PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

THIRD REPORT TO PARLIAMENT

REPORT ON
1992-93 BUDGET ESTIMATES AND OUTCOMES

NOVEMBER 1993

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MINUTES OF THE PROCEEDINGS OF THE LEGISLATIVE COUNCIL

Tuesday 10 November 1992

PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE - The Honourable R.I. Knowles moved, by leave, That, contingent upon the Royal Assent being given to the Parliamentary Committees (Amendment) Bill, the Honourables P.R. Hall, T.C. Theophanous and D.R. White be members of the Public Accounts and Estimates Committee.

Question - put and resolved in the affirmative.

VOTES AND PROCEEDINGS OF THE LEGISLATIVE ASSEMBLY

Friday 13 November 1992

JOINT INVESTIGATORY COMMITTEES - Motion made, by leave, and question - That contingent on the coming into operation of the Parliamentary Committees (Amendment) Act 1992 -

Mr Baker, Mr Hyams, Mr Plowman (Benambra), Mr Smith (Glen Waverley), Mr Thomson (Pascoe Vale) and Mr Weideman be members of the Public Accounts and Estimates Committee.

(Mr Gude) - put and agreed to.
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The Public Accounts and Estimates Committee is constituted under the Parliamentary Committees Act 1968, as amended. It presently consists of nine Members of Parliament drawn from the Legislative Council and the Legislative Assembly.

The Committee carries out investigations and reports to Parliament on matters associated with State financial management. Its functions under the Act 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;

(b) the annual estimates or receipts and payments and other Budget papers and any supplementary estimates of receipts or payments presented to the Assembly and the Council -

if the Committee is required or permitted so to do by or under this Act.
PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

CHAIRMAN'S INTRODUCTION

This Report focuses on the 1992-93 Budget Outcomes and is the first 'Estimates' report by the Public Accounts and Estimates Committee, as established in late 1992. Such timing, together with later than usual 1992-93 Budget development following October 1992 election of the Coalition Government, necessarily led to Budget Estimates scrutiny proceeding differently, both to recent years and to a more regular future course.

Previous Estimates Committees emphasised that in their scrutiny of performance against plans, they required itemised supporting detail, assumptions built into projections, trends over time and fully-explained outcomes against targets.

The Government has taken major strides in these directions through its financial management improvement initiatives, as demonstrated in Budget Papers, Niemeyer Statements and the 1992-93 Finance Statement, with even further progress to come - through, for example, Departmental Performance Estimates. Initiatives include a robust and credible system of forward estimates; an integrated budget sector management cycle of planning, budgeting, delivering, reviewing and itemised reporting; full financial accounting; a focus on funding outputs/outcomes and not inputs; and program evaluation against plans, based on performance measurement.

The Committee makes practical suggestions in some areas to fine tune financial management and accountability, including:

- more focused reporting on School Education, Hospital Inpatient Services and the Public Transport Corporation;
- detailed tables describing the funding of the budget deficit; and on business asset sales revenue and its use;
- continued cash reporting in limited areas;
- more intensive scrutiny of unspent carryovers to future years, based on meritorious economical management;

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more rigorous excision of inflated 'softness' from some Departmental recurrent expenditure bases;

- clearer distinctions between productivity savings from new initiatives, and those rolling forward from previous years; and

- speedier production of key performance indicators in time series format, with appropriate interstate comparisons.

Other important issues canvassed in this Report include:

- effective teacher reduction outcomes in school education, including the impact of legislatively guaranteed returns to duty by teachers on family leave;

- continuing public hospital revenue shortfalls substantially due to decline in private patients under Medicare arrangements;

- public transport deficit reduction outcomes, as affected by large wage increases early in 1992-93, and sluggish revenue growth from fares and freight; and

- the rate of continuing civilisation of police duties by public servants.

In my view, the in-coming Government without doubt has achieved large-scale workforce reductions which in some cases - as in public transport - are beyond expectations. It has done so in the interests of more efficient and effective public service and with the pre-eminent medium-term objective of removing the budget's current account deficit. Where these reductions - as assessed by the Committee - have fallen a little short of expectations (as in school education) or overall savings are otherwise a little behind target (as in public transport and public hospitals) they are due to factors outside the Government's control - as highlighted in the preceding paragraph.

I thank other members of the Committee for the constructive time and effort spent on the Committee's bipartisan endeavours, as well as Ministers and their officials for prompt and extensive co-operation in meeting the Committee's requirements.
On the Committee's behalf, I thank Mr Eric Dyrenfurth, Consultant to the Committee, for his analyses and drafting of the report; Mr Craig Burke, Director of Research, for valuable advice and broad direction; Mrs Helena Cyrulo for administrative support, and Mrs Victoria Walker who assisted the Committee during the early stages.

Finally, I thank the staff from the Joint Committee Office Administration for their efficient word processing under very tight deadlines.

Hon. G. Graeme Weideman, MP, JP
Chairman
Public Accounts and Estimates Committee
The chapter does not replicate the Government's improved 1992-93 financial reporting or the Auditor-General's explanations, but emphasises that:

- the Government has taken major strides towards transparent, comprehensive, explanatory and robust outcome reporting in Budget Paper tables, charts and notes; credible Autumn Session re-estimates; and monthly budget progress reports (Niemeyer Statements);

- Consolidated Fund supplementation of monthly reports in Government Finance Statistics (GFS) format should continue; and

- the Budget Papers should report in a more financially-focussed manner on School Education, Hospital Inpatient Services and the Public Transport Corporation, together comprising about 50% of departmental recurrent outlays.

$445 m of a budget revenue shortfall from temporarily delayed VET repayments by the SECV and PSUT:

- could only be identified by examining Consolidated Fund outcomes, and not GFS presentations; and

- cost the budget $12.2 m in interest to 30 June 1993 ($24 m by December 1993) which SECV and not the general taxpayer should mainly bear.

The Budget Papers should include comprehensive tables listing:

- borrowings, debt repayments and financial balances within the budget deficit's net financing transactions; and

- revenues from major business asset sales in the previous financial year, including their use.

In the face of a Current Account Deficit, most budget sector debt repayment in 1992-93 involved refinancing, except for a significant $140 m in actual debt reduction using SIO sale proceeds.
Overall Budget Outcomes - Chapter 2 (cont.)

- Treasury approval of carry-overs between budget years:
  - provides incentives to Departments to rein in otherwise excessive end-of-year spending of funds; and
  - in future, factors remote from meritorious economical management should be considered in the approval process eg major underspending from an overly generous expenditure base (School Education); or regular overexpenditure overcome through regular drawdowns from the next year’s budget (Hospitals).

School Education - Chapter 3

- In 1992-93, effective teacher reductions in schools initiated by the Directorate of School Education and resulting from Voluntary Separation Package (VSP) acceptances after 1 January 1993:
  - amounted to just 2,650 teachers or 6.5% of the teacher workforce at 31 December 1992;
  - did not include 470 unreplaced departures through natural attrition, all not needed because DSE had over-estimated its 1993 projected students by around 9,000; and
  - were about 1,000 (or 26%) short of a total 3,600 in VSP acceptances, due to the continuing workforce management problem of uncontrolled, guaranteed returns to duty by about 1,000 family leave teachers each year.

- The official pool of excess teachers:
  - still amounted to 1,400 at 30 June 1993;
  - did not include several hundred teachers remaining in secondary schools, while 8,000 students dropped out by July 1993;
  - primarily resulted from uncontrolled returns by family leave teachers, with DSE needing to achieve a better balance between the employment needs of family leave teachers; several thousand new graduates, almost none of whom can be employed by DSE; and others now unable to re-enter DSE’s teacher workforce.

- In 1992-93 non-school areas shed about 16% of all public servant and School Support Teaching Staff, with total reduction since 1989 of 50%.
School Education - Chapter 3 (cont.)

- DSE's actual 1992-93 recurrent savings of $117 m included:
  - $15 m in excess of its $102 m savings target;
  - $44 m (37%) at most from 2,650 DSE-initiated teacher reductions, but with a total flow-on of $85-$90 m in new savings to 1993-94 from all 1992-93 initiatives;
  - $20-$30 m from inflated 'softness' in DSE's recurrent expenditure base sourced back to an over-estimated 9,000 student enrolments for February 1993; and an added $25 m for excess teachers in 1991-92 which was not removed from the 1992-93 base.

- Treasury should ensure rigorous excision of 'softness' from DSE's 1993-94 recurrent expenditure base by deducting the full year effect of 470 teachers lost by natural attrition but unreplaced because of far fewer enrolments than expected.

- On performance indicators:
  - DSE should quickly move to measure and report in areas like student achievement; teacher and student class contact time; and curriculum and non class teacher and student activities;
  - with major teacher reductions, the primary student/teacher ratio (STR) in 1993 rose by 1.4 students to 17.2, but is still 1-3 students below New South Wales (19.9) and Queensland (18.4) in 1992;
  - the secondary STR rose in 1993 by only 0.5 of a student to 11.3, and is still 1.5 - 2 students below New South Wales (13.2) and Queensland (12.8) in 1992;
  - the secondary STR was cushioned from greater rise by a 7,000 student enrolment decline in 1993, caused by the ripple effect of baby boomers' children leaving school. This has been mainly masked to now by a steep increase in the senior retention rate, currently levelled out at close to 90%;
  - average primary class size rose in 1993 by about one student to 24.5, but was still significantly below New South Wales (27.4) by three students and about level with Queensland (24.9);
  - average secondary English class size rose in 1993 by over one student, but was significantly below New South Wales (23.0) and Queensland (23.8) by 1.5 - 2 students.
while Australian Education Council data showed total Victorian expenditure per student increased in 1991-92 against New South Wales and Queensland, the same data source for 1992-93 (as yet unavailable) should show significant relative decline in Victorian expenditure on teaching staff salaries.

Public Hospital Inpatient Services - Chapter 4

- Hospital inpatient expenditure:
  - was required to find 4% in 1992-93 productivity savings; however, this comprised only 2.9% ($34.3m) from new initiatives, and 1.1% ($13.3m) from automatic roll forward savings from 1,200 staff lost in 1991-92. Productivity savings from new initiatives should in future be more clearly distinguished from automatic flow ons from previous year endeavours;
  - will harvest a 1993-94 roll-forward saving of $20.7m from 2,000 staff shed in 1992-93, with $30.9m achieved in 1992-93; and
  - increases by a net $34m over 1991-92, due to larger superannuation payments; roll forward effects from 1991-92 new facilities; and Commonwealth payments improving hospital access.

- Hospital inpatient revenues:
  - registered a $20m shortfall against estimate, as private patients continued to decline under Medicare arrangements, and fees collection slowed; and
  - therefore required $20m in overspending against budget estimates, obtained from $5.8m of further appropriation funding, and $14.2m through an adjusting provision from 1993-94 supply period appropriations as occurred in previous years.

- Treasury under proposed legislation should carefully scrutinise public hospital drawdowns from a future budget, covering regular overspending to compensate for revenue shortfalls. This long-standing practice was criticised by the previous Estimates Committee.

- A detailed table of hospital inpatient recurrent expenditures and revenues should be reported regularly to Parliament.
Public Hospital Inpatient Services - Chapter 4 (cont.)

- In 1992-93, hospital inpatient average staff reduced by 2,000 (or 6%) in total; by 5.6% (nursing) and 15% (hotel); increased by 3.7% (medical); and was stable for medical support and administrative/clerical staff.

- On hospital inpatient performance indicators:
  - 1992-93 patient throughput increased by 8.4%, with continuing declines in average length of stay and available beds as medical practices and productivity improved;
  - 1992-93 labour productivity for nurses and hotel staff and cost performance per inpatient improved significantly;
  - 1992-93 cost per bed day continued to rise, perhaps because labour productivity did not keep pace with better medical practices; and
  - a time series (with targets) on quality of service, labour productivity and cost performance should be annually reported to Parliament, thus enabling comparisons before and after the introduction of casemix funding.

Public Transport Corporation (PTC) - Chapter 5

- The PTC’s structural operating deficit:
  - rose from $504m (at 30 June 1992) to $566m (at October 1992) due to factors such as $32m in wage increases and $15m in revised arrears payment arrangements for the private bus operators; and
  - reduced by $78m during 1992-93 from this higher base, due mostly to $61m in Reform Program savings and $18m in roll forward savings from 1991-92 staff reductions.

- Reduction of $66m in the operating deficit from the lower base ($504m), as suggested by the January 1993 Statement, was always a practical impossibility; eventual reduction from that base was just $16m, with a deficit of $488m at 30 June 1993.

- The PTC deficit reduction strategy may:
  - remove $245m from the operating deficit by December 1995; and
  - leave $321m (or 57%) of the higher 1 October 1992 deficit of $566m.

- In 1992-93, $61m in Reform Program savings were achieved by:
  - $33m from workforce reductions;
over $20m from miscellaneous and 'one-off' revenues from the PTC's large asset base; with

- a $5m shortfall (against a $66m target) due to lower passenger and freight revenue and a slower staff reduction rate.

• Passenger fares and freight charges in 1992-93 were $34m below target:
  - due to over-estimation; 5.1% decline in suburban passengers in a depressed economy; shifts to growth corridors and away from the CAD; and reform program teething problems; and
  - required make-up of $16.6m from the Consolidated Fund.

• Community Service Obligations (CSOs) include:
  - $46m for students and pensioners from other Government agencies, and $50m within the Government-funded deficit, for which the PTC is not expressly compensated;
  - $5m of freight subsidy; and
  - eventually, perhaps the entire remaining Government-funded 'deficit'.

• PTC 1992-93 staff reductions of about 4,100:
  - achieved $33m in 1992-93 savings; were $4m below target due to a slowing in exit rate; but were 700 staff reductions above target;
  - will roll forward further savings of $70m in 1993-94, after adjusting for contracting-out costs;
  - comprised 22% of PTC workforce, with 17% - 29% reductions across most functional areas and occupational groups; and
  - cost $200m in termination payments, including superannuation.

• In 1992-93 the full annual short-term cost of public transport to the community above revenue contributed by users:
  - was $1.5 billion, with a cost recovery rate of 28%;
  - by refining Victorian Commission of Audit methodology, data collection and analysis, may in future enable a longer-term perspective on those costs; and
Public Transport Corporation (PTC) - Chapter 5 (cont.)

- includes superannuation costs and liabilities; operating works and services expenditure; operating vehicle rentals; employee termination payments; depreciation; school bus payments and the cost of capital.

- PTC performance indicators in 1992-93:
  - deteriorated in on-time running for V/Line freight and passenger services, but changed little for suburban passengers;
  - for labour productivity, showed little real improvement for freight carriage or passenger boardings per employee, in the latter case because of declining 1992-93 patronage;
  - for cost recovery, showed little improvement due to sluggish revenue growth and substantial wage rises offsetting major staff reductions; and
  - do not yet reflect longer term trends under the reform strategy. These should be regularly reported to Parliament, including national indicators, and cost recovery targets based on the deficit reduction strategy.

Victoria Police - Chapter 6

- The Victoria Police 1992-93 budget:
  - was essentially on target, but without its usual $5m from the Transport Accident Commission for accident statistics; and
  - carried $40m from a 12% police salaries increase over 1991 and 1992, with a new career skills structure creating actual salary rises of up to 20% over the period.

- Victoria Police staff members:
  - varied little from 9,950 sworn police over the last three years; and
  - showed an 8% public servant decline since 1990 (now 1,600).

- In 1992-93, Senior Constables in proportion to Constables:
  - rose to 62% from 48% in 1990-91, costing an extra $4.5m p.a., but excluding employer superannuation contributions; future increment movements; and a possible rise from the current 40% metropolitan proportion;
appeared higher than the 30% - 40% proportion in New South Wales and Queensland;

accompanied by promotion on merit (and not on seniority) allows experienced members to be located in areas of need; and

highlights on a small scale, the future importance of the Government's moves on financial accountability, including full cost reporting; disaggregated and robust forward estimates; and performance indicators with interstate comparisons.

**Civilianisation of police duties by public servants:**

- increases police operational strength without increasing police numbers;

- leads to an effective 3% increase in Force strength, after redeployment of 287 positions recently identified is completed;

- is more economical, through lower on average public servant pay;

- raises sensitive issues of categorisation criteria, police effectiveness, police and community confidence and industrial relations - but select areas with opportunities still to be considered should be published in the Police Annual Report; and

- creates a similar 15% - 17% proportion of public servants in Victoria, New South Wales and Queensland, which does not necessarily preclude further opportunities in this State.

"Buying out" one week in nine of police annual leave could lift the Force's effective operational strength by 2%.

**On performance indicators:**

- Commonwealth Grants Commission data shows Victoria spent $50m (10%) more in 1991-92 than required to provide police services at the same standard as the all States' average;

- Victoria in 1992-93 appeared to have about 30 (6%) fewer police per head of population than New South Wales (478) or Queensland (476); and
- Interstate comparisons could in future be reported, with benchmarking of police numbers and spending per capita; civilianisation ratios; crime clear up rates; public satisfaction and so on.

- 20% ($8m) reduction in 1992-93 Traffic Infringement Notices (TINs) by the Traffic Camera Office:
  - was caused by ever decreasing vehicles above camera thresholds (only 3.8% in June 1993, down from 12.2% just 2 years earlier) as drivers were deterred from speeding;
  - saw camera revenue-generating and TINs-generating productivity halved over 1991-93; but
  - the Police do not see cameras as a revenue-raiser, and use them to reduce road trauma through TINs issue. However, they should keep under close review the camera hours worked and the resulting efficiency and effectiveness of police resources used.
FINDINGS AND RECOMMENDATIONS

Finding 2.1 (Page 9)

The Committee finds that the Government has taken major strides towards much more transparent, comprehensive, explanatory and robust reporting on the 1992-93 budget outcomes, for example through:

(i) detailed time series and reconciliation tables and charts, with explanatory notes;

(ii) credible Autumn Session re-estimates of Spring Session Budget Paper estimates; and

(iii) sharper tabular and narrative content of monthly reports on budget progress (Niemeyer Statements).

Recommendation 2.1 (Page 9)

The Committee recommends that the Government continue to supplement with Consolidated Fund material its monthly reports on budget progress (Niemeyer Statements) in Government Finance Statistics format.

Recommendation 2.2 (Page 9)

The Committee recommends that the Budget Papers report on aggregate financial year estimates and outcomes in a substantially more discrete and focussed manner for each of the Directorate of School Education; Hospital Acute Care Inpatient Services; and the Public Transport Corporation.

Finding 2.2 (Page 12)

The Committee finds that as an external scrutineer it could only identify a temporary $445m budget shortfall in 1992-93 Victorian Equity Trust (VET) public authority recoups by examining Consolidated Fund outcomes. Such VET recoups were otherwise unclear from the Budget Papers’ emphasis on Government Finance Statistics presentation, but were separately identified by the Auditor-General in his Report on the 1992-93 Finance Statement.
Finding 2.3 (Page 12)

The Committee finds that:

(i) delayed VET repayments by the State Electricity Commission (SECV) and the Portland Smelter Unit Trust (PSUT) to the Consolidated Fund cost the budget sector $12.2m in interest on those budget sector borrowings to 30 June 1993 needed to pay out the VET unitholders in June/July 1992; and

(ii) prima facie, the SECV should bear the continuing cost of its delayed repayments ($24m by December 1993), rather than the general taxpayer through the State Budget; and that such compensation is expected by Treasury.

Recommendation 2.3 (Page 14)

The Committee recommends that future Budget Papers should include a table detailing and explaining the composition of borrowings, repayments and changes in financial balances within the budget deficit's net financing transactions. Amongst other things, this would disclose a full list of budget sector debt repayments and retirements, including non-routine refinancing, actual debt reductions, and unusual transactions such as that involving VET in 1992-93.

Finding 2.4 (Page 14)

The Committee finds that faced with a current account deficit, most budget sector debt repayments in 1992-93 necessarily involved debt refinancing without net impact on the stock of budget sector debt. The major exception was a significant $140m in debt reduction, using the proceeds of the SIO sale.

Recommendation 2.4 (Page 18)

The Committee recommends that future Budget Papers should include a consolidated table detailing the revenues received or expected to be received from those major business asset sales finalised in the previous financial year, including disclosure of how these funds were used or expected to be used.
Finding 2.5 (Page 22)

The Committee finds that the Budget Papers contain somewhat confusing references to 'carryover' and 'carryforward' funds distinguished by:

(i) 'carryover' involving Treasury-approved carriage to 1993-94 of $37.3m in discretionary recurrent and works funds unspent in 1992-93, as an incentive to Departments to rein in excessive end-of-year spending of funds which might otherwise be lost; and

(ii) 'carryforward' involving carriage to 1993-94 of $33.7m in non-discretionary funds outside Departmental control in 1992-93, such as unspent Commonwealth specific purpose payments, but without any implied reward for economical management.

Recommendation 2.5 (Page 22)

The Committee recommends that factors bearing little relation to meritorious economical management should be relevant considerations in Treasury decisions on carryovers to the next financial year of a Department's unspent discretionary funds. Such factors include major discretionary underspending from an overly-generous recurrent expenditure base, and regular over-expenditure only overcome through regular drawdowns from a following year's budget allocation.

Finding 3.1 (Page 38)

The Committee finds that:

(i) there were about 2,650 DSE-initiated effective teacher reductions in schools in the second half of 1992-93, (6.5% of the teacher workforce) resulting from Voluntary Separation Package (VSP) acceptances;

(ii) 470 departures from pay of unreplaced teachers as a result of natural attrition over 1992-93 should not be included in the teacher reduction savings strategy outcomes. They did not require replacement because confirmed student enrolments in February 1993 disclosed that DSE had over-estimated its projected students for February 1993 by around 9,000; and
Finding 3.1 (cont.)

(iii) the full impact of 3,600 VSP acceptances by teachers was significantly dissipated by 26% (or about 1,000) not resulting in an effective teacher reduction in schools. This was due to the continuing workforce management problem of uncontrolled, guaranteed returns to duty by about a net 1,000 teachers from family leave.

Finding 3.2 (Page 39)

The Committee finds that the 1992-93 official pool of excess teachers in schools:

(i) was still about 1,400 strong at 30 June 1993, compared with a budgeted average size of 1,300 and an actual average size of 1,770 during January-June;

(ii) did not include several hundred teachers remaining in secondary schools after the school year commenced, despite an 8,000 student drop-out through to July 1993. This was to avoid senior class organisation disruptions;

(iii) primarily resulted from uncontrolled returns to duty by teachers on family leave;

(iv) involved DSE in only limited additional expenditure, because this pool was the source of replacement teachers between February-June 1993; and

(v) prevented DSE engaging new graduates or others wishing to re-enter the workforce, as (casual) replacement teachers.

Recommendation 3.1 (Page 39)

The Committee recommends that DSE should urgently review its policies on guaranteed returns to duty from family leave to achieve a better balance between the competing employment needs of teachers returning after many years of family leave; each year's crop of new graduates; and others seeking to re-enter the workforce.
Finding 3.3 (Page 41)

The Committee finds that:

(i) 400 non-school staff - about 16% of all public servants and School Support Teaching Service staff (SSTS) - were shed in 1992-93, adding to a reduction in these groups over the four years 1989-93 of about 50%;

(ii) the most dramatic reduction in four years is a 90% reduction (350 staff) in Head Office SSTS, mainly in the curriculum area; least dramatic is a fall of about 16% (100 staff) in Head Office public servants; and

(iii) the Government plans to reduce non-school areas from 2,000 in 1992-93 to just 600 core staff, with a number of functions outsourced on a fee-for-service basis and any such spending requiring re-inclusion in non-school expenditure.

Finding 3.4 (Page 47)

The Committee finds that:

(i) DSE exceeded its 1992-93 $102m recurrent spending savings target by $15m, obtaining actual savings of $117m;

(ii) no more than $44m (or 37%) of those savings came from 2,650 DSE-initiated teacher reductions in schools, as VSP reductions were implemented progressively only after 1 January 1993; and

(iii) the 1993-94 full year flow on effect of those teacher reductions may be a further $62m, with the total flow on of new savings in 1993-94 generated from 1992-93 initiatives likely to be of the order of $85m-$90m.

Finding 3.5 (Page 48)

The Committee finds that:

(i) no specific reasons exist for around $20m-$30m (or 25%) of DSE's total 1992-93 savings of $117m; and
Finding 3.5 (cont.)

ii) this $20m-$30m must be presumed to come from an inflated 'softness' in DSE's recurrent expenditure base associated with an over-estimate of 9,000 in student enrolment projections for February 1993; and continuance of an added $25m for excess teachers paid from the 1991-92 Treasurer's Advance.

Recommendation 3.2 (Page 48)

The Committee recommends that Treasury should ensure it has rigorously excised 'softness' from the 1993-94 DSE recurrent expenditure base by, for example, deducting the full year saving from unreplaced 470 teachers lost through natural attrition in 1992-93 but unreplaced due to much lower student enrolments than projected.

Recommendation 3.3 (Page 9)

The Committee recommends that DSE should as rapidly as practicable extend measurement and reporting of performance indicators to areas such as student achievement; student and teacher class contact time; the range, resources and time spent on curriculum activities; and non-class teacher and student activities.

Finding 3.6 (Page 51)

The Committee finds that following major reduction in teacher numbers, the Victorian student/teacher ratio (STR) in 1993:

(i) rose by 1.4 students in primary schools (from 15.8 to 17.2) but is still about 1 to 3 students below 1992 STRs in NSW (19.9) and Queensland (18.4);

(ii) rose by only 0.5 of a student in secondary schools (from 10.8 to 11.3) but is still about 1.5 to 2 students below 1992 STRs in NSW (13.2) and Queensland (12.8); and
Finding 3.6 (cont.)

(iii) was cushioned from a larger increase in secondary schools by a 7,000 decline in secondary student enrolments over 1992. That fall was largely caused by the much earlier demographic passage of baby-boomers' children through their schooling years. It has been obscured to now by major rises in senior retention rates, which inevitably levelled out at close to 90% in 1993.

Finding 3.7 (Page 52)

The Committee finds that between February 1992 and 1993, average class size:

(i) increased in primary schools by just over one student, from 23.4 to 24.5;

(ii) ranged in secondary school English classes from 22 students at junior levels, to 20.5 at senior levels, suggesting an overall increase of somewhat over one student on 1992 - but with a likely reduction in senior level sizes during 1993 as 8,000 students left school during the year to July; and

(iii) was still significantly below 1992 average class size in NSW at both primary (27.4 students) and secondary (23.0 students) level; and in Queensland (in English secondary classes - 23.8 students). It was about equal to Queensland primary class size (24.9 students), with the latter probably reflecting a large number of small rural schools.

Finding 3.8 (Page 53)

The Committee finds that it cannot assess the effect of teacher reductions on performance indicators other than class size (eg teacher class contact time) because such matters are not currently measured in Victorian Government schools.
Finding 3.9 (Page 53)

The Committee finds that the apparent student retention rate in Victorian government schools increased from 84.6% in February 1992 to 85.9% in February 1993.

Finding 3.10 (Page 55)

The Committee finds on Australian Education Council (AEC) data that:

(i) total expenditure per student in Victoria in 1991-92 increased against NSW because of increased spending on teacher salaries in Victoria, and increased against Queensland because of that State’s lower expenditure on other operating expenditure and on buildings and grounds; and

(ii) it is very likely that AEC data for 1992-93 - not available to now - will start to show significant reductions in teaching staff salary expenditure for Victoria against both NSW and Queensland.

Recommendation 3.4 (Page 55)

The Committee recommends that a time series on total and disaggregated expenditure per student, based on Australian Education Council data collections from the States should with appropriate interpretative comments become a regular feature of DSE’s performance reports to the Parliament.

Finding 4.1 (Page 60)

The Committee finds for 1992-93 public hospital inpatient services expenditure that:

(i) productivity savings from new initiatives in 1992-93 only amounted to 2.9%, with the balance of 1.1% to achieve 4% overall savings coming from the automatic savings roll forward of staff shed by the previous Government in 1991-92;

(ii) salary savings fell $3.4 m short of a $34.3 m target, but were made up by savings on other overheads;
Finding 4.1 (cont.)

(iii) there will be $20.7 m in 1993-94 roll forward savings for 2,000 staff reductions in 1992-93, with $30.9 m achieved last year; and

(iv) there was a net recurrent expenditure increase over 1991-92 of $34 m, due to such items as increased superannuation payments; roll forward effect of new facilities opened in 1991-92; and Commonwealth payments to improve hospital access.

Recommendation 4.1 (Page 61)

The Committee recommends that in future years hospital productivity savings should more clearly distinguish both in percentage and dollar terms the savings from new initiatives; and those automatically flowing from the previous year's staff reductions.

Finding 4.2 (Page 62)

The Committee finds for 1992-93 public hospital inpatient services revenue that:

(i) there was a re-occurring ($20 m) shortfall against estimates as private patients continued to decline under the existing Medicare arrangements, and fees were collected more slowly than planned; and

(ii) additional funding to overcome the shortfall was received from special appropriations ($5.8 m) with the remaining $14.2 m in budget overspending obtained as in previous years through an adjusting provision from 1993-94 supply period appropriations.

Recommendation 4.2 (Page 62)

The Committee recommends that Treasury - in the light of possible legislative provisions allowing budget year drawdowns from a future budget - carefully scrutinise public hospital drawdowns covering regular overspending to compensate for hospital revenue shortfalls.
Recommendation 4.3 (Page 65)

The Committee recommends that a table of public hospital inpatient recurrent expenditure and revenue of the sort presented in this Chapter should be reported regularly to Parliament. Currently, there is insufficient focus on the financial performance of an area accounting for $1.8 billion, or over 15% of the State's annual recurrent departmental outlays.

Finding 4.3 (Page 66)

The committee finds that in 1992-93, average staff for public hospital inpatient services:

(i) reduced by 2,000 (6%) with total staff of about 30,000 by 30 June 1993;

(ii) reduced by 5.6% for nursing staff and 15% for hotel staff; and

(iii) was stable in other categories (eg medical support and administrative/clerical) but increased by 3.7% for medical staff, presumably to cope with greater patient throughput.

Finding 4.4 (Page 67)

The Committee finds that public hospital performance indicators reveal:

(i) a major 8.4% increase in patient throughput in 1992-93 and continuing decline in average length of stay and average available beds as medical practices and hospital productivity improve;

(ii) significantly improved labour productivity (for nurses and hotel staff) and cost performance per inpatient; and

(iii) cost per bed day continuing to rise, possibly because overall labour productivity improvements do not keep pace with enhanced medical practices.
Recommendation 4.4 (Page 68)

The Committee recommends that a time series of statewide performance indicators (with targets) reflecting quality of service, efficiency (including labour productivity) and cost performance should be annually reported to Parliament, if practicable comparing the position before and after casemix funding introduction in 1993-94.

Finding 5.1 (Page 78)

The Committee finds that the Public Transport Corporation (PTC) structural operating deficit was

(i) $504m at the end of 1991-92, excluding such cost items as employer superannuation contributions, employee termination payments, maintenance, school bus payments and rental of operating vehicles;

(ii) $566m at October 1992 due to the effect of $32m in wage increases, other additional payments, and $15m in revised arrears payment arrangements for the private bus operators;

(iii) reduced by about $78m during 1992-93 principally due to Reform Program savings ($61m); and roll-forward savings from 1500 staff reductions in 1991-92 initiated under the previous Government ($18m); and

(iv) reduced overall by just $16m from its 1991-92 base of $504m. Reduction by $66m from that base - as suggested by the Government's January 1993 Reform Statement - was always a practical impossibility. A $30m reduction from a $504m base was the maximum in the economic circumstances of 1992-93, as proposed by the previous Government.

Finding 5.2 (Page 78)

The Committee finds that the Government's 3-4 year deficit reduction strategy aims to remove $245m from the PTC operating deficit by December 1995, leaving $321m (or 57%) of the higher deficit applying at 1 October 1993 and not $259m (or 51%) of the lower deficit applying at 30 June 1992 as suggested in the Reform Statement.
Finding 5.3 (Page 79)

The Committee finds that $61m in Reform Program savings were achieved in 1992-93, including:

(i) a $5m shortfall against a $66m target, due to lower than expected passenger and freight revenue, and a slower rate of staff reductions;

(ii) $33m in savings from workforce reductions; and

(iii) over $20m in miscellaneous 'one-off' revenues harvested from the PTC's large asset base, such as $6m in air rights' licence fees from the Melbourne Central developer.

Finding 5.4 (Page 85)

The Committee finds that passenger fares and freight charges were $34m below the 1992-93 target:

(i) due to such factors as earlier over-estimation; a decline in suburban passengers of 5.1% in a depressed economy; continuing workforce shifts to the growth corridors and away from the Central Activities District; and reform program teething problems; and

(ii) required $16.6m in supplementary appropriation from the Consolidated Fund.

Finding 5.5 (Page 85)

The Committee finds that:

(i) Community Service Obligations (CSOs) of $46m for students and pensioners are received from other Government agencies; and

(ii) CSOs of $5m for a freight subsidy, as well as around $50m in student/pensioner concessions for which the PTC is not expressly compensated, are already incorporated in the Government-funded deficit which may itself be seen as a CSO
Finding 5.6 (Page 88)

The Committee finds that about 4,100 in staff reductions by the PTC in 1992-93:

(i) achieved savings of $33m in 1992-93, but this was about $4m less than targeted due to a slowing in the rate of planned exits;

(ii) will roll forward a further net saving of $70m into 1993-94, after allowing for the cost of contracted-out services;

(iii) constituted about 22% of the entire PTC workforce, with most of the major functional areas (in freight, passenger, maintenance and infrastructure management) and skill groups (e.g. labourers, trades, conductors, and clerical) reduced by between 17% and 29%; and

(iv) cost almost $200m in termination payments, including superannuation.

Finding 5.7 (Page 89)

The Committee finds that in 1992-93 the full annual short term cost of public transport to the community is $1.5 billion above revenue contributions by users, with a cost recovery rate of 28%. This result is reliant on Victorian Commission of Audit methodology, updating its data where practicable but otherwise accepting its cost estimates.

Recommendation 5.1 (Page 90)

The Committee recommends that the full annual cost of public transport to the community, based on Victorian Commission of Audit methodology, should continue to be reported, with refinements in methodology, data collection and analysis in future enabling a longer-term perspective on those costs.

Finding 5.8 (Page 92)

The Committee finds that PTC performance indicators for 1992-93 show:

(i) for consumer satisfaction, that on-time running changed little for suburban passenger services, but a clear deterioration occurred in both V/Line freight and passenger services;
Finding 5.8 (cont.)

(ii) for labour productivity, that a more apparent than real improvement occurred in freight km/hs per employee due to the abnormally poor grain harvest in the previous year; and that relatively small improvement occurred in suburban passenger boardings per employee, due to decline in 1992-93 patronage; and

(iii) for financial performance, cost recovery rates showed little real improvement, because sluggish revenue growth and substantial wage rises both offset the effects of major staff reductions.

Finding 5.9 (Page 92)

The Committee finds that conclusions about PTC performance under the reform strategy should await longer-term trends in relevant indicators of consumer satisfaction; labour and capital productivity; and financial performance.

Recommendation 5.2 (Page 93)

The Committee recommends that:

(i) the development of a set of national indicators on productivity and financial performance proceed as quickly as possible, taking due account of the current comparative differences between the States' Public Transport systems; and

(ii) in the meantime, a full set of Victorian time series indicators should be developed as rapidly as practicable for regular reporting to the Parliament, including targets for cost recovery ratios based on the Deficit Reduction Reform Strategy.
Finding 6.1 (Page 98)

The Committee finds that Victoria Police 1992-93 outlays of $654m:

(i) came in very close to budget estimate, but with revenue from charges and reimbursements down $5m due to the Transport Accident Commission not paying its budgeted (and usual) contribution to road accident statistics collection; and

(ii) incorporated a $40m (or 9%) increase in police salaries expenditure resulting from staged salary increases for all ranks totalling 12% between April 1991 and July 1992, but with compounding effects and translation to a new skill level structure creating actual salary increases of up to about 20% over the period.

Finding 6.2 (Page 98)

The Committee finds there was little change to police actual sworn strength of about 9,950 between 1991 and 1993, but that public servants, excluding the Traffic Camera Office, had declined by 8% since 1990 to about 1,600 positions.

Finding 6.3 (Page 100)

The Committee finds that the proportion of Senior Constables to Constables (accompanying a shift to promotion on merit rather than on seniority):

(i) rose from 48% in 1990-91 to 62% at the end of 1992-93;

(ii) came at an estimated salaries expenditure cost of $4.5m in a full year, but with likely significant additions through employer superannuation contributions; future increment movements and a possible rise in the current 40% of Senior Constables in metropolitan areas;

(iii) prima facie was significantly higher than the 30-40% proportion in NSW and Queensland;

(iv) may better allow management to place experienced members in locations where they are needed;
Finding 6.3 (cont.)

(v) highlights in microcosm the importance of the Government's moves to improved financial accountability requiring full cost reporting; disaggregated and robust rolling forward estimates; and efficiency and effectiveness performance indicators, including interstate comparisons.

Finding 6.4 (Page 104)

The Committee finds that civilisation of police duties:

(i) can increase effective police operational strength without adding to sworn members;

(ii) for 287 identified positions with redeployment almost complete in 1992-93, leads to around a 3% increase in effective police strength;

(iii) is more economical, through lower on average public servant pay;

(iv) raises sensitive issues involving categorisation criteria, police effectiveness, community and police confidence, and industrial relations - but further scope probably exists in several select areas such as D24 Communications; and

(v) prima facie, has led to a similar 15-17% proportion of public servants relative to total Police employment in Victoria, NSW and Queensland.

Finding 6.5 (Page 105)

The Committee finds that:

(i) existing police annual leave of 9 weeks suggests theoretically that only 8,300 out of 10,000 sworn members are on duty at any one time; and that

(ii) "buying out" just one week of this leave would allow an increase in effective operational strength of about 200, or 2%.
Recommendation 6.1 (Page 105)

The Committee recommends that:

(i) the Victoria Police Annual Report publish areas still to be considered for
civilianisation, provided that sensitive negotiations are not jeopardised;

(ii) further comparisons occur with civilianisation in other States, to identify
differences in areas civilianised and the lessons that may be drawn from
differing experiences; and

(iii) even if research confirms there are no significant differences in the
civilian ratio or in civilianised areas between Victoria and other States, it
should not be necessarily concluded that further opportunities for
Victorian civilianisation do not exist.

Finding 6.6 (Page 107)

The Committee finds that:

(i) Commonwealth Grants Commission data shows that Victoria spent $50m
(10%) more in 1991-92 than required to provide police services at the same
standard as the average of all States and Territories; and

(ii) prima facie, Victoria in 1992-93 with 448 police per head of population, has
about 30 (6%) fewer police than NSW (478) and Queensland (476), possibly
reflecting Victoria's less dispersed population.

Recommendation 6.2 (Page 108)

The Committee recommends that current police performance indicators should
be extended to an interstate time series format with interpretative comments,
and be reported regularly to the Parliament. They could then benchmark both
police numbers and police spending per head of population; civilianisation
ratios; crime clear-up rates; public satisfaction levels; mobile and foot patrol
times; and average police response time to public requests for assistance.
Finding 6.7 (Page 110)

The Committee finds that:

(i) the major reason for declining police fines revenue in 1992-93 (about $8m) was a 20% reduction in Traffic Infringement Notices (TINS) issued by the Traffic Camera Office (TCO);

(ii) the cause for fewer TINS was ever-decreasing vehicles above the camera threshold speeds, down from 12.2% in July 1991 to 3.8% in June 1993, as drivers were deterred from speeding;

(iii) camera revenue-generating productivity (eg dollars collected for camera hours worked), and notice-generating productivity halved over 1991-93, but camera work continued to use up to the equivalent of 30 full-time police with other TCO costs of $7.5m p.a.; and

(iv) the police do not themselves view traffic cameras as a revenue-raiser, but as an instrument to reduce road trauma, with cameras linked by research to reduction in casualty crashes and injury severity.

Recommendation 6.3 (Page 111)

The Committee recommends that the Police keep under close review the number of traffic camera hours worked and the resulting efficiency and effectiveness of police resources used. It should do so in the light of declining productivity in infringement notice generation; impacting factors; and the likely effect on general deterrence of speeding motorists from any variation to camera hours worked.
CHAPTER ONE: INTRODUCTION

1.1 COMMITTEE BACKGROUND

The Public Accounts and Estimates Committee was established as a result of amendments to the Parliamentary Committees Act 1968 early in the 52nd Parliament (late 1992). It is an all party Investigatory Committee of the Victorian Parliament and includes members from both Houses of the Parliament. One key function of the Committee, under the Act, is to inquire into, consider and report to the Parliament on the annual estimates of receipts and payments and other Budget papers and any supplementary estimates of receipts or payments presented to the Assembly and the Council.

This report is the Committee's first "estimates' report and deals with the 1992-93 Budget Estimates and Outcomes.

1.2 1992-93 BUDGET ESTIMATES

Due to the October 1992 State Election and change in government, the development of the final 1992-93 Budget took a different form and course than that which has occurred in recent years.

1.2.1 Interim Provision 1992-93

On 28 October 1992, the Treasurer delivered a statement on Victoria's Financial Management Strategy. That statement included the interim 1992-93 Budget Estimates and detailed the following Budget strategy:

The interim 1992-93 Budget estimates provide for an immediate further reduction of $266 million in departmental operating costs, to be achieved in the remaining 6 to 8 months of the year. This is in addition to $123 million of productivity savings already taken from agency base budgets.

$125 million will also be cut from departments' base works programs.

A reduction of 7,000 in the budget sector workforce is to be targeted by June 1993, assisted by a capital allocation of $600 million for termination payments.

An additional $380 million will be raised through new revenue initiatives this year, rising to $600 million in a full year.
Taken together these measures will reduce the underlying Current Account deficit by $587 million this year and by $1.1 billion in a full year.

The Appropriation (Interim Provision 1992-93) Act 1992 was assented to on 30 October 1992 and included one line appropriations for each department for Recurrent and Works and Services Expenditure. The interim 1992-93 Budget did not include budget estimates on a program basis or provide details of programs and sub-programs within departments.

The Treasurer's Statement of October 1992 also detailed forward estimates for 1993-94 and 1994-95. Other issues addressed in the statement included:

- the economic outlook;
- the State of Victoria's finances;
- Medium term Financial Management Strategy;
- Reducing service delivery costs;
- Revenue measures;
- Debt Management Strategy; and
- Reform of State Owned Enterprises.

1.2.2 Final 1992-93 Budget Estimates


- reported on progress with the revenue and expenditure measures taken in 1992-93 and provided details of the final allocation to programs of the interim Appropriation legislation passed in October 1992;
- announced some additional revenue measures, commencing in 1992-93 and 1993-94;
- included a strategy to overcome Victoria's structural deficit on the Current Account by 1995-96, at the latest;
presented budget planning allocations for departments for the two years to 1994-95 incorporating further expenditure and associated workforce reductions;

detailed the Government's program of reform of key government businesses, including a provisional timetable for restructure and part or full privatisation of selected entities; and

outlined the Government's longer term strategy for reducing Victoria's debt, including the role of the newly established Treasury Corporation of Victoria (TCV).

The final estimates showed an increase in total financing transactions to $2,454 million, $109 million higher than forecast in October 1992. This reflected, in the main, an additional $200 million for further early departure payments offset by additional revenue measures and some downward revisions to estimated outlays. This change was covered by the Special Addition approved for Victoria's global borrowing allocation by the Australian Loan Council.

The Treasurer's Autumn Statement also provided details of the final 1992-93 Budget Estimates on a program basis and detailed program objectives.

1.3 THE COMMITTEE'S APPROACH TO ITS SCRUTINY OF THE 1992-93 BUDGET ESTIMATES

The Committee followed the same basic process in its scrutiny of the Budget Estimates as had been the practice in the past. During December 1992 the Committee issued its first questionnaire to budget sector bodies seeking additional detail on the budget estimates. Having considered the responses to that questionnaire the Committee elected to issue a further questionnaire to selected departments during February 1993 which sought more specific information. Public hearings were then held between March and August 1993 to further explore selected departmental estimates. These hearings were held with the relevant Ministers and senior departmental representatives. Subsequent to those hearings the Committee also received additional evidence through departmental submissions and responses to the Committee's later requests for specific information. A listing of witnesses has been included at the end of this report, that list represents the Committee's source of both oral and written evidence. Other sources of the Committee's evidence have
included the monthly Niemeyer statements, the 1992-93 Finance Statement (including the Auditor-General's report on that statement) and the 1993-94 Budget Papers.

1.4 THE COMMITTEE'S OBJECTIVE

In common with the former Estimates Sub-Committee's aim, this Committee's objective in its scrutiny of the 1992-93 Budget Estimates is to:

• constructively contribute to the presentation of budget information, including key financial management details, to the Parliament and the Public;

• facilitate a greater understanding of the Budget Estimates;

• encourage clear, full and precise statements of the Government's objectives and planned budget outcomes;

• assist the Parliament and the Public to assess the achievement of planned budget outcomes; and

• encourage economical, efficient and effective program administration.

The Committee plans to issue its first Annual Report during the 1994 Autumn session, that report will include details of the Committee's corporate mission and strategies.
CHAPTER TWO: ESTIMATES SCRUTINY OF OVERALL BUDGET OUTCOMES

2.1 ESTIMATES SCRUTINY CONTEXT

The Committee's scrutiny of the 1992-93 overall Budget result follows tabling in Parliament of:

(i) the 1993-94 Budget Papers, reporting and explaining the 1992-93 Budget outcomes largely in Government Finance Statistics (GFS) form;

(ii) the Government's Finance Statement, reporting 1992-93 transactions of the Consolidated and Trust Funds, including end-of-year budget outcomes against estimates; and

(iii) the Auditor-General's Report explaining that Statement, including key differences between Consolidated Fund and Government Finance Statistics (GFS) results.

It is not the Committee's intention in this Chapter to replicate the Government's much improved financial reporting; or the Auditor-General's comprehensive explanations of the 1992-93 budget outcomes. Rather, it will focus on those select areas of major interest where additional reporting may assist public understanding of financial performance, viz:

- Budgetary Impact of a Temporary Shortfall in VET Recoups from the Public Authorities;
- Composition of Financing Transactions for the Budget Deficit;
- Business Asset Sales Revenue and its Application; and
- Expenditure Carryover Issues

2.2 1992-93 FINANCIAL REPORTING IMPROVEMENTS

The GFS framework (sometimes known as National Accounting Format or NAF) is used for the Government's Budget Papers presentation, and monthly reports on budget sector progress (Niemeyer Statements). The Commonwealth and all States
have agreed to adopt the GFS format for uniform, consistent presentation of core budget information. Amongst other things, this assists Australian Parliaments, community interest groups, credit rating agencies and financial markets with inter-governmental comparisons of financial performance over time, and an assessment of budget sector impacts on the wider economy.

Important distinctions between GFS format and traditional Consolidated Fund reporting include GFS coverage of:

• A broader range of transactions such as by:
  
  - public authorities substantially dependent on funding from budget sector general revenues. An example is the outstanding borrowings of $285m by the Flexible Tariff Management Unit Trust to meet Government obligations on the SECV's flexible electricity tariffs for the Portland and Point Henry aluminium smelters; and
  
  - the Trust Fund in paying $51m in 1992-93 to the Pyramid bondholders.

• Revenue collections (including user charges) by budget sector entities such as the Public Transport Corporation (eg passenger fares and freight charges) and public hospitals (eg private patient fees). While GFS reports these collections, they are then deducted or "netted off" from the organisation's total recurrent expenditure to derive current outlays (a GFS concept) funded by the budget sector.

• "Netting-out" transfers solely within the budget sector, eg payroll tax paid by the Directorate of School Education to the Consolidated Fund, using budget appropriations; and inter-agency user charges eg charges to State departments by Planning and Development for design supervision and administration.

• "Netting-off" property asset sales revenue from capital expenditure to derive the GFS concept of capital outlays; and including in budget sector debt repayments use of "one-off" revenue received from business asset sales (eg $140m for the SIO sale in 1992-93) irrespective of whether payment is by the Consolidated Fund or the Victorian Debt Retirement Fund. This revenue thus reduces the budget sector's Net Financing Transactions (ie the budget deficit). The 1992-93 budget papers properly express that budget deficit both with and without business asset sales netted off. The amount shown
without such deductions is the structural budget deficit and a truer reflection of that deficit which the Government rapidly wishes to extinguish - at least on the current account.

- With the exception of routine re-financing not adding to net debt, all repayments of budget sector debt are "netted-off" budget sector borrowings irrespective of whether those borrowings are paid into the Consolidated Fund; or repayments are made from that Fund or other sources. Such netting transactions also include some non-routine re-financing not adding to net debt (eg for the Commonwealth/State Financial Agreement and for FTMUT). Nevertheless they provide an overall picture of budget sector repayments not obtainable from a Consolidated Fund deficit funded by gross borrowings, that ignores repayments.

- Budget sector outlays in Government Purposes format. For example, for monthly reporting purposes, this format aggregates all outlays classified as Education, irrespective of which Department spends them. Thus, direct spending by the Directorate of School Education is not visible under GFS (but neither is it directly visible under existing Consolidated Fund reporting).

Past Estimates Committees expressed major concern over moves to GFS reporting in the annual budget papers and monthly Niemeyer Statements, principally due to a lack of clarity and credibility in the data. For example, in past years there were 'silent' or poorly explained net-offs of user charges from Departmental expenditure; classification errors and omissions; an absence of comparative historical data; and insufficient or poorly explained breakdowns of the composition of key outlays, revenues and financing transactions. Further, inflated asset sales targets, for example, were ultimately not realised but nevertheless had the effect of apparently reducing capital outlays funded by borrowings - at least until the budget year outcome became known and it was evident that asset sales had fallen well short of target.

Most of these GFS reporting concerns have now dissipated, and the Government is to be complimented for major strides towards much more transparent,
comprehensive, explanatory and robust reporting on the 1992-93 budget outcomes.

For example:

- Detailed time series and charts, and reconciliation tables with explanatory notes commenting on variations between forward estimates and actuals - and between initial and revised estimates - are all extremely valuable from financial transparency and credibility perspectives;

- Credible Autumn Session re-estimates of the Spring Session Budget Paper estimates allow Governments to avoid continually defending out-of-date expectations; and

- Monthly reports on budget progress (Niemeyer Statements) in GFS format are much sharper in tabular and narrative content, with the Committee remaining appreciative of continuing monthly supplementation by Consolidated Fund material.

As examples of the possible use by external scrutineers of the upgraded monthly reports, the Committee attaches to the end of this Chapter several charts it constructed, showing historical trends over the 1991-92 and 1992-93 years in such key budget parameters as the Current Account Deficit; payroll, stamp duty, land tax and tobacco franchise revenues; expenditure in Education, Hospitals and Transport; and interest payments.

As noted by the Auditor-General in the Overview to his Report on the 1992-93 Finance Statement, other financial management issues raised by himself (and by Estimates Committees) such as transport rolling stock sale and leaseback, and World Congress Centre funding arrangements, have now been promptly settled to the extent that their borrowings are recognised as budget sector liabilities.

The Committee awaits with interest further financial reporting initiatives by the Government in accrual accounting; whole of government statements of financial position (balance sheets); operating statements of income and expenses on a full financial reporting basis; and cash flow statements - all recommended by the Victorian Commission of Audit.

* In this general context, however the Committee notes that an economic assumption of Victorian unemployment reducing from 11.7% to 10% over 1993-94 to 1996–97 may be optimistic based on GDP assumptions.
As noted later in this Report, it is currently not possible to obtain from the Budget Papers the discrete financial year estimates and outcomes for the Directorate of School Education; Hospital Acute Care Inpatient Services; or the Public Transport Corporation. Together, these areas contribute about 50% of current departmental outlays, and are the key to expenditure reduction strategies. One reason for this lack of transparency is that the Budget Papers do not aggregate or disaggregate the separate programs which report their finances. Further, reporting of major financial and non-financial outcomes does not occur in the focussed manner adopted by this Report. The Committee emphasises that whatever further financial reporting initiatives are introduced by the Government, there is opportunity for a more discrete, focussed approach to the plans and outcomes of these three major entities.

**Finding 2.1**

The Committee finds that the Government has taken major strides towards much more transparent, comprehensive, explanatory and robust reporting on the 1992-93 budget outcomes, for example through:

(i) detailed time series and reconciliation tables and charts, with explanatory notes;

(ii) credible Autumn Session re-estimates of Spring Session Budget Paper estimates; and

(iii) sharper tabular and narrative content of monthly reports on budget progress (Niemeyer Statements).

**Recommendation 2.1**

The Committee recommends that the Government continue to supplement with Consolidated Fund material its monthly reports on budget progress (Niemeyer Statements) in Government Finance Statistics format.

**Recommendation 2.2**

The Committee recommends that the Budget Papers report on aggregate financial year estimates and outcomes in a substantially more discrete and focussed manner for each of the Directorate of School Education; Hospital Acute Care Inpatient Services; and the Public Transport Corporation.
2.3 BUDGETARY IMPACT OF A TEMPORARY SHORTFALL IN VET RECOUPS FROM THE PUBLIC AUTHORITIES

Over successive reports, the Auditor-General provided the Parliament with extensive detail on wind-up of the Victorian Equity Trust (VET). This was established in 1988 to raise public equity funding for various public authorities, viz SECV ($240m); Melbourne Water ($100m); Gas and Fuel Corporation ($50m); and the Portland Smelter Unit Trust (PSUT - $100m). All-up, $504m was raised, including $14m for establishment and like costs. Except for PSUT exemption, the Australian Loan Council for its purposes regarded the remaining funds raised as debt, and included them under the State's Global Borrowings.

In June/July 1992, the Government by use of borrowings repaid $712m to the individual unitholders in VET, thus itself acquiring the equity in the authorities. Capital growth in the units accounted for the increase between $504m raised in 1988 and $712m paid back to the unitholders in 1992. According to the 1992-93 Budget Papers (including that produced on The Consolidated Fund 1992-93 in April 1993), the authorities were to re-purchase $537m of this equity from the Government during 1992-93, thus enabling retirement of the equivalent amount of debt incurred by the Government in paying out the VET investors.

In the event, only Melbourne Water ($107.1m) and the Gas and Fuel Corporation ($57.2m) promptly paid a total of $164m in December 1992, with a temporary shortfall of $445m in payments due from the SECV ($325m) and PSUT ($120m) still outstanding at 30 June 1993 and at the time of writing (November 1993). Based on figures provided to the Committee, the Government now expects to receive a total of $609m from the public authorities, and not the $537m previously estimated; this leaves just $103m of outstanding borrowings which must continue to be serviced from appropriated general revenues. The Committee understands that the SECV may be disputing the amount it must legally pay in these circumstances under the Trust Deed, thus contributing to delays in VET wind-up. PSUT payments are to be received shortly, following a re-structure of its balance sheet.

On request, Treasury also advised the Committee as shown in Table 2.1 below of the interest cost to the budget sector on VET borrowings after 15 December 1992, the date on which repayments were made by Melbourne Water and Gas and Fuel and could reasonably have been expected from the other two authorities. Once the SECV pays, according to Treasury it is likely to provide compensation for delayed payment.
TABLE 2.1: INTEREST PAID BY THE BUDGET SECTOR ON BORROWINGS TO FUND THE VET RECOUP SHORTFALL

<table>
<thead>
<tr>
<th></th>
<th>1992/93 (Re-estimated)</th>
<th>30 June 1993 ($m)</th>
<th>15 October 1993 ($m)</th>
<th>15 December 1993 ($m)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Payment</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SECV</td>
<td>325</td>
<td>8.9</td>
<td>14.9</td>
<td>17.9</td>
</tr>
<tr>
<td>PSUT</td>
<td>120</td>
<td>3.3</td>
<td>5.5</td>
<td>6.6</td>
</tr>
<tr>
<td>TOTAL</td>
<td>445</td>
<td>12.2</td>
<td>20.4</td>
<td>24.5</td>
</tr>
</tbody>
</table>

Two important issues arise from the chain of events described above:

(a) Independently of each other, both the Auditor-General and the Committee identified this major but temporary (re-estimated) VET recoup shortfall of $445m. While the Auditor-General as a matter of course scrutinises Treasury internal documentation, the only way in which the Committee could pinpoint the 1992-93 shortfall against estimate was to examine the 1992-93 (cash) outcome of the Consolidated Fund disclosed in the 1993-94 Budget Papers. Under GFS (national accounting) format generally used for Budget Paper presentations, netting-off as earlier described entirely obscures the shortfall. GFS records $164m in debt repayments in 1992-93; but an accompanying $164m write-down of the Government's equity interest in VET - consequent upon receipt of the amount from the Authorities - then entirely nets out the repaid debt. This produces an overall null effect on GFS Financing Transactions (ie on the budget deficit).

Unfortunately, full GFS financing transactions for the budget deficit were not included in the 1993-94 Budget Papers, but were later provided to the Committee on request. The Committee presumes that lack of an explanation for this budget shortfall, including under VET narrative text at pages 7-28/29 of 1993-94 Budget Paper No. 2, was principally due to Treasury's focus on GFS presentations and reporting. In the Committee's view, all this is persuasive argument that for full parliamentary accountability, direct cash reporting should continue to supplement GFS formats. It also adds weight to the case for disclosing the detailed composition of (GFS) budget financing transactions (see 2.4 below).
(b) The Committee notes the Auditor-General's view (Report on the 1992-93 Finance Statement, p.27) and that of the Government's Finance Statement (p. xix) that the shortfall in receipts\(^1\) was without significant impact on the Consolidated Fund result for 1992-93. Neither the Auditor-General nor the Finance Statement expressly raised the interest cost of the delayed repayments. However, on the assumption that all authorities could have repaid on the same date (15 December 1992), Treasury advised in response to the Committee's inquiry that $12.2m in interest was paid to 30 June 1993 by the budget sector owing to lack of prompt payment by SECV (and PSUT). This cost doubles to about $24m after 12 months of outstanding payments. Given that SECV (and PSUT) incurred the underlying liability and obtained the accompanying benefit, in the Committee's view it is fair that they and their customers - without other cogent reasons, particularly for SECV - should bear the cost of the delayed repayments, rather than the general taxpayer through the State Budget.

---

Finding 2.2

The Committee finds that as an external scrutineer it could only identify a temporary $445m budget shortfall in 1992-93 Victorian Equity Trust (VET) public authority recoups by examining Consolidated Fund outcomes. Such VET recoups were otherwise unclear from the Budget Papers' emphasis on Government Finance Statistics presentation, but were separately identified by the Auditor-General in his Report on the 1992-93 Finance Statement.

Finding 2.3

The Committee finds that:

(i) delayed VET repayments by the State Electricity Commission (SECV) and the Portland Smelter Unit Trust (PSUT) to the Consolidated Fund cost the budget sector $12.2m in interest on those budget sector borrowings to 30 June 1993 needed to pay out the VET unitholders in June/July 1992; and

---

\(^1\) $445m on Treasury's current revision apparently places SECV and PSUT on a similar footing to Melbourne Water and Gas and Fuel, taking account of individual variations in previous dividend payments to the unitholders.
(ii) *prima facie*, the SECV should bear the continuing cost of its delayed repayments ($24m by December 1993), rather than the general taxpayer through the State Budget; and that such compensation is expected by Treasury.

2.4 COMPOSITION OF FINANCING TRANSACTIONS FOR THE BUDGET DEFICIT

As previously noted, for the last two years a table detailing the composition of financing transactions for the Budget deficit has not been included in the Budget Papers. It was last presented - admittedly in a most uninformative manner - in 1991-92 Budget Paper No. 2. At the Committee's request, Treasury provided the latest table (including forward estimates for future years) which is reproduced, with annotations, at Table 2.1. Substantial reasons for Budget Papers to run the table once again (incorporating outcomes against estimates) are:

- As with company profits or losses, "bottom lines" resulting from a number of tabular additions and subtractions are most credible when their constituent elements are itemised. Of course, there is absolutely no question about the integrity of the 1992-93 budget deficit; indeed, the Government has gone to very considerable trouble in the Outlay and Revenue tables to explain the deficit's derivation, including deductions of 'one-off', extraordinary items. In previous years, however, both Commonwealth and State budgets have been criticised for large one-off deductions from borrowings (eg by debt repayment using revenue from major business asset sales) which may mask underlying structural deficits. Further, in the 1991-92 Victorian budget, without any notation at all, $195m in borrowings to pay the Pyramid bond-holders was silently netted out and so reduced the deficit by an offsetting notional increase in the Government's investment in the liquidator's (future) distributions. These borrowings later needed regularisation within Loan Council global limits.

- The table is the only place in the budget papers providing a full list of budget sector debt repayments and retirements including specific, non-routine refinancing (such as the VDF restructure); but excluding routine refinancing (such as 'old money' global borrowings). In 1992-93, the table shows that faced with a current account deficit essentially only one repayment - using funds from the SIO sale - had an actual net impact on budget sector debt. The remaining repayments were just non-routine refinancing. Briefly but properly explained, the table also enables immediate insights into unusual financing transactions, such as those associated with VET and Pyramid in 1992-93; and
finally, it can act as a check against global borrowings reported elsewhere in the Budget Papers.

Recommendation 2.3

The Committee recommends that future Budget Papers should include a table detailing and explaining the composition of borrowings, repayments and changes in financial balances within the budget deficit's net financing transactions. Amongst other things, this would disclose a full list of budget sector debt repayments and retirements, including non-routine refinancing, actual debt reductions, and unusual transactions such as that involving VET in 1992-93.

Finding 2.4

The Committee finds that faced with a current account deficit, most budget sector debt repayments in 1992-93 necessarily involved debt refinancing without net impact on the stock of budget sector debt. The major exception was a significant $140m in debt reduction, using the proceeds of the SIO sale.
### TABLE 2.2:
BORROWING AND FINANCING TRANSACTIONS - FORWARD ESTIMATES

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>($ million)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>A. Borrowings</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>For Current Account Deficit</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FTMUT (a)</td>
<td>-</td>
<td>285</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Deferred Superannuation</td>
<td>-</td>
<td>1,386</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Other Current (b)</td>
<td>1,096</td>
<td>486</td>
<td>145</td>
<td>5</td>
<td>303</td>
</tr>
<tr>
<td>For Capital Account Deficit</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pyramid Refinancing (c)</td>
<td>75</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>VDF Restructure (d)</td>
<td>563</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Departure Packages</td>
<td>780</td>
<td>1,300</td>
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<td>-</td>
<td>-</td>
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<tr>
<td>Other Capital</td>
<td>831</td>
<td>742</td>
<td>777</td>
<td>605</td>
<td>654</td>
</tr>
<tr>
<td>For Financial Agreement (e)</td>
<td>469</td>
<td>239</td>
<td>405</td>
<td>210</td>
<td>266</td>
</tr>
<tr>
<td>Other</td>
<td>7</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
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<tr>
<td><strong>Total</strong></td>
<td>3,821</td>
<td>4,438</td>
<td>1,327</td>
<td>820</td>
<td>1,224</td>
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<tr>
<td><strong>B. Repayments</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>To Commonwealth</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial Agreement (e) from:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Appropriation</td>
<td>26</td>
<td>26</td>
<td>20</td>
<td>16</td>
<td>14</td>
</tr>
<tr>
<td>Borrowings</td>
<td>469</td>
<td>239</td>
<td>405</td>
<td>210</td>
<td>266</td>
</tr>
<tr>
<td>Commonwealth Contribution</td>
<td>9</td>
<td>7</td>
<td>7</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Housing</td>
<td>39</td>
<td>22</td>
<td>23</td>
<td>24</td>
<td>25</td>
</tr>
<tr>
<td>Specific Purpose Loans</td>
<td>9</td>
<td>11</td>
<td>10</td>
<td>10</td>
<td>8</td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>State Development Account (d)</td>
<td>585</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
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<tr>
<td>Cash Management Account (f)</td>
<td>95</td>
<td>85</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Property Facility (g)</td>
<td>59</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Victorian Equity Trust (h)</td>
<td>164</td>
<td>449</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>FTMUT (a)</td>
<td>-</td>
<td>285</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Vic. Debt Retirement Fund (i)</td>
<td>140</td>
<td>81</td>
<td>105</td>
<td>85</td>
<td>70</td>
</tr>
<tr>
<td>Director of Housing</td>
<td>39</td>
<td>21</td>
<td>20</td>
<td>20</td>
<td>14</td>
</tr>
<tr>
<td>Lease Facilities</td>
<td>20</td>
<td>19</td>
<td>14</td>
<td>11</td>
<td>9</td>
</tr>
<tr>
<td>Other</td>
<td>40</td>
<td>39</td>
<td>33</td>
<td>39</td>
<td>59</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1,694</td>
<td>1,285</td>
<td>636</td>
<td>419</td>
<td>371</td>
</tr>
<tr>
<td><strong>C. Net Borrowings (A-B)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>2,127</td>
<td>3,153</td>
<td>691</td>
<td>400</td>
<td>753</td>
</tr>
<tr>
<td><strong>D. Change in Financial Balances</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Victorian Equity Trust (h)</td>
<td>164</td>
<td>449</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Repayment of Pyramid Obligations (c)</td>
<td>(158)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Other</td>
<td>40</td>
<td>66</td>
<td>(20)</td>
<td>(21)</td>
<td>(19)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>47</td>
<td>515</td>
<td>(20)</td>
<td>(21)</td>
<td>(19)</td>
</tr>
<tr>
<td><strong>E. Net Financing Transactions (C + D)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>2,173</td>
<td>3,668</td>
<td>671</td>
<td>379</td>
<td>734</td>
</tr>
</tbody>
</table>

Totals may not add due to rounding.

**Source:** Treasury
Notes to Table 2.1 (largely compiled from prompt and comprehensive Treasury responses to the Committee’s detailed questions):

(a) Refinancing through the budget sector of accumulated Flexible Management Unit Trust (FTMUT) borrowings for Government obligations to the SECV on electricity supply to the Portland and Point Henry aluminium smelters. Null effect on net financing transactions. FTMUT borrowings prior to 1992-93 were not reported as ‘new money’ Global Borrowings as their source was Victorian public sector authorities through the Victorian Development Fund (VDF).

(b) Borrowings are through the Capital Works Authority - Current Account Advances Facility. Increase in 1996-97 is due to proposed one-off transport lease balloon payment of $300 m.

(c) The Government paid Pyramid bondholders $158m in August 1992 under its continuing obligations to redeem maturing Victorian Government Securities. Only $75 m of this amount came from new global borrowings; the balance was sourced to $32 m received by the Consolidated Fund in 1991-92 from the Pyramid liquidator; and $51 m from the special purpose trust fund into which the proceeds of the petrol levy were paid (total: $158 m). There was an accompanying $158 m decrease in the Government’s obligations to the bondholders, described as ‘Repayment of Pyramid Obligations’ under Heading D, in the table ‘Change in Financial Balances’. Overall, this involved a null effect on net financing transactions. Following January 1993 transfer to the Transport Accident Commission (TAC) of the Government’s liabilities to the bondholders and associated investment asset in the liquidator’s distributions, these Pyramid transactions will no longer appear in the budget sector accounts.

(d) Largely non-routine refinancing (through Treasury Corporation) associated with unwinding of the Victorian Development Fund (VDF), with $515 m for the State Development Account (SDA) and $48 m for the Committed Bridging Finance Facility - total $563 m. $70m of the $585 repayment is apparently derived from ‘Other Current’ borrowings. Most of the remaining VDF refinancing is shown in 1993-94 under FTMUT [$285 m - see (a) above]. As explained under FTMUT at (a) above, VDF borrowings were not previously reported as ‘new money’ Global Borrowings, as their source was within Victorian public sector authorities. Total re-financing associated with VDF unwinding over 1992-93 and 1993-94 is $950 m, an increase over the $814m reported in Table 7.7 of Budget Paper 2 of 1993-94. Revision was due to later
identification of sufficient capacity to report VDF borrowings fully for global purposes.

(e) Specific refinancing of State debt under the Commonwealth/State Financial Agreement. Over a number of years, borrowings previously raised on the States' behalf by the Commonwealth are being repaid to the Commonwealth and refinanced by the States in their own right. As the Commonwealth Budget records these repayments as Commonwealth revenue, it is unclear whether timing of the Commonwealth's subsequent repayment of its associated borrowings provides a temporary reduction to the Commonwealth's own budget deficit. However, this is not a State budget issue.

(f) $95 m was repaid to the Cash Management Account (CMA) in 1992-93 for borrowings to fund the 1991-92 current account deficit. $85 m was borrowed to ensure the Consolidated Fund had sufficient cash on 30 June 1993, with $22.7 m re-invested following balance. The full $1,181 m to fund the 1992-93 current account deficit [$1,096 m from (b) above, and $85 m from the CMA] was reported against Victoria's 1992-93 global limit. The CMA $85m was fully repaid early in 1993-94 from appropriated borrowings.

(g) Repayment of the VDF's property facility of $59m (created following an asset sales shortfall in a previous year) was by property sales of $11 m; and refinancing of the outstanding $48 m within $563 m of VDF restructure refinancing [see (d) above].

(h) See VET explanations under Chapter 2.3 above at issue (a). The total $712 m of borrowings to pay out the unit holders in 1992 occurred outside the Consolidated Fund but was nevertheless reported for global purposes. It comprised $390 m of borrowings reported on issue of VET equity in 1988; $110 m for PSUT and establishment costs which was exempt from global limits; $238 m of spare 'old money' global borrowing capacity arising from debt retired by the VDRF in 1991-92; with only the balance of $84m then requiring allocation of global borrowing 'new money' - as reported in the 1993-94 budget papers.

(i) Proceeds of the SIO sale were used in 1992-93 to retire $140 m of budget sector borrowings from the VDF's State Development Account. Three SIO sale instalments were received by the VDRF: $100 m direct in October 1992; and $25m and $15m through the Consolidated Fund in October 1992 and June 1993.
2.5 BUSINESS ASSET SALES REVENUE AND ITS APPLICATION

Based on Treasury responses to Committee questions, Table 2.3 below sets out in a consolidated manner the revenues received from major 1992-93 business asset sales, and discloses how these funds were used. No attempt has been made to replicate the Auditor-General's calculation of book profits or losses by deducting from amounts receivable any business net assets. For example, see his Report on the 1992-93 Finance Statement, at pages 36-38. The Committee believes that a similar table should be included in future budget papers. Clearly, however, disclosure of estimated business sales in the budget year is inappropriate, given the Government's confidential bargaining position in relation to prospective purchasers.

Recommendation 2.4

The Committee recommends that future Budget Papers should include a consolidated table detailing the revenues received or expected to be received from those major business asset sales finalised in the previous financial year, including disclosure of how these funds were used or expected to be used.
<table>
<thead>
<tr>
<th>Business Asset Sale</th>
<th>Sale Revenue Received in 1992-93</th>
<th>Application of Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. State Insurance Office (SIO)</td>
<td>$140 m received by VDRF/Consolidated Fund. Does not include $23.4 m retained by SIO to cover retained obligations; or $48.9 m to be received by SIO under licence over next 5 years; or $90 m special dividend paid in 1991-92 by SIO (prior to sale) to the VDRF and Consolidated Fund.</td>
<td>VDRF budget sector debt retirement in 1992-93 of borrowings from the State Development Account.</td>
</tr>
<tr>
<td>Sale to GIO</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Loy Yang B</td>
<td>$545.8 m received by SECV.</td>
<td>Apart from $23 m of SECV transaction costs, remainder was used to retire SECV debt. No money from sale was paid or on-passed to the budget sector.</td>
</tr>
<tr>
<td>Sale of 51% share of partially constructed power station to Mission Energy</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Portland Aluminium Smelter</td>
<td>$180 m received with $171 m retained by PSUT and $9 m paid to the Government in stamp duty.</td>
<td>$120 m is to be used by PSUT in 1993-94 to repurchase VET equity from the Government; this will then enable repayment of Government borrowings used for earlier payout of VET unitholders. The balance retained by PSUT ($51 m) will form part of the overall restructure of PSUT. Note, however, that PSUT borrowings for the Delay Cost Compensation Payment to the SECV in 1984 still totalled $144 m in 1992-93, but are now to be transferred to the budget sector, with PSUT for the time being to pay the interest cost.</td>
</tr>
<tr>
<td>Sale of 10% of PSUT’s 35% participating interest in the smelter to Marubeni Corporation. PSUT is wholly-owned by the State.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Heatane Division of Gas and Fuel Corporation (GFCV) dealing in LPG</td>
<td>Total price of sale ($129.5m) was received by GFCV on June 1993.</td>
<td>Sale proceeds to be paid to budget sector (via the Consolidated Fund) as part of GFCV’s estimated total dividend for 1993-94 of $245m. To be used &quot;to reduce the State’s debt and liabilities&quot;, with details yet to be announced.</td>
</tr>
<tr>
<td>Sale to Elgas</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Treasury; Budget Papers (Various); Auditor-General’s Report on the 1992-93 Finance Statement
2.6 EXPENDITURE CARRYOVER ISSUES

2.6.1 Carryovers and Carryforwards Distinguished

As part of the budget management reform program, Treasury in 1992-93 for the first time approved formal carryover to 1993-94 of unspent, discretionary recurrent and works funds by Departments. The aim was to provide an incentive to departments to rein in excessive end-of-year spending, for fear of unspent funds otherwise being lost to their use. Departments needed to identify a clear purpose for funds carried over, with amounts generally limited to 3% of their 1992-93 budget base. Table 8.2 of 1993-94 Budget Paper No. 2 detailed those carryovers from 1992-93 to 1993-94, which in total amounted to $37.3m. Of this, $33.5m was an addition to the recurrent and not the works and services base.

Carryover funds should be clearly distinguished from carryforward funds; the latter are generally non-discretionary and outside Departmental control. Thus, in contrast to carryover, carryforward is not and should not be seen as a reward for economical management. Main items relate to unspent Commonwealth specific purpose payments; Industry Contributions; and funds for specific government programs. They amount to $33.7m in 1992-93, with references in the Notes to Major Variances in Table A.2, 1992-93 Budget Outcome - Current Account in 1993-94 Budget Paper No. 2.

The Committee has consolidated below at Table 2.4 the recurrent carryforwards and carryovers for Departments between 1992-93 and 1993-94. Treasury advised the Committee that a carryforward table for unspent capital expenditure was inappropriate, because inter-year adjustments involve a mixture of both carryforwards, and revised annual cashflow requirements. In this way, capital carryforwards are not necessarily separately defined.
TABLE 2.4:  
RECURRENT FUNDS CARRIED BETWEEN 1992-93 AND 1993-94 ($m)

<table>
<thead>
<tr>
<th></th>
<th>Discretionary Carryovers</th>
<th>Non-Discretionary Carryforwards</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Parliament</td>
<td>0.6</td>
<td>-</td>
<td>0.6</td>
</tr>
<tr>
<td>Agriculture</td>
<td>0.3</td>
<td>4.3</td>
<td>4.6</td>
</tr>
<tr>
<td>Arts, Sport and Tourism</td>
<td>-</td>
<td>0.4</td>
<td>0.4</td>
</tr>
<tr>
<td>Business and Employment</td>
<td>3.2</td>
<td>2.5</td>
<td>5.7</td>
</tr>
<tr>
<td>Conservation and Natural Resources</td>
<td>0.8</td>
<td>1.4</td>
<td>2.2</td>
</tr>
<tr>
<td>Education</td>
<td>15.6</td>
<td>0.4</td>
<td>16.0</td>
</tr>
<tr>
<td>Energy and Minerals</td>
<td>0.3</td>
<td>-</td>
<td>0.3</td>
</tr>
<tr>
<td>Finance</td>
<td>1.4</td>
<td>-</td>
<td>1.4</td>
</tr>
<tr>
<td>Health and Community Services</td>
<td>4.2</td>
<td>24.6</td>
<td>28.8</td>
</tr>
<tr>
<td>Justice</td>
<td>4.5</td>
<td>-</td>
<td>4.5</td>
</tr>
<tr>
<td>Planning and Development</td>
<td>0.2</td>
<td>0.1</td>
<td>0.3</td>
</tr>
<tr>
<td>Premier and Cabinet</td>
<td>0.9</td>
<td>-</td>
<td>0.9</td>
</tr>
<tr>
<td>Treasury</td>
<td>1.5</td>
<td>-</td>
<td>1.5</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>33.5</strong></td>
<td><strong>33.7</strong></td>
<td><strong>67.2</strong></td>
</tr>
</tbody>
</table>


2.6.2 Meritorious Discretionary Carryovers

The Committee notes that the discretionary carryover process does not expressly examine whether Departmental underspending is particularly meritorious, except to the extent that discretionary underspending is presumed to reflect economical management. Thus, for Education and Health and Community Services - both examined in later Chapters - the Committee found that underspending against budget appears not to result from major, additional effort to rein in expenditure. In Education's case, there is a strong inference that $15.6m of discretionary underspending only arose from an overly-generous recurrent expenditure base in 1992-93. For Health and Community Services, discretionary portfolio underspending of $4.2m was only possible because over-expenditure by the hospitals and nursing homes area (due to public hospital revenue shortfalls) as in past years was effectively overcome through an adjusting drawdown from the following year's budget, taken from Supply Period (July - October) appropriations.

The Committee considers that factors of this nature - which bear little relation to meritorious management - should in future be taken into account by Treasury in considering approvals of discretionary carryovers.
Finding 2.5

The Committee finds that the Budget Papers contain somewhat confusing references to 'carryover' and 'carryforward' funds distinguished by:

(i) 'carryover' involving Treasury-approved carriage to 1993-94 of $37.3m in discretionary recurrent and works funds unspent in 1992-93, as an incentive to Departments to rein in excessive end-of-year spending of funds which might otherwise be lost; and

(ii) 'carryforward' involving carriage to 1993-94 of $33.7m in non-discretionary funds outside Departmental control in 1992-93, such as unspent Commonwealth specific purpose payments, but without any implied reward for economical management.

Recommendation 2.5

The Committee recommends that factors bearing little relation to meritorious economical management should be relevant considerations in Treasury decisions on carryovers to the next financial year of a Department's unspent discretionary funds. Such factors include major discretionary underspending from an overly-generous recurrent expenditure base, and regular over-expenditure only overcome through regular drawdowns from a following year's budget allocation.
CHART 2.2 - PAYROLL TAX COLLECTION, 1991-92 AND 1992-93

Source: Treasury Monthly Reports on Budget Sector Financial Transactions (Niemeyer Statements)
CHART 2.3 - COLLECTIONS OF STAMP DUTY ON FINANCIAL & CAPITAL TRANSACTIONS, 1991-92 AND 1992-93

Source: Treasury Monthly Reports on Budget Sector Financial Transactions (Niemeyer Statements)
CHART 2.5 - TOBACCO FRANCHISE COLLECTIONS, 1991-92 AND 1992-93

Source: Treasury Monthly Reports on Consolidated Fund Transactions (Niemeyer Statements)
CHART 2.6 - INTEREST PAYMENTS, 1991-92 AND 1992-93

Source: Treasury Monthly Reports on Budget Sector Financial Transactions (Niemeyer Statements)

Source: Treasury Monthly Reports on Consolidated Fund Transactions (Niemeyer Statements)

Cumulative Annual Expenditure ($m)

July  Aug  Sept  Oct  Nov  Dec  Jan  Feb  Mar  Apr  May  June

Source: Treasury Monthly Reports on Consolidated Fund Transactions (Niemeyer Statements)

Source: Treasury Monthly Reports on Consolidated Fund Transactions (Niemeyer Statements)
3.1 OVERVIEW OF SCHOOL EDUCATION'S 1992-93 BUDGET OUTCOME

In 1992-93, the Directorate of School Education (DSE) turned a 1991-92 salaries overrun of about $38m into an overall, mainly salaries underrun of $15-$16m against a total budget of just over $2,500m. That reversal came with acceptances by teachers of in excess of 3,500 Voluntary Separation Packages (VSPs),* resulting in a DSE-initiated reduction of 2,650 teachers in schools (or 6.5%). Works and Services spending was brought in right on the $162m budget target, which itself fell $50m on 1991-92 expenditure.

Student/teacher ratios (STRs) rose from 15.8 in 1991-92 to 17.2 (primary) and from 10.8 to 11.3 (secondary), bringing Victoria closer to but generally still well below the 1992 position prevailing in NSW and Queensland - by between about 1-3 students per teacher. Other major expenditure reduction initiatives included contracting out of school cleaning ($40m savings on a full year basis); and 16% reduction in the size of Head Office (Rialto) and Regional Offices.

This chapter focuses on:

- the manner in which recurrent budget monetary savings of $117m exceeded the original $102m savings target, including the role played by a likely $20m-$30m 'softness' in DSE's budget base and the substantial flow on to 1993-94 of a further $85m-$90m in new savings from 1992-93 initiatives;

- continuing structural difficulties in workforce management relating to family leave, which limited teacher reductions in schools to 74% (or about 2,650) of those 3,500 teacher cessations arising from VSP acceptances, and prevented new graduates and others re-entering the workforce from engagement as (casual) replacement teachers. [400 non-school staff - about 16% of all public servant and school support teaching staff - were also shed, while school-based non-teaching staff numbers remained stable, due to a significant increase in Teacher Aides]; and

* Unless otherwise stated, teacher numbers cited in this Chapter are in Equivalent Full-Time (EFT) terms.
• movements in key performance indicators such as STRs, class sizes, retention rates and costs per student. Unfortunately, the breadth of reported educational performance indicators currently collected by DSE is disappointingly narrow. As the Office of School Review gears up, major measurement improvements will undoubtedly occur in areas such as student achievement, class contact times, curriculum specialties and non-class teacher and student activities.

3.2 TEACHER REDUCTION OUTCOMES

In the Committee's view, DSE-initiated 1992-93 school teacher reductions (ie those obtained through VSP acceptances) ought to be measured over the six months between 1 January 1993 and 30 June 1993. This is the period which contained all departures from the teacher workforce due to VSP acceptances; it thus best reflects the Government's savings strategy outcomes.

In Table 3.1 below, the Committee measures the net outcome of DSE-initiated teacher reductions from pay over that six-months period as a loss of 2,654 teachers, or 6.5% of teachers at 31 December 1992. This is significantly less than DSE's claim to the Committee of a gross loss of 4,654 teachers and a net reduction in teachers on pay of 3,234. However, those reductions claimed by DSE include teacher numbers not expressed in standard EFT terms; 460 resignations from unpaid leave; as well as 470 departures from pay resulting from natural attrition over the whole of 1992-93.

None of these latter teachers lost through attrition appeared to need replacement, as government school enrolments were:

(i) in February 1993, about 3,000 students below the February 1992 level; and
in July 1993, 7,500 students below July 1992, mainly owing to decline in secondary numbers; and

(ii) in February 1993 about 9,000 below projections - with about equal shortfalls in primary and secondary enrolments. It was these over-estimated projections, rather than confirmed enrolments at the July 1992 schools census, which were used as the foundation for DSE's 1992-93 recurrent expenditure base appropriation.
In the Committee's opinion, DSE claims on teacher reductions - while relevant in other contexts - lack a degree of relevance for its 1992-93 savings strategy outcomes. In particular, 470 departures from pay as a result of unreplaced natural attrition over 1992-93 should not be classified as DSE-initiated teacher reductions.

**TABLE 3.1: DSE-INITIATED TEACHER REDUCTIONS**
**1 JANUARY - 30 JUNE 1993**

<table>
<thead>
<tr>
<th></th>
<th>Teachers (EFT)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. VSP acceptances</td>
<td>3,570</td>
</tr>
<tr>
<td>2. Plus: other teacher cessations from pay (death, retirement, non-VSP resignations etc.) (a)</td>
<td>185</td>
</tr>
<tr>
<td>3. Total teacher cessations from pay (b)</td>
<td>3,755</td>
</tr>
<tr>
<td>4. Actual reduction in teachers on pay (b)</td>
<td>2,773</td>
</tr>
<tr>
<td>5. Plus: new appointments</td>
<td>66</td>
</tr>
<tr>
<td>6. Less: other (non-VSP) teacher cessations from pay (a)</td>
<td>185</td>
</tr>
<tr>
<td>7. Net DSE-Initiated Teacher Reduction in Schools (c) ((4 + 5 - 6))</td>
<td>2,654</td>
</tr>
<tr>
<td>8. Proportion of VSP Acceptances Resulting in DSE-Initiated Teacher Reduction in Schools ((7 + 1))</td>
<td>74%</td>
</tr>
</tbody>
</table>

**Notes:**

(a) Total Other Cessations were 445 in the January-June 1993 period, less about 260 cessations by teachers on unpaid leave. Presumably due to VSP availability, 'other cessations' were only about half the number for the same period 12 months earlier.

(b) The difference between items (3) and (4) is explained by the return of around 1,000 teachers from family leave - see text below for details.

(c) The Victorian Commission of Audit estimated at end-March 1993 on the best available DSE figures that maximum teacher reduction savings would be about 2,550 EFT.

**Source:** DSE, chiefly adapting its *Teacher Staffing Report for 30 June 1993.*

The Government's 1992-93 teacher reduction strategy based on voluntary departures aimed to bring Victoria closer, but still below, other major States' student/teacher ratios. Assessed solely from that objective, a DSE-initiated teacher reduction in schools of about 2,650 must rank as a major achievement. Nevertheless, the Committee emphasises that the full impact of almost 3,600 VSP teacher acceptances was significantly dissipated by 26% \((100\% - 74\%)\) or
almost 1,000 of these departures not resulting in an effective teacher reduction within schools. VSP payouts from teachers in schools cost $155m in Treasury funds, at an average payout of about $42,000 (ex-superannuation).

A situation where some VSP funds do not lead to effective teacher reductions is due for the most part to large-scale, uncontrolled returns to duty by teachers on family leave, with other teachers then having to make way for them. As noted by the Report of the Victorian Commission of Audit (School Education Chapter 7, Volume 2, pp. 49-50), introduction of seven years of unpaid family leave in 1985, accompanied by guaranteed returns to duty, led to a loss of DSE control over teacher workforce numbers. Currently, according to the Commission, uncontrolled returns approximate to a net 1,000 teachers each year; consequential annual budget blowouts in the absence of VSPs are of the order of $40m; but workforce flows could be stemmed by introducing redundancy offers or statutory deferment. This medium term structural workforce problem is likely to continue until equilibrium occurs between returns from the pool of family leave teachers; and new entrants to the pool from the teaching workforce. Currently, DSE must offer around 1,000 more VSPs to classroom teachers than it would otherwise make. In the absence of such offers, the teacher workforce would automatically grow by 1,000 each year, quite independently of actual student numbers.

Schools' teacher staffing was principally reduced in the latter half of 1992-93 by removing special needs positions. Those teachers who were beyond schools' entitlements under the revised staffing formulas served in an excess pool replacing teachers absent on various forms of leave. The size of the official excess pool was still 1,376 at 30 June 1993, compared with a budgeted (average) size of just 1,300 but an average actual size of 1,770 during January to June. Unfilled 330 vacancies at 30 June 1993 and continuing attrition could see the pool reduce significantly by the end of 1993. *

Based on its detailed analyses, however, the Victorian Commission of Audit estimated that the official excess pool could understate actual excess teachers by up to perhaps 1,000 teachers. DSE continues to dispute that conclusion. However, it recently advised the Committee that, under Government policy, falling student numbers during the year (eg. an 8,000 secondary student drop out by July 1993) do not alter earlier approved staffing allocations - so preventing

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* At 30 October 1993, it still contained almost 900 teachers.
class disruption in the senior years. Such a policy allows several hundred more teachers to remain in schools and outside the official excess pool in circumstances where staffing formulas are not strictly applied after the school year commences. Together with excess teacher accumulations for other reasons, such teachers create major additional difficulties for DSE's teacher reduction strategy at a time of falling enrolments - particularly due to demographic shifts in the secondary area. (See 3.5.1 below)

Growth in teachers excess to staffing entitlements set for the commencement of the school year has multiple causes. They include shortfalls in projected student enrolments; secondary student drop out during the year; and continuing net teacher returns from leave - all offset by a small amount of natural attrition. Given limits on the number of VSPs which the Government allowed DSE to offer and the number of teachers wishing to accept offers, the primary cause of the large 1992-93 excess pool was uncontrolled return by teachers from family leave. But for those returns, the official excess pool at end-June 1993 would probably not have exceeded 200-300 teachers. Its expansion to almost 1,400 (1,770 on average per month) involved DSE in some limited additional expenditure, but probably no more than about $5m. This is because the pool became the source of replacement teachers in the second half of 1992-93; over the same period in previous years, these had cost in the order of $30m.

In the Committee's view, the excess pool's main policy detriment - in a savings environment allowing extremely few new on-going appointments - is DSE's inability to engage new graduates, or graduates re-entering the workforce, as (casual) replacement teachers. The Committee concludes that DSE should by reviewing its policies on guaranteed family leave returns achieve a better balance between the competing employment needs of teachers wishing to return after many years of family leave; several thousand new graduates each year; and other graduates wishing to return to the workforce as teachers. To date, no public announcement of any DSE initiatives in this area have been made.
Finding 3.1

The Committee finds that:

(i) there were about 2,650 DSE-initiated effective teacher reductions in schools in the second half of 1992-93 (6.5% of the teacher workforce) resulting from Voluntary Separation Package (VSP) acceptances;

(ii) 470 departures from pay of unreplaced teachers as a result of natural attrition over 1992-93 should not be included in the teacher reduction savings strategy outcomes. They did not require replacement because confirmed student enrolments in February 1993 disclosed that DSE had over-estimated its projected students for February 1993 by around 9,000; and

(iii) the full impact of 3,600 VSP acceptances by teachers was significantly dissipated by 26% (or about 1,000) not resulting in an effective teacher reduction in schools. This was due to the continuing workforce management problem of uncontrolled, guaranteed returns to duty by about a net 1,000 teachers from family leave.
Finding 3.2

The Committee finds that the 1992-93 official pool of excess teachers in schools:

(i) was still about 1,400 strong at 30 June 1993, compared with a budgeted average size of 1,300 and an actual average size of 1,770 during January-June;

(ii) did not include several hundred teachers remaining in secondary schools after the school year commenced, despite an 8,000 student drop-out through to July 1993. This was to avoid senior class organisation disruptions;

(iii) primarily resulted from uncontrolled returns to duty by teachers on family leave;

(iv) involved DSE in only limited additional expenditure, because this pool was the source of replacement teachers between February-June 1993; and

(v) prevented DSE engaging new graduates or others wishing to re-enter the workforce, as (casual) replacement teachers.

Recommendation 3.1

The Committee recommends that DSE should urgently review its policies on guaranteed returns to duty from family leave to achieve a better balance between the competing employment needs of teachers returning after many years of family leave; each year's crop of new graduates; and others seeking to re-enter the workforce.
3.3 NON-SCHOOL STAFF REDUCTIONS

Non-school staff on pay totalled 1,980 on 30 June 1993, a fall of 400 (or about 16%) in the financial year and a massive reduction over the four years 1989-93 of about 50%. Major occupational groups involved are public servants and the School Support Teaching Service (SSTS), spread over Head Office (Rialto), Regional Offices and School Support Centres. Over the four years, most dramatic is almost 90% reduction (350 staff) in Head Office SSTS positions mainly in the curriculum area; least dramatic is a fall of just over 100 (about 16%) in Head Office public servants. Table 3.2 and Chart 3.1 below tell the story.

In past years, such non-school reductions while achieving productivity improvements were forced at a time of overall budgetary stringency. The current Government's 'Schools of the Future' strategy, with a much lower level of central direction and control, would reduce non-school areas from 2,000 in 1992-93 to just 600 core staff, but with a number of functions out-sourced on a fee-for-service basis. In future, the Committee will need to monitor carefully the cost to non-school expenditure from such service contract fees.

As a result of earlier savings, Victoria's cost per student for non-teaching staff salaries declined from about equal to the Australian average, to 20% below in 1991-92. It is highly likely that this fall was further accentuated in 1992-93.

In contrast to the non-school area, school based non-teaching staff (excluding cleaners) remained stable over the past couple of years at around 5,300 - with some decline in office staff (totalling 2,000 at 30 June 1993) offset by increases in teacher aides (totalling about 2,400 at 30 June 1993).
Finding 3.3

The Committee finds that:

(i) 400 non-school staff - about 16% of all public servants and School Support Teaching Service staff (SSTS) - were shed in 1992-93, adding to a reduction in these groups over the four years 1989-93 of about 50%;

(ii) the most dramatic reduction in four years is a 90% reduction (350 staff) in Head Office SSTS, mainly in the curriculum area; least dramatic is a fall of about 16% (100 staff) in Head Office public servants; and

(iii) the Government plans to reduce non-school areas from 2,000 in 1992-93 to just 600 core staff, with a number of functions outsourced on a fee-for-service basis and any such spending requiring re-inclusion in non-school expenditure.
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Servants</td>
<td>1856</td>
<td>1869</td>
<td>1586</td>
<td>1385</td>
<td>1202</td>
</tr>
<tr>
<td>Rialto</td>
<td>624</td>
<td>684</td>
<td>650</td>
<td>590</td>
<td>517</td>
</tr>
<tr>
<td>Regional Offices</td>
<td>771</td>
<td>746</td>
<td>562</td>
<td>492</td>
<td>457</td>
</tr>
<tr>
<td>School Support Centres</td>
<td>460</td>
<td>439</td>
<td>359</td>
<td>301</td>
<td>227</td>
</tr>
<tr>
<td>Extension Education Service</td>
<td>N/A</td>
<td>N/A</td>
<td>15</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td>SSTS</td>
<td>1615</td>
<td>1481</td>
<td>1212</td>
<td>902</td>
<td>744</td>
</tr>
<tr>
<td>Rialto</td>
<td>418</td>
<td>293</td>
<td>155</td>
<td>105</td>
<td>48</td>
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<tr>
<td>Regional Offices</td>
<td>189</td>
<td>215</td>
<td>176</td>
<td>148</td>
<td>123</td>
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<tr>
<td>School Support Centres</td>
<td>1008</td>
<td>973</td>
<td>796</td>
<td>584</td>
<td>495</td>
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<tr>
<td>Extension Education Service</td>
<td>N/A</td>
<td>N/A</td>
<td>85</td>
<td>66</td>
<td>78</td>
</tr>
<tr>
<td>School Council Employees</td>
<td>5</td>
<td>4</td>
<td>7</td>
<td>5</td>
<td>6</td>
</tr>
<tr>
<td>Exempts</td>
<td>159</td>
<td>118</td>
<td>57</td>
<td>53</td>
<td>25</td>
</tr>
<tr>
<td>Ancillary</td>
<td>96</td>
<td>82</td>
<td>45</td>
<td>34</td>
<td>3</td>
</tr>
<tr>
<td><strong>Grand Total</strong></td>
<td>3731</td>
<td>3554</td>
<td>2906</td>
<td>2380</td>
<td>1980</td>
</tr>
</tbody>
</table>

**Distance Education**

<table>
<thead>
<tr>
<th>Staffing Category</th>
<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Servants</td>
<td>N/A</td>
<td>N/A</td>
<td>11</td>
<td>12</td>
<td>14</td>
</tr>
<tr>
<td>SSTS/Teachers</td>
<td>N/A</td>
<td>N/A</td>
<td>143</td>
<td>105</td>
<td>86</td>
</tr>
<tr>
<td>School Council Employees</td>
<td>N/A</td>
<td>N/A</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Ancillary</td>
<td>N/A</td>
<td>N/A</td>
<td>2</td>
<td>3</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>157</td>
</tr>
</tbody>
</table>

**Notes:**

1. The above figures show staff on pay funded from all sources (including Trusts).
2. To ensure comparability of data across years, Disadvantaged Schools Program teacher aides which were previously recorded as 'Non-School' have been excluded from the June 1989 and 1990 figures (129.6 and 153 respectively). In addition 55 School Council Officers who were recorded as 'Non-School' in 1988-89 have been excluded from June 1989 figures.
3. Reliable Extension Education staff figures are not available prior to June 1991.
4. Distance Education staff are recorded as 'School Based'. Reliable staffing figures prior to June 1991 are not available.
5. The increase in the number of regional office public servants is the net effect of voluntary departures and the transfer of 34.1 EPT ethnic teacher aides from the Portfolio Management and Co-ordination Program. These employees are funded from the Commonwealth Aboriginal Education Trust Account.

**Source:** DSE
CHART 3.1: REDUCTION IN NON-SCHOOL BASED STAFF ON PAY, 1989-93

**Head Office**

- SSTs
- Public Servants

<table>
<thead>
<tr>
<th>Year</th>
<th>SSTs</th>
<th>Public Servants</th>
</tr>
</thead>
<tbody>
<tr>
<td>June 1989</td>
<td>400</td>
<td>800</td>
</tr>
<tr>
<td>June 1990</td>
<td>300</td>
<td>700</td>
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<tr>
<td>June 1991</td>
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<td>600</td>
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<tr>
<td>June 1992</td>
<td>100</td>
<td>500</td>
</tr>
<tr>
<td>June 1993</td>
<td>50</td>
<td>450</td>
</tr>
</tbody>
</table>

**Regional Offices**

- SSTs
- Public Servants

<table>
<thead>
<tr>
<th>Year</th>
<th>SSTs</th>
<th>Public Servants</th>
</tr>
</thead>
<tbody>
<tr>
<td>June 1989</td>
<td>400</td>
<td>800</td>
</tr>
<tr>
<td>June 1990</td>
<td>300</td>
<td>700</td>
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<tr>
<td>June 1991</td>
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<td>600</td>
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<tr>
<td>June 1992</td>
<td>100</td>
<td>500</td>
</tr>
<tr>
<td>June 1993</td>
<td>50</td>
<td>450</td>
</tr>
</tbody>
</table>

**School Support Centre**

- SSTs
- Public Servants

<table>
<thead>
<tr>
<th>Year</th>
<th>SSTs</th>
<th>Public Servants</th>
</tr>
</thead>
<tbody>
<tr>
<td>June 1989</td>
<td>1200</td>
<td>400</td>
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<tr>
<td>June 1990</td>
<td>1000</td>
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<td>June 1991</td>
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<td>200</td>
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<td>June 1992</td>
<td>600</td>
<td>100</td>
</tr>
<tr>
<td>June 1993</td>
<td>400</td>
<td>50</td>
</tr>
</tbody>
</table>

**Note:** SSTs is the School Support Teaching Service.

**Source:** Table 3.2.
3.4 RECURRENT BUDGET SAVINGS OUTCOMES

DSE's overall savings target in 1992-93 was $102m, including productivity savings required by the previous Government, and 2% of such savings required by the Coalition Government. As noted earlier, DSE actually obtained excess savings of $15m, so achieving $117m overall. This was despite additional spending of $3m-$4m on such items as extra teacher aides, and Term 2 emergency teachers. Almost $16m was therefore approved by the Treasurer for carryover into 1993-94, for a large number of sundry purposes.

The Victorian Commission of Audit estimated in April 1993 that out of $60m in overall teacher-related savings in 1992-93, only $35m would come from teacher reduction savings. The balance of the $60m was likely to be derived from:

(a) a net $15m 'softness' in an inflated salary expenditure base; and

(b) $10m from inflated forward estimates for study leave and special needs betterment teachers, which neither the previous Labor administration nor the Coalition were actually to fund in 1992-93.

The Committee has re-examined the Commission's calculation, and in general agrees with its conclusions. Indeed, based on final 1992-93 DSE expenditure figures, the salary base may have been inflated by as much as $20-$30m. Its source was likely to be automatic continuance in 1992-93 of an amount equal to $25m in 1991-92 Treasurer's Advance funding for 1,200 - 1,300 teacher excesses from family leave returns; as well as actual student enrolments in February 1993 which were 9,000 below projected levels - but nevertheless provided the foundation for DSE's 1992-93 recurrent expenditure budget base.

Table 3.3 below sets out the Committee's calculation on how DSE's June 1993 savings strategy outcome was achieved.
### TABLE 3.3: DSE SAVINGS STRATEGY - JUNE 1993 OUTCOME

<table>
<thead>
<tr>
<th>Description</th>
<th>Savings (m)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Savings for other than school-based teachers</strong> (a)</td>
<td></td>
</tr>
<tr>
<td>1. Contract cleaning</td>
<td>20.0</td>
</tr>
<tr>
<td>2. School-based administrative and support staff</td>
<td>1.0</td>
</tr>
<tr>
<td>3. Non-school based staff</td>
<td>6.1</td>
</tr>
<tr>
<td>4. Other Salary Items</td>
<td>5.8</td>
</tr>
<tr>
<td>5. Non-Salary Items</td>
<td>9.0</td>
</tr>
<tr>
<td>6. Holiday leave loading withdrawal</td>
<td>2.0</td>
</tr>
<tr>
<td><strong>Total (Items 1 to 6)</strong></td>
<td>43.9</td>
</tr>
<tr>
<td><strong>8. Actual DSE Savings comprising</strong></td>
<td>117.7</td>
</tr>
<tr>
<td>- Initial Target</td>
<td>102.0</td>
</tr>
<tr>
<td>- Actual excess savings (b)</td>
<td>15.7</td>
</tr>
<tr>
<td><strong>9. Maximum school-based teacher savings [Item 8 less Item 7]</strong></td>
<td>73.8</td>
</tr>
<tr>
<td>containing these specific items</td>
<td></td>
</tr>
<tr>
<td>(i) Non provision of betterment teachers (c)</td>
<td>9.5</td>
</tr>
<tr>
<td>(ii) Non-use of replacement teacher funding after 1 January 1993 (c)</td>
<td>11.2</td>
</tr>
<tr>
<td>(iii) Non-filling for 6 months of almost 5,000 AST positions (c)</td>
<td>8.0</td>
</tr>
<tr>
<td>(iv) Strike leave savings (d)</td>
<td>9.5</td>
</tr>
<tr>
<td>(v) Net DSE-initiated reduction of an average 2,200 teachers per month for 6 months (e)</td>
<td>44.0</td>
</tr>
<tr>
<td><strong>10. Total</strong></td>
<td>82.2</td>
</tr>
<tr>
<td><strong>11. Less: Cost of an average 1,770 teachers per month for</strong></td>
<td></td>
</tr>
<tr>
<td>6 months duration of excess pool (e) (f)</td>
<td>35.0</td>
</tr>
<tr>
<td><strong>12. School based teacher savings from specific items</strong> (f) - (v), less excess pool cost [Item 10 less Item 11]</td>
<td>47.2</td>
</tr>
<tr>
<td><strong>13. School based teacher savings for which no specific reasons exist</strong></td>
<td>26.6 (g)</td>
</tr>
<tr>
<td>[Item 9 less Item 12]</td>
<td></td>
</tr>
</tbody>
</table>

**Notes:**

(a) Savings shown rely on DSE savings strategy estimates, updated to June 1993 and provided to the Committee, but without further testing by it.

(b) From DSE's Financial Statement of 30 June 1993.


(d) Advice from DSE in November 1993.

(e) Based on average teacher costs of $40,000 p.a. including on costs; average teachers are derived from DSE’s Teacher Staffing Report of 30 June 1993.

(f) This was not a budgeted expense for 1992-93, and hence offsets achieved savings.

(g) Because of the broad nature of its assumptions, the Committee prefers to treat the amount in Item 13 of Table 3.3 as indicative only, and therefore expresses the budget 'softness' as between $20m-$30m.
The Committee draws two major conclusions from Table 3.3 above:

(a) 'Softness' in the DSE recurrent expenditure base (equivalent to savings for which no specific reasons exist) was in the order of $20m-$30m (Item 13), or up to 25% of DSE's total achieved savings of $117.7m. As previously noted, this inflated base seems associated with major over-estimates of student enrolment projections for 1993; as well as continuing carriage into 1992-93 of an added $25m for excess teachers paid from the 1991-92 Treasurer's Advance. The Committee presumes that Treasury has more rigorously excised this sort of 'softness' from the 1993-94 DSE recurrent base by, for example, deducting the full year saving from an unreplaced 470 teachers lost through natural attrition when 1993 actual student enrolments proved well below DSE projections. Otherwise, 1993-94 savings targets will again be achieved through substantial reliance on inherent 'softness' in the approved expenditure base. In Chapter 2, the Committee stressed that discretionary carryovers of unspent funds between years should be avoided where such savings depend on budget base 'softness'.

(b) Savings in 1992-93 from DSE-initiated school teacher reductions were likely to amount to no more than $44m [Item 9(v) in the table] or only 37% of DSE's total achieved savings of $117.7m. This was because 2,654 reductions (see Table 3.1) did not start until 1 January 1993, and were then spread over the following 6 months. However, the full year savings of DSE-initiated 1992-93 teacher reductions of 2,654 are much higher, at about $106m. Given that $44m of this was achieved in 1992-93, the flow on to 1993-94 of new savings generated from this teacher reduction will be about $62m. In broad terms, based on DSE's own projections as advised to the Committee, savings on other than school teachers (Items 1 to 3 in the table) are likely to generate flow on to 1993-94 of a further $25-$30m in new savings. Thus, total flow on of new savings to 1993-94 generated from 1992-93 initiatives is likely to be of the order of $85-90m, and may considerably ease DSE difficulty in achieving 1993-94 savings targets.

* Because of the broad nature of its assumptions, the Committee prefers to treat the amount in Item 13 of Table 3.3 as indicative only, and therefore expresses the budget 'softness' as between $20m-$30m.
The Committee requested DSE comment on the Audit Commission's detailed reasoning on 'softness' in its recurrent expenditure base for 1992-93. DSE stressed that it did not accept the Commission's notion of 'soft savings', but that in a markedly different policy environment on industrial agreements, the necessary savings strategy was more easily implemented than would otherwise have been the case. However, the Committee notes that DSE offered no quantitative critique of the Commission's reasoning.

**Finding 3.4**

The Committee finds that:

(i) DSE exceeded its 1992-93 $102m recurrent spending savings target by $15m, obtaining actual savings of $117m;

(ii) no more than $44m (or 37%) of those savings came from 2,650 DSE-initiated teacher reductions in schools, as VSP reductions were implemented progressively only after 1 January 1993; and

(iii) the 1993-94 full year flow on effect of those teacher reductions may be a further $62m, with the total flow on of new savings in 1993-94 generated from 1992-93 initiatives likely to be of the order of $85m-$90m.
Finding 3.5

The Committee finds that:

(i) no specific reasons exist for around $20m-$30m (or 25%) of DSE's total 1992-93 savings of $117m; and

(ii) this $20m-$30m must be presumed to come from an inflated 'softness' in DSE's recurrent expenditure base associated with an over-estimate of 9,000 in student enrolment projections for February 1993; and continuance of an added $25m for excess teachers paid from the 1991-92 Treasurer's Advance.

Recommendation 3.2

The Committee recommends that Treasury should ensure it has rigorously excised 'softness' from the 1993-94 DSE recurrent expenditure base by, for example, deducting the full year saving from unreplaced 470 teachers lost through natural attrition in 1992-93 but unreplaced due to much lower student enrolments than projected.

3.5 PERFORMANCE INDICATOR MOVEMENTS

Impacts of improved budgetary management, staff reductions and other government policies on student educational and other outcomes/outputs can be measured over time through key performance indicators. Currently, it is far too early to form any conclusions on trends. To date, availability of such indicators is largely restricted to student/teacher ratios (STRs), class sizes, retention rates and costs per student – all reported on briefly below as a basis for comment in future years. It is highly desirable that these indicators be extended to measures such as student achievement; student and teacher class contact times; the range, resources and time spent on curriculum specialities; and non-class teacher and
student activities. DSE is now moving to enhance evaluation through its Office of School Review.

As the Victorian Commission of Audit emphasised (Report, Volume 2, p. 26), STRs although focussed on staffing inputs rather than educational outputs/outcomes remain important indirect reflections of school productivity and educational outcomes. They are totally distinct from average class size, which refers to the average number of students facing single teachers in conventional 'chalk and talk' classroom situations. As the Commission cautioned (p. 27), there is no objective standard for STRs and class sizes:

"Together with class size and the complex mix of teacher duties, STRs generally emerge from a government's political decisions over time on appropriate funding of school education. Ideally, this investment should be determined by a government's changing assessment of its community's willingness and capacity to pay for school education; community requirements for quality and quantity of education service delivery within an often constrained budgetary context; and a government's necessarily flexible priorities within national and state socio-economic goals and its own electoral mandate."

Recommendation 3.3

The Committee recommends that DSE should as rapidly as practicable extend measurement and reporting of performance indicators to areas such as student achievement; student and teacher class contact time; the range, resources and time spent on curriculum activities; and non-class teacher and student activities.

3.5.1 Change in 1992-93 Student/Teacher Ratios (STRs)

Teacher reductions in schools brought 1993 Victorian STRs closer to, but still well below, NSW and Queensland STRs in 1992. Table 3.4 sets out the details, showing that 1993 Victorian STRs were still below the NSW and Queensland position in 1992 by between 1-3 students per teacher. The chief reason why the Victorian secondary school STR has not markedly altered in line with major teacher reductions in 1992-93, is the relative collapse of 7,000 in secondary enrolments, reflecting a similar collapse in primary enrolments 7 to 13 years earlier. These collapses were demographically driven, as the children of post-war
baby-boomers passed through and then out of the school system. In the secondary area, that collapse had been obscured until now by the dramatic rise in senior retention rates; however this has now inevitably levelled out at close to 90%, allowing the underlying population shifts to become clearly visible.

The Committee emphasises that structural shifts in the secondary student population - driven by demographic movements of many years earlier - may for several more years continue to cushion increases in secondary STRs without even larger accompanying decreases in secondary teacher numbers.

**TABLE 3.4: CHANGES IN VICTORIAN STUDENT/TEACHER RATIOS (STRs) COMPARED WITH 1992 NSW AND QUEENSLAND STRs**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Primary</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Students</td>
<td>303,878</td>
<td>303,800</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Teachers</td>
<td>19,178</td>
<td>17,740</td>
<td></td>
<td></td>
</tr>
<tr>
<td>STR</td>
<td>15.8</td>
<td>17.2</td>
<td>19.9</td>
<td>18.4</td>
</tr>
<tr>
<td><strong>Secondary</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Students</td>
<td>230,589</td>
<td>223,400</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Teachers</td>
<td>21,372</td>
<td>19,800</td>
<td></td>
<td></td>
</tr>
<tr>
<td>STR</td>
<td>10.8</td>
<td>11.3</td>
<td>13.2</td>
<td>12.8</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Students</td>
<td>534,466</td>
<td>527,200</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Teachers</td>
<td>40,550</td>
<td>37,540</td>
<td></td>
<td></td>
</tr>
<tr>
<td>STR</td>
<td>13.2</td>
<td>14.0</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Source:* National Schools Statistical Collection, Australian Education Council (AEC); *Schools Australia,* Australian Bureau of Statistics (ABS); DSE unpublished statistics.

*Note:*

(a) Statistics are at July of the particular year.

(b) STRs are actual figures supplied to the Committee by DSE, and previously unpublished. Student and teacher numbers are best approximations based on actual data supplied to the Committee applying AEC definitions. Teachers in the excess pool within schools are included in the ratios.
3.5.2 Class size

It is inevitable that teacher reductions will generate some increase in average class size. However, as pointed out by the Victorian Commission of Audit this will not necessarily reflect the full staffing reduction, because of other possible initiatives such as a reduced number of student periods per subject combined with more innovative teaching work practices; reduced specialist teachers; increased teacher class contact time, including less preparation and correction time; and a reduced range and extent of other (non-class) teacher duties - including executive, non-teaching work. Unfortunately, with the exception of class size, none of these practices can be measured in Victorian government schools at this time.

According to DSE's Summary Statistics of Victorian Schools - February 1993 based on statistical collections from that month, average class size:

(i) increased in primary schools by just over one student from 23.4 to 24.5 between February 1992 to February 1993. This brought average class size back to 1985 levels; and
(ii) ranged in secondary school English classes from about 22 students in the junior classes to about 20.5 at the senior levels. The Victorian Commission of Audit (Vol. 2, p. 35) reported an overall secondary English class size in 1992 of 20.1, suggesting an increase in 1993 of somewhat over one secondary student, with class size in 1993 then back to about 1985 levels. However, with 8,000 secondary school drop-outs during the year, senior English class size could have significantly reduced.

Despite these 1993 changes, Victorian average class size was still significantly below 1992 average class size in NSW both at primary (27.4 students) and secondary (23.0 students) level; and Queensland in English secondary classes (23.8 students). It was about equal to 1992 Queensland primary class size (24.9 students), which on average is necessarily low because of a large number of small rural schools.

Finding 3.7

The Committee finds that between February 1992 and 1993, average class size:

(i) increased in primary schools by just over one student, from 23.4 to 24.5;

(ii) ranged in secondary school English classes from 22 students at junior levels, to 20.5 at senior levels, suggesting an overall increase of somewhat over one student on 1992 - but with a likely reduction in senior level sizes during 1993 as 8,000 students left school during the year to July; and

(iii) was still significantly below 1992 average class size in NSW at both primary (27.4 students) and secondary (23.0 students) level; and in Queensland (in English secondary classes - 23.8 students). It was about equal to Queensland primary class size (24.9 students), with the latter probably reflecting a large number of small rural schools.
3.5.3 Apparent Retention Rates

Apparent student retention rates are calculated by relating Year 12 enrolments to Year 7 enrolments five years earlier. According to DSE February Summary Statistics, government schools increased their retention rate slightly from 84.6% in 1992 to 85.9% in 1993, with an obvious levelling out against major increases in immediately previous years.

Finding 3.9

The Committee finds that the apparent student retention rate in Victorian government schools increased from 84.6% in February 1992 to 85.9% in February 1993.

3.5.4 Expenditure per student

The Australian Education Council (AEC) publishes a time series on total expenditure per student in government schools in the States, sub-divided between teaching staff salaries, non-teaching staff salaries, other operating expenditure and buildings and grounds provision. With DSE's assistance, the Committee has updated to 1991-92 the relevant table and chart published by the Commission of Audit, based on this AEC data collection. These are at Table 3.5 and Chart 3.2 below. Unfortunately, data for 1992-93 is not yet available.

Unlike Commonwealth Grants Commission (CGC) data, the AEC material is not standardised to take account of factors differing between the States, such as
possible administrative economies of scale (eg. size of central bureaucracies); possible service delivery economies of scale (eg. school size); socio-economic composition of the population; dispersion of the population; input costs such as varying levels of wages and salaries; and vandalism and security. An important feature in all this is Victoria’s lesser population dispersion than States such as Queensland.

Broadly speaking, such adjustments when applied by the CGC to AEC raw data show that Victoria spends more than is needed to provide government school education services at the same standard as the average of all States and Territories. In other words, as is revealed by the AEC data, Victoria spends relatively more against other States such as NSW and Queensland in teacher salaries and total expenditure per student than it would if CGC standardisation factors were applied. Other specific factors - such as policy-type differences in Year 12 retention rates, and treatment of special education for students with disabilities - may both tend to increase expenditure on teacher salaries per student in Victoria. However, while such policies are extremely important in their own right, they are likely to have only relatively marginal impacts on overall education expenditures per student.

As can be seen, total expenditure per student in Victoria increased in 1991-92 against both NSW and Queensland, against NSW chiefly because of increased spending on teacher salaries in Victoria, and against Queensland because of lower expenditure on other operating expenditure and on buildings and grounds by the latter State. Given 1992-93 budgetary savings in Victoria, it is very likely that differences in teaching staff salary expenditure between Victoria and the other two States (which reflect both numbers of teachers and their salary profile) would start to reduce significantly.

The Committee considers that disaggregated expenditure per student time series, based on AEC data collections from the States and similar to the Table and Chart shown here, should become a regular feature of DSE’s performance reports to Parliament. Appropriate comments for interpretative purposes will be necessary, if the material is to be useful for performance improvements to efficiency and effectiveness.
Finding 3.10

The Committee finds on Australian Education Council (AEC) data that:

(i) total expenditure per student in Victoria in 1991-92 increased against NSW because of increased spending on teacher salaries in Victoria, and increased against Queensland because of that State’s lower expenditure on other operating expenditure and on buildings and grounds; and

(ii) it is very likely that AEC data for 1992-93 - not available to now - will start to show significant reductions in teaching staff salary expenditure for Victoria against both NSW and Queensland.

Recommendation 3.4

The Committee recommends that a time series on total and disaggregated expenditure per student, based on Australian Education Council data collections from the States should with appropriate interpretative comments become a regular feature of DSE’s performance reports to the Parliament.
### TABLE 3.5: EXPENDITURE PER STUDENT IN GOVERNMENT SCHOOLS ($)- INTERSTATE COMPARISONS 1988-89 TO 1991-92 (a)

<table>
<thead>
<tr>
<th></th>
<th>Vic</th>
<th>NSW</th>
<th>Qld</th>
<th>Aust</th>
<th>NSW</th>
<th>Qld</th>
<th>Aust</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Teaching Staff Salaries (b)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1988-89</td>
<td>2634</td>
<td>2029</td>
<td>1883</td>
<td>2207</td>
<td>29.8</td>
<td>39.9</td>
<td>19.3</td>
</tr>
<tr>
<td>1989-90</td>
<td>2695</td>
<td>2069</td>
<td>1953</td>
<td>2274</td>
<td>30.3</td>
<td>38.0</td>
<td>18.5</td>
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<tr>
<td>1990-91</td>
<td>2916</td>
<td>2276</td>
<td>2124</td>
<td>2471</td>
<td>28.1</td>
<td>37.3</td>
<td>18.0</td>
</tr>
<tr>
<td>1991-92</td>
<td>3127</td>
<td>2307</td>
<td>2334</td>
<td>2592</td>
<td>35.5</td>
<td>34.0</td>
<td>20.6</td>
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<tr>
<td><strong>Non-Teaching Staff Salaries (c)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1988-89</td>
<td>425</td>
<td>352</td>
<td>359</td>
<td>419</td>
<td>20.7</td>
<td>18.4</td>
<td>1.4</td>
</tr>
<tr>
<td>1989-90</td>
<td>442</td>
<td>404</td>
<td>430</td>
<td>464</td>
<td>9.4</td>
<td>2.8</td>
<td>-4.7</td>
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<tr>
<td>1990-91</td>
<td>389</td>
<td>400</td>
<td>501</td>
<td>471</td>
<td>-2.8</td>
<td>-22.4</td>
<td>-17.4</td>
</tr>
<tr>
<td>1991-92</td>
<td>395</td>
<td>434</td>
<td>559</td>
<td>497</td>
<td>-9.0</td>
<td>-29.3</td>
<td>-20.5</td>
</tr>
<tr>
<td><strong>Other Operating Expenditure (d)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>1988-89</td>
<td>1006</td>
<td>873</td>
<td>766</td>
<td>896</td>
<td>15.2</td>
<td>31.3</td>
<td>12.3</td>
</tr>
<tr>
<td>1989-90</td>
<td>1097</td>
<td>1003</td>
<td>881</td>
<td>1007</td>
<td>9.4</td>
<td>24.5</td>
<td>8.9</td>
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<tr>
<td>1990-91</td>
<td>980</td>
<td>1042</td>
<td>1128</td>
<td>1037</td>
<td>-7.9</td>
<td>-14.9</td>
<td>-7.4</td>
</tr>
<tr>
<td>1991-92</td>
<td>978</td>
<td>1110</td>
<td>965</td>
<td>1039</td>
<td>-11.9</td>
<td>1.3</td>
<td>-5.9</td>
</tr>
<tr>
<td><strong>Buildings &amp; Grounds Provision (e)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1988-89</td>
<td>213</td>
<td>258</td>
<td>253</td>
<td>264</td>
<td>-16.8</td>
<td>-15.8</td>
<td>-19.3</td>
</tr>
<tr>
<td>1989-90</td>
<td>290</td>
<td>262</td>
<td>410</td>
<td>320</td>
<td>10.7</td>
<td>-29.3</td>
<td>-9.4</td>
</tr>
<tr>
<td>1990-91</td>
<td>295</td>
<td>314</td>
<td>436</td>
<td>326</td>
<td>-6.1</td>
<td>-32.3</td>
<td>-9.5</td>
</tr>
<tr>
<td>1991-92</td>
<td>291</td>
<td>298</td>
<td>298</td>
<td>297</td>
<td>-2.3</td>
<td>-2.3</td>
<td>-2.0</td>
</tr>
<tr>
<td><strong>Total Expenditure</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1988-89</td>
<td>4276</td>
<td>3509</td>
<td>3260</td>
<td>3784</td>
<td>21.9</td>
<td>31.2</td>
<td>13.0</td>
</tr>
<tr>
<td>1989-90</td>
<td>4524</td>
<td>3739</td>
<td>3675</td>
<td>4064</td>
<td>21.0</td>
<td>23.1</td>
<td>11.3</td>
</tr>
<tr>
<td>1990-91</td>
<td>4560</td>
<td>4032</td>
<td>4188</td>
<td>4305</td>
<td>13.1</td>
<td>8.9</td>
<td>5.9</td>
</tr>
<tr>
<td>1991-92</td>
<td>4791</td>
<td>4150</td>
<td>4156</td>
<td>4425</td>
<td>15.4</td>
<td>15.3</td>
<td>8.3</td>
</tr>
</tbody>
</table>

**Notes:** (a) Excludes local revenue-raising by school councils, superannuation, payroll tax and provisions. (b) Covers staff spending the majority of their time in contact with students and who have teaching duties. Includes principals, deputy principals and senior teachers mainly involved in administrative duties. Also includes 'out of school' teachers who spend a majority of their time with students. (c) Covers staff who do not spend a majority of their time with students eg. many 'out of school' teachers and public servants in head office and regions. (d) Covers purchases of materials and equipment, furniture and fittings, vehicles, computers, student transport and accommodation, payments to schools and parents, cleaning, maintenance and repairs, lighting, heating and cooling, telephone, postage and communication costs. (e) Covers site acquisition, rentals, building construction and portable removal.

**Source:** NSSC (National Schools Statistical Collection); DSE
CHART 3.2: VICTORIAN DIFFERENCES FROM OTHER STATES' EXPENDITURE PER STUDENT, 1988-89 TO 1991-92 (PERCENTAGE)

Total expenditure

From NSW  From Qld  From Aust

Teaching Staff Salaries

Non-teaching staff salaries

Other Operating Expenditure

Buildings & Grounds Provision

Source: Table 35
CHAPTER FOUR: ESTIMATES SCRUTINY OF PUBLIC HOSPITAL INPATIENT SERVICES

4.1 1992-93 FINANCIAL OUTCOMES FOR PUBLIC HOSPITAL INPATIENT SERVICES

4.1.1 Expenditure

Hospital inpatient services through improved work practices were required to make a total of 4% productivity savings in 1992-93, with 50% imposed by the previous Government and 50% by the Coalition Government in October 1992. In the event, recurrent expenditure of about $1,800 m was brought in almost on budget estimate, with Voluntary Departure Package (VDP) hospital staff inpatient reductions of around 2,000.* Underlying that outcome, however, were new productivity savings in 1992-93 of only 2.9%, with the remaining 1.1% flowing automatically from the roll forward of the full year effect of 1,200 staff reductions obtained by the previous Government in 1991-92. Further, despite these savings, there was a net recurrent expenditure increase over 1991-92 of about $34 m, primarily due to such items as increased superannuation payments; the roll forward effect of new facilities opened in 1991-92; and Commonwealth payments to improve hospital access from waiting lists.

Table 4.1 below sets out the manner in which hospital productivity savings were targeted and achieved in 1992-93. The Committee takes the view that in future the Department of Health and Community Services (HCS) - in line with other agencies such as School Education and the PTC - should state more clearly the actual productivity savings to be obtained from new year initiatives, and not roll these up with savings automatically flowing from a previous year's endeavours.

* Unless otherwise stated in this chapter, staff reductions are expressed in EFT terms.
TABLE 4.1:
HOSPITAL INPATIENT SERVICES - PRODUCTIVITY SAVINGS 1992-93

<table>
<thead>
<tr>
<th></th>
<th>1992-93 Budget Target</th>
<th>1992-93 Achievement</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$m</td>
<td>% Productivity Savings (a)</td>
</tr>
<tr>
<td>Productivity Savings,</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Comprising:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Roll forward from 1991-92</td>
<td>13.3</td>
<td>1.1</td>
</tr>
<tr>
<td>staff reductions (1200 EFT)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• 1992-93 staff reductions</td>
<td>34.3</td>
<td>2.9</td>
</tr>
<tr>
<td>(2,000 EFT)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Overheads</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Total Salary Savings:</td>
<td>47.6</td>
<td>4.0</td>
</tr>
</tbody>
</table>

Note:
(a) From a budget (salary) expenditure base of $1,190m

As also shown in Table 4.1, a salary savings shortfall against a new savings target of $34.3 m was retrieved by other overhead savings of $3.4 m, when WorkCover and superannuation payments were not as high as expected. Further, the roll forward into 1993-94 for 1992-93 staff reductions of 2,000 is estimated at $20.7 m, on the basis that full year savings would be $51.6 m of which $30.9 m was achieved in 1992-93 (assumed average salary savings per employee: $26,100).

Finding 4.1

The Committee finds for 1992-93 public hospital inpatient services expenditure that:

(i) productivity savings from new initiatives in 1992-93 only amounted to 2.9%, with the balance of 1.1% to achieve 4% overall savings coming from the automatic savings roll forward of staff shed by the previous Government in 1991-92;
Finding 4.1 (cont.)

(ii) salary savings fell $3.4 m short of a $34.3 m target, but were made up by savings on other overheads;

(iii) there will be $20.7 m in 1993-94 roll forward savings for 2,000 staff reductions in 1992-93, with $30.9 m achieved last year; and

(iv) there was a net recurrent expenditure increase over 1991-92 of $34 m, due to such items as increased superannuation payments; roll forward effect of new facilities opened in 1991-92; and Commonwealth payments to improve hospital access.

Recommendation 4.1

The Committee recommends that in future years hospital productivity savings should more clearly distinguish both in percentage and dollar terms the savings from new initiatives; and those automatically flowing from the previous year's staff reductions.

4.1.2 Revenue

As in previous years, revenue fell short of its budget target, this time by about $20 m. Revenue raising was down $9 m on the continuing decline in private patients under existing Medicare arrangements; with uncollected revenue $11 m down against target collection performance. Thus, additional budget funding of $5.8 m was obtained through Special Appropriations, with the $14.2 m balance of $20 m in overspending resulting from the revenue shortfall effectively overcome through an adjusting provision from the 1993-94 budget, taken from supply period appropriations.

The previous Estimates Committee criticised this long-standing overspending practice in its Interim Report on 1991-92 Budget Estimates (November 1991) as falling short of reasonable standards of parliamentary accountability and suggested that legislative endorsement ought to be obtained for such drawdowns. The current Government currently has this in hand, through its financial management improvement strategy, but does not apparently intend allowing
drawdowns for ongoing inability to meet budget, as currently occurs with hospital expenditure.

The Committee acknowledges, as did its predecessor, that HCS may not wish for policy reasons to advance funds far beyond hospitals' immediate requirements. This might lift pressure from hospitals' own revenue collection efforts, or their efficient management of often independent financial resources. However, that objective needs to be balanced against allowing the Department undue latitude and incentive to overspend its authorised budget. In Chapter 2, the Committee stressed that discretionary carryovers of unspent funds should be avoided where such savings depend on regular borrowings from the next budget year. In this context, in 1993-94, the HCS portfolio was allowed to carryover some unspent funds only because overspending for hospitals was overcome by borrowing from the next year's appropriation.

Finding 4.2

The Committee finds for 1992-93 public hospital inpatient services revenue that:

(i) there was a re-occurring ($20 m) shortfall against estimates as private patients continued to decline under the existing Medicare arrangements, and fees were collected more slowly than planned; and

(ii) additional funding to overcome the shortfall was received from special appropriations ($5.8 m) with the remaining $14.2 m in budget overspending obtained as in previous years through an adjusting provision from 1993-94 supply period appropriations.

Recommendation 4.2

The Committee recommends that Treasury - in the light of possible legislative provisions allowing budget year drawdowns from a future budget - carefully scrutinise public hospital drawdowns covering regular overspending to compensate for hospital revenue shortfalls.
4.1.3 Reports on Expenditures and Revenues

Table 4.2 below sets out disaggregated recurrent expenditure and revenue for hospital inpatient services in recent years, including the 1992-93 budget estimates. Major trends are mentioned in 4.1.1 and 4.1.2 above. Superannuation expenditure rose markedly, apparently due to staged progress to a fully-funded hospitals superannuation scheme over 20 years. The Committee would like an expenditure and revenue table of this type to be regularly reported to Parliament, as without it there is insufficient focus on the financial performance of hospital inpatient services, accounting for $1.8 billion of annual State recurrent costs.
TABLE 4.2: RECURRENT EXPENDITURE AND REVENUE FOR HOSPITAL INPATIENT SERVICES, 1990-91 TO 1992-93

<table>
<thead>
<tr>
<th></th>
<th>Actual 1990-91 ($m)</th>
<th>Actual 1991-92 ($m)</th>
<th>Estimate 1992-93 ($m)</th>
<th>Actual 1992-93 ($m)</th>
</tr>
</thead>
</table>

1. Expenditure (a)
- Wages and Salaries (b) 1,966 1,245.6 1,215.2 1,214.9
- Salary Related Costs 51.5 62.5 62.8 66.0
- Superannuation 37.4 51.5 85.8 81.8
- Other Costs 387.1 410.3 428.3 430.7
- Total 1,672.6 1,767.9 1,792.0(c) 1,793.4(c)

2. Major Related Charges and Reimbursement Revenue (d)
- Private Patient Fees 153.9 143.3 144.0 133.7
- Compensable Patients 34.5 31.2 32.5 29.0
- Nursing Home Type Patients 5.8 5.7 5.8 5.6
- Hospital Facility Fee Sharing (e) 33.6 31.8 31.8 31.0
- Veteran Affairs recoup 19.7 20.2 19.2 18.9
- Total 247.5 232.2 233.3 218.2

Notes:
(a) Expenditure includes total for hospitals in Acute Inpatient Services including funding from patient revenue; but expenditure by Geriatric Hospitals on Acute Care Services is excluded.
(b) For comparability purposes, small adjustments have been made to account for a variable number of 26/27 pay days in particular years.
(c) Includes Hospital access program ($12.3 m) and High Cost Drugs program ($35 m).
(d) Revenues are based on actual collections within the period and not revenue raisings.
(e) Formula based sharing of patient treatment fees between salaried medical staff and the hospital; only the hospital share is shown.

Source: Department of Health and Community Services
Recommendation 4.3

The Committee recommends that a table of public hospital inpatient recurrent expenditure and revenue of the sort presented in this Chapter should be reported regularly to Parliament. Currently, there is insufficient focus on the financial performance of an area accounting for $1.8 billion, or over 15% of the State's annual recurrent departmental outlays.

4.2 HOSPITAL INPATIENT STAFF REDUCTION OUTCOMES

As already noted, hospital inpatient services achieved major staff reductions of around 2,000 in 1992-93. However, because of database limitations, documentation is only available on average staff employed in a given month or year, thus preventing the Committee investigating actual reductions as it would for other agencies.

Table 4.3 sets out the hospital inpatient staff reductions over 1990-1991 and 1992-93 on an annual average basis, disaggregated by occupational group. However, the Committee also obtained the average monthly statistics for July 1993, to obtain a better picture of actual staffing around 30 June 1993, and this material is also shown in Table 4.3. As demonstrated, there were major reductions in nursing (5.6%) and hotel and allied staff (15%) in 1992-93 average staff, but medical, medical support and administrative/clerical staff have remained relatively stable in number or even increased (eg medical, up by 3.7%). Overall, there was a decrease in average staff in 1992-93 of about 6%, with total staff at the end of June 1993 around 30,000. The Committee has not investigated whether those reduction differences reflect underlying differences in the work practice efficiencies of the various groups. Prima facie, more doctors are needed to cope with increased patient throughput (see Section 4.3 below), and this is also reflected in the increased cash payments to Visiting Medical Officers (VMOs).
TABLE 4.3: HOSPITAL INPATIENT SERVICES - STAFF MOVEMENTS
1990-91 TO 1992-93 (a)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Nursing</td>
<td>15,903</td>
<td>15,399</td>
<td>14,533</td>
<td>-5.6</td>
<td>13,669</td>
</tr>
<tr>
<td>Medical Support</td>
<td>3,901</td>
<td>4,282</td>
<td>4,279</td>
<td>0.0</td>
<td>4,265</td>
</tr>
<tr>
<td>Admin/Clerical</td>
<td>4,259</td>
<td>3,980</td>
<td>4,025</td>
<td>+0.1</td>
<td>3,850</td>
</tr>
<tr>
<td>Hotel and Allied</td>
<td>9,123</td>
<td>8,537</td>
<td>7,255</td>
<td>-15.0</td>
<td>6,440</td>
</tr>
<tr>
<td>Medical</td>
<td>2,031</td>
<td>2,083</td>
<td>2,159</td>
<td>+3.7</td>
<td>2,173</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>35,217</strong></td>
<td><strong>34,281</strong></td>
<td><strong>32,251</strong></td>
<td><strong>-5.9</strong></td>
<td><strong>30,379</strong></td>
</tr>
</tbody>
</table>

Note: (a) Staff shown are average staff for the particular period.

Finding 4.3

The Committee finds that in 1992-93, average staff for public hospital inpatient services:

(i) reduced by 2,000 (6%) with total staff of about 30,000 by 30 June 1993;

(ii) reduced by 5.6% for nursing staff and 15% for hotel staff; and

(iii) was stable in other categories (e.g., medical support and administrative/clerical) but increased by 3.7% for medical staff, presumably to cope with greater patient throughput.

4.3 MOVEMENT IN PERFORMANCE INDICATORS

Indicators of hospital performance present complex problems of reliable measurement and valid interpretation. With the introduction of casemix funding, there will undoubtedly be a need to review existing indicators of hospital efficiency and quality of care. Within the limited time at its disposal, the Committee has only considered very broad trends on the basis of data which the Health and Community Services Department (HCS) was able to provide; quality
of care indicators such as monitoring of unplanned re-admissions and patient satisfaction are being developed.

Relevant material is set out at Table 4.4, and reveals a major 8.4% increase in 1992-93 of weighted acute separations (ie adjusted patient throughput); with continuing decline in average length of stay and average available beds as medical practices and hospital productivity appear to improve in the face of ever-increasing patient demand and limited community resources for hospital use.

As the Minister for Health emphasised to the Committee at Public Hearing on 4 November 1993, casemix funding in the hospital sector is based on unit payments for outputs using benchmark standards of quality, efficiency and costs. The Committee considers that a time series of statewide performance indicators reflecting these standards (with targets) should be reported annually to the Parliament, including if at all practicable a comparison of the position before and after casemix funding introduction in 1993-94.

In the current absence of quality of care indicators, the Committee has applied the data provided by HCS to derive cost performance and labour productivity indicators for 1990-91, 1991-92 and 1992-93. Given all the likely measurement and interpretation limitations, the results as set out in Table 4.5 below and its accompanying Charts 4.1 to 4.4, should be viewed as broadly indicative only. However, most of these indicators - cost and staff per inpatient and staff per bed day - are now all showing significantly improved labour productivity and cost performance. The exception at present is cost per bed day which is still rising, possibly suggesting that overall labour productivity improvements are not keeping pace with enhanced medical practices.

Finding 4.4

The Committee finds that public hospital inpatient performance indicators reveal:

(i) a major 8.4% increase in patient throughput in 1992-93 and continuing decline in average length of stay and average available beds as medical practices and hospital productivity improve;

(ii) significantly improved labour productivity (for nurses and hotel staff) and cost performance per inpatient; and
(iii) cost per bed day continuing to rise, possibly because overall labour productivity improvements do not keep pace with enhanced medical practices.

Recommendation 4.4

The Committee recommends that a time series of statewide performance indicators (with targets) reflecting quality of service, efficiency (including labour productivity) and cost performance should be annually reported to Parliament, if practicable comparing the position before and after casemix funding introduction in 1993-94.
TABLE 4.4: PUBLIC HOSPITAL PERFORMANCE INDICATORS
1990-91 TO 1992-93

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Separations (a)</td>
<td>632,036</td>
<td>662,344</td>
<td>684,430</td>
<td>697,555</td>
</tr>
<tr>
<td>Weighted acute separations (a)</td>
<td>554,520.8</td>
<td>583,045.0</td>
<td>602,300</td>
<td>632,438.4</td>
</tr>
<tr>
<td>Average weight</td>
<td>0.8781</td>
<td>0.8810</td>
<td>0.88</td>
<td>0.9073</td>
</tr>
<tr>
<td>Average length of stay (days)</td>
<td>5.60</td>
<td>5.20</td>
<td>N/A</td>
<td>4.94</td>
</tr>
<tr>
<td>Same day procedures (%)</td>
<td>27.50</td>
<td>31.30</td>
<td>N/A</td>
<td>33.89</td>
</tr>
<tr>
<td>Average available beds</td>
<td>12,790</td>
<td>12,377</td>
<td>N/A</td>
<td>12,084</td>
</tr>
<tr>
<td>Bed days</td>
<td>3,615,363</td>
<td>3,552,422</td>
<td>N/A</td>
<td>2,446,284</td>
</tr>
</tbody>
</table>

Note: (a) Equates to inpatient throughput

Specific Comments by HCS

- Sources: Separations, weighted separations, same day procedures - Victorian Inpatient Minimum Database. Average available beds and bed days - Medicare Statistics System. 1992-93 data are preliminary.
- Excludes Victoria Police Hospital.
- Diagnosis related groups based on Australian National DRGs Version 1.
- Weighted separations calculated by applying resource weights used for casemix funding in 1993-94 except:

  Liver transplant (ANDRG 005) = 34.3525
  Heart transplant (ANDRG 220) = 16.9361

- Weighted separations estimated for uncoded separations by inputting average weight at hospital level.

Source: Department of Health and Community Services.
### TABLE 4.5: LABOUR PRODUCTIVITY AND COST PERFORMANCE OF HOSPITAL INPATIENT SERVICES, 1990-91 TO 1992-93

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Recurrent Expenditure ($m in 1992-93 $'s)</td>
<td>1,741</td>
<td>1,803</td>
<td>1,793</td>
</tr>
<tr>
<td>Nursing Staff (EFT)</td>
<td>15,903</td>
<td>15,399</td>
<td>14,533</td>
</tr>
<tr>
<td>Hotel &amp; Allied Staff (EFT)</td>
<td>9,123</td>
<td>8,537</td>
<td>7,255</td>
</tr>
<tr>
<td>Weighted Separations</td>
<td>554,521</td>
<td>583,045</td>
<td>632,438</td>
</tr>
<tr>
<td>Bed days</td>
<td>3,615,363</td>
<td>3,552,422</td>
<td>3,446,284</td>
</tr>
<tr>
<td>Cost per bed day ($)</td>
<td>482</td>
<td>508</td>
<td>520</td>
</tr>
<tr>
<td>Cost per weighted separation ($)</td>
<td>3,140</td>
<td>3,092</td>
<td>2,835</td>
</tr>
<tr>
<td>Nursing staff per 1000 bed days</td>
<td>4.4</td>
<td>4.3</td>
<td>4.2</td>
</tr>
<tr>
<td>Hotel staff per 1000 bed days</td>
<td>2.5</td>
<td>2.4</td>
<td>2.1</td>
</tr>
<tr>
<td>Nursing staff per 100 weighted separations</td>
<td>2.9</td>
<td>2.6</td>
<td>2.3</td>
</tr>
<tr>
<td>Hotel staff per 100 weighted separations</td>
<td>1.7</td>
<td>1.5</td>
<td>1.2</td>
</tr>
</tbody>
</table>

**Source:** Tables 4.2, 4.3, 4.4
CHART 4.1: COST PER BED DAY ($)

Source: Table 4.5

CHART 4.2: COST PER WEIGHTED SEPARATION ($)

Source: Table 4.5
CHART 4.3: NURSING STAFF PER 100 WEIGHTED SEPARATIONS

Source: Table 4.5

CHART 4.4: HOTEL STAFF PER 100 WEIGHTED SEPARATIONS

Source: Table 4.5
5.1 OVERVIEW OF THE PUBLIC TRANSPORT CORPORATION (PTC) 1992-93 BUDGET OUTCOME

The Government's public transport statement *From a System to a Service* (January 1993) outlined a strategic plan to reduce the PTC's operating deficit by $245m over 3-4 years by December 1995, with workforce reductions of 8,500. In 1991-92, the operating deficit funded by the State budget stood at $504m (or 48% of PTC total operating expenditure of $1,047m); and the PTC workforce was about 18,700. The planned reductions thus proposed to cut the operating deficit by about 50% and the workforce by 46%.

It is important to note that this general operating deficit as defined in Table 5.3 below does not include major expenditure such as employer superannuation costs; employee termination payments; rental payments on leased vehicles; depreciation; or school bus payments. The PTC argues that it has no control over most of these items, which would add about a further $400m to the operating deficit in 1992-93. Imputed interest on contributed capital (in the order of $400-$500 pa) is also omitted.

These reduction plans were to be implemented by such initiatives as PTC work practice improvements; capital investment in automatic ticketing to allow driver-only operation of trains and trams; competitive contracting-out of bus and other operations; and service rationalisation and a more cost-effective mix of transport modes.

In 1992-93, according to the plan, $66m was to be cut from the $504m operating deficit (so impliedly bringing it back to $438m); with workforce reductions of 3,400 staff. Required productivity savings were in excess of 3.5%, or about $44m. In the event, the workforce target was exceeded by 700 staff, with about 4,100 (or 22%) shed - overwhelmingly through Voluntary Separation Packages. However, owing to various disparate causes, the monetary outcome fell well short of strategic expectations. Indeed, only $15.5m was actually cut from the $504m operating deficit in 1992-93, so reducing it to $488m, leaving a prima facie shortfall of $50m against target to be retrieved by 1995 if the overall annual
deficit reduction of $245m was to be achieved. Works and service operations came in almost on budget at $183m.

This chapter therefore focuses on:

- the causes of what appears to be a disappointing deficit reduction outcome for 1992-93. In reality, however, when fully analysed this masks very substantial progress indeed in reducing an underlying structural deficit of $566m, much higher than $504m at the end of 1991-92. All this occurred in economic circumstances of declining or sluggish growth in patronage and freight; and with over $30m extra required in 1992-93 wage increases agreed to by the previous Government early in the financial year;

- updating and possibly refining Victorian Commission of Audit attempts at reporting the full cost of public transport, including such items as superannuation, school bus payments, depreciation and the cost of capital; and

- where available, movements in key PTC performance indicators of operating efficiency (eg labour productivity in passenger boardings and freight carried per employee); financial performance (eg cost recovery ratios); and customer satisfaction (eg service quality through on-time running). There is an obvious need to link these with Australian and international best practice benchmarks, but such a comprehensive task is well beyond the scope of this chapter.

5.2 DEFICIT REDUCTION AND SAVINGS OUTCOMES

5.2.1 1992-93 Savings from an Increased Structural Deficit

PTC 1992-93 savings targeted under the reform program were $66m, comprising the so called $46m 'black hole' associated with the previous Government (further described below); and an extra $20m in 2% productivity savings required by the Coalition Government. Total productivity savings within the $66m target were about $44m, or in excess of 3.5% of the expenditure base. On the surface, the entire 3-4 year, $245m deficit reduction strategy of January 1993 appeared predicated on ($66m) reduction on the 1991-92 operating deficit of $504m. In fact, the Committee's analyses unequivocally demonstrate that the $66m reduction
must come off a much higher $566m structural deficit, crystallising around the beginning of 1992-93 under the previous Government.

Tables 5.1 and 5.2 therefore rework the deficit reduction program against the higher structural deficit at the start of 1992-93, and demonstrate how this structural deficit occurred and was substantially reduced over 1992-93.

**TABLE 5.1: THREE YEARS' DEFICIT REDUCTION BY THE PTC FROM A HIGHER STRUCTURAL DEFICIT AFTER 1992-93 COMMENCED**

<table>
<thead>
<tr>
<th></th>
<th>At 30 June 1992 ($m)</th>
<th>At 1 October 1992 ($m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Operating Structural Deficit</td>
<td>504.0</td>
<td>566.0</td>
</tr>
<tr>
<td>Less: Budget Saving 1992-93</td>
<td>66.0</td>
<td></td>
</tr>
<tr>
<td>1993-94</td>
<td>102.5</td>
<td></td>
</tr>
<tr>
<td>1994-95</td>
<td>52.5</td>
<td></td>
</tr>
<tr>
<td>Dec 1995</td>
<td>24.0</td>
<td></td>
</tr>
<tr>
<td>2. Total Budget Saving</td>
<td>245.0</td>
<td>245.0</td>
</tr>
<tr>
<td>3. Operating Deficit at 30 June 1995 (Item 1 less Item 2)</td>
<td>259.0</td>
<td>321.0</td>
</tr>
<tr>
<td>4. Proportion of Structural Deficit Remaining (%) (3+1)</td>
<td>51.4</td>
<td>56.7</td>
</tr>
</tbody>
</table>

**Note:**

Adapted from *Public Transport Reform - Victoria - From a System to a Service* (6 January 1993). Only variation is the Committee's calculation of the 1 October 1992 structural deficit from Table 5.2; and use of $504m rather than $503m, consistent with the rounded up deficit as reported to the Committee in October 1993 by the Department of Transport.
### TABLE 5.2: PTC OPERATING DEFICIT AND SAVINGS REDUCTIONS IN 1992-93

<table>
<thead>
<tr>
<th></th>
<th>$m</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1. Structural Operating Deficit at 30 June 1992</strong></td>
<td></td>
</tr>
<tr>
<td>Plus: (i) Enterprise bargaining wage increase</td>
<td>27</td>
</tr>
<tr>
<td>(ii) SEP pay increase</td>
<td>5</td>
</tr>
<tr>
<td>(iii) Additional 1993 pay day</td>
<td>15</td>
</tr>
<tr>
<td>(iv) Revised payment arrangements for private bus operators</td>
<td>15</td>
</tr>
<tr>
<td></td>
<td>504</td>
</tr>
<tr>
<td><strong>2. Total Additions (i) to (iv)</strong></td>
<td>62</td>
</tr>
<tr>
<td></td>
<td>62</td>
</tr>
<tr>
<td><strong>3. Higher Structural Operating Deficit</strong></td>
<td></td>
</tr>
<tr>
<td>Crystallising before October 1992 (Items 1 &amp; 2)</td>
<td>566</td>
</tr>
<tr>
<td>Less: (i) 1992-93 Reform Program savings</td>
<td>61</td>
</tr>
<tr>
<td>(ii) Roll forward savings from 1991-92</td>
<td>18</td>
</tr>
<tr>
<td>(iii) Recovery in grain revenue</td>
<td>5</td>
</tr>
<tr>
<td>Plus: (iv) Inflation (fuel, traction energy, etc)</td>
<td>6</td>
</tr>
<tr>
<td></td>
<td>566</td>
</tr>
<tr>
<td>-(iv)]</td>
<td>78</td>
</tr>
<tr>
<td><strong>5. Structural Operating Deficit at 30 June 1993</strong></td>
<td>488</td>
</tr>
<tr>
<td>(Item 3 less Item 4)</td>
<td></td>
</tr>
</tbody>
</table>

In the circumstances, the Committee therefore concludes that there was no $66m reduction against the 1991-92 operating deficit of $504 million; indeed, reduction of such magnitude was a practical impossibility, with the initial budget estimates under the previous Government suggesting about $30m as a maximum. In the event, while just $16m was taken off the 1991-92 $504m deficit during 1992-93, there was a substantially achieved reform program reduction of $61m, and a total reduction of about $78m, but against a significantly higher structural deficit of $566m crystallising prior to 1 October 1992. As shown in Table 5.2, that deficit was boosted by wage increases of $32m and other additional payments referred to in Table 5.2*. The structural deficit was further boosted by an additional $15m for

* These payments were to be funded through over-optimistic revenue projections agreed to in early 1992-93, rather than paid through the State budget.
the private bus operators, resulting from the delayed effects of altered payment arrangements from advance to arrears.

Apart from the 1992-93 reform program savings, there was about $18m in fresh 1992-93 roll forward savings from 1,500 staff shed in 1991-92 under the previous Government, owing to many of those staff - as again occurred in 1992-93 - not departing until late in the financial year.

Savings included in the reform program savings of $61m cover staff reductions in the year ($33.0m - as further explained in Section 5.2.2 below); net increases in fare and freight revenues ($5.6m) arising from increased charges; materials reduction ($1.4m); private bus payments ($2.0m); and miscellaneous 'one-off' revenues - including $10m in charges for level crossing maintenance to VicRoads, and $6.2m in licence fees for air rights received from the Melbourne Central developer. According to the Department of Transport, a shortfall of $5m in the $66m savings target will need to be made up in later years than 1993-94.

The productivity savings target of $44m (in excess of 3.5%) within overall savings of $61m, can only be considered achieved if revenue increases are counted - including miscellaneous 'one-off' revenues.
Finding 5.1

The Committee finds that the Public Transport Corporation (PTC) structural operating deficit was:

(i) $504m at the end of 1991-92, excluding such cost items as employer superannuation contributions, employee termination payments, maintenance, school bus payments and rental of operating vehicles;

(ii) $566m at October 1992 due to the effect of $32m in wage increases, other additional payments, and $15m in revised arrears payment arrangements for the private bus operators;

(iii) reduced by about $78m during 1992-93 principally due to Reform Program savings ($61m); and roll-forward savings from 1500 staff reductions in 1991-92 initiated under the previous Government ($18m); and

(iv) reduced overall by just $16m from its 1991-92 base of $504m. Reduction by $66m from that base - as suggested by the Government’s January 1993 Reform Statement - was always a practical impossibility. A $30m reduction from a $504m base was the maximum in the economic circumstances of 1992-93, as proposed by the previous Government.

Finding 5.2

The Committee finds that the Government’s 3-4 year deficit reduction strategy aims to remove $245m from the PTC operating deficit by December 1995, leaving $321m (or 57%) of the higher deficit applying at 1 October 1993 and not $259m (or 51%) of the lower deficit applying at 30 June 1992 as suggested in the Reform Statement.
Finding 5.3

The Committee finds that $61m in Reform Program savings were achieved in 1992-93, including:

(i) a $5m shortfall against a $66m target, due to lower than expected passenger and freight revenue, and a slower rate of staff reductions;

(ii) $33m in savings from workforce reductions; and

(iii) over $20m in miscellaneous 'one-off' revenues harvested from the PTC's large asset base, such as $6m in air rights' licence fees from the Melbourne Central developer.

5.2.2 Trends in the PTC Operating Deficit

For reasons outlined above, just $16m was shaved off the PTC's 1991-92 $504m operating deficit, BUT $78m was removed from the much higher underlying structural deficit of $566. Table 5.3 sets out the itemised components of the PTC operating budget over the last three years, including detailed outcomes against the 1992-93 estimate. Most important features to note are these:

(a) Despite several major fare increases in recent years (most recently an average 10% from 1 January 1993), suburban passenger revenue increased by only 10% ($20m) over the entire 3 years 1991-92 to 1992-93. According to the Department of Transport, falling or sluggish passenger revenue growth resulted from lesser employment opportunities and more fare concessions in a depressed economy; reductions in demand in response to rising fares; a trend away from CAD journeys with workforce and other commuter shifts to growth corridors such as Berwick-Cranbourne; and service interruption due to reform implementation and teething problems with new schedules. Chart 5.1 demonstrates these declining patronage trends, particularly in 1992-93. While patronage grew by 2.9% in 1991-92, it then declined by 5.1% in 1992-93.
CHART 5.1: TRENDS IN SUBURBAN PASSENGER JOURNEYS
1990-91 TO 1992-93

Source: Department of Transport
(b) Consistent PTC over-estimation of passengers and freight revenue, most recently prior to October 1993. Thus in 1992-93, suburban and country fares and freight charges collection came in $34m below budget. After off-setting receipts in additional 'one-off' revenue elsewhere, $16.6m in supplementary funding from the Consolidated Fund was still required to make up the revenue shortfall. This increased the PTC operating deficit from a projected $472m (or $32m below 1991-92) to $488m (or just $16m below). The deficit was unaffected by any expenditure over-run, as spending came in right on the $1046m target.

(c) Community Service Obligations (CSOs) for students and pensioners amounted to $46.2m in 1992-93, and are classified as 'revenue' receipts by the Department of Transport, even though funded by the State Budget through the Departments of Education; and Health and Community Services. The Department of Transport submits that after the transport reforms are fully implemented in 1995, the remaining 'deficit' of $259m might be viewed as a series of CSOs. It should then be obtained as revenue through relevant government agencies on a contract for service basis, similarly to current student and pensioner concessions. In this way, the existing 'deficit' would disappear as such, and the PTC budget would always be 'balanced'.

The Committee takes no stance on that particular approach, which is a matter for the Government's high policy decision. However, one deficiency with the current classification of $46m in CSO student/pensioner concessions as revenue is that it masks the full extent of Government funding of PTC operations as revealed in Table 5.3. In 1992-93 this amounted to $488m plus $46m, a total of $534m. The Committee prefers, therefore, that concession 'revenue' be included with the full cost of public transport as shown in Section 5.4 below, in the interests of more transparent financial reporting.

In addition, some alternative CSO-related label for what is now known as the 'deficit' could also be developed. In order to avoid confusion, unambiguous explanations about the effect of any concession inclusions on the deficit reduction strategy will be necessary. The Committee notes that the enduring freight subsidy/CSO of $5.3m is already funded through the 'deficit', rather than classified as revenue, and that in any case the Department of Transport believes that the PTC is only expressly
compensated for about 50% of student and pensioner CSOs - with the balance already incorporated in the general 'deficit'.
### TABLE 5.3: TRENDS IN PTC OPERATING BUDGET, 1990-91 TO 1992-93

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Actual</td>
<td>Actual</td>
<td>Estimate</td>
<td>Actual</td>
</tr>
<tr>
<td></td>
<td>$m</td>
<td>$m</td>
<td>$m</td>
<td>$m</td>
</tr>
</tbody>
</table>

#### A. Revenue
- **Suburban Passenger**  
  - 1990-91: 202.2  
  - 1991-92: 218.8  
  - 1992-93: 245.2  
  - 1992-93 Actual: 222.5
- **Country Passenger**  
  - 1990-91: 52.6  
  - 1991-92: 47.7  
  - 1992-93: 50.5  
  - 1992-93 Actual: 46.1
- **Concessions**  
  - 1990-91: 40.2  
  - 1991-92: 44.4  
  - 1992-93: 45.6  
  - 1992-93 Actual: 46.2
- **Freight**  
  - 1990-91: 161.9  
  - 1991-92: 143.7  
  - 1992-93: 158.5  
  - 1992-93 Actual: 151.3
- **Miscellaneous**  
  - trading and catering  
    - 1990-91: 15.6  
    - 1991-92: 14.2  
    - 1992-93 Actual: 11.1
  - rents and advertising  
    - 1990-91: 27.1  
    - 1991-92: 22.2  
    - 1992-93: 23.8  
    - 1992-93 Actual: 22.7
  - workshops commercial  
    - 1990-91: 4.6  
    - 1991-92: 5.1  
    - 1992-93: 6.1  
    - 1992-93 Actual: 7.3
  - inter-system rail charges  
    - 1990-91: 22.5  
    - 1991-92: 19.2  
    - 1992-93: 18.8  
    - 1992-93 Actual: 18.1
  - other  
    - 1990-91: 22.1  
    - 1991-92: 27.9  
    - 1992-93: 11.6  
    - 1992-93 Actual: 32.1

**Total**  
- 1990-91: 548.8  
- 1991-92: 543.2  
- 1992-93: 574.8  
- 1992-93 Actual: 557.4

### B. Expenditure
- **Wages and Salaries**  
  - 1990-91: 565.9  
  - 1991-92: 543.7  
  - 1992-93: 540.6  
  - 1992-93 Actual: 536.2
- **Salary Related Costs**  
  - 1990-91: 121.5  
  - 1991-92: 115.0  
  - 1992-93 Actual: 104.4
- **Diesel Fuel**  
  - 1990-91: 40.7  
  - 1991-92: 34.1  
  - 1992-93: 35.6  
  - 1992-93 Actual: 36.2
- **Traction Power**  
  - 1990-91: 24.7  
  - 1991-92: 24.2  
  - 1992-93: 25.8  
  - 1992-93 Actual: 25.9
- **Purchase of Materials & Services**  
  - 1990-91: 225.4  
  - 1991-92: 206.3  
  - 1992-93: 194.6  
  - 1992-93 Actual: 204.4
- **Private Bus Payments**  
  - 1990-91: 120.7  
  - 1991-92: 123.6  
  - 1992-93: 140.3  
  - 1992-93 Actual: 138.5

**Total**  
- 1990-91: 1,098.9  
- 1991-92: 1,046.9  
- 1992-93: 1,046.4  
- 1992-93 Actual: 1,045.6

### C. Deficit (b)
- 1990-91: 550.1  
- 1992-93: 471.6  
- 1992-93 Actual: 488.2

**Notes:**

(a) The budget of the previous Government was not altered. Instead, measures designed to retrieve the expected shortfall were put in place. The only change to the budget was the introduction of a further 2% funding cut.

(b) Includes freight subsidy of $5.3m in each year.

**Source:** Department of Transport
(d) Miscellaneous 'other' revenue was $20m over estimate in 1992-93, and covers a number of 'one-off' receipts - including maintenance charges to VicRoads for work at level crossings. The Committee noted above that 'one-off' receipts tend to understate the structural deficit, which in theory ought to be wound back independently of such revenue - as occurs with the State Budget itself.

(e) An apparently minor decrease of $7.4m in wages and salaries expenditure since 1991-92 masks major upwards or downwards movements, viz:

- $33m savings from almost 4100 staff reductions in 1992-93. According to advice from the Department of Transport, lower than expected savings of $4m largely resulted from reform program slowing in the rate of planned staff exits, following negotiations with unions. This arrangement assisted with three year implementation and avoided revenue loss due to industrial disputes. At an average salary of $26,000 for each staff exit (together with 14% on costs), the Department estimates that the full year saving on 4100 departures is about $119m; if only $33m was obtained in 1992-93 due to slowness of exits, then a roll-forward balance of $86m is expected for 1993-94. However, $16m in estimated cost of contracted services must be deducted, leaving an adjusted roll-forward to 1993-94 of $70m.


- $32m in wage rises approved early in 1992-93. It is this expenditure increase - whatever may be its merits - which significantly detracts from the impact of the reform package in 1992-93. Without it, the deficit would have fallen by about $48m. The wage rises also have a $10m roll-forward impact on 1993-94 salary spending decreases, further reducing to $60m the $70m roll-forward from 1992-93 staff reductions.

- $15m expenditure increase for an extra pay day scheduled in 1992-93 over 1991-92.
(f) An apparent 1992-93 increase of $15m to the private bus operators arises because of an earlier change in the method of payment. A system of paying one month in advance was turned around to paying three months in arrears. This led to only ten monthly payments in 1990-91 ($120.7m); eleven payments in 1991-92 ($123.7m); and twelve payments in 1992-93 ($138.5m). As earlier noted, private bus payments are now (1992-93) fully reflected in the PTC’s structural deficit, whereas this was not so in the two previous years.

Finding 5.4

The Committee finds that passenger fares and freight charges were $34m below the 1992-93 target:

(i) due to such factors as earlier over-estimation; a decline in suburban passengers of 5.1% in a depressed economy; continuing workforce shifts to the growth corridors and away from the Central Activities District; and reform program teething problems; and

(ii) required $16.6m in supplementary appropriation from the Consolidated Fund.

Finding 5.5

The Committee finds that:

(i) Community Service Obligations (CSOs) of $46m for students and pensioners are received from other Government agencies; and

(ii) CSOs of $5m for a freight subsidy, as well as around $50m in student/pensioner concessions for which the PTC is not expressly compensated, are already incorporated in the Government-funded deficit which may itself be seen as a CSO.
5.3 WORKFORCE REDUCTION OUTCOMES

Driven by extensive use of separation packages, the PTC obtained almost 4100 staff reductions in 1992-93, 700 over target and amounting to 22% of the entire PTC workforce. As already noted at the first dot point in 5.2.2 above, while the full year saving from these reductions is $119m, only $33m was achieved in 1992-93 - principally due to departures late in the financial year. However, the balance of the savings ($86m) will be harvested as roll forward in 1993-94, adjusted by $16m of the cost of contracted services (eg Met buses).

The manner in which workforce reductions occurred is as follows:

<table>
<thead>
<tr>
<th>Commencements</th>
<th>Separation Package Departures</th>
<th>Other Resignations</th>
<th>Total Net Reductions</th>
</tr>
</thead>
<tbody>
<tr>
<td>239</td>
<td>3,508</td>
<td>793</td>
<td>4,062</td>
</tr>
</tbody>
</table>

Commencements included 29 apprentices. 153 of commencing staff were hired before the election of the Coalition Government, including 102 conductors and 31 Transit Patrol Officers.

Total separation package payments under the two schemes used (VDP and TSP)* were $113.2m (ex-superannuation) at an average cost per employee of $33,110 (VDP) and $27,644 (TSP). Superannuation amounted to $81.2 million, including a carry-over of $10.4 million to 1993-94 due to lagged payment of entitlements. Average superannuation cost per employee was $47,997 (VDP) and $66,936 (TSP).

Freight services, passenger services, rail vehicle maintenance and infrastructure management staff were all reduced by between 17-29% staff. Skill groups showed major reductions of a similar magnitude to the functional areas listed, with labourers, trades, tram conductors, bus drivers, yard and terminal, station and clerical and keyboard staff all departing. Details are shown at Table 5.4 below.

* VDP's are Voluntary Separation Packages; TSPs are Targeted Separation Packages.
TABLE 5.4: PTC STAFF REDUCTIONS IN ORGANISATIONAL GROUPS AND OCCUPATIONAL CATEGORIES, 1992-93

<table>
<thead>
<tr>
<th>Division</th>
<th>Total at 1 July 1992</th>
<th>Total at 30 June 1993</th>
<th>Net Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate Services</td>
<td>52</td>
<td>41</td>
<td>-11</td>
</tr>
<tr>
<td>Corporate Development &amp; Information Technology</td>
<td>185</td>
<td>163</td>
<td>-22</td>
</tr>
<tr>
<td>Finance &amp; Administration</td>
<td>526</td>
<td>424</td>
<td>-102</td>
</tr>
<tr>
<td>Freight Services</td>
<td>2,352</td>
<td>1,818</td>
<td>-524</td>
</tr>
<tr>
<td>Human Resources</td>
<td>128</td>
<td>107</td>
<td>-21</td>
</tr>
<tr>
<td>and Industrial Relations</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Marketing</td>
<td>160</td>
<td>137</td>
<td>-23</td>
</tr>
<tr>
<td>Passenger Services</td>
<td>7,190</td>
<td>5,969</td>
<td>-1221</td>
</tr>
<tr>
<td>Rail Vehicle Maintenance</td>
<td>4,153</td>
<td>2,938</td>
<td>-1215</td>
</tr>
<tr>
<td>Infrastructure Management</td>
<td>3,921</td>
<td>2,996</td>
<td>-925</td>
</tr>
<tr>
<td><strong>TOTAL CORE STAFF</strong></td>
<td><strong>18,667</strong></td>
<td><strong>14,603</strong></td>
<td><strong>-4064</strong></td>
</tr>
<tr>
<td>Seconded Out</td>
<td>59</td>
<td>61</td>
<td>2</td>
</tr>
<tr>
<td><strong>TOTAL PTC STAFF</strong></td>
<td><strong>18,726</strong></td>
<td><strong>14,664</strong></td>
<td><strong>-4062</strong></td>
</tr>
</tbody>
</table>

| Skill Group                                   |                      |                       |              |
| Senior Management                             | 113                  | 102                   | -11          |
| Senior Officers                               | 834                  | 745                   | -89          |
| Clerical & Keyboard                           | 1,727                | 1,432                 | -295         |
| Professionals                                 | 326                  | 299                   | -27          |
| Semi Professionals                            | 273                  | 259                   | -14          |
| Miscellaneous Grades                          | 187                  | 150                   | -37          |
| Supervisor                                    | 748                  | 568                   | -180         |
| Stations                                      | 1,152                | 908                   | -244         |
| Yard & Terminal                               | 757                  | 479                   | -278         |
| Enginemen                                     | 1,493                | 1,379                 | -114         |
| Driver - Tram                                 | 1,114                | 1,007                 | -107         |
| Driver - Bus                                  | 674                  | 543                   | -131         |
| Guard                                         | 577                  | 490                   | -87          |
| Conductor - Tram                              | 975                  | 776                   | -199         |
| Trading & Catering                            | 226                  | 128                   | -98          |
| Tradesmen                                     | 2,402                | 1,730                 | -672         |
| Apprentice                                    | 468                  | 344                   | -124         |
| Skilled Labourer                              | 2,821                | 2,046                 | -775         |
| Unskilled Labourer                            | 779                  | 433                   | -346         |
| Other                                         | 1,080                | 846                   | -234         |
| **TOTAL PTC STAFF**                           | **18,726**           | **14,664**            | **-4062**    |

Source: Department of Transport
Finding 5.6

The Committee finds that about 4,100 in staff reductions by the PTC in 1992-93:

(i) achieved savings of $33m in 1992-93, but this was about $4m less than targeted due to a slowing in the rate of planned exits;

(ii) will roll forward a further net saving of $70m into 1993-94, after allowing for the cost of contracted-out services;

(iii) constituted about 22% of the entire PTC workforce, with most of the major functional areas (in freight, passenger, maintenance and infrastructure management) and skill groups (eg labourers, trades, conductors, and clerical) reduced by between 17% and 23%; and

(iv) cost almost $200m in termination payments, including superannuation.

5.4 FULL COST OF PUBLIC TRANSPORT

The Victorian Commission of Audit recommended that the PTC should each year publish estimates of the full cost of providing public transport, including both CSOs and the cost of servicing PTC debt; as well, it should publish cost recovery levels on the same basis. Costs not covered in the operating budget discussed in earlier sections of the Chapter, but incorporated in the Commission's calculations, include superannuation costs and liabilities, operating works and services expenditure, lease rentals of operating vehicles, employee termination payments, depreciation, school bus payments and the cost of capital.

The Committee has briefly updated to 1992-93 at Table 5.5 below the Commission's calculations, in order to obtain a broadly indicative best estimate of the annual short-term full cost of public transport to the community. Given time constraints, it has applied the Commission's methodology without comprehensive investigation of its own. Further, where relevant data is unavailable, or not readily available, it has accepted the Commission's 1991-92
best estimates on the presumption that no material change has occurred for the purpose of the exercise. Clearly, refinements in table methodology, data collection and analysis may be necessary in future years. For example, developing data bases and methods for reporting and adjusting superannuation liabilities and employee termination payments, may enable a longer term view of the full community cost than the table currently permits. Currently, for example, the 1992-93 estimate does not reflect the ongoing annual cost of public transport when the current workforce reduction strategy concludes (ie 1995).

In 1992-93, the Table shows a $1.5b deficit, and a cost recovery ratio of 28%.

TABLE 5.5 FULL (NET) COST OF PUBLIC TRANSPORT TO COMMUNITY IN 1992-93 ($M)

<table>
<thead>
<tr>
<th>Description</th>
<th>1992-93</th>
</tr>
</thead>
<tbody>
<tr>
<td>PTC deficit from Annual Report</td>
<td>38.4</td>
</tr>
<tr>
<td>Appropriations to meet operating costs</td>
<td>797.8</td>
</tr>
<tr>
<td>School bus payments</td>
<td>76.1</td>
</tr>
<tr>
<td>Student/pensioner concessions</td>
<td>46.2</td>
</tr>
<tr>
<td>Depreciation on track</td>
<td>8.4</td>
</tr>
<tr>
<td>PTC share of Transport Department costs</td>
<td>1.0</td>
</tr>
<tr>
<td>Opportunity cost of capital</td>
<td>500.0</td>
</tr>
<tr>
<td><strong>Full net cost to community</strong></td>
<td><strong>1,467.9</strong></td>
</tr>
<tr>
<td><strong>User revenue</strong></td>
<td><strong>560.7</strong></td>
</tr>
<tr>
<td><strong>Total expenditure</strong></td>
<td><strong>2,028.6</strong></td>
</tr>
<tr>
<td><strong>Cost recovery (with rounding)</strong></td>
<td><strong>28%</strong></td>
</tr>
</tbody>
</table>

Source: Victorian Commission of Audit (Vol 2, Chapter 9); 1992-93 PTC Annual Report; Department of Transport.

**Finding 5.7**

*The Committee finds that in 1992-93 the full annual short term cost of public transport to the community is $1.5b above revenue contributions by users, with a cost recovery rate of 28%. This result is reliant on Victorian Commission of Audit methodology, updating its data where practicable but otherwise accepting its cost estimates.*
Recommendation 5.1

The Committee recommends that the full annual cost of public transport to the community, based on Victorian Commission of Audit methodology, should continue to be reported, with refinements in methodology, data collection and analysis in future enabling a longer-term perspective on those costs.

5.5 MOVERSMENT IN PERFORMANCE INDICATORS

The Department of Transport and the PTC are currently reviewing their performance indicators of efficiency and effectiveness, including the need for comparability with those used in other States, and even overseas. Key indicators include:

- for operating efficiency, labour and capital productivity as reflected in passenger boardings and freight carried per employee and locomotive;

- for financial performance, such items as the per capita deficit and cost recovery ratios; and

- for consumer satisfaction, such items as pricing levels, service cancellations and on-time running.

The Committee considers that while understanding the conceptual complications of the area, a full set of time series indicators should be developed as rapidly as practicable for regular reporting to the Parliament, as recommended by the Victorian Commission of Audit - including a set of consistent, properly interpreted national performance indicators.

Given the reform strategy focus in 1992-93 on reducing labour costs through staff reductions, the Committee has briefly examined the time series for three performance indicators from the 1992-93 PTC Annual Report, viz on-time running as a measure of service quality; and freight tonne kilometres per employee and suburban passenger boardings per employee as measures of labour productivity. As well, it obtained from the Department of Transport 1992-93 cost recovery ratios for the Met and V/line comparable with those published by the Victorian Audit Commission for 1991-92.
Consumer satisfaction through on time running: While suburban passenger transport arrivals showed very little change between 1991-92 and 1992-93, there was a clear deterioration in most V/line freight and passenger service arrivals. For example, intrastate grain freight declined from 97% of arrivals to 84% within 30 minutes; while peak commuter transport declined from 90% of arrivals to 87% within 5 minutes.

Operating efficiency through freight net tonne kilometres per employee: As shown in Chart 5.1, a major improvement in labour productivity appears to occur between 1991-92 and 1992-93. However, the Committee emphasises that much of this was more apparent than real due to the poor grain harvest in 1991-92, so there is a need to await longer term trends.

Operating efficiency through suburban passenger boarding per employee: As shown in Chart 5.2, only relatively small labour productivity improvement occurred in 1992-93. Again, there is a need to await longer term trends, given the significant decline in passenger boardings in 1992-93, as discussed earlier in this Chapter.

Financial performance through cost recovery ratios: As shown in Table 5.6 below, based on the limited costs reported in PTC annual statements, most of these ratios showed little improvement in 1991-92, principally because most major staff reductions were offset by substantial wage increases and sluggish revenue growth. The exception was freight, but this only emerged on the back of an abnormally poor grain harvest in 1991-92. Overall, the PTC's cost recovery ratio only increased from 38% to 40% in 1992-93. However, under the reform strategy, major improvement could be anticipated through to 1995; thus, it would be useful if cost recovery ratios could be projected by the PTC to that time.

Interstate Comparisons: The Audit Commission drew attention to the difficulties in comparing interstate public transport systems, because of differences in the integration of transport modes, eg buses, trains and trams; differing types of freight carried (eg coal in NSW and Queensland); differing distances between transport modes, with most costs borne at either end; and inconsistencies in accounting systems. However, a number of recent reports by the Commonwealth Grants Commission, EPAC, the Bureau of Industry Economics and the Industry Commission have all expressly or implicitly
criticised Victoria for a relatively poorer performance against most other States on the standard set of financial and productivity indicators. The Committee awaits with interest the results of any move to national performance indicators in future years, in the light of the Victorian public transport reform strategy.

Finding 5.8
The Committee finds that PTC performance indicators for 1992-93 show:

(i) for consumer satisfaction, that on-time running changed little for suburban passenger services, but a clear deterioration occurred in both V/Line freight and passenger services;

(ii) for labour productivity, that a more apparent than real improvement occurred in freight kms per employee due to the abnormally poor grain harvest in the previous year; and that relatively small improvement occurred in suburban passenger boardings per employee, due to decline in 1992-93 patronage; and

(iii) for financial performance, cost recovery rates showed little real improvement, because sluggish revenue growth and substantial wage rises both offset the effects of major staff reductions.

Finding 5.9
The Committee finds that conclusions about PTC performance under the reform strategy should await longer-term trends in relevant indicators of consumer satisfaction; labour and capital productivity; and financial performance.
Recommendation 5.2

The Committee recommends that:

(i) the development of a set of national indicators on productivity and financial performance proceed as quickly as possible, taking due account of the current comparative differences between the States' Public Transport systems; and

(ii) in the meantime, a full set of Victorian time series indicators should be developed as rapidly as practicable for regular reporting to the Parliament, including targets for cost recovery ratios based on the Deficit Reduction Reform Strategy.
### TABLE 5.6: PTC FINANCIAL PERFORMANCE - COST RECOVERY RATIOS 1992 AND 1993 (a)

<table>
<thead>
<tr>
<th></th>
<th>Freight</th>
<th>V/Line (Pass)</th>
<th>Metrain</th>
<th>Trams</th>
<th>Buses</th>
<th>PTC Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Costs ($m)</strong></td>
<td>310.6</td>
<td>303.4</td>
<td>271.1</td>
<td>260.6</td>
<td>444.8</td>
<td>430.4</td>
</tr>
<tr>
<td><strong>Revenue ($m)</strong></td>
<td>167.1</td>
<td>182.9 (c)</td>
<td>85.9</td>
<td>80.9</td>
<td>156.5</td>
<td>161.3</td>
</tr>
<tr>
<td><strong>Deficit ($m)</strong></td>
<td>143.5</td>
<td>120.5</td>
<td>185.2</td>
<td>179.7</td>
<td>288.3</td>
<td>269.1</td>
</tr>
<tr>
<td><strong>Cost Recovery (%)</strong></td>
<td>53.8</td>
<td>60.3</td>
<td>31.7</td>
<td>31.1</td>
<td>35.2</td>
<td>37.5</td>
</tr>
</tbody>
</table>

(a) Excludes payments for school buses which are not reported as part of the PTC business.
(b) Costs and revenue as reported in the 1992-93 Annual Report, allocated by the PTC to the various businesses.
(c) Freight Revenue includes government freight subsidy of $5.29 m.

*Source: Department of Transport; Victorian Commission of Audit.*
CHART 5.2: TRENDS IN FREIGHT NET TONNE KMS PER EMPLOYEE, 1990-91 TO 1992-93

Source: 1992-93 PTC Annual Report

CHART 5.3: SUBURBAN PASSENGER BOARDINGS PER EMPLOYEE, 1990-91 TO 1992-93

Source: 1992-93 PTC Annual Report
6.1 OVERVIEW OF THE VICTORIA POLICE 1992-93 BUDGET OUTCOME

In general, the Police were exempt from such 1992-93 budgetary savings measures as a 2% productivity improvement required of other agencies in October 1992 by the incoming Coalition Government. Including WorkCover premiums, payroll and other taxes paid, total Police outlays were about $654m, with some small variations from budget estimates. These covered capital outlays ($14m actual, down about $2m on estimate); and wages and salaries ($476m, down about $5m). Charges and reimbursements revenue (about $3m) was down about $5m on estimate, due to non-payment by the Transport Accident Commission of its usual contribution to road accident statistics collection.

Police obtained large salary increases between April 1991 and July 1992. While these staged increases totalled about 12% for all ranks, compounding effects over time together with substantial residual increases on translation of ranks to the new skill level career structure meant that actual increases were significantly higher (with increases of up to about 20% at the more junior Constable levels). All this resulted in a $40m or 9% increase in Police wages and salaries in 1992-93, including the roll-forward from previous years. It seems likely that as police move through the new incremental and skill levels structure, there will be a continuing upwards drift in annual salary appropriation requirements.

In contrast to these salary increases, however, police actual sworn strength has changed little, remaining at about 9,950 over the years ending 30 June 1991, 1992 and 1993. On the other hand, recent years have seen:

- major increases in the proportion of Senior Constables to Constables with accompanying increases in the salary bill;

- moves to greater civilianisation of police duties, with further use of public servants as part of an effort to lift police operational strength without increasing actual sworn police numbers; and
• substantially more revenue collection activity through fines and penalties, particularly in traffic speed camera use. Camera infringement notice and revenue productivity levelled off and declined in 1992-93, as driver behaviour adapted to this surveillance of speeding motorists.

This chapter chiefly focuses on these three areas, including a very preliminary attempt to initiate interstate benchmark comparisons on police productivity performance.

Finding 6.1

The Committee finds that Victoria Police 1992-93 outlays of $654m:

(i) came in very close to budget estimate, but with revenue from charges and reimbursements down $5m due to the Transport Accident Commission not paying its budgeted (and usual) contribution to road accident statistics collection; and

(ii) incorporated a $40m (or 9%) increase in police salaries expenditure resulting from staged salary increases for all ranks totalling 12% between April 1991 and July 1992, but with compounding effects and translation to a new skill level structure creating actual salary increases of up to about 20% over the period.

Finding 6.2

The Committee finds there was little change to police actual sworn strength of about 9,950 between 1991 and 1993, but that public servants, excluding the Traffic Camera Office, had declined by 8% since 1990 to about 1,600 positions.
6.2 SWORN STRENGTH CHANGES, PARTICULARLY IN SENIOR CONSTABLE AND CONSTABLE RANKS

Very little movement occurred in actual sworn police between 1991-92 (9,958 members) and 1992-93 (9,954 members). The Force's approved strength by the Governor-in-Council is a little higher (at 10,108 in 1992-93); with nominal strength at 9,975 based on the most desirable rank profile taking account of operational goals and the salary budget. As mentioned above, very substantial budgetary increases in recent years have been absorbed by salary increases - including through the promotion and incremental structure - without resulting in greater police numbers.

With no apparent publicity, one recent significant shift in police distribution across ranks was in the ratio of Senior Constables to Constables. This accompanied a move to promotion on merit after four years' service, and away from automatic promotion on seniority after five years' service and passing of the required examinations. That is, "in situ" promotion within the particular police office was no longer possible.

As shown in Table 6.1, the ratio at 30 June 1993 (62:38) had returned to its 1987 level before an influx of new recruits had increased the proportion of Constables to over 50%.

**TABLE 6.1: RATIO OF SENIOR CONSTABLES TO CONSTABLES (ACTUAL), 1987 to 1993**

<table>
<thead>
<tr>
<th>Date</th>
<th>Senior Constables</th>
<th>Constables</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>%</td>
<td>No.</td>
</tr>
<tr>
<td>3/7/87</td>
<td>62</td>
<td>3,868</td>
</tr>
<tr>
<td>30/9/88</td>
<td>57</td>
<td>3,725</td>
</tr>
<tr>
<td>30/6/89</td>
<td>53</td>
<td>3,499</td>
</tr>
<tr>
<td>30/6/90</td>
<td>47</td>
<td>3,212</td>
</tr>
<tr>
<td>30/6/91</td>
<td>48</td>
<td>3,362</td>
</tr>
<tr>
<td>30/6/92</td>
<td>58</td>
<td>4,160</td>
</tr>
<tr>
<td>30/6/93</td>
<td>62</td>
<td>4,418</td>
</tr>
</tbody>
</table>

*Source:* Victoria Police
The Police estimate that the move to their desired proportion of 62.5% Senior Constables will cost around $4.5m more p.a. on a full year basis than the near 50% ratio at 30 June 1991. Benefits include management's ability to place more experienced members in locations where they are needed (including in "hard-to-staff" areas). All promotion positions are now advertised, in contrast to the earlier automatic "in situ" arrangement in the police station.

The Committee notes that the following factors may all significantly add to the initial full year cost of $4.5m:

- future movement of the much larger number of Senior Constables through band increments;

- employer contributions to superannuation entitlements; and

- further possible rise in the proportion of Senior Constables in metropolitan areas (now only about 40% against the State's overall 62%, largely because country Victoria requires a higher proportion of Senior Constables who must more often work alone).

Finally, preliminary examination of police workforce data from New South Wales and Queensland suggests prima facie that in 1993 those States used a much smaller (30-40%) proportion of Senior Constables, despite more dispersed populations relative to Victoria. However, New South Wales has a two-tier Constable structure, with a large number on the more senior Constable-In-Charge rank.

These matters are highlighted neither because the funds involved are extraordinarily large, nor because cogent police operational reasons may not fully justify the proportions of Senior Constables to Constables adopted in Victoria. Rather, the case illustrates in microcosm the need for enhanced public accountability and scrutiny on outcomes and outputs as more flexible budget management responsibilities are devolved on line agencies in accord with the Government's policy of improved financial management based on far fewer central controls. Full cost reporting, assessment of the implications for current and future budgets through appropriately disaggregated and robust rolling forward estimates; performance indicators on efficiency and effectiveness; and continuing interstate trend comparisons and explanations are all critical to confidence in this process, and to assist with performance improvement.
Finding 6.3

The Committee finds that the proportion of Senior Constables to Constables (accompanying a shift to promotion on merit rather than on seniority):

(i) rose from 48% in 1990-91 to 62% at the end of 1992-93;  

(ii) came at an estimated salaries expenditure cost of $4.5m in a full year, but with likely significant additions through employer superannuation contributions; future increment movements and a possible rise in the current 40% of Senior Constables in metropolitan areas;  

(iii) prima facie was significantly higher than the 30-40% proportion in NSW and Queensland;  

(iv) may better allow management to place experienced members in locations where they are needed;  

(v) highlights in microcosm the importance of the Government’s moves to improved financial accountability requiring full cost reporting; disaggregated and robust rolling forward estimates; and efficiency and effectiveness performance indicators, including interstate comparisons.

6.3 INCREASES IN POLICE OPERATIONAL STRENGTH THROUGH CIVILIANISATION AND RELATED INITIATIVES

Substitution of public servants in some duties currently carried out by police - so releasing the latter for actual police work - is one measure adopted by the Police to increase their effective operational ground strength without adding to the number of sworn members.

Public servant numbers were 1,736 at 30 June 1993, a rise of over 100 from 1,616 positions in the previous year. However, this is of statistical significance only, as 129 positions in the Traffic Camera Office were in 1992-93 transferred to Police from the
Ministry of Police and Emergency Services. Indeed, public servant numbers have actually declined by about 8% since 1990, as revealed in Table 6.2. Their costs as shown are only about 10% of Police wages and salaries expenditure, even though they contribute around 14% of all staff.

**TABLE 6.2: PUBLIC SERVANTS WITH THE VICTORIA POLICE, 1990 TO 1993**

<table>
<thead>
<tr>
<th>Year (30 June)</th>
<th>Public Servants (No.)</th>
<th>Budget Allocation ($m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1989-90</td>
<td>1,758</td>
<td>N/A</td>
</tr>
<tr>
<td>1990-91</td>
<td>1,692</td>
<td>N/A</td>
</tr>
<tr>
<td>1991-92</td>
<td>1,618</td>
<td>45.2</td>
</tr>
<tr>
<td>1992-93 (a)</td>
<td>1,607</td>
<td>48.9</td>
</tr>
</tbody>
</table>

(a) Number adjusted to exclude transfer-in of the Traffic Camera Office; however, budget is unadjusted.

**Source:** Victoria Police

Unfortunately, the Police advise that the distribution of public servants by occupational category was not recorded prior to 1992-93. In that year, about 80% were classified as administrative/executive, with the remainder spread between professional, computer, technical, trade and ancillary categories such as gardeners and cleaners. Some reductions in these latter groups may mask real increases in the administrative category, but that suggestion cannot be tested owing to lack of records.

Because of their lower average pay, it is clearly more economical to employ public servants than police in interchangeable duties, so freeing the latter for police duties. Nevertheless, unless very large public servant productivity increases occur, the Committee would expect to see modest increases in public servant numbers and budgets over the next few years as civilisation proceeds.

The rate of progress towards greater civilisation raises sensitive police industrial and effectiveness issues. The Committee was advised that during 1991-92, 287 police positions were identified as capable of performance by public servants, with 240 police
redeployed to fully operational positions in 1992-93, leaving an outstanding balance of 47 positions yet to be substituted. Movements of this magnitude (about 300) lead to a significant 3% increase in effective police operational strength (total police numbers: about 10,000), with a cost saving for each additional public servant employed relative to the position vacated by the police.

Categorising positions for possible civilisation is based on the definition of the U.S. National Advisory Commissioner on Criminal Justice Standards and Goals. Requirements state that the (police) incumbent has (i) status under local, State or Federal statute; (ii) exercises normal police power and authority; (iii) possesses expertise which can only be acquired through actual police field experience; and (iv) contributes significantly to professional police development.

Criteria (iii) and (iv) create 'Catch 22' situations and obviously involve substantial exercise of judgement on the part of the categorisation panel, which includes representatives of the unions. Indeed, power under criterion (iv) is reserved to the Chief Commissioner. Some areas considered for civilisation in 1991-92 included Radio Electronics; Instrument Development Maintenance; Crime Scene Examiners; and the Fingerprint Section. The Committee acknowledges there is potential for further civilisation in areas such as D24 Communications and traffic camera operations, but that this probably requires police and community confidence in the effectiveness of personnel shifts. It may be useful for the Police to mention in Annual Reports those areas still to be considered for civilisation, where publication does not jeopardise any sensitive negotiations.

The Committee briefly compared public servant numbers in Victoria and other major States as a proportion of total police and public servants employed, on data collected for it by the Victoria Police. When police recruits and other special areas such as the NSW parking patrol are omitted, the civilian ratios are not significantly different viz: Victoria 15%, Queensland 16% and NSW 17%. These figures should be seen as broadly indicative only, given unknown interstate differences in both coverage and needs - particularly on the public servant side. However, further detailed interstate comparisons may be valuable to identify differences in areas civilised, and the lessons that may be drawn from those experiences. The Committee emphasises that even if additional research confirms there are no significant differences in the civilian ratio or in civilised areas between Victoria and other States, it should not be concluded that further opportunities for Victorian civilisation do not exist.
The Committee notes that with 9 weeks annual leave, police on duty at any one time are in theory likely to be around 8,300 or 1,700 members fewer than the Force's actual sworn strength of almost 10,000. One possible option to increase effective operational strength is to "buy out" some of that leave, provided this would not impact adversely on the operational effectiveness of the Force. The Committee notes that every additional week spent on duty rather than on leave, would increase effective operational strength by almost 200 police, or 2% of the Force.

The Police Board is also examining the streamlining of police selection and promotion processes, which apparently occupy an inordinate amount of resources better rechannelled to increasing effective police operational strength. Almost 55,000 transfer and promotion applications are dealt with each year.

Finally, if actual police numbers were to rise significantly above existing levels, then in simple terms either recruitment would need to increase substantially, or the cessation rate must decline. In 1992-93, recruitment and cessation were almost evenly matched, with each at around 350-360 police, or 3.5% of the Force.

Finding 6.4

The Committee finds that civilianisation of police duties:

(i) can increase effective police operational strength without adding to sworn members;

(ii) for 287 identified positions with redeployment almost complete in 1992-93, leads to around a 3% increase in effective police strength;

(iii) is more economical, through lower on average public servant pay;

(iv) raises sensitive issues involving categorisation criteria, police effectiveness, community and police confidence, and industrial relations - but further scope probably exists in several select areas such as D24 Communications; and

(v) prima facie, has led to a similar 15-17% proportion of public servants relative to total Police employment in Victoria, NSW and Queensland.
Finding 6.5

The Committee finds that:

(i) existing police annual leave of 9 weeks suggests theoretically that only 8,300 out of 10,000 sworn members are on duty at any one time; and that

(ii) "buying out" just one week of this leave would allow an increase in effective operational strength of about 200, or 2%. 

Recommendation 6.1

The Committee recommends that:

(i) the Victoria Police Annual Report publish areas still to be considered for civilianisation, provided that sensitive negotiations are not jeopardised;

(ii) further comparisons occur with civilianisation in other States, to identify differences in areas civilianised and the lessons that may be drawn from differing experiences; and

(iii) even if research confirms there are no significant differences in the civilian ratio or in civilianised areas between Victoria and other States, it should not be necessarily concluded that further opportunities for Victorian civilianisation do not exist.

6.4 PERFORMANCE INDICATORS

The Police are in the process of evaluating the adequacy of all current performance indicators including those provided to the Parliament, with development of industry benchmarks for police forces across Australia. Police performance indicators include crime clear-up rates; public satisfaction levels; mobile and foot patrol times; and average police response time to public requests for assistance. The Committee's workload has not permitted thorough study of this complex area, where consistency of
measurement over time and causal interpretation difficulties are among the many challenges posed. The Police in its submission to the Committee emphasised, for example, that crime clearance rates were subject to so many factors outside the Force's control that cause and effect were almost impossible to demonstrate.

One basis for interstate comparisons are the Commonwealth Grants Commission (CGC) 1993 findings on standardised police expenditures for 1991-92, which the Committee sets out in Table 6.3 below.* While the CGC has improved the clarity of its explanations and reduced the extent of subjective judgement, comparisons are still impeded because of a lack of publicly-reported quantification of standardisation factors. For the police, these include service delivery economies of scale (eg police station size); administrative economies of scale (eg size of central bureaucracies); socio-economic composition of the population; dispersion of the population; input costs such as varying levels of wages and salaries; urbanisation; and vandalism and security.

Table 6.3 shows that Victoria spends about $50m (10%) more than is needed to provide police services at the same standard as the average of all States and Territories, that New South Wales spends marginally less than Victoria; while Queensland spends somewhat less than the CGC standard expenditure.

<table>
<thead>
<tr>
<th></th>
<th>Total Expenditure ($m)</th>
<th>Per Capita Expenditure ($)</th>
<th>Excess of actual over standardised expenditure</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Actual</td>
<td>Standardised</td>
<td>Actual</td>
</tr>
<tr>
<td>VIC</td>
<td>570.0</td>
<td>519.3</td>
<td>128.4</td>
</tr>
<tr>
<td>NSW</td>
<td>802.1</td>
<td>753.2</td>
<td>135.0</td>
</tr>
<tr>
<td>QLD</td>
<td>407.0</td>
<td>427.4</td>
<td>135.6</td>
</tr>
</tbody>
</table>

Finally, the Committee has briefly examined 1992-93 police per head of population (ie per capita) in Victoria, New South Wales and Queensland. Such very preliminary results should again be considered as broadly indicative only. At 448 police per capita,
Victoria has about 30 (or 6%) fewer police per head of population than either New South Wales (478) and Queensland (476). In part, this may reflect Victoria's less dispersed population relative to those in the other States. However the CGC pointed out (Vol.2, p.82) that its preliminary research indicated that present police distribution across Australia is not related to crime, socio-economic and demographic characteristics, but rather appears to be policy-determined.

As part of the monitoring of Victorian police productivity, the Committee considers that interstate benchmark comparisons over time of police productivity/output measures of the kind described in this section should be reported regularly by the Police to Parliament. This would assist public accountability and scrutiny; and with performance improvement in efficiency and effectiveness that might accompany such insights. Such reports should be accompanied by qualifying comments on the impact of differing State characteristics on these performance measures.

**Finding 6.6**

The Committee finds that:

(i) Commonwealth Grants Commission data shows that Victoria spent $50m (10%) more in 1991-92 than required to provide police services at the same standard as the average of all States and Territories; and

(ii) prima facie, Victoria in 1992-93 with 448 police per head of population, has about 30 (6%) fewer police than NSW (478) and Queensland (476), possibly reflecting Victoria's less dispersed population.
Recommendation 6.2

The Committee recommends that current police performance indicators should be extended to an interstate time series format with interpretative comments, and be reported regularly to the Parliament. They could then benchmark both police numbers and police spending per head of population; civilianisation ratios; crime clear-up rates; public satisfaction levels; mobile and foot patrol times; and average police response time to public requests for assistance.

6.5 FINES REVENUE COLLECTION ACTIVITY

Fines are issued through both the Traffic Camera Office (TCO) and the Fixed Penalty Payment Office. While the TCO deals only with speeding vehicles, the latter also covers penalties for such offences as drink driving, seat belt and traffic signal misdemeanours. In 1992-93, the two offices collected about $94m in revenue, compared with $102m the previous year.

The main reason for decline was issue of 20% fewer Traffic Infringement Notices (TINs) by the TCO, down from around 564,000 in 1991-92 to just 454,000 in 1992-93. This resulted from finding ever fewer vehicles above the camera threshold speeds, as incurred fines deterred drivers from speeding. While 23.9% of vehicles were above the thresholds in December 1989 when cameras were first trialed, this fell to between 12.2% and 5.3% over 1991-92; and fell further to between 5.4% and 3.8% over 1992-93. Camera hours worked each month doubled over 1991-92 but in 1992-93 remained stable at around an average 4,000 hours per month with a maximum 30 cameras in use.

Revenue did not fall to quite the same degree as TINs, owing to an apparent improvement in the collection rate. Nevertheless, the value of fines collected in current economic circumstances is normally 20-30% below that issued each year, with the balance referred to the Sheriff's Office in the Attorney General's Department for subsequent action - for which the Police now have no responsibility.

The dramatic fall in speeding vehicles inevitably resulted in a major loss of camera productivity in generating infringement notices and revenue, as illustrated in Table 6.4 and Chart 6.1 below. Traffic Infringement Notices (TINs) issued per camera hour
and revenue collection per camera hour worked, both more than halved over the two years depicted. Increase in speed limits on major arterial and similar roads are likely to create similar reduction in camera notice productivity and revenue raised.

Clearly enough, if revenue collection was the only traffic camera objective, there would by now be an unarguable case for a major increase in hours worked in the face of this productivity decline, providing more cameras could be bought. On the assumption that the existing 30 cameras are in full-time use, and that little more than 1 person was required to service a camera (use, set-up etc), then 4,000 hours per month represents continuing use of 30 station police for camera work each day in the face of this productivity decline. Of course, this is not a large number relative to 10,000 members of the Force and only involves direct recurrent costs in the order of $1m p.a. In addition, the TCO itself costs $7.5m p.a.

However, the police do not primarily view traffic cameras as a revenue-raising device, but as an instrument for generally deterring speeding drivers and so reducing road trauma and traffic offences. They point to a 49% reduction in Victoria’s road toll between 1989-93 (777 deaths to just 396); and to research by the Monash University Accident Research Centre linking speed cameras with reductions in reported casualty crashes at low alcohol times, and in injury severity.

In all the circumstances, the Committee concludes that the Police should keep under close review the number of traffic camera hours worked and the resulting efficiency and effectiveness of police resources used to deter speeding motorists. It should do so in the light of a major decline in the productivity of generating infringement notices; factors which impact on this; and the likely effect on general deterrence of any variation to camera hours worked. Treasury should be kept informed of revenue reduction trends.
TABLE 6.4: REDUCTION IN TINS-GENERATING AND REVENUE-GENERATING TRAFFIC CAMERA PRODUCTIVITY 1991 TO 1993(a)

<table>
<thead>
<tr>
<th>Period</th>
<th>Camera Hours Worked</th>
<th>TINS Issued (No.)</th>
<th>Collections ($)</th>
<th>TINS per Camera Hour</th>
<th>Collections per Camera Hour ($)</th>
<th>Speeding Vehicles Above Threshold (% in Ave Mth)</th>
</tr>
</thead>
<tbody>
<tr>
<td>July-Dec 1991</td>
<td>13,230</td>
<td>300,024</td>
<td>28.60</td>
<td>22.7</td>
<td>2,162</td>
<td>9.73</td>
</tr>
<tr>
<td>Jan-June 1992</td>
<td>19,715</td>
<td>264,205</td>
<td>24.04</td>
<td>13.4</td>
<td>1,219</td>
<td>6.22</td>
</tr>
<tr>
<td>July-Dec 1992</td>
<td>24,534</td>
<td>219,468</td>
<td>24.80</td>
<td>9.0</td>
<td>1,011</td>
<td>5.03</td>
</tr>
<tr>
<td>Jan-June 1993</td>
<td>25,357</td>
<td>234,803</td>
<td>22.21</td>
<td>9.2</td>
<td>915</td>
<td>4.70</td>
</tr>
</tbody>
</table>

Note: (a) TINS are Traffic Infringement Notices
Source: Victoria Police

Finding 6.7

The Committee finds that:

(i) the major reason for declining police fines revenue in 1992-93 (about $8m) was a 20% reduction in Traffic Infringement Notices (TINS) issued by the Traffic Camera Office (TCO);

(ii) the cause for fewer TINS was ever-decreasing vehicles above the camera threshold speeds, down from 12.2% in July 1991 to 3.8% in June 1993, as drivers were deterred from speeding;

(iii) camera revenue-generating productivity (eg dollars collected for camera hours worked), and notice-generating productivity halved over 1991-93, but camera work continued to use up to the equivalent of 30 full-time police with other TCO costs of $7.5m p.a.; and

(iv) the police do not themselves view traffic cameras as a revenue-raiser, but as an instrument to reduce road trauma, with cameras linked by research to reduction in casualty crashes and injury severity.
Recommendation 6.3

The Committee recommends that the Police keep under close review the number of traffic camera hours worked and the resulting efficiency and effectiveness of police resources used. It should do so in the light of declining productivity in infringement notice generation; impacting factors; and the likely effect on general deterrence of speeding motorists from any variation to camera hours worked.

Committee Room
23 November 1993
CHART 6.1: REDUCTION IN TINs-GENERATING AND REVENUE-GENERATING TRAFFIC CAMERA PRODUCTIVITY, 1991 TO 1993

Note: TINS are Traffic Infringement Notices

Source: Victoria Police
LIST OF WITNESSES

Department of Transport - March 3, 1993

The Honourable A.J. Brown, MP, Minister for Public Transport; Mr A. Reiher, Acting Secretary; Mr S. Stanko, Deputy Secretary; and Mr J. McMillan, Chief Executive, Public Transport Corporation.

Department of Treasury - March 10, 1993

The Honourable A.R. Stockdale, MP, Treasurer; Mr M. Vertigan, Secretary; Mr D. Shand, Deputy Secretary, Budget and Economic Group; and Mr J. Brenan, General Manager, Infrastructure Development and Management Department of the Treasury.

Department of Education - March 24, 1993

The Honourable D.K. Hayward, Minister for Education; Mr P. Kirby, Secretary; Mr G. Spring, Director of School Education; Mr M. Sykes, Assistant General Manager, Resource Management; Mr. N. Brown, Assistant General Manager, Office of Schools Review; Mr J. Pascoe, Acting General Manager, People Services; and Mr. R. Lamb, Deputy Chairman, Quality Provision Taskforce.

Department of Finance - April 14, 1993

The Honourable I.W. Smith, MP, Minister for Finance; Mr D. Thomas, Secretary; Ms P. Kallis, Acting Comptroller-General (Policy); and Mr J. Norman, Acting Comptroller-General (Operations).

Department of Industry and Employment - May 12, 1993

The Honourable P.A. Gude, MP, Minister for Industry and Employment; Mr Garthe Lampe, Deputy Secretary, Industry and Regional Development; Mr Gerry Nooney, Director, Corporate Services Division.

Department of Agriculture - May 19, 1993

The Honourable W.D. McGrath, MP, Minister for Agriculture; Mr Terry Healy, General Manager, Rural Policy and Marketing; Dr Ras Lawson, General Manager, Operations and Corporate Services; and Mr Ross Davies, Ministerial Adviser.
Department of Police and Emergency Services - May 26 1993

Mr P.J. McNamara, Minister for Police and Emergency Services, Minister for Corrections and Minister for Tourism; Mr W. McCann, Acting Secretary, Department of Justice; Mr M. Thomas, Police and Emergency Services and Corrections Directorate; Mr N. Comrie, Chief Commissioner of Police; Mr J. Van Groningen, Director of Correctional Services; and Mr B. Annells, Chief Executive, Tourism Victoria.

Department of Health and Community Services - August 18, 1993

The Honourable M. Tehan, MP, Minister for Health; and Dr J. Paterson, Secretary, Department of Health.
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