Entity-specific questionnaire – Department of Treasury and Finance

1. Economic Outlook

The 2016-17 Budget notes that "In 2014-15, GSP per capita grew by 0.7 per cent and growth is expected to continue over the forward estimates. Keeping economic growth ahead of population growth is critical to ensuring all Victorians benefit from economic growth, and relies on greater employment and increased productivity." (2016-17 Budget Paper 2, pp.2-3)

Please outline the measures the Department of Treasury and Finance is taking to increase Victoria's GSP per capita.

Enhancing the productive capacity of the Victorian economy can occur as a result of Government decisions affecting both its human and physical capital. For example, DTF has a key role in assisting the provision and financing of effective and efficient economic infrastructure like roads and public transport that can help drive economic growth, as well as ensuring the state maintains a competitive regime of taxes and charges. The 2016-17 Budget included the following initiatives that will boost economic growth:

- increasing the payroll tax threshold from $550,000 to $650,000 progressively over the next four years to benefit all payroll tax paying businesses, but especially small business
- $2.9 billion towards the commencement of the Melbourne Metro Tunnel which will improve the efficiency of Melbourne's public transport system, while also improving its liveability
- other new infrastructure investment in public transport, including the Mernda rail extension project, Hurstbridge Corridor Upgrade and 28 more high capacity metro trains;
- $6.7 billion new infrastructure investment in roads, which includes $1.46 billion Government contribution over four years to Western Distributor, breaking the dependence on the Westgate corridor for access to the city and port from the west;
- progressing the recycling of government assets, such as the lease of the Port of Melbourne, to free resources for further infrastructure investment, such as funding the removal of 50 level crossings, improving the movement of both commuters and freight.

The Government can also assist in increasing economic growth via the delivery of training and education services, to our current and future workforce. The 2016-17 Budget delivers $924 million in infrastructure funding for new schools and upgrades. This includes $287 million for new schools and land, including many in growth areas, and $385 million to restore worn-down schools.

2. Sensitivity Analysis

a) 2016-17 Budget Paper No.2 (p.46) indicates that 'over the forward estimates, historically low interest rates and the significant depreciation in the Australian dollar will provide a boost to domestic spending'. Please indicate:

   i. which specific Australian dollar exchange rates are expected from 2016-17 to 2019-20 forming the basis of this claim

> Since early 2013, the Australian dollar has depreciated by around 30 per cent against the US dollar. This has boosted production in trade exposed industries and will continue to boost domestic spending over the forward estimates.

   ii. the reason why the Australian dollar exchange rate is not included in the sensitivity analysis in Budget Paper No. 2, given its impact on household consumption and gross domestic product

> The exchange rate is implicitly included in the Sensitivity Analysis, Appendix A of Budget Paper No. 2 because it includes a change to consumer prices. This implicitly takes into account an exchange rate effect as it could, for example, include changes to import prices that can result from exchange rate movements.

b) In response to Question 1 of the 2016-17 PAEC Budget Estimates Questionnaire (Whole-of-government questions), the Department indicated the impact of the economic forecasts on specific budget items. On the expenditure side, the Department indicated that the only affected item is 'purchase of supplies and services' (except for interest rates). Please indicate how the impact shown for 'expenses of transactions' in the sensitivity analysis of Budget Paper No.2 only relates to changes in 'purchases of supplies and services'. If not, indicate which other expense items are taken into consideration in the sensitivity analysis.

As shown in the table below, shocks to different economic indicators may affect the expenses from transactions through different channels. (The table provided in response to Question 1 of the 2016-17 PAEC Budget Estimates Questionnaire showed only significant changes.)

Economic Forecast	Affected Expense items in the budget
GSP	1. Purchase of Supplies and Services 2. Borrowing Costs
Employment	1. Borrowing Costs
Consumer prices	1. Purchase of Supplies & Services 2. Current Grants & Transfers 3. Borrowing Costs 4. Superannuation*
Average weekly earnings	1. Purchase of Supplies and Services 2. Borrowing Costs
Employee Expenses	1. Employee Entitlements 2. Current Grants & Transfers 3. Borrowing Costs 4. Superannuation*
Domestic share price	1. Superannuation* 2. Borrowing Costs

Economic Forecast	Affected Expense items in the budget
Overseas share price	1. Superannuation* 2. Borrowing Costs
Property prices	1. Superannuation* 2. Borrowing Costs
Property volumes	1. Borrowing Costs
Interest rates	1. Superannuation* 2. Borrowing Costs

*Superannuation figures are based on interest rate estimates from the latest actuarial data adjusted to the relevant forecast period

c) Please explain why the variable Enterprise Bargaining Agreements (EBAs) has been removed as a key economic indicator in the Sensitivity Analysis section in Appendix A of 2016-17 Budget Paper 2 (p.72) (The information on EBAs in the sensitivity analysis section of 2015-16 Budget Paper 2 can be found on p. 78).

Enterprise Bargaining Agreements (EBAs) has not been removed from the Sensitivity Analysis section but has been included as part of the sensitivity analysis of total employee expenses. In previous budgets, the sensitivity to EBAs was assumed to reflect a 1 per cent increase in the general government sector wage rate driven by across-the-board changes to enterprise agreements. The current methodology assumes a change to all key drivers of employee expenses and reflects a combination of changes to:

- the size of public sector workforce;
- the price paid to the workforce, including salaries, overtime, allowances and bonuses, Long Service Leave expenses, fringe benefits tax and WorkCover premiums; or
- other management decisions regarding the composition and profile of the workforce.

3. Economic Forecasting

a) The following tables compare the Department's response to Question No.1 of the 2015-16 Budget Estimates Questionnaire and the 2016-17 Budget Estimates Questionnaire.

2015-16 Budget Estimates Questionnaire

The following response relates to revenue items in the budget.

Economic forecast	Affected items in the budget
Gross State Product (GSP)	All taxes are influenced by GSP
State final demand	Insurance taxes
Household consumption	Gambling taxes; GST (national consumption)
Employment Growth	Payroll tax, gambling taxes
Consumer Price Index	GST, motor vehicle taxes, gambling and insurance taxes.
Wages Growth	Payroll tax, land transfer duty and gambling taxes
Housing prices	Land transfer duty
Interest rates	Land transfer duty
Population	All taxes are influenced by population

Note that Budget Paper No. 2 Appendix A, *Sensitivity Analysis Table* provides sensitivity analysis of major budget targets (net result from transactions and net debt) to small variations in macroeconomic variables.

2016-17 Budget Estimates Questionnaire

Economic Forecast	Affected items in the budget	
	Revenue	Expenses
GSP	• Sale of Goods and Services • Taxes on insurance • Land Transfer Duty	• Purchase of Supplies and Services
Employment	• Payroll Tax • Dividends and income tax equivalent and rate equivalent revenue	
Wage Price Index	• Payroll Tax • Dividends and income tax equivalent and rate equivalent revenue	
Consumer prices	• Sales of Goods and Services • Total Motor Vehicle Taxes • Taxes on insurance • Land Transfer Duty • Interest revenue • Dividends and income tax equivalent and rate equivalent revenue Fines & Regulatory Fees	• Purchase of Supplies & Services
Property prices ^	• Land Tax • Land Transfer Duty	
Property volumes ^	• Land Transfer Duty	
Interest rates	• Dividends and income tax equivalent and rate equivalent revenue Interest revenue	• Superannuation* • Borrowing Costs

^ unpublished

*Superannuation figures are based on interest rate estimates from the latest actuarial data adjusted to the relevant forecast period

Please indicate what assumptions have changed for some of the economic forecasts to conclude that they would have an impact on different budget items this year compared to the previous year (e.g. forecast on employment affecting 'Dividends and income tax equivalent and rate equivalent revenue' in the 2016-17 Budget but not in the 2015-16 Budget; also, the effect of 'gambling taxes' in 2015-16 Budget but not in the 2016-17 Budget).

Response:
When completing the PAEC Budget Questionnaire for 2016-17, DTF sought to strengthen the links between the items identified in the sensitivity analysis, and formally modelled as part of that process. This was in direct response to concerns earlier raised by PAEC regarding the transparency of some of DTF's past responses. In 2015-16, the approach taken was to identify those areas which were either included as exogenous variables in our forecast models, or from a theoretical or intuitive level would seem to be affected.

DTF is endeavouring to progressively improve the transparency of both its forecasting process and its sensitivity analysis, and so further adjustments to this table could occur as models are refined or respecified over time.

Economic Forecast	**Affected items in the budget**	
	Revenue	*Expenses*
GSP	1. GST Grants 2. Sale of Goods and Services 3. Taxes on insurance 4. Taxes on Gambling 5. Land Transfer Duty 6. Dividends 7. Franchise Fees 8. Other Revenue	3. Purchase of Supplies and Services 4. Borrowing Costs
Employment	1. Payroll Tax 2. Dividends and income tax equivalent 3. Taxes on Gambling	2. Borrowing Costs
Consumer prices	1. GST Grants 2. Current Grants 3. Capital Grants 4. Sales of Goods and Services 5. Total Motor Vehicle Taxes 6. Taxes on Gambling 7. Taxes on insurance 8. Land Transfer Duty 9. Interest revenue 10. Dividends and income tax equivalent revenue 11. Fines & Regulatory Fees 12. Franchise Fees 13. Other Taxes 14. Other Revenue	5. Purchase of Supplies & Services 6. Current Grants & Transfers 7. Borrowing Costs 8. Superannuation*
Average weekly earnings	1. Payroll Tax 2. Taxes on Gambling 3. Dividends and income tax equivalent revenue 4. Current Grants	3. Purchase of Supplies and Services 4. Borrowing Costs
Employee Expenses	1. Current Grants 2. Sales of Goods and Services	5. Employee Entitlements 6. Current Grants &

	3. Other Taxes	Transfers 7. Borrowing Costs 8. Superannuation*
Domestic share price	1. Dividends and income tax equivalent revenue	3. Superannuation* 4. Borrowing Costs
Overseas share price	1. Dividends and income tax equivalent revenue	3. Superannuation* 4. Borrowing Costs
Property prices	1. Land Tax 2. Land Transfer Duty	3. Superannuation* 4. Borrowing Costs
Property volumes	1. Land Transfer Duty 2. Other Taxes	2. Borrowing Costs
Interest rates	1. Dividends and income tax equivalent revenue 2. Fines & Regulatory Fees 3. Interest revenue	3. Superannuation* 4. Borrowing Costs

*Superannuation figures are based on interest rate estimates from the latest actuarial data adjusted to the relevant forecast period

4. Credit rating

In its comment on the 2016-17 Budget (18 April, 2016), Moody's stated that '... [it] notes that to a large extent, the improving trends also rely upon one-time revenues and non-cash transfers related to Vic Track infrastructure assets'.[1] Please indicate where these 'non-cash transfers related to Vic Track infrastructure assets', referred to by Moody's, are reflected in the 2016-17 Budget.

Non-cash transfers related to Vic Track infrastructure assets are embedded within the "Net acquisition of non-financial assets from transactions" line in Table 1.1 Estimated general government sector comprehensive operating statement for the financial year ended 30 June (Budget Paper 5 page 7). There is also an accompanying note 15 on page 34 which disaggregates this further. These non-cash transfers form part of "Other movements in non-financial assets".

5. Port of Melbourne lease

a) Section 44HA of the Port Management Act is amended by the Port of Melbourne Lease Act to allow the Treasurer to require the port licence holder to pay a fee that covers all financial years in the licence period instead of an annual licence fee.

i. How is the anticipated upfront licence fee calculated from the annual licence fees?

There is no change to the calculation of the annual port licence fee.

The amount of the port licence fee payable in respect of each financial year is calculated under section 44J of the *Port Management Act 1995*.

[1] See https://www.moodys.com/research/Moodys-comments-on-Victorias-201617-Budget--PR_347497

The Treasurer may require a one-off upfront licence fee for a period of up to 15 years instead of annual fees for that period under section 44HA of the *Delivering Victorian Infrastructure (Port of Melbourne Lease Transaction) Act 2016*.

ii. What discount rate is used in this calculation?

The discount rate used in the Government's calculation cannot be disclosed as it is commercial-in-confidence.

Each bidder for the lease will apply their own discount rate as part of their bid. The discount rate applied by each bidder will be different, based on their own cost of capital.

iii. How does this discount rate compare to the rates a potential private sector licence holder would be able to borrow at?

As indicated in the response to (ii), the discount rate applied by each bidder will be different, based on each individual bidder's cost of capital. As such, a comparison cannot be provided.

b) With respect to the funds that are anticipated when the Port of Melbourne lease is finalised, please explain:

i. what components make up the total funds received by the Port Corporation or its subsidiary

The components of total funds include the Port Lease and Upfront Licence Fee Amount.

ii. what line items (operating statement, balance sheet and cash flow statement) are affected by this transaction

The line items affected when the Port of Melbourne lease is finalised are as follows:

General Government Sector

- Operating Statement – Taxation revenue, interest revenue, interest expense.
- Balance Sheet – Advances paid, Deposits held and advances received & Borrowings.
- Cashflow Statement – Taxes received, interest received, interest paid, net cashflows from investments in financial assets for policy purposes, advances received (net) and net borrowings.

Public Non-Financial Corporations Sector

- Operating Statement – Sales of goods and services, interest revenue, interest expense.
- Balance sheet – Advances paid, deposits held and advances received, payables.
- Cashflow statement – Sales of goods and services, interest received, interest paid, net cash flows from investments in financial assets for policy purposes, advances received (net) and other financing (net).

iii. whether a grant from the Commonwealth under the Asset Recycling Agreement is also expected, and where this grant appears in the State's finances.

A grant is expected from the Commonwealth under the Asset Recycling Agreement as a result of the lease of the Port of Melbourne's commercial operations. The grant will appear on the operating statement under 'grants revenue' and the cashflow statement under 'grants received'.

c) Table 4.5 in the 2016-17 Budget Paper No.2 (p.57) indicates that the line item 'other movements' for 2016-17 'primarily reflect the revised timing from entering into a medium-term lease over the operations of the Port of Melbourne'. In contrast, Table 4.5 of the 2015-16 Budget Paper No.2 (p.59) included 'the forecasts proceeds from entering into a medium-term lease over the operations of the Port of Melbourne' in the line item 'net cash flows from investments in financial assets for policy purposes'. Please indicate which assumptions regarding the proceedings from the lease of operations of the Port of Melbourne have changed this year in order to include this transaction under different line items.

In the *2015-16 Budget*, the transaction was reported as a sale/disposal of assets and a transfer of equity back to the State. Due to the passage of the *Delivering Victorian Infrastructure (Port of Melbourne Lease Transaction) Act 2016* in March 2016, the *2016-17 Budget* reported the transaction as a lease rather than a disposal of assets.

d) The following table is an extract from Table 4.5 in Budget Paper No.2 (p.57)

	2014-15 actual	2015-16 revised	2016-17 budget	2017-18 budget	2018-19 budget	2019-20 budget
Other movements	19	46	(5,536)	1,229	906	1,086

The budget papers indicate that 'other annual movements to net debt primarily reflect the revised timing from entering into a medium-term lease over the operations of the Port of Melbourne'. Please specify if this also relates to movement from 2017-18 to 2019-20 (that is, $1,229 million in 2017-18, $906 million in 2018-19 and $1,086 million in 2019-20). If not, please indicate the main drivers of these movements in net debt for these years.

The movements from 2017-18 to 2019-20 also relate to the revised timing from entering into a medium-term lease over the operations of the Port of Melbourne and the application of those funds across the forward estimate period.

6. The Victorian Transport Fund

a) Following the receipt of funds for the Port of Melbourne lease, the Committee understands that the funds will be deposited into the Victorian Transport Fund (VTF), which will be held within the general government sector. With respect to this transaction please explain:

i. whether all components of proceeds of the lease will be paid into the VTF

All lease proceeds components will be paid into the VTF.
The Treasurer has the discretion to pay the Upfront Licence Fee Amount into the Consolidated Fund.

ii. whether the transfer of funds is considered an investment or something else

The transfer of funds is considered/treated as a return of capital to the general government sector from the PNFC sector, consistent with the accounting requirements.

iii. what line items (operating statement, balance sheet and cash flow statement) in the PNFC sector are affected by the transmission of funds

The line items affected in the PNFC sector by the transmission of funds are as follows:

- **Operating Statement** – None.
- **Balance Sheet** – Advances paid, deposits held and advances received.
- **Cashflow Statement** – Other financing (net), advances received (net), net cashflow from investments in financial assets for policy purposes.

iv. what line items (operating statement, balance sheet and cash flow statement) in the GGS sector are affected by the receipt of funds

The line items affected by the receipt of funds are as follows:

- **Operating Statement** – Taxation revenue
- **Balance Sheet** - Borrowings, Advances paid, deposits held and advances received.
- **Cashflow Statement** – Taxes received, net cashflows from investment in financial assets for policy purposes, advances received (net) and net borrowings.

b) The Committee understands that two types of payments are to be made from the VTF: 'business as usual' investments, which will be balanced by investment-return funds flowing back into the VTF; and payments out of the VTF to fund infrastructure.

i. what line items (operating statement, balance sheet and cash flow statement) in the GGS sector are affected by the payments out of the VTF to fund infrastructure

The line items in the GG Sector affected by the payments out of the VTF to fund infrastructure are as follows:

- **Operating Statement** - Interest revenue & interest expense
- **Balance Sheet** – Advances paid, deposits held and advances received, and Borrowings.

- **Cashflow Statement** - net cashflows from investments in financial assets for policy purposes, advances received (net), interest received, interest paid, and net borrowings.

ii. Please advise what payments into and out of the VTF are anticipated to be over the forward estimates, as in the following table:

Year	2016-17	2017-18	2018-19	2019-20
Business as usual investment payments out of the VTF ($m)	Commercially sensitive	0	0	0
Payments out of the VTF to fund infrastructure ($m)*	1 372	1 289	950	1 129

*Represents repayment of advance

7. Net debt

Please provide further detail regarding the Government's sustainability objective 'net debt to GSP no greater than its peak over the last five years by the end of the forward estimates'. Specifically,

a) which five year period does the definition refer to? E.g. five years ending in the 2016-17 budget year?

b) is this a rolling five-year objective?

The 2016-17 Budget Paper No. 5 *Statement of Finances* provides more information on the Government's sustainability objective. The Government has set its sustainability objective as:

- net operating surpluses in each year over the budget and forward estimates;
- expenditure growth no greater than revenue growth, on average, over the budget and forward estimates; and
- net debt to GSP no greater than its peak over the last five years by the end of the forward estimates.

The five year period in the net debt to GSP objective refers to the last five years of actual data available at the time of the *2016-17 Budget*. This represents data from 2010-11 to 2014-15 and will remain the sustainability objective over the term of the Government.

8. Net cash flows from investments in financial assets for policy purposes – projects for GGS and PNFC

In response to Q13 of the DTF General questionnaire, please provide the following clarifying information for transactions anticipated in 2016-17 that contributed to net cash flows from investments in financial assets for policy purposes for:

a. the general government sector

Projects	Cash inflows ($ million)	Cash outflows ($ million)	Net cash flow ($ million)
Finance lease loan receivable from Melbourne Water for Desalination Plant	50		50
Equity injection into Goulburn Murray Water for Connections project		26	-26
Cash repatriation from SECV	**Further disaggregation of figures would reveal information that is commercial in confidence and would negatively impact on the State's commercial interests.**		
Simonds Stadium		35	-35
Further disaggregation of figures would reveal information that is commercial in confidence and would negatively impact on the State's commercial interests.			
Other		3	-3
Total			391

b. the public non-financial corporations sector.

Projects	Cash inflows ($ million)	Cash outflows ($ million)	Net cash flow ($ million)
Further disaggregation of figures would reveal information that is commercial in confidence and would negatively impact on the State's commercial interests.			
Total			-5,526

9. Long-term objectives and financial measures and targets in BP2

The Government's long-term objectives are supported by a number of financial measures and targets in BP2 (BP2 2016-17 p.14). For each of these financial measures, please explain:

a. which of the Government's long-term objectives the financial measure supports
b. which line item (or items) that provide or support the target given for each financial measure
c. what result for 2016-17 for the line item (or items) would indicate that the target had been met , or that satisfactory progress was being made towards the target
d. as a contrast, what result for 2016-17 for the line item (or items) would indicate that the target had not been met , or that progress being made towards the target was not satisfactory.

Table 1.3 in Budget Paper No. 2 *Strategy and Outlook* outlines the Government's long-term financial management objectives.

Priority	Objective
Sound financial management	Victoria's finances will be managed in a responsible manner to provide capacity to fund services and infrastructure at levels consistent with maintaining a triple-A credit rating
Improving services	Public services will improve over time.
Building infrastructure	Public infrastructure will grow steadily over time to meet the needs of a growing population.
Efficient use of public resources	Public sector resources will be invested in services and infrastructure to maximise the economic, social and environmental benefits.

Financial measure	**Long-term objective supported by this financial measure**	**Line items from the State's finances that support the target for the financial measure**	**Result for the line item for 2016-17 that would indicate the target had been met**	**Result for the line item for 2016-17 that would indicate the target had not been met**
Net debt	This financial measure contributes to all of the Government's long term financial management objectives.	Net debt	Net debt to GSP to be no greater than its peak over the last five years by the end of the forward estimates period.	Net debt to GSP greater than its peak over the last five years by the end of the forward estimates period.
Superannuation liabilities	This financial measure contributes to all of the Government's long term financial management objectives.	Note 7 (d): Total superannuation liability	This liability falls across the forward estimates period. Information on the budget and forward estimates is provided in note 7 of Budget Paper No. 5 *Statement of finances.* The Government is on track to fully fund the State's unfunded superannuation liability by 2035.	An increase in the Superannuation liability for the general government sector over the forward estimates period may increase the risk of not achieving this target. However, this liability falls across the forward estimates period. Information on the budget and forward estimates is provided in note 7 of Budget Paper No. 5 *Statement of finances.*
Operating	This financial	Net result from	Result having a	Result having a

surplus	measure contributes to all of the Government's long term financial management objectives.	transactions	positive contribution to improving the net debt to GSP outcome.	negative impact to the net debt to GSP outcome.

10. High-Value High-Risk projects and Gateway reviews

Please advise, for each project included in BP4 table 5 (pp.16-17), which Gateway reviews (1 to 6) were carried out during 2015-16, and which are expected during 2016-17. For Gateway reviews completed, please advise the result of the overall assessment (in terms of red, amber or green). For projects where a Gateway review was omitted, please advise why the review was omitted.

Project name	**Gateway review(s) carried out 2015-16**		**Gateway review(s) anticipated 2016-17**
	Gateway number	**Result (overall assessment: red / amber / green)**	
Ballarat rail upgrade	Gate 1 & 2		
Bayswater Package Alliance Level Crossing Removals			Gate 5
Caulfield Dandenong level crossing removals and rail infrastructure and conventional signalling upgrades – Cranbourne Pakenham line	Gates 2 & 3 Gate 4		
Chandler Highway Bridge duplication	Gate 3		Gate 4
City Loop fire and safety upgrade (Stage 2) including fire alarm			
CityLink Tulla widening	Gate 4		
Dingley bypass	Gate 5		
Drysdale Bypass	Gate 1 & 2		Gate 3
High Capacity Metro Trains (HCMT) project	Gate 3		PPP projects exempt from Gate 4
Hurstbridge Corridor Upgrade	Gates 1 & 2 Gate 3		Gate 4
M80 Upgrade – Sunshine Avenue to Calder Freeway	Gate 3 Gate 4		
Main Road Package Alliance Level Crossing Removals			Gate 5
Melbourne Convention and Exhibition Centre – Stage 2	Gate 3		Gate 4
Melbourne Metro Tunnel	Gate 1 & 2 Gate 3 (early works) Gate 4 (early works)		Gate 4

Project name	Gateway review(s) carried out 2015-16		Gateway review(s) anticipated 2016-17
	Gateway number	Result (overall assessment: red / amber / green)	
	Gate 3		
Mernda Rail Link	Gates 1 & 2 Gate 3		Gate 4
Murray Basin Rail Project	Gates 1 & 2		Gate 3
Non-urban train radio renewal			
North Road Package Alliance Level Crossing Removals			Gate 5
Port Capacity (Webb Dock) – (PoMC)			
Princes Highway Duplication – Winchelsea to Colac	Gate 3 (Section 2 - Armytage to Warncoort & Section 3 – Warncoort to Colac) Gate 4 (Section 1 – Winchelsea to Armytage) Gate 4 (Section 2 – Armytage to Warncoort)		Gate 4 (Section 3 - Warncoort to Colac)
Public Transport Ticketing Retender	Gate 3 Gate 4		Gate 5
Regional Rolling Stock	Gates 1 & 2		
Thompsons Road duplication			Gate 3 Gate 4
Tram Fleet Procurement – Stage 1			
Tram Fleet Procurement – Stage 2			
Trial of high capacity signalling	Gate 2 & 3		
Western Distributor	Gates 1 & 2 Gate 3		Gate 4
Western Highway duplication – Beaufort to Buangor			Program Review
Yan Yean Road duplication	Gate 1 Gate 2		Gate 3 Gate 4
Goulburn-Murray Water Connections Project			Program Review
New Schools PPP project			Gate 5
Ballarat rail upgrade	Duplicate		
Bayswater Package Alliance Level Crossing Removals	Duplicate		
Caulfield Dandenong level crossing removals and rail infrastructure and conventional signalling upgrades – Cranbourne Pakenham line	Duplicate		
Chandler Highway Bridge duplication	Duplicate		

Project name	Gateway review(s) carried out 2015-16		Gateway review(s) anticipated 2016-17
	Gateway number	Result (overall assessment: red / amber / green)	
City Loop fire and safety upgrade (Stage 2) including fire alarm	Duplicate		
CityLink Tulla widening	Duplicate		
Dingley bypass	Duplicate		
Drysdale Bypass	Duplicate		
High Capacity Metro Trains (HCMT) project	Duplicate		
Hurstbridge Corridor Upgrade	Duplicate		
M80 Upgrade – Sunshine Avenue to Calder Freeway	Duplicate		
Main Road Package Alliance Level Crossing Removals	Duplicate		
Ravenhall – New Male Prison			
Victorian Infringement Enforcement System for IMES reform	Gates 2 & 3		Gate 4
Service Victoria	Program Review		Program Review

11. Reconciliation between 2015-16 Budget and 2016-17 Budget

The General Questionnaire (DTF only section, q.5) inquired about a reconciliation between the 2015-16 Budget and 2016-17 Budget, and provided a table with specific items for the Department to provide its response. The response received was presented in the new format, which omits many of the items requested. As the intent of the Committee's question was to quantify the items that are no longer provided, please provide the response as in the following table:

Reconciliation between 2015-16 Budget and 2016-17 Budget	2016-17	2017-18	2018-19
	($ million)	($ million)	($ million)
Revenue estimates in the 2015-16 Budget	56,893.9	59,036.6	61,179.1
Variations in revenue estimates as a result of:			
State Government policy decision variations			
Taxation			
Investment income			
General-purpose grants			
Specific-purpose grants			

Reconciliation between 2015-16 Budget and 2016-17 Budget	**2016-17**	**2017-18**	**2018-19**
Other (please specify)			
Total variations in revenue:			
Revenue estimates in the 2016-17 Budget			
Output expenses estimated in the 2015-16 Budget	55,497.0	57,671.0	59,350.7
Variations in expenses estimates as a result of:			
New output initiatives			
Expenditure reduction initiatives			
Reprioritisation of existing resources			
Changes as a result of specific-purpose grants			
Release of contingencies:			
adjustments			
contingency offset for new policy			
Other administrative variations (please specify)			
Total variations in output expenses:			
Output expenses estimated in the 2016-17 Budget			

Response:

The Government refined the reconciliation of estimates table in Budget Paper No. 2 Strategy and Outlook as part of the 2015-16 Budget to improve its readability and usefulness.

The revised format continues to be the Government's preferred approach to presenting movements in budget estimates, and budget processes are now established around this approach. Any changes to this reconciliation would require a retrospective reconstruction of the 2016-17 Budget.

The Government will review its approach to producing reconciliation of estimates for future publications.

12. PPP and other investment

The General Questionnaire (DTF only section, q.6) inquired about the 2016-17 update for what was included in the 2015-16 budget papers as 'PPP infrastructure investment and other'.[2] The question was forwarded to DTF prior to the 2016-17 Budget. The response provided update figures which were different to those found in the 2016-17 budget papers.[3]

a. Please explain why the figures included in the questionnaire response were different to those found in the 2016-17 budget papers

The figures in the initial questionnaire response had not reflected the changes to the accounting treatment and timing of the Port of Melbourne lease transaction (resulting from the enactment of the relevant transaction legislation and the transaction requirements therein) which resulted in the removal of the estimated proceeds from the transaction from the 'PPP and other investment' line.

b. please provide a revised response to the questionnaire, using the table in the questionnaire (q.6) quoting the correct figures and explaining changes between last year's estimates and those for 2016-17.

	2015-16 ($ million)	2016-17 ($ million)	2017-18 ($ million)	2018-19 ($ million)	2019-20 ($ million)
2015-16 budget papers	7,472.0	765.6	421.6	142.6	na
2016-17 budget papers	**620**	**1,135**	**2,963**	**2,953**	**3,469**
Explanation	• The New Schools PPP contract was executed in 2015-16; therefore cash flows relating to this project were updated to reflect the construction profile of the successful consortium (replacing the Public Sector Comparator construction profile). This has resulted in variances in the 'PPP infrastructure investment and other' figures for 2015-16, 2016-17 and 2017-18; • An increase in the scope of the High Capacity Metro Trains PPP was announced in March 2016, resulting in variances in the 'PPP infrastructure investment and other' figures for 2015-16, 2016-17, 2017-18 and 2018-19; • The Western Distributor and Melbourne Metro Rail Projects were announced in 2015-16. The 'PPP infrastructure investment and other' figures for 2017-18 and 2018-19 have increased to reflect these projects' anticipated construction profiles, consistent with the respective business cases. Only the PPP component of the Melbourne Metro Rail Project is included in the above figures; • The Port of Melbourne medium-term lease that was included in 2015-16 has been removed due to the revised accounting treatment and timing.				

[2] Department of Treasury and Finance, *Budget Paper No.4: 2015-16 State Capital Program* (2015), p.12
[3] Department of Treasury and Finance, *Budget Paper No.4: 2016-17 State Capital Program* (2016), p.15

13. Finance Minister's review on the Performance Measurement system

The Minister for Finance noted in his presentation to the Committee that following his commitment last year to seek better outputs and performance measures:

I have engaged with lead ministers to improve departmental performance statements by realigning outputs to objectives, disaggregating outputs and improving performance measures.[4]

Please advise:

a) when is this exercise expected to be complete; and
b) what the expected outcomes of this exercise is, in terms of:
   i. alignment of outputs to objectives
   ii. anticipated numbers of outputs per department
   iii. improvements to performance measures.

Response:

a) Reviewing the specification of the performance measurement system is an annual and ongoing exercise that takes into account new government decisions each year and changes that emerge in the delivery and demand for Government services. DTF conducts training for departments from time to time and facilitates ongoing discussions to assist departments better implement the system.
b) Departments are at different stages in the process of improving performance measurement information. Improvement to the performance information available in the 2017-18 Budget papers is expected for the Departments of Education and Training, and Health and Human Services. Other departments may also improve performance information. The annual review process does not seek to arrive at arbitrary numbers of outputs and objectives per department. Rather, reviews will seek to achieve meaningful performance information in departmental performance statements that can be reported against in end of year annual reports. To achieve meaningful performance measurement, information should deliver clear alignment between the:
   i. objectives (i.e. impact on the community) to be achieved as measured by objective indicators; and
   ii. related departmental outputs (goods and services) as measured by quantity, quality, timeliness and cost measures.

14. Land Tax revenue

2016-17 Budget Paper 2: Strategy and Outlook notes that land tax revenue is "forecast to increase by 28.3 per cent to $2.2 billion in 2016-17 as a result of the current land revaluation process. Strong growth in the property market in the two years since the last revaluation suggests that the outcome will reflect a significant increase in the value of land." (p.46) The land tax revenue made during the

[4] Hon. Robin Scott MP, Minister for Finance, *2016-17 Budget Estimates Transcript of Evidence*, 13 May 2016, p.2

last revaluation year (2014-15) was $150.0 million or 7.% below the original budget estimate ($1.9 billion), 'driven mostly by fewer assessments from the State Revenue Office than expected'.[5]

a) What is the process for distributing Land Tax assessments?

Land tax assessments are distributed mostly in the first quarter of the calendar year. The bulk of the land tax assessments are sent out in the first month of the issue cycle with staggered distributions in the following months. The SRO aims to complete the distribution of land tax assessments by the end of the issue assessment cycle for the relevant land tax assessment year.

b) Has this process been improved since 2014-15?

The SRO has advised that it reviews its process in distributing land tax assessments at each cycle and aims to improve it. DTF views the process as robust, and will continue to monitor the effectiveness of the SRO issue cycle process. The process that the SRO undertook at the 2016 cycle included: compliance activity, data maintenance and validation, and identifying potential absentee owners.

c) Does the budget estimate for land tax revenue for 2006-17 take into account any operational difficulties the State Revenue Office may encounter in making land tax assessments, such as those that occurred in 2014-15?

From DTF's 2014-15 Financial Report "lower land tax revenue of $150.8 million driven mostly by fewer assessments from the State Revenue Office than expected and lower than forecast land revaluations". The difference in 2014-15 is primarily due to the lower than forecast 2014 land valuation outcome rather than by the fewer assessments sent by the SRO.

Every revaluation year, the result from the land valuation overseen by the Valuer-General Victoria (VGV) drives the growth in land tax revenue. While fewer assessments being sent by the State Revenue Office (SRO) also creates a decrease in land tax revenue, its impact is minimal. Together with the effect of disaggregation of property holdings, SRO estimates that this erosion creates a decrease of approximately 2.5 per cent of the tax base per annum only. This expected erosion is built in to our forecasts every year but in revaluation years, it is overshadowed by the increase in revenue from land revaluations.

The 2014 land valuation outcome would therefore have been be the main driver of land tax revenue in 2014-15. The 2014-15 variation of $150.8 million is predominantly due to the difference between the anticipated revaluation outcome of 14.3 per cent built in to land tax forecasts for Budget 2014-15 and the final outcome of the revaluation that eventuated after its release, which came up to an increase of only 6.6 per cent.

The valuation result poses risks to land tax revenue forecasts every revaluation year. While liaison with the VGV mitigates the risks, the advice is based on preliminary submitted data and is prone to changes as new information is received by the VGV from the individual municipal valuers. This data is finalised only by mid-year, after budget release.

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

15. Reconciliation between Parliamentary authority for the provision of outputs and total income from transactions

The Department advised the total Parliamentary authority for the provision of outputs ($258.5 million) in q.20 of the Committee's General Questionnaire. This compares with total income from transactions of $454.2 million (BP3 p.310). Please identify:

a) the sources for differences in these figures

The higher 'total income from transactions' of $195 million includes the income earned by CenlTex ($150 million), Shared Services Provider Trust ($15 million) and Government Accommodation Trust ($30 million). These entities are self-funded and do not receive Output Appropriation income.

b) whether these sources are in or out of the public account.

The only income source that is not part of the Public Account is CenlTex income of $150 million.

16. Performance measures

Regarding the 'revenue banked on day of receipt' performance measure (BP3 p.314), what proportion of the State's revenue is not received in electronic form (i.e. electronic funds transfer into a State account)?

32.74% of revenue collected by SRO from Jul 15 to May 16 inclusive was received manually and paid into SRO bank accounts.

Under what circumstances would revenue not be banked on the day of its receipt?

This is a rare event and would only occur if the SRO's cheque processing system was unavailable which has not happened during at least the last 5 years, or where cheques were received late in the day after banking had closed off.

17. ISO9001 certification

BP3 p.308 notes changes to the output structure of the Department. For 2016-17 DTF has seven outputs, which is a net decrease of two.

Last year there were eight measures and they all related to maintaining the ISO certification. This year, there are five.

a. At what level is the ISO certification done? Is it done for each output separately, for the whole Department, or some other level?

ISO:9001 is a quality management system standard. Certification is undertaken at the level of key business processes. There are 42 core DTF business processes that are subject to regular surveillance visits from DTF's external ISO auditor. Although the number of DTF outputs has changed for 2016-17,

the number of key business processes that are subject to ISO audit has not changed, only the way they are grouped under outputs.

b. (If certification is done at the Departmental level) why isn't it used as an indicator for one of the Department's objectives?

DTF considers that ISO certification is best used as a measure that outputs are delivered via quality managed processes.

c. How often is the certification done? (if they are done every nine months, how can a target of three audits in 12 months be achieved?)

ISO surveillance visits for core DTF outputs are undertaken every six months by an external ISO Auditor. Recertification is undertaken every three years. The Revenue Management Services to Government output is the output of the State Revenue Office, which has maintained its own ISO certification for many years. The note that references surveillance visits at nine month intervals relates to SRO's ISO 9001 certification, and specifically relates to the expected outcome for 2015-16. The SRO also maintains ISO/IEC 20000 (IT Service Management), which is subject to six monthly surveillance visits. Therefore, there is an expected total of 3 surveillance visits for this output expected for 2016-17 covering both standards (9001 and 20000).

d. How is the certification done? What do the output managers have to demonstrate?

Certification is achieved via an external ISO Audit. Business process owners need to demonstrate that their processes meet the requirements of the ISO:9001 standard.

e. Why do some outputs not have to maintain the certification and others do not?

ISO certification focuses on DTF key processes and the work of the SRO. The two outputs that are not covered by ISO certification are: (i) Business environment policy advice, which is the output of the Commissioner for Better Regulation (ii) Economic regulatory services, which is the output of the Essential Services Commission