy established by the Treasurer and adopted from the standards of the Australian Prudential Regulatory Supervisor.

Similar to the position with accountable officers in departments, Boards of non-departmental agencies are required under the Victorian Government Risk Management Framework to provide an attestation in annual reports that risks have been managed in a manner consistent with the Australian/New Zealand risk management standard and that a responsible body such as an audit committee has verified that position. This requirement constitutes a key accountability obligation of all public sector entities for their performance in managing risks.

⁹³ South East Water, *Response to the Committee's 2007-08 Financial and Performance Questionnaire*, P.25

Also, similar to the departmental responses, agencies directed little attention to statewide and inter-agency risks relevant to their organisations and how these risks are addressed in the overall management framework. As most of the agencies would have involvement with other agencies in coordinating or delivering key across-agency programs or services, the Committee expected greater coverage of this area in the responses.

While not wishing to read too much into this position, as specific questions on such risks were not raised with the agencies, the Committee regards the circumstances as reinforcing the importance of VMIA placing some emphasis in its future guidance to agencies on the nature and importance of statewide and inter-agency risks. It has therefore widened the ambit of its Recommendation 1 (set out in an earlier paragraph) beyond departments to encompass all entities in the Victorian public sector.

CHAPTER 5: PUBLIC SECTOR INFRASTRUCTURE AND ASSET INVESTMENT PROGRAM

Key Findings of the Committee:

- 5.1** Net infrastructure investment is expected to average \$3.3 billion a year over the four years to 2010-11 (\$3.6 billion in 2007-08). The 2007-08 budget announced asset projects with a TEI of \$2.9 billion. Six departments (Departments of Education and Early Childhood Development, Human Services, Justice, Transport, Sustainability and Environment, and Planning and Community Development) accounted for \$2.5 billion estimated expenditure. Actual expenditure for these departments was \$2.4 billion.
- 5.2** The government's annual financial report for 2007-08 states that infrastructure spending in the general government sector was \$3.9 billion, an increase of 0.2 per cent from 2006-07, equivalent to 1.7 per cent of Gross State Product.
- 5.3** In total, 40 projects experienced a delay during 2007-08 and 57.5 per cent of those projects resulted in an under expenditure in excess of 10 per cent.
- 5.4** The Committee saw evidence of poor planning and timeline scheduling for projects by departments that has contributed to project delays. Stronger corporate knowledge and experience in planning projects with realistic timelines needs to be reinforced at Departmental levels.
- 5.5** There were 25 projects in which expenditure exceeded budget allocation by greater than 10 per cent. Funding for accelerated works was most often sourced internally through one of three means: brought forward funding, surplus funding within a program, or the temporary shifting of funds between projects.
- 5.6** Departments provided a range of reasons to the Committee for variances in spending on major infrastructure projects against allocations in the 2007-08 budget. Reasons included issues with planning and changes to project plans, timing of permit processes and agreements between Departments and key stakeholders, the effects of the drought, identification of asbestos, contractor performance, material availability and supply and the acceleration of planned works.
- 5.7** There were 40 major infrastructure projects underway in 2007-08 in which the original completion date had been changed, of which 33 (82.5 per cent) had variations in budget expenditure greater than 10 per cent. The most significant change was the acceleration of the Wimmera-Mallee Pipeline Project from a completion date of 2015 to June 2010.
- 5.8** The Committee is concerned that three projects have significantly rescheduled completion dates (Integrated Court Management System, Wodonga Rail Freight, and Urban Redevelopment and Vigilance Control and Event Recording System for the metropolitan rail system).

5.1 Introduction

Net infrastructure investment is expected to average \$3.3 billion a year over the four years to 2010-11 (\$3.6 billion in 2007-08). The 2007-08 budget announced asset projects with a TEI of \$2.9 billion. Infrastructure and asset investment in 2007-08 was focused on the areas of education, health, housing, sustainability, transport and policing.⁹⁴

The government's annual financial report for 2007-08 states that infrastructure spending in the general government sector in 2007-08 totalled \$3.9 billion and consisted of:⁹⁵

Total purchases of non-financial assets	\$2.8 billion
<i>Less</i>	
Proceeds from asset sales	(\$0.2 billion)
<i>Add</i>	
Net contributions to other sectors	\$1.3 billion
Net investment in fixed assets	\$3.9 billion

Government net investment in fixed assets increased from \$3.3 billion in 2006-7 to \$3.9 billion in 2007-08, an increase of 18.2 per cent.

The *Report on the 2008-09 Budget Estimates – Part Three* identified that, while the level of asset investments has increased from 0.9 per cent of GSP in 1999-2000 to an estimated 1.5 per cent for 2008-09, the greatest increases occurred in 2006-07 and 2007-08 with an upward movement of 0.3 per cent and 0.2 per cent respectively, moving asset investment to 1.7 per cent of GSP in 2007-08.⁹⁶

The Committee has reviewed the asset investment of six Departments. Their combined actual expenditure of \$2.4 billion represents 61.5 per cent of net Government investment in fixed assets in 2007-08.

Table 5.1: Purchase of non-financial assets by Department 2007-08

Department	Actual expenditure 2007-08	Estimated expenditure 2007-08	Variance in expenditure
	(\$ million)		(%)
Education and Early Childhood Development	489.3	620.5	-21.1
Human Services	674.2	670.4	0.6
Justice	157.9	169.0	-6.6
Transport	937.4	922.0	1.7
Sustainability and Environment	95.0	118.6	-19.9
Planning and Community Development	20.9	18.8	11.2
Total	2,374.7	2,519.3	-5.7

Source: Department of Treasury and Finance, *Financial Report for the State of Victoria 2007-08, October 2008, p.20*

Table 5.1 provides a comparison of the estimated and actual expenditure for each Department reviewed by the Committee. It is worth noting that the Department of Education and Early Childhood Development and Department of Sustainability and Environment both underspent significantly at 21 and 20 per cent respectively.

⁹⁴ Department of Treasury and Finance, 2007-08 Victorian Budget Overview, p.10

⁹⁵ *ibid.*

⁹⁶ Public Accounts and Estimates Committee, Report on the 2008-09 Budget Estimates Part Three, October 2006, pp.63-64

5.2 Departmental explanations from instances of variations in asset spending against 2007-08 expenditure projections

The Committee asked the six Departments selected to provide details of asset investment projects identified in the 2007-08 Budget Information Paper No.1 – Public Sector Asset Investment Program, with a TEI in excess of \$10 million and where expenditure was expected to occur during 2007-08. Details sought by the Committee included:

- estimated, actual and variance in expenditure;
- specific reasons for any variations greater than 10 per cent between the estimated and the actual expenditure for 2007-08;
- TEI and remaining expenditure;
- the original, revised and forecast completion dates for each project; and
- specific reasons for any variations between the original, revised and forecast completion dates.

For reporting purposes, department responses have been classified according to whether the variance between estimated and actual expenditure on asset investment projects in 2007-08 was above or below the estimated figure. Tables 5.3 and 5.4 respectively list projects in which actual expenditure was below the budget allocation (Table 5.3) and those projects in which expenditure exceeded the budget estimate for 2007-08 (Table 5.4).

5.3 Analysis of information presented in tables 5.3 and 5.4

Project information supplied by departments documented a range of discrepancies between actual expenditure compared with 2007-08 budget allocations. The Committee addresses projects with zero expenditure in section 5.3.3. The Committee's focus is on projects with expenditure variations greater than 10 per cent.

When examining these tables, it is important to recognise that they present a '*point in time*' view on the status of progress towards project completion and that a negative or positive expenditure variance does not necessarily mean a change in the overall TEI for the project. Variations may have a number of causes, including a shift in the planned expenditure pattern.

5.3.1 Major infrastructure projects with actual expenditure lower than estimated in 2007-08 (Table 5.3)

The main reasons provided by departments for lower than expected budget expenditure in 2007-08 were delays to projects and outstanding invoices. Delays occurred in a range of project phases including approvals, planning, timing and supply. These project delays highlight potential problems in the planning and implementation of major infrastructure projects.

Table 5.2 summarises the breakdown, by department, of projects which experienced a delay in 2007-08 (details in Table 5.7), the number of those projects in which an under expenditure greater than 10 per cent was identified and the total under expenditure for the identified projects. In total, 40 projects experienced a delay during 2007-08 and 58.5 per cent of those projects resulted in an under expenditure in excess of 10 per cent.

Table 5.2: Delayed projects with under expenditure greater than 10 per cent in 2007-08

Department	Delayed projects in 2007-08	Number of delayed projects with an under expenditure greater than 10 per cent	Total funding under expenditure (\$ million)
Transport	11	9	85.4
Human Services	12	5	17.6
Education and Early Childhood Development	9	5	15.1
Justice	5	4	9.9
Sustainability and Environment	2	-	-
Planning and Community Development	1	-	-
Total	40	23	128.0

Sources: Department responses to Public Account and Estimates Committee Outcomes Questionnaire - Part Two

A variety of factors were detailed by departments to explain project delays, including site contamination issues, complex project planning, rescheduling requirements to avoid disruption to services and re-phasing based on contract milestones. These factors illustrate the importance of establishing realistic timelines for projects from the outset.

The Committee acknowledges that some delays were beyond the control of departments, for example:⁹⁷

- a prime contractor being placed into administration during implementation of the Vigilance Control and Event Recording System project.

The importance of good project management in preventing delays was highlighted by responses from the Department of Transport and Department of Justice. The Department of Transport advised the Committee that Metropolitan Train Safety Communications System and Metropolitan Train Services projects had to be re-phased when contractor's failed to meet designated milestones.⁹⁸ The Department of Justice detailed that contractor delays in the supply of software resulted in delays to the implementation of the Integrated Court Management System project with financial penalties being applied.⁹⁹

There were instances, however, where lower than estimated expenditure was a result of changed project arrangements. For example, on 21 November 2007 the Premier announced that the Children's Health Partnership would design, build, finance and maintain the Royal Childrens Hospital for a 25-year period. As a result, the estimated state investment in the project decreased from \$847 million to \$47.1 million.¹⁰⁰

Not all reduced expenditure had a positive outcome for Victoria. The Department of Sustainability and Environment's Victorian Water Trust Assets – Upgrades program included projects which were reliant on matched Commonwealth funding. This funding was not provided, contributing to a 30.3 per cent reduction in project expenditure and the delivery of fewer projects within the program.¹⁰¹

⁹⁷ Department of Transport, response to the Committee's Financial and Performance Questionnaire – Part Two, Attached spreadsheet

⁹⁸ ibid.

⁹⁹ Department of Justice, response to the Committee's Financial and Performance Questionnaire – Part Two, p.3

¹⁰⁰ Department of Human Services, response to the Committee's Financial and Performance Questionnaire – Part Two, p.22

¹⁰¹ Department of Sustainability and Environment, response to the Committee's Financial and Performance Questionnaire – Part Two, p.7

While major infrastructure projects can be complex, information provided to the Committee is indicative of inadequate planning and timeline scheduling for projects which contributed to project delays. It is considered integral that departments have suitable knowledge management processes in place to ensure they can fully document and apply sound project planning and program well for risks to delivery including delays. The Committee recommends that Departments enhance their knowledge management processes regarding major infrastructure projects to develop technical strategies for project planning and setting timelines.

Recommendation 7: **Departments establish knowledge management processes and systems that facilitate the sharing of expert knowledge and lessons learnt in the planning and timing of major infrastructure projects. This is essential in the planning stages of a project.**

5.3.2 Major infrastructure projects with actual expenditure in excess of budget for 2007-08 (Table 5.4)

Where a major infrastructure project exceeded budgeted expenditure in 2007-08 the reason given most often by departments was accelerated works. Project acceleration was attributed to the expediting of a project or faster than intended completion of scheduled works.

There were 25 projects in which expenditure exceeded budget allocation by greater than 10 per cent. The Department of Human Services accounted for almost half the projects (12), followed by the Department of Transport (five projects), the Department of Education and Early Childhood Development (three projects), the Department of Sustainability and Environment (three projects), the Department of Justice (one project) and the Department of Planning and Community Development (one project). Reasons for accelerated works included:

- favourable building conditions;
- proactive project management;
- urgent priority infrastructure works;
- accelerated software development;
- works delivered ahead of schedule; and
- earlier compulsory acquisition of land.

An exception to these reasons for accelerated projects was ‘unforeseen project variations’ in the upgrading of Williamstown High School, which had a 124.2 per cent variance which equated to additional expenditure of \$0.82 million. This expenditure took the project past TEI by 0.7 per cent, however, the additional expenditure was ‘able to be funded from savings on other projects’.¹⁰²

Where project works were accelerated, funding was acquired from three sources. They were:

- brought forward funding;
- surplus funding within a program; and
- temporary shifting of funds between projects.

The Department of Sustainability and Environment used brought-forward funding for three projects with a variance greater than 10 per cent. While the Department of Sustainability and Environment did not specifically mention obtaining approval for this action, the Department of Justice stated that approval from the Treasurer had been granted to bring forward funding for the Moorabbin Court Complex from 2008-09. The Department of Education and Early Childhood Development also used surplus funding from other programs to facilitate specific projects.

¹⁰² Department of Education and Early Childhood Development, response to the Committee’s Financial and Performance Questionnaire – Part Two, p.5

Table 5.3: Major infrastructure projects with actual expenditure lower than estimated in 2007-08

Project	B/P No. 1 2007-08 Budget	2007-08 actual	Variance	Explanation for variance	Expenditure 2004-05 to 2007-08	TEI	Remaining expenditure
	(\$ million)		(%)		(\$ million)		(%)
Department of Education and Early Childhood Development							
Western Heights Regeneration - Western Heights SC - Three Campuses	3.8	0.0	-100.0	Project documentation is on hold pending resolution of the Joint Use Agreement and land purchase issues with the City of Greater Geelong. It is anticipated contract acceptance will occur in the last quarter of the 2008-09 financial year. If this schedule is achieved, works will be able to commence this financial year, however significant expenditure will not occur until the 2009-10 financial year. Under expenditure was for the construction component of the project.	0.0	13.8	100.0
Maryborough Precinct - Precinct Stage 2	0.4	0.0	-100.0	As a result of drought and hard natural ground conditions, landscaping works were deferred pending review to determine the most appropriate and effective solution for the site.	16.2	16.6	2.2
Ultranet	21.0	2.6	-87.8	Following the evaluation of initial tender responses, procurement and implementation strategies were reviewed involving re-scoping the project to ensure successful delivery within existing budget and timeframes.	3.4	60.5	94.3
Broadmeadows Regeneration - Erinbank SC and Hillcrest SC	2.9	1.0	-64.7	A contract was awarded later than was originally anticipated as project documentation required amendment to avoid potential cost overrun associated with site conditions. The delay has caused under expenditure in the construction component of the project.	1.0	10.4	90.2
Victorian College of the Arts Secondary School (VCASS) – Replacement School	12.0	5.2	-56.4	Site issues, including whether the College was to be cohabitated with Commonwealth funded programs (such as the Australian Ballet School) resulted in delays in project documentation. These issues have been resolved and the project is on track for completion by June 2009. The under expenditure has been on the construction component of the project. The cost estimate was accurate.	5.3	20.0	73.7

Table 5.3: Major infrastructure projects with actual expenditure lower than estimated in 2007-08

Project	B/P No. 1 2007-08 Budget	2007-08 actual	Variance	Explanation for variance	Expenditure 2004-05 to 2007-08	TEI	Remaining expenditure
	(\$ million)		(%)		(\$ million)		(%)
Department of Education and Early Childhood Development							
Albert Park SC - Replacement School	4.6	2.0	-56.1	The original budget was based upon refurbishment of the existing building. The building was deemed inappropriate and scope increased to cover demolition and reconstruction. Project scope also included the creation and opening of a new child care centre off site. Further cost overruns were experienced when site contamination issues required investigation and the development of a remediation plan. Remediation works are presently underway. Building works cannot proceed until decontamination is complete. Construction (contract awarded in December 2008) is anticipated to commence towards the end of the 2008-09 financial year following completion of site remediation and demolition. The under expenditure has been for the construction component of the project.	2.0	16.0	87.3
Various Schools - Leading Schools Fund - Modernisation	7.5	4.7	-37.4	A significant number of projects were delayed in the planning stage. In addition, revised project implementation timeframes resulted from schools entering into cluster arrangements or where schools integrated Leading Schools Fund projects with other capital works projects.	9.3	12.1	23.2
Community Facilities Fund (Various)	9.3	8.3	-11.1	Numerous projects require extensive negotiations with the various stakeholders. A number of projects were delayed in the planning stage and/or while partnership/legal arrangements were being finalised. Following confirmation that the Victorian Institute of Educational Leadership was to be sited on existing departmentally owned land in North Melbourne, planning and documentation for the project commenced in the 2007-08. However funds for construction works were not required in the 2007-08 financial year.	28.5	29.5	3.5
Department of Human Services							
Royal Childrens Hospital Redevelopment	145.3	3.1	-97.9	Project was endorsed as a Partnership Victoria project in late 2007, resulting in a significant decrease in state-funded TEI and annual budget. Previously published TEI is no longer relevant. Current state-retained TEI is now \$47.1M.	10.1	Originally 847.4 revised 47.1	0
North Richmond Community Health Centre	5.0	0.8	-83.3	Town planning objections raised by local residents (yet to be resolved) has caused a delay to project. Project end date now expected in mid 2011.	4.3	19.0	77.4

Table 5.3: Major infrastructure projects with actual expenditure lower than estimated in 2007-08

Project	B/P No. 1 2007-08 Budget	2007-08 actual	Variance	Explanation for variance	Expenditure 2004-05 to 2007-08	TEI	Remaining expenditure
	(\$ million)		(%)		(\$ million)		(%)
Department of Education and Early Childhood Development							
Hospitals Electronic Prescribing	10.0	1.9	-80.6	Roll-out of the clinical systems module has caused overall delay to the project. The end date of the project has been revised to late 2010, but remains with approved TEI.	1.9	21.0	64.8(a)
Geelong Hospital Radiotherapy Service	0.9	0.2	-76.6	All construction works were completed during the period. Project is now in financial completion/defect liability phase with outstanding invoices to be finalised and paid. Project remains within approved TEI.	15.3	16.0	4.3
The Northern Hospital Redevelopment Stage 2a	2.1	0.9	-57.9	Finalisation of an environmental audit on the site delayed completion of the overall project. Audit was completed in early 2008, with all building also completed. Project now in financial completion/defects liability phase with outstanding invoices to be finalised and paid. Project remains within approved TEI.	23.3	24.5	5.0
Grace McKellar Centre Redevelopment Stage 2	2.6	1.3	-50.0	All construction works were completed during the period. Project is now in financial completion/defect liability phase with outstanding invoices to be finalised and paid. Project remains within approved TEI.	50.7	52.0	2.5
Kingston Centre Kitchen Upgrade and Associated Works	10.9	7.5	-31.5	Construction works on the main kitchen were delayed due to a VCAT application lodged by local residents. As a result, the Department has worked closely with local residents to amend the overall scheme, with construction now expected in late 2010. Project remains within approved TEI.	11.5	26.7	57.0
Disability Shared Supported Accommodation SRRP Stage 2	4.3	3.5	-17.1	Project is in early planning stage, which has taken longer than expected. Overall, project is progressing to schedule and is targeted to meet planned end date within approved TEI.	3.5	15.0	76.5
Medical Equipment Program, Acute Health 2006-07	2.5	2.1	-14.8	All funding has been committed, with outstanding invoices yet to be paid. Project remains within overall approved TEI.	17.3	47.7	0.8(a)
Kew Residential Services Redevelopment	12.5	10.7	-14.6	All construction works were completed during the period. Project is now in financial completion/defect liability phase with outstanding invoices to be finalised and paid. Project remains within approved TEI.	55.9	86.5	6.7(a)

Table 5.3: Major infrastructure projects with actual expenditure lower than estimated in 2007-08

Project	B/P No. 1 2007-08 Budget	2007-08 actual	Variance	Explanation for variance	Expenditure 2004-05 to 2007-08	TEI	Remaining expenditure
	(\$ million)		(%)		(\$ million)		(%)
Department of Education and Early Childhood Development							
Royal Melbourne Hospital Emergency Department Redevelopment	23.0	19.7	-14.2	Complex project phasing affected by Royal Women's Hospital main redevelopment, affecting progression and staging of planned works for the period. Overall, project is progressing to original schedule and remains within approved TEI.	25.5	56.3	54.8
Placement and Support Residential Facility Renewal Strategy	8.0	6.9	-13.7	Delays to finalisation of design works resulted in delay to early stage of project, affecting overall construction schedule. Project end-date has been amended to reflect delay, but project remains within approved TEI.	6.9	14.2	51.4
Royal Melbourne Hospital Brickwork Rectification	17.8	15.4	-13.5	Urgent brickwork rectification works completed according to schedule. Project is in financial completion phase, with outstanding invoices to be paid. Project remains within overall TEI.	25.7	31.1	17.4
Colac Area Health, Polwarth Nursing Home – RACS	1.5	1.3	-11.7	All construction works for the project were completed during the period. Project is now in financial completion/defects liability phase, with outstanding invoices to be finalised and paid. Project remains within overall approved TEI.	13.4	13.6	1.2
2007-08 Medical Equipment Replacement Program	40.0	35.3	-11.7	All funding has been committed, with outstanding invoices yet to be paid. Project remains within overall approved TEI.	35.3	145.0	75.6
Department of Justice							
Prison Security	0.4	0.0	-100.0	The majority of the project was completed in July 2006. DTF approved a revision of the 2007-08 budget (\$0.392 million) to \$0.340 million and an adjustment to forward year cashflow. The revision of the budget was required due to the unavailability of specialist security equipment such as walk in security booths and ion scanners.	11.7	12.0	2.8

Table 5.3: Major infrastructure projects with actual expenditure lower than estimated in 2007-08

Project	B/P No. 1 2007-08 Budget	2007-08 actual	Variance	Explanation for variance	Expenditure 2004-05 to 2007-08	TEI	Remaining expenditure
	(\$ million)		(%)		(\$ million)		(%)
Department of Education and Early Childhood Development							
10 year Prison Cell and Safety Project	3.6	0.1	-97.5	<p>In the 2001-02 Budget, \$50 million funding (\$10.25 million of which was later transferred on ERC approval to the security upgrade works at Melbourne Assessment and Barwon prisons) was approved for cell and fire safety upgrades, within the current facilities across the Victorian corrections system, to be expended at \$5.0 million per year. The Steering Committee of the Building Design Review Project (BDRP) accelerated the program with a view to completion of works within a five year period. By 2005-06 the works were significantly completed. \$36.66 million has been invested in the prison cell and safety project between 2001-02 and 30 June 2008.</p> <p>The remaining budget for this project was re-phased in 2007-08 with the approval of the Treasurer (\$3.576) million to \$0.097 million and an adjustment to future year cash flow due to a need to re-scope the remaining works based on a revised assessment of which remaining cells needed to be upgraded as a priority.</p> <p>The overall project is still ahead of its original timeframe however the need to reassess priorities has resulted in the reduced expenditure in 2007-08.</p>	16.0	40.1	8.7(a)
Integrated Courts Management System (ICMS)	11.3	7.6	-32.3	<p>Funding for the Department's Integrated Courts Management System (ICMS) was approved in 2005-06 with a TEI of \$32.25 million. Expenditure over the course of the project to 30 June 2008 was \$24.22 million.</p> <p>The ICMS Program operates on an Earned Value basis. Supplier delay in developing the required software has therefore resulted in less actual expenditure than planned.</p>	24.2	32.3	24.9
Melbourne Legal Precinct Master Plan	17.6	12.1	-31.1	<p>The presence of latent asbestos in the Old County Court building caused delays and subsequent variations to expected expenditure during 2007-08.</p> <p>DTF approved a revision of the 2007-08 budget (\$17.587) million to \$13.593 million and an adjustment to future year cash flow. Actual expenditure was \$12.12 million.</p> <p>Additional funding in the 2008-09 State Budget (\$22.0 million) has been approved to deal with the hazardous material and to fund the consequent increase in project cost.</p>	23.4	35.3	33.9

Table 5.3: Major infrastructure projects with actual expenditure lower than estimated in 2007-08

Project	B/P No. 1 2007-08 Budget	2007-08 actual	Variance	Explanation for variance	Expenditure 2004-05 to 2007-08	TEI	Remaining expenditure
	(\$ million)		(%)		(\$ million)		(%)
Department of Education and Early Childhood Development							
Road Safety Investment – Digital Red Light Cameras	1.3	1.1	-14.4	Expenditure on the project was lower than anticipated due to savings achieved through the tender process.	5.0	10.1	1.9(a)
Department of Transport							
Coolaroo Station	1.0	0.1	-95	Project design underway.	0.1	36.0	99.7
Wodonga Rail Freight and Urban Redevelopment 3	33.4	3.1	-91	Extensive negotiations with Australian Rail Track Corporation and other parties were required to finalise scope and funding contributions.	12.2	85.0	\$115.3 million
Metropolitan Train Control Reliability Systems Upgrade	37.3	12.5	-66	Project schedule revised following independent assessment by the contractor and the need to avoid disruption to train services.	18.2	87.9	79.3
Whole of Government Transit Cities - Ballarat Second Station	8.2	2.9	-65	Finalisation of project scope and subsequent commencement of procurement activities took longer than planned.	4.2	11.0	62.7
Station Pier Safety and Security Upgrade	1.8	0.8	-57	Project rescheduled to enable works to occur outside the cruise ship season.	14.3	15.3	6.5
Vigilance Control and Event Recording System	15.3	7.1	-53	Revised project schedule due to train unavailability and prime contractor being placed into administration.	14.3	37.3	61.4
Track Duplication: Clifton Hill to Westgarth	16.5	9.5	-43	Main works contract awarded later than planned.	11.4	52.0	78.3
SmartBus: Red Orbital - Box Hill to Altona	13.3	8.5	-36	Rescheduling of activities to 2008-09.	9.8	29.1	66.3

Table 5.3: Major infrastructure projects with actual expenditure lower than estimated in 2007-08

Project	B/P No. 1 2007-08 Budget	2007-08 actual	Variance	Explanation for variance	Expenditure 2004-05 to 2007-08	TEI	Remaining expenditure
	(\$ million)		(%)		(\$ million)		(%)
Department of Education and Early Childhood Development							
Dandenong Growth Corridor - Development	7.4	5.2	-29	Stage 1 - Cranbourne Stabling and Station Upgrade now under construction.	22.8	22.8	0.0
Public Transport Security Package	5.0	3.6	-28	Rescheduling of activities to 2008-09.	8.6	13.6	36.8
Linking the Suburbs – Craigieburn Rail Project	19.4	14.9	-23	Project completed, final claims only remain.	102.7	115.0	3.9(a)
Metropolitan Train Safety Communications System	10.3	8.2	-20	Payments have been rephased based on contract milestones.	12.5	134.9	90.7
Corio Independent Goods Line including North Geelong track Modifications	10.6	8.4	-21	Rescheduling of some activities to 2008-09.	11.2	13.5	16.3
Level Crossing Safety Package	13.8	11.4	-17	Procurement savings for rumble strip works. Savings to be used for additional advance warning signage in 2008-09.	11.4	22.9	50.2
Metropolitan Train Services	37.7	32.5	-14	Payments were rephased based on contract milestones.	32.5	339.8	90.4
Department of Sustainability and Environment							
Sustainable Water Initiatives - Maintenance	0.5	0.0	-100.0	In 2007-08 this program was expected to fund works associated with the Werribee Vision Project. Funding has been carried over into 2008-09 to allow for gaining the necessary approvals.	0.0	18.2	100.0
Bushfire Recovery 2007-08	5.1	0.7	-86.0	This program did not have a significant underspend as the majority of budgeted expenditure for 2007-08 was instead spent as output funding, including repairs and maintenance to assets damaged in the 2006-07 bushfires. DSE is working with DTF to amend the TEI to reflect this change in funding type.	1.7	11.9	86.1

Table 5.3: Major infrastructure projects with actual expenditure lower than estimated in 2007-08

Project	B/P No. 1 2007-08 Budget	2007-08 actual	Variance	Explanation for variance	Expenditure 2004-05 to 2007-08	TEI	Remaining expenditure
	(\$ million)		(%)		(\$ million)		(%)
Department of Education and Early Childhood Development							
Victorian Water Trust Assets – Upgrades	29.3	20.4	-30.3	Some projects under this initiative were reliant on matching Commonwealth funding. This funding was not provided, resulting in State expenditure being lower than anticipated.	122.6	152.6	19.1
Summerland Estate - Restoration	5.0	3.7	-25.1	This program involves the acquisition of properties within Summerland Estate. The buy-back is reliant on the current owners selling, therefore it is difficult to predict annual expenditure.	3.7	15.4	75.7
National Water Initiative – Macalister - Construction	8.1	7.3	-10.5	Funding was carried over into the 2008-09 financial year, due to timing of works	18.7	20.0	6.7

Note: (a) includes expenditure prior to 2004-05

minor discrepancies between figures for budget and actual expenditure in 2007-08 and the variance percentage are due to variations in the numerical value representation of these figures

Sources: Department responses to the Committee's Financial and Performance Outcomes Questionnaire – Part Two

Table 5.4: Major infrastructure projects with actual expenditure ahead of budget for 2007-08

Project	B/P No. 1 2007-08 Budget	2007-08 actual	Variance	Explanation for variance	Expenditure 2004-05 to 2007-08	TEI	Remaining expenditure
	(\$ million)		(%)		(\$ million)		(%)
Department of Education and Early Childhood Development							
Technical Wings and Trade Equipment for Government Schools - (Various)	1.0	15.0	1400.1	Full implementation of the equipment component of this initiative was possible by using surplus capacity in other programs. The 2008-09 allocation was adjusted accordingly.	15.0	50.0	70.0
Better Schools Today (Various Schools)	7.5	18.5	147.0	This initiative was able to be accelerated as there was surplus capacity in other areas of the capital works program. A revised implementation model resulted in reduced procurement times for projects.	18.5	20.0	7.4
Williamstown High School - Replacement School	0.1	0.2	124.2	Over expenditure was due to unforeseen project variations. The overall TEI increase (\$82K) was able to be funded from savings on other projects.	11.4	11.3	-0.7
Department of Human Services							
Leongatha Hospital Campus - Stage 1 Residential Aged Care	1.0	3.5	250.0	Favourable building conditions allowed early works to be accelerated for initial stages of construction. Original cashflows for the project were conservatively based for early stages. Proactive management allowed physical works to commence earlier, accelerating cashflow. Overall, project is progressing according to schedule. Accelerated cashflow for 2007-08 sourced from within overall asset investment program. At this stage, there is no anticipated change to approved TEI.	3.5	10.0	65.0
Nathalia District Hospital and Aged Care Redevelopment	0.9	2.4	163.4	Favourable building conditions allowed early works to be accelerated for initial stages of construction. Original cashflows for the project were conservatively based for early stages. Proactive management allowed physical works to commence earlier, accelerating cashflow. Overall, project is progressing ahead of original schedule. Accelerated cashflow for 2007-08 sourced from within overall asset investment program. At this stage, there is no anticipated change to approved TEI.	2.4	18.0	86.8

Table 5.4: Major infrastructure projects with actual expenditure ahead of budget for 2007-08

Project	B/P No. 1 2007-08 Budget	2007-08 actual	Variance	Explanation for variance	Expenditure 2004-05 to 2007-08	TEI	Remaining expenditure
	(\$ million)		(%)		(\$ million)		(%)
Peninsula Community Health Service (Hastings) Redevelopment	1.3	3.2	144.4	Original cashflows for the project were conservatively based for early stages. Proactive management allowed physical works to commence earlier, accelerating cashflow. Land acquisition and settlement was also finalised ahead of original schedule. Main construction works are progressing to original schedule, with project end-date remaining unchanged. Accelerated cashflow sourced from within overall asset investment program. At this stage, there is no anticipated change to approved TEI.	3.2	13.0	75.6
Western Hospital (Footscray) Redevelopment Stage 1	1.8	4.0	124.6	Urgent priority infrastructure works were able to be advanced ahead of original schedule. Original cashflows for the project were conservatively based for early stages. Proactive management allowed physical works to commence earlier, accelerating cashflow. Overall, main construction works are progressing ahead of original schedule. Accelerated cashflow sourced from within overall asset investment program. At this stage, there is no anticipated change to approved TEI.	4.0	24.8	83.7
Frankston Hospital Stage 2A (Op Theatre Expansion and Critical Care Redev)	4.0	6.7	66.9	Fit-out of temporary Intensive Care Unit accelerated ahead of original schedule. Original cashflows for the project were conservatively based for early stages. Proactive management allowed physical works to commence earlier, accelerating cashflow. Main construction works are progressing to schedule with project end date remaining unchanged. Accelerated cashflow sourced from within overall asset investment program. At this stage, there is no anticipated change to approved TEI.	6.7	45.0	85.2

Table 5.4: Major infrastructure projects with actual expenditure ahead of budget for 2007-08

Project	B/P No. 1 2007-08 Budget	2007-08 actual	Variance	Explanation for variance	Expenditure 2004-05 to 2007-08	TEI	Remaining expenditure
	(\$ million)		(%)		(\$ million)		(%)
Sunshine Hospital Expansion and Redevelopment - Stage 1	4.3	6.2	43.3	Urgent priority infrastructure works were able to be advanced ahead of original schedule. Original cashflows for the project were conservatively based for early stages. Proactive management allowed physical works to commence earlier, accelerating cashflow. Main construction works are progressing to schedule with project end date remaining unchanged. Accelerated cashflow sourced from within overall asset investment program. At this stage, there is no anticipated change to approved TEI.	6.2	20.0	69.2
Warrnambool Hospital Redevelopment - Stage 1	4.0	5.5	38.5	Early works (site decanting etc) were progressed ahead of planned schedule. Main construction works are progressing to schedule with end-date remaining unchanged. Accelerated cashflow sourced from within overall asset investment program. At this stage, there is no anticipated change to approved TEI.	5.5	16.0	65.4
Alfred Centre Development	12.0	14.9	24.1	First stage of construction of overall redevelopment progressing ahead of schedule, allowing DHS contribution to be advanced. Accelerated cashflow for 2007-08 sourced from within overall asset investment program. At this stage, there is no anticipated change to approved TEI.	14.9	17.0	12.4
Alfred Hospital Intensive Care Unit Redevelopment	9.6	11.1	15.8	Original cashflows for the project were conservatively based for early stages. Proactive management allowed physical works to commence earlier, accelerating cashflow. . Project is progressing to overall schedule with end-date remaining unchanged. Accelerated cashflow for 2007-08 sourced from within overall asset investment program. At this stage, there is no anticipated change to approved TEI.	19.2	20.2	5.2

Table 5.4: Major infrastructure projects with actual expenditure ahead of budget for 2007-08

Project	B/P No. 1 2007-08 Budget	2007-08 actual	Variance	Explanation for variance	Expenditure 2004-05 to 2007-08	TEI	Remaining expenditure
	(\$ million)		(%)		(\$ million)		(%)
Northern Hospital - Mental Health Expansion and Short Stay Unit	1.3	1.5	14.8	Early planning review progressed ahead of schedule, allowing consultant payments to be advanced. Original cashflows for the project were conservatively based for early stages. Proactive management allowed physical works to commence earlier, accelerating cashflow. Overall, project is progressing to original schedule with end date remaining unchanged. Accelerated cashflow sourced from within overall asset investment program. At this stage, there is no anticipated change to approved TEI.	1.5	27.9	94.7
Caulfield General Medical Centre Logistics Building and Associated Works	13.7	15.6	13.9	Construction works for the logistic building were accelerated, resulting in advanced expenditure. Original cashflows for the project were conservatively based for early stages. Proactive management allowed physical works to commence earlier, accelerating cashflow. All main construction works completed in May 2008, with facility opened in June 2008. Accelerated cashflow sourced from within overall asset investment program. At this stage, there is no anticipated change to approved TEI.	21.0	23.5	11.0
Barwon Health, Geelong Hospital Emergency Department Redevelopment	13.0	14.7	13.4	Original cashflows for the project were conservatively based for early stages. Proactive management allowed physical works for stage 1 to commence earlier, accelerating cashflow. Accelerated cashflow sourced from within overall asset investment program. At this stage, there is no anticipated change to approved TEI.	22.9	26.1	12.3
Department of Justice							
Moorabbin Court Complex	1.5	4.6	210.7	\$18 million (over 4 years) was approved in the 2003-04 Budget. ERC approved an additional \$10.2 million (TEI \$28.2 million) for this project. (Source 2006-07 PAEC Outcomes Questionnaire) The project was completed in October 2007, ahead of schedule. Approval was provided in 2007-08 by the Treasurer to bring forward the funding from 2008-09 to meet the earlier than anticipated cashflow requirements.	21.9	28.1	1.4

Table 5.4: Major infrastructure projects with actual expenditure ahead of budget for 2007-08

Project	B/P No. 1 2007-08 Budget	2007-08 actual	Variance	Explanation for variance	Expenditure 2004-05 to 2007-08	TEI	Remaining expenditure
	(\$ million)		(%)		(\$ million)		(%)
Department of Transport							
New Ticketing Solution	33.2	88.3	166	Acceleration of the non-software elements of the project, including civil works. In addition revised payments for software development activities.	171.0	283.2	39.6
Caulfield-Dandenong Rail Corridor Stage 1: Cranbourne Stabling & Station Upgrade	5.0	11.6	132	Works delivered more quickly than originally scheduled.	11.6	35.1	67.0
Regional Rollingstock	12.5	19.2	54	Payments were rephased based on contract milestones.	41.7	65.1	35.9
Railway Crossing Upgrades	20.4	25.6	25	Acceleration of works program.	46.1	79.1	41.7
Accessible Public Transport in Victoria: DDA compliance for Train, Tram and Bus	35.3	40.3	14	Construction of accessible tram platforms was accelerated.	56.4	129.2	56.3
Department of Sustainability and Environment							
Wimmera-Mallee Pipeline Project – State component - Construction	36.8	139.0	278	Funding in future years was brought forward into 2007-08 to allow for accelerated works.	208.0	266.0	21.8
Wimmera-Mallee Pipeline Project – Comm'th component - Construction	43.4	168.5	288.7	Funding in future years was brought forward into 2007-08 to allow for accelerated works.	245.0	266.0	7.9
Modernisation of Shepparton Irrigation Area - Construction	11.6	37.5	223.3	Funding in future years was brought forward into 2007-08 to allow for accelerated works.	37.5	37.5	0.0
Department of Planning and Community Development							
Whole of Government: Transit Cities – Revitalising Central Dandenong (Dandenong)	55.7	75.2	35.0	The Compulsory Acquisitions of land were earlier than estimated.	109.7	243.5	45.1

Note: minor discrepancies between figures for budget and actual expenditure in 2007-08 and the variance percentage are due to variations in the numerical value representation of these figures

Sources: Department responses to the Committee's Financial and Performance Outcomes Questionnaire – Part Two

5.4 Revision of completion dates for major infrastructure projects

For the Report on the 2007-08 Financial and Report Outcomes the Committee sought information from departments regarding major infrastructure projects in which the original completion date had changed by more than three months and reasons for rescheduling the date. The Committee has reviewed 41 rescheduled projects of which 38 fit within this category. Three projects (included in Table 5.7) had variations to completion date less than three months. The review includes both extensions to completion dates as well as projects completed earlier than originally scheduled.

5.4.1 Effect of project rescheduling on 2007-08 financial outcomes

The rescheduling of completion dates for major infrastructure projects correlated with 33 projects reporting financial outcomes with variations greater than 10 per cent in 2007-08. In 25 projects expenditure was less than budgeted and in eight projects expenditure exceeded 2007-08 budget allocation. The remaining seven projects did not have significant variations in financial outcomes.

Revisions to completion dates resulted in eight projects scheduled to be completed in 2007-08 being extended. These extensions resulted in expenditure variations greater than 10 per cent in seven of the eight projects, with four under-spending and three exceeding budget allocations.

A range of explanations were provided to account for the eight major infrastructure projects originally scheduled to be completed in 2007-08 but subsequently extended to a later completion date. They included:

- latent site conditions requiring design changes to future-proof the site;
- time needed for major planning work of a redevelopment site;
- re-scoping of works to account for presence of asbestos; and
- revised construction program to increase seating capacity.

5.4.2 Revised completion dates and budgetary consequences

The Committee wishes to reiterate the interdependency of cost and timing and its impact on value-for-money (see Chapter 7 for further analysis of value-for-money in procurement) in major infrastructure projects.

The completion dates for five projects were brought forward. The projects are outlined in Table 5.5.

Table 5.5: Projects brought forward

	Original Completion Date	Revised Completion Date	2007-08 Budget (\$ million)	2007-08 Actual (\$ million)	Variance (per cent)
Wimmera-Mallee Pipeline Project – Commonwealth component – Construction	Jun-15	Jun-10	43.4	168.5	288.7
Wimmera-Mallee Pipeline Project – State component – Construction	Jun-15	Jun-10	36.8	139.0	278.0
Nathalia District Hospital and Aged Care Redevelopment	Aug-10	Mar-10	0.9	2.4	163.4
Western Hospital (Footscray) Redevelopment Stage 1	Oct-10	Jun-09	1.8	4.0	124.6
Track Duplication: Clifton Hill to Westgarth	Jun-10	Dec-09 (forecast June 2009)	16.5	9.5	-43.0

Source: Department responses to the Public Accounts and Estimates Committee Outcomes Questionnaire - Part Two

The Wimmera-Mallee Pipeline has had a significant change to its completion date and this has affected the high expenditure in excess of funding allocated in the 2007-08 budget.¹⁰⁵ Favourable building conditions resulted in the acceleration of the Nathalia District Hospital and Aged Care Redevelopment project and acceleration of the Western Hospital redevelopment project was a result of ‘urgent priority infrastructure works’ being advanced ahead of schedule. In both cases funding was sourced from within the Department of Human Services overall asset investment program.¹⁰⁶ The Track Duplication project differs from the preceding four projects as expenditure was less than budgeted for 2007-08. The Department of Transport explained that underspending was due to the main works contract being awarded later than planned.¹⁰⁷

Caution must be used when examining these figures, as changes to expenditure for a particular year does not necessarily mean that the TEI for the project will have been impacted upon. However, significant over expenditure, as seen in Table 5.5, may involve departments reallocating funds from other sources to meet the funding requirements of accelerated projects.

5.4.3 Projects with significantly revised completion targets

The Committee notes that three projects have extended completion dates along with small remaining budgets and significant variations in 2007-08 expenditure. These projects are the:

- Integrated Court Management System;
- Wodonga Rail Freight and Urban Redevelopment; and
- Vigilance Control and Event Recording System.

¹⁰⁵ Department of Sustainability and Environment, response to the Committee’s Financial and Performance Questionnaire – Part Two, pp.7-8 and 10

¹⁰⁶ Department of Human Services, response to the Committee’s Financial and Performance Questionnaire – Part Two, pp.11-12

¹⁰⁷ Department of Transport, response to the Committee’s Financial and Performance Questionnaire – Part Two, Attached spreadsheet

The remaining two transport projects with significantly revised completion dates are detailed in Table 5.6.

Table 5.6: Projects with significantly revised completion targets

Project	2007-08 Budget (\$ million)	2007-08 Actual (\$ million)	2007-08 variation (per cent)	Original completion date	Revised completion date	Forecast completion date
Integrated Court Management Systems	11.3	7.6	-32.3	Sep 2009	Aug 2010	Dec 2010
Wodonga Rail Freight and Urban Redevelopment	33.4	3.1	-91	Oct 2004	Dec 2010	Oct 2010
Metropolitan Rail Network Vigilance Control and Event Recording System	15.3	7.1	-53	Jun 2008	Dec 2010	Dec 2010

Sources: Department responses to the Committee's Financial and Performance Outcomes Questionnaire - Part Two

The Department of Justice explained that the delay to the Integrated Court Management System was a result of 'supplier delay in developing the required software'.¹⁰⁸ While the Department has not sought further funding, the additional four months from estimated to forecast completion raises concerns that the project may not be completed to expectations of time and potentially budget. This potential outcome puts the achievement of value-for-money at risk.

The Wodonga Rail Freight and Urban Redevelopment project is forecast to be completed four years later than originally estimated due to delays resulting from 'extensive negotiations'.¹⁰⁹

The Committee also notes that the implementation of the Metropolitan Rail Network Vigilance Control and Event Recording System is under cost and timeline pressure.¹¹⁰

¹⁰⁸ Department of Justice, response to the Committee's Financial and Performance Questionnaire – Part Two, p.7

¹⁰⁹ Department of Transport, response to the Committee's Financial and Performance Questionnaire – Part Two, Attached spreadsheet

¹¹⁰ *ibid.*

Table 5.7: Revised completion dates and reasons for variance of major infrastructure projects

Project	Original completion date	Revised completion date	Forecast completion date	Explanation for variance
Department of Education and Early Childhood Development				
Maryborough Precinct - Precinct Stage 2	Mar-07	Apr-07	Apr-09	The main building contract was completed in April 2007. Issues with the landscaping of the site have been ongoing due to drought conditions. Alternative strategies are being investigated to achieve a sustainable outcome for the school.
Victorian College of the Arts Secondary School (VCASS) – Replacement School	Mar-07	Jun-09	Jun-09	Site issues, including whether the College was to be cohabitated with Commonwealth funded programs (such as the Australian Ballet School), caused delays in project documentation and commencement.
Community Facilities Fund (Various)	Jun-07	Jun-09	Jun-09	A number of projects were delayed in the planning stage and/or while partnership/legal arrangements were being finalised.
Better Schools Today (Various Schools)	Jun-08	Nov-08	Nov-08	85 per cent of the program was complete. The balance was awaiting finalisation of the documentation before sign off could be achieved.
Various Schools - Leading Schools Fund - Modernisation	Jun-08	Feb-09	Feb-09	The Department is awaiting confirmation of milestones by a number of identified schools before finalisation can be achieved.
Broadmeadows Regeneration - Broadmeadows SC and Broadmeadows PS	Feb-09	Mar-09	Mar-09	The contractor has encountered significant rock. This has extended the contract period.
Western Heights Regeneration - Western Heights SC - 3 campuses	Mar-09	Apr-09	Dec-10	Documentation is on hold pending resolution of Joint Use Agreement and land purchase issues with the City of Greater Geelong.
Broadmeadows Regeneration - Erinbank SC and Hillcrest SC	Mar-09	Sep-09	Sep-09	A delay in completing tender documentation slowed proceeding to tender. When received, tenders were substantially over the estimated cost. Protracted negotiations with the preferred tenderer to identify cost savings caused more delays.
Albert Park SC - Replacement School	Apr-09	May-10	May-10	Site contamination issues required investigation and development of a remediation plan. Building works could not start until the contamination level was confirmed.
Department of Human Services				
Hospitals Electronic prescribing	Jun-06	Jun-09	Jun-09	Roll-out of the clinical systems module has caused overall delay to the project (see Health ICT Strategy above).

Table 5.7: Revised completion dates and reasons for variance of major infrastructure projects

Project	Original completion date	Revised completion date	Forecast completion date	Explanation for variance
Kew Residential Services Redevelopment	Nov-06	Jun-08	Jun-09	Construction of all 73 off-site houses completed according to original building schedule. Town planning issues/ heritage overlays relating to remaining 19 on-site houses affected early stage of project, resulting in delay to overall end date. All on-site construction works completed June 2008. Project is now in financial completion/defects liability phase with outstanding invoices to be paid.
Health ICT Strategy	Jun-07	Jun-09	Jun-09	The roll-out schedule of the Clinical System is currently being revised, due to roll-out capacity constraints at several health services impacting on original timeline.
Barwon Health, Geelong Hospital Emergency Department Redevelopment	Mar-08	Mar-09	Mar-09	Latent site conditions, changes to operational requirements and necessary design changes (to future-proof site) in early stages of project resulted in overall delay to project end date. Stage 1 construction works were completed in June 2008 with the facility now fully operational. Stage 2 (comprising minor refurbishment works) is progressing in accordance with the current works program and are on track for completion according to revised schedule.
Caulfield General Medical Centre Logistics Building and Associated Works	Mar-08	Dec-09	Dec-09	Construction of logistics building is now complete, with Minister for Health opening the facility in June 2008. Project end date amended to December 2009 to reflect major planning work to be undertaken as part of the overall redevelopment of the site.
McKellar Centre Aged Care Facility - Grovedale	Jun-08	Oct-08	Completed	Main construction works completed in May 2008 according to schedule, with the facility opened in October 2008. Minor outstanding infrastructure works, identified as part of project finalisation, were completed by October 2008.
Kingston Centre Kitchen Upgrade and Associated Works	Dec-08	Dec-10	Dec-10	Main construction works commenced September 2007 according to schedule. Local residents lodged an appeal with VCAT against the planning permit, delaying the construction schedule. The appeal was dismissed and works have been reprogrammed, with completion of construction now scheduled for late 2009. Detailed planning of overall site redevelopment is also progressing and is targeted to be completed by December 2010.

Table 5.7: Revised completion dates and reasons for variance of major infrastructure projects

Project	Original completion date	Revised completion date	Forecast completion date	Explanation for variance
Rochester Theatre & Hospital Redevelopment	Jul-09	Sep-09	Sep-09	This project involves a complex three stage redevelopment with a consecutive staged building works program. Stage 1 works were delayed due to unforeseen site conditions which has affected the overall construction program. Stage 1 works were completed in May 2008. Stage 2 is well advanced and expected to be completed by mid 2009 with the final stage (Stage 3) due for completion in September 2009.
Box Hill Hospital-Outpatients & Dialysis Centre and Associated Works	Jun-09	Mar-10	Mar-10	All construction works (comprising new off-site facility, car park and priority interim works on main site) completed in June 2008, according to original building schedule. Overall project end-date amended to March 2010 to reflect major planning work to be undertaken as part of the overall redevelopment of the site.
North Richmond Community Health Centre	Sep-09	Feb-11	-	Town planning objections raised by local residents are yet to be resolved. This has caused significant delays to the overall project. Forecast completion can only be advised once town planning objections have been finalised.
Nathalia District Hospital and Aged Care Redevelopment	Aug-10	Mar-10	Mar-10	Favourable building conditions allowed early works to be accelerated for initial stages of construction. Project is progressing ahead of original schedule with an expected end-date of March 2010.
Western Hospital (Footscray) Redevelopment Stage 1	Oct-10	Jun-09	Jun-09	Construction works on priority infrastructure upgrades advanced ahead of schedule. Overall project is progressing ahead of schedule with construction expected to be completed by end of June 2009.
Department of Justice				
Organised Crime – Corrections Victoria	Jun-07		Aug-07	Unavailability of specialist security equipment such as walk in security booths, ion scanners and high security transport vehicles resulted in the underspend in 2007-08.
Road Safety Investment – Digital Red Light Cameras	Jun-07		Dec-07	Delays in individual camera installations as a result of user acceptance testing are the drivers for the variance in the original completion date (June 2007) to December 2007.
Melbourne Legal Precinct Master Plan	Jun-08	N/A	Jun-10	The presence of latent asbestos in the Old County Court building and the subsequent re-scoping of works is attributed to the variance in the original completion date of June 2008 to a forecast completion date of June 2010.

Table 5.7: Revised completion dates and reasons for variance of major infrastructure projects

Project	Original completion date	Revised completion date	Forecast completion date	Explanation for variance
Integrated Courts Management System	Sep-09	Aug-10	Dec-10	Variance in the original completion date and forecast completion date is due to supplier delays in developing the required software.
Modernising Coronial Services	Jun-11		Apr-13	Supplementary funding in 2008-09 enabled re-scope of entire project and a revised overall completion date.
Department of Transport				
Wodonga Rail Freight and Urban Redevelopment	Oct-04	Dec-10	Oct-10	Extensive negotiations with the Australian Rail Track Corporation (ARTC) and other parties were required to finalise scope and funding contributions.
Station Pier Safety and Security Upgrade	Jun-06	2009	2009	Procurement of gangways took longer than expected and the need to address asbestos issues.
Corio Independent Goods Line including North Geelong track Modifications	Aug-06	Jan-09	Mar-09	Agreement of project scope with Pacific National took longer than anticipated. Main works completed December 2008.
Linking the Suburbs - Craigieburn Rail Project	end 2006	latter part of 2007	30-Sep-07	Issues contributing to the revised timeframe, included the collapse of M>Train in late 2002 and the refranchising of metropolitan rail services in 2004, affecting scope, design and operating requirements; and higher than anticipated quantities of rock encountered during construction of the trench for the trunk communications.
New Ticketing Solution	2008	2010	2010	Software development issues resulted in revised project timelines.
Vigilance Control and Event Recording System	Jun-08	Dec-10	Dec-10	Several issues contributed to the revised timeframe, including: RTBU withdrawing assistance from VICERS for three months in early 2006; Siemens braking issue diverting technical resources in 2006/07; Integrian acquisition and diversion of resources to US projects, coupled with the company being placed into administration in 2007/08; and unavailability of trains from July to October 2008. Installation, integration and commissioning of X'trapolis and Siemens trains is planned to occur after Comeng trains, to ensure the efficacy of the Faiveley system / resolution of early onset issues and minimise the impact of fleet availability.
Whole of Government Transit Cities - Ballarat Second Station	end 2008	mid 2009	mid 2009	Finalisation of project scope and subsequent commencement of procurement activities took longer than planned.
Mildura Rail Line Upgrade	second half of 2009	Aug-09	Aug-09	
Track Duplication: Clifton Hill to Westgarth	Jun-10	Dec-09	Jun-09	Project accelerated and expected to be completed earlier than planned.

Table 5.7: Revised completion dates and reasons for variance of major infrastructure projects

Project	Original completion date	Revised completion date	Forecast completion date	Explanation for variance
Metropolitan Train Control Reliability Systems Upgrade	Jun-10	Dec-10	Dec-10	
Metropolitan Train Safety Communications System	Dec-10	Dec-11	Dec-11	Award of the main works contract occurred later than planned (December 2008) as negotiations were protracted due to the changing economic environment.
Department of Sustainability and Environment				
Wimmera-Mallee Pipeline Project – Comm'th component - Construction	Jun-15	Jun-10	Jun-10	Forecast date of completion due to acceleration of works.
Wimmera-Mallee Pipeline Project – State component - Construction	Jun-15	Jun-10	Jun-10	Forecast date of completion due to acceleration of works.
Department of Planning and Community Development				
Rectangular Sports Stadium – Construction (Olympic Park)	Mar-08	Dec-09	Dec-09	The completion of works from the main contractor has been adjusted to reflect the revised construction program for an increase in seating capacity.

Sources: Department responses to the Committee's Financial and Performance Outcomes Questionnaire – Part Two

CHAPTER 6: STAFFING

Key Findings of the Committee:

- 6.1** In June 2008 the Victorian Public Sector provided employment for 246,844 people (200,134 EFT), an increase of 3.8 per cent from June 2007 (237,815 staff or 194,575 EFT).
- 6.2** Around one third of Victorian public sector employees work in the public health sector (32.7 per cent) while a further 26.4 per cent are employed by government schools. The Victorian Public Service, including the 10 departments and 18 authorities and offices, accounts for only 16.7 per cent of the Victorian public sector workforce. The largest increase in staff numbers, from 2006-07 to 2007-08, occurred in the public health sector, where staff numbers rose by 5.5 per cent.
- 6.3** Departmental staff numbers (including the Department of Parliamentary Services and all school staff) increased from 80,428.7 EFT in June 2007 to 81,594.4 EFT in June 2008, an increase of 1.4 per cent. This compares favourably with the whole of government increase of 3.8 per cent for the same time period. For the same period, departmental staffing costs increased by \$308.9 million (5.4 per cent). Given the various pay awards that cover staff included in the staff cost considerations and the marginal increase in EFT staff numbers, an overall increase in staff costs of 5.4 per cent across departments and school staff is not unexpected.
- 6.4** The single biggest increase in staffing costs occurred in the Departments of Education, where salary costs increased by \$188 million. The largest percentage increase (72.5 per cent) occurred in the Department of Planning and Community Development and was a result of machinery of government changes in August and November 2007.
- 6.5** Bonus payments were made to 460 executives across the 10 departments, 76.9 per cent of the number of eligible executives. Total bonus payments amounted to \$5.6 million at an average of \$12,174 per executive.
- 6.6** Publicly available public sector executive bonus data is limited in scope. The Committee believes that good executive bonus data should include as a minimum, three years of data showing:
- the number of executives eligible for a performance bonus;
 - the number of executives awarded a performance bonus; and
 - the total value of executive performance bonuses paid.
- 6.7** The Committee reiterates its concern that the performance bonus and management scheme, as an appropriate accountability mechanism, does not operate for senior executives in the Parliament while it operates in every other department.
- 6.8** Each department has identified a range of critical workforce needs.

6.1 Victorian Public Sector Workforce Overview

In June 2008 the Victorian Public Sector provided employment for 246,844 people, an increase of 3.8 per cent from June 2007 (237,815 staff). As many of these staff were employed on a part time basis, a more accurate measure of employment is equivalent full time (EFT) staff numbers. In June 2008 the number of EFT staff in the Victorian public sector was 200,134 EFT, an increase of 2.9 per cent from June 2007 (194,575 EFT).¹¹¹

Table 1.1 indicates the largest increase occurred in the public health sector, which coincidentally is also the largest employer in the Victorian public sector (32.7 per cent of Victorian public sector staff). Significant increases were also identified in the Other category (4.1 per cent), which includes 68 entities including arts agencies, cemetery trusts and regulators, and the Victorian Public Service (2.5 per cent).

Table 6.1: Victorian public sector workforce - Employees by sector

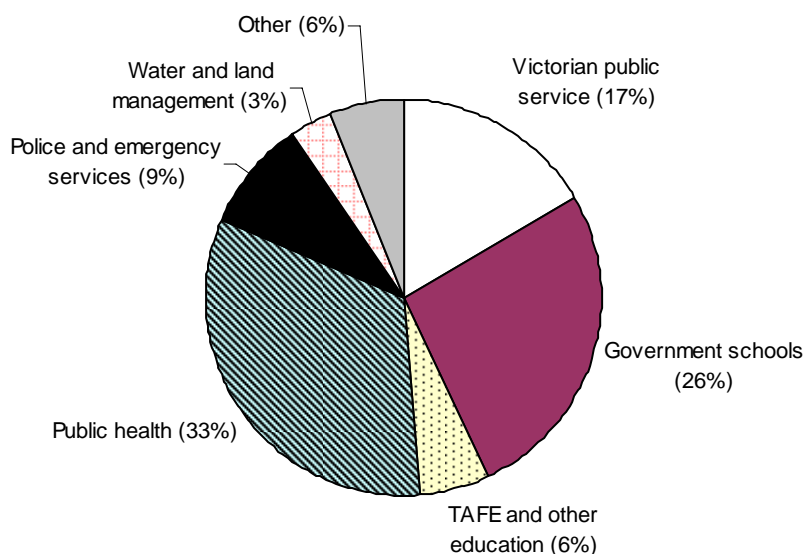
	2008 Staff	2007 Staff	% change
Victorian public service	33,422	32,598	2.5%
Government schools	52,881	52,430	0.9%
TAFE and other education	11,247	11,247	0.0%
Public health	65,432	62,047	5.5%
Police and emergency services	17,982	17,665	1.8%
Water and land management	6,836	6,744	1.4%
Other	12,334	11,844	4.1%
Total	200,134	194,575	

Sources: State Services Authority, *The State of the Public Sector in Victoria 2008, February 2009, pp.14-15*
 State Services Authority, *The State of the Public Sector in Victoria 2007, February 2008, pp.14-15*

Around one third of Victorian public sector employees work in the public health sector (32.7 per cent) while a further 26.4 per cent are employed by government schools. The Victorian Public Service (the bureaucracy) accounts for 16.7 per cent of the Victorian public sector workforce. The Victorian Public Service includes the 10 departments and 18 authorities and offices including the Essential Services Commission, Victorian Auditor-Generals Office and the Environment Protection Authority among others.¹¹² Figure 1.2 shows the distribution of employees across the major sectors of government.

¹¹¹ State Services Authority, *The State of the Public Sector in Victoria 2007-08, February 2009, pp.14-15* and State Services Authority, *The State of the Public Sector in Victoria 2006-07, February 2008, pp.14-15*

¹¹² *ibid.*, pp.14, .37

Figure 6.2: Victorian public sector workforce - Employees by sector

Source: State Services Authority, *The State of the Public Sector in Victoria 2008*, February 2009, pp.14-15

6.2 Salary Costs and Performance Bonuses

The Committee sought details from departments and selected agencies on their equivalent full time (EFT) numbers at 30 June 2008 and staffing costs for the categories of ongoing, fixed term and casual staff for 2007-08 and 2006-07.

6.2.1 Staff numbers and salary costs in departments

Departmental staff numbers (including the Department of Parliamentary Services and all school staff) increased from 80,428.7 EFT in June 2007 to 81,594.4 EFT in June 2008, an increase of 1.4 per cent. This compares favourably with the whole of government increase of 3.8 per cent for the same time period. For the same period, departmental staffing costs increased by \$308.9 million (5.4 per cent).

The single biggest increase in staffing costs occurred in the Departments of Education, where salary costs increased by \$188 million, however, the data included all school staff across the state, with the result that the increase of 4.9 per cent was actually lower than the average across all departments. In recent years, data gathering techniques in this area have improved dramatically and the Committee has been furnished with more detailed and complete data sets from most departments. However, the Department of Education and Early Childhood Services has only provided indicative data, which does not segregate school staff from departmental staff. In future years, the Committee looks forward to receiving more accurate segregated data.

Recommendation 9:

The Department of Education and Early Childhood Development examine appropriate means to provide the Committee with more accurate and detailed staff cost information in future years.

The largest percentage increase occurred in the Department of Planning and Community Development, where a substantial increase of 72.5 per cent was evidenced as a result of machinery of government changes in August and November 2007 including:¹¹³

- employment Programs moving from the Department of Victorian Communities to the Department of Innovation, Industry and Regional Development with the remainder of the Department's staff transferring to the Department of Planning and Community Development;
- the Office of Planning & Urban Design moving from the Department of Sustainability and Environment to the Department of Planning and Community Development;
- Heritage Victoria transferring from the Department of Sustainability and Environment to the Department of Planning and Community Development;
- The Building and Housing Affordability Unit moving from the Department of Sustainability and Environment to the Department of Planning and Community Development;
- the Transit Cities Unit transferring from Department of Transport to the Department of Planning and Community Development; and
- responsibility for Victoria Online, Information Victoria and the Service Victoria initiative staff transferred from the Department of Planning and Community Development to the Department of Innovation, Industry and Regional Development.

As a further consequence of these machinery of government changes, staff costs in the Department of Innovation, Industry and Regional Development rose by 19.4 per cent and fell by 11.6 per cent in the Department of Sustainability and Environment.

Given the various pay awards that cover staff included in the staff cost considerations (for example, the VPS agreement included a 3.5 per cent increase in October 2007) and the marginal increase in EFT staff numbers, an overall increase in staff costs of around 5.4 per cent across departments and school staff is to be expected.

Table 6.1 details the staff numbers and costs for each department.

¹¹³ Department of Planning and Community Development, Department response to Financial and Performance Outcomes Questionnaire Part One.

Table 6.3: Staff numbers and staff costs in departments

Department	Staff numbers at 30-Jun-08 (EFT)	Staff numbers at 30-Jun-07 (EFT)	Variation in Staff Numbers (EFT)	Staffing costs for 2007-08 (\$ million)	Staffing costs for 2006-07 (\$ million)	Variation in staffing costs (%)
Education, including schools (a)	54,021.3	52,903.4	1,117.90	4,012.0	3,824.0	4.9
Human Services, excluding public hospitals	11,122.0	11,515.0	-393.00	852.0	809.2	5.3
Innovation, Industry, and Regional	944.3	915.0	29.30	62.1	52.0	19.4
Justice, excluding Victoria Police (c)	6,827.7	6433.1	394.60	469.1	420.2	11.6
Planning and Community Development(d)	958.4	685.0	273.40	86.6	50.2(g)	72.5
Premier and Cabinet	361.0	335.3	25.70	33.2	32.0	3.8
Primary Industries	2,574.6	2,667.9	-93.30	154.4	150.0	2.9
Sustainability and Environment (e)	2,602.0	2,834.0	-232.00	221.7	250.8	-11.6
Transport	1,106.7	1,110.6	-3.90	83.4	84.7	-1.5
Treasury and Finance (f)	589.6	597.1	-7.50	61.6	56.4	9.2
Sub-total	81,107.6	79,996.4	1,111.20	6,036.2	5,729.5	5.4
Parliamentary departments(h)	486.8	432.3	54.50	46.7	44.4	5.2
Total	81,594.4	80,428.7	1,165.70	6,082.8	5,773.9	5.4

- Notes:
- (a) The Department of Education advised that it 'does not maintain records in a manner that would enable accurate calculation of the figures required' and that the figures submitted to the Committee are 'indicative not actual'.
 - (b) The increase in DIIRD staffing levels, including vacancies, from 915.0 (EFT) to 994.3 (EFT) in the 2007-08 financial year was the result of machinery of Government changes: 32.57 (EFT) from Workforce Participation and 39.21 (EFT) from Citizen Access & Transformation staff transferred to DIIRD.
 - (c) The Department of Justice advised that it's 'current human resources system is not designed to provide a precise breakdown of these figures' and that the figures submitted to the Committee provide 'an approximate breakdown of the total'. Improved reporting means that the data presented in this table is no longer comparable with that presented in the 2006-07 Outcomes report.
 - (d) The significant growth in staffing numbers at DPCD was a result of machinery of government changes in August 2007 and November 2007.
 - (e) For a detailed explanation for the variation between the staffing cost for the Department of Sustainability and Environment reported in the 2006-07 and the 2007-08 Outcomes reports, see note u on page 103 of the Department's 2007-08 annual report.
 - (f) Figures for the Department of Treasury and Finance do not include the State Revenue Offices, Essential Services Commission or the Shared Services Centre.
 - (g) 2007-08 figures include the following on costs: Superannuation, payroll tax, WorkCover premiums and long service liability. 2006-07 figures do not include on costs.
 - (h) The staff costs figure reported in the Report on the 2006-07 Financial and Performance Outcomes for 2006-07 was based on an estimate provided by the Department of Parliamentary Services. A more accurate, figure was provided for use in the Report on the 2007-08 Financial and Performance Outcomes.

Sources: Department responses to the Public Accounts and Estimates Committee Financial and Performance Outcomes Questionnaire Part One.

6.2.2 Staff numbers and salary costs in selected agencies

In line with the approach adopted by the Committee in its *Report on the 2006-07 Financial and Performance Outcomes*, the Committee gathered information on staffing numbers and costs beyond departments to encompass a selection of agencies. These agencies are those considered to have a significant financial and community impact.

As of 30 June 2008, 93,799.5 EFT staff were employed across the 20 selected agencies, an increase of 2439.4 (2.7 per cent) since 30 June 2007. The majority of staff, 73.5 per cent, were employed in public hospitals with a further 14.7 per cent employed by Victoria Police. Together they accounted for 88.2 per cent of EFT staff employed across the selected agencies. Three other agencies employed over 1,000 staff, namely:

- Road Corporation (2,775 EFT staff);
- Metropolitan Fire and Emergency Services Board (1,967.5 EFT staff); and
- Victorian Work Cover Authority (1,046.2 EFT staff).

The bulk of the staff increases among this group occurred in the public hospitals, where staffing levels increased by 2,071 staff. Elsewhere, staffing levels remained relatively stable.

The total staff costs for the selected agencies in 2007-08 was \$7 billion, an increase of 8.4 per cent over the 2006-07 figure with the majority of this accounted for by the public hospitals (\$5,095.5 billion). Staff costs per EFT varied significantly. Goulburn Murray Water had the lowest average staff cost at \$66,333 per EFT, while seven other agencies (Public Hospitals, Victoria Police, Barwon Regional Water Authority, Parks Victoria, Rural Finance Corporation, South East Water and Yarra Valley Water) recorded average costs under \$80,000. Four agencies recorded costs in excess of \$100,000:

- Port of Melbourne Corporation (\$135,681.2 per EFT staff);
- Treasury Corporation of Victoria (\$122,449 per EFT staff);
- Victorian Managed Insurance Authority (\$109,211.8 per EFT staff); and
- Victorian Funds Management Corporation (\$177,469.1 per EFT).

The Victorian Funds Management Corporation also recorded the largest percentage increase in staff numbers (51.4 per cent).

Table 6.4: Staff numbers and staff costs in selected agencies

Agency	Staff numbers at 30-Jun-08	Staff numbers at 30-Jun-07	Staffing costs for 2007-08	Staffing costs for 2006-07	Variation in staffing costs between 2006-07 and 2007-08	Average staff costs
	(EFT)	(EFT)	(\$ million)	(\$ million)	(%)	(\$,000)
Public hospitals	68,899.0	66,828.0	5,095.5	4,712.2	8.1	74.0
Port of Melbourne Corporation	173.2	176.0	23.5	21.9	7.3	135.7
Roads Corporation	2,775.0	2,707.6	243.7	224.2	8.7	87.8
Victorian Rail Track	159.8	145.0	15.2	12.4	22.6	95.1
Southern Cross Station Authority	30.0	32.0	2.7	3.4	-20.6	90.0
Victoria Police	13,815.4	13,695.4	981.4	902.6	8.7	71.0
Metropolitan Fire and Emergency Services Board	1,967.5	1,944.5	158.3	152.5	3.8	80.5
Barwon Region Water Authority	357.1	320.1	25.1	23.2	8.2	70.3
Goulburn Murray Regional Water Authority	659.9	632.0	41.8	39.0	7.2	63.3
Melbourne Water Corporation	708.2	645.0	60.9	50.5	20.6	86.0
Parks Victoria	971.9	1,155.0	69.5	75.5	-7.9	71.5
City West Water Limited	256.9	262.9	22.7	19.7	15.2	88.4
Rural Finance Corporation	95.2	105.0	7.1	6.2	14.5	74.6
South East Water Limited	455.6	403.8	34.6	31.4	10.2	75.9
Transport Accident Commission	794.5	749.0	78.8	64.1	22.9	99.2
Treasury Corporation of Victoria	53.9	50.3	6.6	6.2	6.5	122.4
Victorian Managed Insurance Authority	105.3	91.8	11.5	9.8	17.3	109.2
Victorian Work Cover Authority	1,046.2	947.0	104.3	92.3	13.0	99.7
Victorian Funds Management Corporation	64.8	42.8	11.5	7.8	47.4	177.5
Yarra Valley Water Limited	410.1	426.9	30.1	28.3	6.4	73.4
Total	93,799.5	91,360.1	7,024.8	6,483.2	8.4	

Sources: Department and Agency responses to the Public Accounts and Estimates Committee Financial and Performance Outcomes Questionnaire Part One and additional information provided by the Department of Justice.

6.2.3 Performance Bonuses in Government Departments

In line with the approach adopted in the *Report on the 2006-07 Financial and Performance Outcomes*, the Committee has continued its interest in, and analysis of, performance bonuses paid to executives within departments and selected government agencies.

Overall, bonus payments were made to 460 executives across the 10 departments, 76.9 per cent of the number of eligible executives. Total bonus payments amounted to \$5.6 million at an average of \$12,174 per executive.

The Committee has split the executives into a Senior Management group which includes Secretaries, CEO's, EO1 and EO2 executives, and Other Executives, which includes EO3 executives and all other executive staff.

Senior Management (includes Secretary, CEO, EO1 and EO2)

In total, 246 *Senior Management* executives were eligible for a performance bonus in 2007-08 and 203 (82.5 per cent) were awarded bonuses. These bonuses came to a total value of \$3.3 million with the average bonus paid being \$15,600.

The total value of bonuses awarded to *Senior Management* executives in 2007-08 fell by 3.9 per cent from 2006-07, with the biggest decreases identified in the Department of Premier and Cabinet (47.9 per cent) and the Department of Transport (34.8 per cent).

Full details of bonuses paid by each department are available in Table 6.3.

The Department of Human Services awarded performance bonuses to 41 (93 per cent) *Senior Management* executives, with the total value of bonuses paid being \$607,300. The Department of Human Services has the largest group of *Senior Management* executives (44 executives), awarded bonuses to the highest percentage of executives, and awarded the highest value of bonuses of all departments. However, the average bonus paid by the department (\$14,800) was \$800 lower than average bonus paid across all departments.

The Department of Justice awarded bonuses to 91.7 per cent of eligible *Senior Management* executives in 2007-08, this is an increase of 28.4 per cent over 2006-07, and the largest of any department.

The lowest average bonus paid to *Senior Management* executives was \$12,000, awarded by the Department of Transport. It is also worth noting that while the Department of Transport had the second highest number of *Senior Management* executives (thirty four), its total payments were only the fifth highest of all departments.

The Department of Innovation, Industry and Regional Development and the Department of Planning and Community Development only paid bonuses to 66.7 per cent of *Senior Management* executives, the lowest of all departments. However, there was a substantial difference in the average bonus paid by these two departments. While the Department of Innovation, Industry and Regional Development was among the lowest average payments (\$14,800), the Department of Planning and Community Development had the second highest average payment of any department.

The Department of Sustainability and Environment increased payments to *Senior Management* executives in all indicators from 2006-07 to 2007-08, as follows:

- bonuses were awarded to 89.5 per cent of executives, an increase of 14.4 per cent from 2006-07;
- the average bonus awarded increased by 35.8 per cent from \$10,600 to \$14,400; and
- the total value of bonuses awarded rose by 64.6 per cent from \$148,900 to \$245,100.

Departments hold discretionary powers to award bonuses to executive staff which naturally will lead to variations in awards from one year to the next. However, this would not naturally explain situations where trends become evident across a number of measures, such as seen with the Department of Sustainability and Environment.

The Committee strongly endorses the publication of the executive bonus data that enables such trends to be identified, and the resultant accountability of departments to Parliament and the public. The Committee believes that good executive bonus data should include as a minimum, three years of data showing:

- the number of executives eligible for a performance bonus;
- the number of executives awarded a performance bonus; and
- the total value of executive performance bonuses paid.

Recommendation 10:

The Department of Treasury and Finance consider amending the financial reporting disclosure requirements for government departments in regard to annual performance bonuses paid to executives to include a minimum of three years of data showing the number of executives eligible for a performance bonus, the number of executives awarded a performance bonus, and the total value of executive performance bonuses paid.

Other Executives (includes EO3 and other executives)

In total, 352 *Other Executives* were eligible for a performance bonus in 2007-08 and 257 (73 per cent) were awarded bonuses. These bonuses came to a total value of \$2.4 million with the average bonus paid being \$9,500. Full details of bonuses paid by each department are available in Table 6.3.

While the overall changes to *Other Executives* salaries in 2007-08 were much less significant than seen with the *Senior Management* executives, some of the individual changes are worth noting:

- the Department of Planning and Community Development increased its overall bonus payment by 59.1 per cent, from \$102,800 to \$163,600. In doing so, it also increased its average award from \$7,900 to \$9,100;
- the Department of Education and Early Childhood Development decreased its overall bonus payment by 22.5 per cent, from \$204,700 to 158,700; and
- the Department of Justice, only made bonus payments to 69 per cent of eligible *Other Executives*, a decrease of 12.2 per cent.

The Department of Human Services had, by some margin, the highest number of eligible *Other Executives* (seventy one). However, bonuses were only awarded to 66 per cent of staff by the Department, the second lowest of all departments, with an average award of \$9,300.

The Department of Premier and Cabinet made payments to 94.1 per cent of eligible executives, with an average award of \$9,400. The highest average award was \$11,900, by the Department of Treasury and Finance, while the lowest average award was from the Department of Sustainability and Environment, where executives were awarded an average of \$6,000.

Table 6.5: Departmental Performance Bonuses 2007-08

Department	Number eligible 2007-08	Number awarded 2007-08	Bonus awarded 2007-08 (%)	Bonus awarded 2006-07 (%)	Total 2007-08 (\$,000)	Total 2006-07 (\$,000)	Average 2007-08 (\$,000)	Average 2006-07 (\$,000)
Secretary or CEO, E01 – Deputy and E02								
Education and Early Childhood Development	38	32	84.2	86.1	472.5	481.9	14.8	15.5
Human Services	44	41	93.2	84.4	607.3	599.5	14.8	15.8
Innovation Industry and Regional Development	18	12	66.7	79.0	177.5	175.6	14.8	11.7
Justice	24	22	91.7	71.4	352.7	297.6	16.0	14.9
Planning and Community Development	15	10	66.7	76.9	195.6	161.8	19.6	16.2
Premier and Cabinet	17	14	82.4	100.0	226.2	434.1	16.2	18.9
Primary Industries	12	9	75.0	80.0	178.6	154.9	19.8	19.4
Sustainability and Environment	19	17	89.5	77.8	245.1	148.9	14.4	10.6
Transport	34	25	73.5	83.3	300.0	460.0	12.0	18.4
Treasury and Finance (a)	25	21	84.0	76.0	407.1	375.7	19.4	19.8
Total (* Average)	246	203	82.5*	81.5*	3162.6	3290.0	15.6*	16.2*
Other Executives								
Education and Early Childhood Development	25	16	64.0	66.7	158.7	204.7	9.9	11.4
Human Services	71	47	66.2	73.6	436.3	480.9	9.3	9.1
Innovation Industry and Regional Development	40	32	80.0	72.2	231.7	239.3	7.2	9.2
Justice	42	29	69.0	78.6	303.1	331.0	10.5	10.0
Planning and Community Development	22	18	81.8	76.5	163.6	102.8	9.1	7.9
Premier and Cabinet	17	16	94.1	100.0	150.3	146.8	9.4	9.2
Primary Industries	16	12	75.0	80.0	137.6	145.2	11.5	12.1
Sustainability and Environment	27	20	74.0	78.1	120.8	148.5	6.0	5.9
Transport	33	22	66.7	67.6	200.0	230.0	9.1	10.0
Treasury and Finance (a)	59	45	76.3	76.8	534.5	480.9	11.9	11.2
Total (* Average)	352	257	73.0*	77.0*	2436.6	2510.1	9.5*	9.6*

Notes: (a) figure includes the State Revenue Office

Source: Department responses to the Report on the 2007-08 Financial and Performance Outcomes Questionnaire Part One

6.2.4 Percentage spread of bonuses for departments and selected agencies

Bonuses are generally paid to high performance executive officers. The approach taken differs for executives in the *Public Service* and executives in the broader *Public Sector*.¹¹⁴

Executive remuneration policies for *Public Service* executives are established in the *Executive Employment Handbook* prepared by the State Services Authority. Employment policies for *Public Sector* executives are administered by the Government Sector Executive Remuneration Panel (GSERP).¹¹⁵

In addition to the 10 departments and two *Public Service* agencies, 18 out of 29 *Public Sector* agencies (62 per cent) questioned, also used the *Executive Employment Handbook* to guide their decision making in regard to executive bonuses. The Committee is encouraged to see such broad reaching acceptance and use of these principles.

The *Executive Employment Handbook* indicates that bonuses are payable only to executives officers whose performance is rated at 3 or 4 in the four-level rating scale established in the handbook. Details of the rating scale are set out in Table 6.4.

Table 6.6: Rating scale for performance related incentive payments made to executives in Government departments

Rating	Category	Bonus range (proportion of total remuneration package) (%)	Description
Rating 4	Exceptional	9 – 17	Exceeds the requirements of all criteria and far exceeds expectations in the more critical areas
Rating 3	Superior	0 – 8	Exceeds the requirements of most criteria
Rating 2	Competent	No bonus	Meets all or most criteria
Rating 1	Improvement required	No bonus	

Source: Department of Premier and Cabinet, *Executive Employment Handbook* pp.60-61

The Committee examined the range of bonuses paid by departments in accordance with the *Executive Employment Handbook* policies. Specifically, the Committee looked at whether the actual range of bonuses paid, expressed as a percentage of the executive's remuneration package, was in accordance with the percentage spread of bonus allocations set out in the *Executive Employment Handbook*. The payments were generally in line with the bonus range identified in the handbook, however, four departments, Justice (8.5 per cent), Primary Industries (8.5 per cent), Sustainability and Environment (9 per cent) and Treasury and Finance (9 per cent), made awards above the range to superior category executives. Table 6.5 shows the results of this analysis.

The Committee reiterates its concern that the performance bonus and management scheme, as an appropriate accountability mechanism, does not operate for senior executives in the Parliament while it operates in every other department.

¹¹⁴ For a description of the Victorian Public Service and the Victorian Public Sector, see section 7.1

¹¹⁵ State Services Authority, *Victorian Public Service Executive Employment Handbook*, p.38

Table 6.7: Bonus range paid to executives for the 2007-08 performance assessment period

Department/agency	Superior category bonus range of remuneration package		Exceptional category bonus range of remuneration package	
	(%)		(%)	
	Minimum	Maximum	Minimum	Maximum
Education and Early Childhood Development	0	7.25	10	14
Human Services	1	8	9	11
Transport	2	8	9	13
Innovation, Industry and Regional Development	2	8	9	9
Justice	5	8.5	9	10
Premier and Cabinet	4	8	12	14
Primary Industries	4.5	8.5	9.5	10.5
Sustainability and Environment	2.5	9	11	15
Treasury and Finance	5	9	12	17
Planning and Community Development	3	8	9	12

Source: Department responses to the Report on the 2007-08 Financial and Performance Outcomes Questionnaire Part One

6.3 Critical Workforce Shortages

In the *State of the Public Sector in Victoria 2006-70*, the State Services Authority identified six key workforce sections where they had identified critical workforce shortages:¹¹⁶

- health and aged care;
- infrastructure and project management;
- TAFE;
- water services;
- information and communication technology skills; and
- scientific skills.

The State Services Authority indicated that the challenges facing public sector agencies are not uniform across the sector and as a result, many public sector agencies were developing sophisticated workforce planning strategies to try to address these challenges.

The Committee asked departments to outline their workforce situation and identify any critical workforce needs. The Department of Premier and Cabinet and the Department of Treasury and Finance advised the Committee that they did not have any specific critical workforce shortages.

Actions taken to address workforce shortages included:

- supplementing business needs through increased use of contract staff;
- development of skills specific training programs to develop staff;
- developing a workforce strategy that would identify the risk involved with staff shortages and how they will affect service delivery to the community; and
- international talent searching.

¹¹⁶ State Services Authority, *State of the Public Sector in Victoria 2006-70*, January 2008, p.62

6.3.1 Department of Education and Early Childhood Development

The Department of Education and Early Childhood Development identified critical workforce shortages in regard to teaching staff and student support services officers. These shortages were determined to be of medium impact. Specific shortages and actions to address these shortages are identified in Table 6.8.

Table 6.8: Critical workforce shortages

Critical Workforce Area	Actions taken to address shortages.
Teaching Staff	
Special Education Mathematics Science Technology Physical Education Languages Other Than English	The Department has a suite of workforce recruitment initiatives and promotion activities. These initiatives have contributed to a decrease in the proportion of difficult to fill vacancies as a percentage of all vacancies advertised from 19 per cent in 2001 to 8.8 per cent in 2007.
Student Support Services Officers	
Speech Pathologists Nurses Psychologists Occupational Therapists Physiotherapists Social Workers	The Department has a suite of workforce recruitment initiatives and promotion activities. The Department currently has an active Workforce Planning and Development working party to address issues in this workforce sector to develop policies and initiatives to address identified issues.

Source: *Departmental responses to the Report on the 2007-08 Financial and Performance Outcomes Questionnaire Part One, p.7*

6.3.2 Department of Human Services

The Department of Human Services advised the Committee that it *'employs a broad range of strategies to meet the workforce challenges it faces into the future'* and that it *'identifies areas of workforce shortage via planning models'*. Specific shortages and actions to address these shortages are identified in Table 6.9.

Table 6.9: Critical workforce shortages

Critical Workforce Area and actions taken to address shortages.
Medical specialist categories
Not all medical specialist categories are in critical undersupply. The department identifies areas of workforce shortage via planning models. The department does not employ GPs and medical specialists directly, but supports health services to recruit, retain and train personnel in areas of workforce shortage, via such programs as SMST, ESTP and Advanced Procedural Skills Training for GPs
Nursing staff
As part of these workforce planning activities to ensure that critical workforce needs are met, the Victorian Nurse Recruitment and Retention program has resulted in a net increase of 8,827 EFT of registered nurses in public health services since 1999.
IT and business analysts
In 2007-08, market shortages in IT and business analysis roles led to difficulty in attracting and retaining specialist IT and business analyst staff at VPS rates. As a consequence of this, the department has supplemented its business needs in these areas through increased use of contract staffing.
Skilled professionals including, project managers, designers and engineers
<p>The department relies on both in-house staff and consultant/contract resources to deliver its capital program. In the first half of 2008, there was a noticeable shortage of appropriately skilled personnel in relevant technical areas, such as project management, design and engineering.</p> <p>Declining economic conditions have seen a reversal of this situation in 2008-09 with many non-Government sources of work, particularly in the commercial sector, being placed on hold or cancelled. It is forecast that this situation will continue for most of 2009, particularly as both state and federal governments consider economic stimulus packages which may result in increasing construction activity in the Government sector.</p> <p>The department's housing program does not directly employ staff in these categories (Infrastructure project management), usually accessing these skills through technical consultancies or contractors employed to construct its various projects. The effect of shortages of these skills, when experienced result in increases in tendered contract prices rather than inability to access skills. Government economic stimulus packages may result in better pricing in the Government sector projects.</p>
Health Sciences
<p>The SSA term, health sciences, is very broad and covers a wide range of public health activity which could encompass pathology laboratory workforce, research, epidemiology, but could also include dieticians, podiatrist, and physiotherapists. Generally, the technical scientific areas do not compete well with private sector pay scales and conditions within the environmental health sector and this situation may be exacerbated in the future.</p> <p>The department actively supports scholarship programs and provides funding and other assistance through university connections and schemes such as the Victorian Public Health Training Scheme, that play an integral part in helping build public health knowledge, however a shortage of public health physicians in particular has impacted, and continues to have an impact on Victoria's ability to maintain and promote a system of world class public health.</p> <p>The department is working jointly on a National Environmental Health Workforce Strategy that seeks in part to address limitations on training opportunities, both in universities and the public sector, and remuneration below that paid in the private sector which are key factors in offsetting an ageing workforce and retaining new recruits. Private sector competition issues faced by the health sciences workforce cross all levels of government and affect a variety of workforce areas including public health physicians, environmental health officers, health physics, toxicology and environmental health engineering.</p>

Source: *Departmental responses to the Report on the 2007-08 Financial and Performance Outcomes Questionnaire Part One, pp.37-38*

6.3.3 Department of Innovation, Industry and Regional Development

The Department of Innovation, Industry and Regional Development identified a need to develop workforce capabilities in several generic areas, also noting that the *‘Major Projects Division...has traditionally experienced retention issues with its senior project managers due to more attractive remuneration packages offered by the private sector’*. Specific shortages and actions to address these shortages are identified in Table 6.10.

Table 6.10: Critical workforce shortages

Critical Workforce Area	Actions taken to address shortages
Project/program management	The Department’s annual Learning & Development calendar includes training courses on project management as well as policy development. These courses are regularly marketed to all staff and are generally well attended. In addition, opportunities for staff to seek career development opportunities such as internal assignments, secondments to other organisations and formal studies are encouraged and supported.
High level policy development and analysis	
Information technology (particularly web design)	
Senior managers (Major Projects Division)	The Department is currently assessing options to promote the retention of senior project managers within the Major Projects Division.
Emerging science	The Department has sought to enhance its capabilities in the emerging science disciplines through short-term placement of personnel from external scientific institutions and organisations.

Source: *Departmental responses to the Report on the 2007-08 Financial and Performance Outcomes Questionnaire Part One, p.15*

6.3.4 Department of Justice

The Department of Justice advised the Committee that it faces general challenges in attracting suitable candidates for vacancies including within the Infrastructure Project Management and ICT categories. Specific shortages and actions to address these shortages are identified in Table 6.11.

Table 6.11: Critical workforce shortages

Critical Workforce Area	Actions taken to address shortages
Infrastructure project Management	Two business units that rely heavily on Infrastructure Project Management and ICT skills are involved in the Future Directions for Talent Planning pilot program. This program aims to help identify the specific risks and implement approaches to reduce them both at a business unit level and for individual employees. In addition, the development and implementation of the DOJ Recruitment Strategy is working to address the issues surrounding attraction and retention.
Information and Communications Technology	

Source: *Departmental responses to the Report on the 2007-08 Financial and Performance Outcomes Questionnaire Part One, p.16*

6.3.5 Department of Planning and Community Development

The Department of Planning and Community Development identified critical workforce shortages in regard to infrastructure project management and scientific skills. Specific shortages and actions to address these shortages are identified in Table 6.12.

Table 6.12: Critical workforce shortages

Critical Workforce Area	Actions taken to address shortages
Infrastructure project management	<p>The Department of Planning and Community Development, along with many other state and local government agencies, has experienced skill shortages in the areas of planning and project management. Skills shortages relating to planners in particular are heightened in rural and regional Victoria. In response, the Department has worked with the VPS Graduate Program to employ two specialist planning graduates, one of which is based in regional Victoria. The Department has collaborated and built partnerships with universities such as RMIT to implement shorter term work placements for planning students to provide workplace experience for the students and to promote the Department as an employer of choice.</p> <p>The Department also manages the PLANET professional development program, which focuses on making skills-based learning available to all users of Victoria's planning system. During 2007-08, PLANET delivered 70 training sessions to more than 1,550 participants in both metropolitan and regional areas.</p> <p>The Department is currently developing a Workforce Strategy that will identify the risk involved with staff shortages and how they will affect service delivery to the community. When completed, the Department will implement strategies to mitigate those risks to ensure ongoing excellent organisational performance.</p> <p>The Department of Planning and Community Development is supporting regional planning staff through the development of a team of roving planning experts that assist in all regions, rather than being located in every locality.</p> <p>These activities are relatively new and will be closely monitored to assess the outcomes.</p>
Statutory and strategic planners Infrastructure project managers	
Scientific skills Environmental assessors Spatial analysts Demographers Economists.	

Source: Departmental responses to the Report on the 2007-08 Financial and Performance Outcomes Questionnaire Part One, p.10

6.3.6 Department of Primary Industries

The Department of Primary Industries identified critical workforce shortages in regard to petroleum engineering, coal technology, geosciences, geology, 3D modellers, IT project managers, IT system administrators, veterinarians, and agricultural scientists. Specific shortages and actions to address these shortages are identified in Table 6.13.

Table 6.13: Critical workforce shortages

Critical Workforce Area	Actions taken to address shortages.
Petroleum engineering	Talent searching is currently being undertaken internationally to recruit senior scientists to specialist areas within biotechnology occupation fields. There is continued support between DPI and DSE in the provision of a Science Graduate Program, this program is a two year training and development program open to recent graduates of science, agriculture, natural resource management and related professions.
Coal technology	
Geosciences	
3D modellers	
IT project managers	
IT system administrators	
Veterinarians	
Agricultural scientists	

Source: Departmental responses to the Report on the 2007-08 Financial and Performance Outcomes Questionnaire Part One, pp.7-8

6.3.7 Department of Sustainability and Environment

The Department of Sustainability and Environment advised the Committee that it *'employs approximately 2,700 staff from around 80 cities and towns across Victoria in a range of professional, technical, business and operational service delivery functions'* and observed that workforce profiles are used to support local workforce planning strategies. The Department identified challenges in regard to in regard to:

- recruiting and retaining key staff in specialist professional occupational groups (i.e. Water);
- rural and regional Victoria; and
- competing for graduates in a competitive market.

Specific shortages and actions to address these shortages are identified in Table 6.14.

Table 6.14: Critical workforce shortages

Critical Workforce Area	Actions taken to address shortages.
Specialist occupational groups	The Department has adopted and enhanced a range of key workforce strategies, including: <ul style="list-style-type: none"> • the development of a 5-year learning & development model to encourage and retain graduates in a challenging market; • continued application of the successful science cadetship program which sources 4-6 science graduates each year and supports them through university to paid employment in the Department; • introduction of a number of leadership management programs designed to increase the capability our current and future managers; • review of all HR policies to provide a more flexible range of employment and remuneration arrangements to improve our capacity to recruit and retain staff; and • implementation of targeted recruitment for specialist staff and implementation of staff exchange programs to promote, improve people capability and service delivery.
Rural and Regional Staff	
Graduates	

Source: Departmental responses to the Report on the 2007-08 Financial and Performance Outcomes Questionnaire Part One, p.7

6.3.8 Department of Transport

The Department of Transport identified a range of critical workforce shortages that relate to transport project development and delivery and in the related disciplines needed to support infrastructure project delivery including town planners, surveyors and environmentalists. Specific shortages and actions to address these shortages are identified in Table 6.15.

Table 6.15: Critical workforce shortages

Critical Workforce Area	Actions taken to address shortages.
Infrastructure Project Managers	The Department of Transport (DOT) has undertaken a range of strategies to improve attraction and recruitment. These include: <ul style="list-style-type: none"> • The introduction of new employment branding, enhanced job advertisements and tag lines as well as active marketing and promotion of employment opportunities in newsprint and industry journals and other print media. • Building internal management capability in recruitment and selection by implementing new streamlined processes and guidelines. • Undertaking several marketing and promotional activities such as: <ul style="list-style-type: none"> - Marketing DOT jobs at Careers Fairs within Australia and overseas - Sponsorship in the Engineers Australia – Engineering Week - Sponsorship at Monash University final year Engineering Exhibition. - Actively participating in targeted employment programs such as the Graduate Recruitment Scheme and the Youth Employment Scheme - Working with the State Services Authority in a market segmentation branding project, targeting infrastructure project managers and engineers. - Enhancing the intranet and internet sites, streamlining the application process, providing information about the department and introducing a user friendly job application process.
Engineers (esp. civil and railway signalling)	
Project Planners and Schedulers	
Procurement, Commercial and Contract Specialists	
Relationship and Stakeholder Managers	
Communications Specialists	
Transport Planners (Integrated)	
Transport Design and Development Specialists	
Town Planners	
Surveyors	
Environmentalists	

Source: Departmental responses to the Report on the 2007-08 Financial and Performance Outcomes Questionnaire Part One, p.13

6.3.9 Department of Treasury and Finance

The Department of Treasury and Finance advised the Committee that its workforce situation is stable and that it *'does not employ many people in the critical workforce shortages categories'*. The Department identified specialist policy advice as an area of high competition.

CHAPTER 7: PROCUREMENT

Key Findings of the Committee:

- 7.1** The Victorian Government Purchasing Board (VGPB) produces a Procurement Process Guide to assist departments and agencies to ensure probity in procurement activities. The policies and practices of the VGPB apply to all government departments and one agency, Victoria Police.
- 7.2** During 2007-08 procurement contracts were subject to a tender threshold of \$102,500 over which departments are required to advertise for tenders for the supply of goods and services. This threshold is designed to ensure probity in the awarding of government contracts.
- 7.3** The Auditor-General considers achieving value-for-money while maintaining process integrity as the ultimate goal in public sector procurement and that value-for-money is a combination of five factors: cost, timeliness, quality of service, risk management and accountability frameworks.
- 7.4** Cost is an important factor in achieving value-for-money in procurement contracts. Cost serves as a guiding measure of the progress of a contract towards its objective. As such, it is important to start a procurement process with a detailed, evidenced based, cost estimate. Departmental responses indicated that actual costs for 11 non-IT contracts (25.6 per cent) and 12 IT contracts (27.9 per cent) of a total of 43 contracts examined by the Committee came in under budget.
- 7.5** Project timing is a key determinant in developing tendering or quoting for a government procurement contract. The Auditor-General has observed that IT contracts are particularly susceptible to timing delays and recommended the application of project milestones to maintain timeliness. This was also evident in the Committee's analysis of the timing of government IT contracts.
- 7.6** Departments and agencies reported a consistent approach to risk management of IT procurement contracts and the Committee found that the foundations of robust risk management systems such as steering committees, the appointment of project managers, and the utilisation of management tools were present in both departments and agencies.

7.1 Introduction

The Committee has decided to include a review of government procurement practices in this year's *Report on the 2007-08 Financial and Performance Outcomes*. The importance of procurement is identified by the Auditor-General in his 2007 guide *Public Sector Procurement: Turning Principles into Practice*. In his foreword the Auditor-General states that:¹¹⁷

Each year, Victoria's public sector agencies spend billions of dollars on purchasing goods, services and assets. These purchases have an enormous impact on the delivery of programs and services.

¹¹⁷ Victorian Auditor-General's Office, *Public sector procurement: Turning Principles into Practice*, 2007, p.i

The procurement process consists of four phases:

- planning;
- implementation;
- monitoring delivery; and
- evaluating the process to identify improvements.

The Committee recognises that this process is not fixed and varies according to the particulars of procurement contracts. Therefore, the Committee sought separate information from government departments and agencies regarding the procurement of Information Technology (IT) and non-IT goods, services and assets, to ensure a representative breadth of procurement practices were captured. The Committee has also addressed probity in procurement contracts below the compulsory tender threshold to ensure the breadth of procurement contracts was reviewed.

Procurement by government departments and agencies is governed by the Victorian Government Purchasing Board (VGPB) and is established under the *Financial Management Act 1994*. The VGPB governs the acquisition, management and disposal of goods and services and includes procurement policy and practices for the advice and monitoring of departmental compliance. Under the *Financial Management Act 1994*, the VGPB is required to produce an Annual Supply Report by 1 August each year detailing the procurement activities of government departments.¹¹⁸

7.1.1 Victorian Government Purchasing Board

The Victorian Government Purchasing Board (VGPB) is the government's peak authority for the development of procurement policy and practice. The function of the board is set out in Section 54B of the *Financial Management Act 1994*.¹¹⁹

The Board has the following functions-

- *in relation to the supply of goods and services to departments and the management and disposal of goods by departments-*
 - *to develop, implement and review policies and practices; and*
 - *to provide advice, staff training and consultancy services;*
- *to monitor departmental compliance with supply policies and Ministerial directions and to report irregularities to the relevant Minister and the Minister;*
- *to foster improvements in the use and application of purchasing systems and electronic trading;*
- *to establish and maintain a comprehensive data base of purchasing data of departments and supply markets for access by departments; and*
- *any other functions conferred on the Board by this Part.*

¹¹⁸ Victorian Government Purchasing Board, Procurement Policies, 2002, updates January 2009, p.1 and 8

¹¹⁹ *Financial Management Act 1994*, Section 54B

The VGPB produces a Procurement Process Guide to assist departments and agencies to ensure probity in procurement activities. The VGPB website states that the guide is:¹²⁰

a step-by-step process for the planning, establishment and contract management of small and large acquisitions. It is suitable for novice and experienced procurement staff.

The policies and practices of the VGPB apply to all government departments and one agency, Victoria Police. In response to questions from the Committee, every department, except the Department of Primary Industries, made direct reference to the role of VGPB in the development and implementation of departmental procurement policies and practices.

During 2007-08 procurement contracts were subject to a tender threshold of \$102,500 over which a department is required to advertise for tenders for the supply of goods and services. This threshold is designed to ensure probity in the awarding of government contracts.

7.1.2 Value-for-money in procurement

The Auditor-General considers achieving value-for-money (VFM) while maintaining process integrity as the ultimate goal in public sector procurement.¹²¹ Achievement of VFM is defined by the Auditor-General as a combination of five factors: cost, timeliness, quality of service, risk management and accountability frameworks. The Committee has divided these factors into two categories for the purpose of reviewing government procurement practices. The categories are:

- cost, timeliness and quality of service; and
- risk management and accountability frameworks.

7.2 Cost, timeliness and quality of service

Cost, timeliness and quality of service are contributing elements to VFM outcomes in procurement contracts. However, these elements have been found to contribute to common deficiencies in the procurement process, including:¹²²

- the failure of Departments and agencies to gather sufficient evidence to accurately estimate the budget;
- not considering total cost of ownership at the start of the project leading to critical components being under-funded; and
- not developing timelines or milestones at the time of the funding decision.

The Committee noted that these issues are not unique to Victoria. Internationally, the Organisation for Economic Cooperation and Development (OECD) has found that when implementing large IT procurement projects in both the public and private sectors:¹²³

budgets are exceeded, deadlines are over-run and often the quality of the new system is far below the standard agreed when the project was undertaken.

¹²⁰ Victorian Government Purchasing Board, *Procurement Process Guide* (website) viewed 2 February 2009 <www.vgpb.vic.gov.au/CA256C450016850B/0/4FBAC7BE2075606FCA256C850025DA77?OpenDocument>

¹²¹ *ibid.*, p.5

¹²² Victorian Auditor-General's Office, *Investing Smarter in Public Sector ICT: turning principles in practice*, July 2008, p.19

¹²³ Victorian Auditor-General's Office, *IT Project Management – Best Practice*, February 2003

7.2.1 Cost

Cost is an important factor in achieving value-for-money (VFM) in procurement contracts. Cost serves as a guiding measure of the progress of a contract towards its objective. As such, it is important to start a procurement process with a detailed, evidenced based, cost estimate. A cost estimate will outline the realistic expectation and limitations of a contract and provide a guide against which tenders can be assessed and project costing based. There is a risk, however, that a focus on cost will detract from a balanced view of all VFM factors.

Departmental responses indicated that actual costs for 11 non-IT contracts (25.6 per cent) and 12 IT contracts (27.9 per cent) of a total of 43 contracts examined by the Committee came in under estimate. Agencies reported that 60 out of 79 (76 per cent) procurement contracts meet or came in under budget. In a few contracts significant budget savings of up to 50 per cent were reported.

Five departments: Treasury and Finance, Innovation, Industry and Regional Development, Transport, Planning and Community Development, and Sustainability and Environment all reported at least one IT contract that cost more than the allocated budget. The Department of Justice reported exceeding budget for two IT contracts. The Department of Planning and Community Development was the only department to report a non-IT contract exceeding budget.

In contrast, a small number of contracts produced significant cost savings. The Department of Transport reduced the budget for the Metropolitan Train Control Reliability Systems Upgrade contract from \$22 million to \$12 million following a 'reassessment of the project schedule and payment milestones to the contractor'.¹²⁴ There were also examples of savings in agency contracts such as Barwon Water, where the actual cost of purchasing a Document Management System was approximately half that budgeted, saving the agency \$452,695 (46.9 per cent).

The breadth of cost outcomes for contracts indicates that processes used for accurately costing or developing specifications for procurement contracts to within a reasonable margin, may require review. The Committee discusses this further in section 7.2.4 of this report.

7.2.2 Timeliness

Project timing is a key determinant in developing tendering or quoting for a government procurement contract and to subsequently track the progress of contract delivery. The establishment of reasonable timelines helps ensure VFM is achieved through on time delivery of a contract. The Auditor-General has observed that IT contracts are particularly susceptible to timing delays and recommended the application of project milestones to maintain timeliness.

The OECD also observed that some IT procurement contracts run over budget and over time.¹²⁵ This was also evident in the Committee's analysis of the timing of government IT contracts. Of 21 IT contracts detailed by departments, one third were delivered later than planned. In comparison, there was only one reported instance of a non-IT project running over time.¹²⁶

¹²⁴ Department of Transport, response to the Committee's Financial and Performance Outcomes Questionnaire – Part One, received 3 December 2008, p.40

¹²⁵ Victorian Auditor-General's Office, *IT Project Management – Best Practice*, February 2003

¹²⁶ Department of Planning and Community Development's redevelopment of 136 Gertrude Street, Fitzroy

7.2.3 Quality of service

Quality of service correlates closely with cost and timeliness in the delivery of a procurement contract. A contract delivered on budget and on time will not achieve value-for-money if output quality is below an agreed standard of functionality. Quality is measured against the minimum functional requirements of the goods or services being provided.¹³⁰ Monitoring of a procurement contract plays a central role in tracking contract quality. Monitoring may include quality assurance sign offs, checking quality before payment is made and keeping records. Where quality of service is not being delivered it is important that a department or agency acts promptly to resolve the matter.

Where service quality fails to meet contract expectations, departments and agencies need to address the failure in order to avoid further deterioration in contract quality. Various approaches are available to help achieve a quality outcome in procurement contracts. For example; compensation for inadequate contract performance can be written into procurement contracts. The Department of Human Services withheld 2.5 per cent of contract payments for its managed services contract, under an agreed incentive scheme for service delivery in accordance with agreed standards of service quality.¹³¹ Preventing quality deteriorating to this point by addressing the issue through specified escalation events or paths are contracted measures identified by the Department of Human Services and Department of Sustainability and Environment. The Department of Justice defined the role of an escalation path as the course for addressing the communication of issues, addressing non-compliance and dispute resolution.¹³²

A measure used widely in IT contracts to ensure service quality is technical testing and user response analysis. The specialised nature of IT contracts means that this approach to quality control can be widely applied. Three departments reported its application: Primary Industries, Education and Early Childhood Development, and Sustainability and Environment. The Department of Primary Industries reported that user acceptance testing of an IT software product being delivered identified a significant fault resulting in extensive delays.¹³³

The appointment of a contract manager or independent quality reviewer to monitor quality increases the focus on quality of contract delivery. Independent assessment ensures a critical appraisal of service quality. The Department of Transport reported that the Department of Treasury and Finance conducted an independent review of the Metropolitan Train Control Reliability Systems Upgrade and Metropolitan Train Safety Communications System contracts on its behalf.¹³⁴ Eastern Health also reported using an independent assessment of service quality during its two largest non-IT procurement contracts.¹³⁵

There are a range of quality assurance methods available to departments and agencies to match the diversity of procurement contracts. The Committee considers the development of suitable measures and monitoring systems to be an important foundation for achieving a quality outcome and contributing to contract value-for-money.

¹³⁰ Victorian Auditor-General's Office, Good Practice Guide: *Public sector procurement*, October 2007 - Evaluating the performance of contractors in terms of achieving value for money, p.7

¹³¹ Department of Human Services, response to the Committee's Financial and Performance Outcomes Questionnaire – Part One, received 19 January 2009, p.49

¹³² Department of Justice, response to the Committee's Financial and Performance Outcomes Questionnaire – Part One, received 3 December 2008, p.30

¹³³ Department of Primary Industries, response to the Committee's Financial and Performance Outcomes Questionnaire – Part One, received 13 January 2009, p.15

¹³⁴ Department of Transport, response to the Committee's Financial and Performance Outcomes Questionnaire – Part One, received 03 December 2008, p.40

¹³⁵ Eastern Health, response to the Committee's Financial and Performance Outcomes Questionnaire – Part One, p.14

7.3 Risk management and accountability frameworks

7.3.1 Risk management

The VGPB divides procurement risk into two categories:¹³⁶

- risks related to the procurement process; and
- risks related to procurement contract deliverables.

The scale and complexity of risk identified for a procurement contract should determine the risk management process that is to be applied. The VGPB website states that:¹³⁷

All projects embody a degree of risk that can never be completely eliminated. However, risks can be identified and controlled. The management of risks requires containment strategies to mitigate risk and contingency planning to respond to risks that may emerge.

The VGPB identifies five key aspects of risk management:¹³⁸

- identification;
- assessment;
- mitigation;
- allocation; and
- monitoring and control.

Risk management is considered by the Auditor-General as central to the achievement of value-for-money and is one of seven principles of good procurement practice.¹³⁹ The Auditor-General consolidates the final three points as the managing of risk factors and incidents to produce a three point risk management approach.

The level and complexity of monitoring, reporting and documenting of identified risk factors should be determined by the scale and complexity of potential risk identified for a contract. Inadequate monitoring of contractor performance is a 'key risk area' in procurement contracts and the importance of risk management means that it 'should be an integral part of all aspects of procurement'.¹⁴⁰

Departments and agencies reported a consistent approach to risk management of IT procurement contracts which reflects the specialised nature of IT procurement contracts.

Department risk management plans identified four key elements of risk management:

- reporting mechanisms;
- risk registers;
- project managers; and
- management, oversight and decisions by steering committees.

¹³⁶ Victorian Government Procurement Group, Department of Treasury and Finance, 'Good Practice Guidelines: Conduct of Commercial Engagements in Government', June 2006, p.5

¹³⁷ Victorian Government Purchasing Board, Risk Management Policies (website), viewed 25 March 2009, <www.vgpb.vic.gov.au/CA256C450016850B/0/6BA3D07EF178E9F9CA256C77002386BD?OpenDocument>

¹³⁸ *ibid.*

¹³⁹ Victorian Auditor-General's Office, *Public sector procurement: Turning Principles into Practice*, 2007, p.3

¹⁴⁰ *ibid.*, p.7, 5

The Department of Innovation, Industry and Regional Development and Department of Justice identified the use of Key Performance Indicators (KPIs) in managing contract risks. While, the application of KPIs is helpful in identifying and managing risk, it is outcome based. Risk management needs to also take into account project inputs and processes. The need to oversee the whole procurement process is the role of contract steering committees. Steering committees are a principal means of overseeing a contract and identifying and managing risk.

Nine agencies reported using steering committees in managing risk and the Department of Primary Industries specified that steering committees manage all risks identified as high or significant.

Four departments (Human Services, Innovation, Industry and Regional Development, Primary Industries, and Treasury and Finance) made reference to the process-based program management tool, PRINCE2, which is utilised in risk management. The United Kingdom Office of Government Commerce states that this tool is 'recognised as a world-class international product and is the standard method for project management'.¹⁴¹

The Committee's review found that, as a whole, departments and agencies recognise the importance of identifying and managing risk. The Committee found evidence of the foundations of robust risk management systems, such as steering committees and the appointment of project managers and utilisation of management tools in both departments and agencies. However, this foundation alone is not sufficient to manage risk. Successful risk management requires dependable information inputs and competent risk management staff working within a functioning accountability framework.

7.3.2 Accountability framework

Responsibility for the successful delivery of a procurement contract lies with everyone involved in the procurement process, both pre-contract and post-contract. An accountability framework establishes and manages individual responsibilities to ensure that all contract parties understand and fulfil their roles. A sound accountability framework limits gaps in responsibility and therefore limits the potential risk within a contract.

The Committee found that the nature of accountability frameworks applied to procurement contracts varied between departments and agencies and between contracts. Variations in approaches to accountability ranged from internal management of contracts to external contractor responsibility for a contract.

The Department of Innovation, Industry and Regional Development utilised specific manager roles within the department to monitor contractor reporting requirements.¹⁴² In contrast, in an example cited by the Department of Planning and Community Development outsourced office space management to the Department of Treasury and Finance's Government Services Group who in turn outsourced the management to a private contractor.¹⁴³ This approach externalises responsibility for management of office space and reduces resourcing, staffing costs and risks for departments and agencies that otherwise may not have the required knowledge or skills to effectively undertake this task.

Western Health stated that the incompetence of the initial project administrator was the most significant risk to the successful completion of the Picture and Archive Communications System contract.¹⁴⁴ Achieving value-for-money from a procurement contract is at risk when accountability frameworks are disrupted or falter. The failure of individual members of an accountability framework was illustrated in Western Health's second largest IT contract.

¹⁴¹ United Kingdom Office of Government Commerce, PRINCE2 (website), viewed 28 January 2009, <www.ogc.gov.uk/methods_prince_2.asp>

¹⁴² Department of Innovation, Industry and Regional Development, response to the Committee's Financial and Performance Outcomes Questionnaire – Part One, received 24 February 2009, p.19, 21

¹⁴³ Department of Planning and Community Development, response to the Committee's Financial and Performance Outcomes Questionnaire – Part One, received 29 January 2009, p.18

¹⁴⁴ Western Health, response to the Committee's Financial and Performance Outcomes Questionnaire – Part One, p.12

Management of staff and contractors and their responsibilities is a function of accountability frameworks. The Department of Sustainability and Environment provided an outline of the roles and positions within the Department's accountability framework.¹⁴⁵ An accountability framework integrates the roles and responsibilities of staff with the delivery of a contract. The link between accountability frameworks and measuring contract performance were referred to by all departments and the link between accountability frameworks and risk management was evident within departments and agencies. Two departments explicitly linked accountability frameworks to risk identification and management: the Department of Human Services and Department of Planning and Community Development. This link recognises the interdependency of risk and accountability in ensuring delivery of procurement contracts which achieve value-for-money.

7.3.3 Conclusion

All departments and agencies identified to the Committee that they had adopted a variety of approaches to manage risk and accountability. There was a demonstrated recognition of the importance of these factors in delivering procurement contracts that achieve value-for-money. A range of independent and interdependent approaches for identifying and managing risk and associated accountability frameworks were outlined to the Committee. Within the various approaches, consistent themes emerged, including steering committees, appointing or hiring contract managers, determining the balance between internal and external accountability roles and contract performance monitoring. The diversity of approaches permits the matching of approaches to the specific requirements of a procurement contract. Common practices indicate a whole of government understanding of the importance of risk management and accountability frameworks in procurement contracts.

7.4 Achievement of value for money

As outlined earlier in this chapter, VFM in procurement contracts is achieved through a combination of cost, timeliness, quality of service, risk management and accountability. The Committee asked departments and agencies to assess whether VFM had been achieved in the four procurement contracts reported.

7.4.1 Reported achievement of value-for-money

No departments or agencies reported to the Committee that VFM had not been achieved in relation to any of the procurement contracts reported. However, the Committee found that most departments and agencies varied in their approach to assessing VFM. Differing weights were attributed to the five factors of cost, timeliness, quality of service, risk management and accountability. This disparity limits the accuracy of VFM assessments which in turn limits the potential for a contract to achieve VFM and for constructive lessons to be learnt from contract implementation. To this end, the Government should establish a clear assessment and reporting framework for measuring VFM in procurement contracts including independent review of VFM in government procurement contracts.

Departments stated that VFM was either being, or had been achieved in all contracts reported to the Committee. The only exception was the Department of Sustainability and Environment's Electronic Conveyancing Project in which a formal assessment would not be made until after the completion of the contract. Similarly every agency reviewed indicated that VFM had been achieved, was on track to be achieved or had not been assessed yet. While departments and agencies did not explicitly report non-achievement of VFM the quality of responses was mixed.

¹⁴⁵ Department of Sustainability and Environment, response to the Committee's Financial and Performance Outcomes Questionnaire – Part One, p.12

The Department of Human Services provided a thorough summary:¹⁴⁶

The vaccine provision contract has been designed to ensure that VFM is demonstrated through supply of the required products at the required time and in the required manner, with provisions in place to manage risk in relation to these items, and at the Commonwealth fixed price.

The Department of Planning and Community Development stated that:¹⁴⁷

When taking into account the combination of quality, risk, performance, timeliness and cost of the eGrants project, it is considered that it represents good VFM. A quality application was delivered which met the performance goals set in the contract and, due to the staged development process, was available to users progressively in a timely manner.

In contrast the Department of Primary Industries' response lacked detail and was below the standard expected for public reporting to Parliament. It simply stated that: '*VFM was obtained and desired outcomes achieved*'.¹⁴⁸

In many cases the five factors used to determine VFM were reported in different ways by department and agency assessments of VFM. Examples include:

- Department of Innovation, Industry and Regional Development determined that VFM was in part achieved in its second largest non-IT contract because the objective of increasing levels of commercialisation of Victorian innovations had been achieved;¹⁴⁹
- Department of Justice identified lower costs as a result of KPIs as a factor in achieving VFM;¹⁵⁰
- Department of Planning and Community Development stated that unforeseen delays and related cost increases did not effect an overall reduction in VFM;¹⁵¹
- Department of Primary Industries stated that 'strong governance' is what positions contracts to deliver VFM;¹⁵²
- Department of Human Services managed its vaccine procurement contract so that VFM is achieved through '*supply of the required products at the required time and in the required manner, with provisions in place to manage risk in relation to these items, and at the Commonwealth fixed price*';¹⁵³
- Department of Innovation, Industry and Regional Development's second largest IT contract was negatively affected by five, separate machinery of government changes but the department stated that these were managed so as to minimise negative effects to VFM;¹⁵⁴ and
- Department of Transport stated that extra work that had been carried out to reduce risk aspects of its second largest IT contract.¹⁵⁵

¹⁴⁶ Department of Human Services, response to the Committee's Financial and Performance Outcomes Questionnaire – Part One, received 19 January 2009, p.48

¹⁴⁷ Department of Planning and Community Development, response to the Committee's Financial and Performance Outcomes Questionnaire – Part One, received 29 January 2009, p.21

¹⁴⁸ Department of Primary Industries, response to the Committee's Financial and Performance Outcomes Questionnaire – Part One, received 13 January 2009, p.13

¹⁴⁹ Department of Innovation, Industry and Regional Development, response to the Committee's Financial and Performance Outcomes Questionnaire – Part One, received 24 February 2009, p.22

¹⁵⁰ Department of Justice, response to the Committee's Financial and Performance Outcomes Questionnaire – Part One, received 3 December 2008, p.31

¹⁵¹ Department of Planning and Community Development, response to the Committee's Financial and Performance Outcomes Questionnaire – Part One, 29 January 2009, p.19

¹⁵² Department of Primary Industries, response to the Committee's Financial and Performance Outcomes Questionnaire – Part One, received 13 January 2009, p.17

¹⁵³ Department of Human Services, response to the Committee's Financial and Performance Outcomes Questionnaire – Part One, received 19 January 2009, p.48

¹⁵⁴ Department of Innovation, Industry and Regional Development, response to the Committee's Financial and Performance Outcomes Questionnaire – Part One, received 24 February 2009, p.24-25

While these assessments identify positive outcomes and processes they do not constitute a complete assessment of VFM. Selected focus in evaluations of VFM highlights the need for either increased capacities for assessing VFM within government or the use of independent assessment. The Department of Transport used an 'independently reviewed and verified' evaluation of VFM of contracts to deliver the private operation of metropolitan train and tram services – VFM was assessed to have been achieved.¹⁵⁶ The Committee considers that the robustness of VFM assessments would be strengthened through a continued process of random audits of procurement contracts by the Auditor-General.

7.5 Probity controls in procurement contracts under the tender threshold

Probity is the integrity in which a procurement contract is undertaken and completed. The VGPB has established rigorous requirements for departmental procurement contracts and divides policies into contracts under and over the tender threshold (\$102,500 in 2007-08). The VGPB's has produced a guide to strategic procurement which includes two guides for the procurement process, one for contracts under the tender threshold and the other for contracts over the tender threshold. Given that the formal control mechanisms for purchases under the tender threshold are less stringent, the Committee has opted to examine the probity controls in place for procurements contracts in this category.

The Auditor-General has stated that '*probity in procurement relates to the fairness, impartiality and integrity of the process*'.¹⁵⁷ The VGPB adds to this list the following key probity requirements:¹⁵⁸

- security and confidentiality;
- identification and resolution of conflicts of interest; and
- development of a probity plan.

In August 2008 the Victorian Ombudsman released his report: *Probity controls in public hospitals for the procurement of non-clinical goods and service*. The report focused on the adequacy of the existing regulatory frameworks guiding procurement in public hospitals. The report identified six failures in the regulatory framework examined which undermines VFM. They were:¹⁵⁹

- favouritism to suppliers and contractors;
- a failure to check contractor work;
- a failure to check contractor skills and qualifications;
- a failure to obtain the best price for supplies and equipment;
- a failure to pay invoices on time; and
- a failure to monitor supplier performance.

The Committee considers that the scope of the Ombudsman's report provides a transferable review framework for analysing probity issues in the procurement of goods, services and assets by government departments and agencies.

¹⁵⁵ Department of Transport, response to the Committee's Financial and Performance Outcomes Questionnaire – Part One, received 3 December 2008, p.41

¹⁵⁶ *ibid.*, p.36

¹⁵⁷ Auditor-General, *Public Sector Procurement: Turning Principles into Practice*, October 2007, p.3

¹⁵⁸ Department of Treasury and Finance, Best Practice Advice: Probity (website) viewed 2 February 2009 <[www.vgpb.vic.gov.au/CA256C450016850B/WebObj/Probitybestpracticeadvice/\\$File/Probity%20best%20practice%20advice.doc](http://www.vgpb.vic.gov.au/CA256C450016850B/WebObj/Probitybestpracticeadvice/$File/Probity%20best%20practice%20advice.doc)>

¹⁵⁹ Ombudsman of Victoria, *Probity controls in public hospitals for the procurement of non-clinical goods and services*, August 2008, p.13-24

7.5.1 Departmental practices

With the exception of the Department of Innovation, Industry and Regional Development, which specifically addressed each of the failures identified by the Victorian Ombudsman, departments provided only a general overview of their approaches to ensuring probity in procurement contracts under \$102,500.

The following section details the three main probity practices identified by government departments in response to the Committee.

(a) Accredited Purchasing Units

Accredited Purchasing Units are established to review and approve procurement contracts. Departments are required to establish an Accredited Purchasing Units (APU) in order to be accredited with the VGPB.¹⁶⁰ The Committee considers that establishment of Accredited Purchasing Units provides a solid framework for accountability within contracts under the tender threshold. Four departments indicated that an APU is the primary authority for procurement contracts under \$102,500:

- Department of Education and Early Childhood Development's APU has developed a *Probity and Disclosure in Purchasing and Contracting* website for all corporate staff. The website includes links to the VGPB probity policy;
- Department of Human Services has a similar intranet website, *Purchasing and Funding eGuide*, which also links to the VGPB;
- Department of Justice stated that their APU provides procurement advice to staff that complies with VGPB policies and procedures. The department listed guidelines and forms etc. for procurement contracts amongst the content of its APU intranet site;¹⁶¹ and
- Department of Planning and Community Development stated that its procurement policies were consistent with VGPB and authorises financial delegates to approve contracts up to \$100,001, while contracts over this amount require APU authority.¹⁶²

(b) Monitoring and Internal Auditing

The practice of monitoring procurement contract delivery and conducting internal audits is important in ensuring the quality of contracts and minimisation of risks. Section 3.2 of the VGPB Practitioners' Guide to Non-SPC Procurement details the requirements for monitoring contract performance. Contracts greater than \$2,000 require monitoring by a contract manager.¹⁶³ Five departments included monitoring and internal auditing as aspects of their probity practices. The Department of Justice identified that its Audit and Risk Management Committee '*at times may address issues of VFM and contract management*'.¹⁶⁴ The Department of Planning and Community Development identified an explicit role for internal auditors in the provision of probity control for the department.¹⁶⁵ The Department of Primary Industries stated that its monitoring extended beyond procurement contracts to non-contract payments such as utility bills which are not subjected to the standard VFM processes.¹⁶⁶

¹⁶⁰ Victorian Government Purchasing Board, *Accreditation of Departments by the VGPB* (website) viewed 5 March 2009 <www.vgpb.vic.gov.au/CA256C450016850B/0/E90C330E6954A753CA256C77001EB134?OpenDocument>

¹⁶¹ Department of Justice, response to the Committee's Financial and Performance Outcomes Questionnaire – Part One, received 3 December 2008, p.36

¹⁶² Department of Planning and Community Development, response to the Committee's Financial and Performance Outcomes Questionnaire – Part One, 29 January 2009, p.22

¹⁶³ Victorian Government Purchasing Board, *Practitioners' Guide to Non-SPC Procurement*, June 2006, p.61

¹⁶⁴ Department of Justice, response to the Committee's Financial and Performance Outcomes Questionnaire – Part One, received 3 December 2008, p.36

¹⁶⁵ Department of Planning and Community Development, response to the Committee's Financial and Performance Outcomes Questionnaire – Part One, 29 January 2009, p.22

¹⁶⁶ Department of Primary Industries, response to the Committee's Financial and Performance Outcomes Questionnaire – Part One, received 13 January 2009, p.18

Two departments made reference to record keeping and the use of contract databases for procurement probity. The keeping of all information in a secure and confidential manner is addressed in section 1.11 of the VGPB Practitioners' Guide and applies to all VGPB contract value ranges. Further section 3.7 requires that files are kept up to date and complete to provide a record and audit trail for all procurement contracts. The Department of Treasury and Finance requires that all purchase over \$2,000 must be entered into a contract database.¹⁶⁷ A similar database is used by the Department of Transport which requires that all contracts be entered into an online database.¹⁶⁸ Record keeping at the Department of Transport is also subject to random internal audits.¹⁶⁹

(c) Training

Staff are integral to the achievement of probity in procurement contracts. Therefore the employment and training of staff in high standards of contract probity is important. Three departments identified staff training in procurement as a key step to ensuring probity in departmental contracts. The Department of Human Services provided internal procurement training for staff¹⁷⁰ and the Department of Justice ran procurement forums for staff.¹⁷¹ The Department of Planning and Community Development outlined its compulsory Governance of Financial Management induction training, which includes training in VFM, for financial delegates authorised to approve contracts up to \$100,001.¹⁷²

The VGPB offers procurement training, in conjunction with the Office of Public Employment, through the Procurement and Contracting Centre for Education and Research (PACCER). The PACCER website states that training can be scheduled to suit an organisation's own timing.

The Committee considers the training and possible accreditation of staff overseeing procurement contracts less than \$102,500 to be critical to probity in procurement contracts.

Recommendation 12: **Departments and agencies ensure staff responsible for authorising and managing procurement attend relevant courses offered by the Procurement and Contracting Centre for Education and Research, or similar, and that staff with these responsibilities receive accreditation for the training.**

7.5.2 Agency practices

The Committee found that agencies tended to more explicitly address the probity failures identified by the Victorian Ombudsman. This attention reflects the focus of the Victorian Ombudsman's report upon organisations resembling the size and operation of agencies, but also the fact that Victoria Police is the only Government agency required to implement VGPB guidelines in procurement contracts. In some cases, the report was directly relevant, such as Austin Health and the Royal Children's Hospital and health agencies more generally.

¹⁶⁷ Department of Treasury and Finance, response to the Committee's Financial and Performance Outcomes Questionnaire – Part One, p.27

¹⁶⁸ Department of Transport, response to the Committee's Financial and Performance Outcomes Questionnaire – Part One, received 3 December 2008, p.44

¹⁶⁹ *ibid.*, p.45

¹⁷⁰ Department of Human Services, response to the Committee's Financial and Performance Outcomes Questionnaire – Part One, received 19 January 2009, p.51

¹⁷¹ Department of Justice, response to the Committee's Financial and Performance Outcomes Questionnaire – Part One, received 3 December 2008, p.36

¹⁷² Department of Planning and Community Development, response to the Committee's Financial and Performance Outcomes Questionnaire – Part One, 29 January 2009, p.22

The following section details the three main probity practices identified by selected Government agencies in response to the Committee.

(a) Policies and procedures

Policies and procedures for procurement contracts under \$102,500 ensure that probity is likely to be realised by providing a framework for conducting procurement contracts. With the exception of two agencies that indicated policies and procedures were being implemented, all agency respondents identified specific procurement policies or outlined their procurement procedures. Two agencies included schematic representations of their procurement process, two directly referred to the Victorian Ombudsman's report and six agencies referred to the VGPB. The Victoria Police are the only agency required to apply the VGPB's policies and procedures and therefore have an APU.¹⁷³

The Committee was interested in the responses received from health agencies with the view that the Victorian Ombudsman's report concerned public hospitals. Eastern Health stated that it had procurement procedures in place with guidelines specifically addressing controls dealing with risks identified in the Victorian Ombudsman's report.¹⁷⁴ Melbourne Health stated that it is currently developing a procurement policy¹⁷⁵ and the Royal Childrens Hospital stated that it was in the middle of implementing procurement guidelines.¹⁷⁶ Barwon Health stated that it had 'commissioned a review of its supply chain management and processes'.¹⁷⁷

(b) Quotations

The use of quotations for awarding contracts for the supply of goods, services and assets is the practice most widely used by government agencies to ensure probity. The VGPB has a template that can be used for preparing a request for quotes. Thirteen agencies stated that quotations are a key part of the procurement process and seven of these agencies provided a further breakdown of the cost thresholds for quotation requirements applied by the agency. Generally, agencies understood the VGPB requirement that contracts under \$15,400 need only one written quotation and three for contracts exceeding this amount.¹⁷⁸

(c) Segregation

The segregation of staff who deal with organisations providing quotes and staff awarding contracts is used, in several cases, to enhance probity. Section 1.11 of the VGPB Practitioners' Guide stipulates that to ensure there are no conflicts of interest:¹⁷⁹

As a general rule, staff associated with a potential supplier [are] ... precluded from taking part in the decision making process for that quote.

Two agencies, Melbourne Water¹⁸⁰ and VicRoads,¹⁸¹ stated that the roles and responsibilities of staff involved in contract purchasing are segregated, with staff obtaining quotations separate to staff that approve the selection of contractors.

¹⁷³ Department of Justice, response to the Committee's Financial and Performance Outcomes Questionnaire – Part One, p.37

¹⁷⁴ Eastern Health, response to the Committee's Financial and Performance Outcomes Questionnaire – Part One, p.18

¹⁷⁵ Melbourne Health, response to the Committee's Financial and Performance Outcomes Questionnaire – Part One, received 22 December 2008, p.14

¹⁷⁶ Royal Childrens Hospital, response to the Committee's Financial and Performance Outcomes Questionnaire – Part One, p.14

¹⁷⁷ Barwon Health, response to the Committee's Financial and Performance Outcomes Questionnaire – Part One, p.16

¹⁷⁸ Victorian Government Purchasing Board, Practitioners' Guide to Non-SPC Procurement, June 2006, p.54

¹⁷⁹ *ibid.*, p.53

¹⁸⁰ Melbourne Water, response to the Committee's Financial and Performance Outcomes Questionnaire – Part One, received 12 December 2008, p.11

¹⁸¹ Department of Transport, response to the Committee's Financial and Performance Outcomes Questionnaire – Part One, received 03 December 2008, p.46

7.5.3 Conclusion

The Committee found that probity in procurement contracts under \$102,500 is pursued by departments and agencies through three avenues. These avenues are:

- procurement policies and procedures;
- staff roles and responsibilities; and
- internal monitoring.

In many instances departments and agencies had in place policies and procedures for procurement contracts, while some agencies were in the process of developing and/or implementing their respective policies. Policies and procedures were notably based on VGPB guidelines. These policies and procedures had been adopted in a range of organisational frameworks, including the use of APU.

Organisational frameworks are dependant on staff skills and defined roles and responsibilities. The Committee was pleased to note that a number of departments and agencies had identified specific training for staff involved in procurement. In smaller organisations the use of quotations and segregation of staff involved in obtaining quotations and awarding contracts was a further step toward achieving probity objectives.

Departments and agencies outlined a variety of internal measures that ensure probity, including contract monitoring, internal auditing and record keeping that may go some way toward addressing a number of concerns from the Victorian Ombudsman's report into probity.

CHAPTER 8: GRANTS

Key Findings of the Committee:

- 8.1 Grants accounted for \$3.8 billion of government spending in 2007-08. Yet there is little detailed coverage of grant programs in the annual reports of government departments and agencies. Accountable reporting for the expenditure of grant funds and delivery of grant program outcomes needs to be extended.**
- 8.2 All grant issuing departments and agencies have sound guidelines in place to administer grant applications. While the financial accounting requirements vary between departments and agencies, in most cases agreement is required between the recipient and grant administrator, the keeping of financial records and payment dependant on reaching agreed outcomes.**
- 8.3 The size of grants allocated varies widely between departments and agencies. The three largest grant programs were all valued over \$100 million, however, they consisted of multiple grants within a grant program. Two of these programs were First Home Owner Grants in which recipients were individual persons. The Country Fire Authority received the largest single grant of \$55 million.**
- 8.4 Further work is required by departments to reconcile the objectives and outcomes of a grant recipient with the objectives and outcomes of the Department. Response received from four departments provided insufficient evidence of applied reconciliation processes.**
- 8.5 The large amount of public money allocated through grants necessitates greater disclosure and reporting standards in the annual reports of departments and agencies.**

8.1 Background

This chapter investigates the administration of grants by government departments and agencies. This review examines:

- the amount of money being allocated via grants;
- the level of reporting within annual reports;
- the accountability of third parties for expenditure of grant monies; and
- the delivery of outcomes associated with grant funding.

The Committee has determined that \$3.8 billion of public money was allocated as grants by government departments for the year 2007-08. This is more than 10 per cent (11.2 per cent) of the \$33.9 billion allocated in the State budget for expenses and service delivery.¹⁸² Yet the role of grants and third party organisations in implementing government projects and programs is not explicitly reported in the annual reports of most departments and public sector agencies.

Currently Financial Reporting Direction (FRD) 22 requires that departments and agencies identify in their annual reports each consultancy exceeding \$100,000 (exclusive of GST), however, no such reporting requirement exists for grant funding allocated by a department or agency.

¹⁸² Public Accounts and Estimates Committee, *Report on the 2007-08 Budget Estimates Part Three*, p.26

In the absence of specific reporting requirements the Committee has examined the level of financial and performance accountability that was applied to the allocation and expenditure of public money as grants and to the third parties receiving this funding in 2007-08.

In all responses received from government departments it was indicated that they administer grant programs. Only four of the 34 public sector agencies questioned about grants indicated that they are responsible for administering grants (see Table 8.1).

Table 8.1: Agencies that did not indicate they provided grants

Austin and Repatriation Medical Centre	Southern Cross Station Authority
Bayside Health	Victorian Learning and Employment Skills Commission
Eastern Health	Metropolitan Fire and Emergency Services Board
Melbourne Health	Victorian Casino and Gaming Authority
Western Health	Victoria Police
Southern Health	National Gallery of Victoria
Royal Children's Hospital	Victorian Energies Network Corporation (VenCorp)
Barwon Health	Barwon Region Water Authority
Port of Melbourne Corporation	Goulburn Murray Rural Water Authority
Roads Corporation	Treasury Corporation of Victoria
Victorian Rail Track	Yarra Valley Water Limited
Melbourne Water Corporation	Victorian Managed Insurance Authority
Rural Finance Corporation	Victorian WorkCover Authority
State Electricity Commission of Victoria	Victorian Funds Management Corporation
Victorian Urban Development Authority	

Source: Agency Responses to the Committee's 2007-08 Financial and Performance Outcomes Questionnaire - Part One.

8.1.1 Grant definition used

For the purposes of the Committee's inquiry, the following definition for a grant, developed from that used by the Auditor-General in the report *Grants to Non-Government Organisations: Improving Accountability*,¹⁸³ was used:

A grant pertains to any monies included as a controlled expense within a department's output schedule that is allocated to any government entity (including General Government entities and Public Non-Financial Corporations), third party or parties outside the public sector and at the discretion of a department or agency, with recipients required to use the moneys for the specific purposes outlined in the particular funding agreement.

¹⁸³ Victorian Auditor-General's Office, *Grants to Non-Government Organisations: Improving Accountability*, November 2000, p.15

8.2 Grant applications

The first area of Committee scrutiny regarding grant funding is the application process. The Committee asked departments and agencies to detail the process they use for inviting and processing grant applications. Specific information was sought regarding the financial accounting procedures required of grant applicants.

8.2.1 Application process

The Committee found that government departments and agencies allocating grants funds had either applied standard guidelines or developed specific guidelines for offering grants. These guidelines include the identification of selection criteria and a process for the impartial and in some cases expert evaluation of applicants. The use of guidelines and selection criteria in application processes is designed to ensure a ‘consistent, fair and transparent’ process.¹⁸⁴

The grant application process used by departments was either a standard process or one specifically tailored to either the size of grant being offered and/or the particular objectives of the grant program. An example of a standardised grant application process is the First Home Owners Scheme in which the Department of Treasury and Finance offers people buying their first residential property a \$7,000 grant. This grant is administered through the State Revenue Office and applicants are required to submit completed documentation, including verification that they are entitled to receive the grant prior to payment. This is a non-competitive grant whereby all qualified applicants receive the grant.

Some grants are designed with specific requirements to ensure that government projects are delivered as intended in the budget. For example, the Department of Human Services outlined the requirements of funding applications for Housing Associations. Amongst the particular requirements is a demonstrated ‘*capacity to deliver the project within the proposed schedule and to deliver ongoing tenancy and property management*’.¹⁸⁵ Further examples include grants administered by water corporations to significant water consumers to reduce water consumption. Due to the low profit incentive for businesses to reduce water consumption, grants are offered to encourage large corporate water consumers to implement a Water Asset Management Plan. The government launched the waterMAP program on 25 July 2007, which now makes it mandatory for non-residential water customers using over 10 million litres a year to develop a water management action plan (waterMAP).¹⁸⁶ In its response to the *Report on the 2006-07 Financial and Performance Outcomes* the government outlined the success of the waterMAP program, stating that:¹⁸⁷

In total, 1845 customers across Victoria have now completed a waterMap, with the aim of achieving a water saving of 8 billion litres.

Significant water savings have already been delivered through this, and other water conservation programs. In 2006-07, Melbourne’s non-residential sector (including those in the Top 200 program) reduced its water usage by 9 billion litres.

¹⁸⁴ Department of Human Services, response to the Committee’s Financial and Performance Outcomes Questionnaire – Part One, received 19 January 2009, p.55

¹⁸⁵ *ibid.*, p.55

¹⁸⁶ Victorian Government, WaterMAP (website), viewed 4 February 2009, <http://www.ourwater.vic.gov.au/saving/industry/watermap>

¹⁸⁷ Victorian Government, Government Responses to the Recommendations of Public Accounts and Estimates Committee’s 79th Report on the 2006-07 Financial and Performance Outcomes, April 2008, p.46

Where grants involve large sums of money respondents indicated that a two-stage application process is followed to ensure sound accountability. This recognises the additional work involved in making a grant application and the need for a thorough evaluation process. Generally, a call for expressions of interest in the grant program is made and a first round selection process is undertaken. Selected applicants are then invited to submit a full grant application. The Department of Transport stated in its response that a two-stage process was used in allocating Local Area Access Program and TravelSmart grants.

The Transport Accident Commission (TAC) detailed in their response to the Committee that in 2007-08 a two stage process with independent evaluation was used to award Victorian Neurotrauma Initiative (VNI) grants of up to \$5 million. Successful 'Expression of Interest' applicants were awarded up to \$10,000 to conduct a workshop to assist in the development of their 'Full Funding Submissions'.¹⁸⁸ Such a payment is potentially as little as 0.02 per cent of the potential total grant amount, a small investment in an application process to select the best and most appropriate applicant. The TAC was the only respondent who indicated that a payment was made for second round grant applications. The Committee would encourage the TAC to obtain an independent assessment of the merits/success of this approach.

The contestable process applied to most grant application processes requires a consistent, fair and transparent process to ensure that:

- the best applicant is awarded the grant, giving a project the greatest potential to successfully deliver the desired outcomes; and
- that all applicants, the Government and the public can be confident that the best applicant has been chosen.

Evidence from the responses received by the Committee demonstrated two key aspects to ensuring a robust grant application process. Firstly, the application process has to be carefully developed to reflect the specific requirements of the grant project.

Secondly, the amount of money being allocated in a grant usually determines the level of detail required for applications. Whereas small grants may only require a form to be filled in, explaining an applicant's proposed project, large grants justifiably require a two-stage process to aid selection and warrant the required development input from applicants that allows a department or agency to make an informed grant decision.

8.2.2 Financial accounting requirements of applicants

The Committee found that four similar accounting requirements were required of grant recipients by departments depending on the nature and the size of the grant. The four requirements were:

- a financial audit of a grant recipient be undertaken to evaluate their financial and operational viability, to ensure project or program delivery;
- accepting the grant agreement with the department allocating the grant;
- that funding is paid on delivery of project or program outcomes; and
- keeping records of all associated expenditure in accordance with the *Financial Management Act 1994*, Section 44.

The accounting requirements and level of required detail was, in most cases, dependent upon the value of the grant funding provided. In some instances the grant process is tailored to the expected outcomes and variety of both grant program objectives and organisations receiving grants.

¹⁸⁸ Transport Accident Commission, response to the Committee's Financial and Performance Outcomes Questionnaire – Part One, p.14

The level of agreement between a grant recipient and an allocating department or agency differed also according to the amount of funding involved. While the Department of Sustainability and Environment require all grant recipients to enter into a Deed of Grant, the Department Of Human Services stated that ‘financial accounting obligations are commensurate with the requirements specified in each of the grant invitations’ and ‘vary according to the amount of grant funding’.¹⁸⁹ The Department of Innovation, Industry and Regional Development have two levels of agreement depending on the size of grant: for grants less than \$50,000 a letter of offer suffices as a legally binding document, but for grants greater than \$50,000 a specific legal agreement is drawn up.

The second accounting requirement concerns the payment of grant funding. It was a common practice to make payment conditional on the delivery of outcomes or upon reaching identified milestones.

The third requirement was the keeping of accounting records including tax invoices. In most instances accounting records needed to be submitted as a prerequisite for payment. Parks Victoria applied a different approach, instead, advising grant recipients that they may be audited at the completion of the grant project, at which point full financial records must be disclosed.¹⁹⁰

The exception amongst questionnaire respondents was South East Water. While the accounting procedures followed were generally similar amongst departments and agencies, South East Water stated that they do not require grant applicants to follow any specific ‘financial accounting procedures’.¹⁹¹

The Committee is reassured by the common approach taken by departments and agencies to financial accounting requirements, with the one exception identified. Importantly, the Committee considers the requirement that program outcomes be met to receive payment is a sound method for guaranteeing public money achieves the budget objectives to which it is allocated by the government.

Recommendation 13: **South East Water develop accounting requirements for grant projects which grant applicants must address in the application process.**

8.3 Grant programs and recipients

In reviewing government grants for 2007-08 the Committee sought a descriptive indication of the types of grant programs departments and government agencies were funding and the organisations receiving grant funding. Departments and agencies were asked to provide organisational information, a project summary and time of completion data for their three largest grants.

8.3.1 Three largest grants allocated in 2007-08

An analysis of information supplied by departments and agencies reveals a variety of projects were funded and that only a small proportion of funding was allocated to private companies.

¹⁸⁹ Department of Human Services, response to the Committee’s Financial and Performance Outcomes Questionnaire – Part One, received 19 January 2009, p.56

¹⁹⁰ Parks Victoria, response to the Committee’s Financial and Performance Outcomes Questionnaire – Part One, p.11

¹⁹¹ South East Water, response to the Committee’s Financial and Performance Outcomes Questionnaire – Part One, p.19

Table 8.2: Three largest grants allocated by departments and agencies in 2007-08

	Grant 1		Grant 2		Grant 3	
	Program/Recipient	Grant value (\$ million)	Program/Recipient	Grant value (\$ million)	Program/Recipient	Grant value (\$ million)
Department of Human Services	Loddon Mallee Housing Services	22.5	Melbourne Affordable Housing	18.2	Walter and Eliza Hall Institute Establishment of a breast cancer biomarker discovery and evaluation program to improve patient outcomes	0.5 (over 2 years)
Department of Innovation, Industry and Regional Development	Victorian Life Sciences Computation Initiative	50	Melbourne Centre for Nanofabrication	15	Multinet Gas Distribution Partnership	13.3
Department of Justice	Country Fire Authority	55	Affordable Housing	50	Victorian Legal Aid	42.7
Department of Planning and Community Development	The Australian Grand Prix Corporation	43.2	Victorian Urban Development Authority	38.1	Victorian Institute of Sport	5.2
Department of Sustainability and Environment	Bush Tender	0.24	Improving Public Safety on Public Land/Truganina Explosive Reserve	0.2	Crown Land Caravan and Camping Park Improvement Program/Torquay Foreshore Caravan Park	0.09
Department of Treasury and Finance	First Home Owners Scheme	264.1	State First Home Buyers Bonus	111.4	Melbourne Major Events	31.8
Department of Transport	Torquay boat ramp	0.75	Walk Bendigo	0.3	Hastings Community Harbour	0.3
Department of Education and Early Childhood Development	Grants to Non Government Schools	399.8	Schools Start Bonus	37.5	Education Maintenance Allowance	(34.3)
Department of Primary Industries	Municipal Rates Subsidies	18	Exceptional Circumstance Payments	15	On-Farm Productivity Improvement Grants	9.6
Department of Premier and Cabinet	Melbourne International Arts Festival	5.9	Melbourne Symphony Orchestra	2.2	Victorian Opera	2.1

Table 8.2: Three largest grants allocated by departments and agencies in 2007-08

	Grant 1		Grant 2		Grant 3	
	Program/Recipient	Grant value (\$ million)	Program/Recipient	Grant value (\$ million)	Program/Recipient	Grant value (\$ million)
Parks Victoria	Kororoit Creek Trail	0.36	Hallam Main Drain Trail	0.21	Mullum Creek Trail Stage 2	0.2
Transport Accident Commission	University of Melbourne Traumatic Injury to Brain and Spinal Cord: Secondary Injury, Development and Evaluation of New Treatments	4.2	Howard Florey Institute Preventing neuronal cell death following brain trauma	1.7	Murdoch Children's Research Institute Prevention and Treatment of Social Problems Following Traumatic Brain Injury in Children and Adolescents	1.3
City West Water	Melbourne Stadiums Limited	0.23	CSR Ethanol Pty Ltd	0.13	Oxford Cold Stores	0.1
South East Water	Victorian Amateur Turf Club	0.1	CCA Bayswater Pty Limited	0.05	GM Holden Ltd	0.06

Sources: Department and Agency Responses to the Committee's Financial and Performance Outcomes Questionnaire – Part One

Most grants identified in the responses received were to individuals, government organisations (State and local), universities and research institutes, non-government and not-for-profit organisations. There is limited grant funding to private companies, including grant funding to individual farm businesses through the On-Farm Productivity Improvement Grant Program, administered by Department of Primary Industries. Eight grants worth \$28.7 million were also allocated to private companies, which included five grants for water conservation projects with a combined value of \$416,533 and \$9.6 million in grants to individual farm businesses worth up to \$3,000 each.

Individuals accounted for the largest allocation of grant payments, largely due to government grants to first time home buyers, but also other grants such as the School Start Bonus and Education Maintenance Allowance from the Department of Education and Early Childhood Development. There were eight grants allocated to State Government departments and agencies.

While water conservation, education and first home buyers are recognised areas of government funding, other grants identified in responses to the Committee's Questionnaire covered a much wider variety of projects. These included:

- Australian Grand Prix Corporation (Department of Planning and Community Development);
- On-Farm Productivity Improvement Grants (Department of Primary Industries);
- Walter and Eliza Hall Institute, establishment of a breast cancer biomarker discovery and evaluation program to improve patient outcomes (Department of Human Services);
- Melbourne Centre for Nanofabrication (Department of Innovation, Industry and Regional Development);
- Kororoit Creek Trail (Parks Victoria);
- Melbourne Major Events (Department of Treasury and Finance);
- Multinet Gas Distribution Partnership (Department of Innovation, Industry and Regional Development);
- Victorian Institute of Sport (Department of Planning and Community Development);
- University of Melbourne, traumatic injury to brain and spinal cord (Transport Accident Commission); and
- Torquay boat ramp (Department of Transport).

Departments and agencies reported that most of the grants identified were in line with the original target date for completion. However, the Committee was unable to assess whether identified delays were due to program or management delays or an indication of inefficiencies in the particular grant project.

Grants administered by agencies included three local government grants (Parks Victoria), three university/research institute grants (TAC) and the five grants to private companies to reduce water consumption (water corporations). A grant issued to the Melbourne Racing Club (not-for-profit) was also for a water conservation project. The three TAC grants accounted for 82.6 per cent of the \$8.6 million worth of grants identified in the sample of agency grants.

A review of the three largest grants sample reveals the variety of grant projects, disparities in grant funding and categories of recipient organisations. However, on its own it only provides a partial picture of the role and significance of government grants. A more complete picture requires an analysis of grants as a proportion of a department or agency's operation and expenditure. This is provided in section 8.5 of this chapter (Grant allocations by departments and agencies).

8.4 Accountability of grant recipients

The accountability of grant recipients is an important element of a robust grant administration system. Grant recipients are given public money to implement projects that support government objectives and to deliver government outcomes. To determine the adequacy of the accountability requirements imposed on grant recipients, the Committee asked questions regarding reporting, accounting for expenditure and reconciliation of the objectives and outcomes of grant recipients with that of the funding department or agency. The grants reviewed in the previous section (8.3) were used as a reference point for questionnaire responses.

8.4.1 Reporting project outcomes and grant funds expenditure

The requirements imposed for outcome and expenditure reporting varied between grants and between departments and agencies. The Committee's assessment of grant reporting is focused upon the financial accounting requirements and approaches to ensuring the delivery of project outcomes. It is regular practice to only make grant payments after the successful achievement of required outcomes or milestones. Controls identified by departments and agencies included:

- the Department of Human Services have regular meetings with Housing Associations to discuss progress of grant programs and Housing Associations are subject to the regulations of the *Housing Act 1983* and monitored by the Housing Registrar;
- reporting by all Victorian Cancer Agency grant recipients to the Department of Human Services is to include any publications and the fostering of project collaborations;
- the Department of Innovation, Industry and Regional Development Nanofabrication grant project is required to report six monthly on key issues and risk mitigation;
- the inclusion of the three largest grant recipients within the Department of Justice's performance output reporting means targets are identified in Budget Paper No.3 and reported in the Department of Justice annual report;
- individual recipients of first time home owner grants are required to demonstrate compliance with grant requirements;
- Department of Transport allocates a Grants Project Officer to each project funded through the Boating Safety and Facilities Program;
- Department of Transport requires the submission of meeting minutes for the purposes of accountability for the Walk Bendigo project; and
- while water savings grants are not tied to actual water savings they require water savings to be estimated. A final assessment is made by inspection.

The information supplied by respondents varied, in part due to interpretation of the question and also in the level of detail provided. The information supplied demonstrated to the Committee that most departments and agencies instituted accountability requirements that they deemed suitable to the grants they allocated. However, the exception was the Department of Education and Early Childhood Development, which did not provide information on the accountability or reporting of grant recipients beyond what was reported in section 8.2.2 of this chapter.

8.4.2 Reconciling grant objectives and outcomes with organisational objectives and outcomes

The relevance of objectives and outcomes of grant programs to those of the funding organisation are integral to the accountable allocation of funding by a department or agency. A range of methods are applied by departments and agencies to ensure reconciliation between grant programs and grant allocating organisations. Commentary is provided on the sufficiency of information from specific departments to ensure that grant objectives and outcomes are fully reconciled with those of the granting organisation.

The Department of Human Services identified a specific measure to ensure the reconciliation of objectives and outcomes with the Victorian Cancer Agency grant program. The Department uses a Consultative Council to advise the Minister for Health on the work of the Victorian Cancer Agency and this 'provides the necessary objectives and outcomes reconciliation pathways'.¹⁹⁴

The following departments provided insufficient detail about their processes to reconcile grant and department objectives and outcomes:

- Department of Innovation, Industry and Regional Development;
- Department of Planning and Community Development;
- Department of Treasury and Finance; and
- Department of Education and Early Childhood Development.

The Department of Innovation, Industry and Regional Development stated that performance targets are set, but did not establish the extent to which these allow them to reconcile the objectives and outcomes of the grant recipient with those of the Department. The Department of Planning and Community Development provided a standard response to this part of the questionnaire and applied it to each of the three largest grants identified, stating that:

The department reports internally, within government and externally on its performance against targets including budget outputs, finances, grants, programs and projects. It produces an annual report including audited financial information, and is accountable to the Victorian community through numerous publications.

The Department of Treasury and Finance provided a general response about 'increasing living standards ... through the provision of innovative policy advice'.¹⁹⁵ The Department of Education and Early Childhood Development did not expand on the information already assessed as insufficient in 8.2.2 and 8.4.1.

The Committee also identified common methods for ensuring that objectives and outcomes are reconciled. These included assessing applications against criteria for inclusion in grant programs (Department of Sustainability and Environment) and similarly, the application of a competitive process to assess grant program objectives against department objectives (Department of Transport). For the Department of Justice the inclusion of the CFA, Metropolitan Fire and Emergency Services Board and Victorian Legal Aid within its performance output reporting means its three largest grant projects are directly informed by the objectives and outcomes of the Department.

¹⁹⁴ Department of Human Services, response to the Committee's Financial and Performance Outcomes Questionnaire – Part One, received 19 January 2009, p.62

¹⁹⁵ Department of Planning and Community Development, response to the Committee's Financial and Performance Outcomes Questionnaire – Part One, received 15 December 2008, p.27-28

Three examples of specific measures to ensure the reconciliation of objectives and outcomes for grant programs and projects were identified in agency responses. Parks Victoria stated that Metropolitan Trail Network Grants are aligned with a specific corporate objective to increase the range and accessibility to recreation. Victorian Neurotrauma Initiative grant projects funded by TAC are developed upon the stated purpose and constitution of Victorian Neurotrauma Initiative. Assisting the development of water saving solutions for customers is a key strategic direction of South East Water’s corporate plan and the purpose of its three largest grants.¹⁹⁶

The use of a common approach by the Department of Sustainability and Environment and the Department of Transport and the application of specific methods to ensure reconciliation, demonstrate efforts made to ensure organisational objectives and outcomes are met by grant programs. However, the inadequacy of responses from four departments also demonstrates to the Committee that there is a need for a minimum standard approach for ensuring reconciliation. A starting point could be an application process that incorporates the objectives and outcomes of the funding department or agency. Another could be the alignment of the outcomes of grant programs with performance measures identified for each department in the State budget.

8.5 Grant allocations by departments and agencies

The Committee asked departments and agencies to itemise grant allocations for 2007-08 according to grant programs and as a proportion of total organisation budget. The detail of responses to grant programs varied, however, information regarding total grant allocation and proportions of total budget was more complete. These responses highlighted how the role of grant funding differs as a means for achieving government objectives between departments and also agencies.

8.5.1 Grant allocations

A review of department and agency grant allocations revealed a significant variation in the proportions of department budgets allocated in grants for the year 2007-08. This variation can be attributed to the role and function of a department and the role of third party bodies and grant recipients in delivering department outcomes and government objectives.

Grant expenditure formed the majority of actual expenditure for two departments:

Table 8.3: Departments in which grant expenditure formed a majority of actual expenditure

Department	per cent	\$ million
Department of Planning and Community Development. ¹⁹⁷	72.3	\$399
Department of Innovation, Industry and Regional Development. ¹⁹⁸	77.4	\$1,131

Sources: *Department of Planning and Community Development, 2007-08 Annual Report, p.134*
Department of Innovation, Industry and Regional Development, 2007-08 Annual Report, p.68

¹⁹⁶ Department of Treasury and Finance, response to the Committee’s Financial and Performance Outcomes Questionnaire – Part One, p.30

¹⁹⁷ Department of Planning and Community Development, *2007-08 Annual Report*, p.134

¹⁹⁸ Department of Innovation, Industry and Regional Development, *2007-08 Annual Report*, pp.68

The high proportion of grants as budget expenditure is a result of the shared development focus of both departments. A primary organisational value identified by the Department of Planning and Community Development in its 2007-08 annual report is a commitment to ‘collaborating and building partnerships’.¹⁹⁹ Similarly, the Department of Innovation, Industry and Regional Development’s strategic objectives are pursued through ‘work with business and the community to boost productivity, exports, investments, visitation and jobs’.²⁰⁰ There is a difference however between the two departments as the Department of Innovation, Industry and Regional Development allocates almost three times the amount of funds as the Department of Planning and Community Development. In general, the Department of Innovation, Industry and Regional Development, provided more comprehensive and detailed reporting of administered grants than any other department.

A wide middle range of grant funding is represented by the Department of Sustainability and Environment (43 per cent of total budget), the Department Of Primary Industry (35.8 per cent), the Department of Treasury and Finance (26.4 per cent) and the Department of Justice (14.9 per cent). In the case of the Department of Sustainability and Environment, portfolio entities such as Parks Victoria, Catchment Management Authorities and Zoos Victoria, received the majority of grant allocations (63.6 per cent) in 2007-08. External organisation and individuals formed the next largest group of Department of Sustainability and Environment grant recipients, being awarded 20.4 per cent or a total of \$127 million.

The majority of grants from the Department of Treasury and Finance were made through the Government’s First Home Owners Scheme and State First Home Buyers Bonus. Together these two grants amounted to \$375.5 million in 2007-08, accounting for 74.6 per cent of Department of Treasury and Finance grants. Similarly grants identified by the Department of Primary Industry all related to drought assistance, 72.3 per cent of which were allocated to the agriculture sector. Of the twelve programs receiving grant allocations that were identified by the Department of Justice, more than three quarters (79.0 per cent or \$196.9 million) was allocated to five programs/agencies:

- Country Fire Authority;
- Affordable Housing;
- Victorian Legal Aid;
- Metropolitan Fire and Emergency Services Board; and
- Taking Action on Problem Gambling.

The Department of Human Services and the Department of Transport make minimum use of grants to execute their budget responsibilities. The Department of Transport allocated 0.3 per cent and the Department of Human Services only 0.08 per cent, however budget disparity means that both departments allocated approximately \$10 million each. The Department of Transport allocated grants through three programs: the Boating Safety and Facilities Program, and the Local Area Access Program and Travel Smart. The Department of Human Services did not provide a breakdown of grant programs in its response to the Committee’s Questionnaire.

The majority of the TAC budget was allocated as grants while only a minimal percentage of the budget in other agencies formed grant payments. There are two categories of programs receiving TAC grants, the smaller category (less than \$1 million) for road safety education programs, with the majority of grants allocated to health research as part of the Victorian Neurotrauma Initiative researching Traumatic Brain and Spinal Cord Injury.

¹⁹⁹ Department of Planning and Community Development, *2007-08 Annual Report*, p.11

²⁰⁰ Department of Innovation, Industry and Regional Development, *2007-08 Annual Report*, p.13

Table 8.4: Grant allocations 2007-08

	Total grant allocations 2007-08	2007-08 budget	Proportion of total Department / Agency budget
	(\$ million)	(\$ million)	(%)
Department of Human Services	10.2	12,452.9	0.08
Department of Innovation, Industry and Regional Development	1,132.6	1,560.3	72.6
Department of Justice	249.1	1,671.8	14.9
Department of Planning and Community Development	399.0	414.3	96.3
Department of Sustainability and Environment	624.0	1,448.8	43.0
Department of Treasury and Finance	503.3	1,909.2	26.4
Department of Transport	9.8	2,950.0	0.3
Department of Education and Early Childhood Development	596.0	599.0	99.5
Department of Primary Industry	242.8	676.8	35.9
Department of Premier and Cabinet	36.0	527.1	6.8
Department Total	3,802.8	24,210.2	15.7
Parks Victoria	1.2	164.9	0.7
Transport Accident Commission	6.6	7.5	88.0
City West Water	1.2	29.5	4.1
South East Water	0.6	92.7	0.6
Agency Total	9.6	294.6	3.3
Total	3,812.4	24,504.8	15.6

Sources: Department and Agency Responses to the Committee's Financial and Performance Outcomes Questionnaire – Part One

8.6 Conclusions

The Committee's review of grants has found that adequate but varying processes are in place to ensure the accountability of grant programs. However, this assessment of the adequacy of accountability processes and measures could not be made based on the level of disclosure and reporting in annual reports for 2007-08 alone. The Committee has made recommendations aimed at improving the reporting of grants in annual reports.

Overall, responses to grant questions posed by the Committee were answered with sufficient detail to allow the Committee to reach the conclusion that there is room to improve the design and application of accountability practices within government grant programs, from application to payments and the satisfactory delivery of program outcomes. Further work is needed in the reconciliation of objectives and outcomes of grant programs to objectives and performance measures of funding organisations. While a majority of departments demonstrated adequate and applied reconciliation, four departments provided no specific detail. The Committee has highlighted how the examples of other departments point to a standard that the Committee recommends be developed to ensure reconciliation of objectives and outcomes.

The Committee found that two departments were highly dependant on grant programs to deliver State budget commitments, while grants made up less than 1 per cent of expenditure from another two departments. The remaining departments filled a broad middle band. Disparity was also evident between government agencies. The Committee has recommended that reporting and disclosure is required for grants in excess of \$100,000, in a similar requirement to that required for consultancies.

Recommendation 15:

To enhance public accountability, government departments and agencies disclose in their annual reports, all grant payments as per the Department of Innovation, Industry and Regional Development Annual Report, Appendix 13.

CHAPTER 9: EFFICIENCIES

Key Findings of the Committee:

- 9.1 The 2007-08 financial year represented the initial period of a four year program of implementation of savings totalling \$632 million targeted at departments under the Efficient Government Policy (\$447 million) and 'other' efficiency measures (\$185 million).
- 9.2 Departments have advised the Committee that they fully achieved their 2007-08 savings obligations which totalled \$103.2 million. This result was \$5.6 million higher than the aggregate of projected savings for the year for individual departments that were itemised in the 2007-08 budget papers. Most savings were generated under the *Buying Smarter – Buying Less* strategy of the Efficient Government Policy accounting for \$46.1 million, or 45 per cent, of the year's aggregate savings.
- 9.3 It was not possible for the Committee to accurately dissect aggregate savings between the Efficient Government Policy and 'other' efficiency measures as two departments, Premier and Cabinet and Planning and Community Development, could not separately identify savings achieved for all measures.
- 9.4 The material submitted to the Committee provided, in most cases, a general picture of departmental strategies employed to achieve savings targets under various designated efficiency categories. Savings measures identified to the Committee included greater use of whole of government purchasing arrangements, negotiation of new purchasing contracts and restructuring of corporate services functions, including payroll and human resources.
- 9.5 Measures taken by departments to limit growth in Head office staffing numbers included the slowing, where appropriate, of recruitment action and the filling of positions.
- 9.6 Departments have reported that in 2007-08 there has been no detrimental impact from savings regimes on program or service delivery. Their initial strategies have focused on internal operational efficiencies and improved management practices.
- 9.7 Two departments, Sustainability and Environment and Transport, advised the Committee they do not record all actions taken to achieve savings targets but rely on individual business units to realise savings through their reduced budgets. While recognising this position, particularly for small savings, the Committee would have expected that the management trail in these departments was sufficiently robust to give accurate information on strategies employed across the organisation to realise savings under specially-designated categories.
- 9.8 In some departments, organisational reviews have been implemented or planned in recognition of the need for wider implementation in future years of strategies to achieve savings.

- 9.9** Departments face significant demands in meeting ongoing savings targets in future years, given that many of their early actions in 2007-08 are likely to have been directed to the more obvious areas with immediate potential for efficiency gains. Meeting major efficiency targets over several continuous years without adversely impacting on service delivery capability will be a significant challenge for departments and is likely to require more sophisticated management approaches in the coming years. These circumstances also reinforce the importance of effective implementation in future years of whole of government strategies directed at savings in the departmental sector.
- 9.10** Any deterioration in economic conditions and the associated fiscal implications for the government provide an additional dimension to the demands on departments for ensuring they are operating with maximum efficiency.
- 9.11** There is scope for the Government Services Group within the Department of Treasury and Finance to provide guidance material to departments to assist their voluntary reporting to Parliament in annual reports on their performance in achieving savings targets.
- 9.12** The overall significance of the government's savings initiatives, from both monetary and service delivery viewpoints, warrants an examination by the Auditor-General of the strategies employed by central government and departments in the attainment of savings targets.

9.1 Nature of the government's contemporary efficiency strategies

In recent years, the Committee has devoted attention in its annual budget estimates and outcomes reports to major government budgetary initiatives associated with savings targets assigned to departments and to the extent of achievement of savings by departments. The Committee's consideration of the subject has included assessment of the quality of presentation of material on targeted savings in annual budget papers, and the adequacy of reporting by departments on actions taken to achieve savings and on any resultant impacts on service delivery such as a need to accelerate or defer particular programs.

The Committee's *Report on the 2006-07 Financial and Performance Outcomes* addressed savings targeted at departments in 2005-06 and 2006-07.²⁰¹ Its reports on budget estimates for 2007-08 and 2008-09 focused on specific savings initiatives introduced in the 2007-08 and 2008-09 budgets.²⁰² These initiatives involved:

- implementation of the government's *Efficient Government Policy* across departments arising from its 2006 election commitments, and 'Other' efficiencies expected of departments (both announced in the 2007-08 Budget); and
- 'general efficiencies' in administration within departments (identified in the 2008-09 Budget).

²⁰¹ Public Accounts and Estimate Committee, *Report on the 2006-07 Financial and Performance Outcomes*, May 2008, pp.151-169

²⁰² Public Accounts and Estimates Committee, *Report on the 2007-08 Budget Estimates – Part Three*, September 2008, pp.34-7 and *Report on the 2008-09 Budget Estimates – Part Three*, October 2008, pp.36-8

Two key characteristics of the government's contemporary savings initiatives have been their magnitude in dollar terms and specified timelines incorporating annual targets over forward estimates periods for implementation. For example, the *Efficient Government Policy* involves savings targets totalling \$447 million over the four year forward estimates period 2007-08 to 2010-11, the 'other' efficiencies mentioned in the 2007-08 budget amount to \$185 million over the same period, and the 'general' efficiencies in administration planned from 2008-09 have an aggregate value of \$500 million to be realised over the four year period 2008-09 to 2011-12.²⁰³

The implementation periods of different efficiency strategies can overlap, for example, the 2008-09 financial year would involve all three strategies identified in the above paragraph. This situation reinforces the importance of careful planning by departments of actions that will generate in each case the desired annual savings.

The Committee's past analysis of planned and actual savings achieved by departments has identified a need for improved presentation of planned strategies in annual budget papers and in ex-post reporting by departments in their annual reports on implementation of savings strategies.

In its 2006-07 outcomes report, the Committee recommended that four courses of action could be taken to address these matters.²⁰⁴ The government's response to that report stated that no additional action was necessary as efficiency measures essentially concern departmental inputs and full accountability for departmental performance in achieving planned savings is reflected in Victoria's output management model.²⁰⁵ This model requires departments to report against specific quantity, quality, timeliness and cost output targets. Under this approach, the reporting of attainment of aggregate output targets, after reduction through savings to budgeted inputs, is deemed by the government as sufficient to adequately discharge the accountability obligations of departments associated with the savings initiatives.

9.2 Departmental performance against targeted savings in 2007-08

While recognising the government's position (identified in the previous paragraph), on departmental reporting of outputs, the Committee determined to continue to seek from departments, as part of its current outcomes inquiry, information on the extent to which they had achieved savings targeted in the 2007-08 Budget under the Efficient Government Policy and other identified efficiencies, as well as on any consequential impact to service delivery.

In seeking this information, the Committee's aim was to assess the nature of early departmental actions taken in 2007-08 in implementing the government's savings strategies and to determine whether similar material should be gathered in future years as part of its ongoing accountability charter.

The 2007-08 budget papers disclosed the following information on aggregate savings of \$632 million targeted at departments in 2007-08 under the Efficient Government Policy and 'Other efficiencies' to be achieved over the four year forward estimates period 2007-08 to 2010-11:

²⁰³ Budget Paper No.3, *2007-08 Service Delivery*, p.344 and Budget Paper No.3, *2008-09 Service Delivery*, p.358

²⁰⁴ Public Accounts and Estimate Committee, *Report on the 2006-07 Financial and Performance Outcomes*, May 2008, p.169

²⁰⁵ Victorian Government, *Response to the Committee's report on the 2006-07 Financial and Performance Outcomes*, November 2008, pp.15-6

Efficient Government Policy – targeted savings of \$447 million

- Improvements in government procurement under Buying Smarter, Buying Less – \$292 million
- A whole of government approach to shared services – \$60 million
- Implementation of best practice grant administration – \$35 million
- More efficient management of the government vehicle fleet – \$20 million
- A reduction in advertising and consultancy expenditure – \$20 million
- Better integration of ICT services across government – \$20 million

Other efficiencies – targeted savings of \$185 million (not dissected in budget papers)

- Merger of the Victorian Office of Multicultural Affairs and Victorian Multicultural Commission
- General efficiencies across government, including limiting the future growth of head office staff

The budget papers did not identify the estimated savings expected by each department in each of the next four years for the six efficiency measures established under the Efficient Government Policy or for the other efficiencies category. The budget papers did separate each department's annual expected contribution to the Buying Smarter, Buying Less strategy over the four year period to 2010-11 but grouped the annual expected contribution for all remaining efficiency strategies, encompassing both the Efficient Government Policy and other efficiencies categories, under a second heading of 'Other efficiencies'.

Because of the budget papers' global presentation of efficiency targets across departments, incorporation of this item within the Committee's 2007-08 financial and performance outcomes Questionnaire was necessary to identify each department's targets in 2007-08 for all efficiency measures.

The material sought by the Committee from departments addressed three areas, namely:

- an outline of each department's contribution to the targeted savings allocated under the individual efficiency measures making up the Efficient Government Policy and to other efficiencies assigned to the department;
- a description of the way in which all efficiencies realised by departments were utilised in meeting the costs associated with the provision of frontline services to the community; and
- an explanation of the impact on departments' service delivery capability of attainment of targeted efficiencies, for example, changes to the timing and scope of specific programs through advancement or deferral action.

9.2.1 Efficiency savings achieved by departments in 2007-08

Tables 9.1 and 9.2 show the responses received by the Committee from departments relating to their aggregate efficiency savings in 2007-08 and the breakdown of those savings according to efficiency measures under the Efficient Government Policy and 'other' efficiencies.

Two departments, Premier and Cabinet and Planning and Community Development could not separately identify for the Committee savings achieved for all efficiency measures comprising the Efficient Government Policy and 'other' efficiencies other than the Buying Smarter – Buying Less strategy. While the total figures shown in Table 9.1 represent the aggregate of all savings advised by departments, the presentation of savings data for individual efficiency measures, apart from the Buying Smarter – Buying Less item, has been consequently affected, as identified in the note to the table. It was not possible therefore for the Committee to accurately dissect aggregate savings between the Efficient Government Policy and 'other' efficiencies.

Table 9.1: Aggregate efficiency savings achieved by departments in 2007-08

Efficiency measure	2007-08 Target	2007-08 Actual
	(\$ million)	(\$ million)
Efficient Government Policy		
Buying Smarter – Buying Less	46.1	46.1
Shared services (a)	8.6	8.6
Best practice in grants administration (a)	6.1	6.1
Fleet management (a)	3.7	3.7
Advertising and consultancies (a)	4.2	4.2
Integrated ICT(a)	4.4	4.4
Sub-total (a)	73.1	73.1
Other efficiencies (b)	30.1	30.1
Total	103.2	103.2

- Notes:
- (a) *Figures shown for these items under the Efficient Government Policy do not include information relating to two departments, Premier and Cabinet and Planning and Community Development, as those departments submitted the figures under the one heading 'other efficiencies' and a further dissection was not available to the Committee.*
 - (b) *This item includes for the Departments of Premier and Cabinet and Planning and Community Development an aggregate figure which could not be dissected between relevant efficiency measures of the Efficient Government Policy, see note (a), and 'other' efficiencies.*

Sources: *Department and Agency Responses to the Committee's Financial and Performance Outcomes Questionnaire – Part One*

Table 9.2: Breakdown of 2007-08 aggregate efficiency savings across departments

Department	Savings initiative	2007-08 Target	2007-08 Actual
		(\$ million)	(\$ million)
Education and Early Childhood Development	Efficient Government Policy		
	Buying Smarter-Buying Less	8.3	8.3
	Shared services	0.6	0.6
	Best practice in grants administration	0.1	0.1
	Fleet management	0.1	0.1
	Advertising and consultancies	0.2	0.2
	Other efficiencies		
	Grants duplication	0.3	0.3
	Capping head office staffing growth	1.2	1.2
	VMIA insurance savings	0.4	0.4
	WorkCover savings	4.4	4.4
Additional budget efficiencies	0.5	0.5	
Total		16.1	16.1
Human Services	Efficient Government Policy		
	Buying Smarter-Buying Less	8.2	8.2
	Shared services	4.3	4.3
	Best practice in grants administration	0.2	0.2
	Fleet management	0.9	0.9
	Advertising and consultancies	1.2	1.2
	Other efficiencies		
	Grants duplication	0.6	0.6
	Reduction in head office staffing (1%)	2.4	2.4
Total		17.8	17.8
Innovation Industry and Regional Development	Efficient Government Policy		
	Buying Smarter-Buying Less	2.6	2.6
	Shared services	0.2	0.2
	Best practice in grants administration	1.6	1.6
	Fleet management	0.1	0.1
	Advertising and consultancies	0.8	0.8
	Improved focus on ICT	2.0	2.0
	Other efficiencies		
	Grants duplication	5.4	5.4
	VPS increases	0.6	0.6
Total		13.3	13.3
Justice	Efficient Government Policy		
	Buying Smarter – Buying Less	5.6	5.6
	Shared Services	1.9	1.9
	Best practice in grants administration	0.1	0.1
	Fleet management – DOJ	0.3	0.3
	Fleet management – Victoria Police	1.3	1.3

Table 9.2: Breakdown of 2007-08 aggregate efficiency savings across departments

Department	Savings initiative	2007-08 Target	2007-08 Actual
		(\$ million)	(\$ million)
	Advertising and consultancies	0.3	0.3
	Other efficiencies		
	CBD Office growth	1.9	1.9
	Grants duplication	0.4	0.4
	VMIA insurance – DOJ	0.3	0.3
	VMIA insurance – Victoria Police	0.1	0.1
	State purchasing contract savings	1.4	1.4
	Grants reallocation of savings	0.1	0.1
Total		13.7	13.7
Planning and Community Development	Efficient Government Policy		
	Buying Smarter – Buying Less	1.3	1.3
	Other efficiencies – the department advised that a dissection of this figure between the remaining efficiency measures of the Efficient Government Policy and ‘other’ efficiencies was not available.	5.3	5.3
Total		6.2	6.2
Premier and Cabinet	Efficient Government Policy		
	Buying Smarter – Buying Less	1.3	1.3
	Other efficiencies – the department advised that a dissection of this figure between the remaining efficiency measures of the Efficient Government Policy and ‘other’ efficiencies was not available. It indicated that, given the relatively small size of the target, savings were allocated across departmental units on a proportionate basis.	0.9	0.9
Total		2.2	2.3
Primary Industries	Efficient Government Policy		
	Buying Smarter – Buying Less	3.9	3.9
	Shared services	0.5	0.5
	Best practice in grants administration	0.1	0.1
	Fleet management	0.5	0.5
	Advertising and consultancies	0.3	0.3
	Other efficiencies		
	Other efficiencies	0.4	0.4
Total		5.7	5.7
Sustainability and Environment	Efficient Government Policy		
	Buying Smarter – Buying Less	7.1	7.1
	Shared services	0.7	0.7
	Best practice in grants administration	3.4	3.4
	Fleet management	0.5	0.5

Table 9.2: Breakdown of 2007-08 aggregate efficiency savings across departments

Department	Savings initiative	2007-08 Target	2007-08 Actual
		(\$ million)	(\$ million)
	Advertising and consultancies	0.8	0.8
	Other efficiencies		
	State purchase contracts	1.5	1.5
	WorkCover premium savings	0.5	0.5
	VMIA insurance savings	0.5	0.5
Total		15.0	15.0
Transport	Efficient Government Policy		
	Buying Smarter – Buying Less	5.6	5.6
	Shared services	0.2	0.2
	Best practice in grants administration	0.6	0.6
	Fleet management (savings totalled \$50000)	-	-
	Advertising and consultancies	0.4	0.4
	Other efficiencies		
	Other efficiencies	1.0	1.0
Total		7.8	7.8
Treasury and Finance	Efficient Government Policy		
	Buying Smarter – Buying Less	2.6	2.6
	Shared services	0.2	0.2
	Fleet management (savings totalled \$7000)	-	-
	Advertising and consultancies	0.2	0.2
	Integrated ICT	2.4	2.4
Total		5.4	5.4

Sources: Department and Agency Responses to the Committee's Financial and Performance Outcomes Questionnaire – Part One, and to follow-up emails issued by the Committee

It can be seen from the above tables all departments advised the Committee that they fully achieved their 2007-08 savings obligations which totalled \$103.2 million. Most savings were generated under the Buying Smarter-Buying Less strategy which accounted for \$46.1 million or 45 per cent of aggregate savings.

Based on the departmental responses, total savings realised in 2007-08 were \$5.6 million higher than the aggregate, \$97.6 million, of projected savings shown for individual departments in the 2007-08 Budget papers, with an additional \$2.8 million, or 50 per cent of higher savings, achieved under the Buying Smarter – Buying Less measure.²⁰⁶ This reflects the position advised by some departments that some savings targets under the Efficient Government Policy were revised subsequent to the 2007-08 Budget. Some departments also indicated to the Committee that targets under the ‘Other efficiencies’ category were varied after release of the 2007-08 Budget to incorporate some additional sources of savings such as reductions in WorkCover and insurance premiums.

Recommendation 16: **The Department of Premier and Cabinet and the Department of Planning and Community Development ensure that reporting systems are in place for future years that disaggregate efficiency savings so that a fuller, transparent reporting of savings under the Efficient Government Policy (\$447 million target over four years) can be achieved.**

9.2.2 Departmental actions to achieve savings targets in 2007-08

The Committee also sought from departments a brief description of their actions taken during 2007-08 to achieve savings under the various efficiency initiatives. Table 9.3 at the end of this chapter sets out the responses received from departments.

The responses provide a general picture of initial departmental strategies employed in response to the introduction of significant annual savings targets from 2007-08. They identify that departments achieved significant savings in 2007-08 in the two key areas of Buying Smarter – Buying Less and Shared Services through several avenues including greater use of whole of government purchasing contracts, negotiation of new purchasing contracts, and restructuring of corporate services functions encompassing the elimination of duplication across organisational units, including payroll and human resources.

Measures taken to limit growth in Head Office staffing numbers in line with a 1 per cent growth cap required by the government included the slowing, where appropriate, of recruitment action and the filling of positions.

The Department of Treasury and Finance advised that significant savings, \$2.4 million, were achieved by combining the Office of the Chief Information Officer and Multi Media Victoria, which further improved the whole of government ICT focus.²⁰⁷

Some departments also advised that organisational reviews have either been undertaken or are planned to strengthen their capacity to generate future savings, including preparation for wider implementation of whole of government shared services strategies, in recognition of their significant savings demands in future years. Some departments also mentioned that, because a centrally-managed shared services policy framework had not been fully developed during the year, savings earmarked in that area had to be realised through other avenues including operational efficiencies and attrition management.

The Committee was also advised by two departments, Sustainability and Environment and Transport, that they do not record all actions taken to achieve savings targets. These departments advised that in most cases the pursuit of savings is left to individual business units who have the responsibility of realising efficiency initiatives through reduced budgets. While accepting this position, particularly for very small savings, the Committee would have expected that the management trail in these departments was sufficiently robust to give accurate information on the strategies employed across the organisation to achieve savings under designated categories.

²⁰⁶ Budget Paper No.3, *2007-08 Service Delivery*, pp.278-337

²⁰⁷ Department of Treasury and Finance, response to the Committee’s 2007-08 Financial and Performance Outcomes Questionnaire, Part One, p.27

The 2007-08 budget papers indicated that the savings generated over the four year period 2007-08 to 2010-11 *'would be reinvested back into frontline services to the community.'*²⁰⁸ In their responses to the Committee on this point, most departments identified that savings were achieved through a reduction in their 2007-08 funding allocations which enabled reinvestment at central government level into frontline services to the community.

As mentioned in an earlier paragraph, the Committee also sought from departments an indication of the impact on their service delivery capability of attainment of targeted efficiencies, for example, changes to the timing and scope of specific programs. The Committee was particularly interested in the nature of departmental management strategies initiated in response to the savings regime such as a need to reprioritise programs, including any action necessary to defer or advance programs.

A recurring feature of departmental responses on this matter was that savings were targeted at internal efficiencies and improved management practices rather than on program or service delivery. The key message conveyed to the Committee was there was no significant detrimental impact from implementation of savings initiatives on the delivery of programs or services in 2007-08.

9.3 Some concluding comments on efficiencies

The 2007-08 financial year represented the initial period of a four year program of implementation of savings totalling \$632 million targeted at departments under the Efficient Government Policy and under 'other' efficiency measures.

The material submitted to the Committee on achievement of savings targets in 2007-08 indicates that all departmental targets were met and that savings amounting to \$103.2 million were achieved, primarily through internal efficiencies and enhanced management practices. The Committee considers there has been an encouraging start to implementation of the savings program introduced in 2007-08.

Based on the government's planned efficiency measures announced in the 2007-08 and 2008-09 budgets, Departments face further savings obligations totalling in excess of \$1 billion over the period 2008-09 to 2011-12. The implementation periods of different efficiency strategies established by the government will overlap during this time horizon which reinforces, from the Committee's perspective, the importance of careful planning by departments of actions that will generate in each case the desired annual savings.

Departments have reported that in 2007-08 there has been no significant detrimental impact from savings regimes on program or service delivery.

The responses indicate that, in some cases, organisational reviews have been completed or are planned and signal wider implementation in future years of whole of government approaches to the generation of savings such as through initiatives involving the sharing of services. These messages from departments recognise the reality of the significant levels of recurring annual savings targets that have been assigned for the foreseeable future and the imperative of having well structured organisational strategies in place in order to successfully respond to the targets. The messages also accentuate the demands that departments face in meeting ongoing savings targets, given that many of their early actions are likely to have focussed on the more obvious areas with potential for immediate efficiency gains. Meeting substantial efficiency targets over several continuous years without adversely impacting on service delivery capability will be a significant challenge for departments and is likely to require more sophisticated management approaches in the coming years.

Any deterioration in economic conditions and the associated fiscal implications for the government provide an additional dimension to the demands on departments for ensuring they are operating with maximum efficiency.

²⁰⁸ Budget Paper No.3, 2007-08 Service Delivery, p.p.35 and 344

Table 9.3: Departmental responses on actions taken in 2007-08 to achieve allocated savings targets

Department	Outline by departments of actions undertaken to achieve savings targets
<p>Education and Early Childhood Development</p>	<p>Efficient Government Policy</p> <p>Buying Smarter-Buying Less</p> <p>The department captured central savings through the use of Whole of Government (WoG) contracts for items such as stationery, as well as through internal consolidation such as departmental level contracts for printing supplies and consumables. Savings were realised through initiatives such as the WoG electricity contract and the WoG gas contract. These savings are captured through lower levels of indexation funding being allocated to both schools and head office.</p> <p>Sharing Services</p> <p>The department has not directly benefited from the implementation of centrally managed shared services at this time, however it effectively absorbed the savings requirement through attrition management.</p> <p>Best practice in grants administration</p> <p>The department's largest discretionary grant program, the Strategic Partnerships Program, was recently reviewed, with a number of recommendations which enabled streamlining. This review resulted in head office savings in the administration of the program.</p> <p>Fleet management</p> <p>The department's comments under Buying Smarter – Buying Less were also linked to this efficiency measure.</p> <p>Advertising and consultancies</p> <p>The department reduced budgets for advertising, consultancies and other head office items to effect the savings requirement.</p> <p>Other efficiencies</p> <p>Grants duplication</p> <p>The department's comments under Best practice in grants administration were also linked to this efficiency measure.</p> <p>Capping head office staffing growth</p> <p>The department actively monitors its VPS profile and staffing levels (the department's comments under Shared Services were also linked to this efficiency measure).</p> <p>VMIA insurance and Workcover savings</p> <p>These savings are directly associated with reductions for the department's insurance premiums.</p> <p>Additional budget efficiencies</p> <p>The department's comments under Advertising and consultancies were also linked to this efficiency measure.</p>

Table 9.3: Departmental responses on actions taken in 2007-08 to achieve allocated savings targets

Department	Outline by departments of actions undertaken to achieve savings targets
Human Services	<p>Efficient Government Policy</p> <p>Buying Smarter- Buying Less Efficiencies in Buying Smarter – Buying Less were generated from current and new State Purchasing Contracts, full deployment of Electric Commerce for Procurement (EC4P) and conversion of a significant share of the DHS motor vehicle fleet from petrol to LPG.</p> <p>Shared Services The most significant component of the shared services efficiencies were achieved through the cost savings associated with the rationalisation of ICT servers in the consolidated data centre. Other efficiencies were achieved through the consolidation of metropolitan and rural payroll functions and the consolidation of central Human Resource units.</p> <p>Best practice in grants administration The department has a relatively minor grants program as the majority of funds provided to agencies are for the provision of services. Efficiencies were achieved through a reduction to budgets for those areas responsible for grants administration promoting development of more efficient work practices.</p> <p>Fleet management Fleet management savings were achieved through improved utilisation of existing vehicles and receipt of a lower lease charge due to the introduction of a buyer's premium as a charge on the sale of vehicles at auction.</p> <p>Advertising and consultancies Savings were achieved through a budget reduction across all outputs based on a proportionate budget reduction according to the prior year's expenditure. Consultancy expenditure reduced from \$6.1 million in 2006-07 to \$5.6 million in 2007-08.</p> <p>Other efficiencies</p> <p>Grants duplication The department's comments under best practice in grants administration were also linked to this efficiency measure.</p> <p>Reduction in head office staffing The department has maintained a rigorous monitoring regime of head office staffing levels and has achieved the desired outcome to limit growth in head office staffing to less than 1 per cent.</p>

Table 9.3: Departmental responses on actions taken in 2007-08 to achieve allocated savings targets

Department	Outline by departments of actions undertaken to achieve savings targets
<p>Innovation, Industry and Regional Development</p>	<p>Efficient Government Policy Buying Smarter – Buying Less These savings will be met primarily by Skills Victoria through greater contestability of training hours purchased. An analysis of the rest of the department showed there were limited opportunities for savings in the short term as the bulk of operating funding was tied to large contracts associated with accommodation, IT outsourcing etc.</p> <p>Shared Services Savings have been met across the department. Through its organisational alignment review, the department has taken steps to eliminate duplication in functions and position itself for WoG shared services implementation.</p> <p>Best practice in grants administration These savings have been met from a range of departmental grant programs. The department has undertaken a review of its grants programs with a view to achieving the required savings in future years.</p> <p>Fleet management These savings have been met across the department (it did not indicate how the savings were achieved).</p> <p>Advertising and consultancies These savings have been met across the department, with the major savings relating to Tourism Victoria.</p> <p>Integrated ICT These savings have been met by the Multi Media Victoria Division through evaluation and rationalisation of ICT projects.</p> <p>Other efficiencies Grants duplication The department's comments under best practice in grants administration were also linked to this efficiency measure.</p> <p>VPS increases In order to achieve these savings in 2007-08, the department slowed recruitment and the filling of positions was subject to a stringent approval process. It also commenced implementation of a new Organisation Structure to align resources to priorities and eliminate duplication in administrative functions which will lead to greater efficiencies in the long term.</p>

Table 9.3: Departmental responses on actions taken in 2007-08 to achieve allocated savings targets

Department	Outline by departments of actions undertaken to achieve savings targets
Justice	<p>Efficient Government Policy</p> <p>Buying Smarter – Buying Less</p> <p>The department achieved savings by taking a strategic approach to procurement initiatives and contract management. A contributor to meeting the savings target was achieved via renegotiation of the Traffic camera Operations contracts. Business units across the portfolio were also encouraged to reduce non-essential expenditure and non-priority activities were discontinued where practical.</p> <p>Shared Services</p> <p>In the majority of cases, the department has found the required savings through implementing measures and strategies aligned to the items listed above. However, in some instances, such as the shared services savings, this was not possible as the required central infrastructure for shared services was not established at the time. These savings had to be absorbed by the department by extracting operational efficiencies in Corporate Services and other areas that did not directly impact on service delivery.</p> <p>Best practice in grants administration</p> <p>Implementation of the Grant Management Process Guide to ensure proper management and accountability in the administration of grants and the amalgamation of like grants has delivered the required savings.</p> <p>Fleet management</p> <p>More efficient management of the department's vehicle fleet, introduction of the pilot bicycle program in the Collingwood Neighbourhood Justice Centre, encouraging staff to use public transport for movements within the CBD and utilising executive vehicles as pool cars has delivered the required savings for the department.</p> <p>Advertising and consultancies</p> <p>Savings targets have been met by reducing the print media/communications budgets across all business units within the department and replacing hard copy printing by electronic distribution where practical. Engagement of consultants and contractors by the department is in accordance with the standard Victorian Government Purchasing Board (VGPB) purchasing policies.</p> <p>Other efficiencies</p> <p>CBD Office Growth</p> <p>The department has implemented a number of strategies including: establishment of agreed staffing profiles for each business unit, lifting the delegation level for approval of new positions, and analysing the most appropriate site for service delivery staff to be located in line with the clients they serve.</p> <p>Victorian Managed Insurance Authority</p> <p>These savings had to be absorbed by the department by extracting operational efficiencies predominantly in Corporate Services but also in other areas that did not directly impact on service delivery.</p> <p>State Purchasing Contract Savings</p> <p>Significant procurement savings have been achieved through savings on large contract renewals, primarily via renegotiation of the Traffic camera Operations contracts as per buying smarter buying less.</p>

Table 9.3: Departmental responses on actions taken in 2007-08 to achieve allocated savings targets

Department	Outline by departments of actions undertaken to achieve savings targets
<p>Planning and Community Development</p>	<p>Efficient Government Policy Buying Smarter – Buying Less The Buying Smarter – Buying Less initiative supports one of the department’s strategic directions of delivering excellent organisational performance. To achieve this, we have conducted a review of procurement to identify any opportunities to improve procedures and negotiated an arrangement with other departments to utilise service providers from an established panel.</p> <p>Shared services The department is also working with the Department of Treasury and Finance (DTF) in the expansion of shared services arrangements with IT, finance and payroll already part of shared services. In relation to library, fleet and other areas, the department will respond on receipt of DTF initiatives as indicated when the savings were introduced. In addition to these measures, the budget transfer of planning functions to the department included savings applied by the Department of Sustainability and Environment at the time.</p> <p>Best practice in grants administration The department has continued the implementation of eGrants (the department’s electronic grants management system) and standard funding agreements.</p>
<p>Premier and Cabinet</p>	<p>Efficient Government Policy Buying Smarter – Buying Less The department applied the Buying Smarter-Buying Less efficiency target across all areas of the department in proportion to the size of output budgets.</p> <p>Shared services Shared services savings were applied to relevant services (no further details provided)</p> <p>Best practice in grants administration Savings were applied to Arts Victoria grant programs.</p> <p>Advertising and consultancies Savings were applied to the respective budgets (no further details provided).</p>

Table 9.3: Departmental responses on actions taken in 2007-08 to achieve allocated savings targets

Department	Outline by departments of actions undertaken to achieve savings targets
Primary Industries	<p>Efficient Government Policy</p> <p>Buying Smarter – Buying Less</p> <p>Targets were met through the increased use of and participation in the development of Whole of Government contracts, through savings found from general efficiencies across the department and by reducing investment in low priority areas in line with Government priorities.</p> <p>Shared Services</p> <p>As per Buying Smarter – Buying Less efficiency measure</p> <p>Best practice in grants administration</p> <p>Savings were achieved through management efficiencies in the administration of grant programs.</p> <p>Fleet management</p> <p>Savings were achieved through improved fleet management practices to achieve better use of corporately pooled vehicles and changing the mix of the fleet (i.e. the use of smaller and hybrid vehicles).</p> <p>Advertising and consultancies</p> <p>Reductions in advertising expenditure were achieved through more selective and innovative advertising approaches, such as the use of hotline/SMS technology. There has also been an estimated 20 per cent reduction in print costs through the use of Whole-of Government contracts.</p>
Sustainability and Environment	<p>The department advised the Committee that no further breakdown of its savings is available. The department does not record specific actions and the attributable savings. In most cases, savings are applied across the department and its portfolio entities on a pro-rata basis on their discretionary expenditure base. Divisions then take the necessary actions to achieve budgets.</p>
Transport	<p>The department advised the Committee it is not possible to disaggregate efficiency initiatives, especially by smaller items. The main savings initiative 'Buying Smarter – Buying Less' flowed through to the department in more efficient purchasing costs. But as the size and nature of this amount changes each year, it is not possible to break this down further.</p>

Table 9.3: Departmental responses on actions taken in 2007-08 to achieve allocated savings targets

Department	Outline by departments of actions undertaken to achieve savings targets
Treasury and Finance	<p>Efficient Government Policy</p> <p>Buying Smarter – Buying Less Savings were achieved by reviewing and reducing the number of catalogue items available on the e-Procurement system (ARIBA) and specifically reducing the number of stationery and associated products from around 6,500 items to 1800. Further savings were achieved from the Whole of Government’s current and new State Purchase Contracts.</p> <p>Shared Services The department has reviewed the sharing of back office services and continues to impose the Government’s 1 per cent growth cap in head office numbers (which includes corporate functions) which will ensure ongoing savings are achievable.</p> <p>Fleet management The department allocated and absorbed these efficiencies initiatives without detriment to the delivery of outputs.</p> <p>Advertising and consultancies The department has allocated consultancy savings to the outputs with a view that consultants only be engaged when the department does not possess the sufficient expertise to carry out particular projects.</p> <p>Integrated ICT Savings were achieved by combining the Office of the Chief Information Officer and Multi Media Victoria which further improved the whole of government ICT focus. This was identified as part of the machinery of government changes. To absorb the saving, the Government Services output has been re-structured to strengthen policy reform and engagement and to provide a stronger focus on creating value through innovation and continuous improvement. DTF continues to review the sharing of back office services.</p>

Sources: Department and Agency Responses to the Committee’s Financial and Performance Outcomes Questionnaire – Part One