Report on
the 1997-98
Budget
Estimates

Report on the 1997-98 Budget Estimates
PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

TWENTY THIRD REPORT TO PARLIAMENT

REPORT ON THE 1997-98 BUDGET ESTIMATES

DECEMBER 1997

Ordered to be printed

VICTORIAN GOVERNMENT PRINTER
1997

No. 58 Session 1996-97
Public Accounts and Estimates Committee

Members

Hon. W Forwood, MLC (Chairman)
Hon. A J Sheehan, MP (Deputy Chairman)
Hon. R A Best, MLC
Mr S P Bracks, MP
Mr R J Hulls, MP
Hon. N B Lucas, MLC
Mr S J McArthur, MP
Hon. T C Theophanous, MLC
Mr K A Wells, MP

For this inquiry, the Committee was supported by a secretariat comprising:

Ms M Cornwell, Executive Officer
Mr R Szpak, on secondment from the Victorian Auditor-General’s Office
Ms F Essaber, Office Manager

The Committee thanks Professor Peter Wolnizer and Professor Gary Carnegie from the Faculty of Business Law, Deakin University for their advice on the presentation of the Budget Papers.

The Committee’s address is - Level 8
35 Spring Street
Melbourne Victoria 3000

Telephone enquiries - (03) 9651 3556

Facsimile - (03) 9651 3552

Email - paec@parliament.vic.gov.au

Internet - http://www.vicnet.net.au/~paec
Duties of the Committee

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

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 enquire into, consider and report to the Parliament on:

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

b) the annual estimates or receipts and payments and other budget papers and supplementary estimates of receipts or payments presented to the Assembly and the Council;

if the Committee is required or permitted to do under the Act.
Glossary

Commonwealth grants:
Amounts received from the Commonwealth for capital outlays (construction/acquisition of fixed assets) or current outlays (such as wages and salaries). Grants from the Commonwealth may be general or specific purpose and are underpinned by formal funding arrangements normally pursuant to legislation.

Competitive neutrality:
The principle that departments and other agencies, not only government business enterprises, should not enjoy any net competitive advantage or disadvantage by virtue of government ownership.

Full cost:
Represents the total costs of all resources used in the provision of a service. Full cost comprises both direct costs e.g. wages and salaries and indirect costs e.g. rentals, electricity.

“Headline” budget surplus/deficit:
The budget sector surplus/(deficit) prepared on a cash basis and including anticipated privatisation proceeds for the budget year.

Revenues:
In the budgetary context, revenues are amounts received by departments other than Commonwealth grants. Revenues are accounted for on a cash basis and include such items as taxes, fines and fees, and public authority distributions.

Outcomes:
Measurable consequences of a program's outputs, impacts on the client or the public, and the results of the outputs (examples: reduction in fatal road accidents through stricter enforcement of speeding regulations; number of citizens who enjoy improved health and a better quality of life because of early cancer detection. Outcome may be immediate, ultimate or somewhere between.

Outlays:
Represent a broad measure of expenditure, which includes transfer payments (such as interest, subsidies, grants and personal benefit payments) as well as expenditure on wages and salaries and purchases of goods and services.

Output Groups:
For purposes of budgeting and reporting, individual outputs for services are grouped together to reflect the manner in which departments have sought to achieve government objectives.
Outputs:
Measurable direct results of activities, such as products or services provided (examples: percent of students who graduate from high school; number of tickets issued for speeding).

"Sustainable planning" budget surplus/(deficit):
The "underlying" budget surplus/deficit is adjusted for both the impact of privatisation and other non-recurring items, and is presented for the budget year and the following three years.

"Underlying" budget surplus/(deficit):
The "headline" budget surplus/deficit is adjusted for the impact of privatisation.

Whole of Government:
This term covers both budget sector departments and agencies which might form the substantial part of the State’s Annual Financial Statement. In respect of the latter, local government, universities and some other agencies are excluded.
# Table of Contents

Committee Membership ......................................................... i
Duties of the Committee ...................................................... iii
Glossary ........................................................................ iv
Chairman's Introduction ...................................................... xi
Executive Summary ............................................................... xiii
Recommendations ............................................................... xix

## Chapter 1  Introduction

- Committee background ................................................... 1
- Objectives of the analysis of the budget estimates process ....... 1
- Process followed by the Committee ................................... 1
- Review of the estimates process ....................................... 2
- Legislative requirements - Responses to Committee reports ... 3

## Chapter 2  Quality of Financial and Other Information

- Background ....................................................................... 5
- Evaluation of corporate and business plans ....................... 6
  - Need for planning ....................................................... 6
  - Availability of departmental corporate and business plans... 7
- Form and content of annual reports .................................. 8
- Analysis of budget papers ............................................... 9
  - Introduction ................................................................ 9
  - Composition of budget papers ..................................... 11
  - Annual Financial Statements ........................................ 12
  - Budget strategy, priorities and benchmarking ................. 12
  - Budget estimates and outcomes .................................. 14
  - Information content of Budget Paper No. 3 Budget Estimates15
  - Output groups and measures ....................................... 18
  - Transparency of departmental performance .................. 19
  - Understanding the terminology .................................... 20
  - Interim reporting ....................................................... 20
- Public accountability issues .............................................. 21

## Chapter 3  Budget Overview

- Overview of the 1997-98 budget estimates ......................... 23
  - Overall position ....................................................... 23
  - Revenue levels ......................................................... 25
  - Departmental outlays ................................................ 25
Chapter 4 Parliamentary Departments

Introduction
Budget overview
Key issues facing Parliamentary Departments
  Impact of productivity dividend on the provision of services
  Use of information technology
  Changes to the Department of Parliamentary Services
Funding arrangements for the Parliament and Parliamentary Committees
  Parliament
  Parliamentary Committees

Chapter 5 Department of Treasury and Finance

Introduction
Budget overview
Key issues facing the Department
  Output based accrual budget system and financial management framework
  Energy industry reform
    Electricity reform
    Gas reform
  Public sector infrastructure and services reform
  Tax reform
Gambling Taxes
  Application of taxes collected
  Review of casino operations
Whole of government issues
  Asset management - recording and reporting
  Unfunded superannuation liabilities
  Contingent liabilities

Chapter 6 Department of Education

Introduction
Budget overview
Key issues facing the Department
  Commonwealth-State funding arrangements
  Information technology and multimedia
  Vocational Education and Training (VET) in schools
  Schools of the Future Program - Consolidation
Managing school operations
  Monitoring school performance
  Performance pay for principals
  Greater autonomy for schools
  Retention rates within the school system
Dealing with the maintenance backlog  
Tertiary and Further Education  
Amalgamation of TAFE colleges and universities  
Global outlook for universities

Chapter 7  
**Department of Human Services**

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Introduction</td>
<td>71</td>
</tr>
<tr>
<td>Budget Overview</td>
<td>72</td>
</tr>
<tr>
<td>Key issues facing the Department</td>
<td>74</td>
</tr>
<tr>
<td>Commonwealth-State financial relations</td>
<td>74</td>
</tr>
<tr>
<td>Demand related funding</td>
<td>74</td>
</tr>
<tr>
<td>Restructuring of the Department and redevelopment of services</td>
<td>75</td>
</tr>
<tr>
<td>Performance measurement</td>
<td>75</td>
</tr>
<tr>
<td>Strategic planning</td>
<td>76</td>
</tr>
<tr>
<td>Impact of metropolitan healthcare networks</td>
<td>77</td>
</tr>
<tr>
<td>Privately funded public hospitals</td>
<td>77</td>
</tr>
<tr>
<td>Services for rural Victorians</td>
<td>78</td>
</tr>
<tr>
<td>Healthstreams</td>
<td>78</td>
</tr>
<tr>
<td>Shortage of health professionals</td>
<td>78</td>
</tr>
<tr>
<td>Intergraph</td>
<td>79</td>
</tr>
<tr>
<td>Disability care and support services</td>
<td>81</td>
</tr>
<tr>
<td>Funding levels</td>
<td>81</td>
</tr>
<tr>
<td>Renewal of Commonwealth-State Disability Services Agreement</td>
<td>82</td>
</tr>
<tr>
<td>Disability aids and deinstitutionalisation of disabled persons</td>
<td>83</td>
</tr>
<tr>
<td>Other matters raised during estimates process</td>
<td>83</td>
</tr>
<tr>
<td>Quality of nursing within the health sector</td>
<td>83</td>
</tr>
<tr>
<td>Privatisation of occupational health service at the Peter MacCallum Cancer Institute</td>
<td>84</td>
</tr>
<tr>
<td>Child protection workers</td>
<td>84</td>
</tr>
</tbody>
</table>

Chapter 8  
**Department of Infrastructure**

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Introduction</td>
<td>87</td>
</tr>
<tr>
<td>Budget overview</td>
<td>88</td>
</tr>
<tr>
<td>Key issues facing the Department</td>
<td>92</td>
</tr>
<tr>
<td>Disaggregation of the Public Transport Corporation</td>
<td>92</td>
</tr>
<tr>
<td>Current status of automated ticketing system</td>
<td>93</td>
</tr>
<tr>
<td>Performance measurement</td>
<td>95</td>
</tr>
</tbody>
</table>

Chapter 9  
**Department of State Development**

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Introduction</td>
<td>99</td>
</tr>
<tr>
<td>Budget overview</td>
<td>100</td>
</tr>
<tr>
<td>Key issues facing Department</td>
<td>101</td>
</tr>
<tr>
<td>Industry Policy - Potential impact of the Mortimer report</td>
<td>102</td>
</tr>
<tr>
<td>The Year 2000 problem - Dealing with the “millennium bug”</td>
<td>103</td>
</tr>
<tr>
<td>Chapter</td>
<td>Department</td>
</tr>
<tr>
<td>---------</td>
<td>-----------------------------------</td>
</tr>
<tr>
<td>10</td>
<td>Department of Justice</td>
</tr>
<tr>
<td></td>
<td>Introduction</td>
</tr>
<tr>
<td></td>
<td>Budget overview</td>
</tr>
<tr>
<td></td>
<td>Key issues facing the Department</td>
</tr>
<tr>
<td></td>
<td>Privatisation of prisons</td>
</tr>
<tr>
<td></td>
<td>Implementing management, drug, fire and emergency services reforms</td>
</tr>
<tr>
<td></td>
<td>Performance measurement</td>
</tr>
<tr>
<td>11</td>
<td>Department of Premier and Cabinet</td>
</tr>
<tr>
<td></td>
<td>Introduction</td>
</tr>
<tr>
<td></td>
<td>Budget overview</td>
</tr>
<tr>
<td></td>
<td>Key issues facing Department</td>
</tr>
<tr>
<td></td>
<td>Capital projects within the Arts area</td>
</tr>
<tr>
<td></td>
<td>Ombudsman - increased workload</td>
</tr>
<tr>
<td></td>
<td>Community Support Fund Disbursements</td>
</tr>
<tr>
<td>12</td>
<td>Department of Natural Resources and Environment</td>
</tr>
<tr>
<td></td>
<td>Introduction</td>
</tr>
<tr>
<td></td>
<td>Budget overview</td>
</tr>
<tr>
<td></td>
<td>Key issues facing the Department</td>
</tr>
<tr>
<td></td>
<td>Involvement in the National Heritage Trust</td>
</tr>
<tr>
<td></td>
<td>Impact of National Competition Policy</td>
</tr>
<tr>
<td></td>
<td>MINORITY REPORT FROM MESSRS BRACKS, HULLS, SHEEHAN AND THEOPHANOUS</td>
</tr>
<tr>
<td></td>
<td>Survey of the estimates scrutiny process in other Parliaments in Australia</td>
</tr>
<tr>
<td></td>
<td>Extract from the Minutes of Proceedings</td>
</tr>
<tr>
<td>Appendix</td>
<td></td>
</tr>
<tr>
<td>1.</td>
<td>Public Accounts and Estimates Committee - Estimates Questionnaire 1997-98</td>
</tr>
<tr>
<td>2.</td>
<td>Acronyms and abbreviations</td>
</tr>
<tr>
<td>3.</td>
<td>List of persons and departments providing submissions or evidence</td>
</tr>
</tbody>
</table>
Chairman's Introduction

This report is the result of the Committee's review of the budget estimates of expenditure for 1997-98. It represents the most comprehensive review of departmental expenditure and performance yet undertaken by the Public Accounts and Estimates Committee or its predecessors. Nine ministerial portfolios and the five parliamentary departments were examined by the Committee at public hearings.

Based on the principles of openness and accountability, this report is intended to provide the Parliament with important information about the operation and performance of government programs.

After reviewing information provided to the Committee in the Budget Papers, departmental annual reports, corporate and business plans and questioning Ministers and senior departmental officers, the Committee has a greater appreciation of the significant changes that are occurring in the management and delivery of services, which represent a major shift from the way governments have traditionally operated.

Underpinning this process is a financial management reform program which is fundamentally changing the way government services are planned, delivered, monitored and reported. While the Committee fully supports the initiatives that have already been implemented as part of this reform process, we are keen to see a financial reporting and accountability framework that will focus on organisational and program results and for this information to be provided to the Parliament and the community.

Many of the recommendations contained in this report are intended to help generate a new momentum in the development of a comprehensive financial reporting process.

From the Committee's point of view, one of the key issues to be addressed with the introduction of an accrual budget in 1998-99 is the nature of the budget documentation to be produced as part of the new system. It is our view that the Appropriation Bills, the Budget Papers and the corporate and business plans and annual reports of agencies should be linked. As these documents are crucial elements of the State's system of financial control and administration, the Committee is keen for them to be presented as a cohesive and integrated set of information. A major focus of the Committee's report is how this could be achieved.

The Committee is keen to work with the Department of Treasury and Finance to ensure that a parliamentary perspective is considered in developing budget documentation that is informative, consistent and useful. The Committee has made a number of recommendations which are intended to enhance the presentation of, and the information in, the Budget Papers.
Over the course of this review we have been assisted by many people. On behalf of the Committee, I would like to express our appreciation to the Presiding Officers and Ministers for their assistance during the hearings. The Committee also thanks departmental officials for their attendance and cooperation in answering questions, and for providing detailed written responses to the Committee’s questionnaire. The Committee also wishes to record its appreciation for the excellent research support provided by Remy Szpak, an officer on secondment from the Victorian Auditor-General’s Office. As usual, the Executive Officer, Michele Cornwell, and the Office Manager, Frances Essaber, provided sterling support to the Committee and I thank them very much.

I believe this is an excellent report which will greatly enhance Members’ understanding of the operations of Government.

I commend the report for consideration.

Bill Forwood  
Chairman
Executive Summary

Chapter 1  Introduction

Analysis by the Public Accounts and Estimates Committee of the 1997-98 Budget Papers was undertaken using information provided by departments in response to a questionnaire and reviewing corporate and business papers, departmental annual reports and evidence given at public hearings attended by Ministers and the Presiding Officers of the Parliament and senior departmental officers in May and June 1997.

For the 1997-98 estimates process, the Committee has confined its review to a comparison of the 1997-98 budget figures with the initial (September 1996) and revised (April 1997) budget figures. No analysis was undertaken by the Committee of actual figures for the 1996-97 financial year.

The 1998-99 estimates process will deal with the outcomes of the 1997-98 budget (cash basis) and the estimates of expenditure for 1998-99 (accrual basis).

To maintain credibility in the parliamentary inquiry process, it is essential that government responses to the Committee’s reports are both timely and meaningful. The Committee acknowledges the general acceptance by departments of the recommendations of the Committee’s Report on the 1996-97 Budget Estimates and 1995-96 Budget Outcomes. The response, coordinated by the Department of Treasury and Finance, was provided within the mandated six month period.

The Committee will be making a number of changes to the estimates process for 1998-99. These include:

- all departments will be examined at public hearings on aspects of their estimates of expenditure;
- new procedures to permit questions to be taken on notice at the conclusion of the hearings with departments to respond within three weeks;
- flexible time allocations for portfolios; and
- the Committee’s report will be tabled, if possible, during the same session in which the State Budget is considered.

Chapter 2  Quality of Financial and Other Information

Over recent years, there have been a number of initiatives impacting on the nature and extent of the budget information provided to the Parliament. These include the introduction of global appropriations, the adoption of accrual accounting by departments and the move from program to output group formats for budgeting and reporting purposes.

While the Committee welcomes these improvements, it is now concerned to increase the amount of meaningful performance information provided to the Parliament which will enable comparisons to be made between what departments intend to achieve and what is actually achieved.
The corporate and business plans made available to the Committee during the estimates process varied from being very impressive to just meeting minimum requirements. It was pleasing to note that some departments sought to closely link outcomes of Government policy objectives with performance measures/targets for output groups. The Committee believes that these plans should be made public as is the case for government business enterprises and for departments in a number of other jurisdictions.

While much reliance is placed on departmental annual reports as providing the accountability link with the public, the Committee has noted that the quality of reporting in these documents is uneven. The Committee intends to undertake a review in early 1998 of the effectiveness of annual reporting by departments and agencies.

To assess the performance of departments, Parliamentarians and the public need information about the intended and actual results for the range of their activities. At present, the documentation that is publicly available is in a highly aggregated format. The Committee believes that a number of improvements can be made, particularly in the Budget Papers, to enable an informed assessment of the performance of the public sector and the success of government programs. The Committee has made a number of recommendations to improve the readability and quality of information in the Budget Papers.

The Committee found that the outputs and performance measures contained in Budget Paper No. 3 Budget Estimates were highly variable in quality. The Committee has recommended that the Department of Treasury and Finance assist departments in reviewing output specifications so that more meaningful information is provided that will enable the Parliament to make a more informed assessment about the delivery of government services.

During the estimates process, the Committee was advised by many departments that output groups were being refined and that the current imbalance of quantitative as opposed to qualitative performance measures/targets would be addressed over time. While the Committee appreciates the difficulty encountered in developing relevant output and outcomes measures/targets for future benchmarking purposes, the Committee is of the view that the Department of Treasury and Finance has a key role in assisting departments during this transitional phase.

The Committee has made a number of recommendations relating to corporate and business plans, annual reports and the Budget Papers. These suggestions are predicated on the need for the Parliament and the public to be given the opportunity to progressively monitor departmental progress against government policy objectives. At present, only the State Budget (late April) and departmental annual reports (end of October) provide some of the required information. The Committee believes that there is potential for significant enhancement of the information presently provided in these documents.
Chapter 3  Budget Overview

The Budget Papers make reference to three levels of budget surplus for the 1996-97 year - headline (including privatisation proceeds), underlying (excluding privatisation proceeds) and sustainable (excluding other non-recurring items). The Committee notes that a sustainable budget surplus is expected for the coming years.

Chapter 4  Parliamentary Departments

The Committee recognises the important and essential role that the Parliamentary Departments play in supporting the work of the Parliament, its Committees, the Presiding Officers and Parliamentarians. Accordingly, it is imperative that Parliament receives adequate funding to enable it to function effectively.

Continuing pressure on funding, through the productivity dividend requirement, has presented a challenge to the Parliamentary Departments in maintaining the current level of services. Regardless of these difficulties, the Committee believes it is essential that these departments develop strategic plans that meet the present and future needs of the Parliament and Parliamentarians.

In the context of reviewing the Parliament's estimates of expenditure, the Committee has commented on the organisational structure of the Parliamentary Departments and the need for a strategic focus in the way services are delivered. While the Committee strongly supports the operational independence of each Parliamentary Department, it believes that there should be a review of the current structure with the objective of transferring all joint services and the administration of common functions such as human resources, to one department.

The Committee is also of the view that the full costs of services should be allocated to all five Parliamentary Departments so that the respective accountable officers are made fully responsible for all their department's expenditure.

Furthermore, the Committee is recommending that the budget for the Parliament should continue to be set in accordance with the Government's overall budgetary strategies but recognition should be given to the fact that the Parliament must be able to operate effectively.

The Committee is also recommending new funding arrangements for Parliamentary Committees that would ensure that they are able to operate independently but still are accountable to the Presiding Officers for their expenditure.

Chapter 5  Department of Treasury and Finance

The Department of Treasury and Finance continues to play a key role in the Government's reform program through its involvement in the privatisation process relating to the energy industry, and efforts to move Victorian tax rates closer to the Australian average.

Considerable work is now being undertaken within the Department to reform the gas industry. In July 1997, three new retailers and three new distributors were established, each operating in distinct geographical areas of Victoria. The Committee understands
that the Government expects to follow a similar approach to privatisation of the gas industry as those adopted for the electricity industry.

Tax reform is a major policy objective of the Government and the 1997-98 Budget Papers include a number of revenue measures which are expected to provide relief to business and individuals including reduction in payroll tax and petroleum franchise fees.

Chapter 6 Department of Education

Budgeted outlays for the Department of Education for the 1997-98 year will just fall short of $3.8 billion and cover four output groups principally 011 School Education Services (82.8 per cent) and 012 Vocational Education and Training Services (16.5 per cent). These two output groups are the equivalent of the total budget outlays for some departments.

The Committee noted the significant developments that were taking place within the Education sector in both schools and tertiary institutions. Changes to the nature and level of Commonwealth funding may be expected to impact on the various programs within the Department’s responsibility.

The Schools of the Future Program is now being consolidated with attention being given to the use of technology by teaching staff and students and providing greater autonomy to school councils in dealing with financial and other management matters. The Department has introduced monitoring mechanisms to assess school performance, including parent surveys. While empowering local communities to have more input into determining the direction of their schools is sensible and reflective of a worldwide trend, the Committee believes that the encouragement given to school councils to be more autonomous should proceed with discretion, particularly in relation to such matters as borrowing for capital expenditure.

Commonwealth funding for tertiary institutions will decline over the coming years. As a consequence these institutions have introduced fee payments for courses. The reduced funding may be expected to result in the rationalisation of TAFE colleges as occurred with universities in recent years. There have been TAFE amalgamations within rural Victoria and other amalgamations are being considered in the metropolitan area.

Chapter 7 Department of Human Services

The Department of Human Services encompasses health and community service delivery which is mainly provided by external providers under agreements. In moving from a program to an output group format, the Department has revised the make up of certain programs. A separate output group has been established for ambulance services which details the revenue generated from this operating activity and the departmental administrative and other costs incurred.

During the estimates hearing process, both the Minister for Health and Minister for Aged Care, and the Minister for Police and Emergency Services (Department of Justice) responded to questions from the Committee regarding the current operating performance of the computerised emergency communications service and the
contractual arrangements entered into for the design and implementation of the system. With respect to contracting matters, the Committee referred to the Auditor-General’s Special Report No. 49, *Metropolitan Ambulance Services - Contractual and outsourcing practices*, dated April 1997, which led to police investigations, the outcomes of which have still to be finalised.

**Chapter 8  \ Department of Infrastructure**

The reporting structure for the Department of Infrastructure has been substantially reduced from 16 programs in 1996-97 to five output groups in 1997-98 with 202 Contracted Transport Services accounting for more than 40 per cent of that Department’s budgeted outlays.

The Minister for Transport has responsibility for the 202 output group and other activities with the output groups relating to strategic infrastructure planning, infrastructure management and delivery, and transport safety and regulation.

The Committee notes that long delays have been experienced with the automated ticketing system before the sign off by the Minister for Transport.

A significant development will be the disaggregation of the Public Transport Corporation and the creation of a number of commercial businesses which will then be privatised. The revaluation of the Corporation’s various assets will be completed during 1997-98 and provide the basis on which rolling stock, depots, stations and track are accounted for on privatisation.

**Chapter 9   \ Department of State Development**

Many of the issues identified by the Department of State Development as impacting on economic development in Victoria have been considered in the Commonwealth Government’s Mortimer report. That report found many Commonwealth business incentive programs did not operate in a clear policy framework and often had poorly specified objectives. In relation to research and development, the report proposes radical changes to the assistance currently being provided with the emphasis on funding specific projects rather than institutions. The Committee notes that a number of output groups within the Department will be affected if the recommendations made in the report are implemented.

Another matter which the Committee believes should be given urgent attention is in relation to the “millennium bug”. This matter was raised in the Auditor-General’s May 1997 Report on Ministerial Portfolios which indicated that, based on a survey of departments and agencies, few of these appeared to have established a realistic program nor had allocated appropriate resources to deal with the problems associated with the bug. The Committee believes that an overall strategy should be developed as a matter of urgency to ensure that all departments and agencies are well prepared for this contingency.

**Chapter 10   \ Department of Justice**

The thrust of the Committee’s examination of this Department centred on the impact of the privatisation of prisons and the extent to which performance information is
available. A number of issues regarding security at the Deer Park facility and the nature and extent of training provided to staff, and the availability of drugs within the prison were raised with the Minister for Police and Emergency Services. Because of the significance of these matters, the Committee is of the view that the Department’s annual report should provide information on whether key contractual arrangements have been complied with.

Chapter 11  Department of Premier and Cabinet

In addition to its key policy advice role, the Department manages the Community Support Fund and oversees the implementation of the Arts 21 program, which account for over 85 per cent of the Department’s 1997-98 budget.

The Department advised the Committee that it was expected the workload of the Ombudsman would expand in relation to police, correctional and community service matters. The budgeted outlays for the Office of the Ombudsman have been increased, with the extra funding provided for the Operation Bart investigations and the Office’s computer upgrade.

With respect to the Community Support Fund, the Committee noted that over the five year period from 1992-93 to 1996-97, the Fund has received $244.6 million from the tax on electronic gaming machines (EGMs) ($80 million in 1996-97) and an amount of $37.1 million has been approved for problem gambling programs. The Committee believes that the effectiveness of the program initiatives should be reported on in the Department’s annual report.

The Committee notes with concern that no action has been taken in response to the Ombudsman’s April 1997 report on Investigation into Complaint by a Chiropractor against the Chiropractors and Osteopaths Registration Board.

Chapter 12  Department of Natural Resources and Environment

In contrast to the Department of Human Services which has 4 programs/output groups, the Department of Natural Resources and Environment moved from 9 programs in 1996-97 to 14 output groups for 1997-98. Some significant challenges for the Department in 1997-98 will be the management of proceeds allocated to it from the Telstra float under the National Heritage Trust (NHT) and the review of all legislation under the guidelines for the National Competition Policy.
RECOMMENDATIONS

Chapter 1  Introduction

The Committee recommends: That:

Recommendation: 1.1  annual reports include information regarding any reviews by Parliamentary Committees which affect the department or agency, showing major recommendations arising from such reviews, and the action taken to address them;

Chapter 2  Quality of Financial and Other Information

Recommendation: 2.1  the interim guidelines, A Guide to Corporate and Business Planning, be amended to reflect the financial management framework with its focus on outputs and re-issued to departments to coincide with the 1998-99 budgetary cycle;

Recommendation: 2.2  departments finalise their corporate and business plans in time for the budget estimates inquiry process and provide a copy to the Public Accounts and Estimates Committee;

Recommendation: 2.3  the information contained in the “overview” section of Budget Paper No. 2 Budget Statement be transferred to the front of the “budget summary” section;

Recommendation: 2.4  Budget Papers No. 2 Budget Statement and No. 3 Budget Estimates describe and quantify the key performance measures against which State and departmental performance are to be judged, and that these performance measures be benchmarked, where appropriate and possible, against nationally-recognised indicators applicable for departments and agencies having similar objectives;

Recommendation: 2.5  comparisons of actual and budgeted results, both financial and non-financial, including explanations for key variations in results, be disclosed in annual reports and be mandated under the Financial Management Act 1994;

Recommendation: 2.6  in order to improve the timeliness of publication of departmental annual reports, the Financial Management Act 1994 be amended to require an earlier tabling date of these reports;
Recommendation: 2.7 Budget Papers No. 2 Budget Statement and No. 3 Budget Estimates disclose estimated actual/revised budget figures and provide supporting comment on significant variations;

Recommendation: 2.8 the composition of departmental outlays reported on in Budget Paper No. 3 Budget Estimates be disaggregated to enable more informed assessments of levels of expenditure in respect of provision of services by departments;

Recommendation: 2.9 the Department of Treasury and Finance examine the budget documents of other jurisdictions with a view to improving the form and content of Budget Paper No. 3 Budget Estimates by disclosing appropriations on a less aggregated basis, linking appropriation amounts with other disclosures, and providing historical data for trend analysis purposes;

Recommendation: 2.10 the Department of Treasury and Finance assist departments in reviewing the relative composition of departmental output groups and related outputs and performance measures and consider varying the level of detail provided in respect of departments in Budget Paper No. 3 Budget Estimates according to such matters as the substance of the outlays, complexity of operations and level of parliamentary interest;

Recommendation: 2.11 an explanation be provided in Budget Paper No. 3 Budget Estimates describing the manner in which departmental performance measures will be employed in resource allocation decision-making;

Recommendation: 2.12 departments develop and report on outcome measures for inclusion in Budget Paper No. 3 Budget Estimates to complement existing quantitative and qualitative performance output measures;

Recommendation: 2.13 performance measures include indicators of departmental efficiency as well as those relating to the attainment of other budgetary performance outcomes;

Recommendation: 2.14 a more comprehensive listing of technical terms used in the Budget Papers be included in the glossary and plain English be used in the Budget Papers so readers can understand the relative importance of the information being provided;
Recommendation: 2.15
page 21
the Ministerial Directions on financial reporting be amended to require half yearly reports to be prepared by departments which would include financial statements in an abbreviated form, comparisons with budget revenues and outlays, and progress against performance targets and that this information be provided to the Public Accounts and Estimates Committee;

Recommendation: 2.16
page 22
departments provide information for inclusion in Budget Paper No. 3 Budget Estimates consistent with their corporate and business plans to enable the Parliament to be aware of what each department seeks to achieve, how it intends to do so and how well has it progressed;

Recommendation: 2.17
page 22
the Department of Treasury and Finance develop a performance reporting framework for departments that has a department's annual report as the cornerstone for external accountability. A department's annual report should incorporate appropriate elements from its corporate and business plans, budget estimates and other relevant public documents, sufficient to provide the Parliament, the public and other interested parties with an understanding as to whether critical success factors for the department have been achieved;

Chapter 3 Budget Overview

Recommendation: 3.1
page 27
explanations of significant variations of departmental current and capital revenues and outlays be provided in Budget Paper No. 3 Budget Estimates, with such comments being included on the basis of an absolute $ amount or a fixed percentage of total departmental outlays;

Recommendation: 3.2
page 27
a reconciliation, by department, be provided in Budget Paper No. 3 Budget Estimates of the movement between the base budget levels for departmental costs for the current and prior years and details of the computation of the productivity dividend and the composition of the other reconciling items;

Chapter 4 Parliamentary Departments

Recommendation: 4.1
page 34
a structured maintenance program be developed for Parliament House and that adequate funding be provided by the Government to enable the building to continue to operate in a functional manner;
Recommendation: 4.2
page 35
the Department of Treasury and Finance review the manner in which productivity savings are to be applied to the Parliamentary Departments and exempt all non-discretionary expenditure from the productivity savings;

Recommendation: 4.3
page 37
the current process for determining appropriations for the Parliament should remain but procedures should be put in place that allow for discussions between the Presiding Officers and the Minister for Finance if there are any difficulties with the amount determined by the Parliamentary Officers for inclusion in the Appropriation (Parliament) Bill;

Recommendation: 4.4
page 38
the Presiding Officers should give serious consideration to reviewing the provision of existing services with the intention that the number of Parliamentary Departments should be reduced and joint services and common functions (such as human resources) transferred to one department;

Recommendation: 4.5
page 38
the full costs of services should, as a matter of priority, be allocated across all Parliamentary Departments so that each accountable officer is fully responsible for all their department’s expenditure;

Recommendation: 4.6
page 38
the Parliamentary Departments prepare corporate and business plans, details of which should be reported on in their 1997-98 annual reports along with key performance measures;

Recommendation: 4.7
page 39
as a matter of urgency, the Minister for Finance should seek to resolve the outstanding issues relating to the funding of parliamentary inquiries and that any proposed funding formula take into account the differences in the workloads between Parliamentary Committees;

Recommendation: 4.8
page 40
that consideration be given to substantially increasing the Advance to the Presiding Officers to meet unexpected and unforeseen costs associated with new Parliamentary inquiries and the appointment of additional Parliamentary Committees;

Chapter 5 Department of Treasury and Finance

Recommendation: 5.1
page 43
the nature and composition of “Outlays on behalf of Whole of Government” and “Advance to the Treasurer” be separately reported on in Budget Paper No. 3 Budget Estimates and reasons given for significant variations in the amounts disclosed;
Recommendation: 5.2 the Department of Treasury and Finance give consideration to extending the financial and other information provided in Budget Paper No. 3 Budget Estimates to facilitate analysis by external interested parties;

Recommendation: 5.3 the Department of Treasury and Finance continue to provide technical and other support to departments with respect to accrual reporting and budgeting and encourage the development of robust and comprehensive output specifications and performance measures;

Recommendation: 5.4 the 1998-99 accrual based Budget Papers provide details of:

- significant capital expenditure expected to be incurred;
- the extent of capital commitments for future years;
- the level of unfunded superannuation liabilities assumed by the Department of Treasury and Finance; and
- the nature and, where known, the quantum of contingent liabilities for the State and the extent to which existing contingent liabilities have crystallised during the course of the year;

Chapter 6 Department of Education

Recommendation: 6.1 the Department of Education review the present format for presenting information on the four output groups with the aim of enhancing the level of detail provided to the Parliament;

Recommendation: 6.2 the existing performance measures for school accountability and reporting in Budget Paper No. 3 Budget Estimates be extended to include indicators of parent satisfaction levels derived from surveys on quality of teaching, academic rigour, general environment, customer responsiveness and student reporting;

Recommendation: 6.3 the Department of Education consider the potential for adverse impacts from the decision to provide schools with greater autonomy and introduce safeguards to ensure that particular students are not disadvantaged as a consequence of the drive for greater self-funding in the education sector;
Recommendation: 6.4  page 67
the Department of Education include in its annual report the status of significant outstanding school refurbishment programs indicating when those projects are likely to be completed and the amount of expenditure incurred on school refurbishment programs during the year;

Recommendation: 6.5  page 69
tertiary institutions should provide relevant financial and other information in their annual reports relating to significant initiatives taken/strategies developed for their international activities;

Chapter 7  Department of Human Services

Recommendation: 7.1  page 76
the Department of Human Services continue the development of outcome and output specifications and related performance measures with a view to reporting on this basis in the 1998-99 accrual-based budget with appropriate explanations as to the nature and significance of those measures in assessing whether the Department has achieved its objectives;

Recommendation: 7.2  page 76
in view of the significant outlays in output group 111 Acute Health Services, the Department include performance measures relating to how economically and efficiently labour and operating costs have been managed within that particular output group;

Recommendation: 7.3  page 76
the Department of Human Services include in the budget documentation national benchmark information when individual benchmarks have been accepted by the States and the Commonwealth;

Recommendation: 7.4  page 78
the Budget Papers and the Department’s annual report include performance information on the Health Care Networks based on service quality, efficiency and accessibility;

Recommendation: 7.5  page 79
the Department of Human Services develop performance measures which reflect the outcomes of initiatives relating to the provision of health services in rural areas and include such information in the Budget Papers and the Department’s annual report;

Recommendation: 7.6  page 81
the Department of Human Services closely examine the outcomes of the police investigation flowing from the Auditor-General’s April 1997 Special Report No. 49 - Metropolitan Ambulance Service and the recommendations contained in the Auditor-General’s November 1997 Special Report No. 50 - Metropolitan Ambulance Service and ensure that appropriate action is taken to rectify any identified deficiencies;
Chapter 8  Department of Infrastructure

Recommendation: 8.1  page 88
in view of the wide coverage of output groups 202 Contracted Transport Services and 203 Infrastructure Management and Delivery, the Department of Infrastructure review the composition of these groups and consider whether they might be disaggregated to provide more meaningful information;

Recommendation: 8.2  page 92
the overall level of subsidy for, and revenue generated by, the Public Transport Corporation be specifically disclosed within output group 202 Contracted Transport Services;

Recommendation: 8.3  page 93
full details of the disaggregation of the Public Transport Corporation be reflected in the Corporation's annual report including information relating to:
• the disposal of Corporation assets and operating activities; and
• the nature and extent of savings expected and achieved from the disaggregation process;

Recommendation: 8.4  page 93
the measures/targets in respect of the provision of public transport services be modified following disaggregation to reflect the performance of individual units, namely, trains, trams and buses;

Recommendation: 8.5  page 95
the Department of Infrastructure:
• continue its efforts to expedite the implementation of the automated ticketing system, once it is satisfied that it is fully operational;
• ensure that all avenues are pursued so that appropriate settlement of contractual obligations is made;
• prepare a revised assessment of the overall savings to be achieved from the introduction of the automatic ticketing system; and
• outline in the annual report and budget documentation:
  (a) the reasons for the delay in meeting the key milestones under the automated ticketing system service agreement; and
  (b) the rationale for the final decision in relation to the One-Link Consortium;

Recommendation: 8.6  page 97
the Department of Infrastructure include in Budget Paper No. 3 Budget Estimates information on key performance measures in support of the targets set for the coming year;
Recommendation: 8.7  
the Department of Infrastructure expand the information provided on safety compliance audits to give an indication of the coverage and outcomes of those audits;

Chapter 9  
Department of State Development

Recommendation: 9.1  
the Department of State Development closely monitor the decisions made by the Commonwealth on the Mortimer Report, Going for Growth; Business Programs for Investment, Innovation and Export, and, if necessary, reassess its strategies for investment facilitation and the promotion of research and development activities;

Recommendation: 9.2  
the Department of State Development, as a matter of urgency, review the outcomes of initiatives taken to date in respect of the "millennium bug" and develop an overall strategy to ensure that the necessary additional resources are allocated so that all departments and agencies are well prepared for this contingency;

Recommendation: 9.3  
all departments and agencies undertake an audit to identify the extent of the problems associated with the "millennium bug" and what action and resources are needed to address these issues;

Chapter 10  
Department of Justice

Recommendation: 10.1  
the performance measures included in respect of prison services/operations reported on within the Budget Papers and in the annual report for the Department of Justice disclose the respective costs per prisoner/prisoner place for public and private correctional facilities;

Recommendation: 10.2  
the annual report of the Department of Justice include a statement by the Correctional Services Commissioner that service delivery standards have been achieved by both public and private providers and include information on the nature and extent of the monitoring undertaken by the Commissioner;

Recommendation: 10.3  
the Department of Justice review the current performance measures included in Budget Paper No. 3 Budget Estimates with the objective of determining whether it has an appropriate mix of quantitative and qualitative mechanisms to measure outputs and outcomes which would enable comparison with acceptable benchmarks;
Chapter 11  Department of Premier and Cabinet

Recommendation: 11.1  the business plan for the Department of Premier and Cabinet be enhanced by the inclusion of relevant financial information and performance measures/targets presently disclosed in Budget Paper No. 3 Budget Estimates;

Recommendation: 11.2  the Government respond to the issues raised by the Ombudsman in the report dated April 1997 on the Investigation into the Complaint by a Chiropractor against the Chiropractors and Osteopaths Registration Board;

Recommendation: 11.3  the Department of Premier and Cabinet's annual report include an analysis of the outcomes of expenditure on programs (including problem gambling) approved for expenditure from the Community Support Fund, indicating whether objectives under these programs are being achieved;

Chapter 12  Department of Natural Resources and Environment

Recommendation: 12.1  the Department of Natural Resources and Environment specifically report, within its annual report and budget documentation, on the progress made and the outcomes achieved in respect of its involvement in the National Heritage Trust and the implementation of the National Competition Policy.
Chapter 1: Introduction

1.1 Committee background

Under the Parliamentary Committees Act 1968, 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. These are generally matters that have 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 process

In submitting this report, the Committee does not intend to replicate the information in the 1997-98 Budget Papers. Rather, the Committee is presenting information on selected areas where the additional information may assist in the public understanding of those documents.

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

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

1.3 Process followed by the Committee

Following the delivery of the Budget Speech by the Treasurer on 29 April 1997, the Committee circulated a standard questionnaire to all departments requesting supplementary information to that provided in the 1997-98 Budget Papers.

The Committee’s questionnaire to departments was substantially different from previous years in order to reflect the change from programs to output groups in the Budget Papers, and to obtain more meaningful information about the performance of departments. As has been the case in recent years, the responses were generally of a high order and, in particular, the financial and performance information provided by the Department of Education was of a very high standard.

The Committee’s analysis of the 1997-98 Budget Estimates was undertaken using the information provided in responses to the questionnaire and reviewing evidence given by nine Ministers and the Presiding Officers of the Parliament at public hearings held
in May and June 1997. The Committee has confined its comments to a comparison of 1997-98 budget estimates with the initial and revised budget estimates for 1996-97.

This report follows on from the Committee’s April 1997 Report on the 1996-97 Budget Estimates and 1995-96 Budget Outcomes and has been prepared now because of the change in the timing of the State Budget from September to April. It is expected that the Committee’s next report in this area will be issued in the 1998 spring session of Parliament and will deal with the outcomes of the 1997-98 budget estimates as contained in the Annual Financial Statement for the State and the 1998-99 budget estimates.

In preparing this report, the Committee has not taken into consideration the following documents which have recently been tabled in the Parliament:

- Annual Financial Statement for the State of Victoria 1996-97;
- Auditor-General's Special Report No. 50 - Metropolitan Ambulance Service;
- Auditor-General's Special Report No. 51 - Victorian Rural Ambulance Services;
- Victoria - Elements of Financial Management - Department of Treasury and Finance.

All of these documents will be reviewed and reported on by the Committee at a later stage.

1.4 Review of the estimates process

With the introduction of accrual accounting, the Government has made significant changes to the management and budgeting system and in reporting of financial information. The ultimate aim of these changes is to improve accountability and, with it, performance across departments and agencies. The challenge for the Parliament and this Committee is to ensure that the information that is provided is used in a meaningful and constructive way.

As foreshadowed in the Committee’s previous report on the estimates process,¹ the Committee has reviewed the present estimates process to see how a more in-depth examination of departmental expenditure and performance could be undertaken.

After examining developments in other Parliaments, the Committee is convinced that the key to improvement lies in several areas:

- extending the annual estimates process to cover aspects of all departments;
- improving procedures that will allow for Members, at the conclusion of the estimates hearing, to place questions on notice to departments and agencies. This arrangement will not detract from Ministers taking questions on notice during the hearings;

requesting departments and agencies to respond to questions taken on notice within three weeks;
utilising flexible time allocations for portfolios;
presenting the Committee’s report, if possible, during the same session in which the Budget is considered.

The Committee believes that these reforms, together with improved financial and performance reporting by departments, and a willingness on the part of Committee Members to take full advantage of these new opportunities will result in a scrutiny of government expenditure that is thorough and productive.

The Committee discussed whether the Premier and all Ministers should be requested to attend the estimates hearings every year. There was no agreement on this issue, but the Committee notes that the present arrangements do not preclude the Premier and all Ministers being invited by the Committee to attend hearings when the estimates of expenditure for their portfolios are examined.

1.5 Legislative requirements - Responses to Committee reports

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

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

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.

The Committee notes with concern that responses to its most recent reports have been received well after the statutory deadline. With respect to the Committee’s report on Information Technology in the Public Sector tabled in the Parliament in May 1995, a response was received in April 1997, almost two years later. The Committee believes that this is an unsatisfactory situation and seeks the cooperation of all Ministers to ensure that they meet their statutory responsibilities in responding to reports of this Committee.

The Committee also believes there would be merit in departments and agencies reporting in their annual report on action taken to address major recommendations of reviews by Parliamentary Committees.

The Committee suggests that relevant details be provided in an appendix to the annual report and that the information be concise and adequately cross-referenced to the relevant reports of the Parliamentary Committees that conducted the review.
Recommendation: 1.1 That annual reports include information regarding any reviews by Parliamentary Committees which affect the department or agency, showing major recommendations arising from such reviews, and the action taken to address them.
Chapter 2: Quality of Financial and Other Information

2.1 Background

In December 1996, the Treasurer announced that the 1997 State Budget would be presented to the Parliament in April/May instead of September. This initiative complements the introduction of global appropriations, as opposed to line item, the adoption of accrual accounting by departments and the move from program to output group formats for budgeting and reporting purposes.

While the Committee welcomes these improvements, it is concerned to increase the amount of meaningful information provided to the Parliament which will enable comparisons between what departments intended to achieve and what is actually achieved.

Although the business of Government has changed significantly over the past 5 years, government reporting continues to focus heavily on inputs, process and compliance - not on outcomes - and is primarily concerned with financial accountability. Even though departments are now shifting their emphasis to the management of results, agencies have not yet developed adequate performance measures that will assist the community, parliamentarians, and public sector managers to judge how well government programs are performing and whether the programs are achieving what was intended.

While the Department of Treasury and Finance has now developed a financial management framework to encompass the diverse range of government operating activities, no comprehensive accountability framework has been developed to guide the Government and its agencies in providing appropriate and meaningful performance information to the community and the Parliament. The Committee believes that public accountability should be an integral part of the Government’s performance management process, particularly in areas such as strategic planning, business planning and budgeting. This is an issue which the Committee intends to address in more detail in its next report on the budget estimates process.

In the meantime, the Committee is keen to see the financial management framework developed by the Department of Treasury and Finance provide for meaningful financial and other performance information that will assist the Parliament in assessing both intended and actual results. The Committee is particularly keen to see a linkage between corporate and business plans, budget documentation, the annual financial statements for Victoria and departmental annual reports to enable an accurate assessment of the performance of the individual departments and the Government as a whole.

\[\text{Financial Management Framework, Letter from Treasurer to all Ministers on 11 December 1997 following the announcement in the Parliament on 5 December 1997}\]
2.2 Evaluation of corporate and business plans

Need for planning

Interim guidelines, *A Guide to Corporate and Business Planning*, were issued by the Department of Treasury and Finance in December 1995. The guidelines were developed to provide guidance to Departments in the development of corporate and business plans as part of the Integrated Management Cycle (IMC).

The guidelines define corporate plans as "medium term portfolio strategic plans" while business plans represent the "annual Department or business unit operating plans which specify output to be provided and their cost." The key areas focused on in the planning process are the results to be achieved, the planning context in which the documents are prepared, the manner in which objectives are expected to be achieved and the accountability structures for delivering the results.

Exhibit No. 1 compares the key elements within each of these planning documents.

<table>
<thead>
<tr>
<th>Exhibit No. 1</th>
<th>Key Elements of Corporate and Business Plans</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Corporate Plan</strong></td>
<td><strong>Business Plan</strong></td>
</tr>
<tr>
<td>Strategic in focus.</td>
<td>Operational in focus.</td>
</tr>
<tr>
<td>Look three to five years ahead.</td>
<td>Look one year ahead.</td>
</tr>
<tr>
<td>Rolled over annually and updated annually.</td>
<td>Prepared annually.</td>
</tr>
<tr>
<td>Establish high level strategic directions - strategic priorities, vision, mission and objectives.</td>
<td>Translates high level strategic directions into an action plan for the coming year.</td>
</tr>
<tr>
<td>In view of longer term outlook, the emphasis is on general, strategic directions.</td>
<td>One year timeframe enables detailed plan of how to translate directions into outcomes.</td>
</tr>
<tr>
<td>Focuses on objectives, strategies and the operating environment, not on resourcing.</td>
<td>Focuses on all issues associated with translating objectives and strategies into deliverable outputs, including resourcing and detailed timelines.</td>
</tr>
<tr>
<td>Specifies objectives (intended outcomes), and provides critical success factors for their achievement.</td>
<td>Specifies outputs, resources, timelines, performance measures and targets, to form the basis of the department's annual budget negotiations.</td>
</tr>
</tbody>
</table>

(Source: *A Guide to Corporate and Business Planning*, Interim Guidelines, page 8)

As part of the Integrated Management Cycle (IMC), departments are required to undertake an annual planning process which results in the development of corporate and business plans for approval by central agencies during May/June of each year. The Committee understands that the draft business plan provides the basis for

---

negotiations in relation to resource allocation, and the final business plan is the statement of outputs to be produced.

As a key strategy of the Government is to reform fundamentally the way government services are planned, delivered, monitored and reported, the guidelines need to be revised to take into account the new Financial Management Framework.

**Recommendation: 2.1** That the interim guidelines, *A Guide to Corporate and Business Planning*, be amended to reflect the financial management framework with its focus on outputs and re-issued to departments to coincide with the 1998-99 budgetary cycle.

**Availability of departmental corporate and business plans**

As part of the 1997-98 budget estimates process, the Committee again requested departments to provide copies of both their corporate and business plans and explain how such documents linked in with departmental budgeted outcomes.

At the date of preparing this report, a number of departments (Human Services, Premier and Cabinet, Natural Resources and Environment, State Development) provided the Committee with a copy of their corporate plans and 1997-98 business plans, generally in an advanced draft form.

The Committee was advised by the Departments of Education, Justice and Infrastructure that their plans were being finalised and would be made available to the Committee when completed. These Departments provided an indication of the contents of their documents.

Of concern to the Committee was the continued reluctance of the Department of Treasury and Finance to make available its business plan to the Committee on the basis that the document was designated for internal use. The Department did furnish the Committee with a copy of its 1997-98 corporate plan\(^4\) which states the Department's vision/mission and provides details of key objectives, core responsibilities, major initiatives for 1997-98, organisational chart, together with budget outlays and forward estimates for the output groups.

The Committee notes that the delays in preparing corporate and business plans occurred partly as a consequence of the shift from programs to output groups which required a restructuring of the form and content of those plans, and the requirement to seek the Budget Expenditure Review Committee's endorsement of the revised documents.

While it is appreciated that the preparation by departments of corporate and business plans in an output format is still in a developmental stage, it is important that such documents are consistent in their form and content and become the foundation for

---

\(^4\) Department of Treasury and Finance, 1997/98 Corporate plan (An organisational view of the Treasury & Finance Departmental Statement in Budget Paper No. 3) provided to the Committee on 1 August 1997
measuring, monitoring and accounting for departmental activities. The Committee considers that such documents should be prepared by departments according to how each department views their planning and monitoring needs. However, given that the substance of these documents is included in the Budget Papers and the documents are examined by central agencies for approval, the need for a level of consistency in structure would seem appropriate.

To this end, it would be desirable if the existing interim guidelines for the preparation of corporate and business plans were amended to take into account the different approaches taken by departments, particularly in relation to the level of detail included in the business plan.

The most comprehensive planning documents received were from the Department of Natural Resources and Environment. The Department’s draft 1997-2000 corporate plan included details of their mission and values, matters impacting on its operating environment, a statement of outcomes by output groups and a statement of critical success factors for the Department.

The Committee was most impressed with the Department’s draft 1997-98 business plan. Of particular interest was the incorporation into the business plan of statements of linkages, for each output group, to Government strategic priorities and the Department’s desired outcomes. In addition to detailing specific outputs to be generated, how performance in relation to these outputs is to be measured and the 1997-98 targets established, the Department’s business plan provides for an outcome evaluation plan which requires internal monitoring on a progressive basis during the year.

The traditional approach for providing accountability information to the Parliament is through annual documents such as the budget papers, financial statements and annual reports. While these documents provide useful base information, the Committee requires access to agencies’ corporate and business plans so that the performance information that is available can be set in context.

**Recommendation: 2.2** That departments finalise their corporate and business plans in time for the budget estimates inquiry process and provide a copy to the Public Accounts and Estimates Committee.

### 2.3 Form and content of annual reports

All departments and public bodies are required under the *Financial Management Act 1994* to table an annual report in the Parliament by the end of October.\(^5\)

Under the Act, the financial statements are to be prepared within 8 weeks of the end of the financial year and submitted to the Auditor-General for audit. The audit has to be completed within 4 weeks. Therefore, the maximum statutory period for finalisation of the accounts is 12 weeks. For various reasons, this deadline has not always been

---

\(^5\) *Financial Management Act 1994*, section 45
achieved in the past and signing off of financial statements by departments/agencies and the Auditor-General is reported on in the Auditor-General's Report on Ministerial Portfolios. In most instances, the reporting is completed within the statutory period.

In the May 1997 Auditor-General's Report on Ministerial Portfolios, reference was made that, without exception, departmental financial statements were only finalised in late September/early October and annual reports were all tabled in the last week of October 1996. In response to the audit finding, the Department of Treasury and Finance advised that the major restructure of administrative arrangements in April 1996 led to the late tabling of departmental annual reports.

The form and content of annual reports is prescribed under Directions of the Minister for Finance. Annual reports include the audited financial statements of departments/agencies and a report of operations which contains relevant general, financial and other information. Whilst the structure of the annual report is not specifically prescribed, guidance is provided to departments in the form of an accountability checklist which is included in the annual report by all department/public bodies to evidence compliance with statutory reporting obligations.

Within this reporting framework, the report on operations is a key element in departments and agencies providing information on their activities.

Notwithstanding the extensive statutory disclosure requirements, the Committee is of the view that the annual reporting process for departments would be substantially enhanced if the information in annual reports was more directly linked with corporate and business plans so there is a framework for the Parliament and the community to assess the performance of agencies.

While the Budget documents provide prospective information and the annual reports provide retrospective information there needs to be some consistency in the way information is presented so that comparisons in performance over time or between agencies can be made.

As the Committee considers that the quality of reporting in annual reports is so uneven, it intends, early in 1998, to undertake a review of the effectiveness of annual reporting by departments and agencies to determine what should be included in annual reports in the future.

2.4 Analysis of Budget Papers

Introduction

Recognising that the State Budget Papers are used by a variety of persons, the Committee is concerned to ensure that their contents are understandable and interpretable to an informed, but not expert, reader. Such users include, for example, Parliamentarians and their advisory and research staff, public servants, finance

---

7 Financial Management Act 1994, Accounting and Financial Reporting Bulletin No.11 issued pursuant to Ministerial Directions under the Act
8 Financial Management Package, Part 9 of the Ministerial Directions, Guideline 9.1.3
providers, public-interest groups, members of the media and others — many of whom are not economists or accountants.⁹

As a consequence, the Committee wishes to see the structure and information content of the State Budget Papers enhanced so that users can be better informed about the sources of funds, the objectives and priorities of the expenditure of public monies, the effect with which public monies are expended, and the extent to which budget targets are met by departments. These aims are consistent with enhancing the transparency of the Government's accountability to Parliament and the community.

In addition to reporting budgeted revenue and expenditure, the Committee wishes to see the State Budget Papers report performance outcomes in addition to outputs and, when read in conjunction with annual financial reports, to make transparent the financial position and performance of departments.

With an accrual-based State budget anticipated to be in place from 1998-99 and the completion of the audited 1996-97 Annual Financial Statements for the State, the Government will be well positioned to ensure that departments become fully committed to the implementation of output management initiatives which flow from the change from program formats. Accordingly, the Committee believes that it is now appropriate for the information being provided in the State's Budget Papers to be reviewed for its relevance, reliability and parliamentary and public interest.

⁹ By way of guidance as to who are the users, the United States Governmental Accounting Standards Board (GASB) has classified users of government financial reports into three groups: citizens groups, legislative and oversight officials, and investors and creditors (GASB 1985, pages 3-4)
**Composition of budget papers**

The Budget Papers which are now to be tabled in Parliament each year by the Treasurer in April/May consist of the following:

<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>Brief information about the current budget estimates including statements regarding budget highlights and initiatives, economic performance, the reform process, proposed infrastructure expenditure and progress against budget objectives.</td>
</tr>
<tr>
<td>2</td>
<td>Budget Statement*</td>
<td>An analysis of the budget at the aggregate level providing some detailed comment on economic trends and structural reform, the make up of budget revenue and outlays, Commonwealth-State financial relations and liability management for the State.</td>
</tr>
<tr>
<td>3</td>
<td>Budget Estimates</td>
<td>For the Parliament and each of the 8 Departments, details are provided of the composition of outlays by output groups together with a description of each output group, expected outcomes and major targets for outputs/deliverables as performance measures. In addition, the make up of budget sector revenue (taxes, fees and fines) and Commonwealth grants received are provided in both summary and detailed form.</td>
</tr>
</tbody>
</table>

* Previously *Budget Performance and Outlook*
(Source: 1997-98 Budget paper No. 3 Budget Estimates - Preface and Guide to Readers)

The Committee notes that, over the past three budget periods, the form and content of the budget documents have been relatively unaltered from a departmental perspective (Budget Paper No. 3 Budget Estimates) but have been expanded and enhanced with respect to higher level information such as economic projections, liability management and public sector reform (Budget Paper No. 2 Budget Statement).

The shift in the budgeting format for the 1997-98 financial year from a program focus to the assessment of performance on an output basis is a key element in the adoption by departments of the Government’s output management framework. Departments have restructured their reporting formats to provide for output groups and, at the same time, have enhanced existing performance measures and added to these indicators, where appropriate.

In prior years, Budget Information Paper No. 1 *Public Sector Capital Works* which details the budget and non-budget sector capital works program for the forthcoming year was produced at the same time. Budget Papers Nos. 1 to 3 now include reference
to the new projects, approved for commencement in 1997-98, which will be included in departments’ annual works programs. Budget Information Paper No. 1 was tabled on 16 October 1997. Information on projects funded from dedicated funding sources are excluded from the document e.g. road projects funded through the Better Roads Trust Account, wholly Commonwealth funded projects in the TAFE sector, and projects funded through the Community Support Fund.

Annual Financial Statements

For the past two years, a Statement of Financial Operations was tabled by the Treasurer in the spring session of Parliament. This statement has now been replaced by an audited Annual Financial Statements for the State of Victoria. This statement is prepared on an accrual, rather than a cash, basis and required to be tabled in the Parliament by 30 September 1997 or the next sitting date.

As previously indicated, it is the Committee’s intention to review this document as part of the 1998-99 budget estimates process.

Budget strategy, priorities and benchmarking

The Budget Papers outline the Government’s overall budget strategy and include various references to the Government’s specific priorities and to the benchmarking of performance outcomes.\(^\text{10}\) Budget Paper No. 2 provides comparative analyses of major economic trends, over time, for Victoria and between Victoria and other States and Territories.

Budget Paper No. 2 indicates that several classification changes have been introduced since the 1996-97 Budget in September 1996 arising from "the introduction of categories of current and capital purposes in the 1997-98 Appropriation Bills and other ongoing financial management reforms". These changes are designed to produce "a more accurate identification and classification of transactions at the departmental level".\(^\text{11}\)

The following significant matters are dealt with in the 1997-98 Budget Statement:\(^\text{12}\):

- revisions to the 1996-97 budget;
- the impact of privatisation on the 1996-97 budget;
- a summary of budget sector estimates for 1996-97 and 1997-98;
- budget sector forward estimates 1997-98 to 2000-01 on current account and capital account;
- the sustainable budget planning position 1997-98 to 2000-01; and
- the impact on forward estimates of a 1% increase in selected economic parameters in the first year (GSP and employment; average weekly earnings; price inflation).

\(^{10}\) For example, Budget Paper No. 2, Budget Statement, pages 63-65 (service delivery priorities and reform, 1997-98) and pages 67-70 (service delivery reform and performance benchmarks)

\(^{11}\) Budget Paper No. 2, Budget Statement, pages 40-44

\(^{12}\) Ibid., within Chapter 3 (Budget Summary)
Chapter 2: Quality of Financial and Other Information

The Committee believes that the "sustainable" budget position is of utmost importance in assessing the Government's financial management strategies. Instead of reporting it near the end of the "budget summary" section, the "sustainable" budget position would be better placed at the beginning of that section, and given prominence in the "overview" section at the front of Budget Paper No. 2.

With respect to the overall budget strategy, the Government states that it wishes to:

- deliver high quality service at least cost; available output benchmarks suggest that Victorians are enjoying service standards on a par with other States; and
- achieve sustained budget balances, with a surplus on current account at least sufficient to meet depreciation expenses; the forward estimates show a current account surplus well in excess of estimated depreciation expenses.

Benchmarking for government services such as education and health involves a comparison of service performance between different governments. The performance measures adopted for benchmarking must encompass not only the outcomes themselves but also take into account the effectiveness and efficiency of the organisational processes that produce those outcomes. While reference is frequently made in Budget Paper No. 2 to benchmarking Victoria's performance against other States, no benchmarks are actually reported on in the Budget Statement or elsewhere in the Budget Papers. The Budget Statement includes the statement that, in the past, Victoria has overspent on service delivery compared with other States and the overspending has been eliminated but no time series data for Victoria is provided.

The Committee has found that the Budget Statement, while outlining the Government's budget strategy, does not describe the budget measures or disclose comparative performance measures between Victoria and the other States. Apart from disclosing that the targets are more or less than those set the previous year, the comparisons have little information content. The Committee believes, that where possible, greater reliance should be made of national benchmarking information produced by the Steering Committee for the Review of Commonwealth/State Service Provision.

In contrast, the New South Wales Government discloses inter-period output and, in some cases, outcome results in their program statements. The corresponding Budget Paper No. 3 for that State includes both output and outcome results for a three year period and estimates are generally provided for succeeding years. Such disclosures enable performance trends to be readily identified and evaluated.

**Recommendation: 2.3** That the information contained in the "overview" section of Budget Paper No. 2 Budget Statement be transferred to the front of the "budget summary" section.
Recommendation: 2.4 That Budget Papers No. 2 Budget Statement and No. 3 Budget Estimates describe and quantify the key performance measures against which State and departmental performance are to be judged, and that these performance measures be benchmarked, where appropriate and possible, against nationally-recognised indicators applicable for departments and agencies having similar objectives.

Budget estimates and outcomes

The budget is a critical element of a sound financial management system. Comparisons against the budget are useful to users of government financial reports. Enhanced financial reporting flows from the reporting of actual results against budgets. The budget should fit within a broader external reporting context, where comparisons of actual performance against budget and explanations for key variances appear in departmental annual reports.

Presently, the Financial Management Act 1994 does not require the disclosure of budget information in comparison with actual results and explanations for key variations arising from such comparison. These disclosures could appear in summary form or as supplementary information within the annual report and would be additional to the provisions of Australian Accounting Standard AAS 29 Financial Reporting by Government Departments which requires a "summary of compliance with externally-imposed directives"\(^\text{13}\) to be included in departmental financial statements.

To complement this initiative, the moving of the statutory deadline for the publication of departmental annual reports from 31 October to an earlier date should ensure that such reports are available at the same time as the Annual Financial Statements for the State. Improving the timeliness of the publication of departmental annual reports would alleviate the present departmental practice of reporting on or close to 31 October.

A further matter of concern to the Committee is that, throughout Budget Paper No. 3, 1997-98 budget figures are only compared with the 1996-97 budget. In the Committee’s view, revised budget figures for the current year need to be disclosed, not only in summary form in Budget Paper No. 2, but also for each department in Budget Paper No. 3, in the interests of transparency and enhanced accountability. This would necessitate the publication of three columns of figures. Using 1997-98 budget estimates as an example, 1996-97 initial budget, 1996-97 estimated actual/revised budget, and 1997-98 budget would be disclosed. Ideally, variations between the estimated actual/revised budget and the budget for the coming year would be explained, through the use of notes. This approach would give due recognition of the importance of estimated actual/revised budget figures which are presently only

\(^\text{13}\) Appendix to Australian Accounting Standard AAS 29 Financial Reporting by Government Departments.
disclosed in summary form in Budget Paper No. 2. These additional disclosures would also provide an early indication of performance against the initial budget estimates with explanations being provided as to the manner in which estimated actual/revised budget figures for the previous year impacted on the budget figures.

The present practice in Budget Paper No. 2 of publishing two sets of budget data does not provide sufficient information to publicly account for actual performance of departments. The Committee’s recommendations in this area are concerned with enhancing the information basis for assessments of the performance of management in both setting budget estimates and in achieving targeted results.

**Recommendation: 2.5** That comparisons of actual and budgeted results, both financial and non-financial, including explanations for key variations in results, be disclosed in annual reports and be mandated under the Financial Management Act 1994.

**Recommendation: 2.6** That, in order to improve the timeliness of publication of departmental annual reports, the Financial Management Act 1994 be amended to require an earlier tabling date of these reports.

**Recommendation: 2.7** That Budget Papers No. 2 Budget Statement and No. 3 Budget Estimates disclose estimated actual/revised budget figures and provide supporting comment on significant variations.

**Information content of Budget Paper No. 3 Budget Estimates**

The Committee notes that the appropriation information provided in Budget Paper No. 3 is highly aggregated.

Examples of the impact of the aggregation are the significant amounts shown as “other departmental costs” and “current transfer payments”. The Committee believes that the provision of additional classification categories are required in the interests of making comparisons between agencies of major items of cost.

There are also instances of inconsistencies within the document e.g departmental current and capital outlays are sometimes described as “net” figures and in other instances reported as “gross” figures. For example, departmental current and capital outlays are reported separately as “net” figures, while total departmental outlays, which include both current and capital outlays, are reported on as “gross” figures elsewhere in the document.14

In the Committee’s view, the form and content of the information provided in the Victorian Budget Papers could be improved. Both New Zealand and New South

---

14 Budget Paper No. 3 Budget Estimates, pages 26, 36 and 41
Wales provided good models. In the *Estimates of Appropriations for the Government of New Zealand for the Year Ending 30 June 1997*, appropriations for departments are not as highly aggregated as Budget Paper No. 3.

The presentation of the data in New Zealand is considered by the Committee to be more complete with "operating" and "capital" appropriations for each department being disclosed together with statements of the purpose of these appropriations for each output class. These disclosures also enable informed assessments of the relationship between appropriations and performance measures. In addition, historical data for major categories of appropriations, both operating and capital, are also disclosed which enables the Parliament to conveniently identify and analyse appropriation trends.

In contrast, the Victorian Budget Paper No. 3 makes reference to the need to further refine performance measures with an emphasis on measures of quantity, quality, timeliness and cost. The Committee understands that future resource allocation decisions will be made on considerations of the overall level, mix, and unit costs of outputs to be provided in addition to input costs of service delivery. The manner in which the Government intends to use performance measures in deciding priorities for allocation purposes, and how they will determine the quantum of the allocations, are not stated in the State Budget Papers. The Committee believes that the nurturing of a performance culture is reliant on making performance measurement paramount.

As indicated, the nature and extent of budget information provided on departments within Victoria and New Zealand differs substantially. The Committee has found that the comprehensive approach taken by New Zealand would enable an informed, but not expert, reader to readily understand what a department sought to achieve and how it intended to do so. Even when taking into consideration the different budget form and content, the Victorian disclosures also differ in the degree of transparency in the financial and other information provided.

In order to appreciate the extent of the different levels of disclosures, the Committee analysed the elements of information provided for the Department of Education (Victoria), Vote Education (New Zealand) and Minister for Education and Training (New South Wales) as follows:

**Department of Education (Victoria):**

- Total budgeted outlays approximate $3.8 billion, in four output groups comprising 45 outputs, grouped under five headings, for which performance measures have been established;
- The specific section within Budget Paper No. 3 Budget Estimates dealing with the Department of Education covers 23 pages;
- A four page section precedes the budget information and includes an overview of the Department, scope of the education and training system, policy objectives and strategies for 1997-98;
- The budget information for the Department comprises departmental outlays (by source), composition of departmental outlays (how to be...
spent), break-up of charges and reimbursements and departmental new works approved for 1997-98 together with amounts to be expended in respect of those approvals during that year;

- For 1997-98, only budget amounts are reflected for that year and 1996-97 in respect of outlays and performance measures;

- Output group 011 School Education Services accounts for over 80 per cent of the Department’s outlays and almost 20 per cent of the State’s outlays; and

- Specific information on that output group is provided on four pages including key government outcomes and description of the output group both of which are brief in content, departmental outlays by output group, performance measures for defined outputs and outlays by output group.

Vote Education (New Zealand):

- Appropriations sought by Vote Education exceed $NZ6 billion spread over 8 departmental output classes, 13 non-departmental output classes and encompasses benefits and other unrequited expenses, other expenses to be incurred by the Crown, capital contributions to the Department and to other persons or organisations;

- The specific section in Estimates of Appropriations for the Government of New Zealand dealing with Vote Education covers 67 pages;

- The purpose of appropriations to each item within the above categories is clearly stated:

- Vote Education is prefaced by information provided on objectives and trends for that Department;

- The “objectives” section includes government strategic result areas for Education and links between the output classes and those results areas;

- Information is provided on expenditure and revenue trends for the Department over a five year period;

- For each of the departmental and non-departmental output classes, a description of each item within those output classes is given together with defined outputs in terms of quantity, quality, timeliness and cost;

- Finally, a reconciliation is provided in respect of changes in departmental output appropriations.

Minister for Education and Training (New South Wales)

- The Ministry encompasses 4 agencies with total appropriations in excess of $5 billion for which budget details are provided in 58 pages of Budget Paper No. 3 Budget Estimates;

- A summary of staffing (EFTs) for each of these agencies is provided up front;

- for each of the 20 programs within the 4 agencies, program objective(s) and description, average staffing (EFTs) levels, operating and investing statements, capital expenditure and receipts, are reported on;

- For those 20 programs, 52 outputs, mainly quantitative in nature, are reported on for a four year period, viz. actual figures for the past three year and the estimates figures for the budget year; and
Financial information is provided in three columns; initial and revised budget for current year and budget for coming year and accrual entries such as depreciation and other non-funding entries, are specifically identified.

While the Committee recognises the difficulty in achieving a balance in the nature and extent of financial and other information provided in the State Budget Papers, the Committee is of the view that the above analysis demonstrates that the budget documentation, particularly Budget Paper No. 3, could be enhanced by the introduction of elements such as staffing levels, breaking down of output groups, trend analysis, inclusion of revised budget figures, linkages with government policy objectives and categorisation of output measures.

**Recommendation: 2.8** That the composition of departmental outlays reported on in Budget Paper No. 3 Budget Estimates be disaggregated to enable more informed assessments of levels of expenditure in respect of provision of services by departments.

**Recommendation: 2.9** That the Department of Treasury and Finance examine the budget documents of other jurisdictions with a view to improving the form and content of Budget Paper No. 3 Budget Estimates by disclosing appropriations on a less aggregated basis, linking appropriation amounts with other disclosures, and providing historical data for trend analysis purposes.

**Output groups and measures**

The Committee believes that the Budget Papers should provide sufficient information regarding the relative importance of departmental output groups. The Department of Treasury and Finance and the Department of State Development piloted output groups for 1996-97 and found it necessary to make significant adjustments to those groupings when preparing 1997-98 budget information. However, Budget Paper No. 3 did not include a schedule explaining the changes made by these departments nor for the remaining departments which moved from a program to an output structure.

Furthermore, while the average outlay per output group is $191 million, the range is extensive from $1.0 million for output group 505 Information Victoria (Department of Premier and Cabinet) to $3.14 billion for output group 011 School Education Services (Department of Education). Each output group is only distinguished by the amount disclosed as outlays and the number of output categories and measures. From an external perspective, therefore, the specification of the output measures is of paramount importance since, in the absence of actuals or revised budget figures and explanations for variations in those figures, the nature and impact of the measures will not be fully appreciated.
The Committee believes there should be sufficient flexibility to cater for the reporting needs of diverse portfolios. However, the key judgement to be made by departments is whether there is sufficient information and explanation to enable the Parliament and the community to understand the purpose of each output group.

**Recommendation: 2.10** That the Department of Treasury and Finance assist departments in reviewing the relative composition of departmental output groups and related outputs and performance measures and consider varying the level of detail provided in respect of departments in Budget Paper No. 3 Budget Estimates according to such matters as the substance of the outlays, complexity of operations and level of parliamentary interest.

**Transparency of departmental performance**

At present, a fairly simplistic view applies in the public sector that the publication of service delivery targets will promote comparisons, make people accountable and will result in improvements and provide more efficient and effective organisational units. A performance-driven resource allocation model has yet to gain wide attention and is dependent on the evaluation of cross-departmental performance and the adoption of financial incentives.

This model is unlikely to be effective where there is no prioritisation of the performance measures specified. The Committee believes that departments need to identify whether the performance measures identified in the Budget Paper No. 3 are of equal importance, and report on how demanding the targets were and how good the performance. The Committee is also interested to know which measures will be weighted more than others in meeting the resource allocation priorities of the Government.

The Committee is aware that an over-emphasis on financial and non-financial quantitative data may impact adversely on effective organisational development. The Committee is of the view that public sector managers need to report such data in combination with a range of qualitative data to avoid a narrowing of their perspectives e.g. the development and reporting of outcome measures should not be delayed so that greater precision is given to the quality of quantitative and qualitative measures of output performance.

The Budget Papers make reference to the efficiency of government and departments, but do not explain what is intended by the term, nor contain measures of it. Measures of efficiency have to do with the relationship between inputs and outputs, and may be measured in financial and non-financial terms. While assessments of performance in meeting targets related to quantity, quality, timeliness and cost are important, assessments of the organisational efficiency of the service providers, expressed in terms of the relationship between inputs and outputs, are also important in implementing a balanced approach to performance measurement and will further enhance accountability.
Recommendation: 2.11 That an explanation be provided in Budget Paper No. 3 Budget Estimates describing the manner in which departmental performance measures will be employed in resource allocation decision-making.

Recommendation: 2.12 That departments develop and report on outcome measures for inclusion in Budget Paper No. 3 Budget Estimates to complement existing quantitative and qualitative performance output measures.

Recommendation: 2.13 That performance measures include indicators of departmental efficiency as well as those relating to the attainment of budgetary performance outcomes.

Understanding the terminology

While the Budget Papers are prepared in accordance with the Government Finance Statistics (GFS) format and a glossary is provided, there remains some confusion as to the nature of certain budget items. For example, in Budget Paper No. 3, statements of departmental outlays provide details of appropriation authority, trust accounts and own accounts but there are no explanations as to the importance of the amounts shown e.g. the meaning of "receipts classified as outlays". Furthermore, while the total of departmental outlays (sources) and the composition of departmental outlays (how spent) are provided, the relationship and relative importance of such information is not explained. Effectively, this information is in the form of a funds statement that would normally be included in the financial statements of reporting entities.

Recommendation: 2.14 That a more comprehensive listing of technical terms used in the Budget Papers be included in the glossary and plain English be used in the Budget Papers so readers can understand the relative importance of the information being provided.

Interim reporting

The Committee has seen no evidence of the publication of interim reports within the public sector. The Committee believes that interim reporting of pertinent financial and non-financial data, supported by a diversity of qualitative information should enhance overall accountability for performance.

The 1990 Australian Accounting Research Foundation (AARF) Discussion Paper No. 15 Timing and Frequency of Financial Reporting, stated that:
"interim financial reporting permits closer monitoring of performance and allows additional or supplementary programmes to be introduced, if required, to achieve desired outcomes in an efficient manner".16

At present, departments are required to report at regular intervals to the Department of Treasury and Finance on a range of financial and other matters. The existence of this level of reporting would facilitate the preparation of half-yearly annual reports which would include financial statements at that date in an abbreviated form, comparison with budget revenues and outlays, and progress against key performance targets. Such reports could be made publicly available early in the new calendar year and provide a link between the annual reporting and budgetary processes.

The Committee is of the opinion that the preparation of interim reports for departments on a half-yearly basis would sharpen the focus on departmental performance.

Recommendation: 2.15 That the Ministerial Directions on financial reporting be amended to require half yearly reports to be prepared by departments which would include financial statements in an abbreviated form, comparisons with budget revenues and outlays, and progress against performance targets and that this information be provided to the Public Accounts and Estimates Committee.

2.5 Public accountability issues

In our April 1997 Report on the 1996-97 Budget Estimates and 1995-96 Budget Outcomes17: the Committee outlined a number of areas that the government needed to report on to fulfil the requirement to be accountable to the Parliament and the community for its performance. The Committee stated that the government should report whether or not its results differed from what was intended, explain why, and outline what action was taken to improve the situation.

While the 1997-98 budget process may be viewed as transitional, the Committee is of the view that public accountability can still be enhanced in the planning and reporting framework. The 1997-98 budget estimates only compare the budget figures, for both outlays and targets, with the corresponding amounts for the prior year since actuals are not available at the time the Budget Papers are prepared. Revised budget estimates for the prior year, which give an indication of actual figures to be subsequently reported on, are provided in a summarised form in Budget Paper No. 2 thereby lessenting the relevance of departmental information contained in Budget Paper No. 3, which are provided on an output group basis.

---

The Committee believes that neither the Annual Financial Statements for the State nor departmental annual reports, in their present form, will provide the necessary detailed information to permit performance to be properly assessed at departmental level. It is only when information is disclosed, similar to that as outlined in the corporate and business plans of the Department of Natural Resources and Environment, and made public that complete transparency will be achieved.

The Committee appreciates that the level of detail should be flexible enough to accommodate the complexity and size of an agency’s operations. However, it is essential that departments and agencies develop meaningful indicators of performance, both in quantitative and qualitative terms, and report on them.

Further, given the time between the tabling of departmental annual reports and the budget estimates and the limited usefulness of annual comparative information after the event, the Committee believes there is considerable scope for departments to report during the year to the Parliament and disclose where significant revisions of budget estimates have taken place.

**Recommendation: 2.16** That departments provide information for inclusion in Budget Paper No. 3 Budget Estimates consistent with their corporate and business plans to enable the Parliament to be aware of what each department seeks to achieve, how it intends to do so and how well has it progressed.

**Recommendation: 2.17** That the Department of Treasury and Finance develop a performance reporting framework for departments that has a department’s annual report as the cornerstone for external accountability. A department’s annual report should incorporate appropriate elements from its corporate and business plans, budget estimates and other relevant public documents, sufficient to provide the Parliament, the public and other interested parties with an understanding as to whether critical success factors for the department have been achieved.
Chapter 3: Budget Overview

3.1 Overview of the 1997-98 budget estimates

The Committee notes that the 1997-98 Budget has been framed against the background of the following longer term objectives of Government. To-

- deliver high quality services at least cost;
- achieve sustained budget balance, with a surplus on current account at least sufficient to meet depreciation expense;
- reduce State debt consistent with restoration of a triple-A credit rating;
- bring Victoria’s tax rates into alignment with the Australian average; and
- ensure adequate infrastructure to support economic growth.

Overall position

For 1996-97, the Government planned for an underlying budget deficit (adjusted for privatisation) of $0.7 million compared with the revised budget surplus in April 1997 of $802.7 million\(^{18}\), an improvement which was mainly attributable to the following factors:

- increased revenue arising from privatisation-generated taxation receipts, more buoyant conditions in the property market and higher than expected public authority dividends; and
- reductions in interest paid in respect of debt obligations and in the level of Departmental costs incurred.

The Committee notes that the headline budget surplus for 1996-97 (including the proceeds from privatisation) was initially assessed as $2 169.3 million before being revised to $5 025.8 million\(^{19}\) after the inclusion of additional privatisation sales including $1.8 billion from the sale of Loy Yang A.

Exhibit No. 3 details the main components of both the underlying and headline initial and revised budget surpluses for 1996-97 together with corresponding amounts budgeted for 1997-98.

\(^{18}\) 1997-98 Budget Paper No. 2 Budget Statement, pages 40-44
\(^{19}\) Ibid., page 43
### Exhibit No. 3
**Summary of financial information included in 1997-98 Budget Papers**  
($million)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current revenue &amp; grants</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Taxes, fees &amp; fines</td>
<td>8 431.0</td>
<td>8 647.4</td>
<td>8 592.8</td>
</tr>
<tr>
<td>Public authority income</td>
<td>1 273.0</td>
<td>1 437.0</td>
<td>675.0</td>
</tr>
<tr>
<td>Commonwealth grants</td>
<td>5 701.1</td>
<td>5 677.1</td>
<td>5 664.9</td>
</tr>
<tr>
<td>Other revenue</td>
<td>212.2</td>
<td>215.0</td>
<td>201.9</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>15 617.2</td>
<td>15 976.5</td>
<td>15 134.6</td>
</tr>
<tr>
<td><strong>Current outlays</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Departmental costs</td>
<td>12 097.5</td>
<td>11 988.7</td>
<td>12 236.6</td>
</tr>
<tr>
<td><strong>Less: Charges and reimbursements</strong></td>
<td>-1 190.8</td>
<td>-1 194.9</td>
<td>-1 182.0</td>
</tr>
<tr>
<td>Interest paid</td>
<td>1 659.6</td>
<td>1 457.0</td>
<td>1 121.4</td>
</tr>
<tr>
<td>Superannuation</td>
<td>1 153.7</td>
<td>1 197.3</td>
<td>1 280.4</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>13 719.9</td>
<td>13 448.1</td>
<td>13 456.4</td>
</tr>
<tr>
<td><strong>Current account surplus</strong></td>
<td>1 897.3</td>
<td>2 528.4</td>
<td>1 678.2</td>
</tr>
<tr>
<td><strong>Capital grants</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commonwealth grants</td>
<td>538.5</td>
<td>511.6</td>
<td>446.2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>538.5</td>
<td>511.6</td>
<td>446.2</td>
</tr>
<tr>
<td><strong>Capital outlays</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Direct additions to public infrastructure</td>
<td>1 477.2</td>
<td>1 330.1</td>
<td>1 547.4</td>
</tr>
<tr>
<td><strong>Less: Sales of fixed assets</strong></td>
<td>-100.7</td>
<td>-299.9</td>
<td>-128.8</td>
</tr>
<tr>
<td>Separation payments</td>
<td>100.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other grants and advances</td>
<td>652.7</td>
<td>688.6</td>
<td>522.7</td>
</tr>
<tr>
<td><strong>Less: Capital receipts</strong></td>
<td>-1 762.7</td>
<td>-3 804.6</td>
<td>-260.6</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>266.5</td>
<td>-1 985.8</td>
<td>1 680.7</td>
</tr>
<tr>
<td><strong>Capital account surplus/(deficit)</strong></td>
<td>272.0</td>
<td>2 497.4</td>
<td>-1 234.5</td>
</tr>
<tr>
<td><strong>Total budget sector surplus</strong></td>
<td>2 169.3</td>
<td>5 025.8</td>
<td>443.7</td>
</tr>
<tr>
<td><strong>Less: Impact of privatisation</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current account</td>
<td>620.6</td>
<td>693.3</td>
<td></td>
</tr>
<tr>
<td>Capital account</td>
<td>1 550.0</td>
<td>3 529.8</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>2 170.0</td>
<td>4 223.1</td>
<td></td>
</tr>
<tr>
<td><strong>Total budget sector surplus/deficit (adjusted for privatisation)</strong></td>
<td>-0.7</td>
<td>802.7</td>
<td>443.7</td>
</tr>
</tbody>
</table>

(Source: 1997-98 Budget Paper No. 2 Budget Statement, Table 3.2 (page 43) and Table 3.4 (page 46))
The Government has projected that modest overall underlying budget sector surpluses (adjusted for privatisation) will continue in the triennium 1998-99 to 2001-01\(^{20}\) with current account surpluses offsetting capital account deficits for those years. Sustainable surpluses will also be achieved after allowing for non-recurring items.\(^ {21}\)

**Revenue levels**

Increases in gambling taxes, particularly from the casino and electronic gaming machines, will be offset by the lower franchise fees received in respect of petroleum.

The recent High Court decision on NSW tobacco franchise fees will impact on the manner in which most of the revenue included within taxes, fees and fines will be collected in the future. The Commonwealth now intends to impose the levies and pass on the moneys collected, net of administrative costs, to the States and Territories. The Committee understands that while there may be some procedural difficulties with this arrangement, it is not expected that Victoria will be disadvantaged by this development in terms of revenue levels. The main result will be the greater centralisation of taxing powers which may provide the catalyst for much needed reform of the taxation system.

At present, grants from the Commonwealth, excluding those for on-passing, comprise almost 40 per cent of revenue and grants received by Victoria. These grants are made up of general purpose grants (GPPs) and special purpose payments (SPPs). Total SPPs include both grants for general government sector purposes, and grants for on-passing to universities, local government authorities and non-government schools.

Total grants, excluding grants for on-passing, were expected to increase by 4.5 per cent for 1996-97 but decline by 2.1 per cent in 1997-98.\(^ {22}\) Key matters impacting on the level of Commonwealth grants to be received by States/Territories include the firearm compensation scheme, payments received under the National Competition Policy (NCP) and contributions to the Commonwealth in respect of its financial arrangements with the States/Territories.

**Departmental outlays**

Total departmental outlays are expected to increase from $13.986 billion in 1996-97 to $15.137 billion in the coming year, an increase of $1.151 billion or 8.2% over the previous year. The main areas of increase have been in the Department of Premier and Cabinet (capital expenditure in the Arts portfolio) and the Department of Treasury and Finance (because of the impact of privatisation).

---

\(^{20}\) Ibid., Table 3.6, page 51

\(^{21}\) Ibid., Table 3.7, page 54

\(^{22}\) Ibid., Table 6.1, page 102
### Exhibit No. 4
**Total Departmental Budgeted Outlays (Current and Capital) ($million)**

<table>
<thead>
<tr>
<th></th>
<th>1996-97 Budget</th>
<th>1997-98 Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>Parliament</td>
<td>71.5</td>
<td>72.9</td>
</tr>
<tr>
<td><strong>Departments</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Education</td>
<td>3,738.2</td>
<td>3,797.2</td>
</tr>
<tr>
<td>Human Services</td>
<td>5,184.8</td>
<td>5,344.3</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>1,651.4</td>
<td>1,739.4</td>
</tr>
<tr>
<td>Justice</td>
<td>1,472.8</td>
<td>1,483.0</td>
</tr>
<tr>
<td>Natural Resources and Environment</td>
<td>459.6</td>
<td>459.6</td>
</tr>
<tr>
<td>Premier and Cabinet</td>
<td>290.1</td>
<td>479.8</td>
</tr>
<tr>
<td>State Development</td>
<td>317.8</td>
<td>291.3</td>
</tr>
<tr>
<td>Treasury and Finance (a)</td>
<td>1,317.3</td>
<td>2,089.8</td>
</tr>
<tr>
<td><strong>Less: Capital charge received</strong></td>
<td>-262.1</td>
<td>-359.4</td>
</tr>
<tr>
<td><strong>Departmental outlays</strong></td>
<td>14,241.3</td>
<td>15,398.0</td>
</tr>
<tr>
<td><strong>Less: Payroll tax paid</strong></td>
<td>-254.9</td>
<td>-260.9</td>
</tr>
<tr>
<td><strong>Total Departmental outlays</strong></td>
<td>13,986.4</td>
<td>15,137.1</td>
</tr>
<tr>
<td><strong>comprising:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Current account</strong></td>
<td>13,719.9</td>
<td>13,456.4</td>
</tr>
<tr>
<td><strong>Capital account</strong></td>
<td>266.5</td>
<td>1,680.7</td>
</tr>
</tbody>
</table>

(Source: 1997-98 Budget Paper No. 3 Budget Estimates, Table 1.3, page 41)

(a) Includes allowances for future budget sector wage increases, demand growth for departmental services and other contingencies, including provision for new works, proceeds of privatisations and outlays on behalf of the whole of government.

As indicated in Exhibit No. 4, departmental costs represent the major component of current outlays and are projected to increase during 1997-98 by $336 million to $11,054 billion or 3.1% on the underlying 1996-97 budget base of $10,906 billion. A productivity dividend of 1.5% was applied to certain components of departmental expenditure and is expected to amount to $120 million for 1997-98. Detailed comment on departmental outlays will be made in succeeding sections of this report.

While a separate section within Budget Paper No. 3 does provide an overview of the significant variations in total departmental outlays both current and capital for the two years, the general nature of this information makes it difficult to assess the variations as they relate to individual output groups within departments.

The Committee notes that an important schedule outlining the relativity of the levels of departmental costs is included in Budget Paper No. 2. This schedule is shown as Exhibit No. 5 and reconciles the 1996-97 budget figure for departmental costs with the corresponding figure for 1997-98.
### Exhibit No. 5
**Growth in Departmental Costs, 1996-97 to 1997-98**

<table>
<thead>
<tr>
<th>Budget Year</th>
<th>Amount (million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1996-97 Budget</td>
<td>10 966.7</td>
</tr>
<tr>
<td>Less Reduced firearms buy-backs and 1996-97 non-recurring items</td>
<td>188.0</td>
</tr>
<tr>
<td><strong>Adjusted 1996-97 departmental base</strong></td>
<td>10 718.7</td>
</tr>
<tr>
<td>Plus Base adjustments for costs (wage and non-wage)</td>
<td>399.2</td>
</tr>
<tr>
<td>Policy increases</td>
<td>81.0</td>
</tr>
<tr>
<td>Other (including reduction in Commonwealth SPPs)</td>
<td>-24.2</td>
</tr>
<tr>
<td><strong>1997-98 Estimate (prior to productivity dividend)</strong></td>
<td>11 174.6</td>
</tr>
<tr>
<td>Less Productivity dividend</td>
<td>120.0</td>
</tr>
<tr>
<td><strong>1997-98 Budget departmental costs</strong></td>
<td>11 054.6</td>
</tr>
<tr>
<td>Increase on adjusted 1996-97 departmental base ($336 million or 3.1%)</td>
<td></td>
</tr>
<tr>
<td>Increase on 1996-97 Budget ($148 million or 1.4%)</td>
<td></td>
</tr>
</tbody>
</table>

(Source: 1997-98 Budget Paper No. 2 Budget Statement, Table 3.5, page 49)

While this schedule provides important information as to the funding levels for departments, it is not highlighted within Budget Paper No. 2 and no details are included in Budget Paper No. 3. Furthermore, the departmental break-up of the various elements comprising the movement in net departmental outlays and, in particular, the computation of the productivity dividend on the basis of the discretionary components of budgeted outlays, are not provided. This makes it difficult to ascertain accurately where the increases in costs are occurring.

**Recommendation: 3.1** That explanations of significant variations of departmental current and capital revenues and outlays be provided in Budget Paper No. 3 Budget Estimates, with such comments being included on the basis of an absolute $ amount or a fixed percentage of total departmental outlays.

**Recommendation: 3.2** That a reconciliation, by department, be provided in Budget Paper No. 3 Budget Estimates of the movement between the base budget levels for departmental costs for the current and prior years and details of the computation of the productivity dividend and composition of the other reconciling items.
3.2 Privatisation transactions

The revised estimates of the proceeds from privatisation for 1996-97 was $4.2 billion (in relation to the sale of Hazelwood Power Corporation and Loy Yang A, and the repatriation of further proceeds from the previous sale of electricity distribution businesses and Yallourn Energy)\(^{23}\) compared with almost $4.7 billion received in respect of 1995-96 (from the sale of electricity distribution businesses, GFE Resources Ltd and BASS ticketing operation).\(^{24}\) As indicated, privatisation transactions are correctly treated as one-off items and are excluded when determining the underlying budget surplus or sustainable planning surplus. Their impact on an ongoing basis is reflected in the lower interest payments arising from the significant reduction in debt levels.

Exhibit No. 6 indicates the changes that have taken place since the initial assessment was made of the impact of privatisation on the 1996-97 State Budget.\(^{25}\) The revised estimates included $1.8 billion in proceeds which was expected to be realised from the sale of Loy Yang A in addition to $65 million in stamp duty from this sale and $171.5 million relating to capital receipts temporarily retained in the SECV (State Electricity Commission of Victoria) from earlier sales pending resolution of outstanding issues\(^{26}\).

| Exhibit No. 6 Impact of Privatisation on the 1996-97 Budget Estimates ($million) |
|---------------------------------|-----------------|-----------------|-----------------|-----------------|
|                                 |                 | (Revised)        |
| Revenue                         |                 |                 |
| Stamp duty                      | 133.5           | 236.8           |
| Tax equivalent receipts         | 486.5           | 486.5           |
|                                 | 620.0           | 693.3           |
| Capital receipts                |                 |                 |
| Hazelwood Power Corporation sale proceeds | 1 498.0     | 1 506.2          |
| Loy Yang A sale proceeds        |                 | 1 800.0          |
| Electricity distribution businesses, Yallourn Energy - repatriation of further proceeds | | 171.5          |
| Port asset sale proceeds        | 52.0            | 52.1             |
|                                 | 1 550.0         | 3 529.8         |
| Net proceeds of privatisations  | 2 170.0         | 4 223.1         |

(Source: 1997-98 Budget Paper No. 2 Budget Statement, Table 3.3, page 44)

\(^{23}\) Ibid., Table 3.3, page 44
\(^{24}\) 1996-97 Budget Paper No. 2 Budget Performance and Outlook, Table 2.2, page 13
\(^{25}\) Ibid., Table 3.2, page 24
\(^{26}\) 1997-98 Budget Paper No. 2 Budget Statement, page 44
Proceeds from the sale of electricity entities, but excluding the recent sale of Loy Yang A, have amounted to $17.9 billion\textsuperscript{27} which has been applied to the retirement of entity debt of $3.9 billion, budget sector debt of $8.7 billion, SECV residual debt of $2.7 billion, other non-budget sector debt of $1.0 billion and payment of Municipal Electricity Undertakings entitlements amounting to $532 million. The remainder has been retained in the State Electricity Commission of Victoria to provide for future obligations.

The Committee notes that the overall financial benefit from privatisation on the current account, by reduced interest payments, has been assessed by the Department of Treasury and Finance to be in excess of $1.4 billion over the three year period 1995-96 to 1997-98. For 1997-98, the savings are estimated by the Department to be approximately $718.3 million\textsuperscript{28}.

In line with past practice, the Government has not included in the 1997-98 Budget Papers the anticipated proceeds from assets sales likely to take place in that year and in the triennium to 2001. Any proceeds from the asset or entity sales within the gas or transport sectors will obviously impact on the headline budget surplus and have a flow-on effect in the form of further reduced interest payments.

3.3 Liability management

The continued application of privatisation proceeds towards the reduction of State key debt has been a strategy of the Government to strengthen the State's financial position.

Public sector debt has fallen by more than half since 30 June 1995 from $32.5 million to an estimated $14.3 billion by 30 June 1997 and is projected to reach $11.8 billion by 30 June 2001\textsuperscript{29} as indicated in Exhibit No. 7. The Committee notes, however, that this reduction in debt is likely to be offset by a rise in superannuation outlays as a greater proportion of public servants retire. Total public sector liabilities are forecast to be steady at $37.2 billion for the period 1998 through to 2001.

<table>
<thead>
<tr>
<th>Exhibit No. 7</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Public Sector Net Financial Liabilities (a)</strong></td>
</tr>
<tr>
<td>($ billion)</td>
</tr>
<tr>
<td>Public sector net debt</td>
</tr>
<tr>
<td>Unfunded superannuation</td>
</tr>
<tr>
<td>Other</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
</tr>
</tbody>
</table>

Note: (a) Net liabilities equals total liabilities, less financial assets
(Source: 1997-98 Budget Paper No. 3 Budget Statement, Table 7.4, page 126)

\textsuperscript{27} Ibid., Table A1, page 130
\textsuperscript{28} Ibid., page 130
\textsuperscript{29} Ibid., pages 113 and 117
The Committee is aware that a number of reforms\textsuperscript{30} have been introduced since 1993 to address the growth in unfunded superannuation liabilities including the closure of the majority of defined benefits schemes to new members, and the introduction of accumulation schemes for new employees. Current unfunded liabilities have arisen in defined benefit public sector superannuation schemes because the State’s share of superannuation costs were not contributed as benefits accrued, but only when a benefit is actually paid. This is known as the emerging cost payment basis.

From November 1995, departments and agencies were made responsible for meeting the accruing superannuation cost through payments from their annual budget. The costs of prior service remain the responsibility of the State and are currently funded through an annual top-up payment that is based on the level of benefit payments which are expected to be made each year.

\textsuperscript{30} Ibid., page 123
Chapter 4: Parliamentary Departments

4.1 Introduction

In recognition of the special status of the Parliament and its independence from the executive arm of government, the Parliament has a separate Appropriation Act. The funding base for the Parliamentary Departments is subject to negotiation by the Presiding Officers with the Treasurer and the Minister for Finance. In reality, the total budget base is largely determined by the Government which has applied the same constraints to the Parliament as those which it has generally applied to all other budget sector agencies.

The Parliament has five discrete departments - the Legislative Council, the Legislative Assembly, Parliamentary Debates (Hansard), the Parliamentary Library and Parliamentary Services which provide a broad range of advisory and support services to the Victorian Parliament, its committees, the Presiding Officers and Members of Parliament.

The five departments operate independently of each other, except on matters affecting two or more departments. Each department manages its own staffing, administration and financial operations.

For budget management purposes, the Parliamentary Departments have adopted six output groups in respect of the 1997-98 financial year compared to eight programs in the previous year. The main change has been the consolidation of parliamentary and electorate support services and the allocation of printing to the various output groups. Output group 806 Performance Audits relates to the work of the Victorian Auditor-General’s Office for which funding was increased from $3.7 million in 1996-97 to $4.1 million, an increase of 10 per cent.

The President of the Legislative Council, Hon. B A Chamberlain, and the Speaker of the Legislative Assembly, Hon. S J Plowman, appeared before the Committee together with the senior officer from each of the Parliamentary Departments.

4.2 Budget overview

The Parliament has budgeted for outlays of $72.9 million for 1997-98, an increase of $1.4 million or 2% over the previous year as outlined in Exhibit No. 8:
## Exhibit 8
Composition of Departmental Outlays

<table>
<thead>
<tr>
<th></th>
<th>Budget 1996-97 ($'000)</th>
<th>Budget 1997-98 ($'000)</th>
<th>Variance ($'000)</th>
<th>Variance %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Administration and service provision costs:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Wages and salaries</td>
<td>27,450</td>
<td>28,354</td>
<td>904</td>
<td>3.3</td>
</tr>
<tr>
<td>- Superannuation</td>
<td>15,943</td>
<td>19,379</td>
<td>3,436</td>
<td>21.6</td>
</tr>
<tr>
<td>- Capital charge</td>
<td>334</td>
<td>472</td>
<td>138</td>
<td></td>
</tr>
<tr>
<td>- Other departmental costs</td>
<td>21,675</td>
<td>22,571</td>
<td>897</td>
<td>4.1</td>
</tr>
<tr>
<td>Current transfer payments</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Personal benefit payments</td>
<td>58</td>
<td>-58</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Current grants and other transfer payments</td>
<td>229</td>
<td>411</td>
<td>182</td>
<td>79.5</td>
</tr>
<tr>
<td><strong>Total cost of services</strong></td>
<td>65,688</td>
<td>71,187</td>
<td>5,499</td>
<td></td>
</tr>
<tr>
<td><strong>Charges and reimbursements</strong></td>
<td>-10</td>
<td>-10</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Net cost of services</strong></td>
<td>65,678</td>
<td>71,177</td>
<td>5,499</td>
<td></td>
</tr>
<tr>
<td>Direct addition to public infrastructure, net stocks and land acquisition</td>
<td>5,830</td>
<td>1,733</td>
<td>-4,097</td>
<td>-70.3</td>
</tr>
<tr>
<td><strong>Capital outlays</strong></td>
<td>5,830</td>
<td>1,733</td>
<td>-4,097</td>
<td></td>
</tr>
<tr>
<td><strong>Total group outlays</strong></td>
<td>71,508</td>
<td>72,910</td>
<td>1,402</td>
<td></td>
</tr>
</tbody>
</table>

(Source: 1997-98 Budget Paper No. 3 Budget Estimates, Table 2.1.2, page 50)

Funding for the Parliamentary Departments comprises:

- special appropriations (members’ salaries and allowances, contributions to the superannuation scheme, funding for the joint investigatory committees);
- annual appropriations (more than half relates to electorate support); and
- carryovers from the prior year (for current and capital purposes).

Included within the carryovers from 1996-97 are appropriation amounts of $1.053 million for current purposes and $384,000 for capital purposes. There is no carryover in the 1997-98 budget for current purposes but $385,000 has been held as a carryover for capital purposes. The carryover of unspent appropriations from a prior year is an estimate only with the final amount yet to be determined.

The President indicated to the Committee\(^{31}\) that special appropriations are provided under the Constitution Act 1975 for the Legislative Council ($100,000) and for the Legislative Assembly ($275,000) to provide some limited guaranteed funding for the operation of the two House departments and to cover the salaries of the Clerks of the Legislative Assembly and the Legislative Council. In principle, these provisions would allow for the continued servicing of the Parliament in the event of a constitutional crisis. The Committee notes that these amounts have not been changed since 1975.

---

\(^{31}\) Hon. B A Chamberlain, President of the Legislative Council, Transcript of Evidence, 19 May 1997, page 39

32
As can be seen from Exhibit No. 8, the main reasons for the higher level of outlays are the increases in superannuation payments, wages and salaries, and other departmental costs, partially offset by the reduction in capital expenditure. Only $10,000 is expected to be received as revenue.

The Clerk of the Legislative Assembly informed the Committee that the increase of $3.4 million in superannuation was as a consequence of the proposal to fully fund the Parliamentary Contributory Superannuation Fund. Significant additional payments would be made in 1996-97 and 1997-98 to meet the existing shortfall in the Fund.

In relation to capital expenditure, the major ongoing projects are the implementation of financial management and related systems amounting to $250,000 and the roof replacement in Queens Hall for $800,000. The greater portion of the budgeted capital expenditure of $1.7 million for 1997-98 is in output group 805 Parliamentary and Electorate Support Services under which various ancillary services including financial management, accounting services, property and facilities management are provided to the Parliament and State electorate offices.

While the comparatives in Exhibit 8 indicated that capital expenditure of $5.83 million would be expended in 1996-97, Budget Paper No. 3 only reflected that an amount of $1.622 million would be expended for that year. The Committee understands that there has been an adjustment of $4.5 million between the net cost of services and capital outlays for the 1996-97 year.

At the estimates hearing, the President of the Legislative Council advised that:

"According to the (final) report tabled by the Parliament House Completion Authority, the money spent was about $1.4 million ... it is expenditure from which we will be able to get benefit, providing it is not too far in the future before the program starts up again"32.

The need for refurbishment of the parliamentary building was emphasised by the President, who referred to Parliament House as being "a very inefficient building"33. The Committee was advised that the issues relating to the provision of the stone to complete the external part of the building would be considered over the next 12 months, so that there would be no delay should the project ultimately proceed.

It was pointed out to the Committee that because Parliament House is a building of significant heritage value there are considerable costs involved in building preservation and maintenance.

The Committee believes that the Government has a responsibility to ensure that adequate funding is provided to enable the building to continue to operate in a functional manner.

---

33 Ibid., page 67
Recommendation: 4.1 That a structured maintenance program be developed for Parliament House and that adequate funding be provided by the Government to enable the building to continue to operate in a functional manner.

The Committee notes that a range of mainly quantitative performance measures/targets have been established for the Parliamentary Departments and are included in Budget Paper No. 3 but no explanation is given as to the relative importance of the measures/targets, or the variations in those indicators between budget periods.

4.3 Key issues facing Parliamentary Departments

The Committee has been advised that the Parliamentary Departments will need to address a number of significant issues with respect to their operations. The key issues identified were the increased pressure on the parliamentary budget through the imposition of the productivity dividend and the need to keep abreast of changes in technology so that services can be delivered in the most efficient and cost effective way.

Impact of productivity dividend on the provision of services

The Parliamentary Departments are presently required to meet a 1.5 per cent productivity dividend of $455 000 on budget outlays of $30.375 million. This presents particular difficulties because only 18 per cent of the Parliament’s budget outlays, or around $12 million, are considered to be discretionary as the remainder of the Budget represents fixed costs over which the Departments have no control.34

The Department of Parliamentary Services advised the Committee that present exclusions from the 1.5 per cent productivity savings total $5.5 million and include the superannuation levy, performance audits, certain grants and the capital charge on assets. The Department believes that the following items should also be exempted from productivity cuts:

- electorate offices - staffing and service entitlements (1997-98, $12.218 million), and the provision of rental, rates, maintenance facilities, etc. (1997-98, $6.075 million); and
- works and services expenditure - as a heritage building and because of the Parliament’s constitutional position, Parliament House is required to be maintained in working condition and presentable to the public (1997-98, $504 000).

If these further exclusions were permitted, the required productivity dividend would be reduced by $282 000, calculated as 1.5 per cent of $18.797 million.

---

The Committee was advised that negotiations are presently taking place with officials from the Department of Treasury and Finance in a bid to review this arrangement.

The Department of Parliamentary Services expects that the new financial management information system will allow for the division of all activities into separate cost centres across the parliamentary departments and this will facilitate the identification of areas to be considered by the Department of Treasury and Finance for exclusion from the calculation of the dividend.\textsuperscript{35}

Against the background of a tight budget, the Parliamentary Departments are facing a challenge in trying to maintain and, where possible, improve the range of services to Members. The Committee appreciates that it is difficult for the Departments to absorb the level of savings envisaged when they are essentially demand driven providing a fixed range of services.

While the Committee fully agrees that the Parliament should be subject to the 1.5% productivity dividend on its discretionary expenditure, it is of the opinion the Parliament's budget should not be viewed as a normal departmental budget in the total Department of Treasury and Finance budgetary processes, and that the productivity savings should not be applied to non-discretionary expenditure.

\textbf{Recommendation: 4.2} That the Department of Treasury and Finance review the manner in which productivity savings are to be applied to the Parliamentary Departments and exempt all non-discretionary expenditure from the productivity savings.

\textit{Use of information technology}

The President of the Legislative Council outlined the significant developments needed in information technology and stressed the importance of sufficient funds being made available to enable full advantage to be taken of the emerging technology.

One significant project\textsuperscript{36} to be completed during the 1997 calendar year is the ParlyNet project, which involves the electronic linking of members' electorate offices with their offices in the Parliament. The project is a joint activity between the Department of Premier and Cabinet and the Parliament and is expected to be implemented by late 1997.

While the Committee welcomes this development, it believes that the Parliamentary Departments must make greater use of technological solutions as a means of improving services to Members and to achieve greater efficiency and cost savings in its own information handling practices.

\textit{Changes to the Department of the Parliamentary Services}

The Department of the House Committee has changed its name to the Department of Parliamentary Services to reflect the diversity of its activities and its potential for a

\textsuperscript{35} Ms C Haydon, Secretary, Department of Parliamentary Services, Transcript of Evidence, pages 55-56.

\textsuperscript{36} Parliament of Victoria, Department of the House Committee, 1995-96 Report, page 23.
more centralised role in functions such as purchasing and personnel records currently handled by the other Parliamentary Departments.

The Speaker of the Legislative Assembly believes that the "centralised role for the Department would again bring about financial efficiencies and a better overall system". The Speaker also made reference to recent senior management appointments which should assist in the provision of enhanced services for Members and the other Parliamentary Departments.

The Committee was advised that specific strategies to be put in place included the integration of processes and systems including information technology, the preparation of business and work plans down to the business unit level, the development of key measures of performance, and the updating of policies and procedures. The Committee welcomes these developments and believes that they will ultimately lead to an improvement in the support services provided to the Parliament and the Members.

4.4 Funding arrangements for the Parliament and Parliamentary Committees

Parliament

In discussing the impact of the continuing requirement for the productivity dividend, the President of the Legislative Council advised the Committee that:

"there is pressure on those who run these (parliamentary) departments and the Presiding Officers to be smarter with the dollars they have... we are signalling to you (the Committee) that, subject to certain caveats, in the next financial year we can make do, but unless we address ourselves to the continuing requirements of productivity cuts of 1.5 per cent, in the following years, things will be tight"

At the Committee hearing, the President made various references to the costs incurred in other jurisdictions in providing services to Parliament indicating that the costs of the Victorian parliamentary system compared favourably with other States. Some examples of these comparisons are provided below:

- the costs per Member of Parliament are New South Wales $472 000, Queensland $396 000 and Victoria $305 000; and
- spending on parliamentary libraries amount to $2 million for Queensland, $1.5 million for New South Wales and well below $1 million for Victoria.

The Committee sought advice from the Presiding Officers on how the budget for the Parliament should be determined:

---

38 Hon. B A Chamberlain, President of the Legislative Council, Transcript of Evidence, 19 May 1997, pages 53-54.
"Certainly a system which provides for automatic increases for those items of expenditure which are considered integral and essential to the process."

The Committee believes that the budget for the Parliament should continue to be set in accordance with the Government’s overall fiscal strategies but recognition should continue to be given to the fact that the Parliament must be able to operate effectively.

The Committee also considers that there should be procedures put in place that allow for discussions between the Presiding Officers and the Minister for Finance, at an early stage, if there are any difficulties with the amount determined by the Presiding Officers for inclusion in the Appropriation (Parliament) Bill.

**Recommendation: 4.3** That the current process for determining appropriations for the Parliament should remain but procedures should be put in place that allow for discussions between the Presiding Officers and the Minister for Finance if there are any difficulties with the amount determined by the Parliamentary Officers for inclusion in the Appropriation (Parliament) Bill.

The Committee acknowledges that requests for greater funding and independence for the Parliament are unlikely to be heeded if the funds that Parliament does receive are not used efficiently.

The Committee appreciates that the five department structure of Parliament's administration has historical origins which makes changes difficult. To have the Parliament's administration divided into five separate departments, with five accountable officers has the potential to result in a lack of overall strategic focus, lead to a duplication of services, reduce the level of co-ordination between departments and present communication difficulties with external agencies such as the Treasury and the Auditor-General.

While the Committee strongly supports the operational independence of the Parliamentary Library, Parliamentary Debates and Parliamentary Services, the Committee believes that it is a nonsense for the management support arrangements for the Parliament to be dispersed and fragmented across five departments. The Committee is of the opinion that consideration should be given to changing to a three department structure; the Legislative Assembly, the Legislative Council and the Parliamentary Services (incorporating all joint services and the administration of common functions, such as human resources).

The attraction of this proposal is that it would improve the administration of the Parliament while at the same time preserve the independence of the two chamber departments. It would also reduce the number of accountable officers to three. Under this arrangement, the Presiding Officers would be jointly responsible for overseeing the new Department of Parliamentary Services.

---

64 Ibid, page 49.
The Committee is of the view that all Parliamentary Departments should have
common financial reporting systems and each department should be fully responsible
for all its own expenditure. In the interests of developing a strategic focus to the
provision of services across the Parliament and to enable services to be delivered in
the most efficient manner, the Committee believes that a review of the structure of the
Parliamentary Departments should be undertaken.

**Recommendation: 4.4**  That the Presiding Officers should give serious
consideration to reviewing the provision of existing services
with the intention that the number of Parliamentary
Departments should be reduced and joint services and
common functions (such as human resources) transferred
to one department.

The Committee was also advised that under the current arrangements, the full costs
for services have not yet been allocated across all the five Parliamentary Departments.
The Committee believes that this should be undertaken as soon as possible and given
a high priority so that the accountable officers are aware of the true cost of providing
services.

**Recommendation: 4.5**  That the full costs of services should, as a matter of
priority, be allocated across all Parliamentary Departments
so that each accountable officer is fully responsible for all
their Department’s expenditure.

At present, there are no corporate or business plans for the Parliamentary Departments
that record the essential elements of the strategic planning process and those measures
against which performance may be assessed. The Committee believes these
documents should be developed and be based on the output groups structure
introduced in the 1997-98 budget.

**Recommendation: 4.6**  That the Parliamentary Departments prepare corporate
and business plans, details of which should be reported on
in their 1997-98 annual reports along with key
performance measures.

The Committee was advised that several options for outsourcing have been explored.
The two primary areas put forward have been catering and the maintenance of the
gardens around Parliament House. The President of the Legislative Council advised
that the dining room facility was as cost efficient as possible and significantly less
than in other jurisdictions. Some consideration will also be given to the outsourcing of
other areas such as payroll and property management.
Parliamentary Committees

The various Committees of the Parliament are funded under output groups 801 Legislative Council (Environment and Natural Resources, Family and Community Development, Federal-State Relations, Law Reform, Road Safety) and 802 Legislative Assembly (Drugs and Crime Prevention, Economic Development, Public Accounts and Estimates, Scrutiny of Acts and Regulations).

The Committee was advised that $4.94 million had been sought for the Parliamentary Committees for the 1997-98 year but only $3.9 million has been provided. This necessitated a significant reduction in each committee’s budget allocation. The Government did not agree to carry over unexpended funds from the previous year, which had in the past funded unforeseen expenses arising from new inquiries. These funds were returned to the Consolidated Fund.

The President of the Legislative Council advised the Committee that the Presiding Officers had exchanged correspondence with the Minister for Finance about the need for an arrangement to fund new inquiries which arise during the financial year. Because the budgets of the Parliamentary Committees are now restricted, it is no longer possible for the funding of additional inquiries to be met from the core budget funds. While some of those committees have a workload that is reasonably predictable because they are enquiring into specific matters, there are others, such as the Public Accounts and Estimates Committee, which have both a basic program (viz. the budget estimates and a further minimum of two inquiries each year) and a flexible one that is based on issues that are brought to the attention of the Committee by the Auditor-General.

While the need for budgetary restraint is recognised, the Committee believes that certainty in funding for Parliamentary Committees is important and that this issue should be resolved as soon as possible. Furthermore, the Committee believes the funding arrangements for parliamentary inquiries should not be determined by individual Ministers, but should be based on an agreed funding formula that recognises the workload of some committees is determined by unforeseen circumstances.

The Committee believes that, in the event of such circumstances, there needs to be flexibility in the funding arrangements. One proposal would be to increase the Advance provided to the Presiding Officers so that any additional funding required for unexpected or new parliamentary inquiries would be provided. This would ensure that the committees would be able to operate independently but still be accountable to the Presiding Officers for their expenditure.

Recommendation: 4.7 That, as a matter of urgency, the Minister for Finance should seek to resolve the outstanding issues relating to the funding of parliamentary inquiries and that any proposed funding formula take into account the differences in the workloads between Parliamentary Committees.
**Recommendation: 4.8**

That consideration be given to substantially increasing the Advance to the Presiding Officers to meet unexpected and unforseen costs associated with new parliamentary inquiries and the appointment of additional Parliamentary Committees.
Chapter 5: Department of Treasury and Finance

5.1 Introduction

The Department's mission is to provide leadership in economic, financial and resource management. The Treasurer and the Minister for Finance and the Minister for Gaming have responsibility for the Department of Treasury and Finance and a number of public offices which are not directly budget funded.

The Committee notes that the Department's output groups have been substantially changed since the previous year. The Department advised the Committee that further changes will be required until the output reporting framework is fully implemented.

The extent of the changes is apparent from the following analysis which compares output groups over the last two financial years.

<table>
<thead>
<tr>
<th>Exhibit No. 9</th>
</tr>
</thead>
<tbody>
<tr>
<td>Analysis of Output Groups</td>
</tr>
<tr>
<td>---------------------------</td>
</tr>
<tr>
<td><strong>1997-98 Budget Outlays</strong></td>
</tr>
<tr>
<td><strong>Output Group</strong></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td><strong>Total Output Group Outlays</strong></td>
</tr>
<tr>
<td><strong>Outlays on behalf of Whole of Government</strong></td>
</tr>
<tr>
<td><strong>Advance to the Treasurer</strong></td>
</tr>
<tr>
<td><strong>Total Departmental Outlays</strong></td>
</tr>
</tbody>
</table>

| **1996-97 Budget Outlays** | $000s |
| **Output Group** | **742 Financial Management Services** | 50.6 |
| | **744 Economic and Financial Policy Advice Services** | 2 062.8 |
| | **745 Revenue Collection Services** | 60.7 |
| | **746 VPS Resource Management Services** | 174.2 |
| | **747 Reform and Privatisation Services** | -1 718.7 |
| | **748 Regulation Services** | 11.2 |
| | **749 Advance to Treasurer** | 72.2 |
| | **750 Casino and Gaming Management** | 7.4 |
| | **751 Energy Reform and Privatisation** | 289.1 |
| **Total Departmental Outlays** | **1 009.6** |

(Source: Extracted from 1996-97 and 1997-98 Budget Paper No. 3 Budget Estimates)
There is little similarity between the two output structures with certain significant elements being taken out of the output groups and separately disclosed viz. "Outlays on behalf of Whole of Government" and "Advance to the Treasurer". At present, the details of the composition of whole of government outlays are attached as a separate statement to the outlays for output groups 712, 713 and 714. No details are provided in respect of the "Advance to the Treasurer" for which an amount of $106 million has been budgeted for 1997-98 (compared to $72.2 million in 1996-97).

The main components of the "Outlays on behalf of Whole of Government" are as follows:

<table>
<thead>
<tr>
<th></th>
<th>1996-97</th>
<th>1997-98</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Exhibit No. 10</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Whole of Government Outlays</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>712 Financial Management Services</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Administrative and service provision costs -</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Superannuation</td>
<td>476.9</td>
<td>589.1</td>
</tr>
<tr>
<td>Other departmental cost</td>
<td>37.1</td>
<td>37.2</td>
</tr>
<tr>
<td>Current transfer payments -</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest paid</td>
<td>1 658.4</td>
<td>1 120.2</td>
</tr>
<tr>
<td>Subsidies paid to enterprises</td>
<td>54.3</td>
<td>1.5</td>
</tr>
<tr>
<td>Recoupment of capital charges</td>
<td>-262.1</td>
<td>-359.4</td>
</tr>
<tr>
<td>Direct additions to public infrastructure, net stocks and land acquisition</td>
<td>115.1</td>
<td>90.0</td>
</tr>
<tr>
<td><strong>713 Risk Management Services</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current transfer payments -</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Subsidies paid to enterprises</td>
<td>175.0</td>
<td>192.0</td>
</tr>
<tr>
<td><strong>714 Privatisation Services</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Repayment of Advances</td>
<td>-1 550.0</td>
<td>-2.0</td>
</tr>
<tr>
<td></td>
<td><strong>704.6</strong></td>
<td><strong>1 668.6</strong></td>
</tr>
</tbody>
</table>

With respect to the large difference in output group 714 Privatisation Services, this largely stems from the inclusion for 1996-97 of the proceeds from the sale of Hazelwood Power Corporation. The capital receipts figure of $1.55 billion was subsequently revised to $3.53 billion with the inclusion of Loy Yang A sale proceeds ($1.8 billion) and the repayments of further proceeds relating to electricity distribution businesses and Yallourn Energy (refer Exhibit No. 6). The revised budget estimates are reflected in Budget Paper No. 2 and in Budget Paper No. 3 for the Department of Treasury and Finance.

Despite a request for both the Department’s corporate and business plans to be made available, only an extract from the Department’s 1997-98 corporate plan was provided to the Committee. The document is described as "an organisational view of the Treasury and Finance Departmental Statement in Budget Paper No. 3".\(^{42}\)

---

\(^{41}\) Budget Paper No. 3 Budget Estimates, pages 342, 344 and 346.

\(^{42}\) From extract of the 1997-98 Corporate Plan provided to the Committee by the Department of Treasury and Finance
The areas covered in the extract of the corporate plan included key objectives, core responsibilities, 1997-98 key initiatives, organisation chart, output group/organisation matrix, staff numbers, 1997-98 budget and financial plan (summary information only by output group). The Committee notes that no information was provided about strategic directions, critical success factors or key results areas. The unavailability of a detailed business plan made it difficult for the Committee to gain an appreciation as to what the Department seeks to achieve and how it intends to do so.

The Committee notes with interest that the Department, in its response to the Committee's questionnaire regarding performance measures/targets, has identified the Treasurer and the Minister for Finance as its primary customers. As a consequence, performance measures/targets are focused on the delivery of the Department's outputs to meet those customers' requirements. This would suggest to the Committee that the performance information included for the Department of Treasury and Finance in Budget Paper No. 3 has been prepared on the basis of internal consumption rather than for purposes of external scrutiny.

**Recommendation: 5.1** That the nature and composition of "Outlays on behalf of Whole of Government" and "Advance to the Treasurer" be separately reported on in Budget Paper No. 3 Budget Estimates and reasons given for significant variations in the amounts disclosed.

**Recommendation: 5.2** That the Department of Treasury and Finance give consideration to extending the financial and other information provided in Budget Paper No. 3 Budget Estimates to facilitate analysis by external interested parties

### 5.2 Budget overview

The overall budget outlays for the Department have significantly increased to $1.7 billion for 1997-98, an additional $675 million or almost 65 per cent over the previous year budget level for the Department. Exhibit No. 11 provides details of the main components of the Department's outlays for the two years and clearly highlights the impact of the non-output groups on the total outlays.

---

1. Response by Treasury and Finance to Committee's Questionnaire in relation to output/performance measurement.
The Committee noted that the previous year comparatives reflected in the 1997-98 budget estimates amounted to $1.05 billion (Exhibit No. 11) which is different from the total of $1.009 billion appearing in the corresponding output group summary in the 1996-97 budget estimates (Exhibit No. 9).

The following explanations of the major variations in budgeted outlays have been provided to the Committee:

- increases - superannuation payments for existing and future public servant retirees, a capital charge calculated at 8 per cent on fixed assets held; and
- decreases - public sector debt interest (sale of the Hazlewood and Loy Yang), subsidies to enterprises (SIO, World Congress Centre), State
equivalent tax, advances paid (World Congress Centre financial restructuring), proceeds from privatisation (sale of Hazelwood power station), capital additions (City precinct expenditure including Treasury Reserve).

The Department plans to absorb productivity savings of $1.9 million or 1.5 per cent (1996-97 $2 million) from salaries and operating costs for all output groups.

Organisationally, the Department is structured into seven operating divisions reporting to the Secretary of the Department - corporate resource agency, executive support services, budget and resource management, economic and financial policy, privatisations and industry reform, financial management and energy projects. While this provides the accountability framework for outputs and staff for individual performance with the responsibility for the delivery of specific outputs resting with the relevant division, staff are not organised into output groups and may contribute to a number of outputs within their organisational structure. The level of staff within these divisions has reduced from 506 in 1995-96 to 490 in 1996-97 with almost half being employed in budget and resource management and privatisation and industry reform divisions.

The Department has advised that, in developing the 1997-98 budget, it has established a system to collect costings at the designated output levels with actual results being based on the same costing procedures. This will, in the future, enable comparisons of performance and the establishment of acceptable benchmarks.

The Department also stated that it was not able to give an indication of the key measures for each output group, as measures of performance relate to individual outputs not output groups. As a consequence, "the Department is considering a set of critical performance indicators which measure the effectiveness of the Department on a corporate level". The Committee looks forward with interest to the outcome of the Department’s work in this area.

In determining the net cost of services, the Department disclosed charges and reimbursements for 1997-98 of $95.2 million compared with $135.8 million for the previous year. The increase is mainly attributable to the recovery of privatisation costs which is expected to decline by $25 million.

Currently, the Department administers, on behalf of the State, the Consolidated Fund, which along with the Trust Fund forms the Public Account. The Consolidated Fund includes taxation receipts, public authority distributions, Commonwealth grants (both current and capital) and proceeds from privatisation. The make-up of these revenues are likely to change substantially, given the decisions made at the Commonwealth level with respect to financial arrangements with the States/Territories on funding for particular industry segments and the capacity of States/Territories to raise their own taxes.

---

44 Ibid.
45 Budget Paper No. 3 Budget Estimates, page 335.
5.3 Key issues facing the Department

In its response to the Committee's questionnaire, the Department indicated a number of key issues identified in the Department's planning process needing to be addressed. These include:

- development and implementation of an output base accrual budget system and of a contemporary financial management framework for the budget sector;
- energy industry reform within effective regulatory frameworks and effective markets;
- reform of the provision of public sector infrastructure and services; and
- tax reform.

Output based accrual budget system and financial management framework

The 1997-98 Budget Papers have been presented on the basis of output groups on a cash basis, which the Department expects to further develop during the year. As indicated, the Committee understands that the 1998-99 Budget will be prepared on an accrual basis and will be supported by an internal management reporting framework which will be designed to enhance accountability by the production of regular, accurate and more relevant financial information.

The Department advised the Committee of a number of significant new capital projects which will assist with these initiatives:

- implementation over two years of a common financial management system across departments and on-line data exchange facility between departments and major agencies, covering financial and non-financial information (total estimated cost $7.05 million, 1997-98 - $3.4 million);
- expenditure over two years to upgrade the Department's office systems platform so that it can continue to support the financial reform process (total estimated cost $3.0 million, 1997-98 - $1.5 million).

The Department will also be taking the lead in financial management improvements with the introduction of regular management reports. The Department has established a panel of external advisers to provide staff training courses on all aspect of the reform process.

Recommendation: 5.3 That the Department of Treasury and Finance continue to provide technical and other support to departments with respect to accrual reporting and budgeting and encourage the development of robust and comprehensive output specifications and performance measures.
Energy industry reform

Recent decisions by the Commonwealth Government on the tax status of privatisation trade sales will impact on the future price which can be achieved. While New South Wales may be the State most affected, prices for upcoming sales in the electricity and gas industry in Victoria will also be similarly reduced as a result of this change in policy.

Electricity reform

The Government has announced that PowerNet, the operator of Victoria’s electricity transmission grid, and Southern Hydro, which operates the hydro electric stations, will be sold in 1997-98. This follows on from the agreement reached on 1 April 1997 when the remaining Government shareholding in the Loy Yang B power station was sold to the other shareholder, Edison Mission Energy.

In November 1996, Victoria, New South Wales and the Australian Capital Territory agreed to establish a transitional electricity market, with unrestricted trading. Although there will continue to be a separate wholesale electricity pool in each State, generators across Victoria and New South Wales will be directly competing on a continual basis to supply energy needs in both States and the ACT.

State based regulators will continue to have the primary responsibility to regulate the transitional market, with the Australian Competition and Consumer Commission (ACCC) having oversight of the harmonised rules relating to the operation of the wholesale markets.

Gas reform

On 24 March 1997, the Government announced details of its plans to reform the gas industry\(^\text{46}\) comprising two Government-owned utilities which have been supplied with natural gas by the Esso/BHP joint venture in Bass Strait:

- GASCOR, which owns and operates the distribution pipelines and carries out the gas retailing activities; and
- the Gas Transmission Corporation (GTC), which owns and operates the high pressure transmission pipelines.

While Gascor has been unbundled into three retailers and three distributors, each operating in distinct geographical areas of Victoria, GTC will continue to own the transmission pipeline infrastructure.

The three new retailers are Kinetik Energy, Energy 21 and Ikon Energy while the three new distributors are Wesmar, Mulinet and Stratus Networks. Documents for the trade sale of the companies are due out in early 1998 with the sale expected to take place in the second half of that year.

The Committee understands that the Government expects to follow the approach adopted for the electricity industry when refining its model for a competitive gas market - the retailer companies sell gas to consumers, while the distributor companies deliver the gas and connect new customers. Furthermore, gas prices to consumers are

to be capped below movements in the consumer price index until December 2000 and large gas consumers will be able to select the most competitive retailers and distributors as from July 1998, while domestic gas consumers will be able to participate in a fully competitive market from January 2001.

The retailers have assumed the Government’s 25 year supply contract with Esso/BHP, which has been the subject of ongoing dispute over several years. In July 1990, the previous Commonwealth Government imposed a 40 per cent tax on Bass Strait oil and gas production - the Petroleum Resources and Rent Tax (PRRT). This resulted in a dispute between Esso/BHP and the Victorian Government as to who should bear this cost. The Auditor-General’s May 1997 Report on Ministerial Portfolios indicated that the settlement cost the State Government $502 million (gross cost of $1.06 billion less additional PRRT and company tax receipts received from the Commonwealth Government) 47.

The Committee believes that there are a number of important issues which will arise from this privatisation process:

- the likelihood of the creation of a national gas market as a consequence of the various privatisations in this industry which will allow gas to be freely traded across State borders; and
- the future may see the rise of multi-utility companies providing gas, electricity and possibly even telecommunications.

Accordingly, it is important that the Committee’s recommendations on customer service charters outlined in its April 1997 report, be implemented to ensure that customers are made fully aware of their rights and obligations with regard to service delivery.

**Public sector infrastructure and services reform**

The Department of Treasury and Finance seeks to ensure that the reform and restructure of government businesses are in line with the National Competition Policy which provides for a level playing field with no competitive advantages held by departments and agencies. The Government’s policy statement on competitive neutrality outlines the reform path and timetable for removing existing competitive advantages that government business may have.

To assist departments/agencies in complying with the policy statement, the Department has recently issued "A Guide to Implementing Competitively Neutral Pricing Policy" which outlines the procedures that departments/agencies need to follow to ensure that they are adopting acceptable pricing principles. The implementation guide is supplemented by two other important publications issued under the management reform program viz. Output Specification and Performance Measurement, and Output Costing Guide.

The management reform program is designed to deliver:

- high quality information, based on full-cost accrual accounting;
- a more comprehensive budget system based on funding outputs;

• incentives for closer linking of resources to service delivery;
• a strengthened focus on measuring delivery and performance; and
• increased accountability for managers to meet agreed goals.

An important outcome of the program is the identification of services by departments/agencies for contracting out. The level of activity that is now outsourced is significant and is increasing.

The Committee is presently conducting an inquiry into the contracting out of government services within Victoria, which will be the subject of a separate report.

**Tax reform**

The Treasurer advised the Committee that it was a major policy objective of the government to keep moving Victorian tax rates closer to the Australian average. In terms of the impact on the general economy, Victoria's proportion of taxes to Gross State Product (GSP) is expected to fall from 6.6 per cent in 1996-97 to 6.2 per cent in 1997-98.

The 1997-98 Budget Papers include a number of revenue measures which will provide tax relief amounting to $211 million in a full year:

• reduction in payroll tax from 7 per cent to 6.25 per cent coupled with the inclusion of employer superannuation contributions in the payroll tax base, bringing Victoria into line with other States (1997-98 - $94 million, full year - $103 million); and
• a $106 million reduction in petroleum franchise fees equivalent to a cut of 1.6 cents per litre on motor spirit and 4.1 cents per litre on diesel products.

The Committee understands that the Department has formed a specialist tax unit which will continue to provide the Government with recommendations to maximise opportunities for tax relief to businesses and individuals. In particular, attention is being given to the significant reform of two major financial transactions taxes, financial institutions duty (FID) and banks accounts debit tax, which are expected to raise $585 million for Victoria in the coming year.

The States/Territories are currently working on three key tax harmonisation projects - a review of payroll tax bases, rewriting the stamp duty legislation and the development of the *Taxation Administration Act*, which consolidates administrative provisions relating to the payroll, debits and financial institutions duty legislation. These projects were established to reduce the compliance burden on firms operating in more than one jurisdiction, or regularly transacting business across borders.

---

49 Hon A Stockdale, the Treasurer of Victoria, Transcript of Evidence, pages 10-11.
50 1997-98 Budget Paper No. 3 Budget Estimates, Table 3.2, pages 364-365.
5.4 Gambling Taxes

The Committee’s April 1997 Report on the 1996-97 Budget Estimates and 1995-96 Budget Outcomes made reference to the significant increase in the level of gambling taxes and to the increasing reliance of State governments on this now important source of revenue. For the 1997-98 estimates, the Committee held a separate hearing with the Minister for Gaming so that these issues could be canvassed in detail.

*Application of taxes collected*

Gambling taxes are expected to further increase as demonstrated in Exhibit No. 12 which provides details of the individual components of gambling taxes, and an indication of their relative importance to overall budget receipts.

| Exhibit No. 12 |
|---|---|---|---|---|
| Gambling taxes | | | | |
| Private lotteries | 297.9 | 299.0 | 282.9 | -5.4 |
| Electronic gaming machines (EGMs) | 509.1 | 589.4 | 657.4 | 11.5 |
| Casino | 110.4 | 138.4 | 174.4 | 26.0 |
| Racing | 122.0 | 118.1 | 120.0 | 1.6 |
| **Total taxes, fees and fines** | **1 039.4** | **1 144.9** | **1 234.7** | **7.8** |
| % contribution | 12.4 % | 13.6 % | 14.4 % | |

(Source: Extracted from 1997-98 Budget Paper No. 3 Budget Estimates, Table 3.2, pages 364 and 365)

The Minister for Gaming advised that the latest assessment by the Department of Treasury and Finance was that $1.149 billion would be collected in gambling taxes which is comparable with the total revenue figure of $1.144 billion included in 1996-97 Budget Paper No. 3. Actual revenue for 1996-97 is expected to be comparable with the budget figure for that year but with the revenue increases from electronic gaming machines ($36.3 million) and racing ($3.1 million) being offset by reductions in the returns from private lotteries ($24.6 million) and the casino ($10.2 million).

The distribution of these taxes will be as follows:


53 Letter dated, 1 August 1997, from the Hon. R Hallam, Minister for Gaming, in response to request from Committee subsequent to hearing held on 26 May 1997.
• Hospitals & Charities Fund $869.1 million (all sources);
• Mental Health Fund $54.5 million (private lotteries);
• Community Support Fund $80 million (electronic gaming machines); and
• Consolidated Fund $151.4 million (all sources).

Of the amount of $128.2 million expected to be received from the casino, as compared with the $138.4 budgeted to be received, $122 million was paid into the Consolidated Fund which will be used to fund the construction/refurbishment of the arts buildings and the remaining $5.1 million is to be paid into the Mental Health Fund as the Community Benefit Levy.

Review of casino operations

The first triennial report of the Victorian Casino and Gaming Authority into Melbourne’s casino operator and licence was released on 17 July 1997 by the Minister for Gaming.

The financial investigations covered the corporate structure of the casino operator, review of performance against the prospectus, payments to the State and acquisition by Crown Limited of the operations agreement from a major shareholder, Hudson Conway. With respect to operational matters, the Authority examined a number of specific areas including compliance with games rules and procedures, patron complaints, minors, excluded persons, licensed special employees, performance of gaming equipment, Crown security and service department, cheque cashing facility and casino related crime.

The Authority concluded that, during the period under review, the casino operator was suitable to hold the licence and that it was in the public interest that the casino licence should remain in force. The “public interest” or “interest of the public” is defined within section 3 of the Act as “... having regard to the creation and maintenance of public confidence and trust in the credibility, integrity and stability of casino operations.” In its findings, the Authority stated that it was satisfied that both the temporary and permanent casinos “... have been operated in a manner which has engendered and continues to engender public confidence and trust in the credibility, integrity and stability of casino operations”64.

The review process did not include three independent inquiries into issues under investigation by other bodies or before the courts on the basis that the Authority had received legal advice that it would be inappropriate and disruptive to initiate a separate inquiry55.

5.5 Whole of government issues

As indicated, the Annual Financial Statement for the State is prepared by the Department of Treasury and Finance on a basis consistent with the requirements of Australian Accounting Standard AAS 31 Reporting by Governments and will be audited by the Auditor-General. These State accounts are accrual based and replace

55 Ibid, page 17.
the cash based Statement of Financial Operations where only certain assets and liabilities were disclosed as supplementary information. As the Annual Financial Statements were not tabled until 28 October 1997, the Committee has not had the opportunity to review the document but will examine it as part of the 1998-99 estimates process.

The Committee has commented in previous reports on three key areas which will impact on the Annual Financial Statements for the State viz. asset valuations, unfunded superannuation liabilities and contingent liabilities, and will assess these areas to ensure that matters raised by the Committee in previous reports have been addressed.

**Asset management - recording and reporting**

In its April 1997 Estimates Report, the Committee noted that valuations of significant physical non-current assets were still to be completed, mainly in the arts sector. These included the collections at the State Library, National Gallery and Museum. The 1994-95 trial Consolidated Financial Report had earlier qualified the asset values reported at a whole of government level by indicating that certain categories such as schools, forests, parks, Crown land and collections were still to be valued. Over the past few years, the responsible departments have worked closely with the Department of Treasury and Finance and the Victorian Auditor-General’s Office to arrive at acceptable valuations.

The Statement of Financial Operations has only reported on budget and non-budget sector financial assets comprising cash deposits and investments, term advances, receivables and prepaid expenses. However, the Statement provided a schedule of capital commitments broken down into budget sector, non-budget sector and public financial enterprises for the next three years and for the period thereafter. For 1995-96, total capital commitments of $1.648 million were reported with $1.111 billion to be expended within three years.

With the preparation of the Annual Financial Statements for the State from 1996-97, all assets, both financial and physical, are required to be reported on. Therefore, it is important that information relating to the balances and future acquisition/disposal of the physical assets receive greater prominence within the Budget Papers.

With respect to enhancing asset management practices, the Department has endeavoured to provide for the ongoing monitoring of State assets with the commencement of the Consolidated Asset Report (CAR) project. The purpose of the project is to develop a central financial and non-financial asset report software system on the Department’s computer network. This will complement the installation of asset management systems within other departments and agencies, and is expected to underpin the provision of capital planning information at the whole of government level. The overall objective is to have a strategy in place which covers all the key facets of asset management including matters relating to ownership, control, accountability and reporting.

---


Unfunded superannuation liabilities

Presently, in accordance with Australian Accounting Standards, the Department assumes the majority of the gross unfunded superannuation liabilities of superannuation funds operated principally for budget sector employees\(^5\).

At 30 June 1996 the unfunded superannuation liabilities, reflected in the Department’s financial statements were made up as follows:

<table>
<thead>
<tr>
<th>Exhibit No. 13</th>
<th>Unfunded Superannuation Liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>State Superannuation Fund</td>
<td>$14,115</td>
</tr>
<tr>
<td>Emergency Services Superannuation Fund</td>
<td>$1,227</td>
</tr>
<tr>
<td>Hospitals Superannuation Fund</td>
<td>$266</td>
</tr>
<tr>
<td>Parliamentary Contributory Fund</td>
<td>$22</td>
</tr>
<tr>
<td><strong>Gross unfunded superannuation liabilities</strong></td>
<td><strong>$15,630</strong></td>
</tr>
<tr>
<td>Liabilities to be met from non-budget sector revenue</td>
<td>-$1,349</td>
</tr>
<tr>
<td><strong>Liabilities to be met for budget superannuation outlays</strong></td>
<td><strong>$14,281</strong></td>
</tr>
</tbody>
</table>

(Source: Department of Treasury and Finance, 1995-96 Annual Report, note 21 to the Audited Financial Statements)

The Department has issued a number of Accounting Policy and Financial Reporting Bulletins under the Financial Management Act 1994 dealing with the accounting treatment of unfunded superannuation liabilities by departments and public bodies required to comply with the reporting provisions of that Act.

Superannuation liabilities are likely to increase over the next few years despite a number of reforms that have been introduced to address the growth. Significant administrative savings have been achieved by reducing the number of public sector schemes from 97 in 1993 to 15 by 30 June 1997.

Contingent liabilities

In line with the disclosure of budget sector unfunded superannuation liabilities, the Department has also reported on, in the notes to its financial statements, the level of contingent liabilities of the Government\(^5\). These represent circumstances in which there is a possibility, due to some future event, that an actual liability could arise. These contingent liabilities arise either from guarantees, indemnities and other forms of support provided by the Government through the Treasurer or from legal disputes and other claims against the Government.

An amount of $10.281 billion has been included in the Department’s 1995-96 financial statements, which reflect the maximum quantifiable potential liability relating to the Department, without taking into account any offsetting asset or security values, and is made up as follows:

\(^{51}\) Department of Treasury and Finance, 1995-96 Annual Report, Note 21 to the audited financial statements.

\(^{59}\) Ibid., Note 25 to the audited financial statements.
Exhibit No. 14
Contingent Liabilities

<table>
<thead>
<tr>
<th>Budget sector</th>
<th>$million</th>
</tr>
</thead>
<tbody>
<tr>
<td>State financial enterprises</td>
<td>604.7</td>
</tr>
<tr>
<td>Specific guarantees and indemnities under statute</td>
<td>462.5</td>
</tr>
<tr>
<td>Monash Medical Centre</td>
<td>127.0</td>
</tr>
<tr>
<td>Generation Victoria</td>
<td>203.0</td>
</tr>
<tr>
<td>Other</td>
<td>15.1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,412.3</strong></td>
</tr>
</tbody>
</table>

Non-budget sector (debts raised)                      | 8,869.6  |

**Total**                                             | **10,281.9**

(Source: Department of Treasury and Finance, 1995-96 annual report, note 25 to the audited financial statements)

No details are provided as to the nature and composition of the non-budget sector contingencies included in the above extract from the Department’s financial statements other than that the amount of $8,869.6 billion relates to debts raised by entities in that sector. In contrast, the Statement of Financial Operations for 1995-96 reflected total State public sector contingent liabilities of $2,042 billion. This included non-budget sector contingencies relating to Gascor ($422 million), State Electricity Commission of Victoria ($88.6 million) and Melbourne Water Corporation ($87 million).

No details are provided in the Department’s 1995-96 financial statements regarding various contingent liabilities not quantified, arising from indemnities provided in relation to financing arrangements, consultancy services, directors and administrators and performance guarantees which are disclosed in the Statement of Financial Operations for that year.

The Committee was unable to determine from an examination of the published information what were the contingent liabilities of the Department and the State.

---

60 Ibid., also Note 25.
Recommendation: 5.4 That the 1998-99 accrual based Budget Papers provide details of:

- significant capital expenditure expected to be incurred;
- the extent of capital commitments for future years;
- the level of unfunded superannuation liabilities assumed by the Department of Treasury and Finance;

and

- the nature and, where known, the quantum of contingent liabilities for the State and the extent to which existing contingent liabilities have crystallised during the course of the year.
Chapter 6: Department of Education

6.1 Introduction

The mission of the Department of Education is to give Victorians the opportunity to benefit from high quality education and training.

The Department has as its core function the provision of services which support and regulate the delivery of:

- education by government and non-government schools;
- vocational guidance and training by TAFE Institutes and private providers; and
- adult, community and further education by community providers and TAFE Institutes.

In addition, the Department coordinates and oversees the administration of higher education.

The scope of the Department's activities is wide. It:

- supports the delivery of education to approximately 304,300 primary school students and 219,300 secondary school students through 1,664 primary, secondary and special schools/colleges;
- supports and regulates 684 Catholic and independent schools catering for approximately 260,000 non-government school students;
- supports and regulates 26 Victorian TAFE institutions, approximately 700 private providers and over 400 community providers which supply 67.2 million government funded student contact hours of education and training; and
- coordinates and regulates the eight Victorian based universities and the Australian Catholic University, as well as 14 private providers, offering higher education courses.

Since the last Budget, the Department has shifted from five programs to the following four output groups:
### Exhibit No. 15
Department of Education - Programs/Output Groups

<table>
<thead>
<tr>
<th>1996-97 Programs</th>
</tr>
</thead>
<tbody>
<tr>
<td>233 Education, Planning and Coordination Services</td>
</tr>
<tr>
<td>235 Non-Government School Education</td>
</tr>
<tr>
<td>239 School Education</td>
</tr>
<tr>
<td>240 Adult, Community and Further Education</td>
</tr>
<tr>
<td>241 Vocational Education and Training</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>1997-98 Output Groups</th>
</tr>
</thead>
<tbody>
<tr>
<td>011 School Education Services</td>
</tr>
<tr>
<td>012 Vocational Education and Training Services</td>
</tr>
<tr>
<td>013 Adult, Community and Further Education Services</td>
</tr>
<tr>
<td>014 Higher Education Services</td>
</tr>
</tbody>
</table>


Programs 233, 235 and 239 have been combined into one output group 011 School Education Services with a new output group 014 Higher Education Services established.

The Ministers responsible for the Department are the Minister for Education and the Minister for Tertiary Education and Training. Both Ministers provided detailed responses to the Committee's questionnaire and this provided useful data for the analysis of the Department's expenditure.

The Department advised the Committee that the existing corporate and business plans were being revised to reflect the change to four output groups and, as a consequence, they were not available for Committee scrutiny at the time of preparing this report. However, the Department gave an indication of the contents of the draft business plan and the document appears to include most necessary elements, including output groups and related measures for individual targets.

#### 6.2 Budget overview

For the 1997-98 financial year, the Department of Education plans to spend $3.797 billion, an increase of $59 million or 1.5% over the amount budgeted for the previous financial year. The level of expenditure by each output group is summarised in Exhibit No. 16.
<table>
<thead>
<tr>
<th>Number</th>
<th>Output Group</th>
<th>Budget 1996-97 ($'000)</th>
<th>Budget 1997-98 ($'000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>011</td>
<td>School Education Services</td>
<td>3 067 239</td>
<td>3 143 715</td>
</tr>
<tr>
<td>012</td>
<td>Vocational Education and Training Services</td>
<td>629 488</td>
<td>625 709</td>
</tr>
<tr>
<td>013</td>
<td>Adult, Community and Further Education Services</td>
<td>22 227</td>
<td>21 151</td>
</tr>
<tr>
<td>014</td>
<td>Higher Education Services</td>
<td>19 198</td>
<td>6 635</td>
</tr>
<tr>
<td></td>
<td><strong>Total departmental outlays</strong></td>
<td><strong>3 738 152</strong></td>
<td><strong>3 797 210</strong></td>
</tr>
</tbody>
</table>

(Source: 1997-98 Budget Paper No. 3 Budget Estimates, page 81)

As can be seen in Exhibit No. 17, wages and salaries, superannuation and the capital charge are expected to increase but the impact of these increases will be offset by a reduction in the level of expenditure on capital infrastructure.
### Exhibit No. 17
Composition of Departmental Outlays

<table>
<thead>
<tr>
<th></th>
<th>Budget 1996-97 ($'000)</th>
<th>Budget 1997-98 ($'000)</th>
<th>Variance ($'000)</th>
<th>Variance %</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Administration and service provision costs:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Wages and salaries</td>
<td>2 307 203</td>
<td>2 386 158</td>
<td>78 955</td>
<td>3.4</td>
</tr>
<tr>
<td>- Superannuation</td>
<td>222 908</td>
<td>236 023</td>
<td>13 115</td>
<td>5.9</td>
</tr>
<tr>
<td>- Capital charge</td>
<td>31 463</td>
<td>41 799</td>
<td>10 336</td>
<td>32.8</td>
</tr>
<tr>
<td>- Other departmental costs</td>
<td>791 349</td>
<td>794 954</td>
<td>3 605</td>
<td>0.5</td>
</tr>
<tr>
<td><strong>Current transfer payments</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Interest paid</td>
<td>1 010</td>
<td>1 005</td>
<td></td>
<td>-5</td>
</tr>
<tr>
<td>- Personal benefit payments</td>
<td>55 497</td>
<td>68 997</td>
<td>13 500</td>
<td>24.3</td>
</tr>
<tr>
<td>- Current grants and other transfer payments</td>
<td>239 361</td>
<td>239 189</td>
<td>-172</td>
<td>-0.1</td>
</tr>
<tr>
<td><strong>Total cost of services</strong></td>
<td>3 648 791</td>
<td>3 768 125</td>
<td>119 334</td>
<td></td>
</tr>
<tr>
<td><strong>Charges and reimbursements</strong></td>
<td>-205 828</td>
<td>-208 198</td>
<td>-2 370</td>
<td>-1.2</td>
</tr>
<tr>
<td><strong>Net cost of services</strong></td>
<td>3 442 963</td>
<td>3 559 927</td>
<td>116 964</td>
<td></td>
</tr>
<tr>
<td><strong>Direct addition to public infrastructure, net stocks and land acquisition</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales of fixed assets</td>
<td>-30 000</td>
<td>-30 000</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Gross fixed capital expenditure and other net asset purchases</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital transfer payments</td>
<td>484</td>
<td>495</td>
<td>11</td>
<td>2.3</td>
</tr>
<tr>
<td>Capital outlays</td>
<td>295 189</td>
<td>237 283</td>
<td>-57 906</td>
<td></td>
</tr>
<tr>
<td><strong>Total group outlays</strong></td>
<td>3 738 152</td>
<td>3 797 210</td>
<td>59 058</td>
<td></td>
</tr>
</tbody>
</table>

(Source: 1997-98 Budget Paper No. 3 Budget Estimates, page 75)

In response to the Committee’s questionnaire, the Department stated that:

"The major reasons for the variations in budget figures include such matters as indexation of non-wage items, approved salary increases, the Schools of the Future Program and other policy initiatives, Commonwealth trust monies moved to appropriation, capital charge and reclassification of items from capital to recurrent as part of the move to full accrual accounting, productivity requirements, the transfer of 18+ special students to the Department of Human Services, adjustments for the WorkCover surcharge, reductions in rent because of the move to Treasury Place, reductions in the requirement for funding of over-entitlement staff and reduction in payroll tax provision."
From an examination of available documents, the Committee was able to determine the following additional information:

- transfer payments predominantly relate to output group 011 School Education Services;
- the major component of charges and re-imbursements relate to output group 012 Vocational Education and Training, and
- the reduction in capital expenditure in output group 011 School Education Services is due to "the completion of previously approved works and a reduction in Commonwealth capital funding from the National Training Authority, partly offset by new works to commence in 1997-98".63

Information provided by the Department indicates that equivalent full time staffing for the Department fell from 42 943 at 30 June 1996 to an estimated level at 30 June 1997 of 42 261, a decrease of 1.6 per cent in the work force, with the reduction being evenly distributed over teaching and non-teaching positions. Wages and salaries and associated costs comprise over 75 per cent of the Department's expenditure. The main factors impacting on staffing levels and related expenditure include adjustments in the level of State and Commonwealth funding, changes in student enrolments, shifts in student subject preferences, changing industry skill needs and constraints imposed by Commonwealth awards.

The 1997-98 productivity dividend for the Department has been estimated at $39.4 million compared with $39.7 million for 1996-97, a reduction of less than 1 per cent over the two years. For 1996-97, the Department achieved these savings through a range of initiatives including the following:

- reductions in central and regional staff numbers and operating costs;
- rationalisation of districts and district liaison principals costs in line with changes in function;
- reduction in the number of over-entitlement teaching staff;
- increasing school responsibility for sick leave;
- cessation or reduction of programs and initiatives outside schools and institutions; and
- adjustments to the funding agreements with TAFE Institutes.

The Department has not indicated how the savings will be achieved for 1997-98, only that the productivity dividend has been allocated against output groups 011 School Education Services, 012 Vocational Education and Training Services and 013 Adult, Community and Further Education Services.

Recommendation: 6.1 That the Department of Education review the present format for presenting information on the four output groups with the aim of enhancing the level of detail provided to the Parliament.

---

63 Budget Paper No. 3 Budget Estimates, page 36
6.3 Key issues facing the Department

In response to the Committee’s questionnaire, the Department advised that there were a number of key issues identified in the Department’s planning process needing to be addressed:

- Commonwealth/State funding arrangements;
- Information technology and multimedia;
- Vocational Education and Training in schools; and
- Consolidation of the Schools of the Future Program.

Commonwealth-State funding arrangements

Changes to the nature and level of Commonwealth funding are expected to impact on the various programs within the Department’s responsibilities. Exhibit No. 18 provides an overview of the level of funding which will be made available in the coming years.

<table>
<thead>
<tr>
<th>Exhibit No. 18</th>
<th>Estimated Level of Commonwealth Government Funding</th>
<th>(in million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Schools in the States and Territories</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Government</td>
<td>1,167.1</td>
<td>1,178.3</td>
</tr>
<tr>
<td>Non-Government</td>
<td>1,881.5</td>
<td>2,006.4</td>
</tr>
<tr>
<td>Targeted program</td>
<td>341.4</td>
<td>366.4</td>
</tr>
<tr>
<td>Vocational Education and Training</td>
<td>875.6</td>
<td>900.0</td>
</tr>
</tbody>
</table>

Higher Education | 3,906.9 | 3,690.0 | 3,464.9 | 3,362.0 | 3,352.7 |

(Source: Response by Department of Education to the Committee’s Questionnaire relating to issues impacting on the Department in the 1997-98)

Although the Commonwealth is maintaining its overall level of funding for schools, a change in the allocation process between the States and school systems has resulted in reduced allocations in the Literacy Program (formerly the Disadvantaged Schools Program), the Country Areas Program and the ESL Program for Victoria. Outlays on non-government schools are expected to increase more sharply than on Government schools which reflect both the underlying enrolment patterns and changes to Commonwealth policy, announced in the August 1996 Budget, involving the abolition of the new schools approach and introduction of an Enrolment Benchmark Initiative.

With respect to the vocational education and training sector, there has been a reduction in the level of Growth Funding in the current year and this funding will be withdrawn in subsequent years. In addition, the decision to impose an efficiency...
dividend from national vocational education and training outlays will make it difficult for Victoria to maintain current levels of training. These difficulties are intensified by the decline in funding for labour market programs which was announced in the August 1996 Commonwealth Budget.

The Committee was advised that the greatest impact will be on funding for universities which is expected to be reduced by 15 per cent over the four years to 30 June 2001.

**Information technology and multimedia**

The Committee was advised that the Department will make significant investments in information technology and multimedia in both schools and the vocational education and training sectors to ensure that the learning experience offered to students meets contemporary needs and responds to industry requirements.

The IT in schools strategy includes provision for $20 million over four years for multimedia, replacement of out-dated computers, negotiation of Statewide software licences and for $14 million per annum over the next four years for the training of school staff in the new technologies. With respect to the vocational training and education institutions, the major aspects of the investment include the development of the virtual campus initiative, on-line learning materials and communications infrastructure and the upgrading of computer hardware and software.

**Vocational Education and Training (VET) in schools**

Vocational Education and Training (VET) in schools offers students the opportunity to combine general and vocational studies, undertake training in the workplace, and gain a nationally recognised qualification or credit towards one, as part of their Victorian Certificate of Education (VCE).

This initiative will involve:

- a State Government budget allocation of $10 million over four years to double the enrolments of VCE students undertaking VET studies;
- the establishment of business planning processes and advice to schools on how they can take account of the costs of providing VET programs within their school global budget; and
- from a planning perspective, provision and funding allocations which take into account the location of programs and the types of industries.

Funds available from the State are being supplemented by significant Commonwealth funding to support the expansion of VET in schools, in many cases in partnership with industry and TAFE Institutes. The Department advised the Committee that preliminary analysis has shown that 1997 enrolments in school courses have already doubled the 1996 level.

**Schools of the Future Program**

The Department advised the Committee that this program is a priority for 1997-98 with the current funding framework for school global budgeting being enhanced by the granting of full staffing flexibility for all schools from the commencement of Term 2 1997. This flexibility provides schools with the capacity to assume the
maximum degree of autonomy over accountability for their own human and financial resources. Further devolution to the school level will involve greater autonomy for school councils across a range of functions.

As part of the implementation of the program, the Department has established three working parties under the title - Schools of the Third Millennium:

- Innovative Use of Multimedia;
- Towards Autonomous Schools; and
- Quality Management.64

They will provide policy options for the Department to consider in its move towards a purchaser/provider model.

The Committee has reviewed the terms of reference for the Towards Autonomous Schools Working Party as the Committee is interested in any proposed changes in school financing arrangements, particularly those empowering school councils to borrow moneys. The Committee intends to monitor the outcome of this Inquiry.

6.4 Managing school operations

The Committee was advised that the Department has in place a number of processes for the collection, collation and management of output and performance information relating to schools. The Committee was pleased to note that business planning, project monitoring, annual reporting and budget planning are all linked to the specification of outputs and performance measures.

Monitoring school performance

The primary means of monitoring the performance of schools are through their annual reports, triennial reviews, the Learning Assessment Project, the Victorian Student Achievement Monitor, Victorian Certificate of Education (VCE), census data collections and VCE value added data.

The Committee was interested in the quality of this monitoring particularly in respect of the annual reports and the triennial reviews. The Department indicated that 100 per cent of Schools of the Future submit annual reports within guidelines and 465 of these schools will complete their triennial reviews within established timelines. The Department made available to the Committee a number of annual reports and triennial reviews.

The Committee was impressed with the annual reports. They were comprehensive, highlighted progress against curriculum goals and student achievement by rating, together with the results of parent surveys. The latter opinion is sought by schools on issues such as the quality of teaching, academic rigour, general environment, customer responsiveness and student reporting. Schools are required to track variations over the three year life of their charter which enables them to assess the current level of parent satisfaction with key aspects of the school's operations.

64 Response by Department of Education to the Committee's questionnaire relating to issues identified by the Department to be addresses in 1997-98.
The triennial review brings together in a comprehensive document a snapshot of a school’s achievements against the specific goals in its charter relating to curriculum (split into primary/secondary/VCE), environment, accountability, management and resources (annual financial result). As with annual reports, the perceptions of parents feature prominently in the review report.

**Recommendation: 6.2 That the existing performance measures for school accountability and reporting included in Budget Paper No. 3 Budget Estimates be extended to include indicators of parent satisfaction levels derived from surveys on quality of teaching, academic rigour, general environment, customer responsiveness and student reporting.**

**Performance pay for principals**

The Committee sought details of the system for performance pay for principals. The Department advised that the Performance Management System for Principal Class Officers (PCOs) has two components:

- accreditation which involves the certification of key skills and competencies for principals and demonstration of their capacity to apply those attributes - successful accreditation results in higher remuneration for those principals; and
- assessment which is primarily based on the achievement of agreed outcomes by way of an agreed performance plan - the degree to which agreed outcomes have been achieved will determine the level of the performance payment.

The Committee was advised that, at 31 December 1996, a significant majority of all PCOs had been accredited and received a lump sum payment averaging eight per cent of their annual salary.

**Greater autonomy for schools**

The Committee was advised that the Department is considering a range of initiatives to provide schools with greater autonomy by having the power to hire teachers, borrow money for expansion and use outside managerial expertise. Schools would also be allowed to develop into centres specialising in certain subjects such as sport, the arts and information technology. These moves might be extended to the opening of separate campuses for such purposes as foreign language schools funded with community and industry support. These reforms would represent an extension of the Schools of the Future Program and will be reviewed by the Towards Autonomous Schools Working Party and referred to previously in this report.

At present, schools are restricted in their ability to borrow to fund expansion through asset acquisition and/or construction. The Department has acknowledged such constraints and the need for school councils to be able to use the assistance of accountants and lawyers to deal with the complexity of modern business practices. Within this environment, there is the potential for corporate sponsorship to play a significant role.
The Committee acknowledges that such proposals reflect a worldwide trend to give schools more independence from a central bureaucracy. Empowering local communities to have more input into determining the direction of their schools is sensible. The Committee is of the view, however, that encouragement for schools to seek alternative funding should proceed with discretion and within a highly developed and monitored framework.

The issue of sources of school funding has been referred to by the Auditor-General in the May 1997 Report on Ministerial Portfolios where it was indicated that during 1996 local fund raising generated a net amount of $97 million representing 16.9 per cent of school operating revenue not including funding for teacher salaries. These funds are mainly raised by camps and excursions, trading operations, voluntary levies and donations and fundraising activities.

The Auditor-General was advised by principals that these funds were expended to purchase additional computer equipment and class materials, employment of specialist teachers, building and ground maintenance or repairs and accumulation of working capital for future infrastructure acquisition/construction projects. The Department's response to the Auditor-General's observations acknowledged the contribution made by local fund raising for discretionary educational services.

Recommendation 6.3

That the Department of Education consider the potential for adverse impacts from the decision to provide schools with greater autonomy and introduce safeguards to ensure that particular students are not disadvantaged as a consequence of the drive for greater self funding in the education sector.

Retention rates within the school system

The apparent retention rate in Victorian government schools calculated at August over the past eight years has fluctuated significantly from a low of 52.1 per cent in 1989 to a high of 77.9 in 1993, in line with the movements that have taken place Australia wide. For August 1996, the Victorian retention rate was 69.4 per cent. This figure was included in the 1997-98 Budget Estimates for the Department as being the target for both 1996-97 and 1997-98.

Exhibit No. 19 highlights that the retention rate has risen considerably over the six month period from August 1996 to February 1997.

---

66 Figures derived from Summary Statistics for Victorian Schools provided to the Committee by the Department of Education.
<table>
<thead>
<tr>
<th>Exhibit No. 19</th>
</tr>
</thead>
<tbody>
<tr>
<td>Summary Statistics for Victorian Schools</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Government</th>
<th>Non-Government</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>February 1997</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of schools</td>
<td>1,664</td>
<td>678</td>
<td>2,342</td>
</tr>
<tr>
<td>Full-time equivalent of students</td>
<td>523,943</td>
<td>263,872</td>
<td>787,816</td>
</tr>
<tr>
<td>Apparent retention rate (per cent)</td>
<td>76.3</td>
<td>89.8</td>
<td>81.2</td>
</tr>
<tr>
<td><strong>August 1996</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of schools</td>
<td>1,700</td>
<td>679</td>
<td>2,379</td>
</tr>
<tr>
<td>Full-time equivalent of students</td>
<td>517,882</td>
<td>259,485</td>
<td>777,367</td>
</tr>
<tr>
<td>Apparent retention rate (per cent)</td>
<td>69.4</td>
<td>85.9</td>
<td>75.3</td>
</tr>
</tbody>
</table>

(Source: Summary Statistics for Victorian Schools prepared by the Department of Education)

**Dealing with the maintenance backlog**

Over recent years, the Department of Education has achieved a significant reduction in the maintenance backlog at schools through a rationalisation and improvement plan with the proceeds from the sale of surplus school assets being used to make necessary improvements at other schools. An integral part of this process is the completion of resource management audits by schools which enables the Department to confirm the value of assets held and to assist in the prioritisation of the needs of individual schools for repair and/or refurbishment programs. The Department’s Physical Resource Management System will enable schools to record the information on the condition of school buildings and details of the maintenance plan.

**Recommendation 6.4** That the Department of Education include in its annual report the status of significant outstanding school refurbishment programs indicating when those projects are likely to be completed and the amount of expenditure incurred on school refurbishment programs during the year.

### 6.5 Tertiary and Further Education

**Amalgamation of TAFE colleges and universities**

The structure of the TAFE sector within Victoria has been the subject of a recent review commissioned by the Minister for Tertiary Education and Training. The Department’s 1995-96 annual report indicated that at that time there were 23 TAFE Institutes and four TAFE divisions within universities.

The review panel set up by the Minister for Tertiary Education and Training has made a preliminary recommendation that the number of TAFE institutes be reduced on the basis of whether similar training programs are offered, rather than on geographical
lines. Various models are being considered which link more TAFEs to universities enabling students to gain a degree or diploma within the same tertiary institution.

The need for such rationalisation has arisen because of the reduction in the level of funding provided by the Commonwealth Government. The Committee understands that TAFE Institutes have been given a period of time to comment on the proposals prior to the finalisation of the panel’s report at the end of October 1997.

The Minister advised the Committee\(^7\) that there have been several TAFE amalgamations within rural Victoria and referred to the example of Goulburn Murray TAFE, based at Shepparton, combining with Wangaratta TAFE. Other amalgamations have been considered for the metropolitan area, such as John Batman TAFE and Kangar TAFE. The Committee was advised that, in these cases, any saving achieved from the amalgamations would be retained by the new body as one way of improving the range of courses provided. This process has not resulted in any closures of existing campuses and funding has been, and is continuing to be, provided for new campuses to be constructed.

The Committee is particularly interested in these developments and will review the implications of the proposed amalgamations after the Panel’s report is released.

*Global outlook for universities*

Overseas student fees represent an increasing source of revenue for tertiary institutions in Victoria, amounting to over $750 million annually. This revenue is not disclosed in Budget Paper No. 3 but is reported on in the annual reports of those tertiary institutions.

As a consequence of concerns of South-East Asian countries on the numbers of students travelling to overseas locations for their educational needs, the tertiary institutions are now seeking to provide some training in those countries.

The Minister for Tertiary Education and Training advised the Committee that some universities and TAFE colleges are building campuses in South-East Asia and cited the example of La Trobe University, in partnership with the Northern Metropolitan Institute of TAFE and the Western Metropolitan Institute of TAFE, providing all the post-secondary needs of a new city outside Kuala Lumpur called Nilar Springs.\(^8\) In addition, the Minister referred to the provision of training courses by TAFE Colleges through International Training Australia both in South-East Asia and other regions throughout the world.\(^9\)

The Committee considers that it is important that the nature and extent of any financial commitments entered into by tertiary institutions in relation to their international operations are disclosed in the annual reports of those institutions.

---

\(^7\) Hon P Honeywood, Minister for Tertiary Education and Training, Transcript of Evidence, page 332-334.

\(^8\) Ibid., page 325.

\(^9\) Ibid., page 325.
Recommendation 6.5  That tertiary institutions should provide relevant financial and other information in their annual reports relating to significant initiatives taken/strategies developed for their international activities.
Chapter 7: Department of Human Services

7.1 Introduction

The Department of Human Services covers the responsibilities of three Ministers; Health and Aged Care, Youth and Community Services, and Housing and Aboriginal Affairs.

Most of the Department’s services are provided by separate agencies under funding and service agreements. These include Government-related agencies such as public hospitals, health care networks, public nursing homes and a range of non-government organisations providing mainly welfare services. The Department also provides some direct services such as public rental housing, intellectual disability accommodation, child protection and some mental health services.

Following the restructure of departments in April 1996, the Department of Human Services has integrated and redeveloped its health, housing and community services to achieve more effective, client-focused services and to make better use of public resources. Government reforms in this area, launched in 1996-97, will be progressively implemented during the 1997-98 financial year, including the implementation of the Metropolitan Health Care Services Plan, the State Plan for Intellectual Disability Services, the Turning the Tide Drug Strategy, the Victorian Carers’ initiatives, the Healthstreams funding program, the Housing Assistance Strategy and the Framework for Mental Health Service Delivery.

The Department has moved from nine programs in 1996-97 to twelve output groups in 1997-98. The main changes are:

- program 362 Aged, Community and Mental Health has been broken down into three output groups viz. 113 Aged Care Services, 114 Coordinated Care Services and 115 Mental Health Services;
- program 365 Housing now comprises two output groups viz. 121 Rental Housing Assistance and 122 Home Ownership Assistance; and
- a new output group 112 Ambulance Services to cover patient transport services.

The Department of Human Services provided the Committee with its 1997-98 Corporate Plan. The plan outlines the services to be provided, key results areas and strategies for achieving the Department’s mission in terms of accessibility, a focus on performance and efficient management, responsiveness to client needs, and protection and care for those at risk. For each output group, strategies and key performance measures are outlined together with reference to key clients/stakeholders, partners and expectations. Separate sections of the plan included an overview of such matters as capital management, human resources, information systems directions, business improvement and corporate strategy. The Committee was most impressed with the quality of the document.
7.2 Budget Overview

For 1997-98, the Department of Human Services has planned to expend $5.344 billion, an increase of $159 million or 3.1% over 1996-97. Exhibit No. 20 indicates that the main contributors to this increase are wages and salaries, transfer payments and capital expenditure:

<table>
<thead>
<tr>
<th>Exhibit 20</th>
<th>Composition of Departmental Outlays</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Budget 1996-97 ($'000)</td>
</tr>
<tr>
<td>Administration and service provision costs:</td>
<td></td>
</tr>
<tr>
<td>- Wages and salaries</td>
<td>2 763 661</td>
</tr>
<tr>
<td>- Superannuation</td>
<td>202 639</td>
</tr>
<tr>
<td>- Capital charge</td>
<td>34 490</td>
</tr>
<tr>
<td>- Other departmental costs</td>
<td>1 559 153</td>
</tr>
<tr>
<td>Current transfer payments</td>
<td></td>
</tr>
<tr>
<td>- Subsidies paid to enterprises</td>
<td>5 963</td>
</tr>
<tr>
<td>- Personal benefit payments</td>
<td>244 934</td>
</tr>
<tr>
<td>Current grants and other transfer payments</td>
<td>411 151</td>
</tr>
<tr>
<td><strong>Total cost of services</strong></td>
<td>5 221 991</td>
</tr>
<tr>
<td><strong>Charges and reimbursements</strong></td>
<td>-493 116</td>
</tr>
<tr>
<td><strong>Net cost of services</strong></td>
<td>4 728 875</td>
</tr>
<tr>
<td>Direct addition to public infrastructure, net stocks and land acquisition</td>
<td>205 147</td>
</tr>
<tr>
<td><strong>Sales of fixed assets</strong></td>
<td>-3 600</td>
</tr>
<tr>
<td><strong>Gross fixed capital expenditure and other net asset purchases</strong></td>
<td>201 547</td>
</tr>
<tr>
<td>Capital transfer payments</td>
<td>254 351</td>
</tr>
<tr>
<td>Capital outlays</td>
<td>455 897</td>
</tr>
<tr>
<td><strong>Total group outlays</strong></td>
<td>5 184 772</td>
</tr>
</tbody>
</table>

(Source: 1997-98 Budget Paper No. 3 Budget Estimates, page 102)

In response to the Committee's questionnaire, the Department provided an explanation for the significant variations in charges and reimbursements and other departmental costs. The Committee noted that the increase in current grants and other transfer payments arose mainly in respect of output groups 113 Aged Care Services, 117 Disability Services and 118 Youth and Family Services. In respect of capital expenditure, an examination of departmental new works suggests that the higher level of expenditure may well be associated with the various Metropolitan Health Care Network projects being currently undertaken, viz, stage 1 of the Plan for Metropolitan Health Care Services.
When taken to the output group level, it can be seen from Exhibit 21 that the planned increases in budgeted expenditure are spread fairly evenly over those groups encompassing health and aged care, and youth and community services.

<table>
<thead>
<tr>
<th>Number</th>
<th>Output Group</th>
<th>Budget 1996-97 ($'000)</th>
<th>Budget 1997-98 ($'000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>111</td>
<td>Acute Health Services</td>
<td>2,330,143</td>
<td>2,416,859</td>
</tr>
<tr>
<td>112</td>
<td>Ambulance Services</td>
<td>84,161</td>
<td>78,186</td>
</tr>
<tr>
<td>113</td>
<td>Aged Care Services</td>
<td>472,825</td>
<td>524,797</td>
</tr>
<tr>
<td>114</td>
<td>Coordinated Care Services</td>
<td>168,667</td>
<td>160,250</td>
</tr>
<tr>
<td>115</td>
<td>Mental Health Services</td>
<td>415,381</td>
<td>438,881</td>
</tr>
<tr>
<td>116</td>
<td>Public Health Services</td>
<td>173,118</td>
<td>182,963</td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td><strong>3,644,295</strong></td>
<td><strong>3,801,936</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Number</th>
<th>Output Group</th>
<th>Budget 1996-97 ($'000)</th>
<th>Budget 1997-98 ($'000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>117</td>
<td>Disability Services</td>
<td>456,370</td>
<td>486,145</td>
</tr>
<tr>
<td>118</td>
<td>Youth and Family Services</td>
<td>472,060</td>
<td>478,125</td>
</tr>
<tr>
<td>119</td>
<td>Concessions to Pensioners and Beneficiaries</td>
<td>245,871</td>
<td>237,925</td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td><strong>1,174,301</strong></td>
<td><strong>1,196,195</strong></td>
</tr>
</tbody>
</table>

(Source: Compiled from 1997-98 Budget Paper No. 3 Budget Estimates, page 105)

Overall numbers of staff within the Department declined by 1 per cent between 1995-96 and 1996-97, mainly in the hospital and aged care centres. While information on staffing has yet to be prepared on an output group basis, the Department has identified a number of key human resource strategies that provide for greater operational flexibility and clearer accountability.

The productivity dividend is applied to departmental costs excluding Specific Purpose Payments provided under Commonwealth-State Agreements, some Trust Fund expenditure such as the Mental Hospital Fund and Concessions to Pensioners and Beneficiaries. The Department advised the Committee that the target for 1997-98 is $42.9 million with $26.9 million allocated to output group 111 Acute Services, with the remaining amounts against 113 Aged Care Services, 115 Mental Health Services, 117 Disability Services and 118 Youth and Family Services. No productivity savings were being sought in respect of output group 112 Ambulance Services.

The Department further advised that the implementation of a new financial system from 1 July 1997 will result in an increased focus on the efficient management of outputs by the incorporation of improved costing mechanisms to distribute internal costs. Output costs for externally purchased services will be allocated at the time of
making payments to providers and will be initially collected at cost centre level for internally delivered services with a subsequent allocation process attributing those costs to outputs.

Other initiatives being undertaken by the Department to improve the recording of output information include:

- improvements to output definitions and groupings;
- clarification, streamlining and automation of the information exchanges between funded agencies and the department; and
- reform of service agreements with the Department and improving the structure and content of contracts with particular emphasis on output specification measures.

### 7.3 Key issues facing the Department

The following key issues were identified as facing the Department in the next financial year:

- Commonwealth-State financial relations;
- demand related funding; and
- restructuring of the Department and redevelopment of services being provided.

**Commonwealth-State financial relations**

The Department of Human Services is by far the major recipient within Victoria of Commonwealth specific grants in respect of a number of different programs with $1.6 billion expected in 1997-98 for current purposes and $263.1 million for capital purposes. This is a decline of 1 per cent compared to the level of 1996-97 funding provided by the Commonwealth. The main components of this funding are for hospitals ($1 billion, a 2.7 per cent increase from 1996-97), repatriation services, home and community care and public housing.

Hospital funding is provided under the 1993-98 Medicare Agreement and assists the States to meet the costs of providing public hospitals services to eligible persons including inpatients, outpatients, casualty and emergency. The grant is indexed each year to reflect changes in age/sex weighted population growth, CPI and award rates of pay. The distribution of the grant is based on each State’s share of the total age/sex weighted population and the weightings used to reflect hospital utilisation patterns by the Australian population.

**Demand related funding**

The Department pointed out a number of factors which had contributed to the increased demand for inpatient services. These include:

- the ageing of the population which has put significant pressure on the hospital system as older age is associated with a greater level of use of hospital services; and

---

1997-98 Budget Paper No. 3 Budget Estimates, Table 3.14, pages 401-402.
the decline in private health insurance coverage in Victoria, which the Department has indicated has reduced from 50 per cent in March 1991 to 32 per cent in March 1997.

The Committee was informed by the Department that demand-related funding of hospitals of $18.2 million in 1997-98 will enable hospitals to improve waiting list management, infection control and clinical risk management and expand post-acute care services. Additional funding of $20 million has been provided for initiatives in other Human Services programs including intensive case management and community health services.

The Department further advised the Committee that it will receive supplementary funding from the Commonwealth in 1997-98 to respond to the growth in the demand for acute health services by enabling hospitals to increase their capacity to deal with higher volumes of more complex acute care needs, and to reduce the rate of unplanned re-admissions or extended hospital stays associated with medical complications.

Restructuring of the Department and redevelopment of services

In 1997-98, the Department will implement a range of management projects to reinforce the principles of the new organisational structure. These include:

- greater regional flexibility to achieve better client outcomes;
- improving performance through greater accountability;
- clarity of roles and responsibilities to simplify and better focus management;
- increased emphasis on, and a more sophisticated development of, the department's purchasing responsibilities;
- internal service delivery being subjected to the same business rules which apply to services by external providers; and
- enhanced business planning.

The Department has also indicated to the Committee that, with increased regional operational flexibility resulting from the restructure, regions will have a greater capacity to encourage local service integration and responsiveness. At the same time, greater emphasis has been given to the development and use of performance indicators to monitor regional performance.

7.4 Performance measurement

The Committee notes that the Department of Human Services intends to develop an overall set of strategic key performance indicators (KPIs) to provide management with an overview of the efficiency and effectiveness of the Department.

The Department acknowledged the current limitations of the performance information provided in Budget Paper No. 3 and advised the Committee that those measures will be reviewed by the Department to enable the planning and budget process for 1998-99 to be supported by better performance information. The Department also indicated to the Committee that its capacity to report on annual variations will be significantly strengthened after the development of a refined output structure and more robust
performance measures for each output group, together with the installation of the new output focused financial system.

Despite the above constraints, the Department of Human Services was one of the few departments to provide some comment on the nature of, and variation in, the performance measures included in the Budget Paper No. 3.

In response to the Committee’s questionnaire, the Department provided a considerable amount of detail relating to the development and use of benchmarks by the Department. The Committee notes that this benchmark information is yet to be incorporated into Budget Paper No. 3.

The Committee was advised that the Council of Australian Governments (COAG) has developed a wide range of nationally consistent performance measures for government services and that the Department will be reviewing and developing new measures based on the benchmarks adopted in the Productivity Commission’s Report on Government Service Provision (RGSP). The 1997 RGSP has been expanded to include three new service areas - aged services, disability services and children’s services. With the national framework for performance indicators to be further refined, the Committee acknowledges there is scope to improve the quality of the benchmarking process.

**Recommendation 7.1** That the Department of Human Services continue the development of outcome and output specifications and related performance measures with a view to reporting on this basis in the 1998-99 accrual-based budget with appropriate explanations as to the nature and significance of those measures in assessing whether the Department has achieved its objectives.

**Recommendation 7.2** That in view of the significant outlays in output group 111 Acute Health Services, the Department include performance measures relating to how economically and efficiently labour and operating costs have been managed within that particular output group.

**Recommendation 7.3** That the Department of Human Services include in the budget documentation, national benchmark information when individual benchmarks have been accepted by the States and the Commonwealth.

### 7.5 Strategic planning

The October 1996 Metropolitan Healthcare Services Plan outlines a process for the strategic restructuring of the health sector as it incorporates the following new service directions:

- locate services closer to where people live;
• shift services from institutional to community based settings;
• improve access to specialised services;
• develop services to meet the growth in health needs of older people; and
• provide services from efficient, appropriately located facilities.

**Impact of metropolitan healthcare networks**

The formation of the six Metropolitan Health Care Networks has been the first step in the provision of hospital and community based services. The October 1996 Plan for Metropolitan Health Care Services provided for a capital injection of over $900 million for the systematic upgrade, refurbishment and redevelopment of facilities. The Plan indicates that opportunities would be presented for both the private and public sectors to invest in infrastructure and service delivery. The nature of this involvement would depend on the type of investment required and the nature of the development project.

The Plan will be evaluated against the key criteria identified by the government, Health Care Networks and Metropolitan Hospitals Planning Board for service quality, efficiency and accessibility. Health care education, training and research activities will be reviewed as part of this process. Over the next five years, to ensure that resources are equitably distributed and to enable the Networks to best address the needs of patients, the Plan provides for the government to work with the Networks and hospitals to continually review and update the allocation of resources and service targets to reflect local needs, demographic changes and shifts in referral patterns.71

The Committee looks forward to examining the 1996-97 annual reports of the Health Care Networks and of the Department of Health to ascertain whether the objectives contained within the Plan for Metropolitan Health Care Services are being achieved in respect of the individual Networks.

**Privately funded public hospitals**

The Minister for Health and Minister for Aged Care indicated to the Committee that, under the Government's strategic health plan, about $150 million of the total of $900 million identified for development would be allocated for the following projects72:

• a new tertiary hospital at Knox (Inner and Eastern Health Care Network); and
• a new hospital and community health service at Berwick (Southern Health Care Network);

These hospitals may be developed along similar lines to the Latrobe Regional Hospital, the tender for which was won early last year by Australian Hospital Care.

The Committee understands that the Government is also exploring the option of having private operators redevelop the Austin and Repatriation Medical Centre (A & RMC), which is in the North Eastern Health Care Network. The A & RMC would be developed as a major teaching hospital.

---

72 Hon R I Knowles, Minister for Health and Minister for Aged Care, Transcript of Evidence, 4 June 1997, page 122.
In relation to the Latrobe Regional Hospital, the Committee was informed by the Minister that funding was provided as two components:\(^73\):

- case-mix block operating grants on the same funding formula that is available to other hospitals, with annually negotiated targets; and
- capital grants which cover the debt service payment to the bond-holders and other agreed capital items.

The Minister also indicated that neither the operating or capital payments are guaranteed but the payments are structured:

"so that while service levels and operating revenues may fall over, the level of payment will remain unaffected provided that the services are delivered to the required quality standards."\(^74\).

In providing this information to the Committee, the Minister reiterated that the State did not guarantee payments to bond-holders and is only required to pay for services delivered and has no ongoing obligation to support the project.

The Committee intends to examine the nature and extent of private involvement in public hospitals in future reports on the estimates process.

\begin{center}
\textbf{Recommendation 7.4} That the Budget Papers and the Department’s annual report include performance information on the Health Care Networks based on service quality, efficiency and accessibility.
\end{center}

\textbf{Services for rural Victorians}

\textit{Healthstreams}

A high priority for the Department is the support and further development of health services for Victorians who live in rural areas. The Department has introduced Healthstreams which is designed to encourage a more diverse range of services, emphasising community and home-based health care in these areas. This initiative is expected to assist the Department in addressing the issue of higher costs of operating regional base hospitals.

Healthstreams offers more flexible funding to rural hospitals, so that they can better match services to the needs of their community. It incorporates financial incentives for improved co-ordination between service providers, particularly for the management of patients with complex or chronic care needs. Health promotion and education are also encouraged under this funding program. The Minister for Health and Aged Care indicated that the Yarram Health Service has been accepted as a Healthstreams model\(^75\) and will operate under this funding structure from 1 July 1997.

\(^{73}\) Ibid., page 123.

\(^{74}\) Ibid., page 123

\(^{75}\) Ibid., pages 114-115.
Shortages of health professionals

As indicated in the Committee's April 1997 report, the Department faces a major challenge in attracting doctors to work in rural areas. The recent Medical Labour Force Report issued by the Australian Institute of Health and Welfare found that the number of doctors per head of population in country areas was significantly lower than the national average. Rural doctors represented 16 per cent of Australia's 49,000 medical population despite the fact more than 30 per cent of the population lives outside capital cities.

The Minister informed the Committee that this matter is being considered by the Commonwealth and the States/Territories who are committed to a long term solution for the provision of general practitioners and specialists to rural areas.

Governments have funded an education initiative to attract rural secondary students to undertake health professional careers within rural areas. The Commonwealth is seeking to establish six departments of rural health throughout Australia with university involvement. Consideration is also being given by governments to addressing shortages with other health professionals - skilled nurses and allied staff.

In terms of specialists, the Minister stated that the Government had introduced specialist grants last year and may increase the level of the grants in the current year in recognition of the additional costs being incurred by regional hospitals in securing the services of medical practitioners. The Commonwealth and the States/Territories are also having discussions with medical colleges on how some of the specialist training could be undertaken in rural areas.

The Minister informed the Committee that he had established a Medical Workforce Council to provide recommendations on additional initiatives that the Government might take in this area. The Minister indicated at the hearing that the Council would report in the near future.

**Recommendation 7.5** That the Department of Human Services develop performance measures which reflect the outcomes of initiatives relating to the provision of health services in rural areas and include such information in the Budget Papers and the Department's annual report.

7.6 Intergraph

In March 1996, the Auditor-General included in the 1996-97 performance audit program an audit of the ambulance services throughout Victoria. Subsequently, in May 1996, the Minister for Health and Aged Care requested that the Auditor-General carry out a wide-ranging performance audit of the Metropolitan Ambulance Service:

77 Hon R T Knowles, Minister for Health and Minister for Aged Care, Transcript of Evidence, 4 June 1997, pages 129-130.
76 Ibid., pages 130.
79 Ibid., page 130.
"in the context of significant changes which have occurred over the last 2 to 3 years including extensive outsourcing, significant budgetary pressures and an ongoing decline in revenue arising from subscriptions". 

The Auditor-General's report on the Metropolitan Ambulance Service was tabled in the spring session of Parliament.

In April 1997, the Auditor-General presented a report on the Metropolitan Ambulance Service, because of serious deficiencies identified in respect of the consultancy and outsourcing contracts entered into by the service between April 1993 and March 1995, in advance of the more detailed report at the conclusion of the performance audit.

The Auditor-General was of the view that "the breadth and consistency of these deficiencies were such that it would be an oversimplification to suggest that they all could be solely attributed to managerial incompetence". Furthermore, the Auditor-General cast doubt on whether estimated savings of $20 million envisaged by the Service to be achieved over a 4 year period from the outsourcing arrangements had eventuated. With respect to the role played by the Department of Human Services, the Auditor-General concluded that there was an inadequate assessment by the Department of the level of risk, from the Government's viewpoint, in terms of the reliance which could be placed on contract management at the Service during the period of the review.

The Chief Executive Officer of the Metropolitan Ambulance Service (MAS) indicated in his response to the Auditor-General's report, that a new management team had been in place since May 1995 which has introduced a number of initiatives which exhibit good process and integrity in all aspects of contracts management and that the operational performance of the Service had significantly improved, together with its ability to deliver within budget parameters. The Secretary of the Department, in his response, referred to the more stringent accountability for the Service, including the requirement for all tenders greater than $100,000 to be approved by the Department's Accredited Purchasing Unit. The strengthened accountability requirements for contract management processes also include the establishment of a Committee of Management and an Audit Committee for the Service, requirements for pecuniary interests of management staff to be declared and the conduct of monthly meetings between the Department and the Service to review financial and operational performance. The Auditor-General, in his report, acknowledged that these various actions were aimed at improving the effectiveness of the Service's contract management practices and viewed these initiatives as positive.

The matters raised in the Auditor-General's April 1997 report in respect of the contractual deficiencies are currently the subject of a police investigation. The Committee is concerned that the circumstances that led to this unsatisfactory position should not be repeated.

---

81 Ibid., page 4.
82 Ibid., pages 10-11.
83 Ibid., page 12.
84 Ibid., page 9.
At the estimates hearings attended by the Minister for Health and Minister for Aged Care and the Minister for Police and Emergency Services, Members of the Committee asked a number of questions about the contractual arrangements entered into for the computerised emergency communications service and the current operating performance of that system.

The matter of response times is of significance given that the Intergraph contract made public in June 1997 provides for the withholding of payments to Intergraph where components of the target have not been met. The Committee received an assurance from the Minister for Health and Minister for Aged Care that "the computer-aided dispatch system is working above benchmarks today, and has been since February this year."\(^\text{85}\)

In response to the Committee's enquiries as to whether the terms and conditions of the Intergraph contract are being met, the Minister has recently advised that performance measures relating to call answering and total time to dispatch are defined in the Master Services Contract and are being monitored by the Bureau of Emergency Service Organisations (BEST) on behalf of the Emergency Service Organisations (ESOs) viz. Metropolitan Ambulance Service, Victoria Police, Victoria State Emergency Service, Metropolitan Fire Brigades Board and Country Fire Authority.\(^\text{86}\)

**Recommendation 7.6**

That the Department of Human Services closely examine the outcomes of the police investigation flowing from the Auditor-General's April 1997 Special Report No. 49 - Metropolitan Ambulance Service and the recommendations contained in the Auditor-General's November 1997 Special Report No. 50 - Metropolitan Ambulance Service and ensure that appropriate action is taken to rectify any identified deficiencies.

7.7 Disability care and support services

**Funding levels**

Disability services provide for accommodation support, child and family support and community participation. The major component of this output group relates to people with intellectual disabilities but the group also encompasses people with physical and/or sensory disabilities.

The 1997-98 funding for output group 117 Disability Services is expected to be $480.1 million, an increase of $23.8 million or 5.2 per cent over the previous year, as reflected in Exhibit No. 22.

---

\(^{85}\) Hon R I Knowles, Minister for Health and Minister for Aged Care, Transcript of Evidence, 4 June 1997, page 122.

\(^{86}\) Response from Hon. R I Knowles, Minister for Health and Aged Care, 29 August 1997, to a Committee request for details.
### Exhibit No. 22
**Output Group 117: Disability Services**

<table>
<thead>
<tr>
<th></th>
<th>Budget 1996-97 ($'000)</th>
<th>Budget 1997-98 ($'000)</th>
<th>Variance ($'000)</th>
<th>Variance %</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Administration and service provision costs:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Wages and salaries</td>
<td>184 720</td>
<td>181 465</td>
<td>-3 255</td>
<td>-1.8</td>
</tr>
<tr>
<td>- Superannuation</td>
<td>19 973</td>
<td>17 020</td>
<td>-2 953</td>
<td>-14.8</td>
</tr>
<tr>
<td>- Capital charge</td>
<td>3 260</td>
<td>4 654</td>
<td>1 394</td>
<td>42.8</td>
</tr>
<tr>
<td>- Other departmental costs</td>
<td>188 796</td>
<td>199 481</td>
<td>10 685</td>
<td>5.6</td>
</tr>
<tr>
<td><strong>Current transfer payments</strong></td>
<td>52 486</td>
<td>71 857</td>
<td>19 371</td>
<td>36.9</td>
</tr>
<tr>
<td><strong>Total cost of services</strong></td>
<td>449 234</td>
<td>474 476</td>
<td>25 242</td>
<td></td>
</tr>
<tr>
<td><strong>Charges and reimbursements</strong></td>
<td>-11 757</td>
<td>-11 758</td>
<td></td>
<td>-1</td>
</tr>
<tr>
<td><strong>Net cost of services</strong></td>
<td>437 478</td>
<td>462 718</td>
<td>25 240</td>
<td></td>
</tr>
<tr>
<td><strong>Direct addition to public infrastructure, net stocks and land acquisition</strong></td>
<td>18 089</td>
<td>12 805</td>
<td>-5 284</td>
<td>29.2</td>
</tr>
<tr>
<td><strong>Capital transfer payments</strong></td>
<td>803</td>
<td>4 623</td>
<td>3 820</td>
<td></td>
</tr>
<tr>
<td><strong>Capital outlays</strong></td>
<td>18 892</td>
<td>17 428</td>
<td>-1 464</td>
<td></td>
</tr>
<tr>
<td><strong>Total group outlays</strong></td>
<td>456 370</td>
<td>480 145</td>
<td>23 775</td>
<td></td>
</tr>
</tbody>
</table>

(Source: 1997-98 Budget Paper No. 3 Budget Estimates, page 122)

The Department has indicated that the increase in funding for this output results from the following:

- funding transferred from the Department of Education for a joint departmental initiative *Future for Young Adults*; and
- transfer of departmental managed services to community based services e.g. Janefield redevelopment.

**Renewal of Commonwealth-State Disability Services Agreement**

Under the five year Commonwealth/State Disability Services Agreement, which expired on 30 June 1997, Victoria was responsible for accommodation and day programs and the Commonwealth for employment programs. The Minister for Youth and Community Services informed the Committee that the preferred position was to have the responsibility for the employment program handed to Victoria. The Minister advised that he would like to see:

"...a Commonwealth/State agreement that provided for all the services, accommodation, day and employment programs to be handled by the State and for the Commonwealth to be responsible for quality control, advocacy and overview - but we should be involved in service delivery."[87]

---

The Committee was also informed that the new Commonwealth/State Disability Agreement would be subject to a Commonwealth efficiency dividend which applies to programs funded as Specific Purpose Payments (SPPs) the impact of which will be offset by Commonwealth funding for additional services for people with intellectual disabilities.

The Committee intends to examine the provisions of the new disability agreement at a subsequent estimates inquiry to assess the ramifications on service delivery within Victoria.

**Disability aids and deinstitutionalisation of disabled persons**

The Minister also responded to enquiries from the Committee in relation to the provision of disability aids and the deinstitutionalisation of disabled persons.88

The Minister indicated to the Committee that he viewed the provision of disability aids as an important program. The current waiting list, as advised to the Committee, stood at $13 million for equipment, $300 000 for people who require oxygen facilities and $261 000 for people in accommodation support services. The Minister advised the Committee that a number of one-off payments had been made to reduce waiting lists, including an amount of $2 million in mid 1997.89

The Minister advised the Committee that the deinstitutionalisation process has continued with the closures of Aradale and Mayday Hills and the redevelopment of Janefield-Kingsbury.90 The Minister indicated Pleasant Creek at Stawell would be closed and that 100 clients would be moving out of Kew Residential Services. According to the Minister, the move to deinstitutionalisation "is not driven by money; it is driven by the quality of life"91 and is based on client behaviour and the assessed need for support services.

7.8 **Other matters raised during estimates hearing**

As the Department of Human Services has significant responsibilities for service delivery, the Committee sought comments from the Ministers on a number of aspects of the Department’s operations, including the following:

**Quality of nursing within the health sector**

With respect to the availability of trained nursing staff, the Minister for Health and Aged Care advised the Committee that there were two areas of perceived shortages viz. critical care nurses (intensive care, theatre and emergency) and State enrolled nurses (primarily for home care).92 In relation to critical care nurses, the Minister indicated that the Department of Human Services had arranged for additional training places to be made available and for overseas nurses to be recruited to provide an immediate solution. The Minister also stated that the issue of shortages of State enrolled nurses was a more difficult problem as it was difficult to create career paths for those nurses.

88 Ibid., pages 265-264 and 270-273.
89 Ibid., page 264.
90 Ibid., page 270.
91 Ibid., pages 270-271.
92 Hon R I Knowles, Minister for Health and Minister for Aged Care, Transcript of Evidence, 4 June 1997, pages 133-134.
The Department is to undertake a major review of nursing to be conducted by an advisory group comprising representatives of the universities, the health care networks, the nursing profession, the Nurses Board of Victoria and the Australian Nursing Federation. The Committee looks forward to the outcomes of the present review and the development of strategies by the Department to address the review findings and recommendations.

Privatisation of occupational health service at the Peter MacCallum Cancer Institute

In early 1997, the occupational health service at the Peter MacCallum Cancer Institute was privatised. The service ran screening programs for hepatitis B, performed TB testing, dealt with needle-stick injuries and also screened for cancer treatment agents. At the estimates hearing, the Minister for Health and Minister for Aged Care was asked to clarify the tendering process employed for the privatisation of the service and to provide details of the benefits to be derived. In response, the Minister indicated that hospitals were required to comply with the Government’s infrastructure guidelines where they are applicable to those outsourcing arrangements and to ensure that the process was open, transparent and contestable\(^3\).

The Committee was subsequently advised by the Minister that the contracting out of the service was not the subject of a general tender on the basis of a limited market - only two organisations were interested in providing the service, one of which had never before been involved in such work. The Institute undertook extensive reference checks on the selected tenderer and benchmark analysis of its price. The contract was for one year only with options to renew subject to satisfactory performance.

Child protection workers

The Committee raised with the Minister for Youth and Community Services the problems of staff turnover among child protection workers and the difficulty of retaining experienced staff. In response, the Minister informed the Committee that staff turnover had decreased significantly over the past two years and that the average length of experience of child protection workers had improved.\(^4\) The Minister advised that a number of initiatives had been implemented including increased pay, career restructuring, improved staff development programs and performance systems, and development of protocols between the workers, Victoria Police and the Family Court. In June 1997, there were 667 child protection workers and the staff turnover rate at that time was 22 per cent. While not able to provide detailed information at the estimates hearing on the range of qualifications held by those workers, the Minister indicated that the average length of experience for base grade workers was 1.8 years.

---

\(^3\) Ibid., page 129.

\(^4\) Hon D V Napthine, Minister for Youth and Community Services, Transcript of Evidence, 25 June 1997, pages 265-268.
The Committee notes that the staff turnover has been reduced from the high level reported on by the Auditor-General in the June 1996 Special Report No. 43 Protecting Victoria's Children: The Role of the Department of Human Services.
Chapter 8: Department of Infrastructure

8.1 Introduction

The Department of Infrastructure supports the three Ministerial portfolios of Planning and Local Government, Transport, and Roads and Ports. Its responsibilities include infrastructure investment planning, building, heritage, local government, major projects, strategic and statutory planning, public transport, roads, transport safety and regulation. In addition, the portfolio agencies within the infrastructure sector provide a range of development and delivery services, extending from port and marine authorities, Roads Corporation (VicRoads) and the Public Transport Corporation (PTC) to smaller regulatory bodies and agencies for specific development projects.

The program structure for the Department for 1996-97 comprised 16 programs and 55 sub-programs. In contrast, the 1997-98 output framework which consisted of 5 output groups and 32 outputs by which all the Department and its agencies’ activities are measured. The 5 output groups are:

- 201 Strategic Infrastructure Planning;
- 202 Contracted Transport Services;
- 203 Infrastructure Management and Delivery;
- 204 Transport Safety and Regulation; and
- 205 Local Government, Planning and Development.

The most significant output group in the Department is 203 Infrastructure Management and Delivery which covers a range of outputs including Vic Track, road system development, Melbourne City Link, road system maintenance, traffic management and information, port and shipping services, major public construction and land development projects and the docklands development. The budget for this output group for 1997-98 is $794 million, which is 45 per cent of total outlays for the Department of Infrastructure, comprising $309.3 million as net cost of services and $484.7 million as capital outlays.

The Department of Infrastructure maintained four programs in 1996-97 with respect to transport related responsibilities

- 684 Transport Regulation and Contract Services;
- 703 Corporate Services - Public Transport;
- 704 Passenger Services; and
- 705 Freight Services.

These programs have essentially been brought together under output group 202 Contracted Transport Services which covers the provision of contracted public transport services including passenger and freight rail services; light rail and tram services; bus services and disability taxi services through public and private providers, for which expenditure of $743.2 million is budgeted for 1997-98.

While output group 202 Contracted Transport Services directly relates to public transport, certain aspects of transport are also included in the other output groups viz.:
• 201 Strategic Infrastructure Planning (long-term strategic plans for the provision of public transport);
• 203 Infrastructure Management and Delivery (establishment of the Victorian Rail Corporation); and
• 204 Transport Safety and Regulation (increased safety and competitiveness of public transport systems, through accreditation of new service providers).

This report deals with the responsibilities of the Minister for Transport which are reflected in output group 202 - Contracted Transport Services.

The Committee had sought to enhance its examination of the Department's 1997-98 budgeted outlays by reviewing the latest corporate plan and 1997-98 business plan which should have been brought into line with the output groups adopted for budget purposes. In response to the Committee's request, the Department advised that these were available in draft form and provided the Committee with the contents of the draft business plan which includes output groups and policy outcomes with particular reference to measures and targets.

**Recommendation 8.1**

That in view of the wide coverage of output groups 202 Contracted Transport Services and 203 Infrastructure Management and Delivery, the Department of Infrastructure review the composition of these groups and consider whether they might be disaggregated to provide more meaningful information.

### 8.2 Budget overview

The total budgeted outlays for 1997-98 are expected to amount to $1.739 billion, an increase of $88 million or 5.3 per cent over the previous year. The increase mainly relates to output groups 202 Contracted Transport Services and 203 Infrastructure Management and Delivery as indicated in Exhibit No. 23.

#### Exhibit No. 23
Departmental Outlays by Output Groups

<table>
<thead>
<tr>
<th>Number</th>
<th>Output Group</th>
<th>Budget 1996-97 ($'000)</th>
<th>Budget 1997-98 ($'000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>201</td>
<td>Strategic Infrastructure Planning</td>
<td>6 576</td>
<td>4 386</td>
</tr>
<tr>
<td>202</td>
<td>Contracted Transport Services</td>
<td>632 632</td>
<td>743 255</td>
</tr>
<tr>
<td>203</td>
<td>Infrastructure Management and Delivery</td>
<td>818 217</td>
<td>794 049</td>
</tr>
<tr>
<td>204</td>
<td>Transport Safety and Regulation</td>
<td>88 324</td>
<td>104 135</td>
</tr>
<tr>
<td>205</td>
<td>Local Government, Planning and Development</td>
<td>105 603</td>
<td>93 618</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1 651 352</td>
<td>1 739 443</td>
</tr>
</tbody>
</table>

(Source: 1997-98 Budget Paper No. 3 Budget Estimates, page 262)
The Department has provided the following information in relation to the above differences in outlays:

202 Contracted Transport Services

- increase in the level of the capital charge levied on fixed assets held by the Department of Infrastructure;
- additional transfer payments for private and school bus and multi-purpose taxi programs; and
- increased capital provided to the PTC for the Jolimont rationalisation project.

This output group increased by $110.6 million or 17.5 per cent over the previous year and accounted for the greater part of the increase for the Department. Details of the variations for this output group are provided in Exhibit No. 24 below.

203 Infrastructure Management and Delivery

- capital charge reflects the methodology applied by the Department of Treasury and Finance;
- reclassification of some maintenance cost to capital; and
- additional State funding provided for road works offset by reduced Federal funding for roads.

204 Transport Safety and Regulation

- change in other departmental costs is a reflection of an increase in Commonwealth Blackspot Funding.

205 Local Government, Planning and Development

- decrease in capital outlays is a reflection of the cessation of the Commonwealth funded Better Cities program and the completion of various heritage projects.

As indicated, the Committee's review has concentrated on the public transport aspects within the Department of Infrastructure. As can be seen by Exhibit No. 24, output group 202 Contracted Transport Services is the main link with the Public Transport Corporation (PTC), which has the responsibility of operating the public transport system.
### Exhibit No. 24
**Analysis of Output 202: Contracted Transport Services**

<table>
<thead>
<tr>
<th>Description</th>
<th>Budget 1996-97 ($'000)</th>
<th>Budget 1997-98 ($'000)</th>
<th>Variance ($'000)</th>
<th>Variance %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Administration and service provision costs:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Wages and salaries</td>
<td>4 328</td>
<td>4 625</td>
<td>297</td>
<td>6.8</td>
</tr>
<tr>
<td>- Superannuation</td>
<td>221</td>
<td>296</td>
<td>75</td>
<td>33.9</td>
</tr>
<tr>
<td>- Capital charge</td>
<td>23 747</td>
<td>39 179</td>
<td>15 432</td>
<td>64.9</td>
</tr>
<tr>
<td>- Other departmental costs</td>
<td>97 238</td>
<td>97 698</td>
<td>460</td>
<td>0.5</td>
</tr>
<tr>
<td>Current transfer payments</td>
<td>398 646</td>
<td>415 152</td>
<td>16 506</td>
<td>4.1</td>
</tr>
<tr>
<td><strong>Total cost of services</strong></td>
<td><strong>524 180</strong></td>
<td><strong>556 950</strong></td>
<td><strong>32 770</strong></td>
<td></td>
</tr>
<tr>
<td>Charges and reimbursements</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td><strong>Net cost of services</strong></td>
<td><strong>524 180</strong></td>
<td><strong>556 950</strong></td>
<td><strong>32 770</strong></td>
<td></td>
</tr>
<tr>
<td>Direct addition to public infrastructure, net stocks and land acquisition</td>
<td>4 680</td>
<td>2 330</td>
<td>-2 350</td>
<td>-50.2</td>
</tr>
<tr>
<td>Advances paid</td>
<td>115 772</td>
<td>193 975</td>
<td>78 203</td>
<td>67.5</td>
</tr>
<tr>
<td><strong>Repayment of advances</strong></td>
<td>-12 000</td>
<td>-10 000</td>
<td>2 000</td>
<td>-16.7</td>
</tr>
<tr>
<td><strong>Capital outlays</strong></td>
<td><strong>108 452</strong></td>
<td><strong>186 365</strong></td>
<td><strong>77 883</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Total group outlays</strong></td>
<td><strong>632 632</strong></td>
<td><strong>743 255</strong></td>
<td><strong>110 623</strong></td>
<td></td>
</tr>
</tbody>
</table>

(Source: 1997-98 Budget Paper No. 3 Budget Estimates, page 152)

The PTC's 1995-96 annual report indicates that the Government made a contribution to the Corporation amounting to $235 million in relation to operating expenses, termination payments, capital works and maintenance and other items. The level of subsidy to be provided in 1996-97 and 1997-98 is not discernible from an examination of the budget information for the Department.

In response to the Committee's questionnaire, the Department indicated that some of the subsidy was reflected within other departmental costs which essentially comprised the following items:

- payments for school bus, private bus services and multi purpose taxi services $345.5 million (1996-97 - $328.1 million); and
- subsidy for Public Transport Corporation $162.5 million (1996-97 - $163 million).

Revenues from the public transport system are expected to decline in the coming year as indicated in Exhibit No. 25.
Exhibit No. 25
Revenue Estimates for Public Transport Corporation
($million)

<table>
<thead>
<tr>
<th>Revenue Item</th>
<th>1996-97</th>
<th>1997-98</th>
<th>Variance</th>
<th>% Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Passenger</td>
<td>345.6</td>
<td>359.7</td>
<td>14.1</td>
<td>4.1</td>
</tr>
<tr>
<td>Freight</td>
<td>118.0</td>
<td>103.7</td>
<td>-14.3</td>
<td>-12.1</td>
</tr>
<tr>
<td>Administrative charges/miscellaneous</td>
<td>101.5</td>
<td>92.8</td>
<td>-8.7</td>
<td>-8.6</td>
</tr>
<tr>
<td>Asset sales</td>
<td>12.0</td>
<td>10.0</td>
<td>-2.0</td>
<td>-16.7</td>
</tr>
<tr>
<td></td>
<td>577.1</td>
<td>566.2</td>
<td>-10.9</td>
<td>-1.9</td>
</tr>
</tbody>
</table>

(Source: Department of Infrastructure (Transport), response to Committee questionnaire relating to variations in revenue)

The Committee has previously commented on the increase in passenger revenue over recent years and its impact on the level of Government funding required for public transport services. At that time, the PTC had estimated that passenger revenue would increase for 1996-97 to $351.5 million which is 2.3 per cent below the level now advised by the Department as part of the 1997-98 budget process. The increase in passenger revenue expected for the coming year will arise from higher patronage of the services provided and the full affect of the 1997 fares increase. The lower grain harvest will result in a decline in revenue for freight.

With respect to capital additions, the Department expects to increase expenditure in this area from $594.8 million in 1996-97 to $700.2 million in the coming year. The major item relating to output group 202 - Contracted Transport Services, relates to the rationalisation of the Jolimont Rail Lines and Train Management Facility, with an estimated cost of $123 million, $68.8 million of which is expected to be expended in the 1997-98 financial year. The Jolimont facility will directly impact on a key Centenary of Federation initiative, Federation Square.

The Department also provided details of staffing levels by program for 1996-97 and by output group for 1997-98. For 1996-97, a total of 13 069 staff were under the Department’s control. The Public Transport Corporation had 9 504 staff which was down from 11 643 at 30 June 1994, a reduction of 22.5 per cent over those two years. For 1997-98, figures were provided by output groups which did not distinguish between Department staff and those employed at the PTC and VicRoads. In the coming year, overall staffing levels are expected to decline to 12 431, a fall of almost 5 per cent for the Department of Infrastructure, with output group 202 Contracted Transport Services being expected to reduce by less than 3 per cent to 9 233.

In relation to the productivity dividend, the Department indicated that the 1.5 per cent requirement would be achieved for 1996-97 and that measures were being implemented to maintain that level of savings. While the restructuring of the Public Transport Corporation will occur during 1997-98, the Department expects that the major benefits from the restructure will be derived after 1997-98. Accordingly, the Department will look to a number of other initiatives to provide the necessary savings e.g. outsourcing of MetBus, corporatisation of Vic Track and V/Line Freight.
enterprise bargaining agreements with work practice improvements offsetting wage demands, and reductions in costs and improved train reliability through capital investments.

Recommendation 8.2 That the overall level of subsidy for, and revenue generated by, the Public Transport Corporation be specifically disclosed within output group 202 Contracted Transport Services.

8.3 Key issues facing the Department

In response to the Committee’s questionnaire, the Department indicated that there were two key issues identified in the Department’s planning process that needed to be addressed in respect of public transport viz:

- disaggregation of the Public Transport Corporation; and
- introduction of automated ticketing onto Melbourne’s public transport services.

Disaggregation of the Public Transport Corporation

The Committee understands that substantial reform of public transport services will take place with the disaggregation of the Corporation and the creation of a number of privatised independent commercial businesses. Two new business corporations, V/Line Freight and the Victorian Rail Track Corporation, were established on 1 July 1997. The bus operations of the Corporation’s MetBus business unit are to be tendered out to a private operator during the remainder of 1997.

The Committee was informed by the Minister for Transport that it was expected that the present level of subsidy paid to the Public Transport Corporation to run Victoria’s train and tram services would continue but that the subsidy would be significantly less under privatisation. In the future, the Department of Infrastructure (Transport) will be the purchaser of transport services from the newly privatised units.

While final details of the disaggregation have yet to be made available, the Committee understands from the recent public confirmation by the Minister that the break-up of the Public Transport Corporation has begun with the creation of two metropolitan rail and two tram divisions (north east/south west and north west/south east). The Minister indicated that, despite improved PTC performance results showing growing patronage, reduction in staffing levels and lower costs, further significant reductions in costs could only be achieved by private ownership.

The Committee notes that a decision has not yet been made on whether to sell all rolling stock, depots, stations and track when the system is privatised. The revaluation of these assets had been commented on by this Committee in its April 1997 report when it was learned, from an examination of the Corporation’s 1995-96 annual report, that many significant assets controlled by the Corporation had not been valued for the past 12 years. The Public Transport Corporation’s assets at 30 June 1996 had a written

---

95 Hon R F Cooper, Minister for Transport, Transcript of Evidence, 16 June 1997, page 181.
down value of $4.3 billion on which annual depreciation of more than $100 million was being charged. The Committee understands the revaluation exercise will be completed during 1997-98 and adjustments will be made in that year in the Corporation's financial statements and reported on in its annual report.

The Committee understands that the Government will regulate the privatised transport industry to the extent of setting of maximum fares, minimum service standards and ensuring early, late and weekend travel and accountability for safety and accidents.

**Recommendation 8.3** That full details of the disaggregation of the Public Transport Corporation be reflected in the Corporation's annual report including information relating to:

- the disposal of Corporation assets and operating activities; and
- the nature and extent of savings to be achieved from the disaggregation process.

**Recommendation 8.4** That the measures/targets in respect of the provision of public transport services be modified following disaggregation to reflect the performance of individual units namely, trains, trams and buses.

**Current status of automated ticketing system**

The Committee expressed concern at the lengthy delays in implementing the automated ticketing system in the last report on the estimates process, 96. This matter was also raised by the Auditor-General in his May 1997 Report on Ministerial Portfolios which provides further information on the status of this project97.

The One-Link Consortium (ERG, Mayne Nickless and Fujitsu Australia) was responsible for the supply, installation, testing, commissioning, maintenance and management of the ticketing system, and was required to meet the following key milestones under the automated ticketing system service agreement:

- prototypes of ticket validation and vending machines to be delivered to the Public Transport Corporation by December 1994;
- automated ticketing system to be tested within a defined geographical area by February 1995; and
- the system to be fully commissioned across the metropolitan transport system by February 1996.

As the Consortium has been unable to meet these milestones, the Corporation and the Consortium agreed, after negotiation, to enter into a collateral agreement which suspended certain rights of both parties under the service agreement and allowed the Consortium to concentrate on delivering a fully commissioned pilot system. The

---

Auditor-General indicated that the suspended rights would be reinstated on completion of the collateral agreement or if the agreement is terminated prior to its completion.

The collateral agreement provided for a number of milestones relating to the completion of the system including formal qualification, first article and roll-out acceptance testing. The Corporation is required to issue acceptance certificates depending on the results of these tests, with roll-out of the automated ticketing equipment to proceed if the Corporation was satisfied with the results of the commissioning tests.

The Auditor-General also referred to the Consortium having lodged a number of notices of delay and contract variations. The Corporation has not admitted responsibility. The Auditor-General added that, while the Corporation has the right to receive compensation for late commissioning of the system, the parties, in March 1997, entered into a supplemental agreement under which the consortium and the Corporation have agreed to forgo claims for compensation, except for variations arising from changes in functional specifications and increase in operating costs arising from those variations.

The Committee sought a progress report from the Minister for Transport. The Minister advised the Committee that he was not prepared to sign off on the commission testing and until he did so, no payments would be made to the Consortium. As to the payment that would be made on signing, the Minister was not prepared to provide this information to the Committee, as it formed part of the contract between the Public Transport Corporation and the Consortium and hence was commercial in confidence.

While the precise amount of the payments was not made available by the Minister, the Committee noted that the Statement of Financial Operations for 1995-96 indicated that payments under the service agreement would be in the order of $300 million over the ten year term of the contract to provide automated ticketing and fare collection services to the Corporation for its metropolitan public transport services. The Treasurer has guaranteed the obligations of the Corporation under the service agreement.

The Committee is concerned that the delays are eroding the savings that otherwise would have been available with the early introduction of the system. Regarding this matter, the Minister indicated that the validation process in the automatic ticketing system would reduce revenue loss from fare evasion which the Auditor-General indicated was now approximately $10 million annually on suburban passenger trains. The Minister informed the Committee that the level of fare evasion had been significantly reduced over recent years as a consequence of intensified revenue protection activities by the Corporation.

---

98 Hon R F Cooper, Minister for Transport, Transcript of Evidence, 16 June 1997, various references.
The Committee notes that the Minister for Transport has now signed off on the commission testing of the automatic ticketing system. While assured that there have been no payments to the Consortium until this sign off by the Minister, the Committee is concerned about the final outcome of this project.

In relation to the foregoing of legal action, the Minister has recently advised the Committee\textsuperscript{100} that the ability of the Public Transport Corporation (PTC) to claim late commissioning payments from November 1996 for Phases One and Two was waived by the PTC in return for OneLink waiving all delay claims and other damages for breach of contract against the PTC. The Minister further advised that the PTC did not have any crystallised compensation rights that were foregone. With respect to potential savings to be achieved from privatisation and the automatic ticketing system, the Minister indicated to the Committee\textsuperscript{101} that estimated savings in relation to the privatisation of the public transport system would vary between 10 and 30 per cent and that the introduction of the automatic ticketing system would result in fare evasion being reduced by $11 million. Firmer estimates for the privatisation savings will be developed when individual business units are costed as part of the preparation for their privatisation.

The Committee intends to monitor developments and review the outcomes of the privatisation of the public transport system and implementation of the automatic ticketing system in next year’s estimates review.

\begin{center}
\textbf{Recommendation 8.5} \hspace{1cm} \textit{That the Department of Infrastructure:}
\begin{itemize}
\item continue its efforts to expedite the implementation of the automated ticketing system, once it is satisfied that it is fully operational;
\item ensure that all avenues are pursued so that appropriate settlement of contractual obligations is made;
\item prepare a revised assessment of the overall savings to be achieved from the introduction of the automatic ticketing system; and
\item outline in its annual report and budget documentation:
  \begin{itemize}
  \item the reasons for the delay in meeting the key milestones under the automated ticketing system service agreement; and
  \item the rationale for the final decision in relation to the One-Link Consortium.
  \end{itemize}
\end{itemize}
\end{center}

\textsuperscript{100} Response by Hon. R F Cooper, Minister for Transport, 12 September 1997 to Committee inquiries relating to automatic ticketing system and the privatisation of the public transport system, question 1 (a), amount foregone as a result of potential legal action.

\textsuperscript{101} Ibid., question 2 regarding potential savings.
8.4 Performance measurement

For output group 202 Contracted Transport Services, the Department of Infrastructure has defined 10 major outputs and over 30 performance measures in Budget Paper No. 3 with comparative 1996-97 budget figures. The Department has indicated to the Committee that the 1997-98 measures represent a significant improvement over 1996-97 which were based on kilometres travelled and timetable targets.

The Department regards patrons carried (expressed in millions), timetabled services delivered all day and services within targeted minutes of timetable (both expressed as a percentage) as the key measures for the major services provided by the Public Transport Corporation (PTC). For the remaining services provided by the Corporation, distance operated and volume hauled are considered by the PTC to be more relevant. The Committee has noted that the 1996-97 measures have been modified and added to as part of the planning process for 1997-98 e.g inclusion of the age of the private bus fleet and National Bus Company patrons as proportion of total private bus patrons.

Two new outputs have been established which directly relate to the provision of public transport services:

203 Infrastructure Management and Delivery

- The Victorian Rail Track Corporation (Vic Track) was established to maximise the economic benefits of existing and future infrastructure services through efficient infrastructure development, management and delivery systems. Performance measures include gross tonne kilometres, track kilometres operated and services delayed due to infrastructure faults.

204 Public Transport Safety Regulation and Accreditation

- A new output has been included in this group for 1997-98 with milestone indicators for both bus and rail safety. These indicators include the development of bus safety accreditation, standardisation of rail safety accreditation and contribution to the development of Australian rail safety standards, safety auditing processes and guidelines. Budget Paper No. 3\(^\text{102}\) indicate that 50 compliance audits are planned for 1997-98 compared with 40 for 1996-97, but there is no indication in the budget documentation as to the results of those audits in terms of the significance of the findings arising from these.

The Department advised the Committee that performance against the budgeted targets is being monitored and reported either quarterly or annually. The information supporting the compilation of the target figures is linked to the Department’s financial management system.

In addition, the Department indicated that comprehensive benchmarking of bus services had recently been completed which involved a selection of Victorian and interstate bus operators. The benchmarking will be used in the context of the development of new contractual arrangements with private bus operators.

\(^{102}\) 1997-98 Budget Paper No. 3 Budget Estimates, page 158.
Department advised that the details relating to the benchmarking will remain commercial in confidence as the new arrangements are currently under negotiation with the sector.\footnote{Response by Department of Infrastructure to section in Committee questionnaire relating to benchmarking.}

Unlike the practice with the private bus services, the Public Transport Corporation has sought to establish benchmarks for its tram and train services not by comparison with other operators but with prior performance. The Department has indicated that the introduction of quality targets within service agreements has resulted in improved service delivery, better service reliability, higher standards of cleanliness and on-board announcements.

\begin{table}[h]
\centering
\begin{tabular}{|l|p{15cm}|}
\hline
\textbf{Recommendation 8.6} & That the Department of Infrastructure include in Budget Paper No. 3 Budget Estimates information on key performance measures in support of the targets set for the coming year. \\
\hline
\textbf{Recommendation 8.7} & That the Department of Infrastructure expand the information provided on safety compliance audits to give an indication of the coverage and outcomes of those audits. \\
\hline
\end{tabular}
\end{table}
Chapter 9: Department of State Development

9.1 Introduction

The Department of State Development supports the six portfolios of Industry, Science and Technology, Small Business, Tourism, Sport, Rural Development and Multimedia which are the responsibilities of four Ministers. The activities undertaken by the Department include investment promotion, regulation reform, business services, employee relations, employment services and rural development.

The Department of State Development prepared its 1996-97 budget information on the basis of 14 output groups which have been refined and reduced to 11 for the 1997-98 financial year. Departmental outlays are spread across the 11 output groups with 646 Physical Infrastructure being the largest, accounting for $70.6 million or almost 25 per cent of the total departmental budget. The changes made to the output groups are not readily apparent from the budget documents but centre on the consolidation of the following output groups:

<table>
<thead>
<tr>
<th>Exhibit No. 26</th>
</tr>
</thead>
<tbody>
<tr>
<td>Department of State Development Programs and Output Groups</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>1996-97 (Programs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>643 Reducing Impediments</td>
</tr>
<tr>
<td>644 Improving Regulations</td>
</tr>
<tr>
<td>648 Quality of Life</td>
</tr>
<tr>
<td>650 Innovation and Technology</td>
</tr>
<tr>
<td>651 Research and Development</td>
</tr>
<tr>
<td>652 Info-Communications and BPR projects</td>
</tr>
<tr>
<td>653 Delivery Channels and Technical Infrastructure</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>1997-98 (Output Groups)</th>
</tr>
</thead>
<tbody>
<tr>
<td>648 Lifestyle Enhancement</td>
</tr>
<tr>
<td>654 Business Environment</td>
</tr>
<tr>
<td>655 Building the Knowledge Economy</td>
</tr>
<tr>
<td>656 Technology Assisted Service Redesign</td>
</tr>
</tbody>
</table>

(Source: 1996-97 and 1997-98 Budget Paper No. 3 Budget Estimates)

The Department has provided the Committee with a copy of its business plan for 1997-98 which outlines key information on the operating environment, challenges and strategies, change management, organisational structure and staffing and includes up to date budget information on performance measures and targets.

This report substantially deals with the responsibilities of the Minister for Industry, Science and Technology who appeared at the estimates hearings. The Minister has responsibility for eleven outputs within seven output groups, viz: 640 Investment Recruitment, 642 Strategic Leadership, 645 Workforce Capability, 646 Physical
Infrastructure, 647 Major Events, 649 Export and Enterprise Development, and 655 Building the Knowledge Economy. The other Ministers responsible for Department of State Development will be invited to next year's estimates hearings.

Because output groups adopted by the Department of State Development cross over the responsibilities of the four Ministers which the Department supports, the Committee is concerned that their respective roles may not be readily understood by external clients. The Department’s 1997-98 business plan outlines the respective responsibilities of these Ministers in terms of specific outputs within the 11 output groups and the Committee suggests that this information should be included in the Department’s annual report.

The Committee found the business plan most useful and it provided sufficient information and explanation to enable the Committee to make an assessment about planned performance.

9.2 Budget overview

As indicated in Exhibit No. 27, the budgeted 1997-98 outlays of $291.3 million for the Department have reduced by $26.5 million or 8.3% from 1996-97. This reflects the impact of the provision of additional grants to industry under 640 Investment Recruitment, the completion of the Melbourne Aquatic Centre which is funded under 646 Physical Infrastructure and reductions in wages and salaries following the transfer of the employee relations functions to the Commonwealth.
### Exhibit No. 27

**Composition of Departmental Outlays**

<table>
<thead>
<tr>
<th></th>
<th>Budget 1996-97 ($'000)</th>
<th>Budget 1997-98 ($'000)</th>
<th>Variance ($'000)</th>
<th>Variance %</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Administration and service provision costs:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Wages and salaries</td>
<td>37 712</td>
<td>34 496</td>
<td>-3 216</td>
<td>-8.5</td>
</tr>
<tr>
<td>- Superannuation</td>
<td>3 880</td>
<td>3 118</td>
<td>-762</td>
<td>-19.6</td>
</tr>
<tr>
<td>- Capital charge</td>
<td>25 500</td>
<td>28 971</td>
<td>3 471</td>
<td>13.6</td>
</tr>
<tr>
<td>- Other departmental costs</td>
<td>106 765</td>
<td>90 109</td>
<td>-16 656</td>
<td>-15.6</td>
</tr>
<tr>
<td><strong>Current transfer payments</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Interest paid</td>
<td>12</td>
<td></td>
<td>-12</td>
<td></td>
</tr>
<tr>
<td>- Subsidies paid to enterprises</td>
<td>34 618</td>
<td>41 248</td>
<td>6 630</td>
<td>19.2</td>
</tr>
<tr>
<td>- Current grants and other transfer payments</td>
<td>24 166</td>
<td>28 133</td>
<td>3 967</td>
<td>16.4</td>
</tr>
<tr>
<td><strong>Total cost of services</strong></td>
<td>232 653</td>
<td>226 075</td>
<td>-6 578</td>
<td></td>
</tr>
<tr>
<td><strong>Charges and reimbursements</strong></td>
<td>-8 568</td>
<td>-5 559</td>
<td>3 009</td>
<td>35.1</td>
</tr>
<tr>
<td><strong>Net cost of services</strong></td>
<td>224 085</td>
<td>220 516</td>
<td>-3 569</td>
<td></td>
</tr>
<tr>
<td><strong>Direct addition to public infrastructure, net stocks and land acquisition</strong></td>
<td>90 230</td>
<td>66 690</td>
<td>-23 540</td>
<td>-26.1</td>
</tr>
<tr>
<td><strong>Capital transfer payments</strong></td>
<td>4 770</td>
<td>4 610</td>
<td>-160</td>
<td>-3.3</td>
</tr>
<tr>
<td><strong>Repayment of advances</strong></td>
<td>-1243</td>
<td>-485</td>
<td>758</td>
<td>60.9</td>
</tr>
<tr>
<td><strong>Capital outlays</strong></td>
<td>93 757</td>
<td>70 815</td>
<td>-22 942</td>
<td></td>
</tr>
<tr>
<td><strong>Total group outlays</strong></td>
<td>317 842</td>
<td>291 331</td>
<td>-26 511</td>
<td></td>
</tr>
</tbody>
</table>

(Source: 1997-98 Budget Paper No. 3 Budget Estimates, page 299)

In response to the Committee’s questionnaire regarding productivity gains, the Department advised that departmental productivity gains were made in 1996-97 as a result of savings in the area of staffing and accommodation, which enabled the Department to meet the costs of staff retrenchments and the 1.5 per cent budget productivity adjustment. For 1997-98, the Department expects to be able to absorb cost increases without additional budget appropriations and to fund new programs internally.

#### 9.3 Key issues facing Department

The Department advised that there were a number of key issues identified in the planning process which needed to be addressed:

- national direction in industry policy;
- investment in research and development by Australian companies;
- industrial relations perceptions;
- capacity of Australian companies to respond to globalisation; and
• competitive environment for the attraction of domestic investment and tourism.

At the estimates hearing, the Minister for Industry, Science and Technology indicated that his responsibilities brought together Business Victoria, which deals with business relations and outreach to the business community and companies and associations, employee relations and employment, and State development policy. The Minister advised the Committee “50 per cent of my work involves dealing with national inquiries, commissions or policy debates that have a direct and overwhelming impact on Victoria.” The main focus of the Minister’s work is to generate the target levels of investment for Victoria.

Industry Policy - Potential impact of Mortimer Report

Many of the issues identified as impacting on economic development in Victoria in the forthcoming year are considered in the recently released Mortimer report Going for Growth: Business Programs for Investment, Innovation and Export. This report reviewed the Commonwealth Government’s business incentive programs and found that many of these programs did not operate in a clear policy framework and often had poorly specified objectives.

A significant recommendation contained in the report is a major streamlining of existing programs to five core areas - investment, innovations, export, business competitiveness and sustainability resource management - with one agency Invest Australia given sole control to provide for investment incentives tailored to specific companies. The report also recommended an increase in spending on business within Australia between 1998 and 2003 from $19.9 billion to $20.7 billion, but with such expenditure being subject to the use of a net public benefit test.

In relation to research and development (R & D), the report proposes radical changes to the assistance currently being provided, including the dismantling of Co-Operative Research Centres (CRCs) and a requirement for the CSIRO and universities to raise the level of private funding to compensate for increased tax breaks for business R & D. Under the Mortimer proposals, Commonwealth funding for CRCs would be slashed from $123 million to $20 million. This follows on from recent Commonwealth Government decisions to substantially reduce R & D tax concessions, eliminate R & D syndication and increase HECS fees for science and engineering courses. The immediate impact for the States and Territories is that research and development would be attached to particular projects, rather than institutions, as a way of ensuring that those institutions do not become reliant on government funding.

A number of output groups in the Department of State Development will be particularly affected if the Mortimer proposals are adopted. It will have funding implications for the facilitation of new investments, the provision of export assistance and enterprises improvement services and the promotion of research and development activities.

104 Hon. M A Birrell, Minister for Industry, Science and Technology, Transcript of Evidence, page 280
105 Ibid., page 280.
Recommendation 9.1 That the Department of State Development closely monitor the decisions made by the Commonwealth on the Mortimer Report, Going for Growth: Business Programs for Investment, Innovation and Export, and, if necessary, reassess its strategies for investment facilitation and the promotion of research and development activities.

9.4 The Year 2000 problem - Dealing with the "millennium bug"

The Auditor-General has identified that a significant issue confronting all organisations is the capacity of date sensitive software and large databases to cope with changes of dates from the year 1999 to 2000\(^{106}\). The millennium bug is a common glitch in older computer systems which, to save space, recorded dates as six figures e.g. 10/09/97 used for 10/09/1997. The year 2000 may, therefore, be interpreted as 1900. The Committee notes with concern that the responses to a survey of the 547 agencies within the Victorian public sector conducted by the Auditor-General, revealed that few agencies had established a realistic program or budget or allocated appropriately human resources to resolve the problems associated with the millennium bug.

Estimates for rectification of existing systems have varied significantly, but is expected to amount to many billions world wide. These costs may escalate as time passes, given the likelihood that software companies will not be able to service the needs of their clients. The risks of not properly dealing with the problem are significant, including prolonged unavailability of critical computer systems and the potential for legal action taken by customers and suppliers who have incurred financial losses.

The Auditor-General recommended that a well-planned and phased approach should be implemented as a matter of urgency and, in its response to the matters reported, the Department of State Development indicated the Government's awareness of the year 2000 issue. The Department outlined a range of initiatives designed to support departments and agencies developing strategies to cope with the problem. In addition, the Department of Treasury and Finance had engaged a consultant to report on this matter.

While the Committee appreciates that this is the first time the matter has been raised, it is concerned that insufficient attention is being given by agencies to the potential difficulties. Agencies should be undertaking a thorough audit to identify what is needed in terms of resources and commitment.

Recommendation 9.2 That the Department of State Development, as a matter of urgency, review the outcomes of initiatives taken to date in respect of the "millennium bug" and develop an overall strategy to ensure that the necessary additional resources are allocated so that all departments and agencies are well prepared for this contingency.
Recommendation 9.3  That all departments and agencies undertake an audit to identify the extent of the problems associated with the "millennium bug" and what action and resources are needed to address these issues.
Chapter 10: Department of Justice

10.1 Introduction

The Department of Justice provides the primary organisational, policy development and management focus for the responsibilities of the Attorney-General, Minister for Fair Trading, Minister for Women’s Affairs, Minister for Corrections and Minister for Police and Emergency Services.

The Department’s combination of portfolio responsibilities and service delivery obligations can be broadly categorised as policy and legislative, justice, fire and emergency, and equity and information services. With the change to output budgeting, the Department now has 12 output groups instead of 7 programs.

<table>
<thead>
<tr>
<th>Exhibit No. 28</th>
</tr>
</thead>
<tbody>
<tr>
<td>Department of Justice - Composition of Programs/Output Groups</td>
</tr>
<tr>
<td><strong>Output groups (1997-98)</strong></td>
</tr>
<tr>
<td>331 Policy and Program Development Support Services</td>
</tr>
<tr>
<td>332 Courts, Boards and Tribunals Services</td>
</tr>
<tr>
<td>333 Legal Services</td>
</tr>
<tr>
<td>334 Equity and Information Services</td>
</tr>
<tr>
<td>335 Fire and Emergency Services</td>
</tr>
<tr>
<td>336 Correctional Services</td>
</tr>
<tr>
<td>337 Community Support and Public Safety Programs</td>
</tr>
<tr>
<td>338 Incident and Event Management</td>
</tr>
<tr>
<td>339 Crime Investigation</td>
</tr>
<tr>
<td>340 Road Safety and Road Trauma Reduction</td>
</tr>
<tr>
<td>341 Police Support for the Judicial Process</td>
</tr>
<tr>
<td>342 Information and Regulatory Services</td>
</tr>
<tr>
<td><strong>Programs (1996-97)</strong></td>
</tr>
<tr>
<td>420 Corporate Services</td>
</tr>
<tr>
<td>423 Courts, Tribunals and Registries</td>
</tr>
<tr>
<td>426 Corrections</td>
</tr>
<tr>
<td>427 Office of the Chief Commissioner of Police</td>
</tr>
<tr>
<td>428 Police, Emergency Services and Corrections Directorate</td>
</tr>
<tr>
<td>429 Legal and Statutory Services</td>
</tr>
<tr>
<td>430 Fair Trading and Business Affairs</td>
</tr>
</tbody>
</table>

(Source: 1996-97 and 1997-98 Budget Paper No. 3 Budget Estimates)

This report deals with the responsibilities of the Minister for Corrections and the Minister for Police and Emergency Services and encompasses all output groups with the exception of 332, 333 and 334. The estimates hearing process reviewed 80% of the Department’s budgeted outlays.
At the date of preparing this report, the Department had not finalised its business plan for 1997-98, however, the Committee was briefed on the form and content of the plan. The document outlines the portfolio policy implementation responsibilities of each of the Ministers, the resource support being provided by the Department (human resource, capital works, information systems and technology) and information in relation to each of the Department’s output groups.

In response to the Committee’s questionnaire, the Department had earlier provided a copy of its corporate plan for 1997-2001 "Towards a Safe and Fair Victoria" which included details of the Department’s mission, purpose (expressed in terms of outcomes and outputs), relationships, values, environment and strategic directions.

The unavailability of the business plan make it difficult for the Committee to assess the strategic direction and business planning processes of the Department as the detailed information included in the plan provides the context within which the Department’s budget output statements can be considered.

10.2 Budget overview

As indicated in Exhibit No. 29, the budgeted 1997-98 outlays of $1.483 billion for the Department have remained relatively unchanged from the previous year’s level of $1.472 billion. The majority of the outlays for 1996-97 related to program 427 Office of the Commissioner of Police which comprised 70 % of the total budget for that year. In contrast, no output group exceeds 20 % of budgeted outlays in respect of the 1997-98 financial year.
### Exhibit No. 29
Composition of Departmental Outlays

<table>
<thead>
<tr>
<th></th>
<th>Budget 1996-97 ($'000)</th>
<th>Budget 1997-98 ($'000)</th>
<th>Variance ($'000)</th>
<th>Variance %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Administration and service provision costs:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Wages and salaries</td>
<td>738,549</td>
<td>725,132</td>
<td>-13,417</td>
<td>-1.8</td>
</tr>
<tr>
<td>- Superannuation</td>
<td>144,766</td>
<td>144,593</td>
<td>-173</td>
<td></td>
</tr>
<tr>
<td>- Capital charge</td>
<td>14,213</td>
<td>21,043</td>
<td>6,830</td>
<td>48.1</td>
</tr>
<tr>
<td>- Other departmental costs</td>
<td>407,424</td>
<td>450,984</td>
<td>43,560</td>
<td>10.7</td>
</tr>
<tr>
<td>Current transfer payments</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Interest paid</td>
<td>10</td>
<td>146</td>
<td>136</td>
<td></td>
</tr>
<tr>
<td>- Personal benefit payments</td>
<td>54,000</td>
<td>59,000</td>
<td>5,000</td>
<td>9.3</td>
</tr>
<tr>
<td>- Current grants and other transfer payments</td>
<td>161,894</td>
<td>86,387</td>
<td>-75,507</td>
<td>-46.6</td>
</tr>
<tr>
<td>Total cost of services</td>
<td>1,520,856</td>
<td>1,487,285</td>
<td>-33,571</td>
<td></td>
</tr>
<tr>
<td>Charges and reimbursements</td>
<td>-86,007</td>
<td>-79,299</td>
<td>6,708</td>
<td>7.8</td>
</tr>
<tr>
<td>Net cost of services</td>
<td>1,434,849</td>
<td>1,407,986</td>
<td>-26,863</td>
<td></td>
</tr>
<tr>
<td>Direct addition to public infrastructure, net stocks and land acquisition</td>
<td>40,197</td>
<td>74,799</td>
<td>34,602</td>
<td>86.1</td>
</tr>
<tr>
<td>Sales of fixed assets</td>
<td>-2,500</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gross fixed capital expenditure and other net asset purchases</td>
<td>37,697</td>
<td>74,799</td>
<td>37,102</td>
<td></td>
</tr>
<tr>
<td>Capital transfer payments</td>
<td>250</td>
<td>256</td>
<td>6</td>
<td></td>
</tr>
<tr>
<td>Repayment of advances</td>
<td>-35</td>
<td>35</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital outlays</td>
<td>37,912</td>
<td>75,055</td>
<td>37,143</td>
<td></td>
</tr>
<tr>
<td>Total departmental outlays</td>
<td>1,472,761</td>
<td>1,483,041</td>
<td>10,280</td>
<td></td>
</tr>
</tbody>
</table>

(Source: 1997-98 Budget Paper No. 3 Budget Estimates, page 173)

The main variations in the level of budgeted outlays are:

- compensation to be paid to owners of firearms by September 1997 is expected to amount to $25 million (1996-97, $100 million) and is reflected as transfer payments within the budgeted figures (costs of running the program will reduce from $10 million in 1996-97 to $1.5 million in the current year);
- increase in the level of investment in capital works relating to police stations and courts; and
- reductions in wages and salaries and increases in other departmental costs relate to the closure of a number of public prison facilities and the commissioning of new private prisons providing additional facilities.
The impact of these factors is reflected in output groups 332, 337 and 342 as is evident in Exhibit No. 30, which indicates the budgeted level of outlays by departmental output groups for the two years under review.

<table>
<thead>
<tr>
<th>Exhibit No. 30</th>
<th>Analysis of Budgeted Outlays by Output Group</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number</td>
<td>Output Group</td>
</tr>
<tr>
<td>331</td>
<td>Policy and Program Development Support Services*</td>
</tr>
<tr>
<td>335</td>
<td>Fire and Emergency Services</td>
</tr>
<tr>
<td>336</td>
<td>Correctional Services</td>
</tr>
<tr>
<td>337</td>
<td>Community Support and Public Safety Programs</td>
</tr>
<tr>
<td>338</td>
<td>Incident and Event Management</td>
</tr>
<tr>
<td>339</td>
<td>Crime Investigation</td>
</tr>
<tr>
<td>340</td>
<td>Road Safety and Road Trauma Reduction</td>
</tr>
<tr>
<td>341</td>
<td>Police Support for the Judicial Process</td>
</tr>
<tr>
<td>342</td>
<td>Information and Regulatory Services</td>
</tr>
<tr>
<td></td>
<td>Other portfolio responsibilities</td>
</tr>
<tr>
<td>332</td>
<td>Courts, Boards and Tribunals Services</td>
</tr>
<tr>
<td>333</td>
<td>Legal Services</td>
</tr>
<tr>
<td>334</td>
<td>Equity and Information Services</td>
</tr>
</tbody>
</table>

* Refers to the Justice portfolio responsibilities as a whole.
(Source: 1997-98 Budget Paper No. 3 Budget Estimates, page 176)

10.3 Key issues facing the Department

The Department advised that the following key issues identified in the planning process needed to be addressed:

- privatisation of prisons; and
- implementation of management; drug; fire and emergency services reforms.

Privatisation of prisons

The Committee is aware of the significant structural changes that have taken place within the Department over the past two years, including:

- the establishment of the Office of the Correctional Services Commissioner on 1 July 1995, with responsibility for regulating a prison system in which services are delivered by either public or private service providers;
the separation of the public correctional system into regulatory and operational arms. A significant step in this separation was the signing of a Framework Agreement on 25 June 1996 between the Department of Justice and the operational arm of Public Corrections. The agreement established the responsibilities, policy and management framework of CORE - the Public Correctional Enterprise which became operational on 1 July 1996; and

- the development of three new private prisons which will accommodate approximately 40 per cent of the State’s prisoners - the 125-bed Metropolitan Women’s Correctional Centre at Deer Park (Correctional Corporation of Australia), a men’s 600-bed medium security facility, Fulham Correctional Centre, near Sale (Australian Correctional Management) and a 600-bed multi-functional men’s prison to be located at Laverton North by December 1997 (Fletcher 4).

The development of new prisons is a major government infrastructure project involving the replacement of the State’s ageing prisons with new facilities developed, owned and operated by the private sector.

The Committee raised with the Minister certain matters relating to the contractual relationship with Correctional Corporation of Australia and the management of the Deer Park facility. These issues concerned security at the prison, the nature and extent of training provided to staff, particularly in reference to an incident which took place on 21 December 1996, and the availability of drugs within the prison.

The Committee was advised by the Deputy Secretary, Justice Operations, that the problems experienced to date within the prison were not defined by the Correctional Services Commissioner, who has oversight of both public and private corrections facilities, as a major default under the contract which would invoke a “cure” period to rectify significant non-compliance with contractual obligations.

Furthermore, the Committee was advised that the performance-linked fee under the contract would be affected if such problems were not “cured”. As a final measure, the Government would have the right to install an administrator or, in the event of sustained non-performance, an alternate operator could be put in place.

The annual report of the Department of Justice for 1995-96 provides for the reporting of output measures and key performance measures relating to prison operations which include disclosure of annual operating costs per prisoner/prisoner place and rates of escapes and prisoner deaths, amongst other things. The financial measures relating to annual operating costs have also been included in Budget Paper No. 3 for the Department under the Corrections output in output group 351 Policy and Program Development Support Services rather than under the “prison services” performance measures for output group 336 Correctional Services. In both cases, the measure

---

107 Hon W D McGrath, Minister for Police and Emergency Services and Minister for Corrections, Transcript of Evidence, various references.
108 Ibid., pages 234-235 (Deputy Secretary, Justice Operations).
109 Ibid., page 219.
110 Department of Justice, 1995-96 Annual Report, page 49.
relating to annual operating costs has not been split into the public and private sector provision components.

Recommendation 10.1  That the performance measures included in respect of prison services/operations reported on within the Budget Papers and in the annual report for the Department of Justice disclose the respective costs per prisoner/prisoner place for public and private correctional facilities.

Recommendation 10.2  That the annual report of the Department of Justice include a statement by the Correctional Services Commissioner that service delivery standards have been achieved by both public and private providers and include information on the nature and extent of monitoring undertaken by the Commissioner.

Implementing management, drug, fire and emergency services reforms

In response to the Committee’s questionnaire, the Department advised that the following significant strategies were being pursued in relation to its current management reform program:

- consideration of outsourcing initiatives (information technology, Victoria Police Prisoner Transportation);
- establishment of Victoria Police Ethical Standards Department (ESD);
- promotion of best practice within Victoria Police with the Service Improvement program (SIP); and
- trialling of three metropolitan police districts to evaluate the needs of regionalised management structures.

In addition, implementation of various components of the Government’s “Turning the Tide” strategy have been developed in response to the Report of the Premier’s Drug Advisory Committee. Harsher penalties for trafficking offences and serious drug offenders have been introduced in parallel with the review of sentencing and a wide range of “harm minimisation” and treatment programs for implementation. Funding of $8.2 million has been provided from the Community Support Fund over three years to implement the thirteen “Turning the Tide” project components in the Department of Justice.

The Committee was advised that the Department is seeking to play a major part in reviewing the roles of the emergency service organisations Melbourne Metropolitan Fire Brigade (MMFB) and the Country Fire Authority (CFA) and promoting structural and operational changes to maximise the use of available resources, including partnerships in both service delivery and infrastructure support. Community education strategies and support programs which encourage shared responsibility for public sector outcomes are also to be developed.

Furthermore, the Committee notes the following in respect of the emergency services within the Department of Justice:
• with the MMFB experiencing declining demand in some districts due to changing population densities, agreed initiatives arising from the major "Alternative Service Delivery" study will be progressively implemented; and
• increasing demand in urban fringe operational areas has resulted in budget supplementation of $2.5 million. This will increase to $3.5 million by 1999-2000 for the development of options to expand the capacity of the CFA to manage its increased responsibilities.

10.4 Performance measurement

The Department advised that the performance indicators outlined in Budget Paper No. 3 are regarded as the current key measures of quality, quantity, timeliness and cost effectiveness for each specific output group. Furthermore, the Department indicated that year to date performance and variances with budget targets and previous year actuals are reported monthly for all outputs and major project management targets identified in the Budget Papers and/or the annual business plan. Reports arising from this analysis are forwarded to the Department’s executive management group, the portfolio Ministers and the Justice Committee of Cabinet.

The Department provided the Committee with a number of reasons for the variations in the output measures included in the 1996-97 and 1997-98 Budget Paper No. 3. With respect to the 1997-98 Budget Papers, the Committee noted the following changes that had occurred in respect of Corrections:

• the targets for total average prisoner places in the correctional system has shifted significantly from maximum to medium security as a result of the scheduled opening of the 600 bed men’s private prison at Laverton North and the closure of the Coburg complex; and
• the targets for average operating cost per prisoner/prisoner place had increased by 15 per cent with the inclusion of corporate overheads to $55 286 and $49 463 respectively.

The performance targets set by the Department of Justice have been set using a number of methods including:

• internal benchmarking based on performance over time and consideration of environmental factors and/or resource limitations; and
• comparison with external standards or benchmarks, where appropriate and reliably available.

Depending on circumstances, performance in the Department is compared with averaged performance across State or Commonwealth services. The Department referred to a number of major benchmarking indicators which included statistics on crime, corrections and road safety.

The Committee noted that the Department is approaching the development of performance measures in a structured manner and that with the adoption of output groups such measures should become more meaningful. Most of the performance measures are still quantitative and there is no indication as to the relative importance of these measures. Furthermore, for performance measures which are reported on in
the budget documentation, there is little explanation for the significant variations in those measures. The Committee has noted that the extensive range of performance measures included in the Budget Papers is not mirrored in the Department's 1995-96 annual report.

**Recommendation 10.3** That the Department of Justice review the current performance measures included in Budget Paper No. 3 Budget Estimates with the objective of determining whether it has an appropriate mix of quantitative and qualitative mechanisms to measure outputs and outcomes which would enable comparison with acceptable benchmarks.
Chapter 11: Department of Premier and Cabinet

11.1 Introduction

The mission of the Department of Premier and Cabinet is to lead the Victorian public sector in contributing positively to the development of Victoria as a vibrant, well governed and soundly managed State. The Department reports to the Premier who is also the Minister for Multicultural Affairs and the Minister for the Arts.

In addition to its key policy advice role, the Department manages the Community Support Fund and oversees the implementation of the Arts 21 program (these two output groups comprise in excess of 85% of the Department's 1997-98 budgeted outlays). The Department also supports a number of independent units including the Office of the Governor, Office of the Chief Parliamentary Counsel, Office of the Ombudsman, Victorian Auditor-General's Office and Office of the Public Service Commissioner.

In moving from a program to an output group structure, the Department has made only minor changes including the establishment of two new output groups viz. 502 Protocol and Special Events, Communications and Corporate Affairs, and 505 Information Victoria. There are now 12 output groups compared to 10 programs under the previous reporting structure.

Reference has also been made by the Committee to the Department's draft corporate plan for 1997-2001 and business plan for 1997-98 which have been provided as part of the budget review process. The Committee found that these documents were of a high standard and provided a valuable insight into the planning process undertaken by the Department. The output groups were matched against the objectives of the Government and the Department and key issues and strategies were identified for each of those groups. However, the Committee notes no financial information or performance measures/targets were incorporated into this plan.

This Department was not reviewed at the estimates hearing, therefore the information in this chapter is based on the Department’s response to the Committee's questionnaire.

Recommendation 11.1 That the business plan for the Department of Premier and Cabinet be enhanced by the inclusion of relevant financial information and performance measures/targets presently disclosed in Budget Paper No. 3 Budget Estimates.

11.2 Budget overview

The 1997-98 budgeted outlays for the Department of Premier and Cabinet are expected to amount to $479.8 million, an increase of $189.7 million over 1996-97. The increase relates mainly to capital projects within the Arts area. Exhibit No. 31 provides an overview of the components of the budget outlays and the major variations between the budgets for the last two years.
### Exhibit No. 31
Composition of Departmental Outlays

<table>
<thead>
<tr>
<th></th>
<th>Budget 1996-97 ($'000)</th>
<th>Budget 1997-98 ($'000)</th>
<th>Variance ($'000)</th>
<th>Variance %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Administration and service provision costs:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Wages and salaries</td>
<td>71 403</td>
<td>72 867</td>
<td>1 464</td>
<td>2.1</td>
</tr>
<tr>
<td>- Superannuation</td>
<td>4 455</td>
<td>4 155</td>
<td>-300</td>
<td>-6.7</td>
</tr>
<tr>
<td>- Capital charge</td>
<td>17 041</td>
<td>35 740</td>
<td>18 699</td>
<td>109.7</td>
</tr>
<tr>
<td>- Other departmental costs</td>
<td>53 629</td>
<td>72 526</td>
<td>18 897</td>
<td>35.2</td>
</tr>
<tr>
<td><strong>Current transfer payments</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Interest paid</td>
<td>11</td>
<td>2</td>
<td>-9</td>
<td></td>
</tr>
<tr>
<td>- Subsidies paid to enterprises</td>
<td>1 000</td>
<td></td>
<td>-1 000</td>
<td>-3.3</td>
</tr>
<tr>
<td>- Personal benefit payments</td>
<td>307</td>
<td>366</td>
<td>59</td>
<td></td>
</tr>
<tr>
<td>- Current grants and other transfer payments</td>
<td>51 935</td>
<td>80 476</td>
<td>28 542</td>
<td>54.9</td>
</tr>
<tr>
<td><strong>Total cost of services</strong></td>
<td>199 781</td>
<td>266 133</td>
<td>66 352</td>
<td></td>
</tr>
<tr>
<td><strong>Charges and reimbursements</strong></td>
<td>-18 566</td>
<td>-19 878</td>
<td>-1 312</td>
<td>-7.1</td>
</tr>
<tr>
<td><strong>Net cost of services</strong></td>
<td>181 215</td>
<td>246 255</td>
<td>65 040</td>
<td></td>
</tr>
<tr>
<td>Direct addition to public infrastructure, net stocks and land acquisition</td>
<td>98 157</td>
<td>218 029</td>
<td>119 872</td>
<td>122.1</td>
</tr>
<tr>
<td>Capital transfer payments</td>
<td>10 888</td>
<td>15 729</td>
<td>4 841</td>
<td>44.5</td>
</tr>
<tr>
<td>Repayment of advances</td>
<td>-120</td>
<td>-200</td>
<td>-80</td>
<td></td>
</tr>
<tr>
<td><strong>Capital outlays</strong></td>
<td>108 925</td>
<td>233 558</td>
<td>124 633</td>
<td></td>
</tr>
<tr>
<td><strong>Total group outlays</strong></td>
<td>290 140</td>
<td>479 813</td>
<td>189 673</td>
<td></td>
</tr>
</tbody>
</table>

(Source: 1997-98 Budget Paper No. 3 Budget Estimates, page 262)

In addition, there have been increases in respect of the following items:

- capital charge - higher level of eligible assets acquired under the Community Support Fund and the Arts 21 program;
- other departmental costs - additional funding for National Competition Policy, Special Events, operating expenses of the Community Support Fund;
- the carryover from 1996-97 reallocated across output groups based on departmental priorities; and
- current grants and other transfer payments - disbursements made from Community Support Fund in respect of prior ministerial approvals.\(^{112}\)

\(^{112}\) Response by Department of Premier and Cabinet to section in Committee questionnaire relating to variations in receipts and outlays.
11.3 Key issues facing Department

The Department has identified the following key issues during its planning for the 1997-98 year:

Capital projects within the Arts area

With respect to the provision of world class facilities in Melbourne, the Committee notes that, throughout the 1997-98 financial year, three major redevelopments, the Museum of Victoria, the National Gallery of Victoria and the State Library of Victoria, will require significant project management involvement by Arts Victoria. The total cost of these projects is estimated to be in excess of $400 million. The Museum and the National Gallery will be closed for lengthy periods during the construction phase.

Increased involvement of the Ombudsman

The Department has advised the Committee that it expects that the workload of the Ombudsman in 1997-98 will increase as a consequence of the following matters:

- ongoing Operation Bart investigations;
- an expectation that the move to private prisons will, in the short term, generate considerable public discussion with an increase in the number of prison related complaints;
- an anticipated increase in the child protection area due to increased community sensitivity and on-going publicity on this matter;
- increased demand for the Ombudsman to take over the Police Ethical Standards Department investigations; and
- the need for the Ombudsman’s services to be known and utilised, where appropriate, by the ethnic communities and the disadvantaged.

The budgeted outlays for the Office of the Ombudsman for the 1997-98 financial year amount to $2.8 million, an increase of $450 000 or 20% over the previous year, with the extra funding being provided in respect of Operation Bart and the Office’s computer upgrade. The Committee welcomes the Department’s commitment to increase funding for the Office.

In addition to tabling an annual report in Parliament, the Ombudsman may elect to report to the Parliament on specific complaints where it appears that no appropriate steps have been taken to implement recommendations made by the Ombudsman.

One such example is the report by the Ombudsman on the investigation into Complaint by a Chiropractor against the Chiropractors and Osteopaths Registration Board. The Ombudsman reported on the complaint by a chiropractor that the Board had, on two occasions, pursued disciplinary procedures in accordance with the Chiropractors and Osteopaths Act 1978 in relation to advertising which the chiropractor had distributed, that the procedures were inappropriate and unreasonable and that he had incurred significant costs as a result of the Board’s actions. The Ombudsman concluded that the complaint had been established in part and

---

113 Report by Dr B W Perry, Ombudsman, On Investigation into Complaint by a Chiropractor against the Chiropractors and Osteopaths Registration Board, April 1997.
recommended that the complainant be paid compensation for some of the legal costs incurred by him in relation to the Board’s actions. The Chairman of the Board advised the Ombudsman that they did not propose to act on the recommendation.

The Ombudsman issued a report to the Parliament in April 1997 pursuant to section 23 (5) of the Ombudsman Act 1973 as it appeared that no appropriate steps had been taken by the respondent authority within a reasonable time.\textsuperscript{14} The Committee understands that the matters reported on by the Ombudsman have yet to be responded to by the responsible Minister/Department.

\begin{center}
\textbf{Recommendation 11.2 That the Government respond to the issues raised by the Ombudsman in the report dated April 1997 on the investigation into the Complaint by a Chiropractor against the Chiropractors and Osteopaths Registration Board.}
\end{center}

\textbf{Community Support Fund Disbursements}

In response to the Committee’s questionnaire, the Department advised that the Community Support Fund will ensure that the public is kept informed of matters relating to the Fund and that all approved grants will be announced through the media. In the Committee’s view, such initiatives are important if the Department is to ensure that funds are disbursed to obtain maximum benefit. A key activity for the Community Support Fund Unit will be the development of an appraisal methodology for the evaluation of projects as they are completed.

The Committee notes that the budgeted outlays for output group 504 Community Support Fund is expected to increase from $66 million in 1996-97 to almost $133 million for the 1997-98 financial year, a doubling of the planned level of expenditure.

Under the relevant legislation, there are many purposes to which moneys from the Community Support Fund may be applied. A recent example is the construction of the Melbourne Aquatic Centre which had been allocated $55.5 million. Exhibit No. 32 indicates that over the period from 1992-93 to 1996-97, $37.1 million or 15.2% of total receipts have been allocated to problem gambling, principally in 1995-96 and in the form of three year programs. At 30 June 1997, in excess of $20 million remains unexpended from the allocation to problem gambling. No new allocations were made from the Fund for this purpose during 1996-97.

\textsuperscript{14} Ibid., Letter, dated April 1997, to President, Legislative Council and Speaker, Legislative Assembly.
## Exhibit No. 32
### Distributions from Community Support Funds to Problem Gambling
($million)

<table>
<thead>
<tr>
<th>Year</th>
<th>Community Support Fund</th>
<th>Grants - Problem Gambling</th>
</tr>
</thead>
<tbody>
<tr>
<td>1992-93</td>
<td>12.9</td>
<td></td>
</tr>
<tr>
<td>1993-94</td>
<td>36.0</td>
<td>4.1</td>
</tr>
<tr>
<td>1994-95</td>
<td>50.1</td>
<td>1.8</td>
</tr>
<tr>
<td>1995-96</td>
<td>65.7</td>
<td>31.2</td>
</tr>
<tr>
<td>1996-97</td>
<td>79.9</td>
<td>37.1</td>
</tr>
</tbody>
</table>

(Source: Additional information provided to the Committee by the Community Support Fund Unit in the Department of Premier and Cabinet)

The Committee notes the Auditor-General has recently examined the Community Support Fund in the Special Report No. 40 of May 1996 which describes the Fund as “a significant community asset”. The Auditor-General commented specifically on distributions from the Fund and on the management and accountability framework adopted to enhance the Fund’s performance. In particular, the Auditor-General made a number of recommendations with respect to the social ramifications of gambling and to the level of research being undertaken in this area.\(^{115}\)

### Recommendation 11.3

That the Department of Premier and Cabinet's annual report include an analysis of the outcomes of expenditure on programs (including problem gambling) approved for expenditure from the Community Support Fund, indicating whether objectives under these programs are being achieved.

---

Chapter 12: Department of Natural Resources and Environment

12.1 Introduction

The Department of Natural Resources and Environment has responsibility to protect and enhance the State’s natural resources and attractions and to improve the economic competitiveness and sustainable development of Victoria’s primary and natural resource based industries. In addition, the Department supports land managers with high quality geographic, survey, valuation and land tenure information. The services of the Department are delivered through six regions, major research institutes and other providers. The Minister for Agriculture and Resources and the Minister for Conservation and Land Management are responsible for the Department’s various operating activities.

The Department has moved from nine programs to fourteen output groups which contrasts with some other departments which have reduced the number of programs/output groups. Essentially, this involved breaking down existing programs into component parts e.g. program 447 Land Management and Resource Information became output groups 410 Crown Land Management and 411 Land and Resource Information. The major change was the allocation of program 440 Corporate and Portfolio Services across the output groups. For 1996-97, this program accounted for just over 20% of total budgeted outlays and related to the provision of advice and management services amongst other matters. The budgeted outlays for the Department are fairly evenly spread over the output groups with the most significant outlays relating to 407 Catchment Management and Sustainable Agriculture which amounted to $103.4 million or 22.5% of the total outlays for 1997-98.

The Department provided a draft of its corporate plan for 1997-2001 and business plan for 1997-98 and the Committee found that these planning documents were of a high standard and provided useful background information for the Committee.

As this Department was not scheduled to be reviewed at this year’s estimates hearings, the information in this chapter is based on the Department’s response to the Committee’s questionnaire.

12.2 Budget overview

The Department’s budgeted outlays for 1997-98 of $459 million have remained at the same level as the previous year with the main variation in revenues and outlays attributed to the expansion of contract harvesting to the East Gippsland Forest Management Area. Exhibit No. 33 provides an overview of the components of the budget outlays and the major variations between the budgets for the two years.
### Exhibit No. 33
Composition of Departmental Outlays

<table>
<thead>
<tr>
<th></th>
<th>Budget 1996-97 ($'000)</th>
<th>Budget 1997-98 ($'000)</th>
<th>Variance ($'000)</th>
<th>Variance %</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Administration and service</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>provision costs:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Wages and salaries</td>
<td>156 742</td>
<td>151 945</td>
<td>-4 797</td>
<td>-3.1</td>
</tr>
<tr>
<td>- Superannuation</td>
<td>20 445</td>
<td>17 919</td>
<td>-2 526</td>
<td>-12.4</td>
</tr>
<tr>
<td>- Capital charge</td>
<td>19 016</td>
<td>16 274</td>
<td>-2 742</td>
<td>-14.4</td>
</tr>
<tr>
<td>- Other departmental costs</td>
<td>364 246</td>
<td>402 867</td>
<td>38 621</td>
<td>10.6</td>
</tr>
<tr>
<td><strong>Current transfer payments</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Interest paid</td>
<td>33</td>
<td>80</td>
<td>47</td>
<td></td>
</tr>
<tr>
<td>- Subsidies paid to enterprises</td>
<td>2 330</td>
<td>2 330</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>- Personal benefit payments</td>
<td>69</td>
<td>47</td>
<td>-22</td>
<td></td>
</tr>
<tr>
<td>- Current grants and other transfer payments</td>
<td>18 079</td>
<td>17 861</td>
<td>-218</td>
<td>-1.2</td>
</tr>
<tr>
<td><strong>Total cost of services</strong></td>
<td>580 960</td>
<td>609 323</td>
<td>28 363</td>
<td></td>
</tr>
<tr>
<td><strong>Charges and reimbursements</strong></td>
<td>-175 504</td>
<td>-200 459</td>
<td>-24 955</td>
<td>-14.2</td>
</tr>
<tr>
<td><strong>Net cost of services</strong></td>
<td>405 456</td>
<td>408 864</td>
<td>3 408</td>
<td></td>
</tr>
<tr>
<td><strong>Direct addition to public infrastructure, net stocks and land acquisition</strong></td>
<td>59 024</td>
<td>56 518</td>
<td>-2 506</td>
<td>-4.2</td>
</tr>
<tr>
<td><strong>Sales of fixed assets</strong></td>
<td>-13 500</td>
<td>-14 051</td>
<td>-551</td>
<td>-4.1</td>
</tr>
<tr>
<td><strong>Gross fixed capital expenditure and other net asset purchases</strong></td>
<td>45 524</td>
<td>42 467</td>
<td>-3 057</td>
<td></td>
</tr>
<tr>
<td><strong>Capital transfer payments</strong></td>
<td>7 319</td>
<td>8 529</td>
<td>1 210</td>
<td>16.5</td>
</tr>
<tr>
<td><strong>Advances paid</strong></td>
<td>1 668</td>
<td>40</td>
<td>-1 628</td>
<td>-97.6</td>
</tr>
<tr>
<td><strong>Repayment of advances</strong></td>
<td>-344</td>
<td>-342</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td><strong>Capital outlays</strong></td>
<td>54 167</td>
<td>50 694</td>
<td>-3 473</td>
<td></td>
</tr>
<tr>
<td><strong>Total group outlays</strong></td>
<td>459 623</td>
<td>459 558</td>
<td>-65</td>
<td></td>
</tr>
</tbody>
</table>

(Source: 1997-98 Budget Paper No. 3 Budget Estimates, page 216)

In relation to the operations of the Department, the Committee received advice that:

- staff numbers have been dropping marginally with the greatest concentration being in primary industries, land management and resource information, catchment management and sustainable agriculture;
- the productivity gain expected for 1997-98 is $4.25 million applied as 1.5 per cent of the discretionary budget across all output groups (1996-97 - $3.7 million);
- the most significant revenue sources for the Department are Titles Office fees amounting to $86.7 million (1996-97 $85.1 million) and contract logging - reimbursements of $31.6 million (1996-97 - $7.8 million);
capital expenditure is spread over a number of projects mainly in the areas of catchment management and sustainable agriculture.

12.3 Key issues facing the Department

The Department has identified a number of key issues during its planning for the 1997-98 year, including the following:

Involvement in National Heritage Trust

The National Heritage Trust (NHT) will provide approximately $1.25 billion in funding over five years, sourced from the part sale of Telstra, to tackle Australia’s environmental and sustainable agriculture challenges. The NHT will be administered through bilateral Partnership Agreements between the Commonwealth and each State/Territory which came into force on 1 July 1997. The Department has indicated that Victoria has a wide range of initiatives addressing the sustainable management of land and water resources and the conservation of biodiversity with the result that the Department expects the objectives of the NHT can be achieved through existing service delivery mechanisms.

Impact of National Competition Policy

The Department has advised the Committee that some fifty principal pieces of legislation that it administers are listed for review. This legislation accounts for a significant portion of the State’s legislative review requirements under NCP. Major reviews of legislation, possibly multi-jurisdictional in impact, will include water, forests, dairy and wheat activities and encompass regulatory and similar roles adopted by Government.

Recommendation 12.1 That the Department of Natural Resources and Environment specifically report, within its annual report and budget documentation, on the progress made and the outcomes achieved in respect of its involvement in the National Heritage Trust and the implementation of the National Competition Policy.
PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE REPORT ON THE
1997-98 BUDGET ESTIMATES

MINORITY REPORT

This Minority Report expresses the view that the Victorian Public Accounts and Estimates Committee has not kept pace with developments in other Parliaments which in recent years have adopted reforms aimed at improving the capacity of their estimates committees to effectively review departmental expenditure and performance.

As indicated in the attached review of the estimates scrutiny process in other jurisdictions, in most other Parliaments the Premier and all Ministers attend the annual estimates hearings.

We believe that this accountability mechanism is even more important in Victoria given the centralisation of decision making around both the Premier and the Department of Premier and Cabinet.

Indeed, the Public Sector Management Act 1992 effectively requires all Department heads to be primarily accountable to the Premier not individual portfolio Ministers.

We therefore believe that accountability to the Parliament for public expenditure would be enhanced if the Premier and all other Ministers attended the annual estimates hearings of the Public Accounts and Estimates Committee.

STEVE BRACKS, MLA

ROB HULLS, MLA

HON. TONY SHEEHAN, MLA

HON. THEO THEOPHANOUS, MLC
## REVIEW OF ESTIMATES PROCESS IN OTHER JURISDICTIONS

<table>
<thead>
<tr>
<th>Question</th>
<th>NSW</th>
<th>Federal</th>
<th>S.A.</th>
<th>W.A.</th>
<th>Tas</th>
<th>A.C.T.</th>
<th>QLD</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. How many committees are involved in reviewing the Budget estimates</td>
<td>5</td>
<td>8</td>
<td>2</td>
<td>1</td>
<td>2</td>
<td>1</td>
<td>7</td>
</tr>
<tr>
<td>2. Are all government departments examined each year; if not, how frequently</td>
<td>All</td>
<td>All</td>
<td>All</td>
<td>Select number determined by questionnaire sent out to Members</td>
<td>All</td>
<td>All</td>
<td>All</td>
</tr>
<tr>
<td>3. Does the State Premier or equivalent and/or the Secretary of the Department appear before the estimates committee</td>
<td>Both</td>
<td>Prime Minister is represented by ministerial representative in the Senate, Secretary also appears</td>
<td>Both</td>
<td>Premier is represented by ministerial representative in the Council, Secretary also appears</td>
<td>Both</td>
<td>Both</td>
<td>Both</td>
</tr>
<tr>
<td>4. Can written questions be taken on notice before the commencement of the estimates hearings</td>
<td>Yes and 24 hrs after</td>
<td>Yes</td>
<td>No</td>
<td>Yes answered within 5 days</td>
<td>No</td>
<td>Yes and during the hearing and have 3 days in which to report</td>
<td>Yes, and up to 20 questions at the hearings.</td>
</tr>
</tbody>
</table>
## REVIEW OF ESTIMATES PROCESS IN OTHER JURISDICTIONS

<table>
<thead>
<tr>
<th></th>
<th>NSW</th>
<th>Federal</th>
<th>S.A.</th>
<th>W.A.</th>
<th>Tas</th>
<th>A.C.T.</th>
<th>QLD</th>
</tr>
</thead>
<tbody>
<tr>
<td>5. Are there time limits on questions / answers.</td>
<td>1 min Questions, 3 mins Answers</td>
<td>No</td>
<td>No</td>
<td>Not formally but informally</td>
<td>1 min Questions, 3 mins Answers</td>
<td>No</td>
<td>1 min Questions, 3 mins Answers</td>
</tr>
<tr>
<td>6. Do the estimates committees have access to:</td>
<td></td>
<td>Yes</td>
<td>Can subpoena any document</td>
<td>No, only documents related to budget papers</td>
<td>Have power to request any document</td>
<td>Yes</td>
<td>Purchase agreements, performance programs</td>
</tr>
<tr>
<td>a) corporate / business plans of agencies</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>b) do departments prepare a performance information document for the use of the committee</td>
<td></td>
<td>No</td>
<td>Portfolio budget statements, similar to an explanatory memorandum, are tabled and available to the public</td>
<td>No except for Health which volunteered</td>
<td>No</td>
<td>No only annual reports</td>
<td>Yes</td>
</tr>
</tbody>
</table>

Minority Report
EXTRACT FROM THE PROCEEDINGS OF THE COMMITTEE

20 November 1997

The minutes of the Proceedings of the Committee show that the following division took place during consideration of the draft report.

Consideration of Draft Report

On the motion of Mr Bracks and seconded by Hon. T Theophanous the following amendment was proposed:
Chapter 1, Page 3, after line 10 insert:
"That the Public Accounts and Estimates Committee require all Ministers and the Premier to attend estimates hearings each year, when requested"

Debate ensued.
Question - That the amendment be agreed to - put
The Committee divided

Ayes, 3
Bracks
Sheehan
Theophanous

Noes, 5
Best
Forwood
Lucas
McArthur
Wells

Question negatived.
Appendix 1

PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

ESTIMATES QUESTIONNAIRE 1997-98

General
1. Strategies
   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 1997-98 Budget Estimates and forward estimates in Budget Paper No. 3.

   b) Please provide a copy of your Department’s current corporate and business plans (unless previously provided and unchanged).

   c) Please provide an explanation of the connection between the Department’s strategies and budget outcomes and the corporate and business plans.

2. Issues
   List up to five significant issues which the Department has identified in its planning and describe how these will be addressed by the Department in 1997-98. (In this context, a significant issue may be any matter affecting the Department, whether it arises from the external environment, or internally, or as a result of new policy or legislation.)

Output Management
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; and
   - human-resource management

Financial Resources
4. Revenue Estimates
   Please provide on an output group basis:
   a) a brief description of all revenue sources within your Department;
   b) fund(s) to which monies received are paid;
   c) the Department’s receipt retention arrangements;
   d) variances ($ and %) between 1996-97 and 1997-98 revenue estimates; and
   e) succinct explanations for each significant variance reported in (d) above.
5. Expenditure Estimates
   Please provide on an output group basis:
   a) a break down of the composition of 1996-97 and 1997-98 estimated outlays
      for "other departmental costs" (as shown in Budget Paper No. 3)
   b) variances ($ and %) between the 1996-97 and 1997-98 estimated outlays; and
   c) succinct explanation for each significant variance reported under (b) above.

6. Please provide details of how the Department will deal with increases in costs or
   demands for new services which have not been factored into the 1997-98 Budget
   Estimates.

7. What strategies does the Department have in place to ensure that its resources are
   focused towards achieving its outputs?

8. In relation to any new capital projects shown in Budget Paper No. 3, how does
   the expenditure on these projects relate to the Department’s strategies and budget
   outcomes?

Human Resources

9. Please provide by output group and by classification level details of staffing at 30
   June 1996 (actual) and 30 June 1997 (estimate).

10. What are the strategic staffing issues facing the Department in the pursuit of its
    business objectives?

Productivity Achievements

11. Please provide details of productivity gains achieved in 1996-97 and proposed for
    1997-98 from whatever source.

12. How have the productivity gains been reflected in the 1997-98 Budget Estimates?

Output/Performance Measurement

13. How is the Department developing its capacity to collect, collate and use output
    and performance measurement information?

14. What new performance measures have been introduced to evaluate the efficiency
    and effectiveness of the delivery of outputs by the Department in 1997-98.

15. How often will performance be measured?

16. For each output group, please indicate which of the output/performance measures
    shown in Budget Paper No. 3 are the key measures of the quantity, quality,
    timeliness and cost effectiveness of the Department’s performance as the provider
    of services to the Government.
17. For each output group, please provide a brief explanation of the reasons for significant variations between the output measures for 1996-97 and 1997-98 (as shown in Budget Paper No. 3).

18. Where benchmarks have been developed, please provide:
   a) a list of benchmarks; and
   b) an explanation for variations between the Department’s 1997-98 output measures and available benchmarks

19. Where benchmarks have not been developed please outline the progress in identifying benchmarks and when they will be available?

**Implementation of Financial Management Reforms**

20. What are the remaining challenges in the implementation of full accrual accounting within the Department? How will these challenges be overcome?

21. To what extent is the accrual accounting information utilised for internal decision making by groups other than the financial accounting group?

22. How is the Department preparing itself for the implementation of output and balance sheet management?

23. Please advise of any key impediments to the implementation of output and balance sheet management (for example, related to information systems or skills required at different levels).

24. What strategies does the Department have in place to ensure managers at all levels will be able to successfully implement the financial management reforms?
### ACRONYMS AND ABBREVIATIONS

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>AAS</td>
<td>Australian Accounting Standard</td>
</tr>
<tr>
<td>ACCC</td>
<td>Australian Competition and Consumer Commission</td>
</tr>
<tr>
<td>A &amp; RMC</td>
<td>Austin and Repatriation Medical Centre</td>
</tr>
<tr>
<td>BEST</td>
<td>Bureau of Emergency Service Organisations</td>
</tr>
<tr>
<td>CAR</td>
<td>Consolidated Asset Report</td>
</tr>
<tr>
<td>CFA</td>
<td>Country Fire Authority</td>
</tr>
<tr>
<td>COAG</td>
<td>Council of Australian Governments</td>
</tr>
<tr>
<td>CPI</td>
<td>Consumer Price Index</td>
</tr>
<tr>
<td>CRCs</td>
<td>Co-Operative Research Centres</td>
</tr>
<tr>
<td>EFT</td>
<td>Equivalent Full-Time (staff)</td>
</tr>
<tr>
<td>EGMs</td>
<td>Electronic Gaming Machines</td>
</tr>
<tr>
<td>FID</td>
<td>Financial Institutions Duty</td>
</tr>
<tr>
<td>GBEs</td>
<td>Government Business Enterprises</td>
</tr>
<tr>
<td>GFS</td>
<td>Government Financial Statistics</td>
</tr>
<tr>
<td>GPPs</td>
<td>General Purpose Payments (Commonwealth)</td>
</tr>
<tr>
<td>GSP</td>
<td>Gross State Product</td>
</tr>
<tr>
<td>GTC</td>
<td>Gas Transmission Corporation</td>
</tr>
<tr>
<td>IMC</td>
<td>Integrated Management Cycle</td>
</tr>
<tr>
<td>KPIs</td>
<td>Key Performance Indicators</td>
</tr>
<tr>
<td>MAS</td>
<td>Metropolitan Ambulance Service</td>
</tr>
<tr>
<td>MMFB</td>
<td>Melbourne Metropolitan Fire Brigade</td>
</tr>
<tr>
<td>NCP</td>
<td>National Competition Policy</td>
</tr>
<tr>
<td>NHT</td>
<td>National Heritage Trust</td>
</tr>
<tr>
<td>PCOs</td>
<td>Principal Class Officers</td>
</tr>
<tr>
<td>PRRT</td>
<td>Petroleum Resources and Royalty Tax</td>
</tr>
<tr>
<td>PTC</td>
<td>Public Transport Corporation</td>
</tr>
<tr>
<td>R &amp; D</td>
<td>Research and Development</td>
</tr>
<tr>
<td>SPPs</td>
<td>Special Purpose Payments (Commonwealth)</td>
</tr>
<tr>
<td>VCE</td>
<td>Victorian Certificate of Education</td>
</tr>
<tr>
<td>VET</td>
<td>Vocational Education and Training</td>
</tr>
</tbody>
</table>
Appendix 3

LIST OF PERSONS AND DEPARTMENTS PROVIDING

SUBMISSIONS/EVIDENCE

Evidence

Department of Treasury and Finance - 12 May 1997

Hon. A. Stockdale, Treasurer; Hon. R. Hallam, Minister for Finance; Dr M. Vertigan, Secretary; and Mr F. King, Deputy Secretary, Department of Treasury and Finance.

Parliament - 19 May 1997

Hon. B. A. Chamberlain, President, Legislative Council; Hon. S. J. Plowman, Speaker, Legislative Assembly; Mr A. Bray, Clerk of the Parliaments and Clerk, Legislative Council; Mr P. Mithen, Clerk, Legislative Assembly; Mr B. Davidson, Parliamentary Librarian; Mr E. Woodward, Chief Reporter, Hansard; and Ms C. Haydon, Secretary, and Mr H. Barr, Manager, Finance and Resources, Department of the House Committee.

Department of Treasury and Finance - 26 May 1997

Hon. R. M. Hallam, Minister for Gaming, and Mr W. J. Lahey, Acting Director, Gaming and Betting, Victorian Casino and Gaming Authority.

Department of Human Services - 4 June 1997

Hon. R. I. Knowles, Minister for Health, and Minister for Aged Care; Mr W. McCann, Secretary; Mr A. Clayton, Director, Corporate Services Division; Dr C. Brook, Director, Public Health Division; and Mr J. Hayes. Assistant Director, Financial and Administrative Services, Department of Human Services.

Department of Education - 5 June 1997

Hon. P. Gude, Minister for Education; Mr G. Spring, Secretary; Mr F. Peck, Deputy Secretary, Strategic and Administrative Support; Mr P. Allen, Deputy Secretary, Schools; Mr I. Hind, General Manager, Planning, Project Development and Evaluation; and Mr J. Rosewarne, Assistant General Manager, Finance, Strategic and Administrative Support, Department of Education.

Department of Infrastructure - 16 June 1997

Hon. R. Cooper, Minister for Transport; Mr J. McMillan, Deputy Secretary, Contract, Regulation and Compliance Division; and Mr B. McDonald, Chief Finance Officer, Corporate Finance Division, Department of Infrastructure.
Department of Justice - 18 June 1997

Hon. W. D. McGrath, Minister for Police and Emergency Services and Minister for Corrections; Mr A. Thompson, Secretary; and Mr T. Daly, Deputy Secretary, Justice Operations, Department of Justice; and Mr N. Comrie, Chief Commissioner of Police.

Department of Human Services - 25 June 1997

Hon. Dr D. Naphine, Minister for Youth and Community Services; Mr Y. Blacher, Director, Youth and Family Services Division; Mr A. Clayton, Director, Corporate Services Division; Mr J. Hayes, Assistant Director, Financial and Administrative Services; and Ms P. White, Assistant Director, Disability Services Branch, Department of Human Services.

Department of State Development - 25 June 1997

Hon. M. A. Birrell, Minister for Industry, Science and Technology; Mr R. Hart, Secretary; and Mr N. Edwards, Executive Director, State Development Policy, Department of State Development.

Department of Education - 27 June 1997

Hon. P. Honeywood, Minister for Tertiary Education and Training; Mr G. Spring, Secretary; Mr P. Harmsworth, Director, Office of Training and Further Education; and Ms J. Williamson, Assistant Secretary, Higher Education Branch, Department of Education.

Submissions

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

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