PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

TWENTY-SEVENTH REPORT TO PARLIAMENT

REPORT ON THE 1998-99 BUDGET ESTIMATES

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Duties of the Committee

The Public Accounts and Estimates Committee is a joint parliamentary committee constituted under the *Parliamentary Committees Act* 1968, as amended.

The Committee comprises nine Members of Parliament drawn from both Houses of Parliament and all parties.

The Committee carries out investigations and reports to Parliament on matters associated with State financial management. Its functions are to inquire into, consider and report to the Parliament on:

(a) any proposal, matter or thing connected with public administration or public sector finances; and

(b) the annual estimates or receipts and payments and other Budget Papers and supplementary estimates of receipts and payments presented to the Assembly and the Council;

if required, or permitted to do so, by or under the Act.

As a result of recent changes to the *Audit Act* 1994 the Committee now has a consultative role in the conduct of performance audits.

Glossary

Annual appropriation	The appropriations to Departments and the Parliament contained in the *Appropriation Act* and *Appropriation (Parliament) Act*. These appropriations lapse at the end of each financial year.
Budget sector	Comprises agencies within the general government sector that each obtain 50 per cent or more of funding through appropriations and that are directly accountable, through Ministers, to Parliament.
Capital asset charge	A charge generally on the written down value of non-current, physical assets controlled by agencies within the budget sector. The cost is designed to reflect the full cost of service provision and to encourage the management of surplus or under performing assets.
Consolidated fund	The government's primary account that receives all consolidated revenue and from which payments appropriated by Parliament for government purposes are made.
Corporatisation	A process that aims to provide a government business enterprise with a more commercial focus. Key elements include an independent board of directors, explicit performance targets, tax-equivalent payments and a requirement to comply with the provisions of the *Corporations Law*.
Franchising	The sale to an external party (usually on the basis of a competitive bidding process) of the right to distribute a particular good or service to a particular market for a defined period. Franchising is often seen as a way of introducing competition into an industry that may otherwise be seen as a monopoly.
Full cost	The total cost of all resources used in the provision of a good or service.

General government sector	The part of government that provides goods and services (for consumption by governments and the general public) often free of charge or at nominal charges below the cost of production. Costs of production are mainly financed through public revenues.
Identified funding grant	A grant from the Commonwealth to the States as a general purpose payment, but for an identified area of broad activity. The Commonwealth does not make these grants conditional on specific performance conditions being met.
Medicare Agreement	An agreement between the Commonwealth and the States to provide all Medicare beneficiaries with inpatient and outpatient care at public hospitals without charge. It expired on 30 June 1998 and has been replaced with the Australian Health Care Agreement.
National Competition Policy	An agreement by all States and the Commonwealth to systematically apply the principles of competition across all areas of the economy.
Non-public account revenue and other sources	Revenue such as receipts from user charges and other revenue collected and retained by agencies. This revenue includes fees and charges levied by VicRoads, TAFE institutes, school councils and hospitals.
Outcomes	The government's intended impact on the community as a result of the funding of services. Outcomes establish both the rationale and foundation for the budget.
Output group	For purposes of budgeting and reporting, a grouping of individual outputs that contribute to a common outcome.
Outputs	Measurable direct results of activities provided to external consumers, such as products or services.
Performance measures	Quantity, quality and timeliness indicators used to describe how many, how well, when, or how frequently government funded outputs will be delivered.

Public account	The consolidated fund and the trust fund combined.
Public sector	Non-financial public enterprises and public financial institutions that have government ownership and control.
Receipts credited appropriations	Appropriated limit that recognises: either revenue or capital from: • agreed user charges for a department's provision of outputs to third parties directly in return for payment; • specific purpose payments from the Commonwealth; • payments from municipal councils; and • proceeds from the sale of assets. Amounts are deemed to be appropriated from the consolidated fund.
Special appropriation	A standing authority (that remains in force until amended or repealed by Parliament) for ongoing payments to be independently made of the government's annual budget priorities.
Specific purpose payments	Grants made by the Commonwealth to State and Territory governments subject to terms and conditions specified by the Commonwealth, generally to ensure that Commonwealth policy objectives (or national objectives agreed between the Commonwealth and the States) are met.
Steering Committee for the Review of Commonwealth/ State Service Provision	The Prime Minister, Premiers and Chief Ministers established a Review of Commonwealth/State Service Provision in July 1993. Its main tasks are to develop, and publish data on, agreed national performance indicators for key services delivered by governments in Australia, and to analyse reforms in government services.
Trust fund receipts	Receipts which are paid into a trust account within the public account. The trust account must be set up pursuant to certain provisions contained in the *Financial Management Act* 1994, and the monies enable departments to make payments for specific reasons as set out in the legislation authorising the

	creation of the trust account.
Unfunded liabilities	Liabilities that are accruing but for which no explicit provision has been made for payment.

Chairman’s Introduction

Information in this report is based on a review of the budget estimates of expenditure for 1998-99 and documentation relating to recent financial management reforms. The Committee wholeheartedly supports the reforms to date, but continues its practice of making recommendations on the financial management reporting process, which build on matters raised in our previous estimates reports.

The Committee has including in this review an assessment of agencies’ business plans. This has been a worthwhile exercise and has highlighted the need for an urgent review of the Department of Treasury and Finance Guide to Corporate and Business Planning to reflect the new output and accrual output based framework.

This year’s estimates hearings highlighted the significant changes occurring in the way agencies plan, implement and manage programs as the public sector moves from ’direct delivery’ of services to a ’service management’ environment. These developments have funding and accountability implications that are addressed in this report.

The introduction of output management and accrual output based budgeting is a welcome development as both are critical components of a best practice financial management environment. The implementation of these reforms will provide a platform for better management of government resources, enhanced accountability and more meaningful performance management. The Committee has made a number of suggestions in this report aimed at enhancing the financial and performance information provided to the Parliament.

On behalf of the Committee, I would like to express our appreciation to Ministers and departmental officials for their attendance and cooperation at the estimates hearings and for providing detailed written responses to the Committee’s questionnaire. The Committee also wishes to record its appreciation for the research support provided by Ms Sharell Cook, an officer on secondment from the Victorian Auditor-General's Office; and for advice provided by Professor James Guthrie on aspects of the Management Reform Program. Again, as always, the Committee is indebted to Michele Cornwell and Frances Essaber.

I commend the report for consideration.

Bill Forwood
Chairman
Public Accounts and Estimates Committee

Executive Summary

Chapter 1 : Introduction

The Public Accounts and Estimates Committee analysed the 1998-99 Budget Estimates using departmental responses to a questionnaire and evidence given at public hearings, attended by Ministers and the Heads of the Parliamentary Departments, from May through to September 1998.

Of the sixty recommendations contained in the Committee's previous report on the 1997-98 Budget Estimates, thirty-three were accepted; sixteen were partly accepted; and ten were rejected.

The Committee was particularly interested in the response from the Department of Treasury and Finance to chapters 1, 2 and 3 of the report, which dealt with the quality of financial and other information in the Budget overview. The Department indicated that it accepted six of the Committee's twenty recommendations, accepted eleven in part; and rejected three.

Chapter 2 : Accrual Output Based Budgeting

The adoption of a budget based on full accrual appropriations and output management in 1998-99 has positioned Victoria as a leader in budget reform.

Without detracting from what has been achieved for 1998-99, there are still many challenges to be addressed. These include cultural change, definitions for outputs and outcomes, and allocation of funding.

The most notable product and service costs arising from the adoption of accrual based measurement are depreciation and a capital assets charge to reflect the full cost of service provision and to encourage the management of surplus or under-performing assets.

In the 1998-99 budget documents, three global appropriations (to be applied to the provision of outputs, increases in the net asset base, and payments made on behalf of the State), replaced the traditional capital and current purposes of breaking up appropriations. The stated purpose of this classification is to identify appropriations associated with the Government's interest in the delivery of outputs, as opposed to those linked with the Government's interest in the productivity of departmental assets.

The Committee believes that the increased flexibility provided by global appropriations to Departments must be matched by increased accountability through the compulsory reporting of actual performance (as achieved against targets for outputs and outcomes) and explanations of significant variances.

Chapter 3 : Management Reform Program

The underlying basis of the Management Reform Program is the funding of budget sector outputs that are linked with the strategic outcomes of the Government and expectations of the community. Therefore, outputs are the primary unit of the budget and Government resource allocation decisions. The government-specified measurable outcomes determine the funding of outputs.

The concept of the Government (Ministers) as the purchasers of goods and services, and of Departments and other agencies as providers, underpins the financial management reforms. According to the output based management regime, the Government decides which outputs to fund, at specified levels of quantity, quality and price. Providers of services can be either internal or external to the public sector, hence the idea of contestability.

The Committee found that the Financial Management Reform Program has progressed, but not enough emphasis and attention has been given to the link between corporate and business plans, budget allocations and reporting of actual results through interim performance reports and the annual report.

The Committee believes that the Department of Treasury and Finance should review existing departmental output specifications to ensure that they reflect appropriate and meaningful outputs. In addition, the Committee recommends an independent audit or evaluation of the appropriateness of output and outcome performance measures.

Chapter 4 : Whole of government reporting

Whole of government reporting involves presenting financial statements that consolidate the transactions of each government entity. The Department of Treasury and Finance produced a whole of government report on a trial basis for 1995-96, then produced a financial statement for the State of Victoria for the first time in October 1997 (for the 1996-97 financial year).

While the 1996-97 financial statement deserves commendation for being a move in the right direction, the Committee believes that there is room for improvement in timeliness, content and principles of consolidation.

Chapter 5 : Budget overview

The revised operating surplus (before abnormals) of $1.153 billion for 1997-98 was $604 million higher than the initial estimate. The Government has projected that the operating surplus before abnormals will increase from $767.3 million in 1998-99 to $949.2 million in 2001-02.

The growth in operating revenue in 1998-99 is restrained by new tax relief measures and the stabilisation of the growth in revenue from gambling taxes as the market matures.

Annual appropriations to Departments are budgeted to increase by $968.6 million to a total of $13.515 billion in 1998-99. The Committee notes that this increase is to be primarily applied to education and human services, which are expected to receive additional appropriations of $254 million and $376 million respectively to address high priority needs.

Debt and unfunded superannuation continue to be the main components of public sector liabilities. A substantial reduction in the amount of this debt has contributed to the restoration of Victoria's AAA credit rating, and to the strong position of State's finances and its broad economic base.

Government measures to reduce the expected losses under contracts to supply electricity to the Portland and Port Henry aluminium smelters have resulted in the cessation (from July 1998), of the obligation to subsidise SECV Shell for losses. This is expected to save the Government approximately $209 million in 1998-99.

Chapter 6 : Parliamentary departments

The Parliament has five Departments that operate as independent entities. Each Department manages its own staff, administration, and financial operations.

Except for the new output group relating to the Victorian Auditor-General's Office, which transferred from the Department of Premier and Cabinet, output groups remain unchanged for 1998-99.

The Committee is concerned that little progress has been made with implementing its previous recommendation that business and corporate plans are needed for the Parliamentary Departments.

The Committee is aware of the shortage of accommodation for parliamentary staff, particularly in the Library and Hansard. The Committee believes that strategies should now be developed to overcome problems with inadequate accommodation for Members and staff, including examining the feasibility of relocating some staff involved in non-core activities to alternative accommodation located close to Parliament House.

Savings are expected to amount to approximately $500,000 in 1998-99 and will have the most impact on the Department of Parliamentary Services, which incurs the majority of the variable costs of the Parliament. The Chief Executive Officer of the Department of Parliamentary Services indicated that it would be necessary to review the structure of how the Parliamentary Departments operate if they are to remain within the budgetary framework in the future.

The Committee believes that the Library's services should be expanded to include a specialised research capacity. The Committee is also of the view that planning, coordination and project management (including change management) in all the Departments need to be improved if the thrust of the Financial Management Reform Program is to be successfully implemented. Greater emphasis should be given to adding value to current services and the use of benchmarking, to determine best practice.

Chapter 7 : Department of Treasury and Finance

The Department's provision of outputs is anticipated to increase by 10 per cent, primarily as a result of the privatisation of the remaining gas entities, the Victorian Plantations Corporation and the Public Transport Corporation.

The Minister for Finance advised the Committee that it would take three to five years to finalise the implementation of the Management Reform Program, particularly for output groups and outputs across the entirety of the public sector. The Committee also noted that the implementation of the appropriate output costing systems is still incomplete.

The Government's plans to privatise the gas distribution and transmission companies has been delayed because the Office of the Regulator-General and the Australian Competition and Consumer Commission have declined to approve the proposed access arrangements. According to the regulators' final decision, investors should receive a rate of return of 7.75 per cent. This is significantly lower than that originally proposed by the Government and will reduce the potential sale price of the gas companies.

The Committee noted that interactive gaming poses a considerable challenge for the regulation of the gaming industry. The Minister for Gaming indicated that he did not necessarily intend to preclude current licence holders from the opportunity to take up interactive gaming, and that legislation was being prepared to address the issues of interactive gaming (particularly player protection).

Chapter 8 : Department of Education

The Department has restructured its output groups to align with the core functions of the Department and portfolio responsibilities of its Ministers. Three output groups have been consolidated and there is an additional group.

The Department expects an increase of 4.4 per cent in the provision of outputs. This increase is to occur in the school education output group, predominantly as a result of Government initiatives.

An amount of $11.1 million has been committed over two years to assist with the implementation of the Schools of the Third Millennium Program, which aims to provide schools with increased flexibility in decision making and to enable greater specialisation. The Department has called for expressions of interest from schools wishing to participate in the program, which will commence in the approved schools as from next year. The Committee was advised that rural primary schools and regional schools aiming to establish a secondary college had shown the most interest.

The Committee noted that the Department has released a new policy to regulate school sponsorship. This policy responds to the concern that schools may receive improper sponsorship given that sponsorship has grown as a source of fundraising. The policy bans schools from obtaining sponsorship from businesses involved in gambling, alcohol, tobacco or the sex industry.

Chapter 9 : Department of Human Services

The Department has retained the same output groups of 1997-98 except for consolidating the Rental Housing Assistance and Home Ownership Assistance output groups into one group called Housing Assistance.

The Department expects to achieve productivity savings of $45.2 million in 1998-99. The Acute Services Output Group, which is expected to contribute $27.7 million, will provide the bulk of savings.

The Medicare Agreement (which expired on 30 June 1998), was renegotiated in August 1998 with the signing of the Australian Health Care Agreement. Under the agreement, the Commonwealth is to provide additional base funding and greater flexibility in the structure of the offer. The Committee noted that the additional funding is mainly for replacing equipment, undertaking medical research and teaching, and enhancing post-acute and sub-acute care. One-off funding of $20 million is to improve the quality of, and access to, hospital services.

Chapter 10 : Department of Infrastructure

The budgeted outputs of the Department are expected to decrease by $46.2 million (or 2.3 per cent) to a total of $1.971 billion in 1998-99. This reduction is likely to be concentrated in the Public Transport Services Output Group as a result of outsourcing and privatisation.

Expressions of interest to purchase V/Line Freight were called on 31 July 1998, with final bids due in December 1998. However, the Committee noted that the timetable for the privatisation of the passenger businesses (Hillside Trains, Bayside Trains, Yarra Trains, Swanston Trams, and V/Line Passenger) has been extended from the end of 1998 to March 1999.

A major performance management program is being implemented for local government. Two sets of performance indications have been developed and were launched in February 1998. These indicators measure higher level governance and corporate accountability, and local industry best practice. The Committee recommends independent review of all councils' performance management systems to ensure they appropriately support the collection, retention and verification of data relating to the performance measures.

Chapter 11 : Department of Justice

Six out of the Department's ten output groups relate to Victoria Police. The budgeted outputs for these groups have increased by a total of $43.3 million (or 4.5 percent) in 1998-99, and they represent approximately 65 per cent of all outputs.

Attempting to overcome problems in the management of the Port Phillip private prison, the Department and the Office of Correctional Service have undertaken measures such as correcting prison design faults and imposing financial penalties on the prison operator. The State is expected to contribute $300,000 of the $1 million overall cost of correcting the design faults.

The Department's Pathfinder review—undertaken to improve the efficiency of administrative processes and procedures within the criminal justice system—was recently completed. The cost to the Department of this review was approximately $1.5 million, and the recommendations will take three years to implement at a cost of $27 million. The Committee noted that the Department intends to raise the funds for the implementation by applying for government funding and the better use of technology to make savings across programs.

The Commonwealth's provision of legal aid funding is to decrease by $3.75 million to a total of $27.75 million in 1998-99 under new Commonwealth funding arrangements introduced on 1 July 1997. These funding arrangements stipulate that Commonwealth funding can only be expended on cases arising under Commonwealth law.

Chapter 12 : Department of Premier and Cabinet

All outputs were reviewed in 1997-98, resulting in a refined set of outputs and more comprehensive performance measures. However, a description of each output is yet to be included in the Budget Papers. Of the 157 performance measures listed, 118 are new measures and do not include performance targets for 1997-98.

The Committee noted that the amount paid to the Community Support Fund is to be reduced by $25 million in each financial year from 1998-2004. These monies are to be transferred to the consolidated fund to provide additional funding for education and health programs. The reduction in funding will affect the fund's abilities to fulfil the purposes for which it was set up, and will require the Department to re-adjust existing approaches to financial planning.

Chapter 13 : Department of State Development

The Department has adopted a new output group structure (reducing its output groups from eleven to six) in 1998-99 that reflects the key industry sectors.

The provision of outputs by the Department is expected to decrease by $17.5 million to a total of $197.8 million in 1998-99. This is in accordance with the Government's decision to redirect funding to priority areas of health, education and privatisation.

The downturn in the Asian economies has required the Department to change the emphasis of its strategies for its core business of investment, export and tourism. While maintaining a strong marketing presence in Asia, the Department has advised that it will re-direct marketing campaigns for tourism to more mature markets that are experiencing favourable currency exchange rates against the dollar.

The Committee noted that funding of $27.2 million is to be provided in 1998-99 to implement the Government's multimedia strategy, and the Government is committed to ensuring all appropriate services are on-line by 2001. Although there will be little scope for cost savings as traditional service delivery mechanisms must continue to run parallel with the electronic system, the initial benefit will be the increase in community access to services and ease of carrying out business and transactions with the Government.

Chapter 14 Department of Natural Resources and Environment

The Department has adopted 235 new performance measures for 1998-99, the majority of which are quantity and quality measures.

The Catchment Management and Sustainable Agriculture output group will receive additional funding of $35.1 million (primarily from the National Heritage Trust) to address environmental and sustainable agricultural challenges.

The Department is expected to achieve a productivity gain of $4.15 million in 1998-99, compared with $4.26 million in 1997-98. In addition, Cabinet has decided to reduce the Department's recurrent budget allocation by a further $20 million. The Committee was advised that the impact on services will be confined to the metropolitan area and will result in the loss of 330 staff.

Recommendations

Chapter 1 Introduction

The Committee recommends that:

Recommendation 1.1: page 4	***The draft guidelines, A Guide to Corporate and Business Planning, be amended to reflect the new output and accrual output based framework with its focus on outputs and re-issued to Departments as soon as possible so it can be used at the start of the 1999-2000 budgetary cycle.***
Recommendation 1.2: page 5	***The Ministerial Directions on financial reporting be amended to require half yearly performance reports - including financial statements in an abbreviated form, comparisons with budget revenues and outlays, and progress against output and outcome performance targets - to be prepared by Departments and provided to the Public Accounts and Estimates Committee.***
Recommendation 1.3: page 6	***Departments finalise their corporate and business plans in conformity with the Guide to Corporate and Business Planning (to be updated) and in time for the budget estimates inquiry process and provide a complete copy to the Public Accounts and Estimates Committee.***

Chapter 2 Accrual output based budgeting

The Committee recommends that:

Recommendation 2.1: page 8	***The Department of Treasury and Finance review the output measures used in the 1998-99 Budget Papers to compare those presented by agencies in their corporate and business plans, annual reports and other management and accountability documents. The purpose of the review would be to establish best practice in output, outcome, and performance measurement and reporting for the Victorian public sector.***
Recommendation 2.2: page 19	***Budget papers include actual performance achieved against targets for outputs and outcomes, and explanations of why previously stated output targets and explanations have changed or not been achieved.***
Recommendation 2.3: page 21	***As annual reports of Departments are considered to be central to public accountability, future annual reports of agencies contain details of the actual financial results, outputs and outcomes, against amounts budgeted.***
Recommendation 2.4: page 21	***The Department of Treasury and Finance review the targets set in business plans and in the budget documents to ensure that they are challenging and attainable.***
Recommendation 2.5: page 21	***The Department of Treasury and Finance review all business plans, to determine standard business plan components and develop best practice.***

Chapter 3 Management Reform Program

The Committee recommends that:

Recommendation 3.1: page 24	***The Government prepare a timetable for the full implementation of the output management reform program and establish standards of best practice so the link between the various accountability and management documents is transparent.***
Recommendation 3.2: page 32	***The outputs, performance measures, targets and actual figures reported in the budget papers and annual reports be independently audited or evaluated.***

Chapter 4 Whole of government reporting

The Committee recommends that:

Recommendation 4.1: page 36	***The Department of Treasury and Finance review developments with consolidated financial statements in other Australian jurisdictions and in New Zealand to determine best practice for the next (1998-99) whole of government report. In addition, the Department should review current professional and academic debates about whole of government financial reporting, with the view to improving the content and accountability of the statements.***

Chapter 6 Parliamentary Departments

The Committee recommends that:

Recommendation 6.1: page 53	***As a matter of priority, the Heads of the Parliamentary Departments prepare a whole of parliament corporate plan.***

Recommendation 6.2: page 55	***The Department of Parliamentary Services examine the feasibility of relocating some staff involved in non-core activities to alternative accommodation located close to Parliament House.***
Recommendation 6.3: page 57	***The Presiding Officers give consideration to expanding the information services provided by the Parliamentary Library to include a specialised research capacity.***
Recommendation 6.4: page 58	***The Parliamentary Departments develop strategies to add value to existing services.***

Chapter 7 Department of Treasury and Finance

The Committee recommends that:

Recommendation 7.1: page 60	***The respective roles and responsibilities of the Treasurer and the Minister for Finance and the Minister for Gaming be outlined in terms of the specific outputs within the output groups in the budget papers and in the Department's annual report.***
Recommendation 7.2: page 60	***The Department of Treasury and Finance review its quantitative performance measures to ensure that a suitable basis of measurement and corresponding performance targets are set for all measures.***
Recommendation 7.3: page 61	***The Department of Treasury and Finance make available to the Public Accounts and Estimates Committee its complete Corporate Plan and Business Plan to enable effective parliamentary oversight of the Department's goals and strategic direction.***

Recommendation 7.4: page 62	***The Department of Treasury and Finance, as a priority, continue to develop appropriate benchmarks to facilitate assessment of the efficiency of service provision.***
Recommendation 7.5: page 70	***In order to further re-inforce public confidence in the gaming industry, the Victorian Casino and Gaming Authority develop a Players' Charter that also extends to the emerging area of interactive gaming.***
Recommendation 7.6: page 71	***The Victorian WorkCover Authority confer with a range of stakeholders – employers, unions, doctors, insurers and clients – on the most effective strategies for assisting long-term injured workers and on potential areas for improvement in community based return to work programs.***
Recommendation 7.7: page 74	***The Government closely monitor the impact of the costs of addressing the Year 2000 problem and provide sufficient resources to ensure that critical systems will continue to function.***

Chapter 8 Department of Education

The Committee recommends that:

Recommendation 8.1: page 79	***The Department of Education expand the selection of financial statements contained in its Business Plan to include a cash flow statement and capital expenditure forecast.***

Recommendation 8.2: page 84	***The Department of Education ensure that members of School Councils receive comprehensive training on their responsibilities and accountability obligations in relation to the Schools of the Third Millennium program.***
Recommendation 8.3: page 86	***The Department of Education continue to allocate sufficient funding to enable the significant maintenance backlog at schools to be addressed as a matter of urgency.***

Chapter 9 Department of Human Services

The Committee recommends that:

Recommendation 9.1: Page 92	***The Department of Human Services develop additional quality and timeliness performance measures to ensure that there is a balanced mix of measures with which to compare performance.***
Recommendation 9.2: page 97	***The Department of Human Services give priority be given to developing an appropriate mix of qualitative and quantitative measures for assessing performance for mental health services, children's services and support services.***
Recommendation 9.3: page 103	***The Department of Human Services: (a) closely monitor arrangements for elective surgery waiting lists; (b) further develop waiting list management practices and the approach to clinical categorisation of patients; and (c) pay bonus payments to hospitals only after the end of each performance measurement period to ensure a genuine bonus payment for good performance.***

Recommendation 9.4: page 105	***The Department of Human Services continue to develop qualitative and quantitative performance indicators for hospitals which enable the measurement of both quality and efficiency.***

Chapter 10 Department of Infrastructure

The Committee recommends that:

Recommendation 10.1: page 118	***All councils' performance management systems be independently reviewed to ensure that they are appropriately developed to support the collection, retention, and verification of performance information.***
Recommendation 10.2: page 120	***The Department of Infrastructure conduct a review of all performance measures for Public Transport Services Output Group and develop more meaningful measures to address weaknesses identified by the Auditor-General.***

Chapter 11 Department of Justice

The Committee recommends that:

Recommendation 11.1: page 124	***The Department of Justice review the current performance measures included in the Budget Papers with the objective of providing an appropriate mix of quantitative and qualitative measures.***

Chapter 12 Department of Premier and Cabinet

The Committee recommends that:

Recommendation 12.1: page 140	***The Department of Premier and Cabinet make a copy of its Business Plan available to the Public Accounts and Estimates Committee.***

Chapter 13 Department of State Development

The Committee recommends that:

Recommendation 13.1: page 146	***The Department of State Development develop additional quality and timeliness performance measures to provide more meaningful performance information.***

Chapter 14 Department of Natural Resources and Environment

The Committee recommends that:

Recommendation 14.1: page 155	***The Department of Natural Resources and Environment make available to the Public Accounts and Estimates Committee an up-to-date copy of its corporate plan to enable effective parliamentary assessment of the Department's goals and strategic direction.***
Recommendation 14.2: page 155	***The Department of Natural Resources and Environment expand the information contained in its business plan to include all the elements specified in Department of Treasury and Finance Guide to Corporate and Business Planning.***

Chapter 1: Introduction

1.1 Committee background

The Public Accounts and Estimates Committee is an all party joint committee of the Victorian Parliament which was established by the *Parliamentary Committees Act* 1968. Under the Act, the Committee has wide powers to carry out investigations and report to Parliament on matters associated with the State's financial management. This includes matters connected with public administration or public sector finances and the annual estimates of receipts and payments and other budget documents presented to Parliament. In addition, as a result of recent changes to the *Audit Act* 1994, as amended, the Committee now has a consultative role in the conduct of performance audits.

The Committee's mandate includes the traditional public accounts and the estimates functions. The public accounts function predominantly entails examination of issues raised in the reports of the Auditor-General as a basis for future inquiries by the Committee. These are generally matters that have ongoing implications for public accountability. The estimates function comprises a detailed analysis of the annual Budget Papers and any additional or supplementary estimates of revenue and expenditure presented to Parliament.

1.2 Objectives of the budget estimates process

In submitting this report, the Committee does not intend to replicate the information in the 1998-99 Budget Papers. Rather, the Committee is presenting information on selected areas where the additional information may assist in the public understanding of those documents.

The aims of the Committee's analysis of the budget estimates are to:

- facilitate a greater understanding of the budget estimates;
- assist the Parliament and the community of Victoria to assess the achievement of the planned budget outcomes against actual performance;
- constructively contribute to the quality and the presentation of the budget information; and
- enable more effective monitoring of the performance of agencies.

1.3 Process followed by the Committee

Following the delivery of the Budget Speech by the Treasurer on 21 April 1998, the Committee circulated a questionnaire to all Departments requesting supplementary information to that provided in the 1998-99 Budget Papers. The Committee's questionnaire was significantly different to previous years in order to reflect the changes to a Budget based on full accrual accounting and the output based reporting framework. Responses from Departments were generally of a high order.

In undertaking the analysis of the 1998-99 budget estimates, the Committee utilised the information provided in responses to the questionnaire and evidence given by ten Ministers and the Heads of each of the Parliamentary Departments at public hearings held from May to September 1998.

In preparing the report, the Committee has also taken into consideration the following documents:

- Annual Financial Statement for the State of Victoria, 1996-97;
- Victoria – Elements of Financial Management, Department of Treasury and Finance;
- Annual Reports, Corporate Plans and Business Plans for all Departments that provided a copy to the Committee;
- Report of the Auditor-General on the Government's Annual Financial Statement 1996-97;
- A Guide to Corporate and Business Planning, Draft, 12 April 1996, Department of Treasury and Finance;
- Victorian Auditor-General, Report on Ministerial Portfolios, May 1998;
- Victorian Auditor-General, Special Report No. 52, Schools of the Future: Valuing accountability, December 1997;
- Victorian Auditor-General, Special Report No. 53, Victoria's multi-agency approach to emergency services: A focus on public safety, December 1997;
- Victorian Auditor-General, Special Report No. 54, Victoria's Gaming Industry: An insight into the role of the regulator, March 1998.
- Victorian Auditor-General, Special Report No. 56, Acute health services under casemix: A case of mixed priorities, May 1998;
- Victorian Auditor-General, Special Report No. 57, Public transport reforms: Moving from a system to a service, May 1998;

- Department of Infrastructure and Office of Local Government, Key Performance Indicators for Local Government in Victoria, February 1998;
- Steering Committee for the Review of Commonwealth/State Service Provision, Report on Government Services 1998, Industry Commission; and
- Review Panel Report on Elective Surgery Waiting Lists, 4 September 1998.

The Committee has confined its comments to a comparison of the 1998-99 budget estimates with the initial and revised budget estimates for 1997-98.

1.4 Legislative requirements- response to Committee's recommendations

Section 40 (2) of the *Parliamentary Committees Act* 1968 provides that:

> " *Where a report to the Parliament of a Joint Investigatory Committee.....recommends that a particular action be taken by the Government with respect to a matter, the appropriate responsible Minister of the Crown shall, within six months of the report of the Committee being laid before both Houses of Parliament, report to the Parliament as to the action (if any) proposed to be taken by the Government with respect to the recommendations of the Committee."*

Consequently, there is a legislative requirement that the responsible Ministers provide a response within six months to the recommendations contained in this report.

1.5 Previous recommendations

The Committee's previous report on the Budget estimates for 1997-98 was tabled on 2 December 1997 and contained 60 recommendations. On 14 May 1998, the Government tabled its response to these recommendations, which is at Appendix 4. The response indicated that three actions were possible: accept; accept in part; or reject.

The Committee is pleased that a number of recommendations were accepted by the Government:

33 recommendations were accepted;
16 recommendations were partly accepted;
10 recommendations were rejected; and
1 recommendation required no action.

Of particular interest to the Committee was the response from the Department of Treasury and Finance to Chapters 1, 2 and 3, which dealt with the quality of financial and other information and the Budget overview. An analysis of the response from the Department indicates that out of the Committee's 20 recommendations, 6 were accepted, 11 accepted in part and 3 were rejected.

The following represents the Committee's reconsidered position in respect of three key recommendations from last year.

Previous recommendation: 2.1 Corporate and Business Plans

Recommendation 2.1 of the Committee's report was "accepted in part" and was :

That the interim guidelines, A Guide to Corporate and Business Planning, be amended to reflect the financial management framework with its focus on outputs and re-issued to departments to coincide with the 1998-99 budgetary cycle.

The Department's response was that a draft Guide to Corporate and Business Planning had been circulated in 1996[2] for discussion and the Department may reissue the guidelines to take account of accrual output based budgeting (AOBB) and output based management.

The Committee found in its review of various Departments' Corporate and Business Plans that the Output Management framework had not been incorporated into these plans. The Committee has reviewed the draft plans and is still of the opinion that these need to be updated to incorporate the new management and budgeting framework of the Government.

Recommendation 1.1	***That the draft guidelines, A Guide to Corporate and Business Planning, be amended to reflect the new output and accrual output based framework with its focus on outputs and re-issued to Departments as soon as possible so it can be used at the start of the 1999-2000 budgetary cycle.***

[2] Department of Treasury and Finance, *A Guide to Corporate and Business Planning*, (draft 12 April 1996).

Previous recommendation: 2.15 Interim Reporting

That the Ministerial Directions on financial reporting be amended to require half yearly reports to be prepared by Departments which would include financial statements in an abbreviated form, comparisons with budget revenues and outlays, and progress against performance targets and that this information be provided to the Public Accounts and Estimates Committee.

The Department's response to recommendation 2.15 stated (refer appendix 4 for complete response) was that this information could be unreliable and may be misleading to external readers. However, the costs and benefits will be examined at a later date.

The Department's response ignores completely the thrust of the recommendation, which was about performance reporting, not just half yearly financial statements. The recommendation specifically referred to a range of performance data including *financial statements in an abbreviated form, comparisons with budget revenues and outlays, and progress against performance targets.* The Department has indicated in other documents that it requires this sort of information before year end for judging performance agreements, the following year's budget allocations, management competency and accountability[3]. The Committee reiterates that this information should be provided.

Recommendation 1.2: That the Ministerial Directions on financial reporting be amended to require half yearly performance reports - including financial statements in an abbreviated form, comparisons with budget revenues and outlays, and progress against output and outcome performance targets - to be prepared by Departments and provided to the Public Accounts and Estimates Committee.

Previous year's recommendation No. 2.2 Corporate and Business Plans

That Departments finalise their corporate and business plans in time for the budget estimates inquiry process and provide a copy to the Public Accounts and Estimates Committee.

[3] Department of Treasury and Finance, *Summary of Proposals for Implementation 1998-99, 6 October* 1997.

The Department's response to this recommendation stated (refer appendix 4 for complete response) that it is up to each Department whether or not to make their plans available to the Public Accounts and Estimates Committee and the public. The Department also indicated that detailed business plans may be confidential documents and are working documents that could change from day to day.

The Committee appreciates that there will be changes to programs and strategies and even with the best effort targets will not always be met. However, corporate and business plans, financial statements and annual reports are all major elements of the Government's accountability framework. Each are needed to assess performance and to manage for results. This equally applies to the Public Accounts and Estimates Committee which needs to know what the Departments' plans were before assessing whether goals have been met.

The Committee is aware that the move to reporting on results represents a major culture change in the way that the public sector reports on its performance. Through public scrutiny of the estimates process, the Committee intends to provide some feedback to Departments and Ministers about their performance framework. To do this successfully, the Committee needs a broader base of information in order to assess results and actual performance, both intended and achieved.

The Committee is aware that in a number of other jurisdictions, corporate and business plans are public documents because they are considered to be a means of improving performance and accountability. The Committee strongly supports this principle.

Recommendation 1.3	***That Departments finalise their corporate and business plans in conformity with the Guide to Corporate and Business Planning (to be updated) and in time for the budget estimates inquiry process and provide a complete copy to the Public Accounts and Estimates Committee.***

Chapter 2: Accrual output based budgeting

2.1 Introduction

Under the *Parliamentary Committees Act* 1968, as amended, the Committee has wide powers to carry out investigations and report to Parliament on the State's management practices. Specifically the Committee can report on the State's financial management, which includes public administration or public sector finances and the annual estimates documents. In the context of reviewing the Budget Estimates, the Committee has examined the introduction of output based management and accrual output based budgeting in the Victorian public sector. Not since its reports into the State's Budget and Financial Management[4] has the Committee closely examined the reform of public administration and financial management. Since Report No. 23 on the 1997-98 Budget Estimates, the Victorian Government has announced and undertaken two major initiatives: output management and accrual output based budgeting.

The Department of Treasury and Finance has developed some supporting documentation and articulated a financial management framework to encompass the changes, but there is no comprehensive public accountability framework to guide the Parliament and the community in judging performance achievements. The Committee notes that there has been little attempt to integrate output costing and measurement, outcomes, budget initiatives and performance targets, with the Government's financial management reform program. The Committee believes that the next step should be the integration of the information contained in the various management and accountability documents (particularly, corporate and business plans, budget documents, performance plans, interim reports and annual reports).[5]

To achieve this, the Committee is keen for the Department of Treasury and Finance to provide more meaningful guidelines and directives to assist agencies to further refine and develop accrual information and to have a clear relationship between the information required, which should be outcomes focussed, and the output. More integrated financial and

[4] Public Accounts and Estimates Committee, 7th Report, *Interim Report on the State's Financial Management Framework* , May 1994; and 12th Report, *Final Report on the State's Budget and Financial Management Framework*, October 1995.

[5] This issue was raised in previous estimate reports and flagged as an area for attention in the Public Accounts and Estimates Committee, 23rd Report, December 1997, page 5.

performance information would assist the Parliament in assessing both intended and actual results.

The Committee is also of the opinion that corporate and business plans, budget documents, departmental annual reports and the financial statements for Victoria should be linked, to enable performance assessment of both individual Departments and the Government as a whole. [6]

The Committee acknowledges that the reforms introduced during the past twelve months are evolving and that refinement or resolution of many issues is identified as the next step. Nonetheless the Committee believes that the Department of Treasury and Finance and the Government still need to address serious challenges to the current formulation of resource management and accrual output based budgeting.

Recommendation 2.1:	***That the Department of Treasury and Finance review the output measures used in the 1998-99 Budget Papers to compare those presented by agencies in their corporate and business plans, annual reports and other management and accountability documents. The purpose of the review would be to establish best practice in output, outcome and performance measurement and reporting for the Victorian public sector.***

2.2 Background

The Government endorsed another comprehensive financial management reform program for the budget sector in December 1997. However, management reform in the Victorian public sector is not new.

The current model of public financial management[7] reform in Victoria was initiated in 1992. The two new key elements are the implementation of resource management and accrual output based budgeting. Budget papers have reported outputs since 1994. The reform program was aimed at

[6] This vision of the links and consistency in performance management knowledge is similar to the observation in last year's report on the budget estimates, see Chapter 2, 'Quality of Financial and Other Information', Dec. 1997.

[7] In the last two decades in Australia and internationally the management and resourcing of public services have changed significantly. The current Victorian financial and management reforms are said to be particularly "virulent and revolutionary" (see Olson, O., Guthrie, J., and Humphrey, C., *Global Warning: Debating International Developments in New Public Financial Management*, Bergen, Norway: Cappelen Akademisk Forlag, 1998).

positively influencing service delivery, accountability and the roles of Government and Departments.

The following table highlights the key milestones in the reform program since 1992.

Exhibit 2.1

KEY MILESTONES IN THE FINANCIAL MANAGEMENT REFORM PROGRAM

Year	Victorian financial management reform activity [8]
1992	• Independent review of Victoria's public sector finances
1993	• Report from the Victorian Commission of Audit
1994	• Publication of Budget and three-year forward estimates • Inclusion of outputs in Budget papers • Introduction of budget flexibility measures including global appropriations • Attribution to Departments' budgets of rent and other costs • Publication of detailed departmental budget estimates • Passing of new Financial Management and Audit Acts
1995	• Asset management policy and two-year asset valuation program • Trial of whole of government consolidated financial statement for 1994-95 • Introduction of a capital charge for 1994-95 Budget • Introduction of integrated management cycle
1996	• Development of outsourcing and contract management guidelines • Development of investment evaluation policy and guidelines
1997	• Presentation of a Budget to Parliament two months before the end of the financial year in which it applied • Presentation of audited whole of government 1996-97 annual financial statement • Development of guidelines on outputs and output costing • Introduction of resource management • Use of accrual output based budgeting
1998	• Presentation of accrual output based budget

The introduction of accrual output based budgeting means that budgeting, management, accounting and accountability reporting have been based on

[8] Department of Treasury and Finance, *Reform of the Budget Sector: Elements of Financial Management*, 1997, page 6.

full accrual accounting and output management and budgeting since the start of the 1998-99 budget planning process. [9]

2.3 Summary of financial management in Australia and New Zealand

Victoria's current financial management reform has been progressing for some six years. To put developments in perspective, the Committee has reviewed financial reforms in other Australian States and Territories.

Although accrual accounting for financial reporting and budgeting has been used in the private sector and the non-budget sector for many years, Victorian budgets have traditionally been presented, managed and reported on a cash basis. [10] In the 1993-94 Budget Paper No. 4, Victoria included output measures for each Department, actual expenditure for 1992-93 and estimated expenditure for 1993-94.[11]

A major shift occurred in Victoria in 1996-97, with improved definitions and performance measures in the reporting of outputs. Victoria's 1998-99 budget has been prepared on an accrual basis, including parliamentary appropriations[12] and the expansion of the capital asset charge regime. But how does the State compare with other governments?

- The **ACT** has prepared an accrual based output budget since 1996-97, improving output definition and quality of performance measures since that year.

- The **Commonwealth** expects to trial accrual budgeting for selected agencies in 1998-99 and to implement a full accrual framework (including an accrual budget and quarterly accrual reports) from 1999-2000.

- **New South Wales** presents accrual budget and financial statements for agencies in budget estimates, but has yet to decide whether it will shift to an accrual appropriation.

- **Queensland** will publish outputs as an appendix to its program statements in the 1998-99 input based budget. Full accrual budgeting is expected in 1999-2000.

[9] Refer to Department of Treasury and Finance, *Summary of Proposals for Implementation in 1998-99*, 6 October 1997, for full details.
[10] Ibid., page 5.
[11] Public Accounts and Estimates Committee, 6th Report, May 1994, page 14.
[12] *A Guide to the Budget Papers*, 1998-99.

- **South Australia** expects to fully implement accrual output based budgeting in 1999-2000, with accrual budget reporting and piloting some departmental budgets on an output basis in 1998-99.

- **Tasmania** is considering implementing an output based accrual budget in 1999-2000. It published a cash based output budget in 1996-97 and 1997-98.

- **Western Australia's** experience with output budgeting began with all 'new' funding for the 1997-98 financial year and is expected to extend to all funding in 1998-99. In addition, all agencies are expected to produce monthly accrual financial reports from 31 July 1998 within seven days of the end of the month. A full accrual based budget is planned for 1998-99. Agencies are expected to provide estimated operating statements, statements of financial position and cash flow statements for 1998-99 to 2000-01 inclusive.

- **New Zealand's** *Public Finance Act* 1989 (PFA) redefined the appropriation process, shifting the emphasis from inputs to outputs. Under the PFA, appropriations to Departments were for the purchase of classes of outputs. In 1994 amendments to the PFA provided for appropriations to be on a full accrual basis for all agencies. The *Fiscal Responsibility Act* 1994 (FRA) required governments' to state their fiscal objectives and progress in achieving them. In 1995, the budget policy statement required a 'whole of government' priority setting and Ministers were required to produce Strategic Results Areas (SRAs) for the next three to five years. These SRAs are linked to Key Results Areas (KRAs) specified in the performance agreements of departmental chief executives and Ministers.

The Committee notes the strong and observable trend within the Australian public sector, whether at Commonwealth, State or Territory level, to move from traditional cash based, financial statistics type budget reporting, towards accrual output based budgeting, with supplementary accrual and cash based financial statements and measures of outputs and outcomes.[13]

Victoria leads other Australian Governments in producing a budget based on full accrual appropriations and output management. These budgetary reforms have given rise to a potentially challenging trade-off between the speed with which new techniques are adopted and the validity of the implementation. Specifically, working within an accrual budgeting

[13] For more details see Guthrie and Carlin, *Review of Australian Experiences of Output Based Budgeting,* IRR Conference, Canberra, 30 March 1998.

framework requires an entirely new ethos and set of skills, for example, the ability to define measurable outputs and outcomes to ensure that the shift from input to output based budgeting is effective. It is essential for these matters be implemented carefully, if full value is to be gained from these budget reforms.

2.4 Accrual output based budgeting in Victoria

The Victorian Government has adopted a new system for the appropriation of funds to reflect the 'changed focus to fully costed outputs and results'.

The 1998-99 Budget documents include three global appropriations:

- payment for outputs;
- increases in the net asset base of a Department; and
- payments on behalf of the State.

The aim of this classification is to identify appropriations linked with the Government's interest in output delivery as opposed to those linked with its interest in the productivity of departmental assets. The Department of Treasury and Finance argues that 'global appropriations to Departments for each purpose will enable Ministers to retain flexibility to make adjustments to the budgeted output mix agreed by Cabinet'.[14]

It is expected that the changes to the budget planning process will significantly affect ways in which the government funds activities and managers obtain revenue for agreed activities. Managers can call on the funds accumulated within balance sheets (for example, depreciation, productivity savings, capital charges); proceeds from the sale of assets; and/or additions of capital through appropriations.

In summary, the purposes of the four funding elements in Victoria's financial management reform are:

- resource allocation that reflects the Government's intended outcomes;
- responsiveness to the demand for services;
- aggregation of fiscal constraints; and
- the delivery of outputs.[15]

At the global level, the three Victorian objectives[16] can be summarised as:

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[14] Department of Treasury and Finance, *Reform of the Budget Sector Victoria: Elements of Financial Management*, 1997, page 11.
[15] Department of Treasury and Finance, *Reform of the Budget Sector Victoria: Elements of Financial Management*, 1997, page 12.

- improving public accountability and the transparency of financial obligations to the Parliament and to the public;
- aligning the budget sector with output based management; and
- aligning the budget sector with conventional accrual accounting practices for costing, budgeting and financial reporting.

From a management perspective, the intentions of an accrual measurement system are:

- to remove some distortions associated with cash measurement, (most notably transaction timing problems); and
- to ensure that decision-makers are aware of the full cost of providing goods and services to achieve improved efficiency through the promotion of competition and contestability in service delivery. [17]

The adoption of accrual based measurement involves including for the first time, a share of depreciation onto a product or service cost. The inclusion of a capital charging regime to reflect the full cost of service provision and to encourage the management of surplus or under performing assets[18] is a further cost.

The Department of Treasury and Finance maintains that accrual output based budgeting will provide more accurate and relevant information, and that this will result in improved decision making. In addition, it will allow the government to make informed decisions about contestability, and about whether a particular service can best be provided at the required quality and quantity, and at least cost to users and taxpayers, by government, private or non-profit sector organisations.[19]

2.5 Concepts and terminology

Like any emerging field, output management is beset with issues of terminology. It is important to emphasise that the Victorian reforms are not grounded in an established theoretical framework, or a set of internationally recognised public sector financial management practices, or selected private sector professional accounting standards and practices.

The current Victorian experiences with output management reform are at the leading edge of development and the Committee is aware that there are

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[16] 1998-99 Budget Paper No.1, Treasurer's speech.
[17] Department of Treasury and Finance, *Summary of Proposals for Implementation in 1998-99*, 6 October 1997, page 6.
[18] 1998-99 Budget Paper No.2, Budget statement, page 194.
[19] *A Guide to the Budget Papers* 1998-99.

few examples of success from which to learn, or best practice benchmarks with which to compare.

The field of output management includes such terms as ‘accrual accounts’, ‘output groups’, ‘costs’, ‘outcome statements’, ‘accrual output based budgeting’, ‘financial statements’ and ‘fiscal responsibility statements’. Some of these terms and methodologies appear very similar to those of other jurisdictions in Australia and New Zealand. However, these concepts are significantly different in application.
As Victoria’s experiences with output management reform are unique, it has taken some different approaches.

It uses the following definitions: [20]

- ***outputs*** - products or services produced or delivered by a Department or agency for external customers;
- ***outcomes*** - the Government’s desired or intended affects on the community from a set of outputs and other factors (including community action). Outcomes establish both the rationale and foundation for the budget; and
- ***output-based management*** - the process of planning for and providing products or services on behalf of government, in return for the allocation of budget resources. The Government sets its strategic priorities or intended outcomes, then commissions Departments to deliver outputs that the Department determines will best achieve these outcomes.

The last definition is important because it encapsulates the rationale for adopting an entirely new paradigm in budgeting - that is, better management of public resources facilitated by a budgeting and management system capable of responding to each component (input, process, output, outcomes) separately and combined, rather than a system which does not integrate the various components of the budget cycle.

To contribute to better public management, such a system must demonstrate the degree to which purchased or produced outputs (costed on a full accrual basis) help achieve stated government aims (desired outcomes), and how these can be adjusted depending on performance in output delivery.

[20] 1998-99 Budget Paper No. 3, Budget estimates, pages 193 - 208.

2.6 Case study of budget information: Department of Education

The Committee commissioned a review of some aspects of the 1998-99 Budget Papers to see whether users of this documentation found that the information is clear, comprehensive and transparent. The Committee examined the 1998-99 Budget Estimates for the Department of Education, and focused on the school education output group.[21] In terms of financial materiality the Budget expenditure for School Education is $3.958 billion,[22] which represents nearly 22 per cent of the total Budget expenditure.

Deliverables for this output group include the provision of:

1. a safe, effective learning environment through appropriately trained and qualified teachers and properly maintained physical environment;
2. curriculum delivery to prescribed content and performance standards in the eight key learning areas - English, Mathematics, Science, Languages other than English (LOTE), Study of Society and the Environment, the Arts, Health and Physical Education, and Technology; and
3. curriculum delivery in accordance with the requirements of the Victorian Certificate of Education.[23]

The following table highlights the primary education services output of the school education output group.[24]

[21] As indicated in chapter 8, the Committee is of the view that the Department of Education has been one of the best examples of detailed output and performance information.
[22] 1998-99 Budget Paper No. 3, Budget estimates, page 62.
[23] Ibid., page 63.
[24] Ibid., page 64.

Table 2.2.2

MAJOR DELIVERABLES OF PRIMARY EDUCATION SERVICES
(provision of education services to students in Government schools across Victoria from Prep to Year 6)

Performance measures	**Unit of measure**	**1997-98 target[(a)]**	**1998-99 target[(a)]**
Quantity			
Students	number	301 706	303 869
Schools per 1 million population	number	nm	282.0
Schools per 1000 square kilometre	number	nm	5.7
Quality			
Schools providing timetabled access to the eight Key Learning Areas in accordance with Curriculum and Standards Framework guidelines	per cent	100	100
Student/teacher ratio	ratio	1:17.9[(b)]	1:16.8
Computer/student ratio	ratio	1:9.3[(b)]	1:8.2
Primary class sizes of than 30 or less 30 (February census)	per cent	nm	92.9
Students achieving at or above expected levels in Years 3 and 5 in the LAP (Reading, Writing and Number)	per cent	90	90
Timeliness			
Student accommodation in place within one week of the start of the 1998 school year	per cent	nm	100

(a) Output targets relate to calendar year 1997 and 1998.
(b) 1997-98 figures represent current achievements, which have exceeded 1997-98 targets.
nm = new measure

A review of the performance information on this output raised the following issues.

- The Budget Papers only report targets, rather than actual performance achievement. The Committee believes that this is a flaw from a public accountability and transparency perspective,[25] because it does not permit an assessment of the degree to which targets are achieved; new targets are simply rolled over from old targets.
- The actual output targets reported relate to the calendar years 1997 and 1998 and are not linked to the financial year (as used in the Budget Papers). There appears to be a timing difference between output targets, reported achievements and actual estimated budget finances.

[25] See previous Public Accounts and Estimates Committees reviews of budget estimates and budget outcomes, especially Report No. 19, Chapter 2.

In addition, a large number of the performance measures are reported as being ‘nm’, which is defined as a ‘new measure’ for 1998-99. Consequently, performance targets have not been included for these performance measures for 1997-98.

- The actual performance achieved in 1997-98 has not been reported, so there is no discussion about trends. The Committee notes that performance measures have been reported in Budget Papers since at least 1994. What concerns the Committee is that the appearance of changing performance measures and outputs reported from year to year can occur, if trend data is not provided.
- There are no reported links between the major deliverables and the specified key government outcomes. For the school education output group, three key government outcomes are identified:

> *Ensuring that students are provided with the education and skills to give them the best chance for the future, including the need for all students to be literate, numerate [and] adept at information technology, and to have a strong knowledge base…*
>
> *Enhancing education opportunities through innovative technologies and, as appropriate, reducing the current emphasis on capital infrastructure with investment in technological infrastructure…*
>
> *Enhancing reporting processes to parents and teachers about student progress to better identify student strengths and weaknesses.*[26]

These are all highly desirable, but are more like mission and vision statements than tightly defined measurable outcomes. The above outcomes need to be changed to smaller units, as a first step, to achieve effective measurement and reporting.

In summary, several implementation issues affect the current use of accrual output based budgeting for the school education output group. These prevent the reader from ascertaining whether performance has improved, remained stable or declined. The Budget Papers reveal few actual achieved outputs/outcomes or performance measures providing only targeted values to these variables. Without formal, consistent and agreed measurement of

[26] 1998-99 Budget Paper No.3, Budget Estimates, page 63.

these variables, the entire budgeting exercise may simply shift targets or outputs at each year end to give the appearance of movement.

2.7 Challenges of accrual output based budgeting

Only if the accrual output budgetary system provides information on the extent to which targeted outcomes are being achieved, will the Government be able to be flexibly reset policy on a timely basis. The defined outcomes from the school education output group confirm that the quality of performance information needs much improvement.

Further, if output budget data do not provide feedback on targets versus actual performance measures, key public accountability requirements will be discharged through the financial variables (accrual input data), rather than through the information on outputs or outcomes.

To realise the management level improvements, internal operating structures must reflect the adoption of an accrual output budgetary stance. If changes are not made at the operational level, then the reported changes become nothing more that external symbolism. Budget allocation decisions may be made on other criteria, such as fiscal constraint or the need to reduce debt, rather than on government desired outcomes and purchased measurable outputs.

The following challenges of accrual output based budgeting have been identified by the Committee.

Culture change

The notions of accruals based outputs and outcomes will need to pervade public sector management culture, in the same way that the focus on available cash resources has been a critical element of public sector management in previous budgetary regimes. There is no reason to expect - simply because the format and content of external estimates budget documents changes - that organisational economy, efficiency or effectiveness will improve where an internal management shift does not take place.

Definitions for outputs and outcomes

As demonstrated in the case study, appropriate definitions of outputs and outcomes need to be agreed on, and useful, consistent and viable performance measures and indicators must be identified and implemented to support resource allocation and public accountability. The Committee believes that more work needs to be done by Departments on the basic mechanisms underpinning accrual output budgeting.

Accounting guidelines

Explicit accounting guidelines need to be adopted and disclosed. It was argued that implementation of accrual based budgeting in Victoria would lead to a greater proximity between public sector and conventional accounting procedures. Those conventional procedures are not clearly outlined, yet they are directly related to the usefulness and interpretability of any financial documentation produced within their precepts. Depreciation, for example, is an explicitly recognised and most likely material component of organisational expense under an accrual framework, yet generally assets have been valued on an unknown basis. Is the valuation cost historical? Is current replacement cost being used? Are a variety of depreciation techniques being used? Have the techniques been consistently applied over time?

Recommendation 2.2: ***That budget papers include actual performance achieved against targets for outputs and outcomes, and explanations of why previously stated output targets and explanations have changed or not been achieved.***

2.8 Other performance data from the Department of Education

The Committee undertook a brief review of the Department of Education's corporate and business plans, Budget Papers and annual reports identifying several implementation difficulties that hinder the success of output based financial management. In selecting the Department of Education to review, the Committee was aware that it had long been a leader in the budget reform process.

Corporate and business plans

The Department of Education issued a 1998 corporate and business plan that consolidated the Department's corporate plan for 1998 - 2001 and the business plan for 1998-99. The corporate plan sets the direction of the Department for the next three years, while the business plan describes the Department's intentions in the current year.

Comparing this document with the Department's 1998-99 Budget Estimates, the Committee made the following observations. The Department's intended outcomes (key strategic objectives on page 4) differ from those of the Government as stated in the Budget Papers (page 63). Government performance targets (page 5) are not stated in the Budget Papers. Only a few key outputs, performance measures and targets are reported (page 5) compared with those in the Budget Papers. However, the output performance measurement plan (pages 14 to 18) reported in the 1998-99 business plan matches the targets reported in Budget Paper No. 3 for 1998-99; the resource requirements (page 22) are actually those funded by Government, and all financial statements are those reported in the Budget Papers.

Therefore, the above observations about the 1998-99 Budget Papers are applicable to the Department's 1998-99 business plan.

Annual reports

The annual reporting process of each individual agency may be a mechanism for providing adequate public accountability for actual outcomes. An examination of the Department of Education annual report for 1996-97, tabled in October 1997, includes a financial statement for the financial year ended 30 June 1997 and some performance information for this period (as well as some for the calendar year ended 31 December 1996). However, few reported outputs and little other information are in the 1998-99 Budget Papers.

The annual report section 'Annual report framework' (page 18) contains the following statement:

> *This report sets out the achievements and activities of the year against the department's goals and Output Groups as articulated in its 1996-97 Corporate and Business Plans. The two Departmental Goals and six Output groups focus the department's activities toward achieving its mission.*
> *The department's Business Plan, which outlines the key policies and implementation strategies, consistent with its mission and goals, is a requirement under the Government's Integrated Management Cycle (IMC). Similarly, this annual report is the end product in the 1996-97 planning, budgeting, reporting and reviewing components of the IMC.*

Given that the outputs and performance targets in the business plan and Budget Papers match, the importance of the annual report is heightened. To be effective, the structure and format of at least part of the annual report must be similar to the accrual output budgeting documents.

This would mean formalising outcome and output performance reporting in annual reports. Currently, financial reporting sections in annual reports must comply with relevant accounting standards only, not necessarily with Budget financial statements.

If the Department of Education is a typical example, it is difficult to reconcile the outcome, output and performance data provided in business plans, Budget Papers and annual reports, because formatting is usually very different and the underlying accounting principles can also markedly differ from those used to prepare budget data.

Recommendation 2.3:	***That as annual reports of Departments are considered to be central to public accountability, future annual reports of agencies contain details of the actual financial results; outputs and outcomes, against amounts budgeted.***

Recommendation 2.4:	***That the Department of Treasury and Finance review the targets set in business plans and in the budget documents to ensure that they are challenging and attainable.***

Recommendation 2.5:	***That the Department of Treasury and Finance review all business plans, to determine standard business plan components and develop best practice.***

Chapter 3: Management Reform Program

3.1 Introduction

The Committee notes that the introduction of output management has led to major changes since its last estimates report.[27] The Government has committed to a management reform program based on strategic funding of budget sector outputs and efficient management of the State's resources. This reform program has articulated key concepts such as accrual budgetary accounting, outcomes, outputs and output management.

In financial management terms, the output management reform process links the funding, reporting and monitoring of defined outputs to government strategic priorities and outcomes.[28]

The Government's current management reform strategy was developed in response to pressures to provide improved government services with limited resources. Further, the reform program aims to reinforce the extensive devolution of authority that has occurred over recent years, and to support the authority of portfolio Ministers, Secretaries and their Departments.

To achieve the above, the reforms are aimed at improving and entrenching:

- departmental accountability for both service delivery performance (outputs) and resources management (assets and liabilities);
- the Government's ability to maintain control over the State Budget aggregates;
- the Government's strategic overview of service delivery;
- departmental performance in output delivery, moving to best practice;
- departmental management of assets and liabilities based on best commercial practice; and
- a client focus in the implementation of these mechanisms.[29]

The current reform program focuses on total resource management by better aligning management of the State's resources with the strategic requirements of the Government and the expectations of the community.

[27] Department of Treasury and Finance, *Reform of the Budget Sector Victoria: Elements of Financial Management*, 1997.
[28] Department of Treasury and Finance, *Output Specification and Performance Measurement*. 1997, page 42.
[29] Department of Treasury and Finance, *Summary of Proposals for Implementation in 1998-99*, 6 October 1997, page 2.

The Government's objectives for the reforms are to increase:

- its fiscal control;
- its strategic control;
- the efficiency and contestability of departmental services;
- departments' management of assets and liabilities;
- departmental accountability; and
- departments' client focus. [30]

The focus of Government funding will be on 'results or payment for delivery of outputs which meet agreed quality standards'. [31]

The Government's financial cycle is coordinated, and provides information which is timely and consistent. In the current financial management system (accrual output based budgeting and output management) the financial cycle consists of business plans, estimates, budgets, purchaser and supplier agreements, interim reporting to Treasury, departmental performance reports, annual reports and so on.[32]

The Committee found that the financial reforms still do not sufficiently link the information contained in corporate and business plans, budget allocations and interim performance reports and annual reports.

Recommendation 3.1:	***That the Government prepare a timetable for the full implementation of the output management reform program and establish standards of best practice so the link between the various accountability and management documents is transparent.***

3.2 Current Management Reforms

Various Victorian governments have initiated reforms to the State's financial and management framework. These reforms can be characterised by four main phases:

- **the traditional phase** (prior to 1982), characterised by cash accounting and controls over inputs.

[30] Information from presentation to the Public Accounts and Estimates Committee by Treasury officers, Mr Arian Nye and Mr Steve Gurr, on 12 March 1998.
[31] Ibid., page 7.
[32] Department of Treasury and Finance, *Summary of Proposals for Implementation in 1998-99*, 6 October 1997.

- **the managerialist phase** (1982-91), characterised by attempts to introduce private sector management techniques and accrual accounting into the Victorian public sector for external reporting and management purposes. Also, reliance was placed on objectives setting, performance evaluations and parliamentary oversight of performance.
- **the marketisation phase** (1990-97), characterised by the combination of managerialist ideas with economic theories emphasising competitive markets and contracts. Unlike previous attempts, major changes were made to the financial management of the State and to the machinery of government.
- **the strategic phase** (since 1997), characterised by an emphasis on whole of government strategies. Introduction of these reforms has brought a whole of government perspective to the strategic planning, management and reporting of the State's resources.[33] The changes included adopting accrual accounting for budgetary purposes, output management, and allocation of funds to Departments based on outputs delivered in accordance with budgeted targets.

The Treasurer stated that the reforms can be judged in terms of four characteristics:

- that the public is fully informed about the Government's financial position;
- that clients are better informed about the quality of services;
- that Departments have incentives to improve their services; and
- that the Government is more accountable to Parliament and the public for the performance and financial management of service delivery.[34]

[33] Department of Treasury and Finance, *Reform of the Budget Sector Victoria: Elements of Financial Management*, 1997, page 5.
[34] *A Guide to the Budget Papers*, 1998-99, page 2.

3.3 Purchaser and provider process in Victoria

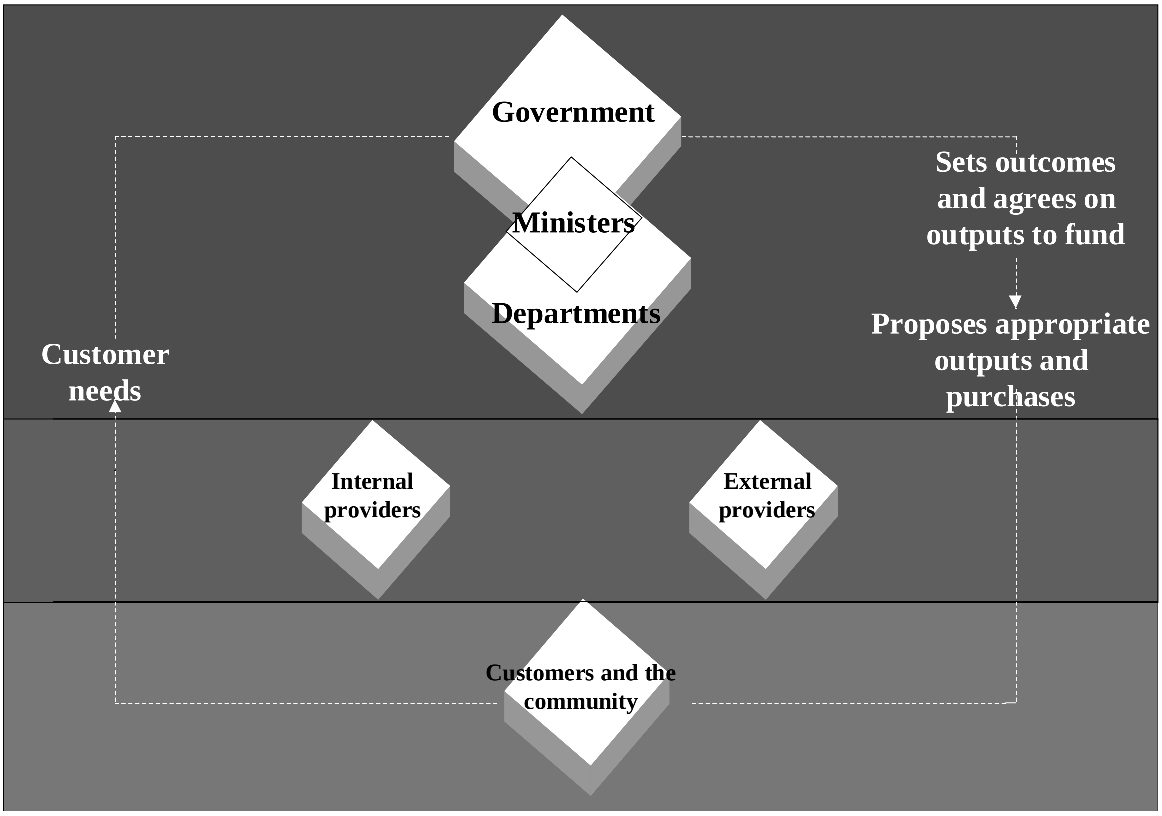
The coordination and management of government business and service delivery underpin the financial management reforms. Victoria has introduced the concepts of Government (Ministers) as purchasers, and Departments and other agencies as providers.

The Government sets outcomes and agrees on outputs to fund. Ministers, as agents of the Government, purchase the outputs to achieve the Government's desired outcomes. The Government will provide funds to the Department of Education, for example, to provide certain outputs which may be policy or service oriented.

Exhibit 3.1 illustrates this relationship between outcomes and outputs in the context of Victorian service provision.[35]

Exhibit 3.1

GOVERNMENT SERVICE DELIVERY



[35] Department of Treasury and Finance, *Reform of the Budget Sector Victoria: Elements of Financial Management*, 1997, page 7.

The Victorian Government's focus is on funding for results or payment for delivery of outputs which meet agreed quality standards, at the least cost. Each purchaser and provider should know the desired outcome, exactly what they are contracting to purchase or supply, and how their roles and responsibilities relate to those of the other parties. The providers will also know that their performance at the end of the term of the contract will be assessed against results or agreed quality standards. The information gained from this process will be used to develop the next sequence of contracts. In theory, this is meant to resemble the arrangements and incentives of the commercial marketplace.

For this to occur, the output management reforms must have several key elements: first, revenue and purchasing decisions must be based on output specifications and performance measures that inform the Government about what it is purchasing and at what price and quality standards; second, key concepts need to be operationalised in terms of performance measures, price, outputs, outcomes and quality standards; and third, monitoring of contracts must take place during the year (or period of the contract) in terms of output performance delivery.[36]

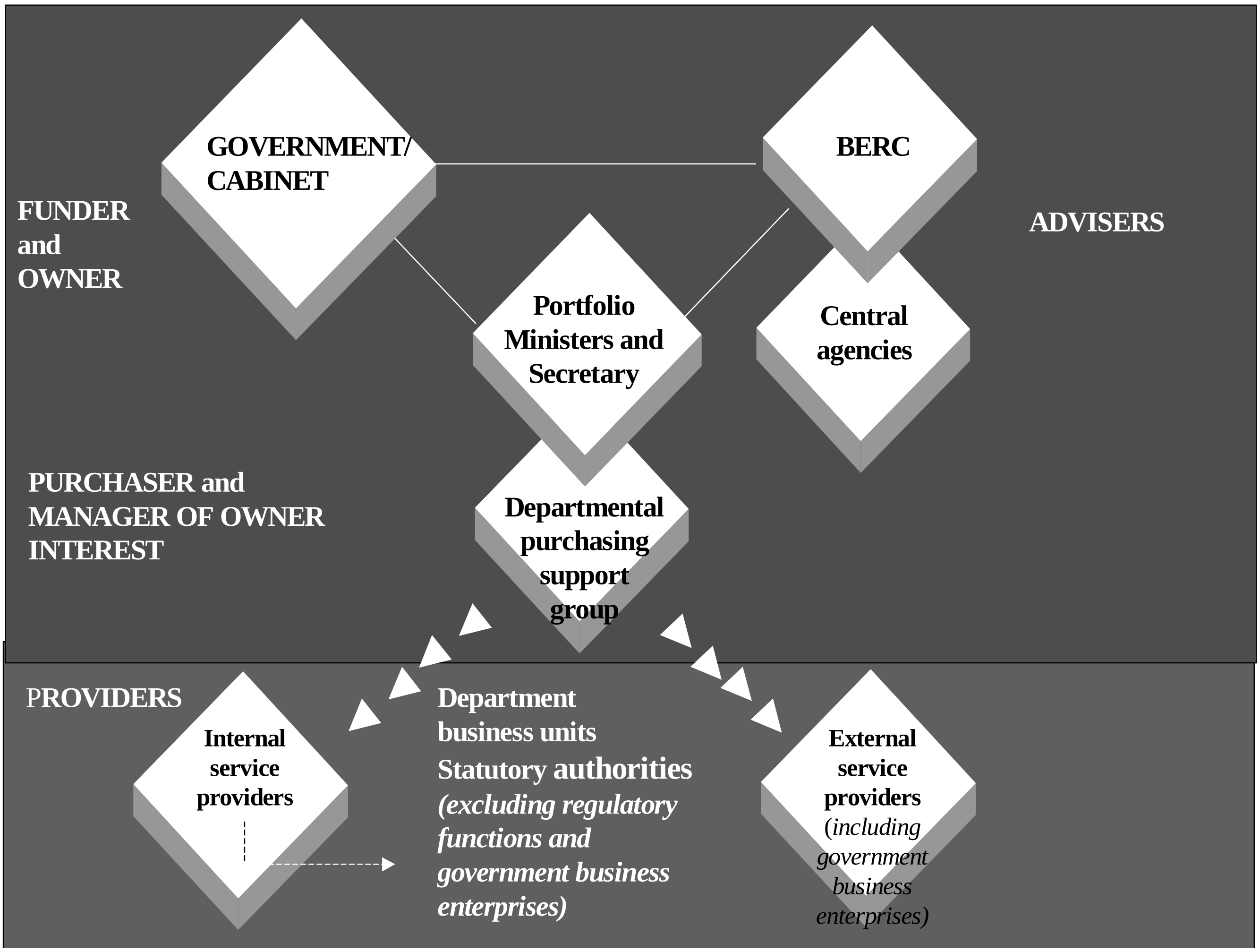
The Committee understands that the public sector management reform model being promoted in Victoria is unique; no other government in the world has adopted or framed their coordination, management and resource allocations in the style of the current reform package being implemented by the Department of Treasury and Finance and the Government.

In the Victorian model as illustrated in Exhibit 3.2 (on page 27), the Government/Cabinet and its advisers (Budget and Expenditure Review Committee and central agencies) determine the outcomes and the outputs to be funded.[37]

[36] Ibid., page 8.
[37] Ibid., page 10.

Exhibit 3.2

ROLES OF GOVERNMENT DEPARTMENTS AND AGENCIES[38]



The Government as funder is responsible for funding service delivery, and as owner of the State's businesses, it aims to maintain and improve the productivity of the State's asset base. Under the output based management regime, the Government decides which outputs it wishes to fund at specified levels of quantity, quality and price.

Portfolio Ministers and Departmental Secretaries act as agents for the Government; they purchase the specified services and 'manage the purchase relationship in the most efficient and effective manner to meet government outcomes'. The Government specifies broad outputs through the Budget Papers and responsible Ministers and Secretaries purchase these outputs. Providers of these services can either be internal or external to the public sector, thus the idea of contestability.

[38] Department of Treasury and Finance, *Reform of the Budget Sector Victoria: Elements of Financial Management*, 1997, page 10.

The Committee believes that the Department of Treasury and Finance has yet to articulate some important guidelines. The Committee would like further explanations about:

- how the distinction between government as owner and funder operates;
- the contractual relationship between Government/Cabinet and portfolio Ministers regarding detailed outcomes and outputs;
- which portfolio Ministers have responsibility for which groups of outputs; and
- how outputs are defined in terms of levels of quantity, quality, timeliness and cost, and how are these linked to measurable outcomes.

The Committee would also like to see guidelines on the following issues:

- how contracts are written (for example CEO agreements, Treasury agreements);
- how actual performance is measured and reported to the Department of Treasury and Finance; and
- how a Department should internally monitor output and outcome performance on a monthly, quarterly and annual basis.

3.4 Key elements in output management

As illustrated in Exhibit 3.2 (on page 27), the output management model separates the funder, purchaser and provider roles.[39] Each element should have a well specified agreement. In theory, the key steps and documents in an output management framework are planning, budget, management and accountability reporting, as follows:

1. **business and corporate plans** that align with an output management framework for the operational direction for the next 12 months and the strategic direction for the next three years;
2. **accrual based output budgets** that outline the cost of outcomes and outputs to be achieved in the coming period and the actual funding to be provided;
3. **agreements** between the Ministers and Secretaries as to what outputs are to be purchased and how this process is to be managed;
4. **purchase agreements** between Ministers and Secretaries and the various internal and external service providers;

[39] Schick, A., '*The Spirit of reform', New Zealand Treasury*, 1996, which highlights the different elements of the New Zealand State sector management framework .

5. **financial and non-financial performance information** feedback for the key elements of the purchase agreements (via interim reports and performance reporting);
6. review by the **Estimates** process of past arrangements, targets and achievements;
7. **annual reports** of the various government agencies that report timely and reliable information on the purchase agreement, list funded outputs and output achievements, and explain variances when needed;
8. Ministers table annual reports in Parliament and answer **questions** on output achievements and government outcomes;
9. **review** of contracts, outputs, outcomes and performance measures by independent organisations (for example, the Auditor-General) that act for or on behalf of the Parliament;
10. Parliamentary review of the documents and input into the next period's estimates and budget discussions, through the Parliamentary **inquiry process**; and
11. the public nature of Parliamentary review process and questions, and the accessibility of **annual reports, Budget Papers and Auditor-General's reports.**

The Committee is of the opinion that the Government and the Department of Treasury and Finance should particularly give more attention to elements 1, 3, 5 and 7, while Parliament should give more attention to elements 9 and 10.

3.5 Purchase agreements

Public purchase agreements exist between the Government (as funder and owner) and Ministers and Secretaries (as purchasers and managers of contracts) through the budget documents (refer to elements 2 and 3 above). However, other purchase agreements between the purchaser and internal and external suppliers are not public (refer to element 4). Performance achievement and levels of quality service are only indicated when the Ministers present annual reports to Parliament (refer to element 7),[40] which is 18 months after the original Budget estimates.

The Committee believes that the Department of Treasury and Finance should issue guidelines for external and internal purchase agreements, which should include at least the following features:

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[40] Department of Treasury and Finance, *Summary of Proposals for Implementation 1998-99*, 6 October 1997, page 10.

- term of agreement
- description of outputs
- cost of outputs
- performance measures and standards
- procedures for assessing performance
- reporting requirements
- rewards and sanctions
- procedures for amending the agreement
- procedures for dispute resolution.

3.6 Challenges for output management

The Committee believes it is time for the Department of Treasury and Finance to focus on the operational details of output management, although it is acknowledged that this is easier said than done. The Government is large and complex, and the intended outcomes are often neither simple nor clear.

As previously expressed by the Committee:

> *Accountability is a contract between two parties. In the case of government, the contract is between the public and the government: the public gives government responsibility to govern and manage public resources, and the government is accountable to the public through the Parliament for its performance. It is a concept fundamental to our democratic system. It clearly establishes the right of the people both to know what government intends to do, and how well it has met its goals.*[41]

The Committee believes that the Department of Treasury and Finance should review the existing departmental output specifications to ensure that they reflect appropriate and meaningful outputs. These outputs must be accompanied by performance measures that inform the government about what it is funding and at what price and quality levels, and that enable stakeholders (such as Departments, Parliament and the public) to monitor performance throughout the year.

In addition, the Committee believes that the appropriateness of output and outcome performance measures should be independently audited or evaluated. The Auditor-General could undertake this task.

[41] Public Accounts and Estimates Committee, *Report on the 1996-97 Budget Estimates and 1995-96 Budget Outcomes*, April 1997, page 7.

The underlying basis of the current reform program is the funding of budget sector outputs that are linked with the strategic outcomes of Government and expectations of the community. Therefore, outputs become the primary unit of the budget and government resource allocation decisions, and government-specified measurable outcomes determine the funding of outputs.

Recommendation 3.2:	***That the outputs, performance measures, targets and actual figures reported in the budget papers and annual reports be independently audited or evaluated.***

Chapter 4: Whole of government reporting

4.1 Financial Statements for the State of Victoria, 1996-97

The Victoria Commission of Audit in May 1993 recommended that the State should produce a consolidated whole of government, general purpose financial report.[42] The Committee has had a long-term interest in this reform, and over the past five years has encouraged whole of government reporting for Victoria.[43] Whole of government reporting involves presenting financial statements that consolidate the transactions of each government agency. It is a similar concept to a private sector parent company presenting consolidated financial statements for the whole group, including all its subsidiaries. The Department of Treasury and Finance produced a whole of government report on a trial basis for 1995-96, then produced 1996-97 financial statements for Victoria for the first time in October 1997.[44]

While the benefits of whole of government reporting are recognised, the Committee has identified conceptual and policy challenges that face the annual release of this report.[45]

The introduction to the inaugural financial statements states:

> *This document presents for the first time, audited financial statements for the whole of the Victorian State public sector, whether budget-funded or not. These have been prepared on a full accrual accounting basis and in accordance with other generally accepted accounting principles. These statements show an operating surplus before abnormals of $ 1,568.9 million in 1996-97, and an excess of assets over liabilities of $20, 825.2 million as at 30 June 1997.*[46]

The 1996-97 annual financial statement was prepared with accrual accounting principles and audited by the Auditor-General. The statement comprises:

- an operating statement (statement of revenues and expenses);

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[42] Victoria Commission of Audit May 1993, pages 193.
[43] For instance see Public Accounts and Estimates Committee, 12th report, 1995, page 23.
[44] Department of Treasury and Finance, *Financial Statements for the State Of Victoria*, 1996-97.
[45] See Public Accounts and Estimate Committee, 19th report, April 1997.
[46] Department Of Treasury and Finance, *Financial Statement for The State Of Victoria*, 1996-97.

- a statement of financial position (statement of assets and liabilities), and
- a cash flow statement (statement of cash inflows and outflows).

The statements covered all agencies owned and controlled by the Victorian Government. This coverage is much broader than that of the budget sector accounts, which included only budget funded agencies. Results were presented[47] for the general government, public trading enterprises and public financial institutions sectors of the overall Victorian public sector, as defined by the Australian Bureau of Statistics. Unaudited results for each of the eight departmental groups making up the Victorian public sector were provided in section 4.

The statement of financial position reported the following results as at 30 June 1997. The value of assets owned and controlled by the Victorian Government was $71.45 billion. This is a measure of the value of Victorian taxpayers' accumulated investment in public infrastructure and public institutions. Over 70 per cent of the total was investment in fixed physical assets and infrastructure (such as land, buildings and roads) and equipment committed to the delivery of services.

Total liabilities at 30 June 1997 were $50 625 million. The largest components of the total liabilities were borrowings (42 per cent) and superannuation (30 per cent). Accordingly, the excess of total assets over total liabilities for the Victorian public sector totalled $20 825.2 million.[48]

The Committee believes that the whole of government annual financial statements are important, and looks forward to reviewing the statements for 1997-98.

The statements for 1996-97 were a first attempt, so the Department of Treasury and Finance deserve commendation for moving in an appropriate direction; however, the Committee believes that the timeliness, content and principles of consolidation could be improved with future statements.

4.2 Timeliness

A vital qualitative characteristic of financial statements is their timeliness. The more timely a set of financial statements can be produced after the conclusion of the financial year, the more relevant the report is as a source of information. The more timely the documentation the more useful the

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[47] Ibid., note 2, page 53.
[48] Ibid., page 9.

decision making. The Committee appreciates that there can be significant trade-offs between the relevance (for current decision making purposes) of financial statements and the reliability of those statements. The pressure to provide financial information as quickly as possible can sometimes reduce the quality of the financial information, because there is an increased need to make assumptions and/or estimations without access to actual data.

This may lower the objectivity and verifiability of the financial statements, indicating a trade-off between the relevance and reliability of financial information. A significant investment in financial information systems may be needed to enable the more timely preparation of annual financial statements.

The Committee notes that the initial Victorian whole of government annual financial statement was not released in audited form until 28 October 1997; it took approximately 100 days for the consolidated financial statements to be prepared and audited. The Committee notes that the Western Australian Government took far longer (until 10 December 1997) to produce its annual consolidated financial statements, and Western Australia has been producing financial statements since 1994. However, New Zealand whole of government annual financial statements are generally available in audited form within two months (60 days) of the end of the financial year.

4.3 Content

Annual consolidated financial statements form only one part of the overall public accountability matrix (which also includes the Budget Papers and agencies' annual reports). The Committee believes that the Victorian whole of government annual financial statement could be considerably improved if integrated more into the accountability matrix, rather than treated as a separate and isolated document.

Examples of excellence in accountability integration include the Western Australian consolidated financial statements, which (despite their relative lack of timeliness) have won accolades nationally since their introduction. In 1995, the Western Australian Treasury (which produces the consolidated financial statements) was awarded the Financial Management Award for Outstanding Achievement by a Public Sector Organisation - presented by the Western Australian Division of the ASCPA - and in 1997, the Western Australian Treasury received the ASCPA National Award for Outstanding Achievement in Public Sector Accounting.

Key integrative features of this best practice document include sections which specifically link information in the consolidated financial statement to the budget estimates. It also contains comments on what the consolidated financial statements reveal about the degree to which the Government has achieved its budget strategy, or deviated from that strategy. In addition, the report includes an overview section that explains and interprets key aspects of the financial performance and position of the Government.

The New Zealand consolidated (whole of government) annual financial statements take a similar approach, adding considerable value. Particularly useful is the comprehensive commentary on the reasons for variances between budgeted and actual results which are a good example of transparency and public accountability.

4.4 Principles of consolidation

While the disclosures in relation to controlled agencies and the consolidation practices relating to those agencies were extensive, the Committee is aware of significant national debate about consolidation procedures as they relate to whole of government annual financial statements. Some jurisdictions believe that these statements are for the budget sector only, while others include budget and non budget sector entities. Further consideration of this matter is necessary, and budget sector and non budget sector need to be more clearly defined.

Recommendation 4.1:	***That the Department of Treasury and Finance review developments with consolidated financial statements in other Australian jurisdictions and in New Zealand to determine best practice for the next (1998-99) whole of government report. In addition, the Department should review current professional and academic debates about whole of government financial reporting, with the view to improving the content and accountability of the statements.***

Chapter 5: Budget Overview

5.1 Overview of the 1998-99 budget estimates

The Committee notes that the 1998-99 Budget Estimates are presented in an accrual output based format for the first time. This enables the recognition of revenues and expenses as they are earned or incurred, rather than when cash is received or disbursed. It also takes account of the full cost of providing outputs. To permit meaningful comparison against the 1998-99 Budget Estimates, the 1997-98 Budget Estimates have been converted from a cash to an accrual basis.

The 1998-99 Budget has been based on the following longer term fiscal objectives of the Government:

- elimination of structural operating deficits;
- creation of an ongoing capacity to provide essential public infrastructure;
- maintenance of, and improvements to, the State's assets;
- reductions in the State's liabilities, including repayment of debt and reductions in unfunded superannuation obligations;
- proper management of the State's risk; and
- provision of high quality public services at least cost by introducing competition and contestability to services provision.[49]

1997-98 budget outcomes and overall position

A revised operating surplus (before abnormals) of $1.153 billion was expected for 1997-98. This is $604.2 million higher than the initial estimate, reflecting:

- stronger than expected revenue growth; and
- lower than expected interest and financing expenses as a result of restructuring financial transactions.

The revised budget for 1997-98 also includes $1.873 billion in net receipts from privatisation sales not included in the budget estimates, and a $334.4 million abnormal loss on the revaluation of metropolitan water borrowings assumed by the Government as part of the October 1997 water industry

[49] *A Guide to the Budget Papers*, 1998-99, page 1

reforms. This resulted in a revised estimated operating surplus (after abnormals) of $2,692 million.[50]

Exhibit 5.1 highlights the components of both the estimated and revised budgets for 1997-98, together with the corresponding budget estimates for 1998-99.

Exhibit 5.1

Operating statement ($million)	**1997-98 estimate**	**1997-98 estimate (revised)**	**1998-99 estimate**
Operating revenue			
Taxes	8417.6	8316.1	8483.6
Regulatory fees and fines	179.1	233.4	250.5
Sales of goods and services	1730.3	1703.3	1744.8
Public authority income	683.5	944.8	940.5
Current grants – own purpose	5665.0	5762.1	5964.2
Current grants – for on-passing	863.4	902.0	924.3
Capital grants – own purpose	492.1	488.0	401.6
Capital grants – for on-passing	24.6	23.0	23.7
Profit on sale of second hand assets	–2.8	0.0	7.5
Other revenue	284.6	277.7	214.5
Total revenue	18,337.6	18,650.4	18,955.2
Less expenses			
Depreciation	757.3	757.7	784.9
Superannuation	1531.9	1500.2	1622.4
Employee entitlements and other operating expenses	11,086.2	11,189.4	11,659.0
Total gross operating expenditure	13,375.5	13447.2	14,066.3
Interest expense	1121.4	821.3	806.3
Current grants	1960.4	1898.7	1,968.5
Capital transfers	443.4	405.1	398.8
Grants on-passed	888.0	925.0	948.0
Total expenses	17,788.7	17,497.3	18,187.8
Operating surplus before abnormals	**548.9**	**1,153.1**	**767.3**
Plus: privatisation receipts – current		199.7	
Plus: privatisation receipts – proceeds of sale		1,673.2	
Less: realised loss on borrowings		–334.4	
Operating surplus after abnormals	**548.9**	**2,691.6**	**767.3**

Source: 1998-99 Budget Paper No. 2, Budget statement, table 3.2 (page 31) and table 3.4 (page 35).

The operating surplus before abnormal items for 1998-99 is expected to be $385.7 million lower than the revised estimate for 1997-98. The Committee recognises that this primarily reflects the Government's policy decisions affecting revenues and service delivery, as discussed below.

[50] 1998-99 Budget Paper No. 2, Budget Statement, page 30.

However, the Government has projected that the operating surplus before abnormal items will increase from $767.3 million in 1998-99 to $949.2 million in 2001-02. Although operating expenditure is expected to rise faster than revenue, the increase will be more than offset by the reduction in interest expense (resulting from reduced debt levels), because there are cash surpluses.[51]

The Treasurer advised the Committee at the estimates hearing that the level of future surpluses will be influenced by:

- the impact of the rate of economic growth on revenue;
- increases in wages, which comprise a significant proportion of output costs; and
- changes in interest rates affecting the amount of interest to be paid on debt.[52]

Revenue

The Committee noted that the expected growth in operating revenue of 1.6 per cent in 1998-99 is restrained by tax relief measures worth $125 million,[53] which have reduced the level of taxes and charges from approximately $900 million per year above the national average in 1993, to only $220 million above the national average. Thus, Victoria is no longer the highest taxed State.[54]

Also impacting on the level of revenue in 1998-99 is the stabilisation of the growth in gambling taxes as the market matures[55] and the level of Commonwealth Grants.

Commonwealth grants, excluding those for on-passing, represent approximately 33.6 per cent of operating revenue; they are expected to increase by 4.2 per cent in 1998-99. This follows a decrease of 1.3 per cent in 1997-98.[56]

Since 1996-97 a portion of the general purpose grant has been remitted back to the Commonwealth as a fiscal contribution payment to assist the Commonwealth Government in correcting its financial position. Victoria's share of this contribution was $158.2 million (4.3 per cent of the general

[51] Ibid., page 41.
[52] The Hon. A Stockdale, Treasurer, transcript of evidence, page 13.
[53] 1998-99 Budget Paper No. 2 Budget statement, page 34.
[54] The Hon. A Stockdale, Treasurer, transcript of evidence, page 15.
[55] 1998-99 Budget Paper No. 2 Budget Statement, page 99.
[56] Ibid., page 158.

purpose grant) in 1997-98 and $74 million (2.1 per cent of the general purpose grant) in 1998-99.[57]

However, the Committee noted that the Commonwealth Government, despite forecasting a substantial underlying surplus of $2.458 billion for 1998-99, has made its grants offer conditional on the State's final fiscal contribution payment in 1998-99. The Commonwealth's justification is doubtful given that the agreement with the States provides for the payments to be reviewed in the light of the Commonwealth's fiscal position. The agreement also requires the Commonwealth to reduce its projected budget deficit by $8 billion over two years, which has not occurred.[58]

The Committee noted that major revenue losses from State business franchise fees on tobacco, fuel and alcohol were averted in 1997-98 by the negotiation of revenue safety net arrangements with the Commonwealth. (This followed a High Court ruling that tobacco franchise fees were duties of excise and only able to be levied by the Commonwealth.) These arrangements involve the Commonwealth imposing the levies and passing the monies collected, net of administrative costs, onto the States.

While these arrangements are expected to generate adequate ongoing revenues to compensate for the loss of business franchise fees, the switch from business franchise fees to replacement tax collections has resulted in a one-off loss of approximately $155 million (primarily reflecting timing differences between the collection of franchise fees and replacement taxes).[59] The Committee is also aware that business franchise fee safety net arrangements are only temporary, pending the development of longer term revenue replacement options arising from national tax reform.[60]

Expenditure

Total operating expenses for 1998-99 are expected to increase by 3.9 per cent over the revised estimate for 1997-98. This includes an increase in gross operating expenses of 4.6 per cent attributable to:

- a 3.6 per cent increase in depreciation expense in line with an increase in the asset base; and
- an 8.1 per cent increase in superannuation expenses reflecting an increase in the minimum superannuation contribution rate from 6 per cent to 7 per cent under the Superannuation Guarantee arrangements.[61]

[57] Ibid., page 159.
[58] Ibid., page 160.
[59] Ibid., page 92.
[60] Ibid., pages 88 and 89.
[61] Ibid., page 34

The introduction of a Winter Power Bonus, in the form of a $60 yearly reduction in winter electricity accounts over the next three years, is also expected to cost the Government $370 million. The Committee notes that it is to be funded by a reduction in revenue of approximately $58 million from franchise fees received from the electricity distribution businesses and cash payments of approximately $312 million to those businesses.

Appropriations to Departments

The resources provided to Departments in 1998-99 are anticipated to increase by $524 million, or 2.9 per cent, from the previous year's estimate. This is highlighted in Exhibit 5.2 below.

Exhibit 5.2

Summary of departmental resources ($million)	**1997-98 Budget**	**1998-99 Budget**	**Variation %**
Parliament	101.4	104.7	3.9
Education	5,350.4	5,716.3	6.8
Human Services	6,447.4	6,807.5	5.6
Infrastructure	2,538.8	2,426.1	-4.4
Justice	1,634.9	1,662.3	1.7
Natural Resources and Environment	796.0	794.7	-0.2
Premier and Cabinet	443.7	476.0	7.3
State Development	238.3	198.1	-16.9
Treasury and Finance	479.0	367.6	-23.3
Total	**18,029.3**	**18,553.3**	**2.9**

Source: 1998-99 Budget Paper No. 3, Budget Estimates, constructed from 'Authority for Departmental Resources' summaries for each department (figures have been rounded).

Exhibit 5.3 indicates that almost 75 per cent of departmental resources are comprised of annual appropriations from Parliament, which are budgeted to increase by $968.6 million in 1998-99. The Committee understands that this increase is to be primarily applied to education and human services, which are expected to receive additional appropriations of $254 million and $376.6 million respectively to address high priority needs.[62] The Department of Education is also expected to receive an increase in trust fund receipts of $318 million, paid under various Commonwealth Acts, for school education services, vocational education and training, and adult, community and further education.

Special appropriations, made by the Government on an ongoing basis independently of the annual budget, are anticipated to decrease by $119.7 million in 1998-99. This reduction is due to the cessation of $185

[62] 1998-99 Budget Paper No. 3, Budget Estimates, pages 89 (table 2.2.15) and 135 (table 2.3.31).

million funding under the *Business Franchise Act* 1979 for the construction and maintenance of roads by the Department of Infrastructure.[63]

Exhibit 5.3

Sources of departmental funds ($million)	1997-98 Budget	1998-99 Budget	Variation %
Annual appropriations	12,546.9	13,515.5	7.1
Receipt credited appropriations	1,078.8	993.6	-7.9
Carryover of previous appropriations	282.2	268.9	-4.7
Special appropriations	1,384.9	1,265.2	-8.6
Trust fund receipts	1,108.0	1,309.8	18.2
Non-public account revenue and other sources	1,577.5	1,390.6	-11.8
Total	**17,978.3**	**18,743.6**	**4.3**

Source: 1998-99 Budget Paper No. 3, Budget Estimates, table 1.7, page 25.

As can be seen from Exhibit 5.4, Departments are to apply the aggregate annual appropriations, (as per the Appropriation Bills),[64] primarily to the provision of outputs.

Exhibit 5.4

Application of gross appropriations ($million)	1997-98 Budget	1998-99 Budget
Provision of outputs	13,289.3	13,860.8
Additions to the net asset base	624.8	634.7
Payments made on behalf of the state	1,739.0	1,700.2
Total	**15,653.1**	**16,195.7**

Source: 1998-99 Budget Paper No.3, Budget Estimates, table 1.8, page 25.

Provision of outputs by Departments

Although the provision of outputs by Departments is expected to increase by 3.4 per cent in 1998-99 to a total of $16.238 billion, outputs in lower priority service areas will be reduced (see Exhibit 5.5).

[63] Ibid., page 172 (Table 2.4.22).
[64] These Bills are the *Appropriation (1998-99) Bill* and the *Appropriation (Parliament 1998-99) Bill*.

Exhibit 5.5

DEPARTMENTAL OUTPUTS ($MILLION)

Department	1997-98 Budget	1998-99 Budget	Variation %
Parliament	101.2	103.4	2.2
Education	4,573.9	4,776.1	4.4
Human Services	6,080.9	6,344.1	4.3
Infrastructure	2,017.1	1,970.9	-2.3
Justice	1,495.1	1,553.7	3.9
Natural Resources and Environment	624.5	659.7	5.6
Premier and Cabinet	281.8	285.9	1.5
State Development	215.3	197.8	-8.2
Treasury and Finance	314.5	346.0	10.0
Total	**15,704.3**	**16,237.6**	**3.4**

Source: 1998-99 Budget Paper No. 3, Budget Estimates, constructed from output group summaries for each department (figures have been rounded).

While the Department of Infrastructure and Department of State Development anticipate decreases in outputs of 2.3 per cent and 8.2 per cent respectively, outputs for the Department of Treasury and Finance will increase by 10 per cent. This reflects a redirection of government spending to the priority areas of health, education, privatisation and industry reform, and law and order.[65]

The Committee notes that $125.2 million has been re-prioritised across Departments in 1998-99 to partly fund new output initiatives; this amount is expected to increase to $126.6 million in 1999-2000.[66] Exhibit 5.6 indicates that the new initiatives are focused on health and education.

Exhibit 5.6

NEW FUNDING FOR OUTPUT INITIATIVES AS PART OF THE 1998-99 BUDGET ($MILLION)

Department	1998-99 Budget	1999-00 Estimate
Education	63.5	100.1
Human Services	100.0	117.6
Infrastructure	30.5	22.7
Justice	5.9	-
Natural Resources and Environment	9.0	10.1
Premier and Cabinet	9.3	8.8
State Development	15.2	12.1
Treasury and Finance	-	-
Total	**233.4**	**271.4**

Source: 1998-99 Budget Paper No. 2, Budget Statement, table 3.5 (page 37) and table 4.1 (page 49).

[65] The Hon.. A Stockdale, the Treasurer of Victoria, transcript of evidence, 5 May 1998, page 21.
[66] 1998-99 Budget Paper No. 2 Budget Statement, pages 36 and 48.

Later sections of this report detail departmental outputs.

5.2 Payments from Advance to the Treasurer

Payments from the Treasurer’s advance supplement the funding allocated to Departments under the budget. These payments relate to expenditure in excess of appropriations, or not provided under an appropriation, and do not require the nomination of outputs and outcomes.

Exhibit 5.7 details the payments (on a cash basis) to Departments from the Treasurer’s advance for 1997-98.

Exhibit 5.7

PAYMENTS FROM ADVANCE TO THE TREASURER (CASH BASIS)

Department	Total payments received 1997-98
Education	$34,071,600
Human Services	$42,586,213
Infrastructure	$22,383,312
Justice	$35,301,371
Natural Resources and Environment	$33,021,815
Parliament	$848,000
Premier and Cabinet	$7,771,052
State Development	$4,635,000
Treasury and Finance	$104,000,000
Total Payments from advance to the Treasurer	**$284,618,000**

Source: 1997-98 Budget Outcome Statement, pages 21–23.

The above Exhibit 5.7, indicates that payments from the Treasurer’s advance totalled $284.6 million in 1997-98. The Committee notes that the Department of Treasury and Finance, which received $104 million, was the primary recipient of these payments. Of this amount, $100 million was for the discharge of unfunded superannuation liabilities for the Hospitals Superannuation Fund.

Approved wage increases comprised the second largest payment and totalled $64.3 million, of which the Department of Human Services received $34.6 million (over half) and the Department of Education received $16.9 million.

Other significant payments were for:

- fire suppression expenses of the Department of Natural Resources and Environment ($26.2 million);

- expenses for over-entitlement teachers ($10 million);
- additional wage expenses of Victoria Police ($9.9 million);
- employee entitlements of staff transferred to the private bus operator ($4.5 million) and of tram conductors ($2.3 million);
- operating expenses of the Australian Grand Prix Corporation ($4.2 million);
- accrued employee entitlements of the Victorian WorkCover Authority ($4 million);
- billing changes for the automated ticketing system ($3.8 million);
- corporatisation and privatisation expenses of the Public Transport Corporation ($3.4 million); and
- litigation expenses of the Department of Natural Resources and Environment ($2 million).

5.3 Privatisation transactions

In continuing with the privatisation of the State's electricity businesses, the government announced the sale of PowerNet (which operates Victoria's electricity transmission grid) and Southern Hydro (the operator of the hydro-electric stations).

The Committee noted that the government received cash proceeds of $2.9 billion from the sale of these businesses ($2.5 billion for PowerNet and $400 million for Southern Hydro) in 1997-98. This amount was applied to the:

- repayment of the businesses' debt held with the Treasury Corporation of Victoria ($796 million);
- reduction of budget sector debt ($1.7 billion);
- recovery of privatisation and reform expenses and associated payments to Goulburn Murray Water ($63 million); and
- investment in liquid financial assets ($345 million).[67]

The Auditor-General indicated that the proceeds received from the sale favourably compare with the valuations of the businesses provided by the government's corporate advisers.[68]

To protect the State's negotiating position, the government has not made any estimates of proceeds and liability reductions flowing from future privatisations.

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[67] Ibid; page 106.
[68] Victorian Auditor-General, *Report on Ministerial Portfolios*, May 1998, pages 291 - 299.

5.4 Public sector debt and liability management

The Committee is aware that the management of the budget sector debt continues to be based on the government's key objectives of:

- achieving relative certainty of interest costs while minimising net borrowing costs;
- minimising refinancing risk; and
- conservatively managing the financial and operational risks of the budget sector treasury operations.[69]

As illustrated by Exhibit 5.8, the main components of Victoria's public sector liabilities are debt and unfunded superannuation.

Exhibit 5.8

PUBLIC SECTOR FINANCIAL LIABILITIES AS AT 30 JUNE ($BILLION)

	1997 Actual	1998 Estimate	1999 Estimate	2000 Estimate	2001 Estimate	2002 Estimate
Public sector net debt	14.3	11.1	10.9	10.3	9.8	9.5
Unfunded superannuation	15.6	15.9	16.1	16.4	16.6	16.7
Other	6.7	6.7	6.7	6.7	6.7	6.7
Total liabilities	**36.6**	**33.6**	**33.8**	**33.4**	**33.1**	**33.0**

Source: 1998-99 Budget Paper No. 2, Budget Statement, table 6.1 (page 110).

The Committee recognises that a significant achievement of the government has been the restoration of Victoria's AAA credit rating by Standards and Poor's in April 1998. This largely reflected the substantial reduction in debt, the strong position of State finances, and the State's broad economic base.

The State has received in excess of $21 billion for the sale of electricity businesses to date, of which most has been applied to the reduction of public sector debt.[70] This has enabled 65 per cent of debt to be repaid since 1995. Assuming no further privatisation sales, the government anticipates debt to be reduced to $9.5 billion by 30 June 2002.

The Treasurer advised the Committee at the estimates hearing that the restoration of Victoria's AAA credit rating, leading to renewed confidence in the capacity of the State to repay it debts, would increase investor confidence and lock in low borrowing costs. [71]

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[69] 1998-99 Budget Paper No. 2 Budget Statement, page 114.
[70] Victorian Auditor-General, *Report on Ministerial Portfolios*, May 1998, page 301.
[71] Hon. A Stockdale, Treasurer of Victoria, transcript of evidence, 5 May 1998, page 10

The total unfunded superannuation liability of Victoria's public sector superannuation schemes is expected to marginally increase from $15.6 billion as at 30 June 1997 to $15.9 billion by 30 June 1998. The Committee noted that the State's share of the total unfunded superannuation liability is expected to be $15.3 billion (compared with $15.2 billion as at 30 June 1997), with the remaining liability to be funded from external sources such as universities.[72]

The Minister for Finance advised the Committee that the government is on track to fully fund the liability across the entire superannuation sector, and that the unfunded superannuation liability is expected to peak in approximately 2007 (as opposed to 2014, if the reforms to address the growth in this liability had not been introduced).[73]

Flexible electricity tariff arrangements

Another significant issue in the Government's management of liabilities has been the restructure and extinguishment of a number of long-term liabilities residing with SECV Shell, which has been retained to manage the assets and obligations not allocated to the electricity entities established for the electricity industry reform. These liabilities arose from arrangements entered into before the reform program commenced; they include contracts for the supply of electricity to the Portland and Port Henry aluminium smelters until 2016 and 2014 respectively, at prices linked to world aluminium prices.

In recent years, given decreasing aluminium prices, these prices have been well below the market price and the Government has been obliged to pay SECV Shell a subsidy of the difference between the cost of electricity supplied to the smelters and smelters' payments for the electricity. This subsidy amounted to $124.3 million in 1995-96 and $175 million in 1996-97,[74] while the budget appropriation for the 1997-98 subsidy was $192 million.[75]

However, the Committee noted that the payment of the subsidy to SECV Shell ceased from July 1998, following government measures to reduce the expected losses under the aluminium smelter contracts. These measures consisted of an agreement, announced on 1 April 1997, whereby Edison Mission Energy assumed the State's remaining 49 per cent share of the Loy Yang B power station in return for entering into a hedge contract to offset

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[72] 1998-99 Budget Paper No. 2 Budget Statement, page 116.
[73] Hon. R Hallam, Minister for Finance, transcript of evidence, 27 July 1998, page 38.
[74] Victorian Auditor-General, *Report of the Auditor-General on the Government's Annual Financial Statement 1996-97*, October 1997, page 181.
[75] 1997-98 Budget Paper No. 2, Budget Statement, page 127.

the losses from the smelter contracts.[76] This is expected to save the government approximately $209 million in 1998-99.[77]

5.5 Reduction in expenditure

In recent years, the Committee has observed an overall trend of staffing reductions across Departments, particularly at the lower levels. This is predominantly in response to the shift to outsourcing and contract management. Based on information supplied by Departments,[78] the overall number of employees was expected to be reduced by 2387 during 1997-98.

The Committee notes that the reductions have primarily occurred at the lower classification levels, with increases occurring at the VPS-4 and VPS-5 levels.

Exhibit 5.9 summarises the services outsourced by Departments in 1997-98 and the services planned to be outsourced in 1998-99.

Exhibit 5.9

OUTSOURCING OF SERVICES BY DEPARTMENTS

Department	Actual outsourcing 1997-98	Planned outsourcing 1998-99
Parliament	Nil	• Implementation and rollout of ParlyNet
Education	• Provision of regional assessment services to establish eligibility of students for disability program (savings of $0.6 million). • Teacher travel and removal arrangements (savings of $50,000)	Department is developing an outsourcing strategic plan to prioritise outsourcing activities for 1998-99, 1999-2000 and 2000-01
Human Services	Minimal outsourcing as part of broader service redevelopment activity (including closure of selected internal services) to extend into 1998-99	• Provision of public hospital services at Latrobe Regional Hospital • Continuation of progressive transfer of 1500 public nursing home beds to the private sector
Infrastructure	Remaining MetBus operations (savings of $3 million)	• Tram and train services • Signal design, construction and engineering

[76] Ibid., page 29.
[77] 1998-99 Budget Paper No. 2, Budget Statement, page 119.
[78] Committee's Questionnaire concerning expected staff levels for 1997-98 and anticipated levels for 1998-99.

Justice	• Prison services (savings not stated) • Police prisoner transport services (savings of $0.3 million) • Provision of health services in public prisons (no net budget savings)	• Information technology technical services • Functions of the Traffic Camera Office, Fixed Penalty Payment Office and Enforcement Management Unit • Victoria Police information technology services • Prisoner custody management at the Melbourne Custody Centre
Natural Resources and Environment	• Land registry functions (savings of $0.1 million) • Selected services provided by Parks Victoria (savings of $0.2 million) • Selected services provided by the Primary Industries division (savings of $0.9 million)	• Floodplain and waterway management services and regional land care • Retailing of digital map base products • Licensing function for hunting and wildlife licenses • Conversion of Land Registry information to an electronic format • Parks Victoria's human resources function
Premier and Cabinet	Not stated.	• Management of Geelong Performing Arts Centre • Development of a record management system for the Public Records Office • Evaluation of the 'Turning the Tide' strategy
State Development	Not stated	Nil
Treasury and Finance	Not stated	• Property management services (savings $0.2 million)

Source: Departments' responses to outsourcing question in Committee's estimates questionnaire.

As can be seen from the Exhibit, the level of outsourcing undertaken by each Department varies significantly.

Chapter 6: Parliamentary Departments

6.1 Introduction

Department overview

The Parliament has five Departments – the Legislative Council, the Legislative Assembly, Parliamentary Debates (Hansard), the Parliamentary Library, and Parliamentary Services – which provide services to the two Houses of Parliament, the Committees, Members, and electorate offices. These services include information and procedural advice, and electoral office support.

The five Departments operate as independent entities and each Department manages its own staff, administration, and financial operations.

The Presiding Officers are responsible for overseeing the management of the Parliament.

Output Management Framework

For 1998-99, the Parliament will have 6 output groups with 13 major outputs and 75 performance measures. This compares with 6, 22 and 61 respectively for 1997-98. The current output group structure for the Parliamentary Departments is highlighted in Exhibit 6.1 on page 53. With the exception of the addition of the output group for the Victorian Auditor-General's Office, which transferred from the Department of Premier and Cabinet, the output groups remain unchanged for 1998-99.

The major outputs of the Legislative Assembly and Legislative Council have been consolidated into one output, called Procedural Support and Documentation Preparation, for each group. Existing performance measures have also been reviewed with the addition of a number of new quality and timeliness measures.

Of the 75 performance measures listed in the Budget Papers, 37 are new measures and therefore do not include performance targets for 1997-98. The majority of performance measures are quantity measures, with 25 per cent quality and 20 per cent timeliness measures. In addition, the Committee noted that two cost measures have been adopted for the Victorian Auditor-General's Office output group.

Key output measures for the Legislative Council and Legislative Assembly, which will meet targets based on the sittings of the Houses, are the quality of procedural advice and timeliness of all services.

The service Departments have identified a number of key performance measures including:

- information requests satisfied within agreed time frames;
- financial reports produced;
- accounts paid within credit terms; and
- publication deadlines met.

Corporate and business plans

The Committee was advised that a Corporate Plan is currently in the process of being developed for the whole of Parliament. Once this is completed the information contained in the departmental corporate plans will be updated to complement this Parliament plan. Although the Committee was provided with a copy of the Corporate Plan for the Legislative Assembly this plan was not current and did not reflect the 1998-99 financial year.

The Committee notes that the Department of Parliamentary Debates (Hansard) is the only Department to have a Business Plan, although a draft plan has been prepared for the Library. The Business Plan for the Department of Parliamentary Debates is currently being revised for 1998-99 and could not be reviewed by the Committee, however a copy of the 1997-98 plan was provided. A review of this plan indicated that it does not contain all the information required by Department of Treasury and Finance Guidelines.[79]

The Committee is concerned that little progress has been made with implementing the recommendation contained in the Report on the 1997-98 Budget Estimates[80] concerning the need for business and corporate plans.

The Committee stresses that a comprehensive and rigorous business planning process should be the centre-piece of the parliamentary departments' financial and policy decision making and public reporting process. In the absence of a whole of parliament corporate plan, the Committee is concerned that the Departments may not be operating with a strategic focus and an effective framework for integrating common activities.

[79] Department of Treasury and Finance, *A Guide to Corporate and Business Planning*, Draft, 12 April 1996, page 12.
[80] Public Accounts and Estimates Committee, Report No. 23, p.38.

Recommendation 6.1:	***That, as a matter of priority, the Heads of the Parliamentary Departments develop a whole of parliament corporate plan.***

6.2 Budget overview

Provision of outputs

The provision of outputs by the Parliamentary Departments is expected to increase by $2.2 million, or 2.2 per cent, in 1998-99 to a total of $103.4 million.

Exhibit 6.1

Output Group Summary ($million)	1997-98 Budget	1998-99 Budget	Variation %
Legislative Council	12.4	17.0	37.5%
Legislative Assembly	34.8	31.0	-10.8%
Parliamentary Library	1.8	1.9	7.0%
Parliamentary Debates	2.6	2.6	-2.1%
Parliamentary and Electorate Support Services	29.8	30.8	3.3%
Auditor-General's Office	19.8	20.1	1.4%
Total	**101.2**	**103.4**	**2.2%**

Source: 1998-99 Budget Paper No. 3, Budget Estimates, page 33

The Committee notes that approximately $20 million of the Parliament's overall budget for 1998-99 is discretionary expenditure shared between the Parliamentary Departments.

The Clerk of the Parliaments and Clerk of the Legislative Council advised the Committee that the respective increase and decrease in the cost of outputs for the Legislative Council and Legislative Assembly is a one-off adjustment to reallocate funding for employer superannuation contributions from the Legislative Assembly to the Legislative Council to correct a previous misallocation between the two House Departments.[81]

In addition, the Treasury has advised the Departments that they will not be required to pay an additional superannuation contribution in 1998-99 as the previous shortfall in contributions has now been met. Consequently, it is expected that the cost of outputs will decrease by $3.3 million for the Legislative Council and $6.6 million for the Legislative Assembly.

[81] Mr A Bray, Clerk of the Parliaments and Clerk of the Legislative Council, transcript of evidence, 24 September 1998, pages 148 and 149.

Staffing

With the exception of Parliamentary Debates (Hansard), staff numbers were expected to increase marginally across all Parliamentary Departments from 30 June 1997 to 30 June 1998.

Exhibit 6.2

Parliamentary Departments Staffing	Number of Staff 30 June 1997 (estimate)	Number of Staff 30 June 1998 (estimate)
Legislative Council	34	35
Legislative Assembly	53	54
Parliamentary Library	21	23
Parliamentary Debates (Hansard)	21	18
Parliamentary Services	34	35
Total	**163**	**165**

Source: Response by Parliamentary Departments to Committee's 1998-99 estimates questionnaire, pages 10 and 11.

The Committee was advised by the Chief Reporter, Hansard, that the number of permanent reporters has been downsized to 10 and in future casual staff will used to provide a transcription service of the Committees during periods when the Parliament is not sitting.[82]

6.3 Key issues facing the Parliament

Significant issues which have determined the Parliamentary Departments' budget estimates for 1998-99 include:

- the introduction of ParlyNet and Lotus Notes;
- enhancing the abilities of current staff and recruitment of new staff;
- improving accommodation and the parliamentary buildings; and
- changes to work practices as a result of new technology.

Introduction of ParlyNet

The ParlyNet project involves the electronic linking of Members' electorate offices with their offices in the Parliament and is a joint activity between the Department of Premier and Cabinet, which is providing the funding, and the Parliamentary Departments.

The Chief Executive Officer, Department of Parliamentary Services, advised the Committee that the implementation and roll-out of ParlyNet

[82] Ms C Williams, Chief Reporter, Hansard, transcript of evidence, 24 September 1998, page 154.

and initial training has been tendered out to Com Tech as the magnitude of the project is such that it could not be handled internally.[83]

It is expected that the ParlyNet system, when fully operational, will enhance communication between Members and provide for opportunities for improvements in updating data and access to a range of databases.

Improving accommodation and the parliamentary building

The Committee is aware that there is currently a shortage of accommodation for Members and parliamentary staff, in particular the Library and Hansard.

The Committee was advised by the Chief Reporter, Hansard, that staff are working in poor conditions and despite funding being available to employ an additional four trainee reporters there was no suitable accommodation.[84] According to the Parliamentary Librarian, the situation is similar in the library, which is also unable to accommodate any expansion in staff numbers.[85]

As the planned refurbishment of Parliament House has been postponed indefinately, the Committee believes that strategies should now be developed to overcome problems with inadequate accommodation.

Recommendation 6.2:	***That the Department of Parliamentary Services examine the feasibility of relocating some staff involved in non-core activities to alternative accommodation located close to Parliament House.***

6.4 Funding arrangements for the Parliament and Parliamentary Committees

In the previous report on the budget estimates, the Committee commented on a number of issues concerning the funding arrangements for the Parliamentary Departments. These issues centred around the impact of the productivity dividend on the provision of services and the need for non-discretionary expenditure to be exempted from the productivity savings.[86]

[83] Ms C Haydon, Chief Executive Officer, Department of Parliamentary Services, , transcript of evidence, 24 September 1998, page 156.
[84] Ms C Williams, Chief Reporter, Hansard, Ibid., page 155.
[85] Mr B Davidson, Parliamentary Librarian, transcript of evidence, 24 September 1998, page 153.
[86] Public Accounts and Estimates Committee, Report on the 1997-98 Budget Estimates, December 1997, pages 34 to 36.

The Committee notes that recent discussions between the Presiding Officers and the Treasurer indicated that it is unlikely that there will be any exemptions from the productivity savings at this time as the Treasurer is reluctant to distinguish between Parliament's budget and the budget of other Departments when applying the savings.[87]

Savings are expected to amount to approximately $500,000 in 1998-99[88] and will have the most impact on the Department of Parliamentary Services, which incurs the majority of the variable costs associated with the Parliament. The Chief Executive Officer of the Department of Parliamentary Services indicated to the Committee that savings of approximately $1 million were achieved during 1997-98 as a result of changes in the way the Department operated. However, according to the Chief Executive Officer, these changes are only a temporary measure and it will be necessary to review the structure of how the parliamentary Departments operate if they are to remain within the budgetary framework in the future.[89]

The Parliamentary Departments advised that in 1998-99 they expect to realise productivity gains through the implementation of the new Oracle financial system; automation of various financial processes; upgrading of the Legislative Assembly's computer equipment; and the introduction of ParlyNet.

In relation to funding for parliamentary committees, the Committee notes that an additional $200,000 has been included in Special Appropriations for 1998-99 to meet the costs of new inquiries and research. Although the allocation of this funding is still subject to further consideration by the Presiding Officers and Department of Treasury and Finance, the Clerk of the Parliaments and Clerk of the Legislative Council acknowledged that it is possible for committees which receive references early in the year to be more likely to receive funding than committees which receive references late in the year.[90]

This situation reinforces the views expressed by the Committee in its last report on the estimates process [91]that inquiries should be funded on an agreed funding formula that recognises that some inquiries are unplanned and arise from concerns raised by community groups or the Auditor-General and may be undertaken in the latter half of the financial year.

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[87] Mr A Bray, Clerk of the Parliaments and Clerk of the Legislative Council, Ibid., page 148.

[88] Mr H Barr, Finance and Resources Manager, Department of Parliamentary Services, transcript of evidence, 24 September 1998., page 147.

[89] Ms C Haydon, Chief Executive Officer, Department of Parliamentary Services, Ibid., pages 146 and 147.

[90] Mr A Bray, Clerk of the Parliaments and Clerk of the Legislative Council, Ibid., pages 145 and 146.

[91] Public Accounts and Estimates Committee, Report No. 23, p.39.

Under the current arrangements, these inquiries may face funding difficulties.

6.5 Benchmarking practices

The Committee was advised that although all the Parliamentary Departments have performance measures, the Departments do not readily lend themselves to external benchmarking as there are no other comparable organisations apart from other State Parliaments, against which few comparisons can be made. [92] This is due to constitutional differences, varying Member entitlements, and different services and service levels provided.

The Committee is aware that the most significant benchmarking exercises have been undertaken for the Parliamentary Library, which participated in a Commonwealth Grants Commission study in 1996. The results of this study indicated that the Department was operating with significantly fewer resources than all other States except Western Australia.[93]

According to the Parliamentary Librarian, the Department has managed well with the resources available. However, the delivery of research services to the Parliament is inadequate compared with the libraries in Queensland and New South Wales which have a number of specialist research staff in areas such as education, law, and health. The Librarian advised the Committee that the library's research unit is currently staffed by two people who are only able to provide generalised research assistance.[94]

The Committee is aware of the very high standard of services provided to Members and the Committee system by the Parliamentary Library. While the emphasis is on information services, the Committee believes that a greater focus should be given to adding value to current services. A potential area that should be explored involves providing an integrated information and research service for Members of Parliament.

Recommendation 6.3:	***That the Presiding Officers give consideration to expanding the information services provided by the Parliamentary Library to include a specialised research capacity.***

[92] Ibid., page 151.
[93] Mr B Davidson, Parliamentary Librarian, Ibid., page 152.
[94] Ibid., page 153.

The Committee is of the view that planning, co-ordination and project management (including change management) in Parliamentary Departments need to be improved if the thrust of the Financial Management Reform Program is to be successfully implemented.

The Committee also believes that greater emphasis should be given to adding value to current services and the use of benchmarking, to determine best practices.

Recommendation 6.4:	***That the Parliamentary Departments develop strategies to add value to existing services.***

The Committee also believes that there is considerable potential to apply best practice standards to the services provided.

Chapter 7: Department of Treasury and Finance

7.1 Introduction

Department overview

The Department's mission is to provide leadership in economic, financial and resource management. The Treasurer and the Minister for Finance and the Minister for Gaming have responsibility for the Department and the following agencies:

- State Revenue Office;
- Office of the Regulator-General;
- Victorian Casino and Gaming Authority;
- Office of the Chief Electrical Inspector;
- Office of Gas Safety; and
- WorkCover Authority

Output Management Framework

The Committee noted that the Department's output groups have been revised. For 1998-99, the Department will have 8 output groups with 29 major outputs and 150 performance measures. This compares with 10, 32, and 83 respectively for 1997-98. The current output group structure is highlighted in Exhibit 7.1 on page 61.

Three groups have been removed (Advice to Government on Strategic Policy Formation; Ministerial Services; and Budget Production) and one new group introduced (Strategic Policy Advice). However, most output groups adopted by the Department of Treasury and Finance combine the responsibilities of the two Ministers. As a consequence, it is difficult for external parties to understand the different role and responsibilities of each Minister.

Output group information has also been substantially expanded to include a description of each output and the adoption of a number of new performance measures. Of the 150 performance measures listed in the Budget Papers, 91 are new measures and do not include performance targets for 1997-98.

The performance measures adopted by the Department primarily consist of quality and timeliness measures. Although a number of quantity measures have been included in the Budget Papers, the basis of measurement has not been defined for approximately 47 per cent which have no performance target. Further, the Committee notes that where a basis of measurement has been assigned, in many cases it is a date, which appears to be a measure of timeliness rather than quantity.

The Department considers policy advice to be the key element in most of its output groups and intends to undertake an annual survey of the Treasurer's and Minister's assessment of their level of satisfaction with the advice provided.

Recommendation 7.1:	***That the respective roles and responsibilities of the Treasurer and the Minister for Finance and the Minister for Gaming be outlined in terms of the specific outputs within the output groups in the budget papers and the Department's annual report.***

Recommendation 7.2:	***That the Department of Treasury and Finance review its quantitative performance measures to ensure that a suitable basis of measurement, and corresponding performance targets, are set for all measures.***

Corporate and business plans

As was the case in 1997-98, despite a request by the Committee for both the Department's Corporate and Business Plans, only an extract of the 1998-99 – 2000-01 Corporate Plan was provided. The Committee reiterates that the unavailability of a detailed business plan makes it difficult to gain an appreciation of what the Department seeks to achieve and its strategies for achieving goals.

The areas covered in the extract of the corporate plan include key objectives, strategic and core output groups, strategic priorities for 1998-99, internal priorities, 1998-99 financial plan (summary form only) and organisation chart. No information was provided to the Committee on the Department's strategic priorities: critical success factors, operating environment, or key issues, beyond 1998-99.

Recommendation 7.3:	***That the Department of Treasury and Finance make available to the Public Accounts and Estimates Committee its complete Corporate Plan and Business Plan to enable effective Parliamentary oversight of the Department's goals and strategic direction.***

7.2 Budget overview

Provision of outputs

Total budgeted outputs of the Department for 1998-99 are $346 million, an increase of $31.5 million or 10 per cent.

Exhibit 7.1

OUTPUT GROUP SUMMARY ($MILLION)

	1997-98 Budget	1998-99 Budget	Variation %
Strategic Policy Advice	14.3	20.3	41.9
Financial Management Services	25.9	18.1	-30.1
Risk Management Services	17.8	19.9	11.8
Privatisation Services	75.4	105.5	39.9
Reform Services	23.7	35.3	48.8
Resource Management Services	71.1	55.9	-21.3
Regulatory Services	29.7	34.8	17.3
Taxation Management Services	56.7	56.2	-0.8
Total	**314.5**	**346.0**	**10.0**

Source: 1998-99 Budget Paper No. 3, Budget Estimates, page 363

The Department has five core activities of financial, risk, resource, regulatory and taxation management services, which make up over half the Department's total outputs. The other significant element is privatisation services, which comprises 30.5% of total outputs.

The Committee noted that the substantial increase in outputs for privatisation services reflects one-off costs with privatising the remaining gas entities, the Victorian Plantations Corporation, and the Public Transport Corporation. Other significant changes to the provision of outputs are:

- ***Strategic Policy Advice –*** increase of 41.9 per cent due to greater emphasis being placed on developing reform options for a competitive economy;

- ***Financial Management Services –*** decrease of 30.1 per cent due to a shift away from activities centred around reducing State debt and budget deficit;
- ***Reform Services –*** increase of 48.8 per cent due to an understatement of $22 million in the 1997-98 amount as a result of a classification inconsistency between Reform and Privatisation Services;
- ***Resource Management Services –*** decrease of 21.3 per cent due to the outsourcing of accommodation management services (estimated savings of $200,000 per annum); and
- ***Regulatory Services –*** increase of 17.3 per cent due to the commencement of the Office of Gas Safety in July 1997.

The Committee recognises that the introduction of output management across Government has provided limited opportunity for benchmarking, and given this, the Department is yet to benchmark its outputs in detail. The Department has advised that some benchmarks are however available or being developed for accommodation services, regulatory services, and taxation management services.

Recommendation 7.4:	***That the Department of Treasury and Finance, as a priority, continue to develop appropriate benchmarks to facilitate assessment of the efficiency of service provision.***

For 1997-98, the Department advised that it will realise productivity savings of $1.9 million. A productivity saving of a further $1.8 million has been included in the Department's budget for 1998-99. These productivity savings have been absorbed across salaries and operating costs for all output groups.

Staffing

The Department is structured into seven operating divisions, as highlighted by Exhibit 7.2 on page 63, which provides the accountability framework for outputs and staff. The Committee noted that staff are not organised into output groups and may contribute to a number of outputs.

The level of full time staff within these divisions is expected to increase from 501 at 30 June 1997 to 519 at 30 June 1998. As can be seen from the Exhibit, the increase is mainly spread across the budget and resource management; privatisation and industry reform; and strategic management divisions.

Exhibit 7.2

Department of Treasury and Finance Staffing	**Number of Staff 30 June 1997 (actual)**	**Number of Staff 30 June 1998 (estimate)**
Budget and Resource Management	119	129
Corporate Resource Agency	69	59
Economic and Financial Policy	69	71
Energy Projects	23	23
Financial Management	68	66
Privatisation and Industry Reform	99	107
Strategic Management (includes staff in the offices of the Treasurer, the Minister, and the Secretary)	54	64
Total	**501**	**519**

Source: Response by Department of Treasury & Finance to the Committee's estimates questionnaire, Attachment 5.

It is anticipated that an additional 4 executive officers and 32 non-executive officers at the VPS-3, VPS-4 and VPS-5 levels will be employed. This increase is to be partially offset by a decrease of 16 VPS-2 staff.

Key issues facing the Department

In its response to the Committee's questionnaire, the Department advised that it faces the following two key issues in 1998-99:

- locking in benefits of reforms; and
- facilitating economic competitiveness.

Locking in benefits of reform

To address this issue, in 1998-99 the Department intends to:

- implement accrual output based management with particular effort targeted at the use of accrual and output information to support resource decisions, and the development of better cash management arrangements; and
- define contestability principles and promote their use focussing in particular on service quality improvement, value for money, consumer choice, and transfer of risk to the private sector.

Facilitating economic competitiveness

The Budget Papers indicate that the key principle underlying many of the Government's economic reforms is that competition delivers better outcomes for the community in terms of price and quality by:

- providing consumers with greater choice when making purchase decisions;
- motivating business to reduce costs and improve quality; and
- providing the feedback needed for an economy to change over time, as consumer needs change.[95]

Competition reform has already been achieved in the areas of electricity, gas, water and sewerage, ports, and local government.

7.4 Implementation of the Management Reform Program

As indicated by the Committee earlier in this report, the key elements of the Government's management reform program are enhanced management of assets and accountability for use of resources. Central to these elements are the annual reports of Departments which represent the primary means of presenting departmental performance against budget expectations.

At the estimates hearing, the Committee asked the Minister for Finance for his views on improving the links between the budget and reporting processes. The Minister acknowledged that a lack of available benchmarks has made it difficult for the Department to determine in advance what can be accomplished and, as a consequence, the Department is reluctant to mandate specific criteria to be reported on.[96]

With the introduction of accrual output based budgeting, Departments are required to specify all outputs delivered and demonstrate how the outputs contribute to government outcomes. The Committee notes that most departmental output groups and specifications have changed from the previous year. The Minister advised the Committee that it would take three to five years to finalise output groups and outputs across the entirety of the public sector.[97] According to the Minister this is due to difficulties in determining suitable outputs which can continue to be supported in subsequent years.

The Secretary to the Department also advised the Committee that the implementation of appropriate output costing systems is still incomplete.[98] The Committee recognises that the allocation of costs across outputs

[95] 1998-99 Budget Paper No. 2, Budget Statement, page 137
[96] Hon. R Hallam. Minister for Finance, transcript of evidence, 27 July 1998, page 44.
[97] Ibid., page 45.
[98] Ibid., page 45.

remains a significant issue for many Departments including the Department of Infrastructure and Department of Premier and Cabinet.[99]

7.5 Status of Gas industry reform

As discussed in the Committee's previous report on the budget estimates,[100] on 24 March 1997 the Government announced details of its plans to reform the gas industry comprising GASCOR, which owned and operated the distribution pipelines and carried out gas retailing activities, and Gas Transmission Corporation (GTC), the owner and operator of the high pressure transmission pipelines.

In accordance with these plans, GASCOR was unbundled into three gas retailers (Kinetic Energy, Energy 21, and Ikon Energy) and three gas distributors (Westar, Status, and Multinet), while GTC continued to own and operate the transmission pipeline infrastructure.

During 1997-98 a number of additional initiatives took place as part of the reforms including:[101]

- the corporatisation of GTC as Transmission Pipelines Australia, which now owns and maintains the transmission pipes;
- the creation of VENCorp to operate the transmission system and system security;
- the establishment of Gas Services Business to provide centralised services to the gas distributors and retailers; and
- the establishment of the Office of Gas Safety to regulate industry safety requirements.

The reforms will also involve the privatisation of the restructured gas businesses (excluding the system operator) and the progressive introduction of competition into the retail gas market.

The Committee understands that a regulatory framework has been developed by the Government to support the gas reforms. Under this framework, the Office of the Regulator-General will monitor the pricing of the three gas distributors and retailers, and the Australian Competition and Consumer Commission (ACCC) will regulate the transmission of gas.

The key regulatory instrument which forms part of the gas industry reforms is the Access Arrangements which describe the terms and conditions

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[99] Department of Infrastructure and Department of Premier and Cabinet, responses to the Committee's 1998-9 estimates questionnaire.

[100] Public Accounts and Estimates Committee, *Report on 1997-98 Budget Estimates*, December 1997, page 47.

[101] 1998-99 Budget Paper No. 2., Budget Statement, page 143.

(including prices) under which the access to gas transportation services, including pipes, will be provided to third parties by the distribution and transmission businesses. As a requirement of the Victorian Third Party Access Code for Natural Gas Pipeline Systems (the Code) the transmission and distribution companies have been required to lodge these Access Arrangements with the ACCC and Office of the Regulator-General, for assessment and approval against the principles of the Code.

The Committee was advised by the Treasurer that the Government's timetable for the privatisation of the gas industry was contingent upon the approval of the Access Agreements, but was expected to proceed without revision around mid 1998.[102]

The Draft Decisions of the ACCC and Office of the Regulator-General, issued on 28 and 29 May 1998 respectively, stated that the Access Arrangements would not be approved in their current form. The Committee noted that the regulatory bodies proposed a number of amendments to the Access Arrangements including:

for gas distribution companies:

- a reduction in the rate of return (cost of capital) used to set the regulated revenues;
- a more efficient basis for charging large industrial and commercial customers;
- a revised methodology for forecasting gas demand; and
- arrangements to monitor standards and reliability of gas supply.

for gas transmission companies:

- a reduction in the rate of return (cost of capital) used to set the regulated revenues;
- adjustments to the level of reference tariffs;
- clear specification of the terms and conditions of access; and
- full development of the queuing policy for user access priorities to covered pipelines where there is not enough capacity to meet all requirements;

The Committee recognises that the cost of capital, used to determine the rate of return on assets, and valuation of the capital base are important components of the Access Arrangements in terms of attracting investment in infrastructure and the impact on the tariffs charged to gas users. Of particular concern to the Government was the Regulators' proposals to reduce the cost of capital from 9.73 per cent to 7 per cent for gas

[102] Hon. A. Stockdale, Treasurer, transcript of evidence, 5 May 1998, page 33.

transmission businesses, and 10.16 per cent to 7 per cent for gas distribution businesses.

As a consequence, the Government deferred introducing competition into the Victorian gas industry, which was due to commence on 1 September 1998 with the 35 largest corporate gas consumers having the right to choose their supplier, until after the regulators' final decision. The announcement of this decision was to take place on 2 September 1998, but was delayed until 6 October 1998.

According to the decision, investors should receive a real pre-tax profit of 7.75 per cent. Although this is higher than the rate of return contained in the draft ruling, it is still significantly lower than that originally proposed by the Government and will reduce the potential sale price of the gas transmission and distribution businesses.

The Committee noted that the increase in the rate of return reflects the Regulator's reassessment of a number of potential risks to investors including those associated with the immaturity of the gas market reforms and the gas industry structural arrangements, a new and untested regulatory regime and the presence of risks such as natural disasters, which may cause infrastructure dislocations, that cannot be readily included in the cash flows.[103]

The government is currently assessing the implications of the final decision, which is subject to appeal.

7.6 Performance of electricity distribution businesses

The Regulator-General's Report on the comparative performance of electricity distribution businesses (AGL, CitiPower, Eastern Energy, PowerCor, and United Energy) for the 1997 calender year was released on 10 July 1998.
The report focuses on the key customer service issues of profitability, reliability and quality of supply, affordability of services, guaranteed service levels, and complaints. The scope has also been expanded from previous years to include:

- the high level performance of the businesses' distribution arms;
- the reliability of distribution feeders; and
- the average consumption of customers.

[103] Office of the Regulator-General, *Media Release No7/98*, 6 October 1998, page 2.

The Committee is pleased that the findings of the report indicate that overall, service levels were improved or maintained in 1997 compared to 1996, and affordability increased.[104]

However, some instances of lower reliability performance were noted. In particular, United Energy's reliability performance declined 20 per cent due to hot summer conditions in January and February 1997. United Energy has advised the Office of the Regulator-General that it is taking steps to improve the reliability of supply and has identified a number of initiatives and strategies to achieve this.

7.7 Sustainability of gambling revenue and regulation of the Gaming Industry

Over recent years, significant changes have occurred to the gambling industry in Victoria with the introduction of electronic gaming machines in mid 1992, the subsequent expansion of the gaming network, the opening of the temporary casino in June 1994, and the opening of the permanent casino in May 1997. As a consequence, gambling expenditure as a proportion of household income in Victoria has grown from well below the national average in 1992 to just above the national average in 1995-96.[105] The composition of gambling revenue has also changed dramatically with poker machines providing 54 per cent and the Crown Casino providing 11 per cent of gambling revenue in 1996-97.[106] The remaining 35 per cent is made up of lotteries (24 per cent); racing (10 per cent) and others, (1 per cent).

The Committee has commented on the considerable increase in the level of gambling revenue and increasing reliance of State Governments on this source of revenue in previous reports on the budget estimates, and notes that in 1997-98 the revised estimate of gambling taxes to be paid to the State Government totalled $1.29 billion. This was $51.2 million above original expectations, predominantly due to higher use of electronic gaming machines and a recovery in racing taxes following vigorous marketing by the racing industry.[107] However, the Government predicts that the growth in gambling taxes, particularly from electronic gaming machines and the

[104] Office of the Regulator-General, Victoria, *Electricity Distribution Businesses Comparative Performance for the Calendar Year 1997*, July 1998, page 7.
[105] 1998-99 Budget Paper No. 2, Budget Statement, page 99.
[106] Australian Bureau of Statistics, 1997: Australian Tax Research Foundation, *Research Study No. 32, Gambling Taxation in Australia*, 1998, page 32.
[107] 1998-99 Budget Paper No. 2, Budget Statement, pages 92, 93 and 94.

casino will moderate in future years and become more evenly dispersed across the gaming industry as the mar**k**et matures.[108]

The Minister for Gaming acknowledged that the anticipated financial gains from international players had not been realized by the Crown Casino.[109] As a consequence of the financial pressures faced by the Crown Casino, the Committee notes that the government has granted a number of concessions including altering the calculation of the Crown Casino's gearing ratio to include all assets and liabilities and extending the timeframe for the construction of the second hotel tower and Lyric theatre, thereby foregoing liquid damages of up to $50,000 per day for delays in construction under state legislation. A request by the Crown Casino for a reduction in the tax rate paid on gambling revenue from commission based 'high roller' players residing outside Victoria was however rejected by the government in February 1998. The Committee understands that the VCGA is currently considering a new application.

The Committee recognises that the issue of interactive gambling also poses a considerable challenge for the regulation of the gaming industry. In the opinion of the Minister for Gaming, the Government should be prepared to issue licences and demand standards on the basis that interactive gaming is not 'going to go away' and if an operator is able to provide competition and meet standards of integrity the outcome would be better in the long run.[110] The Minister indicated to the Committee at the estimates hearing that he did not necessarily intend to preclude current licence holders from taking up the opportunity of interactive gaming and that legislation was currently being prepared to address the issues of interactive gaming, in particular the need for player protection.

The Committee is aware that there are some concerns in the community about the expansion of the range of gambling activities. The Auditor-General's performance audit of the Victorian Casino and Gaming Authority highlighted the Authority's important regulatory role in maintaining public confidence in the integrity and fairness of the gaming industry.[111]

The Auditor-General has recommended that a Players' Charter should be developed as players have a 'right to know' a range of basic information about such matters as approximate winning chances and return-to-player percentages. The Committee supports the concept of a Players' Charter

[108] Ibid., page 97.
[109] Hon. R Hallam, Minister for Gaming, Transcript of Evidence, 27 July 1998, page 50.
[110] Ibid., page 53.
[111] Victorian Auditor-General, Special Report No. 54, *Victoria's Gaming Industry: An insight into the role of the regulator*, March 1998.

and believes that these principles should equally apply to the emerging area of interactive gambling.

Recommendation 7.5:	***That in order to further re-inforce public confidence in the gaming industry, the Victorian Casino and Gaming Authority develop a Players' Charter that also extends to the emerging area of interactive gaming.***

7.8 Victorian Workcover Authority

WorkCover scheme

The Committee is aware that a number of legislative amendments were enacted by the Government in 1997-98 to change the compensation payable under the scheme.

It is estimated that the additional revenue to be collected, due to an increase in the premium rate from 1.8 to 1.9 per cent of remuneration (including superannuation payments), will amount to $160 million over the 18 month period to 30 June 1999. In addition, the Authority anticipates cost savings of $24 million per annum in common law transactions.[112] The Minister for Finance indicated to the Committee that the decision to reform workers compensation was difficult to make but necessary to ensure that the scheme returns to a fully funded position.[113]

In response to a question from the Committee as to how the legislative changes are benefiting injured workers, the Chief Executive Officer of the Victorian Workcover Authority advised that the WorkCover Scheme has a fairly broad coverage of a range of injuries and confers a relatively high degree of benefits compared to other schemes operating both nationally and internationally.[114] The Chief Executive Officer also indicated that injury prevention initiatives have resulted in a 40 percent reduction in claim numbers since 1992, and the improvement in return-to-work rates is in excess of 30 percent.

The Committee is aware that the Workplace Accident Compensation Legislation was subject to a review, under the National Competition Policy

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[112] Victorian Auditor-General, *Report on Ministerial Profiles*, May 1998 pages 275 and 276.
[113] Hon. R Hallam, Minister for Finance, Transcript of Evidence, 27 July 1998, page 34.
[114] Mr A. Lindberg, Chief Executive Officer, Victorian Workcover Authority, Transcript of Evidence, 27 July 1998, page 41.

in 1997-98, by the Department of Treasury and Finance Legislative Review Steering Committee.

The Minister for Finance indicated he was strongly opposed to the findings of the Review Committee's report which suggested that the Victorian workers compensation system should be privatised[115].

7.9 Review of community work centres

Victoria currently has 23 community-based return to work centres that assist long-term injured workers. Many of these workers have not been successful with the traditional rehabilitation methods and have lost touch with their employers.

The Chief Executive Office of the Victorian WorkCover Authority advised that approximately $437,000 was allocated to these centres in 1997-98 to help injured workers to develop skills and build confidence to return to work. However, not all of this funding was used and very few workers returned to work as a result of the program.[116]

The Committee notes that the Victorian WorkCover Authority is currently reviewing the community-based return to work program to ensure that the program is delivering quality services in an efficient and timely manner. The Minister advised that although return to work services will continue to be delivered in metropolitan and regional Victoria, the mechanism for delivering these services and the funding levels may change in 1998-99 as a result of the review.[117] The Committee notes that none of the 23 community-based return to work centres have been closed.

Recommendation 7.6:	***That the Victorian WorkCover Authority confer with a range of stakeholders – employers, unions, doctors, insurers and clients– on the most effective strategies for assisting long-term injured workers and on potential areas for improvement in community based return to work programs.***

[115] Hon. R Hallam, ibid, page 46.
[116] Mr A. Lindberg, Chief Executive Officer, Victorian Workcover Authority, ibid., page 41.
[117] Hon. R Hallam, Minister for Finance, Response to further questions, 21 September 1998.

7.10 Information technology and the year 2000 problem

In the May 1998 *Report on Ministerial Portfolios*, the Auditor-General conducted a review of a number of non-budget sector agencies to assess their level of the preparedness of these entities to address the year 2000 issue. The agencies selected for the review were the Alfred Hospital, Victorian Superannuation Board, State Trustees, Gippsland and Southern Rural Water, Manningham City Council, Knox City Council, and Kangan Batman TAFE.[118]

The Committee notes that the Auditor-General's findings indicated that none of the entities examined were year 2000 compliant.[119] Major concerns expressed by the Auditor-General were that:

- none of the entities examined had completed a year 2000 project plan;
- with one exception, entities had not yet completely identified the resources required (both financial and human) to achieve year 2000 compliance;
- four entities did not intend to develop contingency plans for critical systems and activities to ensure continuity of core business process;
- none of the entities had commenced any testing of existing, converted, or replaced systems to identify non-compliant date references; and
- entities intending to place reliance on testing performed by external parties had not developed strategies to ensure that system testing, which will be performed by these parties will be of an appropriate standard.

The Committee is aware that responsibility for managing the Year 2000 problem from a whole of government perspective has been recently transferred to the Minister for Finance. The Minister advised the Committee at the estimates hearing that a risk management unit has been established within the Department of Treasury and Finance to report to the Cabinet on a bi-monthly basis across the budget sector.[120]

The Minister has also established a ministerial advisory committee comprising senior officers from the Departments of Treasury and Finance, Premier and Cabinet, State Development, Justice, the Auditor-General, the Regulator-General, and the Victorian Government Purchasing Board to assist with raising awareness in the commercial sector.

[118] Victorian Auditor-General, *Report on Ministerial Portfolios*, May 1998, pages 217.
[119] Ibid., pages 218 and 223.
[120] Hon. R. Hallam, Minister for Finance, transcript of evidence, 27 July 1998, page 37.

The Committee questioned Ministers about the level of preparedness of these Departments in view of the potential adverse impact of the Year 2000 problem on government systems that support the delivery of programs and services to the community and the private sector, as well as internal operations.

The Treasurer, in his capacity as the Minister for Multimedia, advised the Committee that it was inevitable that there will be some system failures in 2000 as the Government has a number of 'legacy' (in house) systems which are quite old and require particular attention.[121]

However, according to the Minister for Finance, the aim is that all mission critical business processes and systems will be year 2000 compliant by the end of the 1998 calendar year. The Minister also acknowledged that he was disturbed by the lack of contingency plans and lack of understanding about the ramifications of the issue, and indicated that a lot of work would be carried out in these areas.[122] Despite this, the majority of responses from Ministers implied that the worst aspect of the Year 2000 problem is that it is an expensive IT replacement program.

The Department of Education informed the Committee that its Year 2000 project was fully budgeted for and due to be finalised on 30 December 1998. The Department was assessed as having minimal risk of not meeting its Year 2000 requirements by Arthur Andersen, and all equipment contracts contain stringent clauses warranting year 2000 compliance.[123]

The Minister for Planning and Local Government also advised that the Arthur Andersen assessment indicated that the Department of Infrastructure had made significant progress in addressing the 2000 problem. The Department has allocated an amount of $3.5 million for work on the year 2000 problem and related projects, and expects to spend in excess of $4 million over the next two years on critical areas in relation to these matters. The Minister indicated that councils are individually responsible for achieving year 2000 compliance and meeting the cost involved. The Minister believes many parts of the local government system are well prepared for the year 2000 problem.[124]

The Minister for Human Services advised that the Department was attempting to determine the scale of the year 2000 problem and the amount

[121] Hon. A Stockdale, Treasurer, transcript of evidence, 5 May 1998, page 23.
[122] Hon. R. Hallam, Minister for Finance, transcript of evidence, 27 July 1998, page 37.
[123] Mr P Doherty, General Manager, Information Technology, Department of Education, transcript of evidence, 30 July 1998, pages 85-86.
[124] Hon. R Maclellan, Minister for Planning and Local Government, transcript of evidence, 5 August 1998, pages 121 and 122.

of funding required, but was encountering difficulties where sophisticated hospital equipment was involved. According to the Minister, part of the $100 million allocated to information technology is to be used to address the problem in the Department and hospital administration.[125]

The Chief Executive Officer of the Department of Parliamentary Services indicated that the Parliament is working to address the year 2000 problem, but that it was an expensive exercise because a considerable amount of work needs to be carried out. The Department is currently involved in testing systems to determine whether or not they are year 2000 compliant.[126]

In view of the magnitude of the Year 2000 problem and the significant resources that all agencies must devote to this issue between now and 2000, the Committee was surprised that when responding to the Committee's estimates questionnaire on the significant issues to be addressed in 1998-99 that only the Department of Justice identified the Year 2000 problem as an issue.

While the Committee was advised that Departments and agencies would be required to meet the costs of remediation from within existing budgets, partly by rescheduling replacement programs, the Committee is encouraged by the assurance from the Minister for Finance that if the costs cannot be absorbed by the Departments, assistance would be provided.[127]

Recommendation 7.7:	***That the Government closely monitor the impact of the costs of addressing the Year 2000 problem and provide sufficient resources to ensure that critical systems will continue to function.***

The Committee is concerned that the need to allocate expenditure to Year 2000 work should not lead to any downgrading of services to the community.

[125] Hon. R Knowles, Minister for Health and Aged Care, transcript of evidence, 7 May 1998, page 7.
[126] Ms C Haydon, Chief Executive Officer, Department of Parliamentary Services, transcript of evidence, 24 September 1998, pages 154 and 155.
[127] Hon. R. Hallam, Minister for Finance, transcript of evidence, 27 July 1998, page 37.

The year 2000 issue is the subject of a separate review undertaken by the Committee, the findings of which are contained in Report No. 26 which was tabled in November 1998.[128]

[128] PAEC, Report No. 26, Information Technology and the Year 2000 Problem – Is the Victorian Public Sector Ready? November 1998.

Chapter 8: Department of Education

8.1 Introduction

Department overview

The Department of Education supports the Minister for Education and Minister for Tertiary Education and Training and provides services which coordinate and regulate the delivery of:

- school education provided through government and non-government schools;
- tertiary education and training provided through TAFE Institutes and private providers;
- adult, community and further education provided though community providers; and
- higher education provided through universities.

The Department's mission is to give Victorians the opportunity to benefit from high quality education and training. In 1998 it is anticipated that the Department will provide:

- government school education services to 303,869 primary school students; 215,994 secondary school students; 5,079 students in Special Schools; and 267,237 non-government school students; and
- tertiary education and training to over 400,000 students.

Output Management Framework

The Committee noted that the Department's output groups have been revised. For 1998-99, the Department will have three output groups with 27 major outputs and 144 performance measures. This compares with four, 11 and 44 respectively for 1997-98. The Department's current output group structure is highlighted in Exhibit 8.2 below.

The Committee notes that the Department has restructured its output groups to align with the core functions of the Department and portfolio responsibilities of its Ministers. This resulted in the consolidation of three output groups (Vocational Education and Training Services; Adult, Community and Further Education Services; and Higher Education Services) into one group (Tertiary Education and Training) and the introduction of an additional group (Strategic Policy Advice, Portfolio-Wide and Ministerial Services).

The Department has also introduced more specific outputs, expanded the information provided for each output group to include a description of the major outputs, and adopted a number of new performance measures. Of the 144 performance measures listed in the Budget Papers, 109 are new measures and therefore do not include performance targets for 1997-98. In addition, a basis of measurement has not been defined for six measures relating to the quantity of expertise and knowledge required to deliver strategic policy advice.

The performance measures adopted by the Department comprise a balanced mix of quantitative, qualitative and timeliness measures.

Corporate and business plans

The Committee was provided with a copy of the Department's Corporate and Business Plans for 1998, which have been re-developed to incorporate the Department's revised output framework. The Corporate Plan sets the direction of the Department for the next three years and covers the organisational values; vision; mission; analysis of the operating environment; strategic objectives and priorities; outcome evaluation plan; and operating strategies.

Exhibit 8.1 highlights the information contained in the Department's Business Plan in comparison to Department of Treasury and Finance Guidelines.[129]

Exhibit 8.1

CONTENTS OF BUSINESS PLAN

Requirement	Status
• Output statements	Included
• Output groups	Included
• Output operating statements	Included
• Performance measures	Included
• Targets	Included via outputs
• Resource requirements	Included
• Outcome evaluation plans	Included for all major programs and projects.
Financial statements	
➢ Statement of financial position	Included
➢ Operating statement	Included
➢ Cash flow statement	Not included
➢ Capital expenditure forecast	Not included

[129] Department of Treasury and Finance, *A Guide to Corporate and Business Planning*, Draft, 12 April 1996, page 12.

As illustrated, the Business Plan contains most of the required elements and has been prepared in significant detail. The Committee believes that the Department should now focus on expanding the selection of financial statements contained in the Business Plan and ensure that a basis of measurement is defined for all performance measures to allow applicable targets to be set.

Recommendation 8.1:	***That the Department of Education expand the selection of financial statements contained in its Business Plan to include a cash flow statement and capital expenditure forecast.***

8.2 Budget overview

Provision of outputs

The Department does not expect the cost of outputs to increase significantly from 1997-98 to 1998-99. Total budgeted outputs for 1998-99 for the Department are $4.776 billion, an increase of 4.4 per cent from the previous year. As outlined in Exhibit 8.2, the increase occurs predominantly in the School Education output group.

Exhibit 8.2

OUTPUT GROUP SUMMARY ($MILLION)

	1997-98 Budget	1998-99 Budget	Variation %
School Education	3,762.2	3,958.4	5.2
Tertiary Education and Training	783.1	789.9	0.9
Strategic Policy Advice, Portfolio-Wide and Ministerial Services	28.6	27.8	-2.8
Total	**3,762.2**	**4,776.1**	**4.4**

Source: 1998-99 Budget Paper No. 3, Budget Estimates, page 62

The Committee was advised that productivity savings of the Department are $19 million for 1997-98 and 1998-99. This will be achieved through initiatives including:

- reductions in central and regional office staff numbers and operating costs;
- adjustments to the funding agreements with TAFE institutes; and
- further reductions in the number of over-entitlement staff in schools.[130]

[130] Department of Education, Response to Committee's questionnaire, 1998, page 41.

Staffing

Approximately 75 per cent of the Department's budget is spent on the employment of staff. The Minister for Education indicated that teachers and other school staff would receive a 3 per cent pay rise, amounting to approximately $70 million, in 1998-99 in order to make pay rates relevant to the market place.[131] This pay increase will effectively mean teachers in Victoria will be the highest paid in Australia.[132]

Exhibit 8.3

DEPARTMENT OF EDUCATION LOCATIONS/STAFF CLASSIFICATIONS

	Number of Staff 30 June 1997 (actual)	Number of Staff 30 June 1998 (estimate)
School Locations –Staff Classifications Total	**41,084**	**40,845**
Teachers	32,346	32,130
Principals /Assistant Principals	2,716	2,720
School Service Officers (non teaching)	5,577	5,550
VPS Staff (non teaching)	363	365
Other (non teaching)	82	80
TAFE Institutes – Staff Classifications Total	**8,215**	**7,993**
Teachers	4,150	4,039
Non-teaching staff	4,065	3,954
Non-School Locations – Staff Classifications Total	**1,746**	**1,640**
Executive Officers	86	85
VPS Staff	1,344	1,285
Other administrative staff	9	10
Teachers	307	260

Source: Response by Department of Education to Committee's questionnaire, pages 36 and 37.

Supplementary information provided to the Committee indicates that the anticipated staff reductions outlined in the above Exhibit did not eventuate, and the total number of staff actually increased from 51,045 as at 30 June 1997 to 51,061 as at 30 June 1998.[133] According to the information provided, the increase in staff primarily occurred in the School Education output group, which gained an additional 393 staff. This increase was partially offset by a reduction of 371 staff in the Tertiary Education and Training output group, and 6 staff in the Strategic Policy Advice, Portfolio-wide and Ministerial Services output group.

[131] The Hon. P. Gude, Minister for Education, transcript of evidence, 30 July 1998, page 80
[132] Department of Education, Response to Committee's questionnaire, 1998, page 39.
[133] Mr G. Spring, Secretary, Department of Education, 29 July 1998

The Minister for Education advised that the Department intends to employ an extra 1,300 to 1,400 school teachers in 1998-99.[134] The Committee is aware that a recruitment program was announced by the government on 23 October 1998 which provides that up to 2600 teachers, including 1000 in primary schools and 390 in secondary schools, are to be recruited in the coming months. However, the staff reductions in the Tertiary Education and Training output group are expected to continue with the loss of another 340 staff from 30 June 1998 to 30 June 1999 in line with estimates contained in the Department's Business Plan.

8.3 Key issues facing the Department

In response to the Committee's questionnaire, the Department advised that it faces the following key issues in 1998-99:

- improving student achievement;
- managing additional demand for resources; and
- micro-economic reform of service delivery.

Improving student achievement

The Committee was informed that the Government has adopted the following targets for education:

- 100 per cent literacy proficiency for school children at Year 3 by the end of 2005; and
- students in Victoria to be in the top 5 per cent in the world in mathematics and science at Year 9 level by 2010.[135]

To achieve these targets the following strategies have been put in place:

- expansion of the *Keys to Life* literacy program ($76.1 million over 2 years);
- implementation of the National Literacy 2001 Action Plan ($800,000 in 1998-99). In particular, the development of a literacy assessment procedure for students entering Prep and literacy strategies for students in the middle years of schooling;
- implementation of a comprehensive strategy to improve the quality of teaching and learning in science from Prep to Year 10 ($2.2 million over 2 years); and
- provision of schools with access to computers, the internet, on-line curriculum materials and technology training for teachers, and the

[134] The Hon. P. Gude, Minister for Education, transcript of evidence, 30 July 1998, page 87.
[135] Department of Education, Response to Committee's questionnaire, 1998, page 13.

finalisation by schools of a Learning Technologies Plan for 1999-2001 ($51.4 million over 2 years).

Managing additional demand for resources

The Department advised that changing demographic patterns and education retention and participation patterns have resulted in continual changes in the demand for services. In particular, there has been significant growth in demand for services by students with disabilities and impairments and students receiving the Common Youth Allowance.

The Committee notes that as a result of changes to the Commonwealth eligibility criteria for the youth allowance, a number of students are expected to return to and remain in Victorian senior secondary schools, Vocational Education and Training (VET), and Adult, Community and Further Education institutions. To meet this increased demand, $31.5 million is to be allocated to provide:

- development of a re-entry program for returning students;
- modifications to curriculum policy;
- support from specialist staff and other government agencies;
- support and training for secondary teachers;
- development of school, community and industry networks;
- opportunities for students to achieve a VET qualification as part of VCE; and
- development of a credit transfer and articulation arrangements between schools, TAFE institutes, private providers and universities, enabling students to move from one sector to another with recognition for prior study.

An allocation of $12.6 million will also allow an additional 250 students with disabilities to attend mainstream schools in Victoria in 1998. This has been committed over two years.

Microeconomic reform of service delivery

Ramler review implementation

A Ministerial Review Committee (Ramler Committee) was established to consider the most effective means of providing technical and further education in the metropolitan area. The Department advised that $11 million will be provided in 1998-99 for the implementation of the recommendations.

Schools of the third millennium program

The Committee was interested to learn that $11.1 million has been committed over two years to assist with the implementation of the Schools of the Third Millennium Program. This program is an extension of the Schools of the Future Program and will involve the adoption of new self-governance arrangements by a number of schools, some of which will be supported to become Centres of Excellence curriculum areas such as science and sport.

The Minister for Education advised that the Schools of the Third Millennium Program aims to provide schools with increased flexibility in decision making and enable greater specialisation, and is more about 'freeing up' than it is about financial support.[136]

The Department has called for expressions of interest from schools wishing to participate in the program and has briefed 500 schools. Successful schools will become part of the program commencing early 1999.[137]

The Deputy Secretary, Strategic Planning and Administrative Activities, advised that although the original model for the program was a large metropolitan secondary model, the most interest has been received from rural primary schools *'that see themselves as being able to cluster together to retain their autonomy and gain efficiencies from providing some of the services to a cluster rather than individual schools.'*[138] There has also been substantial interest from regional schools that interested in establishing a secondary college.

The introduction of new governance arrangements will change the relationship between schools and the Department. Under the provisions of the *Education (Self Governing Schools) Act* 1998, schools granted self-governance will become legal entities in their own right, will have powers to manage their resources and school councils will be able to:

- directly employ staff;
- co-opt representatives from the community with specialist skills to the School Council;
- set priorities; and
- enter into partnerships with business, TAFE and other institutions.

[136] The Hon. P. Gude, Minister for Education, transcript of evidence, 30 July 1998, page 84.
[137] Ibid.
[138] Mr. F Peck, Deputy Secretary, Strategic Planning and Administrative Services, transcript of evidence, 30 July 1998, page 84.

All self-governing schools will receive an appropriation from the School Global Budget as well as funds normally held by the Department to meet the costs of servicing the schools. Furthermore, the schools will be able to choose where they purchase services and will not be restricted to the Department as the supplier.

Accordingly, these schools will be required to enter into a legal agreement with the Secretary of the Department containing set performance targets, targets for student outcomes, management of resources, and workforce plans.

The Minister will have recourse to the following in the event of non-accountability:

- the withdrawal of self-governing powers and appointment of a person to exercise these powers if a school fails to comply with the agreement; and
- the assumption of a school's assets and liabilities if a school council fails to properly manage the school, perform an essential function, or comply with a Ministerial direction or guideline.

As a result of the increased flexibility in school decision making, the Committee stresses the need for adequate accountability mechanisms and will continue to review and monitor the progress of the implementation of the Schools of the Third Millennium Program in the future.

Recommendation 8.2:	***That the Department of Education ensure that members of School Councils receive comprehensive training on their responsibilities and accountability obligations in relation to the Schools of the Third Millennium Program.***

The Committee looks forward to reviewing the progress that has been achieved as part of the follow-up to issues raised in the Auditor-General's Special Report No 52 – *Schools of the Future – Valuing accountability*.

8.4 Outsourcing

The Minister for Education advised that the Department has saved approximately $50 million through outsourcing since 1992.[139] The bulk of

[139] The Hon. P. Gude, Minister for Education, transcript of evidence, 30 July 1998, page 83.

savings resulted from the contracting out of school cleaning services. Further savings of $0.75 million are also expected in 1997-98 through the following outsourcing initiatives:

- provision of regional assessment services to government schools by private contractors to establish eligibility of students for the program for students with disabilities and impairments ($600,000 per annum); and
- outsourcing of teacher travel arrangements ($50,000 per annum).[140]

In addition, the Committee was advised by the Minister that the Department is currently working in consultation with a private accounting firm, Ernst & Young, to further develop its capacity to outsource service provision in future years.[141] This will involve the development of an outsourcing strategic plan that will apply across the Department and provide for a prioritised list of outsourcing activities for the years 1998-99 to 2000-01.

The Committee is particularly interested in this area and will review, during the next estimates process, the outcome of the strategic plan and the impact on services and savings achieved.

8.5 Maintenance backlog in schools

The Committee noted in its Report on the 1997-98 Budget Estimates that over years, the Department has achieved a significant reduction in the maintenance backlog in schools through a rationalisation and improvement plan, with the proceeds from the sale of surplus school assets being used to make necessary improvements at schools. [142]

However, the Auditor General indicated in the May 1998 *Report on Ministerial Portfolios* that the most recent assessment of the level of maintenance backlog in schools across the State still identified the need for expenditure of $275.4 million over a 5 year period. [143] The Committee was advised at the estimates hearing, by the Department, that approximately $30 million of the $275 million has been funded since the beginning of 1998, with the remainder to be funded as a priority over the next two to three years.[144]

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[140] Department of Education, Response to Committee's questionnaire, 1998, page 1.
[141] The Hon. P. Gude, Minister for Education, transcript of evidence, 30 July 1998, page 83.
[142] Public Accounts and Estimates Committee, *Report on the Budget 1997-98 Budget Estimates*, December 1997, page 67.
[143] Victorian Auditor-General, *Report on Ministerial Portfolios*, May 1998, page 19
[144] Mr B. Ciullo, General Manager, Facilities Division, Department of Education, transcript of evidence, 30 July 1998, page 93.

The Committee is aware that urgent works account for most maintenance money allocated through the school global budget and there is insufficient funding for preventative or minor maintenance.[145]

The Minister for Education advised that the Department proposes to allocate $112 million to school maintenance in 1998-99.[146] The Committee endorses the Department's commitment to the funding of maintenance in schools and is pleased to note that the level of expenditure on school maintenance has increased in recent years.

Recommendation 8.3:	***That the Department of Education continue to allocate sufficient funding to enable the significant maintenance backlog at schools to be addressed as a matter of urgency.***

In the May 1998 *Report on Ministerial Portfolios*, the Auditor-General also highlighted a number of difficulties with the implementation of, and accuracy of the data contained on, the Department's Physical Resource Management System (PRMS), which monitors the level of outstanding maintenance.[147] According to the Auditor-General:

> '*the key to the successful future management of maintenance hinges on the Department's ability to ensure the ongoing integrity and completeness of maintenance needs recorded on its information system…'*

The Minister for Education acknowledged that the system had experienced *'some teething problems particularly in its first year'*[148] but that the Department has been actively monitoring the quality of data and has undertaken a number of measures to verify the data including the conduct of independent assessments or audits of the data by trained experts to ensure consistency across the State.

The Committee is aware that the provision of training in the operation of PRMS was significantly affected by delays in the software development. As a consequence, the Department was required to pay the training contractor $82,000 in damages specified under the contract.[149] According to the Department, the cost of these damages had not yet been recovered from the software developer as the software had only just been provided to

[145] Victorian Auditor-General, *Report on Ministerial Portfolios*, May 1998, page 20.
[146] The Hon. P. Gude, Minister for Education, transcript of evidence, 30 July 1998, page 93.
[147] Victorian Auditor-General, *Report on Ministerial Portfolios*, May 1998, pages 25-28.
[148] The Hon. P. Gude, Minister for Education, transcript of evidence, 30 July 1998, page 93.
[149] Victorian Auditor-General, *Report on Ministerial Portfolios*, May 1998, pages 26.

the Department and the contract had not been fully signed off. The General Manager indicated that once this was complete, legal advice would be sought regarding the Department's position.[150]

The Minister advised the Committee that it was not necessary to seek legal advice in regard to the Department's liability for the payment of the $82,000 damages to the training contractor as the provisions of the contract with the software developer and cause of the delay were clear. In particular, the Committee notes that the delay in the software development was approved by the Department following testing of the software and advice from representatives of the principals reference group.[151]

8.6 Sources of school funding

The Committee is aware that schools raise a significant amount of funding from external sources. According to the Auditor-General, in the 1996 school year, locally raised funds totalled a net amount of $97 million. This represented approximately 16.9 per cent of school operating revenue excluding funding for teacher salaries.[152]

Traditionally, the key element of locally-raised funds has been the imposition by schools of levies requiring parents to make a voluntary contribution to the school. In the May 1997 *Report on Ministerial Portfolios*, the Auditor-General acknowledged that 97 per cent of schools imposed voluntary levies, with the average amount charged being $70 per student.[153] Despite the payment of these levies being 'voluntary' the Committee notes that there have been a number of recent media reports of schools not following the proper guidelines in seeking to recover levies, with practices including invoicing parents for amounts payable. The Minister for Education has indicated that these practices are unacceptable and that the issue is currently being investigated.

One of the fundraising initiatives which has also been growing in popularity is the external sponsorship of school programs. In response to the Committee's concerns that there were no guidelines to preclude schools from receiving improper sponsorship, the Minister for Education indicated that the Department is aware of the issue but as yet guidelines were still

150 Mr B. Ciullo, General Manager, Facilities Division, Department of Education, Ibid., page 94.
151 Hon. P Gude, Minister for Education, Response to questions placed on notice at the estimates hearing, 23 October 1998.
152 Victorian Auditor-General, *Report on Ministerial Portfolios*, May 1997, page 23.
153 Ibid.

incomplete and it was up to the school communities to make decisions as to whether sponsorship is appropriate.[154]

The Department's new sponsorship policy was unveiled to school councils by the Minister on 18 October 1998. The Committee notes that this policy bans schools from obtaining sponsorship from businesses involved in gambling, alcohol, tobacco or the sex industry and applies to all schools, including those involved in the Schools of the Third Millennium project.

The Committee will review the guidelines and monitor developments with the sponsorship of school programs.

8.7 Learning outcomes in schools

One of the main measures of student achievement in primary schools is the Learning Assessment Project (LAP), which was developed by the Board of Studies and introduced into schools in 1995. The LAP is a standardised testing instrument designed to assess how students in years 3 and 5 are performing against teacher assessments under the Department's curriculum and standards framework, which specifies the standards students are expected to achieve each year in each of eight key learning areas. Components of english and mathematics were assessed in 1995 and 1996, and the key learning area of science was introduced in 1997.

The Committee is pleased to note that 99 per cent of all students are currently involved in the LAP process.[155] The Minister for Education also advised that according to the LAP results, student performance has been improving. From 1996 to 1997, the percentage of students below the expected standard in reading fell from 12.2 per cent to 11.8 per cent, while the percentage of students above the expected standard in reading increased from 48.8 per cent to 54.8 per cent.[156]

The Auditor-General indicated that the LAP represents an important starting point in measuring student assessment but recognised that it is also limited in that it does not test all eight learning areas contained in the curriculum and standards framework or all year levels of students.[157]

In response to concerns raised by the Committee on the issue of overcrowding of the primary school curriculum, the Minister for Education indicated that the Board of Studies was currently in the process of

[154] The Hon. P. Gude, Minister for Education, transcript of evidence, 30 July 1998, page 91.
[155] Ibid.
[156] The Hon. P. Gude, Minister for Education, transcript of evidence, 30 July 1998, page 82.
[157] Victorian Auditor General, *Special Report No. 52, Schools of the Future: Valuing Accountability, December 1997*, page 33

reviewing the curriculum and would recommend improvements by the end of the year.[158]

The Committee noted that the Department has substantially developed a similar student achievement measure to the LAP in secondary schools, culminating with the trial of the Victorian Student Achievement Monitor for year 7 and 9 students in 1998. The Minister for Education acknowledged that although there had been some initial opposition to the introduction of the Monitor, it had since been refined and accepted by the majority of secondary schools.[159]

The Committee is interested in the progress made by the Department in introducing a measure of student achievement in secondary schools, and looks forward to reviewing the results produced by the Monitor and its effectiveness in future years.

[158] The Hon. P. Gude, Minister for Education, transcript of evidence, 30 July 1998, page 98
[159] Ibid., page 92.

Chapter 9: Department of Human Services

9.1 Introduction

Department overview

The Department of Human Services covers the responsibilities of the Ministers for:

- Health and Aged Care;
- Youth and Community Services; and
- Housing and Aboriginal Affairs.

Its mission is to ensure that people of Victoria have access to services that protect and enhance their health and social well being and to best allocate available resources to meet their needs.

Most of the Department’s services are provided by agencies under funding and service agreements. These agencies include public hospitals; health care networks; public nursing homes; and a range of non-government organisations providing mainly welfare services. Services provided directly by the Department include public rental housing; intellectual disability accommodation; child protection; and some mental health services.

The focus of the report is on the portfolios of the Minister for Health and Aged Care and the Minister for Housing and Aboriginal Affairs, both of whom appeared at Committee estimates hearings.

Output Management Framework

For 1998-99, the Department will have 11 output groups with 50 major outputs and 150 performance measures. This compares with 12, 51 and 186 respectively for 1997-98. The Department’s current output group structure is highlighted in Exhibit 9.2 below.

The Department has retained the same output groups as 1997-98 except for the consolidation of the Rental Housing Assistance and Home Ownership Assistance output groups into one group called Housing Assistance. Information provided on the nature of each output group and key outcomes expected has also remained unchanged from the previous year, and a description of each major output is yet to be included in the Budget Papers.

Performance measures have been reviewed resulting in a number of existing measures being discarded and the adoption of many new measures. Of the 150 performance measures included in the Budget Papers, 90 are new measures and therefore do not include performance targets for 1997-98. The Committee noted that approximately 57 per cent of the performance measures relate to the quantity of outputs, and timeliness measures are not provided for many major outputs.

Recommendation 9.1:	***That the Department of Human Services develop additional quality and timeliness performance measures to ensure that there is a balanced mix of measures with which to compare performance.***

Corporate and business plans

The Committee was provided with a copy of the Department's 1998-99 Departmental Plan, which incorporates the Corporate and Business Plans. This plan comprises three main areas: the introduction from the three Ministers and Secretary with details of key results areas, the Department's three-year strategic directions, and the 1998-99 operational plan for output delivery.

Exhibit 9.1 highlights the information contained in the Departmental Plan in comparison to Department of Treasury and Finance Guidelines.[160]

[160] Department of Treasury and Finance, *A Guide to Corporate and Business Planning*, Draft, 12 April 1996, page 12.

Exhibit 9.1

CONTENTS OF DEPARTMENTAL PLAN

Requirement	Status
• Output statements	Included
• Output groups	Included
• Output operating statements	Included
• Performance measures	Included
• Targets	Included
• Resource requirements	Included
• Outcome evaluation plans	Not included
Financial statements	
➢ Statement of financial position	Included
➢ Operating statement	Included
➢ Cash flow statement	Included
➢ Capital expenditure forecast	Included

As illustrated, the Department's Plan is a comprehensive and high quality document. However, scope exists to further improve the Plan by including detailed linkages between strategic priorities; government funding; target outputs; measurable outputs and the output group costs.

9.2 Budget overview

Provision of outputs

Total budgeted outputs of the Department for 1998-99 are $6.344 billion, an increase of $263.2 million or 4.3 per cent. Anticipated increases occur across all output groups except Housing Assistance. The Department has advised that this is due to a reduction in Commonwealth assistance under the Commonwealth/State Housing Agreement.

Exhibit 9.2

OUTPUT GROUP SUMMARY ($MILLION)

	1997-98 Budget	1998-99 Budget	Variation %
Acute Services	2,858.7	2,991.7	4.7
Ambulance Services	158.9	169.6	6.8
Age Care Services	703.8	760.5	8.1
Coordinated Health Services	182.5	183.7	0.7
Mental Health Services	417.7	437.5	4.8
Public Health Services	186.5	202.3	8.5
Disability Services	504.1	528.6	4.9
Youth and Family Services	482.6	494.4	2.4
Concessions to Pensioners and Beneficiaries	241.6	255.6	5.8
Aboriginal Services	8.9	9.3	4.6
Housing Assistance	335.4	310.9	-7.3
Total	**6,080.9**	**6,344.1**	**4.3**

Source: 1998-99 Budget Paper No. 3, Budget Estimates, page 102

The Department expects to achieve productivity savings of $42.9 million in 1997-98 and $45.2 million in 1998-99. The Committee was advised that the productivity target has been applied to all departmental costs excluding:

- Specific Purpose Payments provided under Commonwealth/State agreements;
- some Trust Fund expenditure such as the Mental Hospital Fund; and
- concessions to pensioners and beneficiaries.

The bulk of the productivity saving is to be provided by the Acute Services output group, which is expected to contribute $26.9 million in 1997-98 and $27.7 million in 1998-99.

The Committee noted that an amount of $59.5 million ($23.4 million recurrent and $36.1 million non-current) has also been reallocated within the Department from existing resources to fund new output initiatives across all output groups and to ensure that resources are directed to the highest priority.[161]

Staffing

The Department advised that it expects a reduction of 182 departmental staff and 304 staff in public hospitals and aged care centres from 30 June 1997 to 30 June 1998. These decreases will be partially offset by increases in the number of staff in mental health and ambulance services as highlighted by Exhibit 9.3.

[161] 1998-99 Budget Paper No. 2, Budget Statement, page 49.

Exhibit 9.3

Department of Human Services Staffing	**Number of Staff 30 June 1997 (actual)**	**Number of Staff 30 June 1998 (estimate)**
Departmental	9,982	9,800
Public Hospitals and Aged Care Centres	43,504	43,200
Community Health Centres	1,043	1,025
HACC Agencies, BTS, Palliative Care, etc.	1,591	1,630
Ambulance Services	1,469	1,535
Mainstream Mental Health Services	4,033	4,200
Outsourced Dental Health Services	214	180
Total	**61,836**	**61,570**

Source: Response by Department of Human Services to the Committee's estimates questionnaire, page 27.

9.3 Key issues facing the Department

The significant issues impacting on the Department's budget are included in the following goals of the Department:

- improve services for the most vulnerable sectors of the client population;
- improve and maintain high quality services and facilities for clients;
- strengthen population wide interventions for the prevention of illness;
- strengthen services integration to better tailor services to client needs;
- achieve a more adequate mix and equitable distribution of human services; and
- drive further performance improvement in purchased and directly delivered services.

Early intervention and prevention services

An amount of $2.4 million has been allocated in 1998-99 to establish a new food quality agency, Food Safety Victoria. The Minister for Health and Aged Care advised the Committee that the establishment of this entity reflects legislative changes which have consolidated the responsibility for food safety monitoring. While the Victorian Meat Authority and the Victorian Dairy Industry Authority will continue to be responsible for quality assurance for their respective industries, they will liaise closely with Food Safety Victoria to ensure that Victorian food is of a high quality and meets international safety standards.[162]

[162] Hon. RJ Knowles, Minister for Health and Aged Care, transcript of evidence, 7 May 1998, pages 18-19.

Increase in demand for services

The Committee notes that substantial funding is to be provided to meet the demand for increased services. For public hospitals this comprises $28.8 million to meet anticipated growth of 1.6 per cent from population increases and demographic changes, $10 million for increased hospital treatments as a result of new technology, and $9 million for additional medical costs and loss of private patient revenue associated with the continuing decline in private health insurance. According to the Department, private health insurance coverage had dropped to 31.6 per cent as at December 1997.

9.4 Benchmarking practices

The Committee recognises that performance comparison of the delivery and administration of human services has improved significantly in recent years as a result of the work of the Steering Committee for the Review of Commonwealth/State Service Provision (CSSP).

The Minister for Health and Aged Care also advised the Committee that the Department has established a committee to look at any additional steps which might be taken to measure and assess the performance of public hospitals in Victoria.[163]

The CSSP currently reports on indicators, developed by the Industry Commission, for Acute Health, Aged Care, Disability Services, and Housing.[164] However, many of these indicators are currently unavailable on a comparative basis between jurisdictions.

For Acute Heath, the CSSP has identified 16 principal indicators, with the following four available on a comparable basis:

- cost per casemix-adjusted separation in public hospitals;
- percentage of beds with ACHS accreditation;
- number of beds per 1000 population; and
- waiting times for elective surgery.

According to these indicators, at 30 June 1996 Victoria had the third highest level (77 per cent) of beds accredited by the Australian Council on Healthcare Standards.[165] The 1998-99 Budget Papers indicate that the Department expects that 90 per cent of public hospital beds will be

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[163] Ibid., page 15

[164] Steering Committee for the Review of Commonwealth/State Service Provision, *Report on Government Services 1998*, Industry Commission.

[165] Ibid., page 214.

accredited by the end of June 1999, although the Minister for Health and Aged Services was unable to outline to the Committee how the Department intended to achieve this target.[166]

In the area of Aged Care, 17 principal performance indicators have been identified. Comparable benchmarks relate mainly to home and community care services in terms of expenditure; levels of service provided; proportion of the elderly population living in nursing homes and hostels (a measure of the effectiveness of home-based support); and bed days for nursing home type patients in public hospitals (a measure of the availability of more appropriate care options).

In addition, three indicators provide comparable benchmarks for State Disability Services, and 10 indicators for Housing Services. For Housing Services these indicators include customer satisfaction; condition of housing stock; timeliness of access; and efficiency of tenancy management.

The Committee notes that the CSSP currently does not report indicators for mental health services and the development of comparable indicators for children's services and protection and support services is still at an early stage.

Recommendation 9.2:	***That the Department of Human Services give priority to developing an appropriate mix of qualitative and quantitative measures for assessing performance for mental health services, children's services and support services.***

9.5 Commonwealth-State financial relations

The Department of Human Services is the primary recipient of Commonwealth specific purpose grants within Victoria. In 1998-99, the Department expects to receive $1.8 billion for recurrent purposes (1997-98 $1.6 billion) and $219.1 million for capital purposes (1997-98 $263.1 million).[167] This represents 74.5 per cent of total recurrent grants for specific purposes and 54.6 per cent of total capital grants for specific purposes. Most of this funding is for hospitals ($1.28 billion in 1998-99),

[166] Hon RJ Knowles, Minister for Health and Aged Care, transcript of evidence, 7 May 1998, page 14
[167] 1998-99 Budget Paper No. 3, Budget Estimates, page 431.

although considerable funding is also provided for repatriation services, home and community care, and housing.[168]

The Victorian Government has identified a number of problems with the proportion of Commonwealth Funding tied to specific purpose payments and the attached conditions.[169] In particular, these have been centred around the extent of Commonwealth involvement in the provision of services. The Committee was advised by the Minister for Health and Aged Care that there has been increased Commonwealth involvement in recent years, whereby the Commonwealth has either continued to expand incentive funding to the States but become more prescriptive about how the funds are to be spent, or ceased to provide funding for some programs.[170]

In many cases, the Commonwealth has insisted that the States maintain expenditure across program areas. This practice has prevented the States from making savings associated with increased productivity and is in conflict with the concept of evaluating programs on the basis of outputs or outcomes rather than inputs.

The Committee is aware that the Victorian Government has sought to reduce specific purpose payments, both in number and as a proportion of Commonwealth funding.[171] Wherever possible, it is intended to replace these payments with identified funding grants, which are for an identified area of activity and are not accompanied by the specific performance conditions applied by the Commonwealth.

The Committee noted with interest that almost all of the Department's major agreements with the Commonwealth for specific purpose grants have recently been, or are currently being, renegotiated. These include:

- the Australian Health Care Agreement (Medicare Agreement);
- the Commonwealth State Housing Agreement;
- the Commonwealth State Disability Agreement;
- the Public Health Outcomes Funding Agreement;
- broadbanding of health-related specific purpose payments; and
- the funding agreement for Veterans' hospital services with the Department of Veterans' Affairs.

Consequently, the value, terms, and conditions of the Department's funding from the Commonwealth for 1998-99 have been affected.

[168] Ibid., page 439 and 440.
[169] 1998-99 Budget Paper No. 2, Budget Statement, page 169.
[170] Hon. RJ Knowles, Minister for Health and Aged Care, transcript of evidence, 7 May 1998, page 5
[171] 1998-99 Budget Paper No. 2, Budget Statement, page 170.

Australian health care agreement (Medicare agreement)

The Minister indicated that the most immediate focus of Commonwealth-State roles and responsibilities has been to seek a renegotiation of the Medicare Agreement, which expired on 30 June 1998.[172] This was achieved in August 1998 with the signing of the Australian Health Care Agreement, which will assist the States to meet the cost of providing public hospital services to eligible persons and fund a number of programs including palliative care, day surgery and mental heath which were previously funded separately under the Medicare Agreement.

The Commonwealth's original proposal for the new Agreement was released in December 1997. All States and Territories rejected this proposal due to the inadequacy of funds offered and the prescriptive nature of the funding model proposed.[173] However, the ACT and Queensland subsequently signed the Agreement on the proviso that they would share in any additional funds the Commonwealth might make available following negotiations with the remaining States and the Northern Territory.

The Committee understands that a mutually acceptable resolution was reached between the Commonwealth and the remaining States and the Northern Territory in mid 1998 whereby the Commonwealth agreed to provide additional base funding and greater flexibility in the structure of the offer. This will assist public hospitals to meet the significant growth in demand resulting from the fall in private health insurance, respond to the changing needs of the community and manage services more efficiently.

The revised offer provides for:

- an increase in base funding for the States and Territories of $200 million in 1998-99 and $1.1 billion over five years. ($250 million of this additional funding is to be transferred from the National Health Development Fund, thereby reducing resources available to the States and Territories for specific Commonwealth approved development projects under this Fund from $500 million to $250 million over five years);
- funding of $65 million for State and Territory specific health priority projects; and
- no changes to the $680 million to be provided over five years for initiatives designed to improve quality and safety, and the funding provided for metal health and palliative care.[174]

[172] Hon. RJ Knowles, Minister for Health and Aged Care, transcript of evidence, 7 May 1998, page 4.
[173] 1998-99 Budget Paper No. 3, Budget Estimates, page 435.
[174] Hon. J. Howard, Prime Minister, Media Release, Australian Health Care Agreement, 6 August 1998.

The Minister for Health and Aged Care advised that Victoria's share of the additional base funding would be $49 million in 1998-99.[175] This will be applied to:

- replacement of equipment ($31.5 million);
- medical research and teaching ($10 million);
- enhancement of post-acute and sub-acute care ($2 million and $4 million respectively);
- expansion of public access to radiotherapy in rural Victoria ($1 million); and
- Bush Nursing Hospitals ($0.5 million).

The Minister also indicated that Victoria would receive one-off funding of $20 million to meet urgent needs; $15 million to improve the quality of, and access to, hospital care and $63 million over 5 years from the National Health Development Fund.

The Committee understands the $20 million one-off funding for urgent needs will be applied to:

- the reduction of the waiting list for semi-urgent and some non-urgent patients ($12 million);
- an occupational health and safety program designed to improve work practices in relation to back injuries amongst nurses ($2 million);
- the purchase of rehabilitation equipment ($2 million); and
- assisting small hospitals to purchase equipment ($4 million).

Funding agreement for veterans' hospital services

The Committee is aware that the renegotiation of the agreement for funding of veterans' hospital services with the Department of Veterans' Affairs will also impact significantly on the level of Commonwealth specific purpose payments.

The current agreement for the treatment of Department of Veterans' Affairs patients in public hospitals is scheduled to expire on 31 December 1998. Under the new agreement, the Department of Veterans' Affairs and Repatriation Commission will provide funding for veterans' care on an output basis whether the service is provided in the public or private hospital sector.[176]

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[175] *'A New Deal for Health':* Address by the Hon.. R Knowles, Minister for Health and Aged Care, ANZ Pavilion, Victorian Arts Centre, 7 September 1998, 2pm.

[176] Ibid.

To ensure that public hospitals can compete for patients on an equitable basis with private hospitals, the Commonwealth Department of Health and Family Services has agreed that veterans may be given preferential access to public hospitals, providing public patient care is not impeded. However, the Department of Veterans' Affairs will not be seeking contracts with the private sector until July 1999, effectively providing public hospitals one year in which they will not have to fully compete with other operators.

Although payment arrangements for the new agreement are yet to be finalised, the Minister for Health and Aged Care advised that the Department expects to receive $50 million in funding in 1998-99 under the agreement provided that hospitals are able to attract and/or retain market share.

Commonwealth/State housing agreement

The two main types of housing assistance services funded and delivered by Commonwealth, State and Territory Governments are housing programs and rent assistance. Commonwealth Government funding for housing programs is made available to the State Government under the Commonwealth/State Housing Agreement, while rent assistance is provided through the Commonwealth Government social security system.

The Committee is aware that since 1989-90, there has been a shift in emphasis by the Commonwealth away from housing to the provision of funds for rent assistance. This is highlighted by the 24 per cent real decline in Commonwealth funds to Victoria for housing compared to the 173 per cent increase in rent assistance from 1989-90 to 1997-98.[177]

The Minister for Housing advised the Committee that a number of reforms have recently been introduced under the Commonwealth State Housing Agreement, the objectives of which are to reshape the provision of housing from public housing into welfare housing.[178] The reforms are to be adopted in full by all States and include:

- an increase in rents from 20 per cent to 23 per cent of income for current tenants, and 25 per cent of income for new tenants;
- a change in income eligibility to strongly link tenant eligibility with the Commonwealth rent assistance eligibility;
- the introduction of three or five year leases for new tenants with eligibility to be reassessed at the end of this period; and

[177] Hon. A Henderson, Minister for Housing, transcript of evidence, 31 July 1998, page 103.
[178] Ibid., pages 101 and 102.

- the introduction of segmented waiting lists to distinguish between people with urgent and non-urgent needs for housing.

According to the Minister, the increase in rents is expected to provide additional revenue of $20 million for the acquisition of further rental stock.[179] The Minister also indicated that the rent increase is consistent with both the National Housing Strategy and the Industry Commission affordability benchmarks which recommend the payment of 25-30 per cent of income on rent for low income private renters, and 20-25 per cent of income on rent for public housing tenants respectively.[180]

9.6 Review of elective surgery waiting lists

In July 1998 the Australian Medical Association (Vic) raised a number of issues concerning hospital waiting lists throughout Victoria. In response, the Minister for Health and Aged Care commissioned an independent review of elective surgery waiting lists.

This review was conducted by Dr Bernard Clarke and Emeritus Professor Richard Bennett, Fellow of Surgical Affairs for the Royal Australasian College of Surgeons. Over twelve metropolitan and non-metropolitan hospitals were reviewed.

As stated in an earlier section of this chapter, the Government has allocated $12 million in 1998-99 to the reduction on semi-urgent and non-urgent waiting lists and this should reduce patient waiting times. The Minister for Health also advised that in order to address the review panel's findings:

- closer monitoring arrangements will be implemented to ensure that irregular practices are more easily identified and addressed;
- waiting list management practices and approach to clinical categorisation of patients will be reviewed and further developed by the new Advisory Committee on Access to Elective Surgery; and
- bonus payments will be paid only after the end of each performance measurement period and will be a genuine bonus payment for good performance, not just money needed to meet the cost of ordinary hospital activity.[181]

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[179] Ibid., page 104.

[180] Hon. A. Henderson, Minister for Housing, Response to questions placed on notice, 22 September 1998.

[181] *'A New Deal for Health':* Address by the Hon.. R Knowles, Minister for Health and Aged Care, ANZ Pavilion, Victorian Arts Centre, 7 September 1998, 2pm.

Recommendation 9.3: That the Department of Human Services:

(a) closely monitor arrangements for elective surgery waiting lists;
(b) further develop waiting list management practices and the approach to clinical categorisation of patients;
(c) pay bonus payments to hospitals only after the end of each performance measurement period to ensure genuine bonus payment for good performance.

9.7 Private investment in public hospitals

As discussed in the Committee's Report on the 1997-98 Budget Estimates, the October 1996 Plan for Metropolitan Health Care Services provided for a capital injection of approximately $900 million for the systematic upgrade, refurbishment and redevelopment of hospital facilities. Under the Plan, opportunities were presented for both the public and private sectors to invest in infrastructure and service delivery, with the nature of this involvement depending upon the type of investment required and the nature of the development project.[182]

The Minister for Health and Aged Care advised the Committee that approximately $300 million of the $900 million is to be provided by the private sector on a build-own-operate basis.[183] The first hospital to have been constructed under this arrangement is the Latrobe Regional Hospital in Traralgon, completed in mid 1998 by Australian Hospital Care. According to the Minister, further private sector investment will include the development of the Austin and Repatriation Medical Centre and new hospitals at Berwick, Knox and Mildura.[184]

Expressions of interest have been received for the Berwick Hospital and are currently being assessed, while expressions of interest for the Austin and Repatriation Medical Centre and Knox hospitals are being called for this year.[185]

In response to a question regarding the Colac Hospital, the Minister indicated that most of the other hospitals, including Colac, would be upgraded rather than redeveloped and that the Colac hospital had not been recommended for the build-own-operate option. The Minister acknowledged that the hospital is in need of significant upgrade, however it

[182] Public Accounts and Estimates Committee, *Report on the 1997-98 Budget Estimates*, December 1997, page 77.
[183] Hon. R I Knowles, Minister for Health and Aged Care, transcript of evidence, 7 May 1998, page 19.
[184] Ibid., page 21.
[185] Ibid., page 8.

was unlikely that it would receive capital funds for a number of years given the number of hospitals waiting to be upgraded.[186] The Committee is aware that this is a major issue for the Department as the hospital has a large number of nursing home beds that do not meet Commonwealth standards and will no longer be funded by the Commonwealth if compliance is not achieved by 2001.

9.8 Casemix and the impact on hospital cash reserves

In the May 1998 Special Report No.56 *Acute Health Services under Casemix: A case of mixed priorities*, the Auditor-General concluded that the Casemix system, a sophisticated output funding instrument implemented on 1 July 1993, is clearly a superior mechanism to the previous historically-based budgeting process. [187]

However the Auditor-General also observed that since 1992-93, there has been a significant decline in the net current assets and surpluses of some networks and hospitals which demonstrates increased financial pressures faced by these organisations.[188]

According to the Auditor-General, the capacity of networks and hospitals to fund shortfalls by strategies such as drawing on cash reserves is becoming more difficult, and the low level of liquidity of many networks and hospitals could make it increasingly difficult for them to continue to make structural changes to operations from their own financial resources.[189] This is illustrated by the fact that the Department has provided financial assistance in the form of loans or grants to hospitals on a number of occasions since 1992-93.[190]

The Committee notes that the financial position of the Austin and Repatriation Medical Centre has been particularly uncertain. The Minister for Heath and Aged Care informed the Committee that the Austin and Repatriation Medical Centre has had to use reserves to cover its recurrent expenditure during the 1997-98 financial year as a result of not being able to adequately reduce its operating costs.[191]

A business plan has been developed by the management of the Austin and Repatriation Medical Centre with the financial assistance of the Government to place the hospital in a sustainable position in the 1998-99

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[186] Ibid., page 8.
[187] Victorian Auditor-General, Special Report No. 56, *Acute Health Services under Casemix: A case of mixed priorities*, May 1998, page 5.
[188] Ibid., page 209.
[189] Ibid., page 210.
[190] Ibid., page 209.
[191] Hon. R I Knowles, Minister for Health and Aged Care, transcript of evidence, 7 May 1998, page 9

financial year. This plan contains a number of initiatives to reduce the hospital's benchmark costs, including the reduction of 200 full time equivalent staff.[192]

Recommendation 9.4:	***That the Department of Human Services continue to develop qualitative and quantitative performance indicators for hospitals which enable the measurement of both quality and efficiency.***

9.9 Provision of health services

Rural health services

The Minister for Health and Aged Care acknowledged to the Committee that despite spending more per capita on rural citizens, the health status of rural Victorians as a group is lower than Victorians in the metropolitan area on almost every measurable health indicator.[193]

The recent findings of the Auditor-General further indicated that 86 per cent of senior doctors in rural hospitals believe that shortages in the supply of doctors impacted on access to acute hospital services in rural Victoria, compared with 35 per cent in the metropolitan area.[194]

The Committee notes that the Department is currently developing a Rural Health Strategy aimed at improving the health status of rural Victorians. This strategy builds on the success of rural programs such as Healthstreams and will focus on health promotion and illness prevention, the redevelopment of rural health facilities, the introduction of community safety initiatives and the utilisation of the latest technology to improve access to services to rural communities.

The Minister indicated that the multipurpose service concept has been important in providing a comprehensive range of health services in rural hospitals. This concept enables funds to be used more flexibly by consolidating Commonwealth and State funding provided under the various programs into a single funding stream. However, its use is currently

[192] Ibid.
[193] Hon. R I Knowles, Minister for Health and Aged Care, transcript of evidence, 7 May 1998, page 10.
[194] Victorian Auditor-General, Special Report No. 56, *Acute Health Services under Casemix: A case of mixed priorities*, May 1998, page 117.

limited by the Commonwealth's decision to only approve multipurpose services in isolated rural areas.[195]

Palliative care services

The Committee notes that additional funds have been allocated in 1998-99 for palliative care. These funds are to be used by the Department to develop strategies to further extend specialist in-patient palliative care services to meet the demand for services.[196]

According to the Minister for Health and Aged Care, strong integration is needed between the community-based, specialist in-patient; and generic health and community health service palliative care systems to ensure the effective provision of comprehensive palliative care services.

The Minister advised that this will be achieved though contestability of service delivery on the basis of price as well as linkages between the individual palliative care systems. Three models have been developed which provide for the process to occur on either a region-wide, subregional, or on an alliance basis. As the Minister indicated, the region-wide approach has already been successful in the Western region with a consortium including the Mercy Hospital.[197]

9.10 Redevelopment of public housing

In response to a question regarding the current redevelopment of the Kensington high rise estate, the Minister for Housing indicated that the decision to demolish the high rise tower was made for social reasons, based on the outcome of a scoping study undertaken in 1996 to establish a decision-making framework for the future of the all high rise estates.[198]

According to the Minister, the redevelopment of the Kensington estate would provide a better mix of public and private residences, as well as more appropriate style accommodation for many families.

The Committee notes that as part of the relocation, the Office of Housing has purchased 76 properties in the Kensington area and approximately 50 per cent of individuals will be rehoused in the North Melbourne and Kensington area. The Minister informed the Committee that all but one of the 108 households have accepted new accommodation.

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[195] Hon. R I Knowles, Minister for Health and Aged Care, transcript of evidence, 7 May 1998, page 10.
[196] Ibid.
[197] Ibid., page 11.
[198] Hon. A. Henderson, Minister for Housing, transcript of evidence, 31 July 1998, page 105.

In relation to the future of other inner city housing estates and high rise towers, the Minister advised that a discussion paper would soon be released for community consultation before a decision was made.

In response to a question on notice about how many properties in inner Melbourne have been sold and how many are planned to be sold, the Minister for Housing provided the following response:

> *"The Office of Housing asset management strategy includes the strategic sale of properties which have excessive maintenance profiles or are in areas with relatively low demand for public housing. In total, during the last two financial years (1996/97 and 1997/98) some 1,500 properties have been sold across Victoria. During the same period more than 3,200 properties were acquired.*
>
> *Of the properties sold, 214 sales were to tenants. Future sales to tenants can be anticipated to be at similar levels to recent demand (100 per annum).*
>
> *Sales in inner Melbourne represent an insignificant proportion of total sales. During the last two financial years fewer than 80 properties (including 40 commercial properties) were sold in inner Metropolitan areas such as Richmond, Fitzroy, Collingwood, Melbourne, South Melbourne and North Melbourne.*
>
> *Aggregate sales across Victoria on the basis of property condition are expected to be at a similar level over the next two years, with declining future levels as overall property condition continues to improve. As Mr Hulls noted, sales take place upon vacancy, so exact details and locations cannot be determined in advance."*[199]

9.11 Housing outsourcing initiatives

The Department has recently outsourced a number of housing services including the transitional housing management program and tenant support services.

The Minister for Housing informed the Committee that the transitional housing management program has been restructured to reduce the number of service providers from 250 small agencies to 15 businesses.[200] In response to concerns expressed by the Committee that the geographical spread of service providers may be inadequate to cope with demand for crisis housing the Minister indicated that the agencies have an equal spread across the State and many provide services in smaller rural areas.

[199] Hon. A Henderson, Minister for Housing, Response to questions on notice, 21 September 1998.
[200] Hon. A. Henderson, Minister for Housing, transcript of evidence, 31 July 1998, page 109.

The Committee notes that the Department has committed $100 million over the next three years to significantly increase the amount of transitional housing stock and it is expected that 2,500 properties will be available for this purpose by the end of 1999.

The Minister indicated that the provision of these tenant support services has been outsourced to provide a greater focus on the regional areas associated with human services. As a result, tenant support, advice, and referral is now provided independently of the Department by nine services across Victoria.[201]

The Committee notes that the budget for tenant support services has increased from $1.67 million to $1.94 million under the new program and there are now 36.7 tenant workers, compared with the previous 30.5.[202]

[201] Ibid., page 111.
[202] Ibid., page 111.

Chapter 10: Department of Infrastructure

10.1 Introduction

Department overview

The Department of Infrastructure supports the ministerial portfolios of Planning and Local Government; Roads and Ports; and Transport and a number of agencies including the Melbourne City Link Authority, Docklands Authority, municipal councils, VicRoads, and the Public Transport Corporation.

The following Government priorities are relevant to the Department:

- improving services in transport to provide a public transport service which is clean, safe and reliable, and builds patronage while reducing the requirement for government funding;
- revitalising the State's infrastructure in order to support the boosting of private sector investment and productivity levels; and
- devising strategic planning to ensure transport infrastructure and environmental services keep pace with larger population demands.

Output Management Framework

For 1998-99, the Department will have 5 output groups with 28 major outputs and 136 performance measures. This compares with 5, 31, and 119 respectively for 1997-98. The Department's current output group structure is highlighted in Exhibit 10.1 below.

The Committee notes that the Department has retained the same number of output groups although nearly all of these groups have been renamed. The information provided for each output group has, however, been expanded to include a description of the major outputs and a number of new performance measures have also been adopted. Of the 136 performance measures included in the Budget Papers, 104 are new measures and do not contain performance targets for 1997-98.

The number of quantity and quality performance measures listed for the Department's outputs is significantly higher than the number of timeliness measures. In many instances, this is because timeliness measures are already included in the existing quality measures and are not separately listed. Further, although the majority of performance measures are quantity measures, the basis of measurement that has been assigned to many of these measures is a date, which has more relevance as a measure of timeliness than quantity.

Corporate and business plans

The Committee received a copy of the Department's 1997-2000 Corporate Plan, dated December 1997. The Plan includes a Ministers' foreword, Secretary's introduction and mission statements. A discussion of eight major corporate strategies is also provided with an action plan and implementation timetable. However, the Plan has not been revised for 1998-99 and as a consequence the output groups and identified outputs contained in the plan are different to those used in the 1998-99 Budget Papers.

The Department's 1998-99 Business Plan was incomplete at the time of this report and could not be reviewed by the Committee.

10.2 Budget overview

Provision of outputs

The budgeted outputs of the Department are expected to decrease by $46.2 million, or 2.3 per cent, in 1998-99 to a total of $1.971 billion.

Exhibit 10.1

OUTPUT GROUP SUMMARY ($MILLION)

	1997-98 Budget	1998-99 Budget	Variation %
Strategic Land Use, Transport and Built Form Planning	5.0	9.8	94.6%
Public Transport Services	1,212.1	1,153.5	-4.8%
Transport Infrastructure and Public Development Projects	603.0	612.1	1.5%
Transport Safety and Standards	120.3	119.7	-0.4%
Local Governance Planning and Development	76.7	75.7	-1.3%
Total	**2,017.1**	**1,970.9**	**-2.3%**

Source: 1998-99 Budget Paper No. 3, Budget Estimates, page 144

As illustrated, the reduction in expenditure will be concentrated in the Public Transport Services output group as a result of outsourcing and privatisation, while the significant increase in the cost of outputs for Strategic Land Use, Transport and Built Form Planning reflects a re-direction of resources to an investment in infrastructure.

The Committee notes that the Department expects to realise productivity gains of $20 million in 1997-98 and 1998-99 through the elimination of inefficient work practices, introduction of new technology and rationalisation of resources.

Staffing

As at 30 June 1997, the number of full time staff at the Department (including the Marine Board, Office of Major Projects, Melbourne City Link Authority, VicRoads, and the Public Transport Corporation) totalled 12,295. The Department anticipates that there will be 11,249 staff at 30 June 1998, representing a decrease of 1,046. A breakdown provided by output group is provided in Exhibit 10.2.

Exhibit 10.2

Department of Infrastructure Staffing	Number of Staff 30 June 1997 (actual)	Number of Staff 30 June 1998 (estimate)
Strategic Land Use, Transport, and Built Form Planning	60	60
Public Transport Services	9,128	8,113
Transport Infrastructure and Public Development Projects	1,570	1,559
Transport Safety and Standards	1,007	1,002
Local Governance Planning and Development	370	370
Total	**12,135**	**11,104**
Building Services Agency	159	145
Total	**12,295**	**11,249**

Source: Response by Department of Infrastructure to Committee's questionnaire, page 41.

The anticipated decrease will comprise 10 Executive Officers (reduction from 179 to 169) and 1,036 other staff. The bulk majority of the staff reductions will occur in the Public Transport Services output group due to the ongoing outsourcing of Public Transport Corporation services.

The Committee is aware that staff reductions have been a distinct feature of the Government's Public Transport Reform Program, which was announced on 1 July 1993, resulting in an overall decrease in the transport workforce of approximately 9,600 as at 30 June 1997. Staff numbers at the Department are expected to decline further in 1998-99 due to the corporatisation and sale of the Public Transport Corporation's passenger transport business units and V/Line Freight.

10.3 Key issues facing the Department

Key issues facing the Department in 1998-99 include:

- improving the public transport system;
- implementing a performance management regime for local government;
- improving roads and road safety; and
- co-ordinating major development projects.

Improving the Public Transport System

A key initiative of the Department is the privatisation of the metropolitan train and tram services. The Committee notes that the first step towards privatisation has been the break-up of the Public Transport Corporation and the corporatisation of its freight and passenger transport services business units.

V/Line Freight was established as a corporate business on 1 July 1997, while MetTrain, MetTrams, and V/Line Passenger were divided into five business corporations (Hillside Trains, Bayside Trains, Yarra Trams, Swanston Trams, and V/Line Passenger) on 1 July 1998.

The Minister for Transport advised the Committee that expressions of interest to purchase V/Line Freight were called on 31 July 1998, with final bids due in December 1998.[203] According to the Treasurer, benefits to V/Line Freight from the sale include release from limitations imposed on publicly owned rail freight operators, greater access to capital, and greater freedom for innovation.[204]

Under the terms of the sale the Government is to retain ownership of all track, signalling, train control facilities, country terminals and sidings, while the buyer would acquire the business, business assets, long-term lease of Victoria’s non-electrified intrastate country rail network, and a 15 year renewable lease on the rail infrastructure.

The Committee understands that the Government plans to implement an open access arrangement to allow other operators to compete with V/Line Freight, which will be required to maintain the freight business in its present form. Under this arrangement other operators will be able to negotiate access to the rail infrastructure on commercial terms, with the Office of the Regulator-General to provide an arbitration process if a reasonable access charge cannot be settled within 45 days.

[203] Hon. R Cooper, Minister for Transport, transcript of evidence, 5 August 1998, page 131.
[204] Hon. A Stockdale, Treasurer, News Release, 31 July 1998.

The Committee notes that the timetable for the privatisation of the passenger businesses, originally announced by the Minister for Transport in April 1997, has been extended from the end of 1998 until March 1999. The Minister for Transport indicated in response to a question from the Committee regarding the reason for and financial implications of this decision, that the required preparations had not been adequately completed and it was important to balance the delay in obtaining the financial gains from privatisation against the risk of proceeding with the privatisation before being ready. [205]

The Committee is aware that the Department is currently involved in the development of purchase agreements and service standards for the provision of public transport services by private operators. In the recent report on public transport reform, the Auditor-General stated that the adequacy of contractual arrangements entered into with private operators will be a critical prerequisite for achieving effective management of a privatised public transport system. In particular, the Auditor-General acknowledged the importance of achieving a balance between being specific in setting out the obligations of private operators and allowing operators to have scope to display innovation in the delivery and nature of services offered to the public.[206]

The Minister for Transport advised that a customer charter was introduced in April 1998 to ensure that the level of public transport service is maintained after privatisation. The Minister indicated that the requirements set out in the charter would be written into the contracts with the franchisees and vigorously enforced by the Government.[207]

Other changes to the Public Transport System

The Committee notes that other changes to the public transport system recently implemented by the government include the introduction of the automated ticketing system onto public transport services and the outsourcing of MetBus operations.

In the recent report on public transport reform, the Auditor-General indicated that government consultants considered that the greatest opportunities for further cost reduction were in tram operations with the predominant source of savings identified as the introduction of automated ticketing, and the replacement of tram conductors.[208] Major savings were

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[205] Hon. R Cooper, Minister for Transport, transcript of evidence, 5 August 1998, page 132.
[206] Victorian Auditor-General, *Special Report No. 57, Public Transport Reforms: Moving from a System to a Service*, May 1998, page 128.
[207] Hon. R Cooper, Minister for Transport, transcript of evidence, 5 August 1998, page 118.
[208] Ibid.

also predicted with train operations, mainly in the form of efficiency gains from further staff reductions and the elimination of restrictive work practises.

Following lengthy delays, the Government commissioned the pilot stage of the automated ticketing system in November 1997. The system has now been implemented across the whole of the Met system with the exception of three bus companies – National Bus Company, Portsea Bus Company, and Martyrs in the Dandenongs.

The Minister for Transport acknowledged to the Committee that significant operational 'teething problems' had occurred with the system, but that these problems had almost all been addressed by OneLink as part of the final commissioning program. The Minister advised that he expected the remainder of commissioning to occur by the end of August 1998 when OneLink had satisfied requirements including cash-to-sales reconciliations, management and financial reporting obligations, minimum performance standards for equipment and the delivery of other aspects of the automated ticking system.[209]

The Minister advised that the automated ticketing system has not seriously delayed or impacted on services and tram ticket vending machines have been operating at approximately minimum performance. In addition, revenue has increased from $254.9 million in 1996-97 to $256.4 million in 1997-98.[210]

The automated ticketing system is currently the subject of a performance audit by the Auditor-General. The Committee will examine the findings of this audit.

In response to a question taken on notice about the loss of keys for the automated ticket vending machines, the Minister for Transport provided the following information:

> *"As I mentioned at the Hearing I was unaware of the matters raised by the members of the Committee and I therefore sought information from the Public Transport Corporation. I have now been advised that master keys are utilised to access various critical components of the ticket vending machines and are issued to maintenance staff employed by AES – Prodata and cash collection staff employed by Armaguard.***

[209] Hon. R Cooper, Minister for Transport, transcript of evidence, 5 August 1998, page 126.
[210] Ibid., page 126 and 127.

Although the keys open the vending machines, a further security process is necessary to avoid activation of an in-built alarm system in the machines. This is a comparable security arrangement to Automated Teller Machines.

OneLink Transit Systems (OLT), the Company responsible for the installation, maintenance and management of Melbourne's automated ticketing system has advised that a total of six sets of keys have been misplaced by staff employed by either AES – Prodata or Armaguard.

OLT has also advised that no attempt has been made to gain access to a ticket vending machine by use of the missing keys, however, a more stringent process is being implemented by the Company to strengthen the key security.

OLT is responsible for the contents of the vaults in the ticket machines and any discrepancy in either cash of ticket sales from the vaults must be paid by OLT to the Public Transport Corporation."[211]

In relation to the outsourcing of Met Bus operations, the Committee noted that Melbourne Bus Lines acquired the last remaining State Government bus operation in April 1998. The Minister indicated that Victoria is currently the only State in Australia with a fully privatised route bus network. This would lead to improved efficiency, more flexibility in timetabling, greater customer focus, the introduction of new services to attract passengers, and substantial savings.[212] In particular, it is expected that the contract for the services by Melbourne Bus Lines will deliver a saving of $2.5 million per annum over the period of the contract.[213]

The Committee is aware that contracts with existing private sector bus operators were renegotiated in late 1997 to provide for fees to be paid to operators on the basis of the number of passengers carried as opposed to kilometres travelled.[214] The contract with the National Bus Company was also renegotiated, despite having an expiry date of December 2000, to ensure consistency with the 10 year contracts offered to the other bus companies.

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[211] Letter, dated 26 October 1998, from the Minister for Transport in response to a question taken on notice
at the estimates hearing.
[212] Hon. R Cooper, Minister for Transport, transcript of evidence, 5 August 1998, page 118.
[213] Victorian Auditor-General, *Report on Ministerial Portfolios*, May 1998, page 84.
[214] Hon. R Cooper, Minister for Transport, transcript of evidence, 5 August 1998, page 117.

The Committee notes that the new Service Agreement with the National Bus Company incorporates a revised payment structure, under which the Department is expected to pay the operator $20.3 million for the financial year ended 30 June 1998.[215] This represents an increase of 28 per cent since the 1994-95 financial year, primarily due to the impact of the revised Service Agreement, CPI escalation factors allowed for in the original Agreement, and termination of the bus lease.

The Auditor-General indicated in the *Report on Ministerial Portfolios* that the revised payment structure incorporated in the new Service Agreement is likely to result in a decrease in the future savings to be achieved by the arrangement. However, notwithstanding this the Public Transport Corporation expects that the new contracts will continue to deliver estimated savings of $10 million per annum.[216]

Accountability and performance management in local government

The Committee notes that a major performance management program is currently being implemented for local government. Two sets of performance indicators – Annual Plan Indicators and Comparative Indicators – have been developed and were launched in February 1998. Annual Plan Indicators are higher level governance and corporate accountability measures whereas Comparative Indicators seek to identify local industry best practice and benchmark services. The difference between these indicators is summarised in Exhibit 10.3 on page 110.[217]

[215] Victorian Auditor-General, *Report on Ministerial Portfolios*, May 1998, page 82.
[216] Ibid., pages 82 and 84.
[217] Department of Infrastructure and Office of Local Government, Victoria, *Key Performance Indicators for Local Government in Victoria*, February 1998, pages 1 to 5.

Exhibit 10.3

PERFORMANCE INDICATORS IN LOCAL GOVERNMENT

Annual Plan Indicators	**Comparative Indicators**
• 29 indicators.	• 47 indicators.
• Indicators measure the extent to which the broad objectives of individual councils, local communities and the State Government are being achieved.	• Indicators measure council performance in the delivery of specific services.
• Indicators are non-service specific.	• Indicators are service specific and focus on the cost and quality of service delivery.
• Targets for indicators are to be set by councils.	• Indicators will be prescribed by regulation.
• Indicators cover critical areas of community satisfaction, financial performance, and operating costs.	• Indicators cover all aspects of services provided including town planning, waste management, municipal cleaning and parks management, public library and information services, and road construction and maintenance.
• Indicators must be incorporated into the council's annual business plan and submitted to the Minister for Planning and Local Government by 30 June each year. • Performance results must be submitted to the Minister for Planning and Local Government by 30 September each year.	• Performance results must be submitted to the Office of Local Government by 31 August each year.
• Indicators should be audited and reported in the Performance Statement in the council's annual report.	• Indicators should be audited and will be incorporated into an industry database to enable inter council comparison.

The Committee was advised that the use of key performance indicators will allow for a consistent approach to be developed in the collection and reporting of performance information and will assist councils in benchmarking their service performance against other councils. The cost and quality of council services are to be regularly reviewed by the Government, and will have particular application in ensuring the appropriateness of rates and charges, given the suspension of rate capping in September 1997.

As discussed by the Auditor-General in the May 1998 *Report on Ministerial Portfolios*, the introduction of performance reporting will have wide implications on council activities, in particular the need to develop systems for the collection, retention, and verification of data supporting measures for external publication.[218] The Auditor-General identified the need for councils' performance management systems to be independently reviewed, however the Committee acknowledges that at the time of the Report only two councils had resolved to undertake such reviews.

The Committee recognises that a substantial shift is taking place in the focus of council operations and is interested in reviewing the impact of the performance indicators program on the future financial and operational performance and accountability of councils.

Recommendation 10.1:	***That all councils' performance management systems be independently reviewed to ensure that they are appropriately developed to support the collection, retention, and verification of performance information.***

Improving roads and road safety

The Committee notes that in 1998-99, the Department intends to give high priority to upgrading the State's principal freight routes to improve freight transport efficiency, and to achieving continuity in Melbourne's primary arterial network.

The Department's Better Roads program, funded through a 3 cents per litre fuel levy, has been fundamental in improving the quality of Victoria's roads. The Minister for Roads and Ports indicated that since the establishment of the Better Roads program in 1993, approximately $1 billion has been allocated to 620 projects under the program. The Committee was advised that 540 of these projects, totalling $340 million, have taken place in country Victoria.[219]

The Minister advised in response to a question from the Committee regarding the allocation of funding under the program in 1998-99, that $191 million would be provided for new and existing road projects, with $68 million for rural Victoria. The program's major focus for 1998-99 is resurfacing and reconstruction of the road network, particularly in regional areas. According to the Minister this will lead to lower transport costs, reduced wear and tear on heavy vehicles, and the delivery of agricultural and other products from rural Victoria in first-grade condition.

[218] Victorian Auditor-General, *Report on Ministerial Portfolios*, May 1998, page 108.
[219] Hon. G Craige, Minister for Roads and Ports, transcript of evidence, 5 August 1998, pages 127 and 128.

Four categories of projects are to be addressed under the program –rural arterial road projects ($35 million), rural arterial bridges ($8 million), rural reconstruction projects ($19 million), and the timber industry ($7 million).

The Minister advised the Committee that the Government was committed to the Better Roads program and would not be removing the 3 cents per litre fuel levy.[220]

10.4 Performance measurement – Public Transport Services

The Committee notes that a number of the Department's performance measures for the Public Transport Services output group, which consolidates the delivery of all public transport across Victoria, are subject to the negotiation of, or contained in, service agreements with contracted suppliers.

A recent evaluation conducted by the Auditor-General of the adequacy of the Department's performance measures utilised in service agreements, identified a number of weaknesses in the performance measurement framework and concluded that there is definite scope for further improvement in the measurement of services.[221]

Current performance measures utilised by the Department and considered by the Auditor-General to contain weaknesses include:

- percentage of arrivals within 5 minutes of the timetable; and
- percentage of services no more than 5 minutes late or 1 minute early;

These measures do not assess the impact on passengers of service delays and cancellations. To address this issue, the Auditor-General's recommendations include the use of measures with more meaningful values such as the number of cancellations in peak periods, total delays caused by poor punctuality and cancellations, passenger waiting times, average and worst case crowding levels, and standing time for passengers.

According to the Auditor-General, the use of more meaningful performance measures in future service agreements and contracts negotiated with external private operators will become increasingly important for the government, particularly in its monitoring of service provision by private operators.

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[220] Ibid., page 128.
[221] Victorian Auditor-General, *Special Report No. 57, Public Transport Reforms: Moving from a System to a Service*, May 1998, pages 50 to 52.

Recommendation 10.2:	***That the Department of Infrastructure conduct a review of all performance measures for Public Transport Services Output Group and develop more meaningful measures to address weaknesses identified by the Auditor-General.***

10.5 Status of the City Link project

The City Link is being constructed and operated under a build-own-operate-transfer (BOOT) scheme whereby Transurban City Link Limited has been contracted by the Government to finance, design, build, operate and maintain the project for a period of 34 years, after which time ownership and operation will be transferred to the Government. The discharge of contractual obligations is being overseen by the Melbourne City Link Authority, which operates under the *Melbourne City Link Authority Act* 1994.

Construction of the City Link commenced in May 1996 and is estimated to be completed by 2000. It is expected that the project will cost approximately $1.8 billion.

The Committee is aware that the State has accepted certain project responsibilities and risks mainly relating to the maintenance of the current overall operating environment of the project, although these are not sufficient to constitute or support the recognition of the financing of the project as a debt of the State.[222]

The Minister for Planning and Local Government assured the Committee that there was no exposure to the Government as a result of the recent contractual disputes between the Transfield-Obayashi Joint Venture and Baulderstone Hornibrook, who have been subcontracted to widen the Tullamarine Freeway.[223]

The Committee was, however, advised that three claims had been made by Transurban against the State Government in relation to the City Link project under Section 2.9 of the Concession Deed, one of which was still unresolved at the time of the estimates hearing. According to the Minister the claim was for damages of between $400,000 and $500,000 in relation to a one-day health and safety stoppage. The Minister indicated that the claim

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[222] Victorian Auditor-General's Office, *Report of the Auditor-General on the Government's Annual Financial Statement 1996-97*, October 1997, page 211.

[223] Hon. R Maclellan, Minister for Planning and Local Government, transcript of evidence, 5 August 1998, page 119.

was being vigorously defended and it was likely that it would be settled in a manner that would not require the Government to pay the damages. Questions were placed on notice at the estimates hearing requesting details of the settlement of the previous claims against the State in relation to the City Link project and the amount contributed by the Government to the City Link project to date. On 4 November, the Minister for Planning and Local Government advised the Committee that:

> *"the State through the Melbourne City Link Authority has to date received four claims under clause 2.9 of the Concession Deed. These claims are in four separate areas and relation to Workers Compensation, GPU Powernet, Commonwealth Law changes and a safety strike.*
>
> *All four claims have been rejected by the State.*
>
> *The claim relating to the safety strike has been resubmitted to the State by Transurban. It is being dealt with in accordance with the terms of the Concession Deed relating to expert determination. The State will vigorously defend its position that this claim is not legitimate under clause 2.9.*
>
> *On the issue of funding, the State has contributed $217.7 M to the City Link project to the end of 1997-98. Of this, $83.7 M has been spent on property acquisitions over the same period.*
>
> *The initial cost estimate announced by the State on 31 July 1995 and detai9led in the Melbourne City Link Authority's 1994-95 Annual Report was expressed in June 1995 prices, and is therefore not directly comparable to the above nominal expenditures.*
>
> *Additionally, the contribution announced by the State in 1995 was based on State Works and property acquisitions only, whereas the above amounts, despite being lower include all expenditure by the Authority."*[224]

[224] Letters, dated 30 October 1998, from the Minister for Planning and Local Government in response to questions taken on notice at the estimates hearing.

Chapter 11: Department of Justice

11.1 Introduction

Department overview

The Department of Justice provides the organisational, policy and management support for the Attorney General and Ministers for:

- Corrections;
- Police and Emergency Services;
- Fair Trading; and
- Women's Affairs.

The Department's key portfolio responsibilities are policy and legislation, justice, fire and emergency, and equity and information services.

Output Management Framework

The Committee notes that the Department has reduced the number of output groups from 12 in 1997-98 to 10 in 1998-99. The Department's current output group structure is highlighted in Exhibit 10.1 below.

Six groups have been removed (Policy and Program Development Support Services; Courts, Boards and Tribunal Services; Legal Services; Fire and Emergency Services; Community Support and Public Safety Programs; and Information and Regulatory Services) and four new groups introduced (Legal and Court Services; Community Safety; Crime Prevention by Police and Community Support Programs; and Police Information and Licensing Services).

The Committee notes that the number of major outputs has declined from 42 to 36, however many new quality and timeliness performance measures have been introduced for all output groups. For 1998-99 the Department will have 203 performance measures compared to 180 for 1997-98. Of the 203 performance measures listed in the Budget Papers, 153 are new measures and do not include performance targets for 1997-98.

The Department has advised that it considers all performance measures to be key measures, however the majority of performance measures that have been adopted are quantity measures. Quality and timeliness measures each comprise approximately only 25 per cent of all performance measures.

Recommendation 11.1:	***That the Department of Justice review the current performance measures included in the Budget papers with the objective of providing an appropriate mix of quantitative and qualitative measures.***

Corporate and business plans

The Committee was provided with the Department's Corporate Plan for 1998-2000. The Corporate Plan groups together the Department's outcomes from policy implementation and improved service delivery initiatives under five broad strategic goals. These are community safety and crime prevention; accessible justice that meets community expectations; fair trading; equal opportunity; and delivery of effective services at realistic cost. The Corporate Plan also contains an outline of the Department's purpose, services, relationships, values, operating environment, and future directions.

The Department's Business Plan was incomplete at the time of this report and therefore could not be reviewed by the Committee.

11.2 Budget overview

Provision of outputs

The provision of outputs by the Department is estimated to increase by $58.6 million, or 3.9 per cent, in 1998-99 to a total of $1.554 billion.

Exhibit 11.1

OUTPUT GROUP SUMMARY ($MILLION)

	1997-98 Budget	1998-99 Budget	Variation %
Legal and Court Services	230.4	236.9	2.8
Equity and Information Services	62.8	70.5	12.3
Correctional Services	179.8	179.4	-0.2
Community Services	59.8	61.2	2.4
Crime Prevention by Police and Community Support Programs	239.4	250.2	4.5
Incident and Event Management	139.7	145.2	4.0
Crime Investigations	260.2	270.5	4.0
Road Safety and Road Trauma Reduction	195.4	203.1	4.0
Supporting the Judicial Process	68.4	71.1	3.9
Police Information and Licensing Services	59.3	65.6	10.5
Total	**1,495.1**	**1,553.7**	**3.9**

Source: 1998-99 Budget Paper No. 3, Budget Estimates, page 179

The main areas of increase are in Equity and Information Services, and Police Information and Licensing Services. The Department has advised that this is due to:

- provision of additional services by the State Electoral Office to reflect the parliamentary election cycle. This includes the conduct of a further 17 municipal and 28 non-government elections, increased changes to the electoral role to ensure its accuracy for the next State election, and continuing competitive tendering for the conduct of elections. As indicated in Budget Paper No.3, this is supported by an increase in special appropriations for electoral expenses of $13.4 million; and
- upgrade of the police computer system.

The Committee notes that 6 of the 10 output groups relate to Victoria Police. The budgeted cost of outputs for these groups has increased by a total of $43.3 million, or 4.5 per cent, in 1998-99 and represents approximately 65 per cent of all output costs.

The Committee is aware that the Department is pursing the establishment of benchmark information in all of its service areas and has participated in the working parties of the COAG Review of Commonwealth and State Service Provision, to develop efficiency and effectiveness performance indicators for national comparison of government funded social services. One of the problems identified by this exercise is differences in reporting and counting procedures, which means that there is limited value in the data comparisons currently available.

Staffing

The number of full time equivalent staff for the Justice portfolio is expected to decrease by 670, to a total of 18,196 staff at 30 June 1998. The bulk of the staff will come from the Department which will lose 400 staff primarily through the closure of Pentridge Prison and the wind-down of the firearms reform and compensation program. Other significant reductions will come from the Victoria Police and the Metropolitan Fire and Emergency Services Board.

11.3 Key issues facing the Department

In response to the Committee's questionnaire, the Department highlighted the following issues which have influenced the budget estimates for 1998-99:

- repositioning of Victoria Police;
- improvements to fines collection and asset confiscation;
- rationalisation of tribunals; and
- information technology improvements.

Repositioning of Victoria police

The Department has advised that sustainability of the policing services will be achieved through investment in infrastructure and workforce management and reform. In particular, this will involve the replacement of obsolete equipment, facilities and technology, as well as changes through workforce flexibility and operational efficiency.
The 1998-99 budget provides for initiatives including:

- a State-wide 24 hour police computer network;
- construction and upgrading of police stations throughout Melbourne and rural areas including new police complexes in Wodonga ($9.4 million), Caulfield ($3.6 million), Mordialloc ($3 million), Richmond/Collingwood, and Kew/Hawthorn/Camberwell ($7 million); and
- participation in the National Automated Fingerprint Identification System to enable a coordinated approach to the investigation and solving of crimes ($7.7 million).

Improvements to fines collection

The issue of the collection of fines and fees has been investigated by the Auditor-General on several occasions. Following a report in the Auditor-

General's May 1996 *Report on Ministerial Portfolios* which indicated that the amount of uncollected fines had continued to rise,[225] the Committee conducted an inquiry into this issue. The inquiry examined the fines and collection system and made numerous recommendations to improve its effectiveness.[226]

The Attorney-General informed the Committee at the estimates hearing that the main problems associated with the collection of fines and charges were inadequate computer systems to properly account for the outstanding fines and charges, and insufficient enforcement powers of the Sheriff.[227]

The Committee notes that the Department has identified the following strategies to improve the effectiveness of the enforcement and collection of fines:

- outsourcing of the administrative and information technology and support services of the Traffic Camera Office and Enforcement Management Unit (which comprises the PERIN Court and Sheriff's Office) to provide more timely and accurate information and management of debtors;
- installation of mobile data terminals in Police and Sheriff's Office vehicles to enable field officers to access debtor information on the VicRoads database while on duty; and
- undertaking a legislative review to clarify and streamline the fines enforcement process and establish new enforcement options.

The Committee looks forward to the outcome of the departmental legislative review.

Rationalisation of tribunals

The Committee is aware that in the past three decades there has been significant growth in the number of tribunals. In a move to rationalise the administrative support provided to these tribunals and statutory boards, as from 1 July 1998, many existing tribunals were merged into the Victorian Civil and Administrative Tribunal (VCAT). In addition, occupational licensing functions undertaken by the tribunals have been transferred to a new statutory body, the Business Licensing Authority. The Department advised it is intended that the creation of these two new organisations will:

[225] Victorian Auditor-General, *Report on Ministerial Portfolios*, May 1996, page 179
[226] Public Accounts and Estimates Committee, *Report on Outstanding Fines and Unexecuted Warrants*, September 1997.
[227] Hon. J. Wade, Attorney General, transcript of evidence, 28 July 1998, pages 63 and 64.

- increase existing jurisdictions of the Small Claims Tribunal and Residential Tenancies Tribunal from $3,000 and $5,000 respectively to $10,000;
- reduce delays in appeals ;
- deliver greater consistency in decision making by tribunals;
- produce a significant cost saving in the administration of tribunals by centralising registry functions and the application of modern technology; and
- provide opportunities for cost effective conferral of new jurisdictions.

Information technology improvements

The Committee notes that the Department is currently undertaking a 3 to 5 year program of investment in new business systems to support business re-engineering and electronic service delivery. The program includes:

- network upgrades and standardisation of corporate IT support service applications;
- development of an ‘on-line’ public access service to information held by Fair Trading, Registry of Births, Deaths and Marriages, and the Victorian Electoral Commission;
- extension of video technologies in courts and prisons to improve the efficiency of court processes and reduce the costs of prisoner and witness transportation; and
- investigation of the risks associated with the Year 2000 problem, and rectification of date-sensitive equipment.

11.4 Privatisation of prisons

As observed by the Committee in its previous report on the 1997-98 budget estimates, significant structural changes have taken place within the Department in recent years including the provision of prison services by private service providers.[228]

The development of three new private prisons is now complete and the newest facility, the Port Phillip Prison in Laverton, has been in operation since the beginning of August 1997. According to the Minister for Corrections, 45 per cent of prison accommodation is now provided by the private sector and 55 per cent by public sector management.[229]

The Minister for Corrections advised that the Government’s contractual arrangements with the operators of the private prisons provide for payments

[228] Public Accounts and Estimates Committee, *Report on 1997-98 Budget Estimates,* December 1997, pages 108 and 109.
[229] Hon. B. McGrath, Minister for Corrections, transcript of evidence, 21 July 1998, page 23.

for the provision of accommodation and correctional services, as well as a performance linked fee to the operators. The arrangements also contain provisions for penalties for non-compliance or default by the operators.[230]

In an attempt to overcome problems in the management of the private prisons, the Department and the Office of Correctional Services have undertaken a number of measures including:

- placing pressure on the operator of the Port Phillip Prison to provide additional prison officers;
- correcting, in conjunction with the operator of the Port Phillip Prison, design faults in the prison; and
- imposing financial penalties on the operators of the Deer Park women's prison and Port Phillip men's prison as provided for in the contractual arrangements.[231]

An independent panel was appointed by the Government in September 1998 to review prison procedures and examine incidents of unnatural death and self-harm at Port Phillip and Beechworth prisons. The review is due to be completed by 31 October 1998.

In response to the Committee's concern regarding the cost to the State of correcting the design faults in the Port Phillip Prison, the Department advised that the prison operator had not delivered the outcomes being sought in terms of suicide management. As a consequence, the prison operator was responsible for the vast majority of the costs of the required modifications. However, it was anticipated that the State would contribute approximately $300,000 of the $1 million overall cost to ensure the prompt resolution of the issue.[232]

11.5 Victoria police productivity

The Committee is aware that one of the key areas for the Department in recent years has been to place as many police officers as possible in operational positions. The Minister for Police and Emergency Services indicated to the Committee that 86 per cent of the sworn police force are currently in operational duties, compared to 81 per cent in 1992.[233]

A fundamental strategy for achieving this has been to outsource non-core activities such as prisoner transport and maintenance of the air-wing. Other

[230] Ibid., page 24.
[231] Ibid., page 24.
[232] Mr. T. Daly, Deputy Secretary, Justice Operations, transcript of evidence, 21 July 1998, page25.
[233] Hon. B. McGrath, Minister for Police and Emergency Services, transcript of evidence, 21 July 1998, page 23.

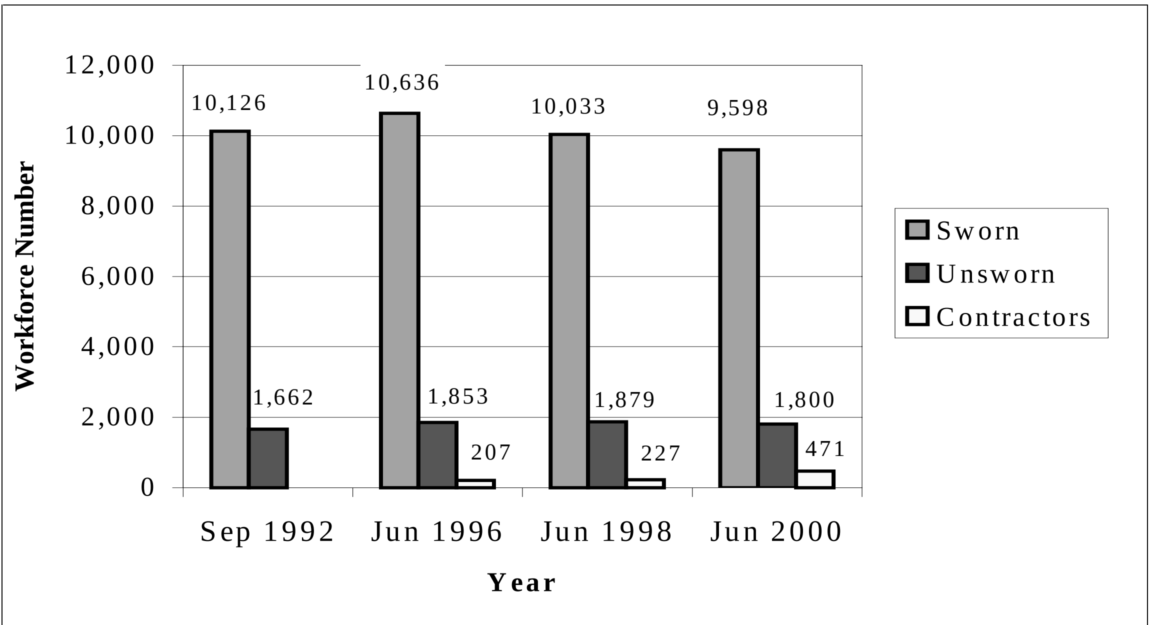
activities currently being considered for outsourcing are the Melbourne custody centre and operation of traffic cameras.[234]

The contract to operate Victoria's traffic cameras was awarded to LMT Australia in September 1998. According to the Minister for Police and Emergency Services, the placement of cameras and the amount of time the cameras are placed in a given spot will remain at the direction of police command but contractors will be eligible to receive performance bonuses for the number of verified photographic images produced.[235]

The movement in the level and composition of police workforce is highlighted in Chart 11.1 below. The Committee notes that the number of contract staff is expected to increase significantly from June 1996 to June 2000, while the number of sworn staff will progressively decline.

Chart 11.1

WORKFORCE CHANGES – VICTORIA POLICE



Source: Workforce statistics provided to the Committee by the Minister for Police and Corrections at the estimates hearing.

11.6 Emergency services

The Minister for Police and Emergency Services advised the Committee that the Country Fire Authority had commenced utilising the Intergraph system during the week commencing 20 July 1998 and that all emergency

[234] Mr. G. Sinclair, Acting Chief Commissioner of Police., transcript of evidence, 21 July 1998., page 26.
[235] Hon. B. McGrath, Minister for Police and Emergency Services, Ibid., page 27.

services were now under the system. According to the Minister, Intergraph had been successful in meeting all the required benchmarks of the ambulance service, Metropolitan Fire Brigade Board and police in the past eight to nine months and no difficulties were anticipated with its use by the Authority.[236]

The Committee will continue to monitor the performance of the Intergraph system.

11.7 Project Pathfinder

Project Pathfinder commenced in January 1996 to address the need for service improvement with specific objectives to minimise operational costs, improve the quality and timeliness of information, and streamline process flow.[237] The project has been undertaken by KPMG, with input from Mr James Guest who was engaged as Counsel for the Justice Process Reform.

The Committee was advised that the cost to the Department of the Pathfinder review was approximately $1.5 million.[238] The Attorney-General advised the Committee that the amounts paid to KPMG and Mr James Guest, to undertake the review, were:

KPMG

Description	*Date*	*Cost*
Pathfinder Stage 1 – Project Launch, Business Direction, Scoping and Targeting	Jan – Jul 96	$ 448,759
Pathfinder Stage 2 – Project initiation and management, scoping and design preparation, process redesign, alignment (organisation and policy and technology), implementation planning and draft report, public comment and final report.	Jan 97 – Jun 98	$ 961,300
Pathfinder Stage 3 – Planning workshop	Apr 98	$ 4,800
	Total	**$1,414,859**

[236] Hon. B. McGrath, Minister for Police and Emergency Services, transcript of evidence, 21 July 1998, page 28.
[237] Project Pathfinder, Draft Report, Overview and Recommendations, page i.
[238] Hon. J. Wade, Attorney General, response to questions placed on notice at the estimates hearing, 14 October 1998.

James Guest

Description	***Date***	***Cost***
Pathfinder Stage 2 – Mr James Guest was engaged as Counsel for Justice Process Reform with responsibility for achieving the involvement of a major stakeholder group in the Criminal Justice System, specifically the Judiciary and legal profession.	Oct 96 – 13 Jan 97 27 Jan – Mar 97 Mar – Jul 97 Jul – Oct 97	$ 24,035.26 $ 28,925.00 $ 48,024.50 $ 14,850.00
	Total	**$115,834.76**

According to the Attorney-General, the final Pathfinder report is now complete and contains a wide range of recommendations for improving the justice system, in particular the way in which the agencies within the Department (police, courts, and corrections) interact. It is anticipated that these recommendations will take 3 years to implement at a cost of $27 million.[239]

The Attorney-General indicated that the Department intends to raise the funds for the implementation of the recommendations by applying for Government funding under various technology initiatives, as well as through savings in programs through the better use of technology.[240]

11.8 Victoria Legal Aid funding

The Committee notes that under new Commonwealth funding arrangements introduced on 1 July 1997, it is anticipated that the Commonwealth's contribution towards the provision of legal aid will decrease by $3.75 million in 1998-99, to a total of $27.75 million.[241]

The funding arrangements stipulate that Victoria Legal Aid can only expend Commonwealth funding on cases arising under Commonwealth law. To assist with the phasing in of these stricter funding arrangements, the Commonwealth made available to Victoria Legal Aid a subsidy for State law matters of $4.77 million in 1997-98. This subsidy is, however, expected to reduce to $2.75 million in 1998-99, and will not be provided in the third year of the agreement.

The Committee was advised that although Victoria Legal Aid is expected to disclose an operating surplus of $12 million for 1997-98, this surplus is reduced to $4 million following a write-off of irrecoverable debt

[239] Hon. J. Wade, Attorney-General, Department of Justice, transcript of evidence, 28 July 1998, page 75 to 76.
[240] Ibid., page 76.
[241] Hon. J. Wade, Attorney-General, response to questions placed on notice at the estimates hearing, October 14 1998.

outstanding from clients who have received legal aid. According to the Attorney-General, all State provided funding was expended in 1997-98 and the surplus will comprise the remaining subsidy funding provided by the Commonwealth.

The Committee notes that the $4 million surplus is to be used in 1998-99 to widen the elegibility critera for legal aid assistance for summary criminal matters and to increase the number of lawyers representing children in Family Court cases from 360 to 600.

In response to a question taken on notice concerning the reported $12.3 million surplus for Victorian Legal Aid (VLA) for the 11 months to May 1998, the Attorney General provided the following information.

> "*VLA has recently undertaken a significant review of its outstanding debt (which comprised an asset of approximately $37 million in its June 1997 balance sheet). It is the Board's view that the debt is overstated and that the security held by the VLA would not realise the balance sheet value. In these circumstances, the Board proposes to write off a portion of that debt as an abnormal item in its 30 June 1998 financial statements. An abnormal item will replace any net surplus for the year.*
>
> *VLA's annual financial statements for the year ending 30 June 1998 are being finalised by the Auditor-General at present. These accounts will disclose a surplus of $4 million. This figure is reached by subtracting abnormal items of $8 million (written off irrecoverable debt).*
>
> *Under the new Commonwealth funding arrangements, which came into operation on 1 July 1998, VLA can only expend Commonwealth funding on cases arising under Commonwealth Law. Cases which fall into that category can only be funded within the Commonwealth guidelines (including the Commonwealth's fee ceilings).*
>
> *As a result of these new requirements, VLA operates a budget for the total organisation which has within it two sub-budgets. One of these sub-budgets deals with its Commonwealth funding and Commonwealth expenditure, and the other deals with State funding and State expenditure.*
>
> *There is also likely to be an operating surplus within VLA's State sub-budget. This surplus is comprised entirely of Commonwealth funds which have only been made available on a short term basis to phase in the new*

arrangements. This funding was to enable VLA to make the transition to the Commonwealth's new stricter funding requirements over the three year period. In 1997-8 the Commonwealth subsidy of State law matters was $4.77 million. The expected surplus in the State sub-budget of VLA for this period will be less than that (ie all State provided funding has been expended). The Commonwealth is expected to provide a further subsidy of $2.75 million for the second year of the agreement, with no subsidy in the third year of the new Commonwealth funding arrangements. Any surplus for 1997-98 will be required to ensure that the transition does not lead to sudden changes in the provision of legal aid over the three years.

VLA's chairperson, Geoff Masel, has expressed concern (reflected in the June Board minutes) that, at a time of pressing need, VLA should end the year with a surplus as a result of the new funding arrangements. On 30 March 1998, Mr Masel wrote to the Commonwealth Attorney-General setting out these concerns. Mr Masel said "I urge you to reconsider the policy of the Commonwealth providing funding for Commonwealth law matters only. It has undoubtedly introduced an atmosphere of unreality into the administration of legal aid" for a number of reasons which were then set out at length.

The Commonwealth Attorney-General responded to Mr Masel's correspondence by letter dated 30 June 1998. The Commonwealth Attorney-General said "Finally, you urge the Commonwealth to reconsider its policy of only funding Commonwealth matters. The Commonwealth has a very clear policy for funding legal aid services under the new agreements. That policy is already starting to deliver benefits in the form of more efficient and effective delivery of services, and more appropriate use of Commonwealth legal aid funds. I can see no justification for revisiting the policy at this time." In the light of that response, Mr Masel may comment on this matter in his annual report to Parliament.

VLA has not yet finalised its Commonwealth funding arrangements for 1998-9. However, it is anticipated that those funding arrangements will provide:

- *for a reduced Commonwealth contribution of $27.75 million in 1998-9 (down from $31.5 million in 1997-8); and*

- *for a reduced – and final – Commonwealth subsidy for State matters of $2.75 million in 1998-9 (down from $4.77 million in 1997-8).”* [242]

The Attorney-General advised the Committee that reductions in funding for the legal aid system have made it necessary to examine ways of obtaining improved value for money, in particular for legal services and procedures in courts.[243] The Attorney-General acknowledged that too much money had been paid for solicitor’s and barrister’s services in some areas in the past, and in addition, many criminal cases have been taking up to four times longer than occurred ten years ago.

The Committee is concerned about the reduction in the level of funding provided for legal aid and the impact this will have on potential clients of Victoria Legal Aid and other organisations such as the police and the courts.

11.9 Closure of Prahran Magistrates’ Court

In response to a question concerning the closure of the Prahran Magistrates’ Court in August 1998, the Attorney-General advised that it is no longer necessary to have a court at Prahran as the Melbourne Magistrates Court has the capacity to take most of the Prahran court list and is able to provide additional facilities that the Prahran court lacked.[244]

The Committee notes that although the Department had planned to close the Prahran court in the next few years, the court is to be closed more quickly than expected to enable savings in the Justice court portfolio to be found and transferred to Heath and Education.[245] Such savings are expected to amount to approximately $300,000.

According to the Attorney-General it is not anticipated that additional court facilities will be required as a result of the closure. However, if necessary, such facilities would be provided in the Moorabbin-Oakleigh area.

11.10 Victims of Crime

The new Victims of Crime Assistance Scheme commenced operation in July 1997 administered by the Victims Referral and Assistance Service

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[242] Letter, dated 8 October 1998, from the Hon. J Wade, Attorney-General, in response to questions taken on notice at the estimates hearing.
[243] Hon. J. Wade, Attorney-General, Department of Justice, transcript of evidence, 28 July 1998, pages 62 and 63.
[244] Ibid., page 70.
[245] Ibid., page 70.

(VRAS). In addition to a central statewide telephone information referral and counselling scheme, a regional network of new services has been developed to provide a broad range of practical support directly to victims and to undertake community education. A range of specialist/state wide projects has also been funded to address identified services gaps.

The Committee was advised that the actual demand levels experienced in the first 6 months of operation of VRAS were considerably below the budget forecasts. In response, a program of public education has been established to ensure the community is aware of victims entitlements, and the take up of counselling and other services is now steadily increasing.

These factors are reflected in the revised outcome for 1997-98 and forecasts for 1998-99.

Exhibit 11.2

Output (BP#3 Table)	Performance Measure	Units of Measure	1997-1998 Targets	Revised Outcome
2.5.8	Calls for assistance Victims accessing counselling entitlement	number number	25, 000 8, 000	7, 000 1, 400

Source: Response by Department of Justice to Committee's 1998-99 estimates questionnaire, Appendix A, page 37.

In response to a question about why the output group had been downgraded substantially, the Attorney-General advised that misleading information about the availability of VRAS service had impacted on the take-up of the new system. The Attorney-General informed the Committee that the government had established 17 regional services and a range of specialised services to assist victims of crime. While awards for pain and suffering are no longer available, awards are provided for loss of earnings and other expenses that might be incurred such as counselling expenses. It also makes awards to relatives of homicide victims of up to $100,000.

In response to a question on notice about why people did not access the service, the Attorney-General advised the Committee that surveys indicated that there was a high level of satisfaction with the service but people were generally unaware of it. This was being addressed by an advertising campaign. The Committee asked for the results of the survey and relevant statistics to be provided. The Attorney-General advised the Committee:

> *"The survey relating to client satisfaction with the Victims Referral and Assistance Service, conducted by the Criminal Justice Statistics and Research Unit, is incomplete and figures mentioned during the PAEC*

> *hearing were interim figures. The survey results will be finalised within the next two weeks and will be provided to the Committee as soon as they are available."* [246]

The Committee looks forward to receiving this material and reviewing, during the next estimates hearing, the effectiveness of the strategies that the Department of Justice has adopted to promote awareness of the Victims of Crime Assistance Scheme.

[246] Letter, dated 8 October 1998, from the Hon. J Wade, Attorney-General, in response to questions raised at the estimates hearings.

Chapter 12: Department of Premier and Cabinet

12.1 Introduction

Department overview

The mission of the Department of Premier and Cabinet is to lead the provision of policy advice and project management in order to facilitate the creation of sustainable growth and to provide a vibrant and innovative society for all Victorians.

The Department consists of the following five key core areas:

- the Cabinet Office;
- the Office of State Administration;
- the Special Projects Unit;
- the Multicultural Affairs Unit; and
- Arts Victoria.

The Department also supports a number of agencies including the Office of the Governor, the Office of the Public Service Commissioner, the Office of the Ombudsman, the Victorian Multicultural Commission, Museum of Victoria, National Gallery of Victoria and State Library of Victoria. Since the Department was not reviewed at this year's estimates hearings, the information in this chapter of the report is based on the Department's response to the Committee's questionnaire and the Budget Papers.

Output Management Framework

For 1998-99 the Department will have 11 output groups with 32 major outputs and 157 performance measures. This compares with 12, 42 and 128 respectively for 1997-98. The current output group structure is highlighted in Exhibit 11.1 below.

The Committee notes that the Department has essentially retained the same output groups from the previous year although many output groups have been re-named. The output group for the Victorian Auditor-General's Office has also been transferred to the Parliament of Victoria from 1 July 1998.

All outputs within the Portfolio were reviewed in late 1997. Although a refined set of outputs, linked to more comprehensive performance measures was developed for 1998-99, a description of each output is yet to be included in the Budget Papers. Of the 157 performance measures listed in the Budget Papers, 118 are new measures and do not include performance targets for 1997-98.

Corporate and business plans

The Committee has received a copy of the Department's draft 1997-2000 Corporate Plan. The Plan consists of four sections: the output map, structure and functions, output groups and strategies, and an improvement model. The Department advised that this Plan is currently being revised to reflect changes in the Department's output group structure, however the major strategic directions will be retained.

The Committee was unable to review the Department's 1998-99 Business Plan as it is regarded as an internal working document. This contrasts with the previous year in which a copy of the Business Plan was provided to the Committee.

The Committee believes that Business Plans, which indicate how a Department is to achieve its strategic direction, quality performance information included in the budget documents and annual reports are the predominant accountability documents for determining what was achieved by Departments against what was intended. Without a Business Plan and meaningful performance information, it is very difficult for the Committee to gain a comprehensive view about planned and actual performance. Knowing the intention of Departments, given the authority and resources entrusted to them, is a critical part of the accountability cycle. It sets the basis for assessing the subsequent results.

Recommendation 12.1: That the Department of Premier and Cabinet make a copy of its Business Plan available to the Public Accounts and Estimates Committee.

12.2 Budget overview

Provision of outputs

The outputs to be provided by the Department of Premier and Cabinet are expected to remain relatively constant in 1998-99 with an increase of only $4.1 million, or 1.5 per cent. There will, however, be a re-allocation of funding under output groups as highlighted by the Exhibit 12.1 on page 129.

Exhibit 12.1

OUTPUT GROUP SUMMARY ($MILLION)

	1997-98 Budget	**1998-99 Budget**	**Variation %**
Strategic Leadership	34.6	40.7	17
Protocol and Events Management Services	2.8	2.5	-11.7
Re engineering of the Government's Cabinet Parliamentary and Legislation System	0.3	2.0	-
Community Support Fund	88.1	69.0	-21.7
Government Information and Communications	6.4	7.3	12.8
Multicultural Affairs	3.7	2.9	-22.8
Implementation of Arts 21	129.7	146.9	13.3
Advice and Support to the Governor	4.2	4.5	6.9
Legislative Drafting and Publishing Services	2.8	3.0	7.0
Ombudsman Complaints and Resolution	3.0	2.6	-12.1
Strategic Human Resource Management	6.2	4.6	-24.6
Total	**281.8**	**285.9**	**1.5**

Source: 1998-99 Budget Paper No. 3, Budget Estimates, page 285

The most significant variations will occur in the output groups for the Community Support Fund, with a decrease in outputs of $19.1 million, and Implementation of Arts 21 with an increase of $17.2 million. This reflects the Community Support Fund's contribution to Government funded budget initiatives in Education and Health Services, and additional employee related expenses resulting from the employment of a further 11 staff at Arts Victoria.

The Committee notes that the Department achieved productivity gains of $1.4 million in 1997-98. These productivity gains were absorbed by all output groups except for Advice and Support to the Governor, and the former Ministerial and Parliamentary Program, which have been exempted. The 1998-99 productivity savings for the portfolio are expected to total $1.5 million and will be applied in the same manner as the previous year.

Staffing

The Department has advised that it is currently reviewing its policies for staff retention and new practices for recruitment are being introduced to expedite the process. As indicated by Exhibit 12.2, a marginal increase in the number of staff is expected from 30 June 1997 to 30 June 1998.

Exhibit 12.2

Department of Premier and Cabinet Staffing	Number of Staff 30 June 1997 (actual)	Number of Staff 30 June 1998 (estimate)
Strategic Leadership	100	111
Re-engineering of the Government's Cabinet, Parliamentary and Legislation System	2	2
Protocol and Event Management Services	9	9
Government Information and Communications	37	40
Community Support Fund	7	7
Multicultural Affairs	11	10
Arts Victoria	82	93
Victorian Auditor General's Office	151	136
Advice and Support to the Governor	28	28
Legislative Drafting and Publishing Services	32	32
Ombudsman Complaints and Resolution	21	21
Strategic Human Resource Management	39	34
Total	**519**	**523**

Source: Response by Department of Premier & Cabinet to Committee's estimates questionnaire, page 44.

Staff increases are expected to occur predominantly at Arts Victoria and in the Strategic Leadership output group of the Department with the acquisition of an additional eleven staff each. At Arts Victoria the majority of these staff will be employed at the VPS-2 level, compared to the VPS-5 level in the strategic leadership output group.

These staff increases are to be partially offset by reductions at the Victorian Auditor-General's Office, which is expected to lose twenty-one VPS-2 staff while retaining nineteen executive officers. The Committee notes that the staffing figures do not reflect the major restructuring that occurred on 1 July 1998 when approximately 80 staff were transferred to Audit Victoria.

12.3 Key issues facing the Department

The Department has identified the following significant issues that impact on the budget estimates for 1998-99:

- changes to Community Support Fund cashflows and projects;
- *Audit (Amendment) Act* 1997;
- Arts Agencies redevelopment;

- Arts 21 policy review; and
- millennium celebrations and centenary of federation.

Changes to Community Support Fund cashflows and projects

The Community Support Fund was established by the *Gaming Machine Control Act* 1991 to allow for the direction of a portion of government revenue raised from gaming machines in hotels to programs and projects that will benefit the Victorian community. The legislation specifies that research into the social impact of gaming is to be given priority in determining distributions.

The Committee is aware that the amount paid to the Community Support Fund under the *Act* is to be reduced by $25 million in each financial year from 1998-2004 under Part 6 of the *Miscellaneous Acts (Omnibus No.1) Act* 1998, which came into operation on 26 May 1998. These monies are to be transferred to the Consolidated Fund for the provision of additional funding for education and health programs.

The reduction in funding will impact on the Fund's ability to achieve the purposes for which it was set up, and will require the Department to readjust existing approaches to financial planning.[247] The Department has not, however, indicated to the Committee the nature of these readjustments or how programs will be affected.

The Committee notes that underspending of $26 million occurred against the Community Support Fund budget in 1997-98.[248]

Arts Agencies redevelopment

The Government's vision is for Melbourne to be one of the three cultural capitals of the world by the year 2050. The Committee notes that to achieve this vision, over the next three years, major redevelopments will be undertaken at the National Gallery of Victoria and the State Library of Victoria. New infrastructure will also be developed for the Museum of Victoria at Carlton Gardens and a new state of the art electronic archive for the Public Records Office.

The Department has advised that the commencement of construction on the National Gallery has been postponed until 1999-2000 due to changes in the project program, resulting in underspending of $33.4 million in 1997-98. Changes to project plans have also resulted in delays in the development of

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[247] Department of Premier and Cabinet, Response to Committee's 1998-99 estimates questionnaire, 8 May 1998, page 22.

[248] 1997-98 Budget Outcome Statement, page 15.

the State Library of Victoria (underspending of $10.5 million in 1997-98), and record management system for the Public Records Office (underspending of $8.3 million in 1997-98).

For 1998-99 funding has been provided for:

- expansion of acquisition and exhibition programs and improvement of access to collections at the State Library ($2.8 million);
- upgrade of performing arts centres in regional Victoria, including Colac, Traralgon, and Albury/Wodonga ($17 million); and
- construction of a temporary exhibition facility for the National Gallery of Victoria to ensure continued access to the collection during the redevelopment of the Gallery ($8.5 million).

Arts 21 policy review

The Arts 21 strategy was launched in November 1994 and is the Government's major cultural policy. It includes the funding of Arts agencies, the development of Arts infrastructure, and management of the Government's investment in the Arts industry.

The Committee notes that a new policy framework is being developed that builds on the Arts 21 industry development model. This framework will have a direct impact on future strategy implementation and will address the following key issues:

- alignment of funding programs with the purchaser provider model;
- increasing the domestic audience base;
- developing international and tourist markets; and
- improving opportunities for the delivery of new cultural products and programming.

Millennium celebrations and centenary of federation

The Millennium and Centenary Federation Committee has been established under the chairmanship of Sir Gustav Nossal and is currently developing strategic priorities for these two events. The activities of the Millennium and Centenary Federation Committee are supported by a Secretariat, established under the Department's Office of State Administration. In addition, Arts Victoria will assist in the co-ordination of a cultural program for the celebration of the Centenary, the new Millennium, and the Olympic Year.

Chapter 13: Department of State Development

13.1 Introduction

Department overview

The Department of State Development supports the ministerial portfolios of:

- Industry, Science and Technology;
- Small Business;
- Tourism;
- Sport;
- Rural Development; and
- Multimedia.

Its role includes creating an international profile for Victoria: securing and managing major events; attracting tourism; improving export performance, and promoting jobs and investment. The Department has identified three core strategies: strategic policy leadership; shaping the business environment; and delivering business programs.

With the exception of the portfolio of the Minister for Information Technology and Multimedia, the Department was not reviewed at the estimates hearing. Therefore the information in this chapter is predominantly based on the Department's response to the Committee's questionnaire and the Budget Papers.

Output Management Framework

The Department has adopted a new output group structure in 1998-99 that reflects the Department's key industry sectors. This has resulted in a reduction in the number of output groups from eleven to six. The Department's current output group structure is highlighted in Exhibit 12.2 below.

The Strategic Leadership and Workforce Capability output groups have been retained and the following nine groups (Investment Recruitment; Marketing Victoria; Physical Infrastructure; Major Events; Lifestyle Enhancement; Export and Enterprise Development; Business Environment; Building the Knowledge of the Economy; and Technology Assisted Service Redesign) have been replaced with 4 new groups (Business Development;

Sport, Recreation and Racing; Small Business and Regulation Reform; and Tourism).

The Committee notes that outputs have been realigned under the new output group structure and a more comprehensive explanation of outputs has been provided. Many of the Department's key performance measures from 1997-98 have been retained and a number of new performance measures have been adopted. For 1998-99 the Department will have 36 outputs and 184 performance measures compared with 42 and 87 respectively for the previous year.

Of the 184 performance measures listed in the Budget Papers, 165 are new measures and do not include performance targets for 1997-98. The Department's mix of performance measures consists predominantly of quantity measures, with quality and timeliness measures comprising approximately only 30 per cent and 20 per cent of all performance measures respectively.

Recommendation 13.1:	***That the Department of State Development develop additional quality and timeliness performance measures to provide more meaningful performance information.***

Corporate and business plans

The Department has supplied the Committee with a copy of its Corporate and Business Plans. These documents provide a comprehensive overview of the Department's operating environment, key outcomes, challenges and strategies for each output group, output framework, and resource requirements.

In reviewing the Corporate Plan, the Committee found that the Department identified the Government's strategic priorities for 1998 and incorporated these into the mission statement and key outcomes over the next three years. However, implementation plans and a timetable for identifying how the Department is going to achieve the eight key themes contained in the Plan was not included.

Exhibit 13.1 highlights the information contained in the Business Plan compared to that required by Department of Treasury and Finance Guidelines.[249]

[249] Department of Treasury and Finance, *A Guide to Corporate and Business Planning*, Draft, 12 April 1996, page 12.

Exhibit 13.1

CONTENTS OF BUSINESS PLAN

Requirement	**Status**
• Output statements	Included
• Output groups	Included
• Output operating statements	Included
• Performance measures	Included
• Targets	Included
• Resource requirements	Included
• Outcome evaluation plans	Not included
Financial statements	
➢ Statement of financial position	Included
➢ Operating statement	Included
➢ Cash flow statement	Not included
➢ Capital expenditure forecast	Not included

As indicated by the Exhibit, the Department's Business Plan meets most of the guideline requirements.

Of particular assistance to the Committee in understanding the respective roles and responsibilities of the Ministers is the inclusion in the Business Plan of a listing of outputs by portfolio. The Committee believes that this should be a requirement for all Department's Corporate and Business Plans.

13.2 Budget overview

Provision of outputs

Expenditure on outputs is expected to decrease by $17.5 million, or 8.2 per cent, in 1998-99 to a total of $197.8 million. This is in accordance with the Government's decision to redirect funding to priority areas of health, education and privatisation. As indicated below, the decrease is to be evenly spread across all output groups except for Tourism, which has an increase of 16.5 per cent.

Exhibit 13.2

OUTPUT GROUP SUMMARY ($MILLION)

	1997-98 Budget	**1998-99 Budget**	**Variation %**
Strategic Leadership	18.7	17.2	-8.3
Business Development	99.0	84.5	-14.7
Workforce Capability	18.8	16.3	-13.1
Sport, Recreation and Racing	30.6	27.0	-11.9
Small Business and Regulation Reform	14.7	13.8	-6.0
Tourism	33.5	39.0	16.5
Total	**215.3**	**197.8**	**-8.2**

Source: 1998-99 Budget Paper No. 3, Budget Estimates, page 325

The Committee notes that the Department is to absorb a 1.5 per cent productivity gain in both 1997-98 and 1998-99 through the implementation of new financial and human resource systems and elimination of administrative overlap across the Department. This is not expected to affect the delivery of services.

Staffing

The number of full time equivalent staff at the Department has decreased by 20.31 in 1997-98. Exhibit 13.3 below shows the number of staff against each of the Department's business units.

Exhibit 13.3

Department of State Development Staffing	Number of Staff 30 June 1997 (actual)	Number of Staff 30 June 1998 (actual)
Business Victoria	149.89	143.89
Employee Relations and Employment	65.19	64.60
Multimedia Victoria	43.68	41.78
Small Business and Regulation Reform	128.90	113.40
Sport, Recreation and Racing	81.50	86.23
State Development Policy	35.50	42.90
Tourism Victoria	121.80	113.60
Corporate Management and Support	102.40	102.15
Total	**728.86**	**708.55**

Source: Department of State Development, 1998-99 Business Plan, page 22.

The majority of staff reductions occurred in the Department's Small Business and Regulation Reform Business Unit, Tourism Victoria and Business Victoria, while additional staff were employed in State Development Policy, and Sport, Recreation and Racing.

The staff reductions spread across all classifications levels were predominantly concentrated at the VPS-1, VPS-2 and VPS-3 levels. The number of VPS-4 staff increased by 11.5 and EO-3 staff by two.

The Committee is interested to note that the number of full time equivalent staff employed by the Department actually increased by 16.19 from 30 June 1997 to 15 April 1998.[250] However, this increase was more than doubly offset by the decrease of thirty-seven staff from 15 April 1998 to 30 June 1998. Around 60 per cent of these redundant staff were at the VPS-2 and VPS-3 levels, and 30 per cent at the VPS-4 and VPS-5 levels.

[250] Department of State Development, Response to Committee's estimates questionnaire, April 1998, page 29.

13.3 Key issues facing the Department

The Committee was advised that international and national developments in the past six months have dramatically changed the environment in which Victorian businesses operate. Consequently, the Department faces the following issues in 1998-99:

- downturn in Asian economies ;
- acceleration of the move towards the information economy;
- national industry policy and programs; and
- integrated service delivery and systems improvements to business processes.

Downturn in Asian economies

The Committee notes that the downturn in many Asian economies and devaluation of currency has required the Department to change the emphasis of its strategies for its core business of investment, export and tourism.

The Department has taken a strategic approach to attracting investment involving:

- marketing Victoria as an attractive investment destination;
- increasing Victoria's presence in overseas markets;
- establishing an attractive business environment;
- targeting key corporate investors; and
- facilitating individual investment projects.

North America still remains the largest source of foreign direct investment into Australia and the Department indicated that Business Victoria and Multimedia Victoria will jointly work together to establish strong networks in North America in 1998-99.

The Department proposes to increase export activity through a range of business improvement programs. The Committee understands that these programs encompass working with existing exporters to maximise opportunities for diversification, and preparing new and potential exporters to take advantage of current opportunities to compete in Asian markets once the recovery begins. In addition, the Department is focusing its industry assistance strategy to integrate export assistance with its business improvement programs, in particular for small to medium size enterprises.

For tourism, the primary objectives of the Department are to secure Victoria's position as a competitive destination and to maximise opportunities to increase tourism visitation. While maintaining a strong marketing presence in Asia, the Department has advised that it will re-direct marketing campaigns at more mature markets such as the United Kingdom, Europe, and North America which are experiencing favourable currency exchange rates for the Australian dollar.

The information economy

The Minister for Multimedia informed the Committee that information technology, telecommunication, and multimedia are the highest growth sectors in the Australian and world economy.[251]

The Committee notes that in 1998-99 Multimedia Victoria will be intensifying its effort to maximise investment through opportunities arising from the international investment climate following the Asian crisis and identification of niche opportunities for investment suited to the local industry's development needs.

The Department plans to extend Government on-line services among its businesses in response to rapid changes in the information industry, in particular the introduction of electronic commerce. The Committee notes that the Government is committed to ensuring all appropriate services are on-line by the year 2001 and funding of $27.2 million is to be provided in 1998-99 to implement the Government's multimedia strategy.[252]

According to the Minister for Multimedia there will be little scope for cost savings as traditional service delivery mechanisms must continue to run parallel with the electronic system.[253] However, the initial benefit will be the increase in community access to government services and ease of carrying out transactions and business with the Government.

National industry policy and programs

During 1997-98 the Commonwealth Government made a number of decisions on the future of industry policy and major programs, including the release of its response, titled *Investing for Growth*, to the Mortimer review of business assistance programs.[254]

[251] The Hon. A Stockdale, Minister for Multimedia, transcript of evidence, 5 May 1998, page 16
[252] 1998-99 Budget Paper No. 2, Budget Statement, page 63
[253] The Hon. A Stockdale, Minister for Multimedia, transcript of evidence, 5 May 1998, page 36
[254] 'Going for Growth: Business Programs for Investment, Innovation and Export', David Mortimer

The Committee notes that the Commonwealth's position regarding industry policy is consistent with the position advocated by the State Government and focuses on the following five key areas:[255]

- increasing support for business research and development and the commercialisation of that research;
- making investment in Australia more attractive;
- helping Australian businesses capture new export markets and introducing a more competitive customs regime;
- promoting the further development of Australia as a financial centre; and
- ensuring Australia maximises its benefits from the global information age.

In line with this, in 1998-99 the Department proposes to:

- continue providing strategic policy leadership, in particular in the context of changing circumstances in Asia and the accelerating move toward the information economy;
- develop Victoria's skill base and strategies for the exploitation of electronic commerce in science, engineering, telecommunications, and information technology and multimedia; and
- continue removing impediments and encourage significant areas of economic activity, in particular service, environmental industry, and rural and regional development.

Integrated service delivery and systems improvements to business processes

The Department aims to increase the integration of activity across portfolios, especially in regional offices. The Committee notes that Victorian Business Centres have been established at each of the Department's regional sites and a Regional Service Delivery Strategy has been developed to achieve this. This Strategy seeks to create a service delivery environment and culture in each Victorian Business Centre that is committed to providing:

- consistent service delivery and advice across Victoria;
- access to services which are appropriate to the needs and expectations of the Department's clients; and
- a highly visible service which reflects the Government's commitment to regional business service delivery.

[255] The Hon. J Howard, Prime Minister, 'Investing for Growth' Address, 8 December 1997

Chapter 14: Department of Natural Resources and Environment

14.1 Introduction

Department overview

The mission of the Department of Natural Resources and Environment is to efficiently and effectively deliver high quality products and services to customers, generate wealth through sustainable development of primary industries and natural resources, and conserve and protect Victoria’s natural and cultural heritage.

The Ministers responsible for the Department are the Minister for Agriculture and Resources and the Minister for Conservation and Land Management.

The Department was not scheduled for review at this year’s estimates hearings. Therefore the information in this chapter is based on the Department’s response to the Committee’s questionnaire and the budget documents.

Output Management Framework

For 1998-99, the Department will have 12 output groups, 44 major outputs, and 276 performance measures. This compares with 14, 59, and 160 respectively for 1997-98. The Committee notes that with the following exceptions, the Department has retained essentially the same output group structure for 1998-99:

- consolidation of the Crown Land Management and Land and Resource Information output groups into Land Management and Information;
- consolidation of the Flora and Fauna and Parks output groups into Conservation and Recreation; and
- expansion and renaming of the Weeds and Pests output group as Pest, Plant, and Animal Management.

The Department advised that substantial work was undertaken during 1997-98 to better identify outputs and performance measures. As a result, the number of outputs has been significantly reduced but many new performance measures have been developed to reflect quantity, quality and timeliness issues. Of the 276 performance measures listed in the Budget Papers, 235 are new measures and none of them include performance targets for 1997-98. These performance measures are comprehensive, although significantly more quantity and quality measures have been adopted than timeliness measures, which only comprise 25 per cent of all performance measures.

Corporate and business plans

The Committee received a draft copy of the Department's 1998-99 Business Plan.

Exhibit 14.1 highlights the information contained in the Business Plan compared to that required by Department of Treasury and Finance Guidelines.[256]

Exhibit 14.1

CONTENTS OF BUSINESS PLAN

Requirement	Status
• Output statements	Not included
• Output groups	Included
• Output operating statements	Not included
• Performance measures	Included
• Targets	Included
• Resource requirements	Not included
• Outcome evaluation plans	Not included
Financial statements	
➢ Statement of financial position	Not included
➢ Operating statement	Not included
➢ Cash flow statement	Not included
➢ Capital expenditure forecast	Not included

The Committee's review of the draft Plan revealed broad links between the relevant strategic priorities and the Department's outcomes. However, as can be seen from the above Exhibit, the Plan does not include items such as expected resource usage information, details of outcome evaluation plans, or any financial statements.

[256] Department of Treasury and Finance, *A Guide to Corporate and Business Planning*, Draft, 12 April 1996, page 12.

Recommendation 14.1:	***That the Department of Natural Resources and Environment make available to the Public Accounts and Estimates Committee an up-to-date copy of its corporate plan to enable effective Parliamentary assessment of the Department's goals and strategic direction.***

Recommendation 14.2:	***That the Department of Natural Resources and Environment expand the information contained in its business plan to include all the elements specified in the Department of Treasury and Finance Guide to Corporate and Business Planning.***

14.2 Budget overview

Provision of outputs

The Department anticipates the provision of outputs to increase by $35.2 million, or 5.6 per cent, in 1998-99 as indicated by Exhibit 14.2.

Exhibit 14.2

Output Group Summary ($million)	1997-98 Budget	1998-99 Budget	Variation %
Minerals and Petroleum	12.7	12.3	-2.7
Forest Management	92.2	89.6	-2.8
Fire Management	38.0	40.0	5.2
Fisheries	16.1	17.4	7.7
Agriculture Industries	118.2	135.2	14.4
Agriculture Quality Assurance	20.2	19.4	-3.7
Catchment Management and Sustainable Agriculture	87.4	122.5	40.2
Pest, Plant and Animal Management	14.2	15.4	8.8
Water	4.8	7.0	44.4
Land Management and Information	88.8	75.7	-14.8
Conservation and Recreation	87.7	87.3	-0.5
Environment Protection	44.2	37.9	-14.2
Total	**624.5**	**659.7**	**5.6**

Source: 1998-99 Budget Paper No. 3, Budget Estimates, page 228

The main area of increase will be Catchment Management and Sustainable Agriculture which will receive additional funding of $35.1 million or 40.2 per cent, primarily from the National Heritage Trust to address environmental and sustainable agricultural challenges. Other significant changes to output costs are:

- ***Agriculture Industries*** ($17 million) – increase due to additional funding for Research and Experimental Programs;
- ***Water*** ($2.2 million)- increase due to additional funding received from the National Heritage Trust;
- ***Land Management and Information*** ($13.1 million) – decrease due to the transfer of the Coasts and Ports Program to the Conservation and Recreation output group; and
- ***Environment Protection*** ($6.4 million) – decrease due to a reduction in funding for the Dangerous Goods Management Program and an error of $2 million in the 1998-99 budget for the Resource Recovery Trust Fund.

A productivity gain of $4.26 million was included in the Department's budget in 1997-98. This productivity requirement has decreased to $4.15 million in 1998-99 and will be applied primarily to the Agriculture Industries ($0.7 million), Land Management and Information ($0.9 million), and Conservation and Recreation ($0.8 million) output groups. In addition, Cabinet has agreed to a further $20 million reduction in the Department's recurrent budget allocation. The Committee was advised that this decision will result in the loss of 330 staff but the impact on services will be confined to the metropolitan area.[257]

Staffing

The Committee notes that number of full time equivalent staff decreased from 4,391 as at 30 June 1997 to 4,204 as at 30 June 1998.

[257] Department of Natural Resources and Environment, response to Committee's 1998-99 estimates questionnaire, 31 July 1998, page 31.

Exhibit 14.3

Department of Natural Resources and Environment Staffing	Number of Staff 30 June 1997	Number of Staff 30 June 1998
Minerals and Petroleum	153.8	151.3
Forest Management	559.5	554.3
Fire	203.5	181.3
Fisheries	205.2	189.9
Agriculture Industries	1,114.3	1,113.0
Agriculture Quality Assurance	187.6	182.1
Catchment Agriculture and Sustainable Agriculture	579.8	542.4
Weeds and Pests	180.4	176.8
Water	24.6	22.5
Crown Land Management	240.1	232.6
Resource Information	620.7	588.0
Flora and Fauna	179.9	169.5
Parks	142.0	100.8
Total	**4,391.4**	**4,204.4**

Source: Response by Department of NRE to Committee's 1998-99 estimates questionnaire, page 29.

As can be seen from Exhibit 14.3, the staff reductions occurred across all output groups but were predominantly concentrated in Fire, Catchment Agriculture and Sustainable Agriculture, Resource Information, and Parks. Although additional staff were employed at the VPS-3 and VPS-5 levels, the number of executive officers decreased by 11. There were also reductions in the number of VPS-1, VPS-2, VPS-4 officers.

14.3 Key issues facing the Department

Significant issues identified by the Department which have determined the budget estimates for 1998-99 include the:

- impact of budget savings;
- outsourcing of service delivery; and
- processing of Native Title Claims.

Impact of budget savings

The Department advised that it is implementing a number of strategies to achieve $20 million in budget savings as required as part of the 1998-99 budget. These strategies have been designed to minimise impact on on-ground services such as: pest plant and animal activities; land rehabilitation and contract harvesting in native forests by seeking more efficient ways of doing business and focusing on staff reduction within the metropolitan area and lower priority activities.

Outsourcing of service delivery

The Department has taken a number of initiatives to restructure its business to deliver services through both public and private external service providers. In recent years this has included the establishment of Parks Victoria to manage Victoria's parks, and the transfer of planning and management functions for waterways, floodplains, and regional drainage to Catchment Management Authorities.

Additional initiatives have included the outsourcing of:

- core Land Registry functions such as data entry, courier service, and supply and refile of paper and land titles;
- $12.4 million of services by Parks Victoria in 1997-98; and
- $8 million of services by the Department's Primary Industries division [comprising marine research ($4 million), livestock reporting ($110,000), food product research and development ($2.8 million), and veterinary diagnostics ($1.05 million).]

The Committee notes that these outsourcing contracts are expected to realise savings in excess of $1.2 million per annum, with a total of $900,000 attributable to Primary Industries.

The Department advised that during 1998-99 the Primary Industries division will continue to assess new or expanded services that could potentially be outsourced. These services include commercial and recreational fishing license and allocation database, recreational fishing stocking and monitoring, components of agricultural research extension, auditing Melbourne produce markets, whole animal health program, and control of chemical use functions.

Other activities being considered for outsourcing in 1998-99 include:

- floodplain and waterway management services, National Heritage Trust grants administration to Catchment Management Authorities, and regional land care;
- retailing of digital map base products produced by Geospatial Information;
- the licensing function for hunting and wildlife licenses;
- conversion of Land Registry information to an electronic format;
- Parks Victoria's human resources function; and
- monitoring programs, such as air monitoring, performed by the Environment Protection Authority.

Native Title claims

The Department is currently responsible for processing approximately 27 Native Title Claims. The Committee notes that this is likely to have some potential liability for the State.

Recommendation 14.3:	***That where there is the possibility of a claim for compensation arising from the extinguishment of Native Title, the Government provide the Parliament with relevant information.***

Appendix 1

Public Accounts and Estimates Committee
Estimates Questionnaire 1998-99

1997-98 Budget Outcomes

1. *Departmental Strategies*

What is the level of savings expected to be achieved through outsourcing of services in 1997-98?

2. *Departmental Financial Performance*

Please provide the following information:

(a) details of the expected outcome of departmental revenue and expenditure for the 1997-98 financial year in comparison to the amounts budgeted.

(b) a succinct explanation for each expected variance in excess of 10 per cent.

(c) details of the expected outcome of departmental assets and liabilities for the 1997-98 financial year in comparison to the amounts budgeted.

(d) a succinct explanation for each expected variance in excess of 10 per cent.

3. *Departmental Output Performance*

Please provide the following information:

(a) details of the expected outcome of departmental outputs for the 1997-98 financial year in comparison to the performance measures targeted for the 1997-98 financial year.

(b) a succinct explanation for each instance where 95 per cent or less of the target is expected to be achieved.

4. *Departmental Capital Works*

Please provide the following information:

(a) details of the expected capital expenditure to 30 June 1998 in comparison with the amounts budgeted.

(b) a succinct explanation for each expected variance in excess of 10 per cent.

1998-99 Estimates of Expenditure

1. *Departmental Strategies*

Please provide the following information:

(a) an overview of the key strategies to be used by the Department to achieve the major outputs/deliverables detailed in the 1998-99 Budget Estimates.

(b) a copy of the Department's corporate and business plans covering the 1998-99 financial year.

(c) an explanation of the mechanisms in place within the Department to ensure that a link is maintained between the Department's overall strategic directions, corporate and business plans and the outcomes achieved.

(d) details of new services that are expected to be outsourced in the 1998-99 year.

2. *Departmental Issues*

List up to five significant issues, which have determined the Department's forward estimates for the 1998-99 financial year. Please describe how the Department will address these issues in 1998-99.

(In this context, a significant issue may be any matter affecting the Department, whether it arises from the external environment, or internally, or as a result of new policy or legislation.)

3. *Output and Performance Management*

3.1 What strategies has the Department implemented to ensure that its resources are sufficiently focused towards achieving its outputs?

3.2 How is the Department developing and improving its capacity to collect, collate and use output and performance measurement information?

3.3 What new performance measures has the Department introduced to evaluate the efficiency and effectiveness of the delivery of outputs for the 1998-99 financial year?

3.4 How often is the Department measuring performance for internal management purposes?

3.5 For each output group, please indicate which of the output/performance measures shown in Budget Paper No 3 are considered by the Department to be the **key** measures of the Department's performance.

3.6 For each Output group, please provide a brief explanation of the reasons for variations (greater than 10 per cent) between the output targets established for 1997-98 and 1998-99.

3.7 Where the Department has adopted performance-benchmarking practices, please provide the following:

– a list of the benchmarks; and
– an explanation for variations between departmental performance against those benchmarks.

3.8 Where benchmarks have not been developed, please outline the progress in identifying benchmarks and provide an indication when they will be available.

4. Financial Information

4.1 Departmental Revenue

Please provide the following information on a departmental outlays basis:

- a brief description of all revenue sources within the Department;
- fund(s) to which monies received are paid;
- the Department's receipt retention arrangements; and
- succinct explanations for all variances greater than 10 per cent between the 1997-98 and 1998-99 revenue estimates.

- 4.2 Departmental Expenditure

  Please provide the following information on a departmental outlays basis:

  - a break down of the composition of 1997-98 and 1998-99 estimated outlays for "Other departmental costs"; and
  - succinct explanation for each variance greater than 10 per cent between the 1997-98 and 1998-99 expenditure estimates.

4.3 Departmental Assets and Liabilities

Please provide a succinct explanation for each variance greater than 10 per cent between the 1997-98 and 1998-99 estimated balances.

4.4 Departmental Capital Works

(a) In relation to any new capital projects, how does the expenditure on these projects relate to the Department's strategies and budget outcomes?

(b) Please provide details of capital projects:

(i) where overruns are expected to occur; and
(ii) where it is anticipated that they will be under expended.

4.5 Unexpected Movements/Forward Planning

(a) Please provide details of how the Department expects to manage increases in costs or demands for new services that have not been factored into the 1998-99 Budget Estimates.

(b) To what extent does the Department attempt to forecast future demand for outputs as part of its planning including the forward works program?

5. Human Resources

5.1 Please provide details of staffing at 30 June 1997 (actual) and 30 June 1998 (estimate) by output group and by classification level.

5.2 What significant human resource issues are impacting on the Department's achievement of its business objectives?

6. Productivity Achievements

6.1 Please provide details of expected productivity gains, irrespective of the source, to be achieved during 1997-98 and 1998-99.

6.2 How have the productivity gains been reflected in the 1998-99 Budget Estimates?

7. Implementation of the Management Reform Program

7.1 What are the challenges in the implementation of an accrual based output management framework within the Department?

7.2 How has the Department responded to these challenges?

7.3 To what extent is accrual accounting information utilised for internal decision making by groups other than the financial accounting group? How is this achieved?

7.4 What strategies does the Department have in place to ensure managers at all levels will be able to successfully implement to the Management Reform Program?

Appendix 2

Acronyms and Abbreviations

ACCC	Australian Competition and Consumer Commission
AOBB	Accrual Output Based Budgeting
CAT	Common Assessment Task
COAG	Council of Australian Governments
CPI	Consumer Price Index
CSSP	Steering Committee for the Review of Commonwealth/State Service Provision
EOs	Executive Officers
EPA	Environment Protection Authority
FTEs	Full Time Employees
GTC	Gas Transmission Corporation
ISO	International Standards Organisation
IT	Information Technology
KPIs	Key Performance Indicators
LAP	Learning Assessment Project
NATA	National Association of Testing Authorities
OM	Output Management
PAEC	Public Accounts and Estimates Committee
PRMS	Physical Resource Management System
PTC	Public Transport Corporation
SPPs	Special Purpose Payments (Commonwealth)
TAFE	Technical and Further Education
VCAT	Victorian Civil and Administrative Tribunal
VCE	Victorian Certificate of Education
VET	Vocational Education and Training
VPS	Victorian Public Service

Appendix 3

List of Persons and Departments Providing Submissions/Evidence

1. Evidence

Department of Treasury – 5 May 1998

Hon. A. Stockdale, Treasurer: Mr I. Little, Secretary, Department of Treasury

Department of Human Services - Health – 7 May 1998

Hon. R. I. Knowles, Minister for Health and Minister for Aged Care; Mr R. Doyle, Parliamentary Secretary to the Minister for Health and Minister for Aged Care; Mr W. McCann, Secretary, Department of Human Services; Mr B. Nicholls; Dr C. Brook; and Mr J. Hayes, Department of Human Services.

Department of Justice – Police and Emergency Services and Corrections – 21 July 1998

Hon. W. McGrath, Minister for Police and Emergency Services and Minister for Corrections; Mr G. Sinclair, Acting Chief Commissioner of Police; and Mr K. Latta, Executive Director, Corporate Services, Victoria Police; Mr P. Harmsworth, Secretary; and Mr T. Daly, Deputy Secretary, Justice Operations, Department of Justice.

Department of Finance – Gaming – 27 July 1998

Hon. R. Hallam, Minister for Finance and Minister for Gaming; Mr I. Little, Secretary to the Department of Treasury and Finance; Mr F. King, Deputy Secretary; Mr R. Paice, Deputy Secretary; Mr W. Lahey, Director of Gaming and Betting, Victorian Casino and Gaming Authority; and Mr A. Lindberg, Chief Executive Officer, Victorian Workcover Authority.

Department of Justice – Attorney General, Women's Affairs and Fair Trading – 28 July 1998

Hon. J. Wade, Attorney–General, Minister for Fair Trading and Minister for Women's Affairs; Mr P. Harmsworth, Secretary of the Department; and Ms F. Hanlon, Deputy Secretary, Legal and Policy, Department of Justice.

Department of Education – 30 July 1998

Hon. P. Gude, Minister for Education; Mr G. Spring, Secretary, Department of Education; Mr P. Allen, Deputy Secretary, Schools; Mr F. Peck, Deputy Secretary, Strategic Planning and Administrative Services; Ms R. MacLeod, Chief Finance Officer; Mr I. Hind, General Manager, Strategic Planning, Project Development and Evaluation Division; Mr P. Doherty, General Manager, Information Technology; and Mr B. Ciullo, General Manager, Facilities Division, Department of Education.

Department of Human Services – Housing, Aboriginal Affairs – 31 July 1998

Hon. A. Henderson, Minister for Housing and Minister responsible for Aboriginal Affairs; Mr H. Ronaldson, Director, Office of Housing; Mr A.Cahir, Director, Aboriginal Affairs; Mr M. Darmondy, Commercial Manager; Mr R. Barr, Manager, Corporate Planning, Office of Housing; and, Ms A. Jurjevic, Assistant Director, Housing.

Department of Infrastructure - 5 August 1998

Hon. R. Maclellan, Minister for Planning and Local Government; Mr R. Cooper, Minister for Transport; Mr G. Craige, Minister for Roads and Ports; Mr J. Hickman, Deputy Secretary, Local Government Planning and Market Information Services; Mr J. McMillan, Deputy Secretary, Contracts, Regulation and Compliance Services; Mr R. McDonald, Chief Finance Officer; Mr R. Roennfeldt, Director, Office of Major Projects; Mr P. Bettess, Executive Director, Planning and Development; Mr J. Cincotta, Director, Local Government Policy; Mr C. Jordan, Chief Executive Officer, Vicroads; and Mr R. Parker, Chief Executive Officer, Melbourne City Link Authority, Department of Infrastructure.

Parliament – 24 September 1998

Mr A Bray, Clerk of the Parliaments, Clerk, Legislative Council; Mr P Mithen, Clerk, Legislative Assembly; Mr B Davidson, Parliamentary Librarian; Ms C Williams,Chief Reporter, Hansard; Ms C Haydon, Chief Executive Officer, Department of Parliamentary Services.

2. Submisisons

The following Departments responded to the Committee’s annual estimates questionnnaire:
Education;
Human Services;
Infrastructure;
Justice;
Natural Resources and Environment;
Parliamentary Departments;
Premier and Cabinet;
State Development; and
Treasury and Finance.

In addition, some Departments provided further information on request by the Committee.

Appendix 4

Response to committee's previous recommendations

Report on the 1997-98 Budget Estimates

BY THE PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

TWENTY THIRD REPORT TO THE PARLIAMENT, DECEMBER 1997

Pursuant to Section 4O(2) of the *Parliamentary Committees Act* 1968, this paper provides a response to the recommendations contained in the Public Accounts and Estimates Committee's Twenty Third Report.

Guide for Readers:

Following is an explanation of the format of this paper.

❶ PAEC Recommendation	❷ Accept/ Reject	❸ Action Taken to Date	❹ Further Action Planned	❺ Respon-sibility

Column 1: contains the Committee's recommendations as published in its Twenty Third Report.
Column 2: indicates the Government's response to each recommendation as at May 1998.
Column 3: indicates those actions relevant to the implementation of the recommendation that have been taken to date.
Column 4: indicates the additional actions planned that are relevant to implementation of the recommendation, together with an explanation of the Government's position concerning the recommendation.
Column 5: indicates the Department with primary responsibility for responding to the recommendation.

PARL	Parliament
DTF	Department of Treasury and Finance.
DOE	Department of Education.
DHS	Department of Human Services
DOI	Department of Infrastructure
DSD	Department of State Development
DOJ	Department of Justice
DPC	Department of Premier and Cabinet
DNRE	Department of Natural Resources and Environment

❶ PAEC Recommendation	❷ Accept/ Reject	❸ Action Taken to Date	❹ Further Action Planned	❺ Respon- sibility
Recommendation 1.1 Annual reports include information regarding any reviews by Parliamentary Committees which affect the department or agency, showing major recommendations arising from such reviews, and the action taken to address them.	Accept	The responsibility for responding to agency specific recommendations rests with the relevant agency. Ministerial Direction *Part 9 Reporting requirements in terms of Part 7 of the Financial Management Act 1994* (FMA) calls for details of major external reviews carried out on the entity.	Future issue of a Ministerial Direction under the FMA would be used to instruct departments if further review information is needed.	DTF
Recommendation 2.1 The interim guidelines, A Guide to Corporate and Business Planning, be amended to reflect the financial management framework with its focus on outputs and re-issued to departments to coincide with the 1998-99 budgetary cycle.	Accept in part	The draft document *A Guide to Corporate and Business Planning* was circulated in 1996 for discussion purposes.	DTF will consider reissuing the guidelines for the 1999-00 budget cycle following a review of the Corporate and Business Plans written in the context of the inaugural accrual budget year, 1998-99.	DTF

❶ PAEC Recommendation	❷ Accept/ Reject	❸ Action Taken to Date	❹ Further Action Planned	❺ Respon-sibility
Recommendation 2.2 Departments finalise their corporate and business plans in time for the budget estimates inquiry process and provide a copy to the Public Accounts and Estimates Committee.	Reject	Each department is required to prepare a corporate and business plan. These plans form the basis for departmental budget submissions for the State Budget handed down in April/May each year. Once budget outcomes are known plans for the following financial year are then finalised and approved by Ministers. In many instances, corporate plans are made public by departments and available to the PAEC, but this is a matter for each department. A number of departments make their plans available to the PAEC, generally in an advanced draft form, to assist in its budget estimates inquiry process. Business plans are internal working documents which direct the day to day activities of departments and which change in response to changes in the departmental business environment. Tactical information contained in the plan guides the department's business and the initiatives it undertakes to achieve its objectives. In this context some departments reserve the right to classify their detailed business plans as confidential documents.		DPC

❶ PAEC Recommendation	❷ Accept/ Reject	❸ Action Taken to Date	❹ Further Action Planned	❺ Respon-sibility
Recommendation 2.3 The information contained in the “overview” section of Budget Paper No.2 Budget Statement be transferred to the front of the “budget summary” section.	Reject	The first chapter, *Highlights*, in Budget Paper No 2 provides more detail on the Government’s budget strategy than in previous years. It provides the introduction for readers to Budget Paper No 2. It sets the scene for the remainder of the document. As such, it would be inappropriate to move this section to the beginning of Chapter 3, *Fiscal Position and Outlook*, the budget summary chapter. The introduction of full accrual accounting has had a major impact on the presentation of the State Budget in 1998-99. The focus is now on the sustainable operating surplus rather than the sustained budget balance. Details on both the sustainable operating position and the sustainable cash position of the Budget are included in the key chapters which discuss the budget aggregates in Budget Paper No 2: Chapter 1, *Highlights*, Chapter 2, *Budget Strategy* and Chapter 3, *Fiscal Position and Outlook.* With the move to accrual reporting, the Government has revised its previous budget target of a ‘sustained budget balance’ to an ‘operating surplus sufficient to fund infrastructure investment’. *(continued)*		DTF

❶ PAEC Recommendation	❷ Accept/ Reject	❸ Action Taken to Date	❹ Further Action Planned	❺ Respon-sibility
2.3 *(continued)*		These targets are equivalent because they both ensure that the Government*)* • meets the cost of all resources in the course of its operations during the year (including depreciation of capital stock); and • is not required to borrow to fund its operating or normal investment expenditures.		
Recommendation 2.4 Budget Papers No.2 Budget Statement and No.3 Budget Estimates describe and quantify the key performance measures against which State and departmental performance are to be judged, and that these performance measures be benchmarked, where appropriate and possible, against nationally-recognised indicators applicable for departments and agencies having similar objectives.	Accept in part	Budget Paper No 3 in 1998-99 includes key performance measures for each department's outputs. These performance measures relate to measures of quality, quantity and timeliness. Initially, until reliable historical data series can be established, benchmarking will essentially be viewed as an internal management tool for departments. Specific benchmarks, will however be used increasingly by DTF to support/advise government on output funding strategies. Macro trends have been and will be, benchmarked in Budget Papers against other jurisdictions. Nationally recognised indicators are still under development. *(continued)*	Benchmarks will continue to be developed and incorporated where applicable into the Budget Papers.	DTF

❶ PAEC Recommendation	❷ Accept/ Reject	❸ Action Taken to Date	❹ Further Action Planned	❺ Respon-sibility
2.4 *(continued)*		*The Report on Government Services 1998* makes the point that there are "still serious gaps" in available information on nationally recognised performance indicators of government services. A change was made to Ministerial Directions pursuant to the *Financial Management Act 1994* to require reporting by departments in their annual reports of their key performance targets.		
Recommendation 2.5 Comparisons of actual and budgeted results, both financial and non-financial, including explanations for key variations in results, be disclosed in annual reports and be mandated under the Financial Management Act 1994.	Accept	The *Financial Statements for the State of Victoria 1996-97* provides a comparison of the State budget to the outcome. Audited actuals for the Public Sector are also provided in accordance with AAS 31. Compliance with appropriations is disclosed at note 29. All public bodies submitting an annual report must provide audited actuals under the *Financial Management Act 1994* (FMA). All public bodies must also prepare a report on their operations for the financial year under the FMA. This is generally a statement of achievements against planned targets. A change was made to Ministerial Directions pursuant to the FMA to require reporting by departments in their annual reports of their key performance targets.		DTF

❶ PAEC Recommendation	❷ Accept/ Reject	❸ Action Taken to Date	❹ Further Action Planned	❺ Respon-sibility
Recommendation 2.6 In order to improve the timeliness of publication of departmental annual reports, the Financial Management Act 1994 be amended to require an earlier tabling date of these reports.	Accept in part	At this stage there is no specific proposal to bring forward the tabling date for departmental annual reports. Significant systems upgrade and enhancement programs have been, and are still being, undertaken over the past three years to facilitate improved timeliness and regularity of annual reporting. Systems infrastructure and skilling/education are developing. Improved timeliness in annual reporting is supported.	This proposal will be considered subsequent to the implementation of accrual budgeting and improvements in the management information systems underpinning the production and auditing of reports.	DTF
Recommendation 2.7 Budget Papers No.2 Budget Statement and No.3 Budget Estimates disclose estimated actual/revised budget figures and provide supporting comment on significant variations.	Accept in part	In the 1998-99 Budget, Budget Paper No 2, Chapter 3, *Fiscal Position and Outlook*, provides details on the 1997-98 Budget aggregates and summarises revisions to the 1997-98 Budget estimates. Chapter 5, *Revenue*, also provides explanations as to deviations from the estimates foreshadowed in the previous year's Budget. *(continued)*		DTF

❶ PAEC Recommendation	❷ Accept/ Reject	❸ Action Taken to Date	❹ Further Action Planned	❺ Respon-sibility
2.7 *(continued)*		In addition, to provide a meaningful yardstick against which the 1998-99 Budget can be compared, the 1997-98 Budget estimates have been converted from their original cash format into the new accrual basis. In Budget Paper No 3, the present policy is to provide information on a budget to budget basis to ensure comparability between years.		
Recommendation 2.8 The composition of departmental outlays reported on in Budget Paper No.3 Budget Estimates be disaggregated to enable more informed assessments of levels of expenditure in respect of provision of services by departments.	Accept in part	Budget Paper No. 3 1998-99 Budget Estimates provides cost and performance information at the output group level. This cost information is broken down into its major components eg employee entitlements, depreciation. Until more reliable systems and methodology are available to allocate corporate overheads to outputs, no further disaggregation is envisaged.	As costing systems become more reliable and output data becomes available, consideration will be given to publishing output cost information.	DTF

❶ PAEC Recommendation	❷ Accept/ Reject	❸ Action Taken to Date	❹ Further Action Planned	❺ Respon-sibility
Recommendation 2.9 The Department of Treasury and Finance examine the budget documents of other jurisdictions with a view to improving the form and content of Budget Paper No.3 Budget Estimates by disclosing appropriations on a less aggregated basis, linking appropriation amounts with other disclosures, and providing historical data for trend analysis purposes.	Accept in part	In 1998 a major review of output groups was undertaken with a view to improving their relevance to departmental operations. The 1998-99 output groups represents the agreed basis for service delivery by departments as outlined in Budget Paper No 3. Global appropriations to departments will continue to provide departments with the flexibility to allocate resources to the agreed output groups. Data for trend analysis will not be available in 1998-99 as this is the first year of accrual output budgeting. This information will become available for analysis over time. For 1998-99, reconciliation tables will provide a link between 1998-99 accrual and 1997-98 cash data in aggregate.	Output groups will continue to be reviewed to ensure that they represent the most appropriate level of activity in a department.	DTF

❶ PAEC Recommendation	❷ Accept/ Reject	❸ Action Taken to Date	❹ Further Action Planned	❺ Respon- sibility
Recommendation 2.10 The Department of Treasury and Finance assist departments in reviewing the relative composition of departmental output groups and related outputs and performance measures and consider varying the level of detail provided in respect of departments in Budget Paper No.3 Budget Estimates according to such matters as the substance of the outlays, complexity of operations and level of parliamentary interest.	Accept in part	DTF has incorporated a review of departmental outputs and performance measures into the budget process. This has included discussions with representatives from each department as to the content and presentation of information to be included in budget submissions. In 1998-99, this resulted in an all-department review of output groups, outputs and performance measures.	Work will continue on reviewing and refining department's output groups and outputs.	DTF
Recommendation 2.11 An explanation be provided in Budget Paper No.3 Budget Estimates describing the manner in which departmental performance measures will be employed in resource allocation decision - making.	Accept	The preface to Budget Paper No. 3 Budget Estimates will include an explanation of the accrual output-based management, incorporating the resource allocation decision making process and the role of outputs and related performance measures.		DTF

❶ PAEC Recommendation	❷ Accept/ Reject	❸ Action Taken to Date	❹ Further Action Planned	❺ Respon-sibility
Recommendation 2.12 Departments develop and report on outcome measures for inclusion in Budget Paper No.3 Budget Estimates to complement existing quantitative and qualitative performance output measures.	Accept in part	Output information in Budget Paper No. 3 Budget Estimates will describe links between government outcomes and departmental outputs. Performance information relating to outputs has been enhanced for 1998-99, including quality, quantity and timeliness dimensions for each output. Outcome measures are an issue being addressed as part of planning for ongoing management reform but will not be provided for in the 1998-99 Budget.	The development of outcome measures will be continued as part of the ongoing Management Reform Program.	DTF
Recommendation 2.13 Performance measures include indicators of departmental efficiency as well as those relating to the attainment of other budgetary performance outcomes.	Accept	Performance measures of quantity, quality and timeliness are required as part of departmental budget submissions and will support analysis of departmental efficiency in service delivery.	This will be monitored and reviewed to ensure improvements in the future.	DTF

❶ PAEC Recommendation	❷ Accept/ Reject	❸ Action Taken to Date	❹ Further Action Planned	❺ Respon-sibility
Recommendation 2.14 A more comprehensive listing of technical terms used in the Budget Papers be included in the glossary and plain English be used in the Budget Papers so readers can understand the relative importance of the information being provided.	Accept	Budget Papers have progressively been rewritten using more plain English and less technical jargon. This process is continued in 1998-99 and there is a more comprehensive glossary to explain technical terms, the use of jargon is discouraged and technical terminology is kept to the minimum.	This process will be continued following post-budget implementation reviews and reader surveys.	DTF
Recommendation 2.15 The Ministerial Directions on financial reporting be amended to require half yearly reports to be prepared by departments which would include financial statements in an abbreviated form, comparisons with budget revenues and outlays, and progress against performances targets and that this information be provided to the Public Accounts and Estimates Committee.	Reject	Half-yearly external reports will only be prepared for whole-of-State sector. It is expected that the first of these will be prepared for the 6 months ended 31 December 1998. These will be unaudited. No half-yearly unaudited external reports will be prepared by departments as these may produce unreliable data and may prove misleading to external readers. Accrual annual reporting has been implemented and there is the move to accrual output budgeting in 1998-99. Further there have been commensurate systems upgrades and enhancements. These are all vital steps along the continuum to accrual management, of which interim reporting is part.	The costs and benefits of half-yearly reporting will be further considered after the move of the budget and accounting systems to an accrual basis has been fully implemented and when the integrity of management information systems on which reports are based have been well tested.	DTF

❶ PAEC Recommendation	❷ Accept/ Reject	❸ Action Taken to Date	❹ Further Action Planned	❺ Respon-sibility
Recommendation 2.16 Departments provide information for inclusion in Budget Paper No.3 Budget Estimates consistent with their corporate and business plans to enable the Parliament to be aware of what each department seeks to achieve, how it intends to do so and how well has it progressed.	Accept	In 1997-98, Budget Paper No.3 provided for the first time a summary of all departmental business plans allocated to output groups with information on outcomes, outputs linked to these outcomes, and performance measures against outputs and costs.	Information on departmental performance measures and outputs have been further strengthened and upgraded in the 1998-99 Budget Papers (Budget Paper No.3). Proposed amendments to the Financial Management Act will facilitate the introduction of full accrual management into the annual budgeting, appropriation and reporting processes. The 1998-99 State Budget is the first accrual output budget in Victoria. The government of the day will be required to record, report and seek Parliamentary authority for the full cost of services as they occur. This will result in greater transparency and an increase in financial oversight by the Parliament.	DPC
Recommendation 2.17 The Department of Treasury and Finance develop a performance reporting framework for departments that has a department's annual report as the cornerstone for external accountability.	Accept	The introduction of accrual output based management for the 1998-99 budget brings with it greater transparency in the reporting of the financial and performance information to Parliament in the Budget Papers, departments' annual reports and the Financial Statements for the State of Victoria. *(continued)*	Department of Treasury and Finance's actions in annual reporting elements are covered under the other PAEC recommendations.	DTF

❶ PAEC Recommendation	❷ Accept/ Reject	❸ Action Taken to Date	❹ Further Action Planned	❺ Respon-sibility
2.17 *(continued)* A department' s annual report should incorporate appropriate elements from its corporate and business plans, budget estimates and other relevant public documents, sufficient to provide the Parliament, the public and other interested parties with an understanding as to whether critical success factors for the department have been achieved.		In addition, a change was made to Ministerial Directions pursuant to the *Financial Management Act 1994* to require reporting by departments in their annual reports of their key performance targets.		
Recommendation 3.1 Explanations of significant variations of departmental current and capital revenues and outlays be provided in Budget Paper No.3 Budget Estimates, with such comments being included on the basis of an absolute $ amount or a fixed percentage of total departmental outlays.	Accept in part	Reconciliation and explanations of variances are prepared as part of Budget Paper No. 2 and variances are discussed in chapter 3 within Budget Paper No 2 where there is a comparison between this year's Budget and the estimated outcome for the previous year. Budget Paper No 3 details budget-to-budget movements with major reasons for changes between budget estimates referenced within the departmental statements of Budget Paper No 3. Given that the budget is brought down in April/May each year, the actual outcome for the financial year is not known. *(continued)*		DTF

❶ **PAEC Recommendation**	❷ **Accept/ Reject**	❸ **Action Taken to Date**	❹ **Further Action Planned**	❺ **Respon-sibility**
3.1 *(continued)*		A detailed description of variations are dealt with in individual department's annual reports and are summarised in the outcome documents as part of the Financial Statements for the State of Victoria.		
Recommendation 3.2 A reconciliation, by department, be provided in Budget Paper No.3 Budget Estimates of the movement between the base budget levels for departmental costs for the current and prior years and details of the computation of the productivity dividend and the composition of the other reconciling items.	Accept in part	Budget Paper No. 3 compares budget to budget movements. The reconciliation for the changes in departmental costs is usually done in Budget Paper No. 2 and departmental annual reports. With the move to accruals in the 1998-99 Budget this reconciliation is being left to the annual report as the estimates for 1997-98 Budget were originally provided on a GFS cash basis and are therefore not compatible.	In future Budgets the reconciliation of movements in departmental base budget costs will be considered once the supporting financial systems have been modified to allow the comparison.	DTF

❶ PAEC Recommendation	❷ Accept/ Reject	❸ Action Taken to Date	❹ Further Action Planned	❺ Respon-sibility
Parliament **Recommendation 4.1** A structured maintenance program be developed for Parliament House and that adequate funding be provided by the Government to enable the building to continue to operate in a functional manner.	Accept	Within available funding a program of progressively refurbishing Parliament House has been followed since the 1970's. The Parliament has also taken advantage of funding opportunities via the Department of Infrastructure's heritage buildings program to undertake other restoration works. More recent maintenance programs were suspended following the establishment of the Parliament House Completion Authority (PHCA). Forward maintenance programs are being resumed following abolition of the PHCA.	A 5 year plan will be developed and adequate funding will be sought from Government to facilitate its implementation.	PARL
Recommendation 4.2 The Department of Treasury and Finance review the manner in which productivity savings are to be applied to the Parliamentary Departments and exempt all non-discretionary expenditure from the productivity savings.	Accept	Representations made at officer level.	Presiding Officers to consider further representations to Government.	PARL

❶ PAEC Recommendation	❷ Accept/ Reject	❸ Action Taken to Date	❹ Further Action Planned	❺ Respon-sibility
Recommendation 4.3 The current process for determining appropriations for the Parliament should remain but procedures should be put in place that allow for discussions between the Presiding Officers and the Minister for Finance if there are any difficulties with the amount determined by the Parliamentary Officers for inclusion in the Appropriation (Parliament) Bill.	Accept	No action taken to date.	Representations to be made to Government to establish appropriate mechanism.	PARL
Recommendation 4.4 The Presiding Officers should give serious consideration to reviewing the provision of existing services with the intention that the number of Parliamentary Departments should be reduced and joint services and common functions (such as human resources) transferred to one department.	Reject	Action has been taken over time to rationalise functions where there were demonstrable benefits to the Parliamentary administration. The provision of services has been reviewed on an ongoing basis by the Parliamentary administration, supplemented by the Parliament's internal auditor. *(continued)*	The Presiding Officers will continue to review services with a view to making the best use of available resources and implement changes where there are demonstrable benefits and efficiency gains.	PARL

❶ PAEC Recommendation	❷ Accept/ Reject	❸ Action Taken to Date	❹ Further Action Planned	❺ Respon-sibility
4.4 *(continued)*		This recommendation suggests a review with a predetermined outcome. However, given the small scale of the operations of the Parliamentary Departments, the specialist nature of some of those departments and their limited financial outlays, it does not necessarily follow that a reduction in the number of departments would be of any benefit. The departments currently operate with a strong corporate approach to all aspects of the administration of the Parliament and support services are shared on a rational basis.		
Recommendation 4.5 The full costs of services should, as a matter of priority, be allocated across all Parliamentary Departments so that each accountable officer is fully responsible for all their department's expenditure.		Reject	The extent to which costs can be allocated across all Parliamentary Departments has been considered by the Department heads. It is agreed that, in order to determine precise service delivery costs, the costs of various services should be apportioned across Departments. However, it is also necessary to strike a practical and appropriate balance between the expense of undertaking the accounting task and the benefits it is likely to deliver *(continued)*	PARL

❶ PAEC Recommendation	❷ Accept/ Reject	❸ Action Taken to Date	❹ Further Action Planned	❺ Respon-sibility
4.5 *(continued)*			Given the very limited magnitude of most operating costs it is difficult in most instances to justify the time, effort and worth of departing from existing arrangements whereby one set of consolidated accounts is produced for the whole of the Parliament. The Presiding Officers will consider the matter in the light of the Committee's recommendation, and having regard to the fact that some common costs are difficult to control whether apportioned across all Parliamentary Departments or borne by a single department on their behalf.	
Recommendation 4.6 The Parliamentary Departments prepare corporate and business plans, details of which should be reported on in their 1997-98 annual reports along with key performance measures.	Accept	Corporate plans were introduced for each Parliamentary Department in 1990. The extent to which those plans have been updated has varied from department to department and was interrupted by planning for the completion of Parliament House and the temporary relocation of the Parliament. Formal business plans were not prepared for the 1997-98 financial year. However, each of the Parliamentary Departments has a mission statement and a set of principal objectives. Appropriate performance indicators have also been developed for the 1998-99 financial year.	Refine corporate plans and develop business plans for 1998-99 and future years.	PARL

❶ PAEC Recommendation	❷ Accept/ Reject	❸ Action Taken to Date	❹ Further Action Planned	❺ Respon-sibility
Recommendation 4.7 As a matter of urgency, the Minister for Finance should seek to resolve the outstanding issues relating to the funding of parliamentary inquiries and that any proposed funding formula take into account the differences in the workloads between Parliamentary Committees.	Accept	An approach was made to the Department of Treasury and Finance (DTF). The Treasurer has agreed to make additional funds available to meet the cost of new inquiries.	Presiding Officers are to consider the DTF response and adequacy of 1998-99 allocation for new inquiries.	PARL
Recommendation 4.8 That consideration be given to substantially increasing the Advance to the Presiding Officers to meet unexpected and unforseen costs associated with new Parliamentary inquiries and the appointment of additional Parliamentary Committees.	Reject	No action taken – Joint Investigatory Committees are not funded through the Parliament's annual Appropriation Act and it would therefore be inappropriate to increase the Advances to the Presiding Officers included in that Act. Funding for these Committees is by way of Special Appropriations under the *Parliamentary Committees Act 1968*.	No further action.	PARL
Treasury and Finance **Recommendation 5.1** The nature and composition of "Outlays on behalf of Whole of Government" and "Advance to the Treasurer" be separately reported on in Budget Paper No.3 Budget Estimates and reasons given for significant variations in the amounts disclosed.	Accept in part	In the 1997-98 Budget Papers an attempt was made to isolate payments made on behalf of government from those that are associated with departmental operations. *(continued)*	In future years, when data becomes available, the reasons for major variations in 'payments made on behalf of the State' will be included.	DTF

❶ PAEC Recommendation	❷ Accept/ Reject	❸ Action Taken to Date	❹ Further Action Planned	❺ Respon-sibility
5.1 *(continued)*		In the 1998-99 Budget, a new appropriation type "payments made on behalf of the State" has been introduced. This will be used to identify all payments made by departments on behalf of the Government as a whole and which do not affect departmental operations. Given that this is the first year of introduction it is not possible to provide detailed reasons for variations between years. Details relating to the Treasurer's Advance are not produced in the Budget Papers because the final allocations are not as yet known. In line with agreed practice, details will be published in the Financial Statements for the State of Victoria in September 1998 and these will be formally brought to account in the 1999/2000 Appropriation Bill.		
Recommendation 5.2 The Department of Treasury and Finance give consideration to extending the financial and other information provided in Budget Paper No.3 Budget Estimates to facilitate analysis by external interested parties.	Accept	The Department periodically reviews Budget Paper No 3 data taking into account the range of users of the document. For the 1998-99 Paper, additional information on output deliverables, performance indicators and financial information have been included.	For future papers this information will be improved upon with discussion of changes between years and how the performance measures can be improved to enable critical evaluation of output performance.	DTF

❶ PAEC Recommendation	❷ Accept/ Reject	❸ Action Taken to Date	❹ Further Action Planned	❺ Respon-sibility
Recommendation 5.3 The Department of Treasury and Finance continue to provide technical and other support to departments with respect to accrual reporting and budgeting and encourage the development of robust and comprehensive output specifications and performance measures.	Accept	Treasury and Finance continues to provide policy advice and guidance to departments on accrual reporting and budgeting. Manuals and communiques associated with the Management Reform Program include the Information and Guidance Pack for the preparation of the 1998-99 Budget. Guides on output costing and output specification and performance measurement have been provided to departments. Assistance was also provided to departments on strategic planning, budgeting, performance management, external financial reporting, introduction of commercial financial systems and change management.	Efforts will continue to be made to effectively communicate public sector financial management reforms to agencies in a timely manner. A communication strategy for the Management Reform Program has been developed for internal use. This will provide a framework for effectively communicating MRP initiatives. It is anticipated that an updated accrual accounting manual will be released in 1998.	DTF
Recommendation 5.4 The 1998-99 accrual based Budget Papers provide details of: • significant capital expenditure expected to be incurred;	Accept	In the 1998-99 Budget Papers, Chapter 4 *Service Delivery* of Budget Paper No 2 discusses significant capital expenditure by department. In addition, Budget Information Paper No.1 (to be published in September 1998) will provide the ‘Total End Cost’ and capital expenditure for all works in progress and new works by department. *(continued)*		DTF

❶ PAEC Recommendation	❷ Accept/ Reject	❸ Action Taken to Date	❹ Further Action Planned	❺ Respon-sibility
5.4 *(continued)* • the extent of capital commitments for future years;	Accept	Future capital commitments for new investments are provided on an aggregate basis by department over the forward estimates period.		
• the level of unfunded superannuation liabilities assumed by the Department of Treasury and Finance; and	Accept	1998-99 Budget Paper No 2 discloses the unfunded superannuation liabilities assumed by DTF.		
• the nature and, where known, the quantum of contingent liabilities for the State and the extent to which existing contingent liabilities have crystallised during the course of the year.	Reject	The Budget document primarily deals with the Budget Sector which is a subset of the State Sector and the detail of the State Sector requested by the PAEC is already produced in the Financial Statements for the State of Victoria. Contingent liability reporting should correspond with the reporting time-frame of the Balance Sheet which incorporates it and not at Budget time because contingent liabilities, by nature, are very difficult to forecast, unlike revenues and expenses. *(continued)*	The issue of the reporting of contingent liabilities is reviewed on a regular basis. If the benefits to the State in publishing an estimate of contingent liabilities in the Budget Papers outweighed the additional work and confidentiality aspects to the State, then the reporting issue will be re-addressed.	

❶ PAEC Recommendation	❷ Accept/ Reject	❸ Action Taken to Date	❹ Further Action Planned	❺ Respon-sibility
5.4 *(continued)*		The contingent liabilities of DTF are recorded in its own Annual Report. Non-budget Sector debt is not recorded as a contingent liability of the State because it is taken up as a direct liability, but it is, however, a contingent liability of the Department due to the Treasurer's implicit or explicit guarantees.		
Education **Recommendation 6.1** The Department of Education review the present format for presenting information on the four output groups with the aim of enhancing the level of detail provided to the Parliament.	Accept	The Department has revised its Output Group Framework for 1998-99 in line with the guidelines and business rules associated with the Government's Management Reform Program. Consequently, the Department has refined it's Output Group Framework to three Output Groups, one for each of the two education portfolios (ie. School Education Services and Tertiary Education and Training Services) and one grouping for Strategic Policy Advice, Ministerial and Department-wide Services. *(continued)*	The Department will continue to develop and refine the performance measures and targets specified for each of the Department's 24 outputs. The 1998-99 Output specification may be further revised for the 1999-00 budget cycle in accordance with central agency requirements.	DOE

❶ PAEC Recommendation	❷ Accept/ Reject	❸ Action Taken to Date	❹ Further Action Planned	❺ Respon-sibility
6.1 *(continued)*		Within these Output Groups a total of 24 outputs have been specified. A detailed series of performance measures and targets have been developed for each of these 24 outputs.		
Recommendation 6.2 The existing performance measures for school accountability and reporting in Budget Paper No.3 Budget Estimates be extended to include indicators of parent satisfaction levels derived from surveys on quality of teaching, academic rigour, general environment, customer responsiveness and student reporting.	Reject	Parent Opinion surveys are conducted by all schools. They assess parent opinion of an individual school's performance. As indicated by the Auditor-General in his *Valuing Accountability* report on school accountability processes, benchmarked parent opinion survey results contain " no assurance that the survey questions would be understood in the same way by parents in different schools" (para 4.55). *(continued)*		DOE

❶ PAEC Recommendation	❷ Accept/ Reject	❸ Action Taken to Date	❹ Further Action Planned	❺ Respon-sibility
Recommendation 6.3 The Department of Education consider the potential for adverse impacts from the decision to provide schools with greater autonomy and introduce safeguards to ensure that particular students are not disadvantaged as a consequence of the drive for greater self funding in the education sector.	Accept the principle of safeguards but reject the notion of a "drive for greater self funding in the education sector"	The School Global Budget (SGB) provides all schools with sufficient funding to meet their core teaching and learning responsibilities. While most schools raise some additional funds this is used to support supplementary programs. The total funds raised through this is approximately 5% of the SGB. The structure of the School Global Budget ensures that additional funding is provided to schools who, as a result of their location and student profile, would most likely be disadvantaged by lack of community resources.	The SGB will continue to ensure that all schools have access to government funds on an equitable basis. Developments such as Schools of the Third Millennium will provide the opportunity for schools to have greater autonomy. However, there will be a framework within which such schools will be required to operate and participation of schools will be voluntary.	DOE
Recommendation 6.4 The Department of Education include in its annual report the status of significant outstanding school refurbishment programs indicating when those projects are likely to be completed and the amount of expenditure incurred on school refurbishment programs during the year.	Reject	Similar information is already provided in Budget Papers-especially Budget Information Paper No 1 "Public Sector Capital Works".		DOE

❶ PAEC Recommendation	❷ Accept/ Reject	❸ Action Taken to Date	❹ Further Action Planned	❺ Respon-sibility
Recommendation 6.5 Tertiary institutions should provide relevant financial and other information in their annual reports relating to significant initiatives taken/strategies developed for their international activities.	Accept	Universities report on their international activities in the report of operations section of their annual report and provide information in their financial statements in relation to revenue and the financial performance of associated or controlled entities which conduct international activities on behalf of the university.	Negotiations to commence with universities and TAFE's to include a report on significant international activities including financial and enrolment information in their annual reports for 1998.	DOE
Human Services **Recommendation 7.1** The Department of Human Services continue the development of outcome and output specifications and related performance measures with a view to reporting on this basis in the 1998-99 accrual-based budget with appropriate explanations as to the nature and significance of those measures in assessing whether the Department has achieved its objectives.	Accept	In the preparation of the 98/99 Budget the Department has undertaken a review of outputs and performance measures. It is acknowledged that the refinement of outputs and performance measures is an ongoing process and that further work will be undertaken in 1998 to enhance output management and performance measurement across the Department. *(continued)*	Further development and refinement of outputs and performance measures is being undertaken in 1998.	DHS

❶ PAEC Recommendation	❷ Accept/ Reject	❸ Action Taken to Date	❹ Further Action Planned	❺ Respon-sibility
7.1 *(continued)*		**Acute Health quality performance indicators**. An Acute Health Quality Committee, chaired by Professor Stephen Duckett was established in late 1996 and produced a discussion paper in October 1997, representing a significant step forward in developing an overall framework for quality in Victorian hospitals.	The ongoing work from this Committee will be fed into the 1999/2000 budget process.	
Recommendation 7.2 In view of the significant outlays in output group 111 Acute Health Services, the Department include performance measures relating to how economically and efficiently labour and operating costs have been managed within that particular output group.	Accept	The Department supports and utilises the interstate comparisons of costs published by the Steering Committee on Commonwealth State Service Provision. The 1998 report shows that Victoria's costs were lowest of all States per casemix adjusted separation. These data show labour and operating costs.	Publication of network and non-network individual hospital results taking into account competition policy, and confidentiality of individual providers' data.	DHS
Recommendation 7.3 The Department of Human Services include in the budget documentation, national benchmark information when individual benchmarks have been accepted by the States and the Commonwealth.	Accept	Where appropriate the Department has incorporated national performance measures, benchmarks and targets in the material prepared for the 1998/99 budget.	Adoption of national performance measures and benchmarks as they are accepted by the States and the Commonwealth.	DHS

❶ PAEC Recommendation	❷ Accept/ Reject	❸ Action Taken to Date	❹ Further Action Planned	❺ Respon- sibility
Recommendation 7.4 The Budget Papers and the Department's annual report include performance information on the Health Care Networks based on service quality, efficiency and accessibility.	Accept in part	The Department's annual report shows key industry data on access (such as numbers on urgent, semi urgent and total waiting lists), emergency treatments, key quality indicators, and efficiency measures. Detailed indicators for each hospital are published in agency reports.	Further development of quality indicators and patient satisfaction measures are proposed over the next year, having regard to the recommendations of the Acute Health Quality Committee chaired by Professor Stephen Duckett.	DHS
Recommendation 7.5 The Department of Human Services develop performance measures which reflect the outcomes of initiatives relating to the provision of health services in rural areas and include such information in the Budget Papers and the Department's annual report.	Accept	Inclusion for the first time of a section on both rural health programs and performance in the Department's Annual Report 1996-97.	Inclusion of the development of performance measures in the actions to be set out in the Victorian Rural Health Strategy, planned for release in 1998.	DHS
Recommendation 7.6 The Department of Human Services closely examine the outcomes of the police investigation flowing from the Auditor-General's April 1997 Special Report No.49 - Metropolitan Ambulance *(continued)*	Accept	**Overall** The Minister for Health initiated police inquiries as a result of matters arising from the Auditor General's Report. The outcome of these police investigations is not yet known by the Department. *(continued)*	As these matters may be the subject of legal proceedings further comment by the Department would be inappropriate at this time.	DHS

❶ PAEC Recommendation	❷ Accept/ Reject	❸ Action Taken to Date	❹ Further Action Planned	❺ Respon-sibility
7.6 *(continued)* Service (MAS) and the recommendations contained in the Auditor-General's November 1997 Special Report No.50 - Metropolitan Ambulance Service and ensure that appropriate action is taken to rectify any identified deficiencies.		At the same time the Department has sought legal and accounting advice relating to the possibility of civil action in relation to issues raised in the Auditor General's Report. (*)Each of MAS' Divisional Managers has been asked to provide a response to each of the Auditor-General's Report's key findings with a view to an organisational action plan being developed. **(*)Any further action is dependant on the outcome of the police inquiries.**		
		Emergency Call Taking And Dispatch System Since December 1997 Intergraph has met all four CSSS performance measures under the BEST (MAS) contract through recruiting staff with backgrounds better suited to call taking and dispatching; improved training and familiarity of calltakers with the Advanced Medical Priority Dispatch System.	MAS is continuing to monitor performance under the contract.	
		Survival 2000 has been funded by an internal Departmental reallocation to develop: • a community training program in CPR *(continued)*	Tender process for CPR training and team development models to commence in 1998.	

❶ PAEC Recommendation	❷ Accept/ Reject	❸ Action Taken to Date	❹ Further Action Planned	❺ Respon- sibility

7.6 *(continued)*		• community emergency response teams in isolated areas as part of an overall ‘chain of survival’ co-ordinated approach within an emergency medical system. **Effectiveness of the Service’s Emergency Response** MAS, since August 1997 has been able to achieve a 14 minute response time at the 90th percentile. DHS has recently engaged consultants BDO to undertake an “Evaluation of Financial operations of the Metropolitan Ambulance Service (MAS)”. The project is expected to be completed by the end of May 1998. DHS benchmark development was planned to occur following the completion of a data analysis project. The data analysis project is being undertaken by PRAXA, who were the successful tenderers. Their work is nearly complete and will assist the benchmark development. Simultaneously MAS has engaged consultants KPMG to undertake a detailed work analysis project to identify the reasons underlying recent changes in the level and composition of the MAS workload and to develop annual workload *(continued)*	The results of these projects will help provide the information required by the Department to: • set and monitor benchmarks for the services • identify more accurately the future funding requirements of MAS and to evaluate output linked funding models; • enhance the Department’s capacity to forecast future workload growth.	

❶ PAEC Recommendation	❷ Accept/ Reject	❸ Action Taken to Date	❹ Further Action Planned	❺ Respon-sibility
7.6 *(continued)*		forecasts to 2001/2002. This report is expected to be available by the end of May 1998 A submission to Government is being prepared by BEST for the implementation of mobile data terminals (MDTs). **The Standard of Clinical Care** MAS' Medical Standards Committee is considering the Report recommendations**.** **Non Emergency Patient Transport Services** The Ministerial Taskforce's Report to the Minister is currently being considered. **Financial and Strategic Management** See reference to the BDO consultancy on previous page. At the same time, the Department is currently reviewing the prices charged by MAS for its emergency services.	Tender process for MDT's is planned to commence in 1998. Action arising from Committee decisions regarding role expansion and protocol development. Action arising from the implementation of recommendations approved by the Minister. These projects will provide the information required by the Department to identify more accurately the future funding requirements of MAS.	

❶ PAEC Recommendation	❷ Accept/ Reject	❸ Action Taken to Date	❹ Further Action Planned	❺ Respon-sibility
Infrastructure **Recommendation 8.1** *In view of the wide coverage of output groups 202 Contracted Transport Services and 203 Infrastructure Management and Delivery, the Department of Infrastructure review the composition of these groups and consider whether they might be disaggregated to provide more meaningful information.*	Accept	A major review of outputs and output groups has been undertaken in preparation for the 1998/99 budget process. As part of the financial management reform of the budget sector, the Government's commitment has been to establish a strategic framework to examine outputs and the efficient management of the State's resources. The goal of satisfying the customer needs in terms of quantity, quality and timeliness must be balanced against the cost of output production and the price customers will pay. If management of like outputs is to be effective then it is logical that they be grouped together so that the goal of valid performance measurement can be achieved. In output group 202, the customers, public transport users, are presented with a variety of public transport modes. These various modes metropolitan trains, trams, government and private route buses, school buses, intrastate government and private trains, buses, interstate trains and metropolitan and country taxis are all used to deliver the same product in many differing situations.*(continued)*	Further consideration in relation to the construct output groupings to be undertaken in preparation for 1999/00 budget process.	DOI

❶ PAEC Recommendation	❷ Accept/ Reject	❸ Action Taken to Date	❹ Further Action Planned	❺ Respon-sibility
8.1 *(continued)*		Output measures then reflect how they are performing and if this is unsatisfactory for a particular mode in a particular situation then alternatives from within the same output group may be substituted (eg private trains for government trains, buses for trams etc). Individual performance information is given for each of the transport services within the output group to allow comparisons. The aim of Output Group 203 is to maximise the economic benefits to Victoria of infrastructure services through efficient development, management and delivery systems. Where possible, private sector providers will be contracted for infrastructure delivery. Major transport infrastructure development projects aim to overcome strategic gaps in transport networks or significantly upgrade standards and capacity in existing corridors to reduce costs for business and private users.		

❶ PAEC Recommendation	❷ Accept/ Reject	❸ Action Taken to Date	❹ Further Action Planned	❺ Respon-sibility
Recommendation 8.2 The overall level of subsidy for, and revenue generated by, the Public Transport Corporation be specifically disclosed within output group 202 Contracted Transport Services.	N/A	With the impending change in the structure and form of public transport administration, optimum output performance will be achieved through good contract administration. The successful tenderer's aim will be to meet it's contract obligations in terms of service delivery and at the same time have their own incentives of control over expenditure and through marketing and promotion to increase patronage. These will no longer be the funding of PTC but the delivery of services detailed in the budget papers.	N/A	DOI
Recommendation 8.3 Full details of the disaggregation of the Public Transport Corporation be reflected in the Corporation's annual report including information relating to : • the disposal of Corporation assets and operating activities; and • the nature and extent of savings expected and achieved from the disaggregation process.	Accept	The 1997/98 Annual Report of the PTC will incorporate all information relating to: • the disposal of Corporation assets and activities during the 1997/98 financial year; • the nature and extent of savings from the disposal.	N/A	DOI

❶ PAEC Recommendation	❷ Accept/ Reject	❸ Action Taken to Date	❹ Further Action Planned	❺ Respon-sibility
Recommendation 8.4 The measures/targets in respect of the provision of public transport services be modified following disaggregation to reflect the performance of individual units, namely, trains, trams and buses.	Accept	Individual units will be required to report on targets and outputs for their specific areas of service.	N/A	DOI
Recommendation 8.5 The Department of Infrastructure : • continue its efforts to expedite the implementation of the automated ticketing system, once it is satisfied that it is fully operational; • ensure that all avenues are pursued so that appropriate settlement of contractual obligations is made; • prepare a revised assessment of the overall savings to be achieved from the introduction of the automatic ticketing system; and • outline in the annual report and budget documentation : (a) the reasons for the delay in meeting the key milestones under the automated ticketing system service agreement; and (b) the rationale for the final decision in relation to the One-Link Consortium.	Accept Accept Provided Noted	• The Public Transport Corporation (PTC) as manager of the Automatic Ticketing Contract with One-Link has continued to expedite implementation of the system. At this time the automatic ticketing system is substantially implemented and One-Link is on target to meet its obligations for the whole system to be in revenue service by 30 June 1998. • The PTC has pursued and continues to pursue all appropriate avenues to ensure that One-Link meets all of its obligations under the terms of the Automatic Ticketing Contract. • The Department notes the recommendation in relation to its annual report and budget documentation.		DOI

❶ PAEC Recommendation	❷ Accept/ Reject	❸ Action Taken to Date	❹ Further Action Planned	❺ Respon-sibility
Recommendation 8.6 The Department of Infrastructure include in Budget Paper No.3 Budget Estimates information on key performance measures in support of the targets set for the coming year.	Accept	(This response relates to output group 202) The 1997/98 targets have now been revised as the result of the negotiation of service level agreements with private and public providers. The measures selected in output group 202 are ones that are readily available, can be collected without significant extra resources, have a history established which means they have high and low parameters set within which they should perform and have proven to be the most reliable and useful to management in the past. They are also framed so that the needs of the customer are reflected with quantity, quality and timeliness in mind.	N/A	DOI
Recommendation 8.7 The Department of Infrastructure expand the information provided on safety compliance audits to give an indication of the coverage and outcomes of those audits.	Accept	The Department will provide information on: • organisations accredited under the Victorian safety compliance system • organisations seeking accreditation under the Victorian safety compliance system *(continued)*	N/A	DOI

❶ PAEC Recommendation	❷ Accept/ Reject	❸ Action Taken to Date	❹ Further Action Planned	❺ Respon-sibility
8.7 *(continued)*		In addition the Department will provide information on safety compliance audits of accredited organisations including • number of audits conducted • outcomes of these audits.		
State Development **Recommendation 9.1** The Department of State Development closely monitor the decisions made by the Commonwealth on the Mortimer Report, Going for Growth; Business Programs for Investment, Innovation and Export, and, if necessary, re-assess its strategies for investment facilitation and the promotion of research and development activities.	Accept	Close monitoring of Commonwealth policies affecting industry, science and investment is an important part of the Department's work. The delivery of the Science, Engineering and Technology Statement in July 1997 has set the broad agenda for the State's efforts over the next few years. The Department has been consulting with the Commonwealth about the impact of its decisions on industry policy and particularly in relation to investment attraction and facilitation.	The Department will continue to monitor developments in Commonwealth industry and investment policies and programs closely. It also monitors other factors, such as changes in the international economic environment, and constantly reassesses its strategies in order to ensure that they remain relevant and effective. The new science, engineering and technology unit, with the guidance of the Premier's Science, Engineering and Technology Taskforce, is developing a strategic approach to the development of Victoria's SET capabilities. This will naturally seek to build on and complement any relevant Commonwealth activity.	DSD

❶ PAEC Recommendation	❷ Accept/ Reject	❸ Action Taken to Date	❹ Further Action Planned	❺ Respon-sibility
Recommendation 9.2 The Department of State Development, as a matter of urgency, review the outcomes of initiatives taken to date in respect of the "millennium bug" and develop an overall strategy to ensure that the necessary additional resources are allocated so that all departments and agencies are well prepared for this contingency.	Accept	**(1) July 1996** • Year-2000 Policy issued. Policy alerted departments and agencies to the necessity to establish plans to overcome Year-2000 problems. Policy comprises broad methodology and guidelines for dealing with Year-2000 issues. • Year-2000 Warranty clauses provided for future acquisition contracts. • Minister for Multimedia wrote to all Ministers informing them of the policy and that the responsibility for the maintenance of services rested with department and agency secretaries. **(2) 14 August 1997** Minister for Multimedia wrote to all Ministers seeking by 31/12/97 their portfolios' detailed Year-2000 action plans. **(3) December 1997** Department and agency plans received. **(4) January 1998** Consultants (Anderson Consulting) appointed to review department and agency plans. The review will take into account the adequacy of resources allocated by each department and agency.	(1) Consultants report due April 1998. (2) Consultants report will form the basis for plans to be forwarded to the Minister for Multimedia and the Premier. (3) Multimedia Victoria (MMV) follow-up with each department and agency. (4) MMV maintain processes for continued periodic monitoring. Key strategy is to reinforce the business accountability of Year-2000 rectification at the CEO level across the Government, by conducting the process detailed here, and bringing this to the attention of the Minister for Multimedia and the Premier.	DSD

❶ PAEC Recommendation	❷ Accept/ Reject	❸ Action Taken to Date	❹ Further Action Planned	❺ Respon-sibility
Recommendation 9.3 All departments and agencies undertake an audit to identify the extent of the problems associated with the "millennium bug" and what action and resources are needed to address these issues.	Accept	As per Rec. 9.2	In order to satisfactorily respond to the Minister for Multimedia's letter of 14 August 1997, all departments and agencies will have undertaken an audit to identify the extent of business risks and implemented an action plan to rectify Year-2000 issues.	DSD
Justice **Recommendation 10.1** The performance measures included in respect of prison services/operations reported on within the Budget Papers and in the annual report for the Department of Justice disclose the respective costs per prisoner/prisoner place for public and private correctional facilities.	Accept in part	The Department agrees to provide enhanced reporting on overall categories of prisoners concerning maximum, medium and minimum security, including comparisons with interstate jurisdictions. The Department has fully supported the Productivity Commission Report on Government Services which currently provides a prisoner cost per day estimate for all jurisdictions, including Victoria. No jurisdiction discloses public versus private costs, to the extent that private participation exists. *(continued)*	Continuing refinement of existing measures will be pursued.	DOJ

❶ PAEC Recommendation	❷ Accept/ Reject	❸ Action Taken to Date	❹ Further Action Planned	❺ Respon-sibility
10.1 *(continued)*		The Department will not be specifically delineating private vs public prison costs on the basis that: • the availability of this cost estimate information would jeopardise future tendering processes as current cost benchmarks would set a floor for any potential future bids; and • desegregation of cost estimates does not result in meaningful comparative data due to differences in individual prison size, security rating and prisoner profile.		
Recommendation 10.2 The annual report of the Department of Justice include a statement by the Correctional Services Commissioner that service delivery standards have been achieved by both public and private providers and include information on the nature and extent of the monitoring undertaken by the Commissioner.	Accept in Principle	It is intended that the Department's Annual Report will in future include a general statement on compliance but in a way that: • could not inadvertently lead to disclosure of material in relation to security operational procedures that could potentially compromise the integrity of such procedures; • avoids the inherent and as yet unresolved challenges in assessing and representing the materiality of any non-achievement of standards, *(continued)*		DOJ

❶ PAEC Recommendation	❷ Accept/ Reject	❸ Action Taken to Date	❹ Further Action Planned	❺ Respon-sibility
10.2 *(continued)*		as all standards are not equivalent in respect of their 'importance' to the efficient and safe operation of a prison facility; and • could not inadvertently disclose of commercially sensitive operating procedures for the prisons, whereby at least one of the private prison operators contends that the operating manual represents the company's intellectual property rights and therefore reporting any non-achievement would disclose commercially sensitive material.		
	Accept in Principle	The annual report for the Department will also include general descriptive information on the broad nature and extent of the monitoring undertaken by the Commissioner.	The Department will pursue the development of measures which disclose general information about the extent of monitoring activity, without revealing detail on the nature of the monitoring exercises that could compromise the operational integrity of such activities.	

❶ PAEC Recommendation	❷ Accept/ Reject	❸ Action Taken to Date	❹ Further Action Planned	❺ Respon-sibility
Recommendation 10.3 The Department of Justice review the current performance measures included in Budget Paper No.3 Budget Estimates with the objective of determining whether it has an appropriate mix of quantitative and qualitative mechanisms to measure outputs and outcomes which would enable comparison with acceptable benchmarks.	Accept	The Department has reviewed its performance measures as published in the 1997-98 Budget Paper No. 3. An expanded suite of performance measures has been developed on an output basis for 1998-99, and has been approved by the Department of Treasury and Finance's Output Specification Assessment Team review process.		DOJ
Premier and Cabinet **Recommendation 11.1** The business plan for the Department of Premier and Cabinet be enhanced by the inclusion of relevant financial information and performance measures/targets presently disclosed in Budget Paper No.3 Budget Estimates.	Noted	The Business Plan is primarily an internal working document for the Department and contains information required to guide the Department's business. It currently includes financial information at the Output Group level. For 1998-99 a full range of performance measures and targets have been developed for each output (covering quality, quantity and timeliness).		DPC

❶ PAEC Recommendation	❷ Accept/ Reject	❸ Action Taken to Date	❹ Further Action Planned	❺ Respon-sibility
Recommendation 11.2 The Government respond to the issues raised by the Ombudsman in the report dated April 1997 on the Investigation into the Complaint by a Chiropractor against the Chiropractors and Osteopaths Registration Board.	Reject	The Minister for Health does not have power to direct the Chiropractors and Osteopaths Registration Board.	None.	DHS
Recommendation 11.3 The Department of Premier and Cabinet's annual report include an analysis of the outcomes of expenditure on programs (including problem gambling) approved for expenditure from the Community Support Fund, indicating whether objectives under these programs are being achieved.	Noted	The Department of Premier and Cabinet has responsibility for the administrative processes surrounding the operation of the Community Support Fund (CSF) and the verification that monies obtained from the CSF are expended in accordance with the decisions of the Cabinet Sub Committee.	CSF evaluation processes are being refined and will be progressively implemented in consultation with the State Government departments that are managing CSF funded programs.	DPC
Natural Resources and Environment **Recommendation 12.1** The Department of Natural Resources and Environment specifically report, within it's annual report and budget documentation, on the progress made and the outcomes achieved in respect of its involvement in the National Heritage Trust (NHT) and the implementation of the National Competition Policy (NCP).	Accept	• Legislation reviewed in line with NCP requirements reported in 1996-97 Annual Report. • NHT funding was secured for 1997-98 after completion of budget documentation for that year but will be reported where appropriate in the annual report for 1997-98.	• Progress on further reviews of legislation for NCP will be listed in 1997-98 annual report. • It is intended that expenditure and performance data which includes NHT projects will be included in budget documentation and the annual report where appropriate for current and future years.	DNRE