PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE


NINETEENTH REPORT TO THE PARLIAMENT
APRIL 1997
PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

NINETEENTH REPORT TO PARLIAMENT

REPORT ON THE 1996-97 BUDGET ESTIMATES AND 1995-96 BUDGET OUTCOMES

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Duties of the Committee

The Public Accounts and Estimates Committee is constituted under the Parliamentary Committees Act 1968, as amended.

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

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 and payments presented to the Assembly and Council;

if the Committee is required or permitted so to do by or under the Act.
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Chairman's Introduction

This report presents the findings and recommendations of the Public Accounts and Estimates Committee's review of the Budget estimates for 1996-97 and the Budget outcomes for 1995-96. It covers a number of general issues, as well as reporting on four specific portfolio areas.

During the past year fundamental structural, organisational, managerial and accounting changes have continued to be implemented throughout the Victorian public sector. These changes have provided substantial efficiency improvements in most departments and agencies. There is no doubt that the momentum exists for the process to continue.

While the Parliament and the community are regularly provided with volumes of information about the activities of government, not enough of it specifically focuses on intended and actual results of government programs and policies. The Committee is keen for this to be rectified and many of the recommendations in this report address issues of output budgeting and management, performance measurement and reporting.

The Committee believes that the Government should outline a clear vision for the future of financial reporting, incorporating whole of government reporting, accrual management and accrual based budgeting so that continued impetus is given to the reform process.

I commend the report to the Parliament. I urge Members to take an interest in this report and in the implementation of the financial management reform process because of its potential to ensure that taxpayers' funds are used efficiently, effectively and transparently in the delivery of government services.

In conclusion, and on behalf of the committee, I would like to express our appreciation to Ministers Gude, Hallam, Knowles, Stockdale and former Minister Brown for their assistance during the hearings. I would particularly like to thank the officials of the four portfolios for their attendance and co-operation in answering questions. and for providing detailed written responses to the Committee's questionnaire.

The Auditor-General, Mr Ches Baragwanath, and his officers provided useful background information and the Committee has drawn heavily on their work in preparing this report.

Much of the research and the analysis contained in this report has been undertaken by Ms Luci Marsh, an officer on secondment from the Auditor-General's Office. The Committee is very grateful for her assistance which has been invaluable. Finally, I would like to thank my fellow Committee Members and the staff of the secretariat, particularly Michele Cornwell for her outstanding dedication to the work of the Committee.

Bill Forwood
Chairman
Executive Summary

Introduction - Chapter 1

As a result of the Government’s decision to present an earlier 1997-98 Budget the Committee will only table one report on the review of the 1996-97 Budget Estimates. The Committee’s review of the 1996-97 Budget aims to supplement rather than replicate the information contained in the Budget Papers.

Over the past few years the Victorian Government has been enhancing performance and accountability within the public sector through major reforms.

Public Accountability - Chapter 2

For government to operate effectively, efficiently and transparently it must have in place a framework which clearly states program objectives and expected outcomes for clients. Formal reporting arrangements should assess outcomes achieved against those expected and if results differ from what was intended, explain why, and outline action taken to improve the situation. The framework should provide a means to report back to Ministers, Parliament and the public on actual accomplishments in accurate, meaningful and understandable ways.

In the public sector, the corporate plan could be a mechanism by which Parliament and the public can make government departments accountable for their performance. Some departments did not make available a copy of their corporate plan for scrutiny by the Committee.

Customer service charters could also be a tool to make departments (and ultimately the Government) accountable for services provided. While some customer service charters have been developed in the public sector (mainly in the water industry), there is scope for the greater availability of charters across the public sector. The Committee believes that customer service charters are worthwhile documents which all government agencies should prepare and report against.

The Government has been implementing many changes in line with the recommendations of the Victorian Commission of Audit to improve information presented in the Budget. However, the following enhancements still need to be implemented:

- the reconciliation of budget estimates and budget outcomes along with appropriate explanations for major variances;
- an improvement in the classification of budget items between current and capital; and
- the introduction of a system of full financial accounting covering the Budget and financial reporting.
Changes to the Budgetary Process - Chapter 3

The Government has, for a number of years, been implementing accrual accounting within the public sector and moving towards whole of government financial statements. In 1995-96 all government departments produced their annual general purpose financial statements on an accrual basis, however the presentation of departments’ monthly management reports on an accrual basis will not be fully implemented until the 1997-98 financial year.

The Committee understands that the Government will table an audited whole of government report, presenting the outcomes for the current financial year, in September 1997 (this report will replace the document traditionally known as the “Statement of Financial Operations”) and that the 1997-98 Budget will be presented on an output basis, that is on the basis of the services to be provided.

Budget Overview - Chapter 4

The 1995-96 budget outcome was an underlying budget sector surplus of $473.9 million. This was a favourable variance compared with the projected deficit of $344.4 million.

The higher budget outcome was mainly due to lower interest payments, higher than expected revenue from fees and taxes on payroll, liquor, tobacco and electronic gaming machines, lower spending by some departments on infrastructure and increased revenue from the ongoing program of disposing of surplus assets.

Several significant “one-off” transactions during the 1995-96 financial year resulted in a headline budget surplus of $5 173.9 million. During 1996-97 there have been further privatisation transactions, which will significantly affect the budget outcome, and it is expected more privatisations will occur.

Department of Treasury and Finance - Chapter 5

The Department of Treasury and Finance has been progressively implementing a number of economic and industry reforms including the:

- introduction of financial management and reporting by outputs;
- sale of a number of Government businesses; and
- reduction of the State’s level of debt.

Revenue from gaming and gambling represented a significant portion of the taxes, fees and fines collected by the State in 1995-96. This revenue is forecast to increase by approximately $100 million during 1996-97. The Community Support Fund has been established to fund, amongst other things, programs for prevention of compulsive gambling or for the treatment of persons who are compulsive gamblers.

The Statement of Financial Operations identified potential or contingent liabilities of the State. The processes for the identification, management and reporting of contingent liabilities will be improved by the introduction of a contingent liabilities database by the Department of Treasury and Finance.
The Department of Treasury and Finance has introduced initiatives to improve asset management across the public sector. A number of minor issues related to the valuation of some assets within the Arts and Public Transport sectors and the effective utilisation of assets will need to be addressed by the Department.

Unfunded superannuation liabilities represented more than 27% of the State’s total liabilities at 30 June 1996. Although these liabilities have been reduced by 15.86% since 1992, they have been increasing over the last three years. The Department of Treasury and Finance will need to continue to manage effectively the unfunded superannuation liabilities to ensure the upward trend does not continue.

During the 1995-96 financial year $353.3 million was paid from the Treasurer’s Advance. This included amounts for:

- approved wage increases;
- Government-wide promotions and activities;
- Melbourne City Link Authority - ancillary works and land acquisition;
- “Victoria on the Move” display; and
- Australian Grand Prix Corporation - works and contribution to operating expenses.

Department of Education - Chapter 6

The Department of Education relies on the Commonwealth Government to fund a number of education programs. In 1996-97 there has been a reduction in the level of Commonwealth funding to some of the Department’s programs. The decrease in Commonwealth funding will have a significant impact on the State’s Disadvantaged Schools and Early Literacy Programs.

The Department has given priority to teaching and learning through multimedia technologies. Funding has been allocated for the professional development of teachers and the purchase of computers for schools. The Department of Education should continue to give priority to implementing its strategy for the increased use of technology in schools to ensure children are best placed to meet future challenges.

The Department of Education has identified approximately 1500 teachers which are excess to the Department’s requirements and result in additional costs to the Department’s budget of approximately $26 million. The Department is trying to reduce the number of surplus teachers, however due to a federal redundancy award which binds the State, the process of reducing teacher numbers is lengthy and could take up to 16 months. The Department needs to continue its efforts to reduce teacher numbers to a level closer to its actual requirements.

The Department of Education has made significant progress in reducing the school maintenance backlog, which was originally estimated at $700 million, to approximately $250 million. This has been achieved through the refurbishment of existing schools, the sale of surplus schools and the opening of new schools. Approximately $250 million has been raised through the sale of schools.

The Department of Education is currently refining its output measures to develop realistic benchmarks which will address qualitative as well as quantitative performance.
Department of Human Services (Health Programs) - Chapter 7

One of the initiatives within the health portfolio has been the formation of Health Care Networks. The networks have been given a charter to plan and develop hospital and community based services across a wide geographical and community area. The Health Care Network plans should include targets against which their performance can be measured.

Factors such as the ageing population and the decreasing level of private health insurance cover will impact on the demand for health services. Funding has been provided in the 1996-97 Budget for measures to address the increase in demand for hospital emergency services and surgery waiting lists. The Department, through the Health Care Networks, will need to ensure that planning for health services takes into account an expected increase in demand.

The delivery of health services is funded mainly through the Commonwealth Government and supplemented by funding from the State Government. These funding arrangements are likely to change after an agreement has been negotiated and developed through the Council of Australian Governments. In the short term the Department will work towards the consolidation of specific purpose payments into more flexible performance based arrangements.

The Government has committed $100 million to information technology in the health area. The improvements in technology will relate to establishing information systems which will enhance performance measurement and accountability. Other specific areas which will be expanded are telemedicine and telepsychiatry.

The level and quality of health services in rural and regional areas of Victoria is affected by the isolation of the areas. The major challenges are attracting and retaining medical practitioners and the higher cost of operating regional base hospitals. The Department is implementing a number of new programs to address these problems.

The Department of Human Services has been involved in contracting out health related services ranging from catering and cleaning to acute health care. The Department ensures that contracts specify standards to ensure services comply with government policy and that Health Care Networks and hospitals monitor the contracts. The Department of Human Services needs to continually monitor the health needs of the community to ensure the provision of appropriate services.

Department of Infrastructure (Public Transport Programs) - Chapter 8

One of the major initiatives set out in the Public Transport Reform Agreement is the implementation of the Automated Ticketing System. The new ticketing system was originally expected to be fully commissioned by February 1996. To date, the new ticketing system has not been fully implemented and is not expected to be completed until the end of 1997. The Department needs to ensure appropriate action is taken to facilitate the full commissioning of the system.

A number of difficulties have been experienced by the Department in valuing public transport assets. The Department needs to resolve these issues to ensure the revaluation of the public transport assets is completed as soon as possible.
The Department of Infrastructure through its Transport Services Contracts Program spent $315 million for the purchase of country passenger and metropolitan bus services. The Department estimates that contracting out metropolitan bus services is saving the community more than $10 million. The Department should continue to review the provision of public transport services to ensure that the most cost-effective means are implemented.
Recommendations

Chapter 2 Public Accountability

The Committee recommends that:

2.1 the Government prepare a timetable for the inclusion of outcome performance measurement information in corporate and business plans, budget documentation and annual reports.

(page 8)

2.2 (a) each department and agency prepare a detailed corporate plan setting out its major directions and strategic outcomes and that the plan be a public document and made available to the Public Accounts and Estimates Committee; and
(b) a copy of the business plan for each department and agency be provided to the Public Accounts and Estimates Committee.

(page 10)

2.3 each government department and agency develop and publish a customer service charter which specifies the standards of service that a customer can reasonably expect.

(page 12)

2.4 each department and agency include a statement in its annual report on the level of service achieved against the benchmarks set out in its customer service charter.

(page 12)

2.5 the budget papers include more detailed information relating to major variances between budget estimates and actual outlays to enable assessment of financial and performance outcomes.

(page 14)

2.6 departments report actual performance against previously stated output targets and that explanations be provided where major variances occurred.

(page 15)

2.7 the Government, as a matter of priority, ensure that all government financial information, including the budget documentation, is presented on an accrual basis and in a consistent manner so that comparisons of performance can be made by the Parliament and the community.

(page 16)
2.8 the responsible Minister provide a response to future reports of the Committee as to what action, if any, will be taken in respect of recommendations in the reports within six months of the reports being laid before both Houses of Parliament, as required by section 40(2) of the Parliamentary Committees Act 1968.

(page 17)

Chapter 3 Changes to the Budgetary Process

The Committee recommends that:

3.1 all departments, as a matter of priority, resolve any outstanding issues they have with preparing and utilising accrual accounting as the basis for monthly management reporting.

(page 22)

3.2 the Department of Treasury and Finance continue to take the lead role in the utilisation of accrual accounting as the basis for budgeting and monthly management reporting and that it be responsible for providing departments with appropriate training, assistance and support to ensure the successful implementation of full accrual accounting.

(page 22)

3.3 the budget estimates be prepared on an accrual basis to ensure there is consistency between resource allocation decisions and accountability for those decisions.

(page 22)

3.4 the Department of Treasury and Finance liaise closely with the Audit Office and develop a formal plan incorporating target dates for the achievement of key milestones to ensure the successful implementation of an audited whole of government report for 1996-97.

(page 24)

Chapter 5 Department of Treasury and Finance

The Committee recommends that:

5.1 the Department of Treasury and Finance continue to improve the processes of managing and reporting by outputs with the ultimate aim of reporting by outcomes.

(page 34)

5.2 the Department of Treasury and Finance implement on a timely basis the contingent liabilities database to ensure the best possible identification, management and reporting of contingent liabilities.

(page 40)
5.3 the Department of Treasury and Finance give priority to addressing the outstanding issues relating to valuation and utilisation of assets.

5.4 the Department of Treasury and Finance continue to pursue the effective management and reduction of unfunded superannuation liabilities.

Chapter 6 Department of Education (School Education Programs)

The Committee recommends that:

6.1 the Department of Education continue to give priority to implementing its strategy for the increased use of technology in schools to ensure children are best placed to meet future challenges.

6.2 the Department of Education continue to reduce teacher numbers to a level closer to its actual ongoing requirements.

6.3 the Department of Education continue with the school asset management and maintenance program to ensure the current maintenance backlog is eliminated.

6.4 the Department of Education give priority to developing qualitative performance indicators across all output groups.

Chapter 7 Department of Human Services (Health Programs)

The Committee recommends that:

7.1 Health Care Networks include in their plans benchmarks which will facilitate the assessment of the performance of each network.

7.2 the performance indicators used in contract management should:
   (a) specify the performance expected of contractors;
   (b) measure the performance of contractors; and
   (c) define continuous improvements required.

7.3 the Department of Human Services continue to pursue the long term reforms of health and community services proposed by the COAG agreement.

7.4 the tasks and opportunities identified by the Department of Human Services as part of its restructure be included as major directions and strategies in its corporate plan.
7.5 the Department of Human Services continue to identify and implement strategies for overcoming the difficulty of attracting medical practitioners to rural areas.  
(page 64)

7.6 the Department of Human Services continue to monitor services which have been contracted out to ensure the successful implementation of outsourcing strategies.  
(page 66)

7.7 the Department of Human Services continually monitor the health needs of the community to ensure the provision of appropriate services.  
(page 66)

Chapter 8 Department of Infrastructure (Transport Programs)

The Committee recommends that:

8.1 the Department of Infrastructure take appropriate action to facilitate the full commissioning of the automated ticketing system as soon as possible.  
(page 70)

8.2 that the Government consider whatever rights it may have for seeking redress for the late implementation of the automated ticketing system.  
(page 71)

8.3 the resolution of the outstanding issues in relation to the valuation of public transport assets be given priority to ensure that the revaluation of assets is completed as quickly as possible.  
(page 73)

8.4 the Department of Infrastructure continually review the provision of public transport services to ensure that the most cost-effective means are implemented.  
(page 74)
Chapter 1

Introduction

1.1 Committee background

The Public Accounts and Estimates Committee is an all party Joint Committee of the Victorian Parliament which was established by the Parliamentary Committees Act 1968.

Under the Act the Committee has wide powers to carry out investigations and report to Parliament on matters associated with the State's financial management. This includes matters connected with public administration or public sector finances and the annual estimates or receipts and payments and other budget documents presented to Parliament.

The Committee's mandate includes the traditional public accounts and the estimates functions. The public accounts function predominantly entails examination of issues raised in the reports of the Auditor-General as a basis for future inquiries by the Committee concerning matters that have ongoing implications for public accountability.

The estimates function comprises a detailed analysis of the annual Budget Papers and any additional or supplementary estimates of revenue and expenditure presented to Parliament.

1.2 Objectives of the analysis of the budget estimates and outcomes

In submitting this report the Committee does not intend to replicate the information in the 1996-97 Budget Papers, rather the Committee is presenting information on selected areas where the additional information may assist public understanding.

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

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

1.2.1 Enhancing accountability

During the past few years reforms have been progressively introduced into the Victorian Public Sector with the specific aim of making it more responsive to client needs and more efficient, effective and accountable.
These reforms have been driven in large measure by substantial changes in the public sector policy environment. These changes include:

- changing attitudes to the role of government in the economy;
- the process of micro-economic reform;
- community and business expectations, reflected in the activities of interest groups and the media, for greater involvement and responsiveness in the planning, organisation and delivery of public services;
- resources constraints, creating pressures for substantial efficiency and productivity improvements;
- the impact of technology, particularly information technology (IT), on the planning and control of resource use; and
- demands for greater accountability, not only for the use of funds appropriated by Parliament but also for performance outcomes.

Reflecting these influences, the Victorian government has embarked on a major reform of the public sector. During the past financial year, these reforms have included:

- a regrouping of departmental activities into fewer, larger portfolios, facilitating more flexible and coordinated management of closely related functions, promoting greater stability in departmental structure and ensuring more streamline Cabinet arrangements to permit Cabinet to concentrate on longer term strategy issues;
- major budgetary reform based on -
  - independent performance monitoring for all corporatised Government Business Enterprises (GBEs);
  - the production of a trial consolidated financial report which will provide comparative data that will facilitate a detailed analysis of the Government's overall performance;
  - progressively implementing output management which will focus on outcomes and outputs rather than inputs;
  - implementing guidelines to help managers to identify and implement outsourcing opportunities in the public sector;
  - full implementation of accrual reporting by departments, as the principal parliamentary accountability vehicle; and
  - a sale of major Government assets with proceeds used for debt retirement.

1.3 Restructure of government departments

In April 1996 the Government restructured 11 former departments into eight larger portfolios. The changes involved:
<table>
<thead>
<tr>
<th>Former department</th>
<th>Change</th>
<th>New department</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture, Energy and Minerals</td>
<td>Policy section for energy businesses transferred to</td>
<td>Treasury and Finance</td>
</tr>
<tr>
<td></td>
<td>Agriculture programs transferred to</td>
<td>Natural Resources and Environment</td>
</tr>
<tr>
<td>Arts, Sport and Tourism</td>
<td>Sport and Tourism programs transferred to</td>
<td>State Development</td>
</tr>
<tr>
<td></td>
<td>Gaming programs transferred to</td>
<td>Treasury and Finance</td>
</tr>
<tr>
<td></td>
<td>Arts programs transferred to</td>
<td>Premier and Cabinet</td>
</tr>
<tr>
<td>Business and Employment</td>
<td>All programs except water industry reform transferred to</td>
<td>State Development</td>
</tr>
<tr>
<td></td>
<td>Water industry reform transferred to</td>
<td>Treasury and Finance</td>
</tr>
<tr>
<td>Conservation and Natural Resources</td>
<td>All programs transferred to</td>
<td>Natural Resources and Environment</td>
</tr>
<tr>
<td>Education</td>
<td>No change</td>
<td>Education</td>
</tr>
<tr>
<td>Health and Community Services</td>
<td>All programs transferred to</td>
<td>Human Services</td>
</tr>
<tr>
<td>Justice</td>
<td>No change</td>
<td>Justice</td>
</tr>
<tr>
<td>Planning and Development</td>
<td>All programs except housing transferred to</td>
<td>Infrastructure</td>
</tr>
<tr>
<td></td>
<td>Housing program transferred to</td>
<td>Human Services</td>
</tr>
<tr>
<td>Premier and Cabinet</td>
<td>No change</td>
<td>Premier and Cabinet</td>
</tr>
<tr>
<td>Transport</td>
<td>All programs transferred to</td>
<td>Infrastructure</td>
</tr>
<tr>
<td>Treasury and Finance</td>
<td>Local government program transferred to</td>
<td>Infrastructure</td>
</tr>
<tr>
<td></td>
<td>All other programs transferred to</td>
<td>Treasury and Finance</td>
</tr>
</tbody>
</table>

As a result of the restructure, the process of comparing the financial outcomes of the departments against the 1995-96 Budget Estimates was difficult. To overcome this, the Committee has taken a "program" approach to the analysis; that is, where departmental programs remained within the department or were transferred as a complete unit to a new department the Committee has used the individual programs, rather than the department, for its analysis of the budget outcomes.
1.3.1 The process followed by the Committee

Following the delivery of the Budget Speech by the Treasurer on 11 September 1996, the Committee circulated a standard questionnaire to all departments requesting supplementary information to the details presented in the Budget Papers.

Taking the above constraints into consideration, the analysis of budget outcomes was carried out using the questionnaire and reviewing evidence given at public hearings. The information received from the departments was analysed and further questions were developed for inclusion in the Committee's schedule of public hearings.

In the past, the Committee has produced two reports. The interim report focused on the current year's budget and the second or final report dealt with the budget outcomes. Because of the decision to present an earlier 1997-98 Budget, the Committee will only table one report on the 1996-97 Budget Estimates.

As indicated in the table below, approximately 90% of the 1995-96 Budget was allocated to five of the larger former departments, namely the Departments of Health and Community Services, Treasury and Finance, Education, Transport and Justice. Ministers responsible for four of these departments, along with their senior staff, gave evidence at public hearings.

### TABLE 1.1

1995-96 Budget Allocations

<table>
<thead>
<tr>
<th>Former department</th>
<th>$'000 allocated*</th>
<th>% of total budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>Health and Community Services</td>
<td>4,434,809</td>
<td>27.1</td>
</tr>
<tr>
<td>Treasury and Finance</td>
<td>4,107,781</td>
<td>25.1</td>
</tr>
<tr>
<td>Education</td>
<td>3,316,909</td>
<td>20.3</td>
</tr>
<tr>
<td>Transport</td>
<td>1,418,785</td>
<td>8.7</td>
</tr>
<tr>
<td>Justice</td>
<td>1,381,709</td>
<td>8.5</td>
</tr>
<tr>
<td>Planning and Development</td>
<td>480,541</td>
<td>2.9</td>
</tr>
<tr>
<td>Conservation and Natural Resources</td>
<td>368,289</td>
<td>2.3</td>
</tr>
<tr>
<td>Arts, Sport and Tourism</td>
<td>320,124</td>
<td>1.9</td>
</tr>
<tr>
<td>Business and Employment</td>
<td>243,319</td>
<td>1.4</td>
</tr>
<tr>
<td>Agriculture, Energy and Minerals</td>
<td>177,648</td>
<td>1.1</td>
</tr>
<tr>
<td>Premier and Cabinet</td>
<td>64,866</td>
<td>0.4</td>
</tr>
<tr>
<td>Parliament</td>
<td>51,805</td>
<td>0.3</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>16,366,585</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>


*Includes special and annual appropriation

The Committee decided to follow the practice adopted by its predecessor and invite all Ministers and departments to appear before the Committee at least once in the life of the current Parliament, with the major portfolios of Treasury and Finance, Health, Education and Transport invited to appear at least once each financial year.

After considering all the documentation and evidence received during this Inquiry, the Committee believes there would be merit in reviewing the present estimates process to see how a more in-depth examination of departmental expenditure and performance could be undertaken.
1.4 Legislative requirements - response to the report

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

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

As a consequence there is a legislative requirement that the responsible Minister provide a response within six months to the recommendations contained in this report.
Chapter 2

Public Accountability

2.1 Concept of public accountability

When government affects the lives of its citizens in as wide a range of social and economic activity as it does today, the community has the right to know on a regular basis what their government intends to achieve and what it has actually accomplished.

This is easier said than done. Government is large and complex and the intended results of programs are often neither simple, nor clear. The community is routinely provided with volumes of information on government programs and activities, and yet most people still do not have a clear idea of how well that government is performing at any given time.

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

Accountability for performance with a focus on results is a concept which many governments are only beginning to come to grips with. There is a public perception that government programs do not deliver enough value for the tax dollars being spent. Whether or not this perception is true, there is also a feeling that many departments’ operations are accountable only to themselves.

As fiscal pressures grow, governments are forced to decide which programs to keep and which to reduce or eliminate; such decisions become more difficult when the results of those programs are unclear.

The Committee believes the time has come for Victorian Government departments to focus on reporting on organisational and program results. This does not mean that departments will always achieve everything they plan. But being clear about intentions, measuring and understanding results, and making adjustments when necessary, would help assure the community that their money is being spent wisely. A focus on results would also help to ensure that limited public resources are being applied in a way that provides the most value for taxpayers.

To be accountable, a government must be clear about its objectives, explain the strategies it will use to meet those objectives, reveal the full costs of these strategies, and report on its actual results. Government should also report whether or not its results differed from what was intended, explain why, and outline what action was taken to improve the situation.
Information must be of a high quality to be of value. It should be relevant, complete, meaningful, timely, consistent and verifiable. In other sections of this report the Committee comments on the quality of information presented in the budget papers and by departments in their reports and plans, and notes that there is a need for more explicit, useful and convincing performance information than generally exists at present.

A performance management system in which governments generally are held accountable for results is not merely a change to an existing process - it represents a major shift in the way government does business.

It will require that management:

- is results-oriented rather than process-oriented;
- is prepared to state intentions clearly and compare results with goals;
- accepts greater accountability for results at all levels of government;
- is able to apply the information gained from performance reporting to make management decisions; and
- will be given more flexibility to meet performance objectives.

It is the Committee’s view that the appropriate level of accountability can only be achieved through full and frank disclosure by all public sector bodies. This involves publishing not only what the department’s financial outcomes were but also the extent to which its objectives, goals and targets have been met so that its performance can be fully assessed.

The Committee notes that as part of the Government’s Financial Management Framework, output budgeting and reporting is being implemented across all departments. In the 1996-97 financial year two departments, the Departments of Treasury and Finance and State Development, presented their budget information on an output group basis rather than a program basis. An output group brings together the costs of providing specific outputs (goods and services) to the public. The Committee understands that budget information for all departments will be presented by output groups in the 1997-98 Budget Papers. These steps will ultimately lead to full accountability through the reporting of actual outcomes against budgeted outcomes. The Committee believes that to ensure the Government achieves its objective of output budgeting and reporting, firm milestones need to be established and documented, and progress against these milestones needs to be monitored.

**Recommendation 2.1**

The Committee recommends that the Government prepare a timetable for the inclusion of outcome performance measurement information in corporate and business plans, budget documentation and annual reports.

2.2 Availability of corporate plans

The purpose or mission of an organisation is generally communicated in an organisation’s corporate or business plan. The corporate or business plan usually documents the organisation’s objectives and goals and the targets it proposes to achieve. This is generally true for an organisation regardless of whether it operates in the private or the public sector.
In the public sector arena the corporate plan should be a mechanism by which Parliament and the public can make government departments accountable for their performance. The goals and targets detailed in a department's corporate plan can be seen as milestones which the department should achieve. The achievement of the milestones can be measured against the department's performance as reported in its annual report. This enables any interested party to assess how government departments are performing and will ultimately result in full and frank disclosure and the achievement of the public accountability principle.

As part of the analysis of budget estimates and outcomes the Committee requested all departments to provide a copy of their corporate plans. The Departments of Justice and Natural Resources and Environment made available their plans. The Department of Treasury and Finance maintained that the corporate plan was not a public document and therefore should not be provided. The Departments of Infrastructure and State Development advised that due to recent changes within the Departments, formal corporate plans were not available but were currently being finalised. The other Departments, namely Education, Human Services and Premier and Cabinet did not provide copies to the Committee at the time of the estimates inquiry.

Finding 2.2

The Committee finds that some departments did not make available a copy of their corporate plan for scrutiny by the Committee.

In its Final Report on the State's Budget and Financial Management Framework the Committee commented that "The importance of a clearly defined, comprehensive and structured corporate plan is paramount for departments; even more so at times when departments are facing substantial policy and cultural changes". The Committee still maintains this view. In addition, the Committee is of the opinion that without full disclosure the principle of public accountability cannot be fulfilled. Full disclosure involves revealing what the department set out to achieve as well as what it actually achieved. Without all the relevant information the Committee was not able to make a fully informed assessment of the performance of some of the departments.

Because the Department of Treasury and Finance maintains that its corporate plan is a confidential document there is a lack of transparency about the long term objectives of the Department.

The Committee notes the following comments that were included in the Environment Protection Authority's Corporate Plan for 1996-1999:

"The corporate plan, however, is not an end in itself. It must be seen as providing the general organisational directions, establishing long term goals and identifying milestones to be achieved along the way.

This document is a part of the corporate planning process. It complements and guides the business plans of the various units within EPA. It also draws from the contributions of advisory groups, the community, industry, and the Government. It exists to be used.

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The planning process is, in many ways, more important than the plan itself. It ensures that we keep our objectives, priorities and allocations of resources under constant review in an environment of change. Corporate planning is one way to continue to improve our services to the people of Victoria in protecting their environment".

The Committee is of the opinion that there should be a requirement for all departments to report on their strategic direction and provide adequate information which will provide a framework for the Parliament and the community to assess their performance.

The Committee notes that systems have been developed in New Zealand, the ACT, the Commonwealth and Western Australia so that corporate plans of departments and agencies are provided to parliamentary committees. While the Committee is sympathetic to the need to keep the burden of reporting to a minimum, consistent with effective public accountability, it believes that there would be merit in making these documents public.

**Recommendation 2.2**

The Committee recommends that:

(a) each department and agency prepare a detailed corporate plan setting out its major directions and strategic outcomes and that the plan be a public document and made available to the Public Accounts and Estimates Committee; and

(b) a copy of the business plan for each department and agency be provided to the Public Accounts and Estimates Committee.

The Committee was pleased to note one department, the Department of Education, published in its annual report details of its corporate plan. The Committee is of the view that the most useful annual reports are those which clearly set out what the department intended to achieve and what it actually achieved. The Committee is concerned that a number of departmental reports are deficient in reporting on performance. This is an issue that the Committee will be reviewing at a later time.

**2.3 Developing customer service charters**

A customer service or citizen’s charter is an assurance that an organisation gives to its customers. It includes information about standards of service and the provision of the services in terms of the range of services, the timeliness of the delivery of the service and whether customers’ views have been taken into account in setting its standards. Charters can also include details of how the organisation will deal with customer complaints and/or breaches of its charter.

Within the public sector the customer service charter could also be a tool to make agencies (and ultimately the Government) accountable for services to individual customers. This could also apply to government agencies providing information to hospitals, schools and welfare agencies. The standards which the government agency sets out in its charter are the benchmarks against which its performance is measured.

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1 Environment Protection Authority Corporate Plan 1996 - 1999, page 1
2 Victorian Auditor-General’s Office, Special Report No. 44, Timeliness of Service Delivery, October 1996, page 79
This measurement or assessment would be carried out by the customers each time the agency's services are used and by the shareholders (the public of Victoria) when the agency reports its performance in its annual report.

In Special Report No. 44, Timeliness of Service Delivery, the Auditor-General noted that "it was pleasing to find that some developments have occurred throughout the public sector" in respect of customer service charters. However, he also commented that "a greater focus on the availability of Customer Service Charters should be considered on a Statewide basis". The Auditor-General found that while the water industry in Victoria has developed charters which provide definitive and enforceable legal rights with respect to the costs and quality of the goods and services, other agencies had not developed such charters.

A paper prepared for the Consumer Law Centre Victoria describes charters as "a consumer accountability strategy". The paper provides a picture of the achievements and limitations of charters introduced in the United Kingdom. It notes that it is becoming increasingly popular to use charters as a strategy to improve the quality of service. Charters are distinguished from "service or consumer guarantees" which are very similar but they relate to a number of specific services rather than the range of services provided by an agency.

The paper states that consumer advocates and academics agree that charters are a sound, desirable strategy for the following reasons. They:

- lead to a reassessment of service delivery amongst many public service providers;
- highlight the need to improve standards of public service management and accountability;
- attempt to transform the culture of the public service; and
- set targets and publish standards of service which lead to improvements.

There are also some limitations, including:

- confusion about the intention of charters - is it a statement of enforceable rights or a contract;
- standards which are set out in charters need to be achievable and progressive;
- complaint mechanisms are inadequate;
- charters need to be accessible to the community. This includes availability, language and clarity and conciseness;
- the consumer needs to be consulted at various stages, but this may not always occur; and
- currently there is no monitoring of charters.

The Committee believes that the limitations noted above can be overcome and that customer service charters are worthwhile documents which all government agencies should prepare. The charter will not only make an agency more accountable to the public for its performance, but will also be an instrument for introducing cultural change to the public sector.

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4 ibid page 80
5 ibid page 9
7 ibid page 5
8 ibid page 7
9 ibid page 8
Recommendation 2.3

The Committee recommends that each government department and agency develop and publish a customer service charter which specifies the standards of service that a customer can reasonably expect.

The Auditor-General also reported in Special Report No. 44 that only one of the agencies reviewed during the audit, the Transport Accident Commission, reported against its customer service benchmarks. The Auditor-General stated that in his opinion, “while the annual reporting of an agency’s service efficiency against performance standards enhances its public accountability, a greater incentive is provided for agencies to improve service delivery through the availability of Customer Service Charters”10.

The Committee supports the Auditor-General’s view that agencies are made accountable by reporting against performance standards and believes that all agencies should be encouraged to include in their annual reports the level of service achieved compared with the standard of service provision set out in its customer service charter.

Recommendation 2.4

The Committee recommends that each department and agency include a statement in its annual report on the level of service achieved against the benchmarks set out in its customer service charter.

2.4 Quality of information included in the budget papers

The Victorian Commission of Audit was appointed by the Government in 1992 to investigate the State’s public finances and to make recommendations to improve the efficiency and effectiveness of service delivery and the financial position of the State11. The Commission’s report, which was tabled in May 1993, made many recommendations for improving information presented in the Budget. These recommendations included:

- budget papers should include a reconciliation between previously published forward estimates and the budget, identifying the extent to which variances are due to post-budget decisions, variations in parameters such as inflation and wages, and inability to implement policy decisions;
- the definition of current and capital items should be consistent and relate to economic substance;
- the Budget should be prepared on a full financial accounting basis, and reporting against the Budget should be on the same basis;
- information contained in the budget papers should be in a consistent format each year and where the format has been changed, time series data should be presented in the new format;

10 Victorian Auditor-General’s Office, Special Report No. 44, Timeliness of Service Delivery, October 1996, page 80
- budget papers should disclose the full cost funding of a defined set of outputs and reporting and accountability should be assessed against these budgeted outputs - a necessary prerequisite for this is the flexibility to manage the appropriate mix of inputs; and
- the budget papers should include sensitivity estimates of revenue and expenditure to defined parameter variations (such as inflation and wages, interest rates, and growth in real GSP).

In October 1993, the Government released the Management Improvement Initiative which was designed to address the Commission's recommendations. Since the release of that document the Government has been implementing many changes in line with the recommendations of the Commission, some of which are discussed in Chapter 3 of this report.

In both its Interim and Final Report on the State's Budget and Financial Management Framework, the Public Accounts and Estimates Committee reviewed the State's budget and financial management framework to assess the implementation of the Commission of Audit's recommendations. In both reports the Committee made recommendations reinforcing the recommendations of the Commission and suggesting further improvements. Although the Government has made many reforms to the State's budget and financial management framework, in the opinion of the Committee there are a number of enhancements recommended by the Commission which still need to be implemented. These include:

- the reconciliation of budget estimates and budget outcomes along with appropriate explanations for major variances;
- an improvement in the classification of budget items between current and capital; and
- the introduction of a system of full financial accounting covering the Budget and financial reporting.

### 2.4.1 Reconciliation between forward estimates and budget outcomes

The budget papers which are tabled in Parliament each year by the Treasurer consist of Budget Papers 1 to 3. A Statement of Financial Operations is also tabled by the Treasurer. These documents contain the following information:

<table>
<thead>
<tr>
<th>Budget Paper No.</th>
<th>Title</th>
<th>Contents</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Treasurer's Speech</td>
<td>General information about the current budget estimates including the outlook for the State and a brief review of the outcome of the previous budget estimates.</td>
</tr>
<tr>
<td>2</td>
<td>Budget Performance and Outlook</td>
<td>An overview of the budget outcome on an aggregate level and details about specific areas of the budget estimates.</td>
</tr>
<tr>
<td>3</td>
<td>Budget Estimates</td>
<td>Detailed information about estimates of receipts and outlays and actual receipts and outlays for the previous financial year. The information is given on a</td>
</tr>
</tbody>
</table>
Information is provided in respect of the previous financial year's estimates and outcomes for both receipts and payments and includes a narration about variances in the collection of receipts. The variances in payments are only explained on a gross level in terms of changes to the estimates authorised under sections of relevant legislation.

As indicated by the analysis above, the Budget Papers and the Statement of Financial Operations do not contain the type of information envisaged by the recommendation of the Commission of Audit. That is, the information does not include a detailed reconciliation of the forward estimates and the budget outcomes. To satisfy the recommendation of the Commission, the Budget Papers should detail why budget outcomes varied from the budget estimates for each department. This information could be embodied in Budget Paper No. 2 and the explanations could include details of the impacts of inflation and wage rises, changes in policy and other factors.

**Recommendation 2.5**

The Committee recommends that the Budget Papers include more detailed information relating to major variances between budget estimates and actual outlays to enable assessment of financial and performance outcomes.

Another point which interests the Committee in respect of the Budget Papers is whether the users of this documentation find the information clear, comprehensive and transparent. Given the broad range of users, ie government departments, Members of Parliament, the Auditor-General, industry groups, the media and interested members of the community, it is important that the budget documents provide financial and accountability information which enables each agency’s performance to be evaluated.

For a number of years Budget Paper No. 3 has included the program objectives and outputs for each department. For example, the 1996-97 Budget Paper No. 3, Program 361, Acute Care within the Department of Human Services, lists 15 output measures including the number of Category 2 patients waiting more than 90 days. The measure is given for the 1995-96 actual and the 1996-97 estimate. The measure does not report against the previous year's estimate so a user of the budget papers must refer to the documents of the previous year to assess performance. In the example chosen by the Committee a comparison of the two Budget Papers shows a variance of 16% in the measure. There is no explanation provided for the variance. Another factor which makes a thorough assessment of performance difficult is the machinery of government changes which have occurred.

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12 *Budget Paper No. 3, 1996-97, page 84*
Finding 2.1

The Committee finds that the present budget documents and departmental annual reports need to provide further information so that:

- the focus will be results-oriented; and
- the intended and achieved outcomes can be clearly compared and reported on.

Recommendation 2.6

The Committee recommends that departments report actual performance against previously stated output targets and that explanations be provided where major variances occurred.

2.4.2 Definition of current and capital items

The budget papers are presented using the Government Finance Statistics format which is an international system for classifying financial transactions of the public sector. The Victorian Commission of Audit stated in respect of the budget structure that "the distinction made in practice between 'recurrent' and 'works and services' is ... customary rather than determined by economic substance ... and there is a substantial grey area". Budget Paper No. 3 describes current outlays as consisting of general government final consumption expenditure (for example wages and salaries, superannuation payments and the purchase of goods and services) and capital outlays as comprising gross fixed capital expenditure, increase in stocks and net land purchases. However, as the Audit Commission noted, there can be differences with the classification of and the accounting for some items within the public and private sector, for example the purchase of motor vehicles is classified as a recurrent item for public sector purposes.

In the past the Auditor-General has commented on the appropriateness of the classification of some revenue and expense items as capital and current. In his 1995-96 Report on the Statement of Financial Operations the Auditor-General noted that, although the classification of Consolidated Fund transactions between recurrent and works and services "is consistent with parliamentary appropriations", it does not give a "clear differentiation between operating and capital items" and this lack of clear differentiation "inhibits the ability of users of the Statement of Financial operations to ascertain and assess the Consolidated Fund's operating results for the year".

The Auditor-General noted that, although some progress has been made in recent years by the Department of Treasury and Finance to enhance the classification of transactions within the Public Account, the Department needs to continue to review and improve the classification of transactions to enhance the transparency of the Statement of Financial Operations and its usefulness to the Parliament and the public.

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14 Budget Paper No. 3, 1996-97, pages 6 and 8
The Committee notes that in response to this long-standing deficiency in the traditional Consolidated Fund reporting format, all governments have agreed to their annual accounts being presented from 1998-99 in accordance with the newly-adopted Australian Accounting Standard AAS 31, “Financial Reporting by Governments”, which will classify transactions on an accrual basis as operating, investing and financing. The Committee believes that this practice will meet the Auditor-General’s requirements for clearer and more useful presentation of the State’s accounts, and to that end urges the Victorian Government to adopt the AAS 31 format of accounts as speedily as possible, before the mandatory adoption date by all States in 1998-99.

2.4.3 Reporting on a full financial accounting basis

The Victorian Commission of Audit’s recommendation to prepare the budget on a full financial accounting basis refers to applying an accrual accounting basis for the Budget Papers as opposed to the currently used cash basis. Detailed discussions on the status of the implementation of accrual accounting are contained in Chapter 3. In this section the Committee wants to highlight the inconsistency in reporting of financial information in the public sector and the necessity that this be corrected.

At present, government departments present their annual financial statements on an accrual basis while the budget is presented on a cash basis and the Statement of Financial Operations uses a cash basis but also reports financial assets and liabilities. This makes it difficult for users of the financial information to compare the various financial data. It is the view of the Committee that, unless there is a consistent basis for reporting financial information, there cannot be full accountability of the Government's administration of public moneys.

The Committee understands that the Government is working towards achieving full accrual accounting. This is a significant issue and should continue to be given high priority to ensure that all the Government’s financial information is presented consistently on an accrual basis.

Recommendation 2.7

The Committee recommends that the Government, as a matter of priority, ensure that all government financial information, including the budget documentation, is presented on an accrual basis and in a consistent manner so that comparisons of performance can be made by the Parliament and the community.

2.5 Responses to the Committee’s Reports

The Public Accounts and Estimates Committee reports on matters associated with State financial management. It is in the interest of the Parliament and the public to know what the Government is doing, how the Committee believes it can be improved and what the Government proposes to do concerning the Committee’s recommendations. There is a statutory requirement for the responsible Minister to report to Parliament within six months of the tabling of a Committee report on what action, if any, will be taken with respect to recommendations of the Committee.

Table 2.1 shows that responses to three of the Committee’s reports were received in excess of six months after the reports were tabled in Parliament.
Table 2.1
Responses to Committee Reports

<table>
<thead>
<tr>
<th>Report</th>
<th>Title</th>
<th>Date Report Tabled in Parliament</th>
<th>Response Received</th>
</tr>
</thead>
<tbody>
<tr>
<td>11</td>
<td>Information Technology in the Public Sector</td>
<td>May 1995</td>
<td>April 1997</td>
</tr>
</tbody>
</table>

The recommendations contained in the Committee’s reports provide suggestions for ways in which matters which impact on the financial management of the State can be improved. In the interest of public accountability, the responsible Minister should adhere to the requirements of section 40(2) of the Parliamentary Committees Act 1968 and provide a response to the recommendations contained in future reports of the Committee within six months of the report of the Committee being laid before both Houses of Parliament.

Recommendation 2.8

The Committee recommends that the responsible Minister provide a response to future reports of the Committee as to what action, if any, will be taken in respect of recommendations in the reports within six months of the reports being laid before both Houses of Parliament, as required by section 40(2) of the Parliamentary Committees Act 1968.
Chapter 3
Changes to the Budgetary Processes

3.1 Introduction

Under the Financial Management Act 1994 the Government is required to present annually, to Parliament, a Statement of Financial Operations recording a summary of transactions and balances of the Public Account and the liabilities and financial assets of the State. The Department of Treasury and Finance, on behalf of the State, prepares the Statement of Financial Operations and accounts for the funds it uses on a cash basis and has been doing so for many years. The Government uses the Consolidated Fund as its main operating account in which it records the collection of all departmental receipts. Expenditure from the Consolidated Fund, which can only be authorised by Parliament, is allocated annually through Appropriation Acts. The Government also maintains various specific purpose trust accounts which are operated on a cash basis.

In its Final Report on the State’s Budget and Financial Management Framework the Committee noted that there are limitations to cash based accounting in that “it does not report on the full cost of services provided by the (public) sector. It is therefore difficult to obtain an accurate understanding of the financial position or performance of the sector or individual departments” and “the nature of cash accounting is such that it is open to manipulation”.

In May 1993 the Report of the Victorian Commission of Audit was tabled in Parliament. The report made forty recommendations to improve the State’s budget and financial management framework. The recommendations included the introduction of “full financial accounting” or accrual accounting for both general purpose financial statements and budgeting and the introduction of whole of government reporting, also on an accrual basis.

The Financial Management Act 1994 requires that the Statement of Financial Operations be audited by the Auditor-General. Although the Auditor-General gave a confirming opinion on the Statement of Financial Operations, in his Report on the Statement of Financial Operations 1995-96, the Auditor-General commented that “adequate accountability to the Parliament over government financial operations will not be achieved until audited information is presented on an accrual basis, covering the whole of government”.

The Government has, for a number of years, been implementing accrual accounting within the public sector and moving towards whole of government financial statements for the State of Victoria. New South Wales and New Zealand are the most advanced examples of whole of government reporting. In the following sections of this chapter the Committee comments on the progress of the implementation of accrual accounting and whole of government reporting in Victoria.

3.2 Accrual accounting

Accrual accounting is a system of full financial accounting where all the costs of providing a service are attributed to that service. That is, it recognises revenue and expenses as they are earned or incurred and brings them to account in the period to which they relate regardless of whether cash has been received or expended. Accrual accounting also requires bringing to account all of the assets and liabilities of an entity. This allows the disclosure of information which is useful for users of the financial information to make an assessment of the financial results and standing of the reporting entities.

While accrual accounting is beneficial because it provides improved accountability and allows for the measurement of the full cost of a service, the Committee in its Final Report on the State’s Budget and Financial Management Framework noted that there were a number of challenges associated with the implementation of accrual accounting. The major challenges include:

- deficiencies in accounting or financial management systems;
- assigning values to assets;
- unfamiliarity with the requirements of accrual accounting; and
- obtaining information from cash based financial systems.

The principle of accrual accounting can be applied to both the preparation of annual general purpose financial statements and management processes within an organisation. In the past the Committee and the Victorian Auditor-General have reported on the need for accrual accounting and the progress of the implementation of accrual-based financial reporting. For the first time in 1995-96 all government departments presented general purpose financial statements on an accrual basis. While this is a major milestone in the public sector reform process, it is only the first phase in improving the information presented to Parliament and the public. It is now possible for agencies to see the full cost of their operations.

Finding 3.1

The Committee finds that for the first time in 1995-96 all government departments have produced their annual general purpose financial statements on an accrual basis.

The next step in achieving full financial accounting will involve a change in the way in which agencies budget and manage their operations on a day to day basis. Historically, agencies have been geared towards cash accounting and cash reporting, consequently all accounting systems are cash based and accounting staff are experienced in cash accounting. The changes required to the department’s accounting system to produce annual reports on an accrual basis are not as significant as the changes to implement full accrual accounting on a day to day basis. The move to produce annual reports on an accrual basis appears to have been achieved successfully in the 1995-96 financial year.
The Committee notes that in all departments the chief financial officer or equivalent officer is now at the Executive Officer level within the agency's organisational structure and, in most cases, reports to the Deputy Secretary or directly to the Secretary of the department. The Committee believes that having the chief financial officer at the higher echelon enables prudent management of key systems within the department.

Most government departments are making changes within their organisations to introduce accrual accounting as a tool for reporting and recording transactions on a daily basis. Some departments have installed new financial management systems and employed staff with accrual experience or given training to existing staff. Also, until the State budget is presented on an accrual basis in 1997-98 departments will need to maintain accounting systems on both a cash and accrual basis. Therefore, it is important for the Department of Treasury and Finance to continue to play a lead role in this process by implementing accrual accounting as an integral financial management tool at a central level. This will involve using an accrual basis for budgeting and monthly management reporting.

The Committee understands that all departments are endeavouring to integrate their accounting systems and iron out difficulties they experience with the use of accrual accounting for preparation of monthly management reports. Presently, departments present monthly accrual reports to the Department of Treasury and Finance, however the quality of the information in the reports varies among departments, with some reports of a high calibre, for example the reports of the Departments of State Development and Education and Victoria Police, while other reports require improvement. Departments will need to have all the problems associated with reporting on an accrual basis resolved by 1 July 1997 when they will be required by the Department of Treasury and Finance to commence submitting formal monthly accrual reports for inclusion in the Department's consolidated accrual ledger.

The Committee notes that while the implementation by departments of full accrual accounting will lead to improved accountability, inconsistency exists between the accountability data and the information used for making resource allocation decisions. The budget papers, which appropriate to each department the funds for their outputs and outcomes for the financial year, are currently presented on a cash basis. The departments' annual reports which detail the achievements for the financial year, however, are on an accrual basis. This inconsistency means that it is difficult to compare the achievement of the outcomes against the decision to fund the outcomes. This inconsistency will only be overcome with a change to the current practice and the alignment of the Budget Papers and departments' annual reports so that both are on an accrual basis.

Finding 3.2

The Committee finds that while government departments use accrual accounting for the preparation of their monthly management reports the quality of the information, in some cases, requires improvement.
3.3 Whole of government reporting

In its May 1993 report the Victorian Commission of Audit recommended that “The State of Victoria should produce a consolidated ‘whole of government’ general purpose financial report (GPFR) embracing all entities which it controls (in accordance with existing accounting standards on consolidations).”

The Committee has had a long term interest in this reform.

In the Final Report on the State’s Budget and Financial Management Framework, the Committee strongly endorsed whole of government reporting in Victoria. The Committee stated that “Governments should prepare general purpose reports which provide information about their financial position, performance and financing and investing activities, including compliance with spending mandates from the Parliament.”

Whole of government reporting involves presenting financial statements which consolidate the transactions of each government entity. It is the same concept as a private sector parent company presenting consolidated financial statements for the whole group, including all its subsidiaries.

The advantages of whole of government reporting have been widely acknowledged. The Auditor-General identified in his 1995-96 Report on the Statement of Financial Operations the following benefits:

- provision of transparent reporting, enabling taxpayers to determine how their taxes are spent and what their future obligations are likely to be, including the financial implications and long-term sustainability of government policies;

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• presentation of a more accurate picture of the financial result of government activities through the elimination of inter-entity transactions;
• more responsible decision-making and improved financial management; and
• presentation of a single set of concise and meaningful financial statements, which allow assessments to be made on the government stewardship of public resources which include the assets of the State and, therefore, providing enhanced accountability to the Parliament and the taxpayers.6

While the benefits of whole of government reporting are recognised there are also a number of challenges associated with the preparation of such reports. These challenges include determining what comprises whole of government, that is, which agencies should be included in the report and the introduction of accrual accounting across the whole of government which also has a number of difficulties associated with it (as discussed in section 3.2).

These challenges were acknowledged by the Department of Treasury and Finance in its response to a recommendation in the Committee’s Interim Report on the State’s Budget and Financial Management Framework. The Committee recommended that: “Government make a commitment to the introduction of whole of government reporting at the earliest possible practical opportunity which should be no later than 1995-96”. The Department agreed with the recommendation stating that “subject to the preparation of accrual-based financial statements by all departments and the determination of the scope of Whole of Government, a Whole of Government report will be prepared for the 1995-96 financial year on a trial basis.”

The Committee is pleased to note that the Department of Treasury and Finance was able to meet its timetable and produce a whole of government report on a trial basis for the 1995-96 financial year. The Committee understands that the Department of Treasury and Finance is preparing a whole of government report for the 1996-97 financial year. This means that any policy or conceptual problems need to be settled before the whole of government report can be audited.

3.4 Audit of the whole of government report

The Committee believes that the preparation of whole of government statements is an important step for the Government to take and is a positive move towards strengthening the financial management reform process within the public sector.

Because these statements have significant benefits for Government, the Parliament and the public sector, the Committee is of the opinion that the implementation process would be expedited and given a sharper focus if the Government adopted a formal implementation plan which incorporated target dates for the achievement of key milestones.

The Committee understands that the Department of Treasury and Finance aims to have the 1996-97 whole of government report audited by the Victorian Auditor-General. The Committee is particularly keen for the Department to give a high priority to liaising with the Audit Office to arrange for the accounts to be audited. This will enable the agencies to build on the preliminary work which has already been undertaken and any

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differences in approach between the Department of Treasury and Finance and the Auditor-General can be identified and resolved as soon as possible.

**Recommendation 3.4**

The Committee strongly recommends that the Department of Treasury and Finance liaise closely with the Audit Office and develop a formal plan incorporating target dates for the achievement of key milestones to ensure the successful implementation of an audited whole of government report for 1996-97.

### 3.5 Change in the budget cycle

The Victorian Commission of Audit recommended, in respect of the timing of the budget, that "Departmental allocations should be approved and announced before the start of the financial year to which they apply". The Committee, in previous reports, has also commented on the timing of the budget and in its Interim Report on the State's Budget and Financial Management Framework, recommended that "the Treasurer establish a process so that the budget can be brought down prior to the beginning of the financial year to which it relates".

The Committee understands that the budget for the 1997-98 financial year will be brought down late in April 1997 and that this will be the only budget document for the 1997-98 financial year. This is a change from previous years when an "Autumn Economic Statement", giving information on policy and expenditure for the year, was tabled in April and a comprehensive set of budget papers, including information on the prior year results, was tabled about September of the same year. Other changes the Committee is aware of are:

- the Government will table an audited whole of government report, presenting the outcomes for the current financial year, in September 1997 (this report will replace the document traditionally known as the "Statement of Financial Operations"), and
- the April 1997 budget will be presented on an output basis, that is on the basis of the services to be provided.

The change in the tabling date of the budget demonstrates that the Government is implementing the recommendations of the Audit Commission and this Committee which suggested the presentation of the budget before the commencement of the financial year to which it relates.

In recognition of the changes in the budget cycle the Committee will make some alterations to its processes for the examination of the budget estimates. The Committee's questionnaire will be reviewed and amended to ensure that it has a focus on outputs, outcomes and measuring performance. The Committee will also commence its schedule of public hearings for the estimates process in the first half of the calendar year instead of the second half.

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Chapter 4

Budget Overview

4.1 Overview of the 1995-96 budget outcomes

In the 1995-96 financial year the Government reported an underlying budget sector surplus of $473.9 million\(^1\). The headline budget surplus was $5 173.9 million, resulting from the receipt of $4 699.9 million from the privatisation of a number of government owned businesses. The proceeds from the Government’s privatisation program were not included in the Budget Estimates for 1995-96.

The underlying budget surplus was a favourable variance compared to the projected deficit of $344.4 million. The table below shows that the underlying budget surplus position resulted from a $1 324.6 million surplus in the current account ($618.5 million above the estimated surplus) and a $850.8 million deficit in the capital account ($199.8 million below the estimated deficit). Explanations for these variances and the effect of the receipt of the proceeds from privatisation are discussed in section 4.2 of this chapter.

| TABLE 4.1 |
| 1995-96 Budget Outcome ($ million\(^a\)) |
|---------------------------------|-----------------|-----------------|
| Current Account Surplus        | 706.2           | 2 364.3         |
| Less net privatisation proceeds| 1 039.6         | 1 039.6         |
| Underlying Current Account Surplus| 1 324.6       | 618.5           |
| Capital Account Surplus/(Deficit)| (1 050.6)     | 2 809.6         |
| Less net privatisation proceeds| 3 660.4         | 3 660.4         |
| Underlying Capital Account Deficit| (850.8)       | 199.8           |
| Total underlying               | (344.4)         | 473.9           | 818.3           |

\(^a\) Source: constructed from Budget Paper No. 2 pages 12 and 13

(a) totals in the table may not add due to rounding

4.2 Explanation of variations from budget

The tables below show the break up of the variances for both the current and capital accounts.

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\(^1\) Budget Paper No. 2, 1996-97, page 5
### TABLE 4.2
1995-96 Budget Variances - Current Account

<table>
<thead>
<tr>
<th>Current Account</th>
<th>$ million</th>
<th>$ million</th>
</tr>
</thead>
<tbody>
<tr>
<td>estimated budget surplus for 1995-96 add</td>
<td></td>
<td>706.2</td>
</tr>
<tr>
<td><strong>Increases in estimated revenues and grants</strong></td>
<td></td>
<td>1268.1</td>
</tr>
<tr>
<td>taxes fees and fines [a]</td>
<td>452.2</td>
<td></td>
</tr>
<tr>
<td>public authority dividends [b]</td>
<td>806.0</td>
<td></td>
</tr>
<tr>
<td>current grants [c]</td>
<td>9.9</td>
<td>1268.1</td>
</tr>
<tr>
<td><strong>Decreases in estimated outlays</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>interest paid [d]</td>
<td>393.4</td>
<td></td>
</tr>
<tr>
<td>superannuation [e]</td>
<td>46.1</td>
<td>439.5</td>
</tr>
<tr>
<td><strong>less</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Increases in estimated outlays</strong></td>
<td></td>
<td>46.7</td>
</tr>
<tr>
<td>departmental costs [f]</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Decreases in estimated revenue and grants</strong></td>
<td></td>
<td>2.9</td>
</tr>
<tr>
<td>other revenue [g]</td>
<td></td>
<td>1 658.1</td>
</tr>
<tr>
<td>total variance</td>
<td></td>
<td></td>
</tr>
<tr>
<td>actual current account surplus</td>
<td></td>
<td>2 364.3</td>
</tr>
<tr>
<td><strong>less</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>extraordinary receipts attributable to privatisation program</td>
<td>1 071.5</td>
<td></td>
</tr>
<tr>
<td>less increased costs of privatisation</td>
<td>31.9</td>
<td>1 039.6</td>
</tr>
<tr>
<td>underlying current account surplus</td>
<td></td>
<td>1 324.6</td>
</tr>
</tbody>
</table>

Source: constructed based on information included in Budget Paper No. 2, 1996-97 pages 13 and 14

#### 4.2.1 Explanation of variations in Table 4.2

[a] The $452.2 million increase in taxes, fees and fines is partly due to the inclusion of electricity franchise fees ($219.5 million) which were reclassified from public authority income. In addition, due to improved economic conditions, receipts from payroll tax and liquor and tobacco franchise fees were higher than estimated. Receipts from gambling taxes were also higher than expected because of an unbudgeted licence fee for expanded casino operations, payment by Tattersalls of a gaming licence fee (not included in budget) and the progressive installation of and higher than anticipated turnover from electronic gaming machines.

[b] The increase is mainly due to the inclusion of tax equivalent receipts from the State-owned businesses that were sold during the year ($771 million). Other public authority dividends and tax equivalent payments were also higher than budgeted.

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3 Budget Paper No. 2, 1996-97, page 13
4 ibid page 13
[c] The increase of $9.9 million is due to increased recurrent grants from the Commonwealth Government.

[d] The reduction in interest paid is a combination of the retirement of debt by the application of the net proceeds of the sale of the State-owned businesses, the lower than expected public account deficits, lower interest rates during 1995-96 and an improved debt portfolio mix.

[e] The $46.1 million below budget result for superannuation payments reflects lower than anticipated payments by departments of the employer’s superannuation contribution for existing employees.

[f] Department costs were higher than expected due to a number of accounting adjustments for the Department of Infrastructure (reclassification of $80 million from capital to recurrent) and TAFE Institutes.

[gi] The $2.9 million decrease in other revenue is mainly attributed to lower than expected interest receipts, reflecting lower interest rates.

TABLE 4.3
1995-96 Budget Variances - Capital Account

<table>
<thead>
<tr>
<th>Capital Account</th>
<th>$ million</th>
<th>$ million</th>
</tr>
</thead>
<tbody>
<tr>
<td>estimated budget deficit</td>
<td></td>
<td>(1 050.6)</td>
</tr>
<tr>
<td>add</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increases in estimated revenue</td>
<td></td>
<td></td>
</tr>
<tr>
<td>capital receipts [a]</td>
<td>3 640.9</td>
<td></td>
</tr>
<tr>
<td>proceeds from sale of fixed assets [b]</td>
<td>31.4</td>
<td></td>
</tr>
<tr>
<td>Decreases in estimated outlays</td>
<td></td>
<td></td>
</tr>
<tr>
<td>spending on infrastructure [c]</td>
<td>197.0</td>
<td></td>
</tr>
<tr>
<td>other grants and advances [d]</td>
<td>29.6</td>
<td></td>
</tr>
<tr>
<td>less</td>
<td></td>
<td></td>
</tr>
<tr>
<td>decrease in capital grants [e]</td>
<td></td>
<td>4.4</td>
</tr>
<tr>
<td>increase in separation payments [f]</td>
<td></td>
<td>34.3</td>
</tr>
<tr>
<td>total variance</td>
<td></td>
<td>3 860.2</td>
</tr>
<tr>
<td>actual capital account surplus</td>
<td></td>
<td>2 809.6</td>
</tr>
<tr>
<td>less extraordinary receipts attributable to privatisation program</td>
<td></td>
<td>3 660.4</td>
</tr>
<tr>
<td>adjusted capital account deficit</td>
<td></td>
<td>(850.8)</td>
</tr>
</tbody>
</table>

Source: constructed based on information included in Budget Paper No. 2, 1996-97 pages 13 and 17

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6 Budget Paper No. 2, 1996-97 page 14
7 ibid page 15
8 ibid page 15
9 ibid page 14
4.2.2 Explanation of variations in Table 4.3

[a] This increase is explained by the proceeds from the privatisation of State-owned businesses. It has been the Government's practice not to include in the budget papers the estimated receipts from proposed privatisation transactions due to the inherent uncertainty of the process.

[b] The increase of $31.4 million results from the Government's ongoing program of disposing of surplus assets.

[c] The decrease in spending on infrastructure resulted from underspending by departments. For example the Departments of Human Services, Premier and Cabinet, Infrastructure and State Development underspent on infrastructure projects for reasons such as non-receipt of Commonwealth payments, slower than forecast construction on Better Cities Program projects, less than expected grant funds from the Community Support Fund and slower than anticipated progress on the Point Lillias Chemical Storage and Melbourne Sport and Aquatic Centre projects10.

[d] This decrease reflects overall underspending on capital items and general expenditure restraint by departments.

[e] A reduction in Commonwealth capital grants to the Department of Human Services resulted in reduction in overall capital grants.

[f] The increase in separation payments reflects the Government's ongoing reform program.

4.3 Privatisation transactions

4.3.1 Significant “one-off” transactions - 1995-96

During 1995-96 the Government received $4 699.9 million from the sale of five electricity distribution companies, an electricity generation company, GFE Resources and the BASS ticketing operations. The receipt of the sale proceeds is considered to be a "one-off" or extraordinary item. That is, it is considered to be a receipt which is attributable to a transaction that is outside the ordinary operations of the government and is not expected to be of a recurring nature.

Table 4.4 shows that, of the $4 699.9 million received, $3 660.4 million or 78% is classified as a capital account transaction while the remainder of the amount is classified as a current transaction.

10 ibid page 19
TABLE 4.4
1995-96 Privatisation Transactions

<table>
<thead>
<tr>
<th>Transaction</th>
<th>Current Account $ million</th>
<th>Capital Account $ million</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Receipts</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>stamp duty</td>
<td>300.5</td>
<td></td>
</tr>
<tr>
<td>tax equivalent receipts</td>
<td>771.0</td>
<td></td>
</tr>
<tr>
<td>Electricity business sale proceeds</td>
<td></td>
<td>3 601.0</td>
</tr>
<tr>
<td>GFE Resources sale proceeds</td>
<td></td>
<td>56.2</td>
</tr>
<tr>
<td>BASS ticketing operation sale proceeds</td>
<td></td>
<td>3.2</td>
</tr>
<tr>
<td><strong>Total receipts</strong></td>
<td>1 071.5</td>
<td>3 660.4</td>
</tr>
<tr>
<td><strong>Outlays</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tax equivalent refund payments</td>
<td>18.9</td>
<td></td>
</tr>
<tr>
<td>Payments to Councils*</td>
<td>13.0</td>
<td></td>
</tr>
<tr>
<td><strong>Total Outlays</strong></td>
<td>31.9</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1 039.6</td>
<td>3 660.4</td>
</tr>
</tbody>
</table>

Source: constructed from information included in Budget Paper No. 2 page 13

* payments in respect of the purchase of former Municipal Electricity Undertakings acquired as part of the Electricity Industry Reform Process

4.3.2 Debt retirement

The proceeds from the sale of the government businesses were applied mainly to the retirement of debt. This, together with the budget surplus and other minor factors, enabled the reduction of net debt by $5.5 billion or over 25%.71 As discussed earlier, the retirement of a significant portion of the State's debt made a positive contribution to the $393.4 million decrease in interest payments made during 1995-96.

4.3.3 Privatisation transactions - 1996-97

As previously discussed, the privatisation transactions had a significant impact on the Government’s 1995-96 headline budget surplus. Also, the transactions are considered to be of a non-recurring nature. However, the Budget Estimates for 1996-97 include net privatisation proceeds of $2 170 million12 in respect of the sales of a generation company and two port authorities. The privatisation transactions will again have a significant effect on the outcome of the 1996-97 Budget - the headline budget surplus is forecast to be $2 169.3 million13. The underlying budget position, which allows for the "one-off" transactions, is forecast to be a budget deficit of $700 000.

It is also noted in 1996-97 Budget Paper No. 2, that in line with its established practice, the Government has not included provision for proceeds from future business asset sales14. Any other proceeds which have not been factored into the 1996-97 Budget Estimates will clearly influence the outcome of the budget. If further privatisation proceeds are applied to the reduction of budget sector debt they will also have a flow through effect, as they did in 1995-96, in reducing interest payments.

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11 ibid page 19
12 ibid page 23
13 ibid page 23
14 ibid page 24
Chapter 5

Department of Treasury and Finance

5.1 Introduction

The mission of the Department of Treasury and Finance is to provide leadership in economic, financial and resource management. Since the restructure of Government agencies the Department has increased its responsibilities and now includes more than 20 statutory agencies including the Victorian Casino and Gaming Authority, the Victorian WorkCover Authority and the State Revenue Office and 14 other government business enterprises including electricity, gas, water and port authorities. While the changes to the Department’s responsibilities have been quite substantial the Department’s operations have not been significantly modified. The Committee notes that the Department is now reporting its budget estimates by output group.

During 1995-96 the restructured Department, including all its new responsibilities, made payments totalling $7 944 million, or more than one third of the State’s total appropriation to all government agencies. It is estimated that the Department will spend $6 065 million during 1996-97, this represents a reduction in spending of $1 879 million\(^1\). The Department administers the consolidated fund on behalf of the State and during 1995-96 $21 199 million of revenue was collected\(^2\).

As part of the investigation of the budget estimates, the Committee invited the Treasurer and the Minister for Finance and Minister for Gaming, who are responsible for the Department, to appear at a public hearing. The Committee found that, given the magnitude of the financial operations of this Department and the diverse range of areas included in the portfolios of the Minister and the Treasurer (for example finances of the State, gaming, WorkCover, superannuation, privatisation, industrial relations), it was not possible to give each program the attention or level of scrutiny that it required. The Committee has determined that for the review of the 1997-98 Budget Estimates the portfolios of the Treasurer and the Minister for Finance, and Minister for Gaming, will be examined separately.

5.2 Budget overview

5.2.1 Departmental outlays

As shown in the table below the majority of the Department’s outlays are set aside for the provision of economic and financial policy advice services. This accords with the Department’s mission statement. The table also shows that the 1996-97 estimated outlays for seven of the Department’s nine output groups have increased by more than 10%. The Committee notes that outlays for output group 747 - Reform and Privatisation Service are in credit as a result of the income from the sale of electricity entities being

\(^1\) Budget Paper No. 3, 1996-97 page 377
\(^2\) Statement of Financial Operations, 1995-96 page 9
well above the cost of running this program. While the program is forecast to continue being in credit, ie providing income, the revenue is expected to decrease by 52.5%.

**TABLE 5.1**

**Comparison of 1995-96 actual outlays and 1996-97 estimates**

<table>
<thead>
<tr>
<th>Output Group</th>
<th>1995-96 Actual $'000</th>
<th>1996-97 Estimate $'000</th>
<th>Variance $'000</th>
<th>Variance %</th>
</tr>
</thead>
<tbody>
<tr>
<td>742 - Financial Management Services</td>
<td>11 280</td>
<td>50 578</td>
<td>39 298</td>
<td>348.4</td>
</tr>
<tr>
<td>744 - Economic and Financial Policy Advice Services</td>
<td>2 098 736</td>
<td>2 062 828</td>
<td>-35 908</td>
<td>-1.7</td>
</tr>
<tr>
<td>745 - Revenue Collection Services</td>
<td>44 420</td>
<td>60 733</td>
<td>16 313</td>
<td>36.7</td>
</tr>
<tr>
<td>746 - VPS Resource Management Services</td>
<td>80 814</td>
<td>174 183</td>
<td>93 369</td>
<td>115.5</td>
</tr>
<tr>
<td>747 - Reform and Privatisation</td>
<td>-3 616 281</td>
<td>-1 718 679</td>
<td>-1 897 602</td>
<td>-52.5</td>
</tr>
<tr>
<td>748 - Regulation Services</td>
<td>9 999</td>
<td>11 175</td>
<td>1 176</td>
<td>11.8</td>
</tr>
<tr>
<td>749 - Advance to Treasurer</td>
<td>-</td>
<td>72 200</td>
<td>72 200</td>
<td>100.0</td>
</tr>
<tr>
<td>750 - Casino and Gaming Management</td>
<td>-21 440</td>
<td>7 431</td>
<td>28 871</td>
<td>134.7</td>
</tr>
<tr>
<td>751 - Energy Reform and Privatisation</td>
<td>138 830</td>
<td>289 131</td>
<td>150 301</td>
<td>108.3</td>
</tr>
</tbody>
</table>

Source: constructed from information included in Budget Paper No. 3 1996-97, page 292

The decrease in outlays for the Economic and Financial Policy Advice Services output group is attributed to reductions in payments for interest and the World Congress Centre and an increase in the amount of capital charges the Department collects from other Government agencies.

In response to question nine of the Committee's questionnaire (see Appendix One), the Department provided the following reasons for the increases in the output groups with significant variances (ie over $10 million):

**742 - Financial Management Services**
- expenditure carried forward, and
- an increase in capital outlays for projects on Accrual Management Accounting and Budget Management Systems.

**745 - Revenue Collection Services**
- increased funding for municipal valuations records which will be purchased from Councils over four years

**746 - VPS Resource Management Services**
- increase in the capital charge to all departments, and
- increase in capital works allocations and microeconomic reform (ie workforce reduction payments)

**750 - Casino and Gaming Management**
- reduction in the income from the casino licence and compensation for damages for delays in the construction of the casino.

**751 - Energy Reform and Privatisation**
751 - Energy Reform and Privatisation

- increases in Flexible Tariff Unit payments related to aluminium prices, and
- funding for capital projects including electricity powerline relocations.

5.2.2 Departmental receipts

The receipts of the Consolidated Fund, as discussed in Chapter 4, were significantly above the estimates made for 1995-96. This is attributed to the sale of a number of government businesses and increased collection of a number of state taxes including taxes from electronic gaming machines.

Table 3.1 of the 1996-97 Budget Paper No. 3\(^3\) shows that while budget sector revenue and grants from public authority income and other revenue are forecast to decrease in 1996-97 revenue from taxes, fees and fines is expected to increase. This increase is attributed to the categories shown in the table below which have been forecast to increase by more than $10 million and show a variance of more than 5% on the 1995-96 actual receipts.

<table>
<thead>
<tr>
<th>Category</th>
<th>1995-96 Actual $million</th>
<th>1996-97 Budget $million</th>
<th>Increase $million</th>
<th>Increase %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payroll tax</td>
<td>2 001.8</td>
<td>2 123.9</td>
<td>122.1</td>
<td>6.1</td>
</tr>
<tr>
<td>Electronic gaming machines taxes</td>
<td>509.1</td>
<td>589.4</td>
<td>80.3</td>
<td>15.8</td>
</tr>
<tr>
<td>Casino taxes</td>
<td>110.4</td>
<td>138.4</td>
<td>28.0</td>
<td>25.3</td>
</tr>
<tr>
<td>Tobacco franchise fees</td>
<td>590.8</td>
<td>623.6</td>
<td>32.8</td>
<td>5.5</td>
</tr>
<tr>
<td>Stamp duty on vehicle transfers</td>
<td>330.9</td>
<td>350.1</td>
<td>19.2</td>
<td>5.8</td>
</tr>
<tr>
<td>Vehicle registration fees and taxes</td>
<td>386.7</td>
<td>406.4</td>
<td>19.7</td>
<td>5.1</td>
</tr>
</tbody>
</table>

Source: constructed from information included in Budget Paper No. 3, table 3.2, page 318

It is notable that the only areas where revenue is expected to increase by more than 10% on the previous years receipts are in the area of gaming and gambling.

5.3 Key issues facing the Department

In response to the Committee's questionnaire, the Department identified the following issues which it considers to be significant to its operations during 1996-97:

5.3.1 Integrated financial management system

At the estimates hearing the Minister for Finance and Minister for Gaming, Hon Roger Hallam, commented that, from his point of view, the area which "dominates the landscape"\(^4\) is the implementation of an integrated financial management system. This integrated financial management system will provide meaningful financial and internal management information which can be analysed. The two aspects of the integrated financial management system which are considered to be necessary for the full implementation of the system are accrual accounting and output management.

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\(^3\) Budget Paper No. 3, 1996-97 page 317

\(^4\) Hon R Hallam, Minister for Finance and Minister for Gaming, Transcript of Evidence, 6 November 1996, page 43
As mentioned in Chapter 3 of this report, accrual accounting for external reporting purposes was adopted by all departments for the year ended 30 June 1996. The Department and the Minister acknowledged, in their respective responses to the Committee, that the next step in the implementation of a comprehensive accrual management system is for departments to introduce appropriate financial management systems and utilise accrual accounting to prepare and present internal management reports. These reports will show the true cost of program delivery or service provision and will provide managers with essential information that will assist with better decision making. The Department has advised the Committee that the achievement of the implementation of accrual management systems is targeted for the end of the 1996-97 financial year. The Minister acknowledged the importance of this step “it is perhaps the most important initiative we can be involved in.”

The concept of output management requires a focus on outputs rather than inputs. This will be a significant change in the thinking of many government agencies which in the past have concentrated on the dollars being put into their budget rather than the goods and services they are required to produce. To assist departments in changing their focus from inputs to outputs the Department of Treasury and Finance has taken the following steps:

- developed the Financial Management Framework;
- released a Guide to Corporate and Business Planning;
- released a Guide to Output Specification and Performance Measurement; and
- initiated two pilot output management projects (Departments of State Development and Treasury and Finance)

The Department is also training staff whose role will include assisting agencies in output management. The Minister advised the Committee that both of the Departments designated as pilots have disclosed output information in the 1996-97 Budget Paper No. 3. The Minister also acknowledged that the output information can improve. The Committee commends the Department on the introduction of this initiative and encourages it to pursue the refinement of reporting and managing by outputs.

While the Committee believes that the initiative of reporting by outputs or products and services delivered is a positive stepping stone in the reform of financial accountability, to achieve ultimate accountability departments will have to account for outcomes or the achievement of their policy objectives through the delivery of their products and services.

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**Recommendation 5.1**

The Committee recommends that the Department of Treasury and Finance continue to improve the processes of managing and reporting by outputs with the ultimate aim of reporting by outcomes.

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3 ibid page 43
4 ibid page 43
5.3.2 Economic policy reforms

One of the key longer term economic objectives identified in the Government’s Autumn Economic Statements and the Budget Papers is tax reform. The Government plans to bring Victoria’s overall tax effort in line with the average of the other Australian States in order to improve the overall competitiveness of the Victorian economy. Another key objective is the reduction in State debt which will lead to a reduction in debt servicing costs and the overall cost of delivering goods and services to the community. The Department sees these objectives as two of the significant issues which need addressing during the 1996-97 financial year.

The Treasurer was asked, at the estimates hearing, about tax reform options. The Treasurer advised that since the Government has indicated that it is reviewing the State tax system, representations have been received from a wide range of interests ensuring that there is public input into the process. Also, the Premier and other Ministers were attempting to put on the national agenda the issue of overall reform of the Australian tax structure as part of the Commonwealth-State financial reforms. In respect of whether the States should be competitive the Treasurer advised that although he does not think that the Government has a specific policy, he believes “it would be disastrous for Australia if we were to gain total uniformity in state taxes”7.

One aim of the Government is to restore Victoria’s credit rating to AAA. The reduction of the level of the State’s debt will facilitate the restoration of the State’s credit rating. The combination of the reduction in debt levels and the improved credit rating will reduce the State’s borrowing costs and also give it the benefit of the improved credit rating for future transactions. At the estimates hearing the Treasurer was asked if there was a “right” level of State debt. In response the Treasurer advised that an analysis had been made of the approach the rating agencies used and it suggested that reducing the debt level to approximately 14% to 15% of gross state product would allow the rating agencies to “seriously consider the restoration of the State’s AAA rating”8. The level of net State budget sector debt as percentage of gross state product (GSP) has recently fallen to approximately 12% and net debt for the public sector overall to less than 17% of GSP9.

The State’s credit rating is assigned by major rating agencies and provides a consistent framework for comparing credit quality. The Committee notes that the Government is on course to achieve its aim of restoring Victoria’s credit rating to AAA. The annual report of the Department of Treasury and Finance revealed that in September 1996 one of the credit rating agencies, Standard and Poor’s Rating Agency, raised Victoria’s rating to AA+ which is one grade below the highest rating of AAA10.

The Treasurer also advised the Committee that reducing the level of debt to 15% of GSP will not guarantee getting back the State’s credit rating to AAA. The reduction will show to the rating agencies that the State has its level of debt under control but the State also has to build up consumer and investor confidence.

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7 Hon A Stockdale, Treasurer, Transcript of Evidence, 6 November 1996, page 58
8 ibid page 65
9 Department of Treasury and Finance, 1995-96 Annual Report, October 1996, page 8
10 ibid page 8
5.3.3 Industry reforms

During 1995-96 one of the Government's major initiatives was the sale of a number of public authorities. The Department believes that through this process it achieved its objective of strengthening the State's budgetary position and reduced the debt burden on Victorians. In 1996-97 the Department plans to continue the reform and restructuring of the energy sectors, that is gas and aluminium, and the sale of the State's interest in the remaining electricity assets approved for privatisation.

During the financial year 1995-96 the following public authorities were sold:

- United Energy Limited;
- Eastern Energy Limited;
- CitiPower Limited;
- Powercor Australia Limited;
- Solaris Power Limited;
- Yallourn Energy;
- GFE resources; and
- BASS ticketing operations.

The sale of the public authorities provided total income of $4.7 billion which was applied to the reduction of the State's debt.

During 1996-97 the Government has completed the sale of the Ports of Portland and Geelong, Hazelwood Power Corporation, and Energy Brix Australia Corporation and has announced the sale of Loy Yang A, PowerNet and the gas companies.

5.4 Reliance on revenue from gaming and gambling

Government revenue from gaming and gambling has grown significantly in the past five years. In 1995-96 revenue from gaming and gambling was $1 031.3 million, representing approximately 13% of all taxes, fees and fines collected and is expected to increase by approximately $100 million in 1996-97. Access Economics, in one of its monthly corporate briefs published last year, commented that, as far as the finances of the States are concerned, gambling "provides one of the few rapidly growing revenue sources".

One problem associated with the reliance of government on revenue from gambling is the impact that it has. This was acknowledged by the Minister for Finance and the Minister for Gaming:

"one of the first things we have to take account of is the explosion in the rate of growth, patronage and returns to the Government. I do not think anyone could have projected the growth in gaming, and the Government is very sensitive as to how it should be handled. We cannot just look at it clinically as returns to government. We must be sensitive to the needs of those who cannot handle the responsibility of gaming in a personal way."

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11 Budget Paper No. 3, 1996-97 page 318
13 Hon R Hallam, Minister for Finance and Minister for Gaming, Transcript of Evidence, 6 November 1996, page 45
Part of this concern over the impact of gambling on people was reflected in section 138 (4) of the Gaming Machine Control Act 1991 which provides for the establishment of the Community Support Fund. The main objective of the Fund is to ensure that monies raised through the levy are used for the following purposes:

- for payment to the Research and Development Fund established under the same Act;
- for payment towards the provision of any one or more of the following:
  a) programs for prevention of compulsive gambling or for the treatment or rehabilitation of persons who are compulsive gamblers;
  b) programs for the treatment or rehabilitation of persons who are addicted to or abuse drugs;
  c) educational programs relating to drug addiction or drug abuse;
  d) programs for financial counselling services or support and assistance for families in crisis;
  e) programs for the benefit of youth;
  f) research or pilot programs relating to community advancement programs;
  g) programs for the benefit of sport or recreation;
  h) programs for the promotion or benefit of the arts;
  i) programs establishing or developing tourist destinations or facilities or services or for the purposes of promoting tourism; and
  j) any other programs or purposes relating to the support or advancement of the community as determined by the Minister.

The Secretary of the Department of Premier and Cabinet (the Department responsible for administering the Fund) advised the Committee that at the end of January 1997 the balance of the Fund was $116 million and that the anticipated income for the current financial year is $80 million. As noted above, the first call on the fund is for research and development under the Gaming Machine Control Act 1991. The largest category of funding is for the benefit of sport and recreation (this is largely skewed by the funding for the construction of the new aquatic centre). The next largest category of funding is for the treatment or rehabilitation of persons addicted to drugs followed by funding for programs for financial counselling services or support and assistance for families in crisis. The Secretary also advised that since the guidelines for the Community Support Fund have been widened there is greater knowledge of the fund.

Another issue with gaming and gambling revenue is that the Government must be realistic in terms of future estimates. Gaming and gambling revenue has been steadily increasing over the last four years, however it is questionable how long this trend can continue.

5.5 Flexible electricity tariff arrangements

The Auditor-General noted in his 1995-96 Report on the Statement of Financial Operations that "the State has incurred significant financial obligations under the flexible electricity tariff arrangements established by the Government in 1984". The flexible electricity tariff arrangements are in respect of the Portland and Point Henry aluminium smelters.

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Under 30 year Electricity Support Agreements, the State Electricity Commission of Victoria (SECV) sells power to the smelter partners under a price formula which includes an adjustment to raise or lower the price of electricity in response to movements in the price of aluminium. Under associated Agreements (the Flexible Tariff Deeds) between the Victorian Government and the SECV, the Government agrees to compensate the SECV for any aluminium price adjustment. With the current low aluminium prices the Government is paying the SECV and is effectively subsidising the aluminium smelters for the cost of purchasing the power. Payments made by the Government under the arrangements in 1995-96 totalled $124 million. The flexible electricity tariff arrangements extend to the year 2016.

The Treasurer advised the Committee that there were three issues involved in the arrangements namely, the base contract, the desire of the smelter partners to increase the availability of electricity and other ancillary issues to do with interruptability and other contract incidents. The Government has attempted to negotiate with the smelters to bring the three issues into a single set of terms under the contract, however the smelter partners have been reluctant to re-negotiate the base tariff arrangements.

Consequently, as reported by the Auditor-General, the Department has estimated that, based on current expectations of future aluminium prices and inflation levels, the State’s net exposure under the arrangements is $1.3 billion and this amount has been included in the 1995-96 Statement of Financial Operations as part of budget sector liabilities.

5.6 Contingent liabilities

The issue of measuring and recording the contingent liabilities of the State is important given that the introduction of accrual accounting and whole of government reporting are seen as priorities of the Department. Contingent liabilities are potential commitments which could arise but are dependent upon future events or outcomes. Examples of contingent liabilities include guarantees, indemnities, sureties, letters of comfort and other forms of financial support. Under generally accepted accounting standards organisations are required to report contingent liabilities.

In the 1995-96 Statement of Financial Operations, the Government has reported contingent liabilities totalling approximately $2 billion. Included in this total are amounts related to warranties and indemnities given to the purchasers of the electricity entities which have been sold by the Government. In response to a question about these warranties and indemnities the Treasurer advised the Committee that there has been full disclosure of these contingent liabilities. In the case of an $85 million warranty given to the purchaser of United Energy, in respect of the deductibility of certain items for taxation purposes, the Treasurer advised that the reason for assuming the responsibility for this risk was that it was a case where “the State is inherently in a better position to manage (the liability) than the purchaser”. The Treasurer pointed out that by assuming the risk the Government has the advantage of being able to use its relationship with other governments to protect the interests of the taxpayer. The contingent liability will only crystallise, that is the Government will only be liable to honour the warranty, if the

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15 Hon A Stockdale, Treasurer, Transcript of Evidence, 6 November 1996, page 55
17 ibid page 145
19 Hon A Stockdale, Treasurer, Transcript of Evidence, 6 November 1996, page 51
purchaser of United Energy receives an unfavourable tax ruling from the Australian Taxation Office and the ruling is not overturned within the next three years\textsuperscript{20}. At the date of this report the matter was yet to be resolved. The purchaser of United Energy has received a private ruling from the Taxation Office that the franchise fee is not deductible. The Government has commenced action appealing the ruling and it is expected that the Federal Court will bring down its decision in June 1997.

Generally accepted accounting standards require that where an organisation is aware of a potential liability but cannot reliably quantify the liability or does not believe that it is probable that the liability will eventuate, the organisation should still disclose the potential liability in a note to its financial statements. Accordingly, the Government in Note 8 of its Statement of Financial Operations outlines ten other potential liabilities which could arise. These include:

- a Treasurer's guarantee in respect of the Public Transport Corporation under the contract for the automated ticketing system;
- an indemnity given by the Treasurer to Melbourne Grand Prix Promotions Pty Ltd and subsequently to the Australian Grand Prix Corporation;
- a guarantee by the Treasurer to participants in the Loy Yang B project for contractual obligations that the State Electricity Commission is required to perform; and
- a number of claims made by the Commonwealth Bank of Australia under the State Bank of Victoria Merger Agreement.

These liabilities are in addition to the $2 billion already reported by the Government, however, given the uncertain nature of the liabilities a dollar amount has not been assigned or estimated in some cases.

In his report on the Statement of Financial Operations, the Auditor-General comments on the contingent liabilities noted above and discusses contingent liabilities in respect of the Melbourne City Link Project which are not shown in the Statement of Financial Operations. The potential liabilities are in respect of obligations of the State under the project arrangements and include:

- obligations in respect of establishing and maintaining a level of certainty for Transurban and its financiers on the general operating environment relating to the project;
- meeting any costs associated with the clean-up of contaminated land;
- funding certain works associated with the project (estimated at $159 million);
- indemnification of Transurban against costs incurred from physical damage to the City Link caused by the State, its agencies or contractors;
- exemption granted to Transurban for the payment of local government and water and sewerage rates and charges relating to the project, excluding usage; and
- assumption of Transurban debt obligations if it is fundamentally prevented from completing or operating the project as envisaged, due to changes in State or Commonwealth laws or policies.

In respect of the above obligations the Auditor-General expresses the opinion that "these obligations are not sufficient to constitute, or support the recognition of, the financing of the project as debt of the State" 21.

The Committee supports the Auditor-General's view but believes that it would improve accountability if the Statement of Financial Operations included a note about the State's obligations in relation to the City Link project in a similar way to the contingent liabilities already disclosed in the Statement.

The Auditor-General has noted 22 that the processes for the recording, reporting and management of the State's contingent liabilities could be improved. In particular, the Auditor-General identified that the upgrade of Department of Treasury and Finance's central contingent liability database had not yet been completed and that a policy and procedures manual for the control and monitoring of contingent liabilities had not been issued to departments. In its response to the Committee's questionnaire the Department acknowledged that the collection of data relating to contingent liabilities could be improved and action on this area has been taken in the form of the "imminent introduction of a contingent liabilities database".

**Recommendation 5.2**

The Committee recommends that the Department of Treasury and Finance implement on a timely basis the contingent liabilities database to ensure the best possible identification, management and reporting of contingent liabilities.

### 5.7 Valuation of assets

The Statement of Financial Operations, which effectively is the Government's report on its operations for the year and its financial position at the end of the financial year, includes liabilities and financial assets, but does not include assets of a non-financial or fixed nature. Financial assets are those assets which can be readily liquidated and include items such as deposits, investments, loans and advances to external parties and cash. The financial assets of the State at 30 June 1996 were valued at $15.4 billion 23.

The Government is also the owner or steward of fixed or physical assets such as land, buildings, infrastructure, and motor vehicles. While the Statement of Financial Operations makes no reference to these assets or their potential value, based on the fact that the Government is the largest land owner in the State it is reasonable to conclude that the value of the Government's fixed assets would be enormous. The Committee is of the view that the issue of recording, valuing and reporting fixed assets is significant. This is especially so given the Government's commitment to producing whole of government financial statements on an accrual basis.

At the estimates hearing the Minister for Finance acknowledged that the improvement of asset management is a big issue. Asset management involves recording assets which are owned or controlled, ensuring those assets are fully utilised and looked after and valuing those assets appropriately. The Minister advised the Committee that "the issue of a valuation methodology is also very sensitive and likely to lead to some diversity of

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21 ibid page 157  
22 ibid page 145  
opinion, but it seems to us that that is simply one of the issues we have to contend with if we are to get the best possible outcome"\(^{24}\).

In his Report on the Statement of Financial Operations, 1995-96, the Auditor-General commented that a key focus of the Government’s reform has been to enhance asset management. A number of initiatives have been taken including:

- the establishment of a program for asset identification and valuation within the budget sector agencies;
- provision of guidance to agencies outlining the fundamental principles of effective asset management; and
- the progressive establishment of a central assets register by the Department of Treasury and Finance to enhance its ability to maintain relevant and reliable information to assist in the analysis of public sector asset holdings.

The Auditor-General concluded that “these initiatives have significantly enhanced the management of the State’s asset holdings”\(^{25}\).

The Committee commends the action of the Government on improving asset management within the public sector, but notes that two issues namely the valuation of some assets within the arts and transport sectors and the effective utilisation of assets still need to be addressed. The Minister for Finance acknowledged this at the estimates hearing advising “we have overcome all of those problems with two minor exceptions”\(^{26}\). The Minister advised that the exceptions were minor in terms of timing and that by the end of June 1997 the Government would have a balance sheet including those assets.

The issue of effective utilisation of assets is also being addressed by the Government with the introduction of a capital charge and the identification of surplus assets. To encourage departments to make improved decisions about asset management the Government levies a capital charge based on the departments’ level of capital outlays. This effectively should discourage departments from acquiring and retaining assets which are not required. As surplus assets are identified by departments the assets are sold providing a return to the Government and reducing the level of investment in fixed assets.

**Recommendation 5.3**

The Committee recommends that the Department of Treasury and Finance give priority to addressing the outstanding issues relating to valuation and utilisation of assets.

\(^{24}\) Hon R Hallam, Minister for Finance and Minister for Gaming, *Transcript of Evidence*, 6 November 1996, page 62
\(^{26}\) Hon R Hallam, Minister for Finance and Minister for Gaming, *Transcript of Evidence*, 6 November 1996, page 62
5.8 Unfunded superannuation liabilities

The liabilities of the State, as shown in the Statement of Financial Operations, total $57.2 billion. Unfunded superannuation liabilities of $15.6 billion represent more than 27% of this total and together with debt represent the two largest components of State liabilities. The liabilities for unfunded superannuation consist of employer superannuation contributions yet to be paid by the Government and other public sector agencies to superannuation schemes in respect of services previously provided by employees. A review of the level of unfunded superannuation liabilities shows that there has been a significant reduction of 15.86% in the liabilities since 1992 resulting from the substantial reduction of the budget sector workforce, large one-off contributions to various superannuation schemes in 1993-94 and 1994-95 and the effect of various superannuation reforms introduced by the Government in 1993-94.27

The Committee, however, has noted that the liabilities have been increasing over the last three years. The Minister for Finance was asked at the estimates hearing what programs are in place and what initiatives are being taken to arrest this trend. The Minister advised the Committee that “to a large degree all the big decisions have been taken”28. The Government has already taken a policy decision that all future members of superannuation schemes will be on an accumulation fund basis rather than a defined benefits scheme. The Government has also amalgamated a number of the schemes, cutting the costs of administration. The reason for the upward trend in the superannuation liabilities is that although numbers have declined and the entitlements of existing members have been addressed, costs are increasing in respect of the defined benefits of former members and pensioners. The Minister advised the Committee that “projections suggest that we will have an increased liability for the next five years but that it will be a dramatically lower liability than we were facing”29.

Recommendation 5.4

The Committee recommends that the Department of Treasury and Finance continue to pursue the effective management and reduction of unfunded superannuation liabilities.

5.9 Treasurer’s advance

The Statement of Financial Operations 1995-96 shows that during that financial year $353.3 million was paid from the Treasurer’s Advance. This was allocated across all departments and included $324.5 million for recurrent purposes and $28.8 million for works and services projects. Treasurer’s Advances are given under program 749 of the Department of Treasury and Finance to agencies to cover urgent and unforeseen expenditures or under section 35 of the Financial Management Act 1994 “to enable the Minister to meet urgent claims that may arise before Parliamentary sanction is obtained for them”.

28 Hon R Hallam, Minister for Finance and Minister for Gaming, Transcript of Evidence, 6 November 1996, page 73
29 ibid page 73
A review of Schedules 2 and 3 of the Appropriation Act 1996 reveals that payments under the Treasurer’s Advance included amounts for:

- approved wage increases;
- Government-wide promotions and activities;
- Melbourne City Link Authority - ancillary works and land acquisition;
- “Victoria on the Move” display; and
- Australian Grand Prix Corporation - works and contribution to operating expenses.

The Treasurer advised the Committee that the amounts paid from the Treasurer’s Advance were not foreseen at the time of the budget and therefore were paid from the Advance. These payments were part of the normal appropriation and were subject to the approval of Parliament. In the case of the amounts paid to the Grand Prix Corporation some of the additional expenditure related to costs associated with demonstrations and destruction of property by protesters. The Treasurer advised that “in some cases we do not make an appropriation because the precise amount of the end expenditure cannot be quantified in time for inclusion in the budget”\(^\text{30}\). This was the case with the “Victoria on the Move” display. In respect of both examples discussed by the Treasurer he stated that “they are urgent in the sense that an appropriation is required before the close of the year”\(^\text{31}\).

The Committee notes that there was discussion at the estimates hearing about the criteria applied for accessing funds from the Treasurer’s Advance. The Committee suggests that guidelines could be developed which set out parameters for making Treasurer’s Advances. Such guidelines could facilitate the evaluation of the urgency of a request for payment from the Treasurer’s Advance.

\(^{30}\) Hon A Stockdale, Treasurer, *Transcript of Evidence*, 6 November 1996, page 57

\(^{31}\) ibid page 57
Chapter 6
Department of Education
(School Education Programs)

6.1 Introduction and budget overview

The mission of the Department of Education is to give Victorians the opportunity to benefit from high quality education and training. This comprises primary and secondary school education, vocational education and training, adult, community and further education, and higher education. The structure of the Department remained substantially unchanged despite the machinery of government changes in 1996.

In the financial year 1995-96 the Department made payments totalling $3 405 million. This was approximately $89 million higher than forecast in the 1995-96 budget estimates. This is attributed mainly to wage increases and TAFE institute spending financed from additional Commonwealth funding\(^1\). The largest proportion of the Department’s total payments, approximately 73%, is allocated to program 239 - School Education. As indicated in the table below the 1996-97 Budget Estimates for Program 239 show an overall increase of 7.3% or $187 million, and this was the area on which the Committee focussed attention.

**TABLE 6.1**
Comparison of 1995-96 actual outlays and 1996-97 estimates

<table>
<thead>
<tr>
<th>Program</th>
<th>1995-96 Actual $’000</th>
<th>1996-97 Estimate $’000</th>
<th>Variance $’000</th>
<th>Variance %</th>
</tr>
</thead>
<tbody>
<tr>
<td>233 - Education Planning and Coordination Services</td>
<td>144 654</td>
<td>138 054</td>
<td>-6 600</td>
<td>-4.6</td>
</tr>
<tr>
<td>235 - Non-Government School Education</td>
<td>216 526</td>
<td>219 620</td>
<td>3 094</td>
<td>1.4</td>
</tr>
<tr>
<td>239 - School Education</td>
<td>2 550 380</td>
<td>2 737 579</td>
<td>187 199</td>
<td>7.3</td>
</tr>
<tr>
<td>240 - Adult, Community and Further Education</td>
<td>17 692</td>
<td>20 563</td>
<td>2 871</td>
<td>16.2</td>
</tr>
<tr>
<td>241 - Vocational Education and Training</td>
<td>606 529</td>
<td>622 336</td>
<td>15 807</td>
<td>2.6</td>
</tr>
</tbody>
</table>

Source: constructed from information included in Budget Paper No. 3, 1996-97, page 61

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\(^1\) Budget Paper No. 2, page 15
The large increase in the 1996-97 Budget Estimates for Program 240 - Adult, Community and Further Education, is due to a number of factors including:

- increased funding of $85 million for the full year effect of wage increases for teachers and principals and additional costs associated with the introduction of enhanced career structure and profession recognition opportunities for teachers;
- an additional $43.8 million for specific policy initiatives such as training teachers in new technologies and the Keys to Life Reading Recovery Program;
- the allocation of $20 million for increased school enrolments; and
- an increase of $12 million in the capital works budget for the refurbishment and upgrade of school facilities.

The decrease in outlays in Program 233 - Education Planning and Co-ordination Services is primarily due to a reduction in the Department's Making Places Initiative. The increase in Program 235 - Non-Government School Education, reflects additional funding for increased enrolments, while in Program 240 - Adult, Community and Further Education, outlays by the Department will increase due to a reduction in receipts from the Commonwealth Department of Employment, Education, Training and Youth Affairs. Funding for growth training places provided by the Australian National Training Authority will allow for the increased outlays from Program 241 - Vocational Education and Training.

While approximately 88% of the Department's 1995-96 total revenue of $626 million was funded by the Commonwealth Government and the Australian National Training Authority, in 1995-96 the Department collected $67.2 million from the sale of fixed assets, including school sites. The receipt from the sale of assets was more than 26% greater than the estimate included in the 1995-96 Budget Estimates. This large receipt from the sale of assets is not expected to continue as shown in the 1996-97 Budget Estimates where the income from the sale of assets is forecast to be $30 million, less than half of that collected the previous year. The reason for the reduction in income from sale of assets is that, although the Department is continuing with its asset sales program, the number of assets to be sold will decrease over time.

6.2 **Information presented by the Department**

In the course of gathering information for analysis and inclusion in this report the Committee reviewed the Department's annual report, responses to the Committee's questionnaire and the information presented by the Minister at the estimates hearing. The Department provided information which was of a high quality relative to other departments. The annual report of the Department is a comprehensive document which reports its achievements against each of the Department's five priority goals as reported in its Corporate and Business Plan. The responses of the Department to the Committee's questionnaire were also comprehensive, providing the Committee with useful data for the analysis of the budget estimates.

Most impressive was the presentation given by the Minister and Departmental representatives at the estimates hearing. This information gave a comprehensive overview of the Departmental budget, key policy initiatives, specific programs and statistics on students and staffing. The Committee found the session informative and useful.

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2 [Budget Paper No. 3, page 59](#)
The Committee looks forward to receiving similar high quality information and informative presentations from all Ministers and their departments during the next cycle of estimates hearings. The Committee will be seeking a comprehensive briefing from all departments on their estimates of expenditure prior to the examination of the estimates.

6.3 Key issues facing the Department

The Department identified the following issues which it believes will impact on its operations in the coming year:

1. Reduction of Commonwealth funding;
2. The need to extend Vocational Education and Training to Victorian schools and TAFE institutes; and
3. The need to maximise the opportunities provided by new multimedia technologies.

6.3.1 Commonwealth funding

The Department relies on the Commonwealth Government to fund a number of education programs. Previously, the Commonwealth funded 39 programs across the Department. These have now been reorganised to form five new programs: Literacy; Languages; Special Learning Needs; School to Work and Quality Outcomes. The restructure of the Commonwealth Government's special purpose funding and the revision of the basis for allocating funds for the new programs among the States and sectors has resulted in a reduction of approximately $6.3 million to special purpose funding for Government schools in Victoria. It is expected that further reductions will occur until the year 2000. The Minister indicated, at the estimates hearing, that the reduction of Commonwealth funding is a problem.3

The net affect of the reductions in Commonwealth funding is that expenditure for the following programs has been decreased by between 4% and 46%:

**TABLE 6.2**

<table>
<thead>
<tr>
<th>Program</th>
<th>Reduction $'000</th>
<th>Reduction %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Disadvantaged Schools</td>
<td>1 700</td>
<td>46</td>
</tr>
<tr>
<td>Early Literacy</td>
<td>676</td>
<td>38</td>
</tr>
<tr>
<td>Country Areas</td>
<td>100</td>
<td>5</td>
</tr>
<tr>
<td>English as Second Language</td>
<td>529</td>
<td>4</td>
</tr>
</tbody>
</table>

*Source: constructed from information included in the response to Questionnaire, page 4*

The impact of the 46% reduction in the Disadvantaged Schools Program is that either the proportion of students participating in this program in 1997 will fall or the rate of funding per student will be reduced. The Minister advised that the Department is "actively challenging"4 the Commonwealth's methodology and choice of models in allocating funding to this program.

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3 Hon P Gude, Minister for Education, Transcript of Evidence, 22 November 1996, page 84
4 ibid page 83
The reduction of approximately $676 000 in the Early Literacy Program means that there will be reductions in the number of:

- schools receiving assistance through early literacy programs;
- professional development programs to improve early literacy teaching; and
- families that are reached through parent-participation programs.

The Department has indicated that State funding for the above programs will be retained at current levels, where applicable.

### Finding 6.1

The Committee finds that the decrease in Commonwealth funding will significantly impact on the State’s Disadvantaged Schools and Early Literacy Programs.

#### 6.3.2 Extending vocational education and training

In response to the Committee’s questionnaire, the Department indicated that it is committed to expanding and enhancing opportunities for Year 11 and 12 students to undertake vocational education and training. To support this, an additional $10 million has been allocated to this area over the next four years. The Department considers it important to extend vocational education and training in Victorian schools to meet the human resource requirements of Victoria’s commercial and industrial sectors and to also give young people opportunities for employment and personal fulfilment.

The additional funds allocated will allow access to specialist equipment and professional development enabling secondary teachers to deliver vocational education and training in school programs. The Department also has “dual recognition programs” which meet its objective of expanding opportunities for vocational education and training. The Department expects the number of students in the dual recognition programs to double. During 1996 programs were available in 11 different industry areas for 3 600 students and this is being further developed in the areas of multimedia, building studies and textiles manufacturing for 1998.

#### 6.3.3 Multimedia technologies

The Department has recognised in its strategies and goals for 1996-97 that it needs to take advantage of multimedia technologies and ensure the opportunities in this area are made available to all teachers and students. The Department advised that the new technologies will create educational opportunities by making national and international learning resources available and enabling Victorians to acquire a command of information technology and telecommunications skills. Over the next four years $14 million per year has been allocated for professional development and $20 million to assist in the purchase of computers. The funding allocated for professional development will allow the training of 6 000 teachers per year in the use of multimedia technologies and their application in the classroom. The Minister advised the Committee that through the allocation of the $20 million the Department is trying to achieve a level of around one computer to every five students by the year 1999-2000.

The Classrooms of the Future project in schools is supporting teaching and learning through multimedia technologies. The Department has established “Navigator Schools” where new teaching methodologies and school administrative arrangements, drawing on multimedia technologies, are being used. This allows teachers and principals to
acquire professional development in the new methods and technologies. The Department is also utilising software programs which take advantage of current technology and resources such as Satellite TV and the internet. This benefits both the professional development of teachers and the education of students.

The availability of computers is a key factor in the expansion of multimedia technologies in schools. As mentioned previously, the Department is seeking to achieve a level of one computer for every five students. The Minister advised the Committee that, based on a survey completed by the Department, there are 58,000 computers in schools and the ratio of computers to students are as follows:

- primary schools 1 to 10.8;
- secondary schools 1 to 7.4; and
- all schools 1 to 8.9.

The Minister also advised that all the new computers in the schools should be multimedia capable and the Department is seeking to achieve this outcome.

### Recommendation 6.1

The Committee recommends that the Department of Education continue to give priority to implementing its strategy for the increased use of technology in schools to ensure children are best placed to meet future challenges.

#### 6.4 Human resource management

One of the key recommendations of the Victorian Commission of Audit, in its May 1993 report in respect of school education was that “current teacher numbers could be reduced by about 6,000 resulting in a net saving of $200 million after allowing for the cost of casual teachers”\(^5\). The Commission reported that for 1992 the total number of teachers was 40,550. Information provided by the Department at the estimates hearing of 22 November 1996 indicates that the number of teachers at 30 June 1996 was 35,561. This is a reduction of approximately 4,990 teachers and suggests that the Department is on the way to achieving the Commission’s recommendation.

The key elements of the Department’s human resource management strategy include workforce planning and full staffing flexibility. The number of teachers required for primary and secondary schools are projected for up to five years ahead. The projections are also being developed to include information about the number of teachers by the subjects taught. The Minister advised that the Department is seeking full staffing flexibility so that schools can have the opportunity to develop and structure their own employment profiles consistent with what they are trying to achieve. This may be either an academic commitment for example mathematics or they may want an arts, sports or music focus\(^6\).

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The Department has estimated that by 30 June 1997 it will employ 35,025 teachers. This is a reduction of more than 530 teachers during this financial year and will be achieved through redistribution of excess teachers and voluntary redundancies. Despite the significant reductions in teacher numbers the Department still estimates that it will have approximately 1,000 over entitlement teachers. The Committee also noted that even though the Department estimates further reductions in the number of teachers during the 1996-97 financial year, the budget papers show that wages and salaries for the School Education Program is expected to increase by $61.9 million or 4% compared with the actual spending of the previous financial year\(^7\). This increase is mainly attributed to increases in wages and salaries.

### 6.5 Over entitlement/excess teachers

In relation to over entitlement and excess teachers, the Minister for Education advised the Committee that 500 teachers on salaries of approximately $40,000 p.a. could not be placed in temporary vacancies or held against relief teaching funds and that this had resulted in additional costs to the Department’s budget of $26 million. Another 1,000 excess teachers were held against temporary vacancies and relief teaching funds. While it is recognised that these costs are an unnecessary part of the Department’s budget and it is the Government’s intention to reduce the number of surplus teachers, the process to achieve this is protracted.

The Minister advised that the reason for the large number of over entitlement teachers was that in the past the Department had replaced teachers who were away for long periods, for example on family leave, with permanent teachers.

The Minister explained to the Committee that the redundancy award covering teachers is a federal award which binds the State. A recent variation to the award means that the department cannot effectively temporarily re-deploy any of the excess teachers more than once. Therefore, the Department is bound to keep these teachers until the process described in the table below is completed. The Minister stated that “there is a series of steps that will have the effect of delaying prospective terminations for 10 to 16 months”\(^8\). The Department is also offering voluntary redundancies “to let people move out of the system”\(^9\).

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\(^7\) Budget Paper No. 3, page 68  
\(^8\) Hon P Gude, Minister for Education, Transcript of Evidence, 22 November 1996, page 99  
\(^9\) ibid page 100
### TABLE 6.3
Federal Redundancy Award Process

<table>
<thead>
<tr>
<th>Duration</th>
<th>Process</th>
<th>Cumulative Duration</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 month</td>
<td>Consultation with Australian Education Union.</td>
<td>1 month</td>
</tr>
<tr>
<td>2 weeks</td>
<td>Identification of over-entitlement teachers.</td>
<td>1 1/2 months</td>
</tr>
<tr>
<td>2 weeks or indefinitely</td>
<td>Offer of redeployment/transfer (Teacher may refuse Department’s offer once a fortnight indefinitely).</td>
<td>2 months or indefinite</td>
</tr>
<tr>
<td>2 weeks</td>
<td>Consider retraining teachers who do not accept redeployment before declaring them excess to the teaching service.</td>
<td>2 1/2 months or indefinite</td>
</tr>
<tr>
<td>2 weeks</td>
<td>Formal declaration of teachers as excess to requirements.</td>
<td>3 months or indefinite</td>
</tr>
<tr>
<td>7 or 13 months</td>
<td>After declaration to retrench, teachers are given notice of either 7 or 13 months (depending on age or length of service).</td>
<td>10 or 16 months or indefinite</td>
</tr>
</tbody>
</table>

Source: Department of Education

Given the lengthy process that the Department has to carry out to reduce the number of over entitlement teachers, the Committee is concerned that the budget allocations for the Department will include the unnecessary cost for the retention of the excess teachers for a number of years to come.

### Recommendation 6.2
The Committee recommends that the Department of Education continue to reduce teacher numbers to a level closer to its actual ongoing requirements.

### 6.6 Sale of school assets and the maintenance backlog

The Victorian Commission of Audit reported in May 1993 that Victorian schools had a maintenance backlog and that “a fresh study of schools’ physical condition is urgently needed”\(^{10}\). The Minister for Education advised the Committee that the initial backlog identified was around $700 million and that “it is now down around about the $250 million mark”. He also advised that “over the last three years about 400 schools have been refurbished and/or opened”\(^{11}\) as part of the process of reducing the backlog. The Minister stated that “there is a very strong commitment to overcome that maintenance backlog”\(^{12}\). The Government has indicated that $120 million will be made available over the next four years to deal with this problem.

The Department has achieved a reduction in the maintenance backlog through its rationalisation and improvement plan. This plan has seen a reduction of the Department’s total asset base. The proceeds from the sale of the surplus school assets have been used to improve other schools. The Department estimates that approximately

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\(^{10}\) Victorian Commission of Audit, Report of the Victorian Commission of Audit, Volume Two, May 1993, page 8

\(^{11}\) Hon P Gade, Minister for Education, Transcript of Evidence, 22 November 1996, page 99

\(^{12}\) ibid page 91
$250 million has been raised through the sale of school assets\textsuperscript{13}. The rationalisation and improvement plan involves the restructure of schools either through the closing down or the amalgamation of schools. The Minister for Education advised the Committee at the estimates hearing that the long-standing position has been that when the number of students in a school falls below 12 consideration should be given to closing the school. In other cases, as a result of demographic changes, schools can be too large for the area in which they serve. In these instances, while the school may not be used to its full capacity, maintenance and “all the things that go with a big school arrangement”\textsuperscript{14} still have to be carried out. In these cases, the Department requests the schools to consider whether better outcomes can be achieved through amalgamation.

When schools are closed or amalgamated the surplus school sites and schools building are sold. The Department advised that more than 390 school buildings and sites have been sold over the period 1 July 1992 to 30 June 1996 to purchasers ranging from other Government Authorities to Local Councils to private individuals.

In order to keep the maintenance of schools under control the Department will implement the Physical Resource Management System. This system will provide schools with a computer system which will enable them to collect information on the condition of school buildings and prepare maintenance plans. The system will also trace specific projects to their completion. The Department will be able to access the system on a statewide basis allowing it to improve planning for the allocation of maintenance funds.

**Recommendation 6.3**

The Committee recommends that the Department of Education continue with the school asset management and maintenance program to ensure the current maintenance backlog is eliminated.

### 6.7 Performance measures

The Department has advised the Committee that it is moving to full implementation of output planning and budgeting processes for 1997-98. The Department has identified six output groups and for the current financial year, i.e. 1996-97, the Department has developed its Corporate and Business Plans on an output basis. The output groups identified reflect the educational process and the Department’s responsibilities, that is:

1. education of students in years prep to 10;
2. education of students participating in the VCE;
3. tertiary education and training programs;
4. adult learning programs;
5. support for education and training institutions; and
6. management of departmental operations and accountability agreements.

The Department has included in 1996-97 Budget Paper No. 3 output measures as required by the Government’s Integrated Management Cycle. In respect of program 239 - School Education, the Committee noted that the output measures shown in the Budget Papers include the number of:

\textsuperscript{13} ibid page 90
\textsuperscript{14} ibid page 88
Department of Education
(School Education Programs)

- Government Schools;
- Government primary students by year level;
- Government secondary students by year level;
- school students completing VCE successfully;
- Dual Recognition Student-units completed successfully; and
- total school staff.

The Committee notes that the measures are all of a quantitative nature. However, in its response to the Committee's questionnaire the Department indicated that these measures are currently being refined to enable the full implementation of output budgeting in 1997-98. The Department advised that the development of realistic benchmarks for school education will be facilitated through the School Annual Report process and Triennial School Reviews. Areas such as time allocations in the eight key learning areas, student attendance and staff and parent opinions will be used for benchmarking. The Department also envisages that in future years, benchmarks of student achievement against the levels and strands in the Curriculum and Standards Framework will be available across the compulsory years of schooling.

Recommendation 6.4
The Committee recommends that the Department of Education give priority to developing qualitative performance indicators across all output groups.
Chapter 7

Department of Human Services
(Health Programs)

7.1 Introduction

The restructure of the former Department of Health and Community Services and former Offices of Housing and Youth Affairs has resulted in the formation of the Department of Human Services. The Department now has responsibility for health, aged care, youth and community services, housing and aboriginal affairs. Consequently, many of the programs within the Department were modified, making analysis of the 1995-96 budget outcomes against the 1995-96 Budget Estimates difficult. However, from an overall perspective and based on the information provided in Budget Paper No. 2, the Department overspent against its original budget allocation of $4.8 billion by approximately $36 million. The increase is attributed mainly to wage increases due to wage award variations handed down after the September 1995 Budget.

7.2 Budget Overview

The Minister for Health and Minister for Aged Care, Hon Rob Knowles, appeared before the Committee and provided information about the health related programs: Acute Care; Public Health and Aged, Community and Mental Health. These programs represent approximately 70% of the Department's 1996-97 budget allocation of $5.2 billion.

The following table shows that spending on each of the health related programs is expected to increase by more than 5% in 1996-97.

<table>
<thead>
<tr>
<th>Program</th>
<th>1995-96 Actual $'000</th>
<th>1996-97 Estimate $'000</th>
<th>Increase $'000</th>
<th>Increase %</th>
</tr>
</thead>
<tbody>
<tr>
<td>361 - Acute Care</td>
<td>2 271 160</td>
<td>2 433 954</td>
<td>162 794</td>
<td>7.2</td>
</tr>
<tr>
<td>362 - Aged, Community and Mental Health</td>
<td>988 184</td>
<td>1 043 004</td>
<td>54 820</td>
<td>5.6</td>
</tr>
<tr>
<td>366 - Public Health</td>
<td>142 697</td>
<td>166 807</td>
<td>24 110</td>
<td>16.9</td>
</tr>
</tbody>
</table>

Source: constructed based on information in Budget Paper No. 3, page 81

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1 Budget Paper No. 2, 1996-97, pages 15, 16 and 18
2 Budget Paper No. 3, 1996-97, page 81
In response to question nine of the Committee's questionnaire (refer Appendix One), the Department attributed the increases in spending in the health area to the following factors:

361 - Acute Care
- increased demand for hospital services as evidenced by the increase in the number of patients;
- falling private revenue linked to the decline in the number of Victorians with private health insurance cover;
- approved wage awards, superannuation and CPI increases;
- approval of new capital works projects;
- the full year cost of veterans' services transferred from the Commonwealth in January 1995;
- additional funding for other Commonwealth funded projects;
- the full year effect of additional ambulance services; and
- the up-grade of the ambulance vehicle fleet.

362 - Aged Community and Mental Health
- additional Commonwealth funds available under the Home and Community Care program matched by the State in accordance with the terms of the Commonwealth-State agreement;
- funding for new policy initiatives including Youth Suicide and Carer's programs;
- funds to meet cash flow requirements of works in progress and new works approved in 1996-97;
- the roll-over of Commonwealth funds for the Mental Health Strategy in accordance with the Commonwealth-State agreement; and
- provision for approved wage awards, superannuation and CPI increases.

366 - Public Health
- additional funding for blood transfusion services and programs for combating AIDS and breast and cervical cancer screening;
- carryover of unspent funds in respect of subsidies to municipalities etc towards the cost of preventative health services; and
- funding for approved wage awards and CPI increases.

While the Department's major revenue source is from the Commonwealth Government, it also collects some revenue through fees and charges and other reimbursements. During 1995-96 revenue in the health related programs was less than the original estimates. The table below shows that the reductions in revenue were relatively small being between less than 1% and 10.1% lower than the forecasts.
TABLE 7.2

Comparison of 1995-96 estimates and actual revenue

<table>
<thead>
<tr>
<th>Program</th>
<th>1995-96 Estimate $'000</th>
<th>1995-96 Actual $'000</th>
<th>Variance $'000</th>
<th>Variance %</th>
</tr>
</thead>
<tbody>
<tr>
<td>361 - Acute Care</td>
<td>591 679</td>
<td>578 162</td>
<td>-13 517</td>
<td>-2.3</td>
</tr>
<tr>
<td>362 - Aged, Community and Mental Health</td>
<td>356 062</td>
<td>353 113</td>
<td>-2 949</td>
<td>-0.8</td>
</tr>
<tr>
<td>366 - Public Health</td>
<td>43 133</td>
<td>38 771</td>
<td>-4 362</td>
<td>-10.1</td>
</tr>
</tbody>
</table>

Source: Constructed from information in the response to the Committee's questionnaire

In each program the main reason for the reduction was lower receipts from the Commonwealth. In program 361 - Acute Health, the Department received significantly less from the Commonwealth for its Medicare bonus pool and revenue was also affected by industrial unrest in the ambulance service which resulted in accounts not being processed. In programs 362 - Aged, Community and Mental Health and 366 - Public Health, Commonwealth funding for home and community care, the Pharmaceutical Benefits Scheme, breast screening and Red Cross blood transfusion services was lower than estimated.

A review of the Department's 1996-97 revenue forecasts shows that although there will be a small decrease in revenue in the programs for Acute Care and Aged, Community and Mental Health, revenue for the Public Health program will increase. This is shown in the table below.

TABLE 7.3

Comparison of 1995-96 actual revenue and 1996-97 revenue estimates

<table>
<thead>
<tr>
<th>Program</th>
<th>1995-96 Actual $'000</th>
<th>1996-97 Estimate $'000</th>
<th>Variance $'000</th>
<th>Variance %</th>
</tr>
</thead>
<tbody>
<tr>
<td>361 - Acute Care</td>
<td>578 162</td>
<td>577 602</td>
<td>-560</td>
<td>-0.1</td>
</tr>
<tr>
<td>362 - Aged, Community and Mental Health</td>
<td>353 113</td>
<td>349 453</td>
<td>-3 660</td>
<td>-1.0</td>
</tr>
<tr>
<td>366 - Public Health</td>
<td>38 771</td>
<td>47 325</td>
<td>8 554</td>
<td>22.1</td>
</tr>
</tbody>
</table>

Source: Constructed from information in the response to the Committee's questionnaire

In the Acute Care Program, funding from the Commonwealth Government is forecast to be fractionally higher, however a 3% decrease in government charges and reimbursements results in an overall decrease in revenue for this program. The Aged, Community and Mental Health Program is affected by a 4.6% decrease in Commonwealth funding, an increase in government charges and reimbursements reduces the affect of the Commonwealth funding reduction. The Public Health Services Program is the only program which sees an increase in both the amount of fees and charges collected and the level of Commonwealth Government funding.
7.3 **Key issues facing the Department**

The Department, in its response to question two of the Committee’s questionnaire (refer Appendix One), outlined the following significant issues which will impact on its operations:

1. Metropolitan Health Care Network restructuring;
2. growth in demand for health services;
3. relationship between the Commonwealth and the States; and
4. restructuring of the Department.

### 7.3.1 **Metropolitan Health Care Networks**

One of the initiatives within the health portfolio has been the formation of Health Care Networks. The networks have been given a charter to plan and develop hospital and community based services across a wide geographical and community area. They will provide services through community hospitals, aged care facilities, tertiary referral hospitals and mental health services under a single board of governance. There are six metropolitan Health Care Networks in Victoria covering Western, Inner and Eastern, North Eastern, Southern, Peninsula and Specialist areas.

The Metropolitan Health Care Network Service Plans will have a five-year time frame and will cover issues such as:

- ensuring the network’s objectives are consistent with those of the Government, the Department and the Metropolitan Hospital Planning Board;
- the structure and location of major hospitals and the measurement of the efficiency, access and quality of those hospitals;
- the adequacy of services to cover geographic populations ensuring there are appropriate specialist services provided; and
- ensuring there is consistency with policy and planning in the areas of capital and recurrent allocations, staffing profiles and purchasing strategies.

At the estimates hearing the Minister for Health and Aged Care advised the Committee that “the whole concept of establishing the networks was to try to ensure that we maximised the efficiency and provision of services by trying to free more resources to go to patient care and patient services”\(^2\). The Minister advised that the network’s health service plans were being prepared and should be finalised in the next few weeks. The booklet “A Healthier Future - A Plan for Metropolitan Health Care Services” was subsequently released in October 1996 and included the service plan for each of the networks and general information about current and future directions for health care services.

One of the key concerns of the community is the level and quality of service that will be provided under the new health care structure. This Committee is also interested in how the performance of the Health Care Networks will be measured. The Committee believes that the plans being developed by the networks should include targets against which their performance can be measured. The Minister indicated that a range of measures, including the operation of emergency departments and the management of waiting lists, will be benchmarked and compared with other networks. The Committee considers that these benchmarks should be included in the networks’ plans to allow

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\(^2\) Hon R Knowles, Minister for Health and Minister for Aged Care, *Transcript of Evidence*, 2 October 1996, page 8
interested parties, including the community, to be able to assess the performance of each network.

**Recommendation 7.1**

The Committee recommends that Health Care Networks include in their plans benchmarks which will facilitate the assessment of the performance of each network.

The Committee is pleased to note that a quality assurance committee is being established which will "provide explicit advice on measurement of the networks' performances and quality assurance." The Committee believes this will enhance the accountability of the newly established networks. The Committee believes that effective monitoring of the networks' performance will be a key element in ensuring service quality. The Committee is therefore keen to see effectiveness and efficiency indicators incorporated into the Health Care Network plans to enable the evaluation of contractor performance.

**Recommendation 7.2**

The Committee recommends that the performance indicators used in contract management should:

(a) specify the performance expected of contractors;
(b) measure the performance of contractors; and
(c) define continuous improvements required.

The Committee also notes that the Department has developed a public hospital charter. As discussed in Chapter 2 of this report, the Committee believes that customer service charters are a way in which accountability can be improved. The Minister advised the Committee that the charter, which was funded by the Commonwealth, was delivered to Victorian households in March 1996 after a wide range of consultation with professional and community groups. The charter will also be produced in 12 community languages. The charter will stipulate the rights of the patients, but won't give guarantees.\(^5\)

**7.3.2 Growth in demand**

An issue which impacts on the structure of the Health Care Networks and their strategic planning is the demand for services. Obviously this is not something that can be easily determined, however the level of aged people in the community will have a big influence on the demand for some health and community services. In response to the Committee’s questionnaire, the Department advised that the number of persons aged over 65 had increased by 8.4% over the period 1991 to 1996. This ageing population is considered by the Department to be a "significant environmental pressure on the hospital system". This is because older age is associated with a greater use of hospital services. The Department also noted that a large proportion of hospital patients, approximately 30%, are aged over 65 and these patients spend a longer period in hospitals than those under 65 years.

\(^4\) ibid page 8  
\(^5\) ibid pages 34 and 35
The Committee agrees that this issue will have a significant impact on the Health Care Networks. The National Commission of Audit, in its June 1996 report, also recognised that Australia's population is ageing and that there is a shift from private provision of services to dependence on government funded services. The Commission concluded that as a consequence of the above factors "budget expenditure on social security ... and health are likely to increase substantially relative to the size of the economy". The Committee was pleased to note that funding has been provided in the 1996-97 Budget for measures to address the increase in demand on hospital emergency services and waiting lists for surgery or other medical services.

Another factor which the Department has identified which will affect the demand for hospital services is the level of private health insurance coverage. The Department noted that there is a continued decline in private health insurance coverage and that in January 1996 only 34% of Victorians were covered by private health insurance compared with 40% in July 1993.

The combination of these factors will result in pressure on the Health Care Networks to meet the growing demand for health and community services. The Committee believes that it is important that the strategic plans of the Health Care Networks take into account the impact of the ageing population and the decline in coverage of health insurance. The plans should also include details of the networks’ strategies for meeting the growing demand so that they can be held accountable for how they perform in response to the demand factors.

7.3.3 Commonwealth-State relations

Responsibility for the health care system in Australia is split between the Commonwealth Government and the State Governments. The Commonwealth is mainly responsible for providing funding for the delivery of services in Victoria, while the State’s role has been to provide the services through hospitals and other medical facilities. The Commonwealth provides funding through:

1. general purpose payments which do not have to be spent on specified services or functions; and
2. specific purpose payments which are required to be spent on specific services or functions according to terms and conditions agreed by the Commonwealth and the States.

The Department of Human Services stated that “the Commonwealth-State relationship is of critical importance in the human services arena”. This is because the Commonwealth contributes approximately 43% of national spending on health and community services through 60 separate programs. The Department has observed that the continuing growth in the cost of medical and pharmaceutical services, which is a Commonwealth responsibility, severely restricts growth in funds available for programs delivered by the State, particularly public hospitals. The Department’s observation is supported by the finding of the National Commission of Audit which states that “the current set of Commonwealth/State arrangements do not deal effectively with the major structural issues currently and potentially facing the health sector.” One of these issues

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7 ibid page 38
8 Department of Human Services, Response to Questionnaire, September 1996, page 11
was identified as "the growth in the demand driven, open ended Medicare and pharmaceutical benefits programs juxtaposed against the effective capping of all other health services."9 

The Department also commented that due to the large number of separate funding streams from the Commonwealth to the States there was a fragmentation of service delivery which led to the building of "bureaucratic and professional barriers to the continuity of client care and flexible service delivery"10. These comments by the Department are also supported by a finding of the National Commission of Audit which states that "ideally, responsibility for the delivery of all services and the collection of revenue to meet costs should be with one level of government"11.

The respective roles of the Commonwealth and State Governments in the provision of services has evolved over time through constitutional change, political pressures, intergovernmental agreements and the financial arrangements between the Commonwealth and the States12. As a consequence, it is unlikely that there will be major changes to the roles of the respective governments in health care in the immediate future. However, the National Commission of Audit recommended, in respect of the health area, that the existing arrangements between the Commonwealth and the States should be renegotiated through the Council of Australian Governments (COAG) process to transfer responsibility for the delivery of health and health related services to the States. This was qualified by the fact that the Commonwealth Government should have an ongoing role in developing and setting national strategic directions for health policy, standards and benchmarks.

The Minister commented on the Commonwealth-State relations at the estimates hearing acknowledging that there were pressures on the health system. He observed that as a result of the Commonwealth having very significant growth in pharmaceutical and medical benefits, the two programs which are essentially uncapped, there is a distortion in the system because the other programs have basically been capped or have had funding reduced. The Minister said "we think in a critical sense we really need the fundamental reform that the COAG process commenced a couple of years ago to try to get some better balance."13

The Committee notes that COAG is addressing the issue of the relationship between the Commonwealth and the States and that it has agreed on broad directions for the reform of health and community services. It is unknown how long the reform process could take and the Department advised in its response to the Committee's questionnaire that in the short term the Department will work towards the consolidation of specific purpose payments into more flexible performance based agreements and the development of the National Aged Care Strategy. The Committee encourages the Department to continue to take such initiatives until all the long term reforms of health and community services proposed by the COAG agreement are finalised.

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10 Department of Human Services, Response to Questionnaire, September 1996, page 11
12 ibid page 38
13 Hon R Knowles, Minister for Health and Minister for Aged Care, Transcript of Evidence, 2 October 1996, page 14
Recommendation 7.3

The Committee recommends that the Department of Human Services continue to pursue the long term reforms of health and community services proposed by the COAG agreement.

7.3.4 Restructure of the Department

The Department of Human Services covers the responsibilities of the Ministers for Health, the Aged, Housing, Aboriginal Affairs, Community Affairs and Youth. The Department views the establishment of an “integrated human services portfolio” as creating opportunities for:

- further redevelopment of services with a clearer focus on outcomes;
- reform of service infrastructure to support the redevelopment of services; and
- implementation of information systems which enhance program performance measurement and accountability.

The Department has set itself major tasks to achieve these opportunities including:

- reform of hospital infrastructure to improve its performance;
- improve health promotion and illness prevention;
- outsource service delivery where services can be better provided externally; and
- maximise the use of primary care and better coordinated care to divert clients away from tertiary services.

The Committee has commented in a previous report\(^{14}\) and in this report that clearly defined, comprehensive and structured corporate plans are paramount for departments especially during this time of unprecedented change. The Committee reinforces this view and recommends that the tasks and opportunities identified by the Department be incorporated into a corporate plan for the new Department of Human Services. This plan should be a public document which outlines the Department’s priorities and strategies to meet the Government’s objectives in the health and community area. It will form a central part of the accountability framework and enable the Parliament and this Committee to monitor and evaluate departmental performance.

Recommendation 7.4

The Committee recommends that the tasks and opportunities identified by the Department of Human Services as part of its restructure be included as major directions and strategies in its corporate plan.

7.4 Utilisation of technology

One of the strategies identified by the Department, in response to the Committee’s questionnaire, was to enhance information systems and invest in appropriate information and communication technology. The Government has committed $100 million over five years to information technology in the health area. For the 1996-97 financial year the Department will spend $5 million of the total amount which the Government has committed. The Minister commented that it would be fair to recognise

that technology has not been utilised as much as it could, particularly in some of the clinical areas. Consequently, the $5 million will be spent on increasing the "intellectual capacity of the health system"\textsuperscript{15} as well as expanding telemedicine.

The improvements in technology generally relate to establishing information systems which will enhance performance measurement and accountability. Another aim is to have information systems which are compatible across the health system. The Minister advised the Committee that if each hospital develops its own system, then the Department and the health system as a whole run the risk of the technology not being compatible. The Department intends to liaise with the networks to ensure technology skills exist at the senior management level and that the systems developed are compatible across the State. The funds allocated in 1996-97 are to develop and enhance key systems such as clinical costing, finance and personnel functions which will be the foundation with further investment of funds over the next few years.

The Department has developed a strategy to enhance the information technology and telecommunications capacity in hospitals. It involves improving the exchange of information across metropolitan Health Care Networks and linking electronically small hospitals to larger rural hospitals. The intention is to develop corporate information systems on a parallel with the standards in most commercially orientated organisations. The strategy provides that each hospital will progress through three stages in implementing and operating the new information systems.

Telemedicine is a specific area of technology which the Department will expand during the 1996-97 financial year. Telemedicine involves the use of voice conferencing, slow-scan television, remote robotic technology and on-line computer systems to provide access to diagnostic images, pathology reports and patient medical reports. The use of this technology addresses the issue of providing health services in rural areas. It will enable the sending of x-rays or scans taken in country areas via telephone lines to metropolitan areas for immediate diagnosis by specialists. It will also allow patients to be treated and diagnosed quickly and close to their home rather than travelling to other hospitals where the specialist is located. Similar technology will also be used for telepsychiatry to overcome the difficulty of accessing psychiatrists in rural areas.

\subsection*{7.5 Rural health services}

The Department of Human Services provides health care services throughout the State of Victoria. The adequacy of health services in the metropolitan areas of Victoria are being addressed through Health Care Network plans. However, the level and quality of health services within some of the rural and regional areas of Victoria is affected by the isolation of those areas. The Minister was asked, at the estimates hearing, what the Government is doing to improve the quality of health services in those areas. The Minister advised the Committee that "one of the major challenges that rural Victorian faces ... is a difficulty in attracting and retaining medical practitioners"\textsuperscript{16}. The Department has examined why it may be unattractive for doctors and specialists to practise in rural areas and has identified a number of issues.

\textsuperscript{15} Hon R Knowles, Minister for Health and Minister for Aged Care, Transcript of Evidence, 2 October 1996, page 33

\textsuperscript{16} ibid page 10
One of the major reasons is the lack of access to continuing medical education. To overcome this, the Government in conjunction with the Rural Doctors Association, the AMA and the Victorian Hospitals Association has developed and resourced a continuing medical education program. Other factors include the education of their children and lack of professional employment opportunities for their spouses. Often, in these cases they will want to return to a major city and the Minister advised that “we have not yet developed pathways for those doctors to come back”17. In an attempt to make working in rural areas more attractive the Monash University Medical School has developed a rural education component where it attracts students from rural areas. The University of Melbourne is also changing its curriculum to give a higher focus to rural medical education.

Another issue impacting on health services in rural Victoria is the higher cost of operating the regional base hospitals. These larger operating costs are attributed to the higher cost of medical practitioners, the size of the hospitals and the way in which the State and Commonwealth Governments have traditionally structured programs for health services. Some of the hospitals in rural areas are smaller than those in metropolitan areas which means that they cannot take advantage of the economies of scale which larger hospitals can. Traditionally, hospitals have tried to redress the problem of attracting and retaining medical practitioners in rural areas by remunerating the practitioners more generously than might occur in the metropolitan area, resulting in an increase in the costs of operating the hospital. The Minister advised that “we have provided for the first time a medical services grant of about $5 million to help those hospitals in remunerating medical practitioners”18.

The Minister advised the Committee that the way in which programs for health services are typically structured can impose narrow program barriers which restrict the way in which the funding can be spent. This then impacts on the costs of providing some services in rural areas. The Minister gave the example of only being able to use nursing home funding in a nursing home bed for an assessed nursing home patient19. In order to redress this issue the Government is trying to establish, through the Commonwealth Government, multipurpose service sites by using broadbanded funding. Also, the Government is implementing a new program of “health streams”20. The Government is inviting hospitals to participate in the new program which will provide greater flexibility in structuring services to meet the needs of the community.

**Recommendation 7.5**

The Committee recommends that the Department of Human Services continue to identify and implement strategies for overcoming the difficulty of attracting medical practitioners to rural areas.

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17 ibid page 12  
18 ibid page 10  
19 ibid page 11  
20 ibid page 11
7.6 Contracting out

One of the major reforms within the Victorian public sector has been outsourcing of services. Outsourcing involves contracting out to a private or public provider activities or services which were previously undertaken by the agency. The Department has been actively involved in this area. The Department has identified as one of its major tasks, in its restructuring process, outsourcing service delivery where services can be better provided externally. The Department has outsourced services ranging from catering and cleaning to the provision of acute health care services.

In its response to the Committee’s questionnaire, the Department recognised outsourcing as a method of delivering efficiently, effectively and economically the outputs for which the appropriations are made. In the area of acute health services, a strategy the Department has identified to ensure there is an incentive to perform, was fostering competition and private sector involvement through contestability, in particular through the tendering of services in the La Trobe Valley. In the area of mental health the Department is planning to outsource or mainstream most mental health services, generally to public hospitals. The Minister gave the Committee an example of a hospital which had introduced contestability in the area of catering and was able to obtain the service at a “substantially lower cost than the hospital had previously been paying”\(^\text{21}\), even though an in-house team won the contract.

The Committee notes that the actions identified and taken by the Department with respect to outsourcing services are in line with the recommendations of the Victorian Commission of Audit. In its report the Commission recommended that public hospital non-core services should be commercialised and subject to competitive tendering and benchmarking and that competition between private and public hospital services in metropolitan and larger provincial centres should be promoted\(^\text{22}\).

While the Department and the Minister have advised that outsourcing enables the delivery of services at a lower cost, one of the issues with outsourcing is the quality of services which will be provided by the new service provider. In relation to this the Minister was asked, at the estimates hearing, about the ongoing monitoring of contracts. The Minister advised that the contracts will specify the standards and that when a contract is let “all the normal contractual arrangements we have with public hospitals continue to apply”\(^\text{23}\). That is, the services must comply with government policy and the principles of Medicare. Monitoring of these contracts is done through the hospital or Health Care Network because the Department has a contract with them for the provision of services. The Minister also advised that it would be possible to benchmark between similar sized service providers.

The Committee believes that benchmarking and monitoring services which have been outsourced is vital for the success of the outsourcing process and encourages the Department to continue rigorously the ongoing monitoring of outsourced services.

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\(^{21}\) ibid page 30
\(^{23}\) Hon R Knowles, Minister for Health and Minister for Aged Care, Transcript of Evidence, 2 October 1996, page 30
Recommendation 7.6

The Committee recommends that the Department of Human Services continue to monitor services which have been contracted out to ensure the successful implementation of outsourcing strategies.

The Department's move to outsourcing services, combined with other reforms such as the formation of metropolitan Health Care Networks, has implications for the staffing resources of the Department. In its response to the Committee's questionnaire the Department identified that there would be further reductions in direct employment during 1996-97. The reductions would result from the transfer of Dental Health Services to Dental Health Services Victoria, the closure of Lakeside Psychiatric Hospital and further redevelopment or contracting out initiatives. The Minister advised the Committee that a precise number could not be given for the reduction in staff resulting from contracting out initiatives because "much of the work is yet to be done"²⁴.

The Department acknowledged that it is important to have appropriate infrastructure in the right place to ensure efficient service delivery²⁵. In order to achieve this a number of capital projects designed to meet the health needs of Victorians will commence during 1996-97. One will be developed by the private sector, the new Latrobe Regional Hospital.

The Minister advised that information about the closure of hospitals would be included in the Health Care Network's plans, and they would "set a clear strategic direction for the health system right into the next century"²⁶. A review of these plans confirmed that they contain information about the relocation of a number of hospitals.

Recommendation 7.7

It is recommended that the Department of Human Services continually monitor the health needs of the community to ensure the provision of appropriate services.

²⁴ ibid page 22
²⁵ Department of Human Services, Response to Questionnaire, September 1996, page 13
²⁶ Hon R Knowles, Minister for Health and Minister for Aged Care, Transcript of Evidence, 2 October 1996, page 20
Chapter 8

Department of Infrastructure
(Public Transport Program)

8.1 Introduction

The programs of the former Department of Transport were amalgamated with some programs from the former Department of Planning and Development to establish the Department of Infrastructure. The Department's responsibilities include: infrastructure investment planning; building; heritage; local government; major projects; strategic and statutory planning; ports; public transport; roads and transport regulation. The portfolio responsibilities are overseen by the Minister for Planning and Local Government, the Minister for Transport and the Minister for Roads and Ports. There are also a number of statutory and other bodies which are part of the Ministers' portfolio responsibilities including the Public Transport Corporation (PTC), Roads Corporation, Urban Land Authority and the Local Government Board.

The Department's responsibilities are spread over 16 programs, four of which are associated with public transport and remained substantially unchanged notwithstanding the restructure. The public transport related programs represent 37% of the new Department's total budget. In light of this and the topical nature of the public transport area the Committee invited the then Minister for Transport, Hon Alan Brown, to appear at an estimates hearing. Further comments in this chapter will relate to the evidence given by the Minister and analysis of the public transport related programs.

8.2 Budget Overview

The public transport related programs include those shown in the table below. Program 684 is administered by the Department of Infrastructure and its major objective is to ensure the provision of public transport services through contract arrangements with private contractors. The contracts cover services such as private bus operators, school bus operators, private railway operators and arrangements between Victoria and other States for XPT and the Overland services.

Programs 703, 704 and 705 are administered by the Public Transport Corporation. The major objective of program 703 is to provide administrative and financial support to the Corporation. The objectives of programs 704 and 705 are to develop, operate and maintain integrated passenger transport services and integrated public freight transport services respectively. The passenger transport services are provided through trains, trams and buses, while the freight services are mainly provided through rail services.

As shown in the table below, the public transport related programs were overspent in 1995-96 compared with the original 1995-96 estimates.
TABLE 8.1
Comparison of the estimated and actual outlays for 1995-96

<table>
<thead>
<tr>
<th>Program</th>
<th>1995-96 Estimate $'000</th>
<th>1995-96 Actual $'000</th>
<th>Increase $'000</th>
<th>Increase %</th>
</tr>
</thead>
<tbody>
<tr>
<td>684 Transport Services</td>
<td>280 939</td>
<td>315 537</td>
<td>34 598</td>
<td>12.3</td>
</tr>
<tr>
<td>Contracts</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>703 - Corporate Services</td>
<td>77 846</td>
<td>81 485</td>
<td>3 639</td>
<td>4.7</td>
</tr>
<tr>
<td>Public Transport</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>704 - Passenger Services</td>
<td>218 162</td>
<td>226 812</td>
<td>8 650</td>
<td>4.0</td>
</tr>
<tr>
<td>705 - Freight Services</td>
<td>38 847</td>
<td>46 357</td>
<td>7 510</td>
<td>19.3</td>
</tr>
</tbody>
</table>

Source: Budget Paper No. 3 1995-96 page 242 and Budget Paper No. 3 1996-97 page 113

The increase of $34.5 million in program 684 was required for an un budgeted “one-off” payment for bus subsidy arrears owing to some contracted bus operators. Increases in the other programs resulted mainly from wage increases due to wage award variations handed down after the September 1995 Budget.

The 1996-97 Budget Estimates show that spending on each of the public transport related programs, except for Passenger Services, is forecast to be less than the spending in the previous financial year. This is summarised in the table below.

TABLE 8.2
Comparison of 1995-96 actual outlays and 1996-97 estimates

<table>
<thead>
<tr>
<th>Program</th>
<th>1995-96 Actual $'000</th>
<th>1996-97 Estimate $'000</th>
<th>Variance $'000</th>
<th>Variance %</th>
</tr>
</thead>
<tbody>
<tr>
<td>684 Transport Services</td>
<td>315 537</td>
<td>298 994</td>
<td>-16 543</td>
<td>-5.2</td>
</tr>
<tr>
<td>Contracts</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>703 - Corporate Services</td>
<td>81 485</td>
<td>41 180</td>
<td>-40 305</td>
<td>-49.5</td>
</tr>
<tr>
<td>Public Transport</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>704 - Passenger Services</td>
<td>226 812</td>
<td>229 581</td>
<td>2 769</td>
<td>1.2</td>
</tr>
<tr>
<td>705 - Freight Services</td>
<td>46 357</td>
<td>43 454</td>
<td>-2 903</td>
<td>-6.3</td>
</tr>
</tbody>
</table>

Source: constructed based on information in Budget Paper No. 3, 1996-97 page 113

The most significant reduction is in the Corporate Services - Public Transport Program where spending is estimated to decrease by $40.3 million or 49.5%. This is attributed to the carry-over of savings from a reduction in staff during 1995-96 and the impact of various one-off items during 1995-96, such as rental compensation. Also during 1995-96 the PTC substantially completed some of its major projects and savings were realised on some works and services. The increase in the Passenger Services Program is mainly attributed to increased employer superannuation contributions and an increased capital charge. Estimated spending for freight services shows a decrease compared with the actual spending for 1995-96. This is due to reductions in works and services spending through the completion of major works on standardising rail lines. The reduction in the transport services contract costs are the result of a one-off payment in 1995-96 to private bus operators in respect of bus subsidy arrears.
8.3 Public transport budget savings

In 1993 the Government set the Public Transport Corporation a target of achieving per annum savings of $245 million by June 1996. This target was to be achieved through major reforms set out in the Transport Reform Agreement. The Minister for Transport advised the Committee that "through the combination of improved patronage and efficiency measures driven by the transport reforms the financial drain on the taxpayers has been reversed and savings of $245 million have been achieved." The measures which have contributed to the savings include the reduction in staff numbers, the elimination of archaic work practices and the outsourcing of non-core functions.

Since the target was set in 1993 the PTC has significantly reduced its expenditure and its staff numbers. The PTC reported in its 1996 Annual Report that over the period 1992-93 to 1995-96 staff numbers have decreased by 9,210. In response to the Committee’s questionnaire, the Department/PTC advised that staff numbers would be reduced by a further 500 to 9,004 by 30 June 1997. This is a significant decrease from the 18,500 staff which the PTC employed at 30 June 1992. The Minister informed the Committee that reduction of the further 500 staff would be a mix involving both voluntary redundancy packages and normal attrition.

In the same period the PTC’s operating expenditure decreased from $1,677 million to $918 million. As a consequence, the amount of funding received from the government has also decreased. As shown in the table below actual outlays from the Government’s budget for the transport related programs have decreased since 1992-93.

<table>
<thead>
<tr>
<th>TABLE 8.3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actual outlays</td>
</tr>
<tr>
<td>$'000</td>
</tr>
<tr>
<td>684 - Transport Services Contracts</td>
</tr>
<tr>
<td>703 - Corporate Services Public Transport</td>
</tr>
<tr>
<td>704 - Passenger Services</td>
</tr>
<tr>
<td>705 - Freight Services</td>
</tr>
<tr>
<td>Total</td>
</tr>
<tr>
<td>* program only commenced in 1993-94</td>
</tr>
</tbody>
</table>

8.3.1 Automated ticketing

One of the major initiatives set out in the Transport Reform Agreement which has not yet been fully implemented is the Automated Ticketing System (ATS). The ATS involves the operation of automated ticket dispensers and validation machines on all trams, buses and railway stations. The savings from the ATS are expected to come from a combination of more effective operations through the use of advanced technology, the reduction in the number of staff required to sell and check tickets and a reduction in fare

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1 Hon A Brown, Minister for Transport, Transcript of Evidence, 27 November 1996, page 119
evasion. The successful tenderer for the ATS, the Onelink Consortium, was announced in September 1993.

In his Report on the Statement of Financial Operations, 1995-96, the Auditor-General commented on the delays that have occurred in the implementation of the ATS. The service agreement between PTC and the Onelink Consortium comprised a number of milestones which were to be met by the consortium including:

- prototypes of the ticket dispensers and validation machines to be delivered by December 1994; and
- the system to be fully commissioned across the entire transport system by February 1996.

The consortium was unable to meet these milestones and in April 1995 the Government renegotiated with the consortium to reschedule the delivery of the prototype machines. In September 1995 the PTC and the consortium entered into a collateral agreement to allow the consortium to be able to deliver a fully commissioned pilot system by November 1996. The Minister informed the Committee that the collateral agreement also included a number of milestones which, at the time of the estimates hearing, had not been fully met.

At the hearing the Minister for Transport said "We have automated ticketing in Melbourne now. It has been in place for quite some time and we have been trying it... The system is there in place. Phase one is actually installed, but we have not signed it off. It has to be entirely to our satisfaction and at our time of choosing when we do."\(^2\)

The Minister explained that the impediment to signing off was that the system was not entirely satisfactory because of teething problems. These problems were considered to be minor, however, the Minister indicated that it would be towards the end of 1997 before the ATS was completed. Based on the Minister’s estimated completion date there will be a delay of approximately 22 months in the implementation of the ATS compared with the completion date in the original contract.

The Auditor-General noted in the Report on the Statement of Financial Operations 1995-96 that although the terms of the service agreement allowed for the payment of penalties for delays in the implementation, at the date of preparing his report (October 1996) no penalties had been paid by the consortium to the PTC\(^3\). One of the milestones included in the collateral agreement was that “roll-out acceptance testing”, including the installation of the ATS and the successful completion of the system acceptance, would be completed by September 1996.

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**Recommendation 8.1**

The Committee is concerned by the lengthy delays in implementing the automated ticketing system and recommends that the Department of Infrastructure take appropriate action to facilitate the full commissioning of the automated ticketing system as soon as possible.

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\(^2\) ibid page 130

Recommendation 8.2
The Committee recommends that the Government consider whatever rights it may have for seeking redress for the late implementation of the automated ticketing system.

8.4 Public Transport Corporation passenger revenue

Another factor which has contributed to the PTC reducing its call on Government funding is the increase in its revenue collections. As shown in the table below total passenger revenue has been increasing since 1993-94.

**TABLE 8.4**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Metropolitan</td>
<td>$226,077</td>
<td>$235,088</td>
<td>$244,516</td>
</tr>
<tr>
<td>Country</td>
<td>$26,213</td>
<td>$29,699</td>
<td>$31,141</td>
</tr>
<tr>
<td>Interstate</td>
<td>$12,827</td>
<td>$7,832</td>
<td>$3,742</td>
</tr>
<tr>
<td>Contribution for fare concessions*</td>
<td>$49,564</td>
<td>$53,543</td>
<td>$55,623</td>
</tr>
<tr>
<td>Trading and catering</td>
<td>$5,626</td>
<td>$5,274</td>
<td>$5,819</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$320,307</strong></td>
<td><strong>$331,436</strong></td>
<td><strong>$340,841</strong></td>
</tr>
</tbody>
</table>

*Source: constructed from information in the PTC Annual Report 1995 and 1996*

*concession reimbursements from the Departments of Education and Human Services*

The Minister advised the Committee that the increase in passenger revenue has been attributed to an increase in patronage. The Minister said at the estimates hearing “Both of the past financial years have seen patronage increases of around 4%... Obviously when you get that sort of increase in patronage you get an increase in revenue.”⁴ The reasons for the increase according to the Minister is that people perceive that the systems are better and that “they feel comfortable using services that they know are going to be on time; they like to deal with staff who are responsive to their needs”⁵. The Minister also indicated that the PTC is doing all it can to ensure that the patronage increase continues. The Committee notes that the PTC has estimated that passenger revenue will increase to $351.5 million in the 1996-97 financial year.

As shown below, for the three year period 1993-94 to 1995-96 patronage has increased for metropolitan train and tram services and country passenger services, while patronage for metropolitan bus services decreased in 1994-95 due to the contracting out of a number of bus services and increased by approximately 6% in 1995-96.

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⁴ Hon A Brown, Minister for Transport, Transcript of Evidence, 27 November 1996, page 121
⁵ ibid page 121
TABLE 8.5
PTC Passengers (thousands)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Metropolitan Trains</td>
<td>100 955</td>
<td>105 360</td>
<td>109 239</td>
</tr>
<tr>
<td>Metropolitan Trams</td>
<td>104 037</td>
<td>108 851</td>
<td>114 142</td>
</tr>
<tr>
<td>Metropolitan Buses*</td>
<td>13 577</td>
<td>5 738</td>
<td>6 102</td>
</tr>
<tr>
<td>Country Services</td>
<td>6 516</td>
<td>6 712</td>
<td>7 016</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>225 085</strong></td>
<td><strong>226 661</strong></td>
<td><strong>236 499</strong></td>
</tr>
</tbody>
</table>

* The decrease in metropolitan bus passengers is due to contracting of a number of bus services previously operated by the PTC to the National Bus Company.

The increase in patronage has been linked to improved service delivery and customer services. The Committee notes that the PTC has reported that in 1995-96 it delivered more than 98.7% of all its metropolitan passenger services and more than 99.3% of all its country passenger services with more than 86.7% of the metropolitan services running “on time” (that is within 5 minutes of schedule) and more than 96.1% of the country passenger services running on time. Customer services have been improved through initiatives such as friendlier and better trained staff, less industrial disputes, introducing the city circle tram, scheduling sprinter trains and improvements to the safety and appearance of railway stations.

As Table 8.4 reveals, while the revenue from metropolitan and country passengers and contributions for fare concessions has been increasing over the three year period, revenue from interstate passengers has decreased over the same period. The Minister explained that there are now single-management corridor agreements between Victoria and New South Wales and South Australia. Consequently, in 1995-96 the PTC did not account for passenger revenue for travel on Melbourne to Sydney XPT trains, but rather brought to account revenue from fees for services provided, for example train crewing and infrastructure maintenance. With regard to the Overland, agreement has not been reached on corridor management so the PTC brought revenue and expenditure to account in 1995-96 in the same manner as previous years, that is, revenue and expenditure were split based on track distances in each State.

8.5 Valuation of assets

As mentioned earlier in this report the Committee has endorsed the implementation of accrual accounting. One of the major challenges identified by the Committee in its Final Report on the State’s Budget and Financial Management Framework was assigning values to assets. This is an issue faced by the PTC in the preparation of its financial statements. The PTC is the owner of $4 344 million worth of non-current/physical assets. This includes land valued at $1 183 million, public transport infrastructure valued at $1 384 million and operating vehicles valued at $1 020 million. The Committee notes that the basis for the valuation of assets varies from 1984 to 1996 valuations. The Committee raised the issue of the valuation of assets at the estimates hearing with the Minister for Transport. In response it was indicated that the PTC and

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*ibid* page 41
the Minister are aware of the issue and that due to the proposed restructure of the PTC it was decided not to revalue the assets now.

The reporting of non-current assets in accrual accounts is a generally accepted accounting principle and also a mandatory requirement of the applicable Australian Accounting Standards with which most reporting entities accord. Financial statements are generally prepared on a historical cost basis, this means that assets are initially recorded at cost less a depreciation charge. The revaluation of assets is permitted under Australian Accounting Standard AAS 10, where it is recognised that financial statements should provide relevant information to the users of the financial statements. Neither this standard nor any other standard prescribes on what basis assets should be valued, it does however require that the assets should be not be valued at more than their recoverable value. AAS 10 does set out the details which need to be disclosed when assets are revalued, including the date of the revaluation and the basis of the revaluation.

On the basis of this standard the information provided by the PTC on its assets is acceptable. The main issue is whether the inclusion of assets with such varying valuation dates in the annual report will be of use. Given that more than 12 years has elapsed since the valuation of some of the assets the Committee is of the opinion that some assets may need to be revalued to bring them to their current value. This was acknowledged by the Deputy Secretary, Contracts, Regulation and Compliance Services, who advised the Committee that, based on a preliminary estimate, the costs of the revaluation would be "upwards of a million dollars". The Committee was also advised that the PTC is proposing to segment its business and create stand-alone, corporatised business entities. Given these two factors the PTC has decided to defer the revaluation of assets until the new business entities are established and to make the revaluation of assets one of the tasks of the new entities. The Committee supports the action being taken by the PTC in respect of the revaluation of its assets and encourages the PTC to make the revaluation a key priority of the new businesses.

Another difficulty in relation to the valuation of the transport assets was discussed by the Minister for Finance at an estimates hearing. The difficulty arises because of the nature of those assets, that is, many of the assets are unused rail reserves. The Minister noted that "there will be enormous debate as to how they should be used, what they should be used for and how they should be valued". The problem is aggravated by the fact that in some cases the land bisects commercial farming properties, the cost of fencing and extent of management of pest plants needs to be taken into account and the costs of returning land, with the remnants of bridges and line on it, to productive land.

**Recommendation 8.3**

The Committee recommends that the resolution of the outstanding issues in relation to the valuation of public transport assets be given priority to ensure that the revaluation of assets is completed as quickly as possible.

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Footnotes:

8 Hon A Brown, Minister for Transport, Transcript of Evidence, 27 November 1996, page 132

9 Hon R Hallam, Minister for Finance and Minister for Gaming, Transcript of Evidence, 6 November 1996, page 62
8.6 Contracting out

For a number of years the PTC and the Department have been contracting out services ranging from internal audit and information technology services to the provision of passenger services. Under program 684 - Transport Services Contracts, the Department expended in excess of $315 million for the purchase of services from contractors. This includes private bus services from the National Bus Company and other bus companies, country passenger services from Hoys and West Cost Rail and school bus services from a number of different providers. The Minister advised the Committee that "By far the best way of getting an assurance of value for money for taxpayers is to put a service up for tender"\(^{10}\).

In the past bus services were provided by a number of contractors and PTC staff. As part of the Transport Reform Agreement, the former Department of Transport decided to call for tenders for those bus services which were being provided by internal resources. The Department went through a competitive tendering process and the majority of the services were won by the National Bus Company. The remaining services were won by PTC staff who had formed a team and submitted an in-house bid. The Minister advised the Committee that the services won by the private company have been redesigned by the company and that there is "a dramatic improvement in service over what it was ... at a cost saving of more than $10 million to the taxpayer"\(^{11}\).

Also subject to contracting out are the public transport workshops. These workshops, located throughout the State, provide heavy machinery for maintenance of public transport vehicles. In May 1992, the Auditor-General commented in his Report on Ministerial Portfolios that substantial scope existed for the PTC to achieve further improvements in the efficiency of practices and procedures within workshops.\(^{12}\) Due to changes in work practices and the requirement for introducing more competition into the system, the future of the workshops was not certain\(^{13}\). In respect of the Bendigo workshop, expressions of interest were called for from private enterprise to take over the operations of the workshop on the basis that the new operator could introduce other work. A private company, Gonninans, won the tender and the workshop was able to survive and continues to provide services to the PTC and other organisations, "at much less cost to the taxpayer"\(^{14}\). The Minister advised the Committee that the Ballarat workshop is in the same position as the Bendigo workshop.

Recommendation 8.4

The Committee recommends that the Department of Infrastructure continually review the provision of public transport services to ensure that the most cost-effective means are implemented.

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\(^{10}\) Hon A Brown, Minister for Transport, Transcript of Evidence, 27 November 1996, page 140

\(^{11}\) ibid page 150


\(^{13}\) Hon A Brown, Minister for Transport, Transcript of Evidence, 27 November 1996, page 144

\(^{14}\) ibid page 142
APPENDIX ONE

PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

ESTIMATES QUESTIONNAIRE 1996-97

NOTE: If any information sought in the questions below is provided elsewhere in the Budget documents, departments may abbreviate their responses by cross-referencing them to those documents.

General

1.

(a) Please provide an overview of the key strategies to be put in place to achieve the objectives and output measures set out in the 1996-97 Budget Estimates (Budget Paper No. 3) and a copy of your Department's corporate plan (unless previously provided and unchanged).

(b) Please provide a copy of the Department's organisational chart, including statutory authorities and other bodies (unless previously provided and unchanged).

2.

List up to five significant issues which the Department has identified in its planning and describe how these are being addressed by the Department in the coming year.

[In this context, a significant issue can be any matter affecting the Department, whether it arises from the external environment, or internally, or as a result of new policy or legislation.]

Performance

3. How will the Department maintain and enhance its capability to produce efficiently, effectively and economically the OUTPUTS for which appropriations are being made? For example, in

- financial management
- asset management
- information management
- human-resource management
4. Has the Department introduced new performance measures to evaluate the efficiency and effectiveness of departmental performance in 1996-97?

[If so, please provide details.]

5. **Revenue**

   (a) Please provide on a **sub-program** basis:

   (i) a brief description of all revenue sources within your Department;

   (ii) fund(s) to which monies received are paid;

   (iii) % variances between **1995-96** estimated and actual revenue and **1996-97** estimated revenue; and

   (iv) succinct explanation for each significant variance reported under (iii) above.

6. **Annual Productivity Savings**

   (a) Please provide, for **1996/97**:

   (i) your Department's discretionary recurrent expenditure base (DEB);

   (ii) a list of non-discretionary recurrent expenditure, with itemised dollar values;

   (iii) annual productivity gains incorporated in the **1996-97** Budget, with an itemised list of exemptions, retentions and redeployments (including dollar values, brief explanations for each and whether such individual items are included or excluded from the Department's figure for annual productivity gains); and

   (iv) productivity savings disaggregated by sub-program, with quality of service comments based where possible on performance indicator data, and a description of the nature of the particular saving or how it is to be achieved.

7. **Staffing Movements**

   (a) Please provide on a **sub-program** basis details of staffing as at **30 June 1996** (actual) and **30 June 1997** (estimate).
8. **Performance Indicators/Output measures**

(a) Please provide on a sub-program basis:

(i) a listing of all key performance indicators/output measures used by the department, including actual 1995-96 and estimated 1996-97.

(ii) a brief explanation of causes of changes in actual 1995-96 and estimated 1996-97 performance;

(iii) a listing of benchmarks (where developed);

(iv) explanation of variations between estimated 1996-97 performance and available benchmarks (where developed); and

(v) if benchmarks have not been developed, please outline progress in identifying benchmarks and when they will be available.

(vi) details of how outcomes will be assessed.

9. **Outlays**

(a) Please provide on a sub-program basis:

(i) the composition of 1995-96 actual outlays and 1996-97 estimated outlays (in a format similar to that provided in Budget Paper 3 for program outlays);

(ii) % variances between 1995-96 actual outlays and 1996-97 estimated outlays; and

(iii) succinct explanation for each significant variance reported under (ii) above.

10. **Progress in the implementation of accrual based financial management**

(a) Please provide an overview of progress in preparing annual accrual based financial statements for your department, (in particular please nominate the financial year your department will issue complete accrual based financial statements, that is including valuations for all assets etc.)

(b) Please advise any key impediments to the preparation of accrual based financial statements, for example related to information systems, accounting skills etc); and

(c) Please overview those benefits currently being realised from the use of accrual based accounting information for management purposes and, secondly, future benefits anticipated to arise from the use of accrual based accounting information?

**Chief Finance Officer**

11. At what level is the Chief Finance Officer (or equivalent position) in your Department and where does that officer fit into the organisational structure?
## APPENDIX TWO

### ACRONYMS AND ABBREVIATIONS

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<th>Description</th>
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<tr>
<td>AAS</td>
<td>Australian Accounting Standard</td>
</tr>
<tr>
<td>ATS</td>
<td>Automated Ticketing System</td>
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<tr>
<td>COAG</td>
<td>Council of Australian Governments</td>
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<tr>
<td>CPI</td>
<td>Consumer Price Index</td>
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<tr>
<td>GSP</td>
<td>Gross State Product</td>
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<tr>
<td>PTC</td>
<td>Public Transport Corporation</td>
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<td>TAFE</td>
<td>Technical and Further Education</td>
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<td>VCE</td>
<td>Victorian Certificate of Education</td>
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## APPENDIX THREE

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LIST OF PERSONS OR ORGANISATIONS PROVIDING SUBMISSIONS/EVIDENCE

Evidence

Department of Human Services - 2 October 1996
Hon. Mr R. Knowles, Minister for Health and Minister for Aged Care; Mr W. McCann, Secretary. Human Services; Dr M. Walsh, Director Acute Health Services; Mr A. Clayton, Director, Resources; Ms J. Williams, Director, Psychiatric Services; and Mr J. Hayes, Assistant Director, Financial Services, Department of Human Services.

Department of Treasury and Finance - 6 November 1996
Hon. Mr A. Stockdale, Treasurer; Hon. Mr R. Hallam, Minister for Finance and Minister for Gaming; Mr F. King, Deputy Secretary, Budget and Resource Management; Mr R. Paice, Deputy Secretary Financial Management, Department of Treasury and Finance.

Department of Education - 22 November 1996
Hon. Mr P. Gude, Minister for Education; Mr G. Spring, Secretary, Mr P. Allen, Deputy Secretary, Mr F. Peck, Deputy Secretary, Office of Strategic Planning and Administrative Services; Mr I. Hind, Acting General Manager, Strategic Planning Project Development and Evaluation Division; and Mr D. Hudson, Project Officer, Department of Education.

Department of Infrastructure - 27 November 1996
Hon. Mr A. Brown, Minister for Transport; and Mr J. McMillan, Deputy Secretary, Contract, Regulation and Compliance Division, Department of Infrastructure.

Submissions

The following Departments responded to the Committee's annual estimates questionnaire:
Education;
Human Services;
Infrastructure;
Justice;
Natural Resources and Environment;
Premier and Cabinet;
State Development; and
Treasury and Finance.

In addition some departments provided further information upon request by the Committee.