PUBLIC ACCOUNTS
AND ESTIMATES COMMITTEE

SIXTY NINTH REPORT TO THE PARLIAMENT

REPORT ON THE
2004-05 BUDGET OUTCOMES

APRIL 2006

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PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE
MEMBERSHIP – 55TH PARLIAMENT

Hon. C Campbell, MP (Chair)
Hon. B Forwood, MLC (Deputy Chair)
Hon. B Baxter, MLC
Mr R Clark, MP
Ms D Green, MP
Mr J Merlino, MP
Hon. G Rich-Phillips, MLC
Ms G Romanes, MLC
Mr A Somyurek, MLC

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

Executive Officer: Ms M Cornwell
Assistant Executive Officer: Ms J Nathan
Research Officers: Mr I Claessen
Mr M Dalton (to 17 March 2006)
Mr P Stoppa (to 21 April 2006)
Ms P Toh

Specialist Advisors: Mr J Chan-Sew (annual reporting)
Mr J Manders
Mr T Wood

Office Manager: Ms K Taylor
DUTIES OF THE COMMITTEE

The Public Accounts and Estimates Committee is a joint parliamentary committee constituted under the Parliamentary Committees Act 2003.

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

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

- any proposal, matter or thing concerned with public administration or public sector finances; and
- the annual estimates or receipts and payments and other Budget Papers and any supplementary estimates of receipts or payments presented to the Assembly and the Council.

The Committee also has a number of statutory responsibilities in relation to the Office of the Auditor-General. The Committee is required to:

- recommend the appointment of the Auditor-General and the independent performance and financial auditors to review the Victorian Auditor-General’s Office;
- consider the budget estimates for the Victorian Auditor-General’s Office;
- review the Auditor-General’s draft annual plan and, if necessary, provide comments on the plan to the Auditor-General prior to its finalisation and tabling in Parliament;
- have a consultative role in determining the objectives and scope of performance audits by the Auditor-General and identifying any other particular issues that need to be addressed;
- have a consultative role in determining performance audit priorities; and
- exempt, if ever deemed necessary, the Auditor-General from legislative requirements applicable to Government agencies on staff employment conditions and financial reporting practices.
amortisation  Used interchangeably with the term ‘depreciation’. However, depreciation is generally used in relation to non-current assets that are owned, while amortisation is used in relation to non-current assets that are leased.

annotated receipts  Under the provisions of the *Financial Management Act* 1994 and the annual Appropriation Act, the authority limit for certain departmental appropriation items can be increased by an amount equal to specified departmental receipts under the terms and conditions agreed between the responsible Minister and the Treasurer. These receipts are known as annotated receipts.

assets  Service potential or future economic benefits controlled by an entity (eg. a department) as a result of past transactions or other past events. Assets may be physical (eg. plant, equipment or buildings) or non-physical (eg. financial investments).

Australian equivalents to international financial reporting standards  Australian accounting standards that are the equivalent to the international accounting standards.

benchmark  A point of reference for measuring performance or quality.

benchmarking  A structured approach for identifying best practice or excellence.

capital asset charge  A charge generally on the written down value of non-current, physical assets controlled by agencies within the general government sector. The cost is designed to reflect the full cost of service provision and to encourage the management of surplus or under performing assets.

Consolidated Fund  The government’s primary account that receives all consolidated revenue and from which payments appropriated by Parliament for government are made.

depreciation  The allocation of the cost of an asset over the years of its useful life representing its decreasing value.

employee benefits  Entitlements which employees accumulate as a result of their work up to the reporting date. They include wages and salaries, annual leave, sick leave, long service leave and other post-employment benefits.
<table>
<thead>
<tr>
<th>Term</th>
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<tr>
<td>finance lease</td>
<td>Leasing arrangements in which substantially all risks and benefits</td>
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<tr>
<td></td>
<td>incidental to the ownership of the leased property effectively pass</td>
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<td>from the lessor to the lessee. Finance leases are essentially</td>
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<td>borrowings.</td>
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<tr>
<td>general government sector</td>
<td>The part of government that provides public services for the</td>
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<td>collective consumption of the community. Government departments are the</td>
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<td>major agencies within this sector.</td>
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<td>generally accepted accounting principles</td>
<td>A set of accounting principles and standards that are recognised by</td>
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<td>accounting authorities across the world.</td>
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<tr>
<td>goods and services tax (GST) grant</td>
<td>GST revenue collected by the Australian Government and distributed to the</td>
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<td>states and territories on the basis of horizontal fiscal equalisation</td>
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<td>principles.</td>
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<tr>
<td>Gross State Product (GSP)</td>
<td>A measure of state economic output.</td>
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<tr>
<td>liability</td>
<td>An obligation to make future payment as a result of past transactions or</td>
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<td></td>
<td>other past events. Liability is a broader concept than debt. It also</td>
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<td>includes obligations which do not have a predetermined repayment schedule,</td>
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<td>and those which do not require payments of interest such as unfunded</td>
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<td>liabilities for superannuation funds, employee benefits and trade</td>
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<td>creditors.</td>
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<tr>
<td>outcomes</td>
<td>The government’s desired or intended affects on the community as a result</td>
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<td>of its activities and other external factors.</td>
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<tr>
<td>output</td>
<td>A product or service produced or delivered by departments/agencies.</td>
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<tr>
<td>output group</td>
<td>For purposes of budgeting and reporting, a grouping of individual outputs</td>
</tr>
<tr>
<td></td>
<td>that contribute to a common outcome.</td>
</tr>
<tr>
<td>parliamentary authority</td>
<td>An authority given by the Parliament to make payments, now or at some</td>
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<td>future time, for the purpose stated, up to the limit of the amount stated</td>
</tr>
<tr>
<td></td>
<td>in the Appropriation Act.</td>
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<tr>
<td>performance measure</td>
<td>Quantity, quality, timeliness or cost measure used to describe how many,</td>
</tr>
<tr>
<td></td>
<td>how well, when, how frequently government-funded output is delivered.</td>
</tr>
<tr>
<td>performance target</td>
<td>An intended output delivery level expressed in terms of each of the</td>
</tr>
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<td>performance measures.</td>
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<tr>
<td>Term</td>
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<tr>
<td>public financial corporations</td>
<td>Comprises government controlled entities primarily in the provision of financial intermediation services or auxiliary financial services.</td>
</tr>
<tr>
<td>public non-financial corporations</td>
<td>Comprises government controlled entities that provide goods and services within a competitive market that are non-regulatory and non-financial in nature.</td>
</tr>
<tr>
<td>revaluation</td>
<td>The act of recognising a reassessment of values at a particular date.</td>
</tr>
<tr>
<td>special appropriation</td>
<td>A standing authority that remains in force until amended or repealed by Parliament for specific one-off or ongoing payments which need to be made independently of the government's annual budget priorities.</td>
</tr>
<tr>
<td>statement of financial performance</td>
<td>A statement providing information for the reporting period on the revenue and expenses, and the surplus or deficit, of an entity.</td>
</tr>
<tr>
<td>supplies and services</td>
<td>This encompasses the day-to-day running costs incurred in the normal operations of government entities, but specifically excluding the cost of employee benefits, superannuation, depreciation, amortisation, interest and other finance costs, grants and transfer payments, and other expenses.</td>
</tr>
<tr>
<td>Treasurer’s Advance</td>
<td>An appropriation to the Treasurer, included in the annual Appropriation Act, to meet urgent expenditure claims that were unforeseen at the time of the budget.</td>
</tr>
<tr>
<td>Trust Fund</td>
<td>The Trust Fund is established to account for the receipt and disbursement of moneys not forming part of the Consolidated Fund and therefore not subject to parliamentary appropriation. The Trust Fund comprises various trust specific purpose accounts established under separate legislation or at the discretion of the Minister for Finance under the Financial Management Act 1994.</td>
</tr>
<tr>
<td>unfunded superannuation liabilities</td>
<td>The present value of future benefits, determined by actuarial assessment, that superannuation schemes’ members have accrued during past services which are not covered by fund assets. Unfunded superannuation liabilities arise when superannuation costs are not contributed as the members’ benefits accrue.</td>
</tr>
<tr>
<td>write-off</td>
<td>The recognition that an amount receivable is uncollectible.</td>
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CHAIR’S INTRODUCTION

This report presents the Committee’s review of the government’s financial and performance outcomes for 2004-05. The report examines $27.76 billion general government sector expenditure and comments on some aspects of what departments and agencies were funded to achieve in 2004-05 and what they actually achieved.

This is the last budget outcomes report to be produced for the 55th Parliament. Accordingly, it is an appropriate time to review the progress made and to consider where financial and performance reporting in Victoria needs to go from here.

While reforms made to public financial reporting have been significant, the government must strive for continuous improvement to meet the needs of Parliament and the public. In particular, there is a need to improve transparency and accountability for the very significant supplementary funding of $5.43 billion provided to departments and agencies in 2004-05, which Parliament had limited opportunity to scrutinise.

The Committee considers that good performance reporting should provide ongoing accountability about what government is doing and why; how much it costs; what is achieved compared with what was planned; how current performance compares with past performance and with the performance of others; and what government plans to deliver in the future. We would like to see the Department of Treasury and Finance implement our recommendations in relation to performance reporting and enhance its leadership role in improving reporting within the public sector.

The Committee has revisited some of the recommendations from its Report on parliamentary control and management of appropriations that were rejected by the government, and suggested that certain issues be re-considered by the government.

The Committee has had a long standing interest in improving the quality of annual reporting. As part of that process, the Committee reviewed the 2004-05 annual reports for departments and some key agencies. With some exceptions, we found that overall the actual pace of improvement in annual reporting has been slow. This area requires leadership and action by the lead departments.

After the completion of the 2006-07 budget estimates hearings, I will be encouraging the Public Accounts and Estimates Committee to hold a workshop for those involved in the preparation of departmental annual reports, so we can outline the Parliament’s expectations in relation to annual reporting. We will highlight good practice, identify areas of improvement and discuss the disclosure requirements as specified in the Financial Management Act and in the Standing Directions and Financial Reporting Directions issued by the Minister for Finance.

The Committee’s inquiry into the 2004-05 budget outcomes was completed within five months. This is an exacting timetable because we are also working concurrently on other inquiries. On behalf of the Committee, I would like to thank the lead
Ministers for responding promptly to our questionnaire, and the many public officials who have provided timely additional information or clarification of issues, enabling us to meet our tight deadline. I also wish to acknowledge the research support and analytical skills of the Committee’s secretariat so conscientiously and ably led by Michele Cornwell.

This is yet another unanimous Public Accounts and Estimates Committee report, reflecting the strong tradition of bipartisanship. I thank my Committee colleagues for their commitment and valuable assistance in preparing this report.

This report contains 92 recommendations that we hope will lead to further improvements in public administration and in the way the government reports to Parliament.

Hon. Christine Campbell, MP

Chair
Chapter 1: Introduction and responses to previous budget outcomes report

The Public Accounts and Estimates Committee’s review of the budget outcomes aims to improve the accountability of Victorian government departments and agencies, and provide Parliament and the community with more meaningful information about results achieved in 2004-05. The intention of this follow-up process is to complement the Committee’s initial review of the 2004-05 Budget Estimates.

In 2004-05, the general government sector budget outcomes comprised of expenditure of $27,760.1 million and revenue of $29,904 million. The Committee’s report is based on an analysis of this outcome and on information contained in a range of documents. These documents include: annual reports of departments and key agencies, the parliamentary departments and the Victorian Auditor-General’s Office; departmental responses to the Committee’s 2004-05 Budget Outcomes questionnaire; reports of the Victorian Auditor-General; the government’s budget papers for 2004-05; and the government’s annual financial report.

In the 2003-04 Budget Outcomes report, the Committee made 97 recommendations, 87 of which were associated with the operations of government. The government accepted 48 of these recommendations (55 per cent) and accepted a further 12 in part and 13 in principle. Seven of the recommendations were rejected and another seven were under review. The Victorian Auditor-General’s Office accepted in principle its three recommendations. Of the seven recommendations regarding the operations of the Parliamentary Departments, two recommendations were accepted; three were accepted in principle; and two recommendations were rejected.

In this chapter the Committee highlights certain recommendations that it considers should have been accepted by the government and the recurring issues that have not been addressed. The Committee also identifies the need for the Department of Treasury and Finance to take a leadership role in resolving some of the key financial reporting issues.

Chapter 2: 2004-05 Budget overview

The Victorian Government has again met its commitment to maintain an operating surplus of at least $100 million in 2004-05. The budget surplus for 2004-05 was $2,143.9 million, $1,598.9 million higher than the initial estimate of $545 million. The budget surplus reflected financial reports prepared under generally accepted accounting principles which was the basis for the preparation of the 2004-05 budget. The significant operating surplus was achieved primarily because of increased revenue ($919.1 million) and reduced expenditure ($679.8 million) compared with the initial 2004-05 Budget Estimates.
Revenue was $29,904 million in 2004-05, $919.1 million higher than the budget estimate. This significant increase was mainly due to additional grants ($381.8 million) received from the Commonwealth government, improved investment returns, and increases in the sale of goods and services. While Victoria’s share of goods and services tax (GST) related grants increases with the growth in the GST revenue pool, the 2005-06 Budget Papers drew attention to the possibility that transitional grants may be required in that year because of the further removal of state taxes, such as debit taxes.

Expenditure was $27,760.1 million in 2004-05, $679.8 million below the budget estimate. This substantial reduction resulted from the higher than anticipated investment returns earned by the state’s public sector superannuation schemes, which resulted in a reduced contribution from the government towards the unfunded liability of these schemes, predominantly the State Superannuation Fund.

Employee benefits, which include all costs related to employment, amounted to $10,746.5 million and exceeded the budget of $10,480.5 million by $266 million (2.5 per cent). Given the constraints imposed by government wage policy that limits wage growth to a predictable 3 per cent, such overruns must be minimised in future if budget surpluses are to be maintained.

The strong financial position has enabled the government to undertake significant investment expenditure on hospital buildings ($380 million); public housing ($276 million); education buildings ($271 million); medical equipment ($215 million) and computer acquisitions ($166 million). While this investment in physical assets is welcome, it is difficult to evaluate the extent to which asset investment is addressing a backlog of demand, especially in areas such as the rural road system and the refurbishment of buildings such as schools. The Committee emphasises the importance of managing spending within budget estimates so that the government can partly fund the expansion of state infrastructure from future surpluses.

The Committee is concerned that although the Victorian Government intends investing around $2.8 billion per year in infrastructure over the next four years to 2008-09, extended delays that are occurring in the completion of many large projects are delaying the benefits to be derived from the projects. While the Committee acknowledges that the Department of Treasury and Finance has implemented recent initiatives to identify risks and improve project delivery (the Gateway initiative) and assist all departments to better manage their assets (asset management framework), the government must take further action to improve the delivery of capital projects.

General government sector debt, comprising borrowings and finance leases, remains low. Although this debt will increase in future years as borrowings are intended, debt levels will remain moderate, even though the increasing number of finance leases arising from the handover of assets completed under public private partnership contracting arrangements will create long term debt.
While the Department of Treasury and Finance advised the Committee in 2004-05 that it intended to improve its budget forecasting method, the 2004-05 budget surplus again substantially exceeded the initial estimate by $1,598.9 million (293.4 per cent), a similar margin to a variance of 304.9 per cent in 2003-04. Considerable scope remains for the Department of Treasury and Finance to further improve its forecasting methods.

**Chapter 3: New VPS staffing structure; stress claims; and performance bonuses**

Responding to the Committee’s request for information regarding the proportion of staff who received salary progression under the Victorian public service (VPS) career structure, individual departments provided a common response that this information would not be provided. Departments cited an Australian Industrial Relations Commission decision in December 2004, where the Commission denied a request by the Community and Public Sector Union for access to salary progression outcomes.

The Committee has great difficulty in seeing the relevance of this decision to a parliamentary committee’s request for similar information, particularly because this Committee has a legislative mandate to scrutinise expenditure by executive government. This issue will be pursued at the next Budget Estimates hearings.

Employee benefits for the general government sector, which include wages and salaries, annual leave and long service leave, increased from $9,988.4 million in 2003-04 to $10,746.5 million in 2004-05, an increase of 7.6 per cent compared with a 4.7 per cent increase for the previous financial year. Employee benefits for 2004-05 were budgeted at $10,480.5 million however actual costs were $10,746.5 million. Given that wage increases over this period were within government expectations, the Committee expected there would be little difference between budgeted and actual costs. The Committee considers that additional costs from progression payments under the career structure are a factor in this increase in costs.

Stress related claims information for departments, budget funded agencies and the parliamentary departments showed there was an overall moderate increase in the cost and number of claims in 2004-05 compared with 2003-04.

For 2004-05 the statistics were: Victoria Police (264 claims), Department of Education and Training (206 claims), Department of Human Services (145 claims), and public hospitals (163 claims) which accounted for 86 per cent of the total claim numbers advised to the Committee.

The State Services Authority’s People Matter Survey 2005 found evidence that 37 per cent of public sector employees had observed bullying behaviours in their organisation and that over one in five people had experienced harassment or bullying in their workplace. The Committee noted with concern the results of this survey and considers there is scope for further research into the extent of bullying and the
development of a cross government anti-bullying strategy for the Victorian public sector.

The Committee welcomes a stress prevention pilot project in the Department of Human Services and acknowledges Victoria Police’s ongoing commitment to reducing stress through means such as the re-launch of its stress intervention program and introducing a Prevention and Resolution of Workplace Conflict policy. Because these two agencies account for a significant portion of Victorian public sector stress related claims, these initiatives are timely and appropriate. The Committee recommends ongoing research into factors contributing to stress related workers’ compensation claims, especially with respect to bullying behaviour.

The Committee continues to examine whether the allocation of performance pay was generally consistent and fair across the Victorian public sector. The Committee found that for the 2004-05 performance assessment period, with the exception of the Department of Justice, the requirement for 75 per cent of executive officers to be targeted to receive a performance bonus was generally met.

The Committee’s analysis of performance pay across individual agencies revealed that the agencies with the highest proportion of executive officers awarded a bonus for 2004-05 were the Department of Justice, whereby 95.5 per cent of eligible executives (64 out of 67 executives) received a bonus (average bonus, $9,400); the Southern and Eastern Integrated Transport Authority - all of the seven executives (average bonus of $24,961 which far exceeded average bonuses paid by other agencies) and the State Revenue Office - all six executive officers (average bonus, $12,349).

The following departments also paid 100 per cent of officers in particular classifications a bonus for the 2004-05 assessment period:

- the Department of Justice paid 23 officers at Secretary, EO1 and EO2 levels; and
- the Department for Victorian Communities paid 12 officers at Secretary, EO1 and EO2 levels.

The Committee stresses that annual bonuses should not regarded as another guaranteed element of executive remuneration. Instead, they should be awarded on an exception basis for performance that can be clearly demonstrated to be superior or exceptional.

The Committee found it interesting that across certain departments, a larger proportion of the higher classified executives were paid bonuses for 2004-05 compared with those at the EO3 level. During this period, 85.1 per cent of senior executives (Secretaries, EO1 and EO2 (189 of 222) received bonuses, compared with 73.7 per cent of EO3 (263 of 357). The average performance bonus paid to executives in the higher categories, which amounted to $15,500, was also significantly higher than the average of $9,100 paid to those at EO3 levels.
The Department of Education and Training and the Department of Innovation, Industry and Regional Development were the only departments where the proportion of those at EO3 level receiving a bonus (82.1 and 75.8 per cent respectively) exceeded the combined percentage for the more senior executives of the departments (65.6 and 70.6 per cent respectively). The Committee maintains that, if the vast majority of the most senior executives are assessed as being very high achievers in a particular year, it is reasonable to expect that this pattern would also be reflected in the proportion of lower level executives and managers receiving performance pay. This trend that was not obvious in the significantly lower proportion of those at EO3 level awarded performance pay for 2004-05.

Noting a lack of appropriate disclosure of bonuses paid to departmental Secretaries and senior executives across public sector agencies, the Committee sought further information from departments in an effort to make performance pay more transparent. At the outset, the Committee endeavoured to obtain details that differentiated between the performance bonuses paid to departmental Secretaries and executives in aggregate at each of the EO1, EO2 and EO3 levels. While this information was not forthcoming in the prescribed format, three departments elected to combine the upper ranges with that of the EO2 level. Seven departments did not provide any details on the basis that the information had the potential to breach privacy provisions of individual executives. As a compromise, the Committee requested and received from the remaining seven departments, information that consolidated performance pay relating to the Secretary and EO1 level with that of the EO2 level.

The Committee considers that the disclosure requirements for listed companies relating to compensation payments made to each key management person (as contained in the accounting standards and Corporations law) should also apply to the most senior managers of government departments and associated agencies, that is, departmental Secretaries and executives at the EO1 level. In the same way that shareholders of companies have a right to know relevant details relating to the payments paid to their most senior company executives, the Committee considers this principle should be embodied in the financial reporting disclosure requirements for all public sector agencies. Importantly, disclosure of such information would enable taxpayers to be aware of the nature and amounts that comprise senior executive remuneration.

**Chapter 4: Environmental reporting; Project Rosetta; advertising and promotional expenditure**

In February 2002, the government announced a commitment to introduce best practice in environmental management in government departments. This was to be achieved by adopting and auditing an environmental management system and an environmental improvement plan that included waste reduction targets, complying with green purchasing policy, and reporting annually on environmental performance.
The Victorian Greenhouse Strategy was released in June 2002 and was updated by the Victorian Greenhouse Strategy Action Plan Update 2005. The government set a number of mandatory energy efficiency and emission reduction targets to be met by June 2006, measured from a baseline of 1999-2000:

- a 15 per cent reduction in energy use in buildings;
- ten per cent of electricity to be purchased in the form of green power; and
- a ten per cent reduction in greenhouse gas emissions from the government’s passenger vehicle fleet.

Most departments advised they were on track to achieve a 15 per cent reduction in energy use in buildings by June 2006. Others departments reported that the June 2006 target had been achieved by June 2005. In fact, the Department of Justice has reported a 27 per cent reduction in energy use while the Department of Infrastructure and the Department for Victorian Communities both reported a 17 per cent reduction. This suggests that any future targets should be made more challenging.

The Committee recommends that the establishment of any greenhouse energy efficiency and emission reduction targets beyond June 2006 include an expansion of existing greenhouse gas emission targets to encompass, not just the government’s passenger vehicle fleet, but total energy use. The Committee also supports departments reporting progress in meeting any future mandatory targets in annual reports.

Financial Reporting Direction (FRD) 24 requires all departments and environmental agencies to report on office-based consumption of natural resources and related greenhouse gas emissions in their annual reports. Such reporting covers energy use, waste production, paper use, water consumption and transportation.

In addition to reporting energy use and consumption in terms of units of energy (mega joules) the Committee considers that reporting under FRD 24 could be made more meaningful by reporting in financial terms as well. The Committee also recommends FRD 24 should explicitly state that departments must include comparative data in their annual reports.

The Auditor-General does not currently provide an independent audit opinion on the accuracy or completeness of environmental data reported in annual reports under FRD 24. Departments are required to establish an Environmental Management System (EMS) that is audited annually by an environmental auditor. The Committee recommends that the auditor provide a verification statement on the accuracy and completeness of EMS data reported in annual reports under FRD 24.

For further major reforms to occur in environmental reporting, significant challenges remain. Environmental reporting under FRD 24 is currently limited to office-based impacts. The expansion of environmental reporting into non-office based operations will face considerable difficulties in capturing and recording accurate, reliable, consistent and complete information. Despite these difficulties, the Committee
suggests the government should set a timetable for progressively extending reporting to cover non-office based operations.

Although no Victorian government department currently prepares a triple bottom line report, the Department of Sustainability and Environment has moved further along the path to triple bottom line reporting than other departments. In the Commonwealth public service, the Department of Family and Children’s Services has played a major leadership role in encouraging the introduction of triple bottom line reporting. The Committee suggests that the Department of Sustainability and Environment be designated and supported within the Victorian public service to play a similar role.

Project Rosetta, a whole of government integrated electronic directory service, began in 2002-03. The implementation of the directory and its subsequent roll out to ten government departments is to be completed in May 2006, about five months later than the initial December 2005 timeline.

The Telecommunications Purchasing and Management Strategy (TPAMS) initiative provided funding for this project. The project budget was $15.4 million, comprising capital funding of $13.2 million and output funding of $2.2 million. Total project expenditure from the period from 2002-03 to 2004-05 was $7.6 million (comprising capital expenditure: $6.1 million; and operating expenditure: $1.5 million), or 49 per cent of budget.

The Department of Infrastructure, the project’s lead department, has not identified the additional costs (including staff costs, staff on-costs and departmental overheads) associated with the implementation of the project. Participating departments’ estimates of their expenditure on the project in 2004-05 ranged from $12,000 to $500,000 and the majority advised the Committee they were not provided with additional funding for their involvement in the project. There is scope for the government to determine the overall costs associated with the implementation of this significant project.

The Committee was advised the whole of government business case identified tangible and intangible benefits for this project. Departments’ participation in Project Rosetta is based on these whole of government benefits and separate analysis has not been conducted by individual departments.

Departments informed the Committee that they managed 18 advertising and promotional programs with expenditure in excess of $100,000 in 2004-05. Aggregate expenditure for these programs was $14.2 million.

Departments provided information to the Committee indicating that several avenues were used to advertise government programs, with most use made of television, radio and the press. Targeted audiences ranged from specific groups through to the general public and, in some cases, a mix of selected and wider audiences.
The magnitude and propriety of advertising and promotional expenditure has been the subject of extensive examination in both international and Australian jurisdictions. In Victoria, the Auditor-General has undertaken two audits on the topic over the last decade, in 1996 and 2002. Both audits were conducted in response to allegations made to the Auditor-General that certain advertising was party-political and constituted inappropriate use of public funds.

Guidelines for government advertising and communications were introduced by the government in Victoria following the Auditor-General’s 2002 audit. These guidelines seek to assist government agencies manage their advertising and promotional expenditure.

When assessing the material provided by departments during its 2004-05 Budget Outcomes inquiry, the Committee became aware of political and media comment concerning the propriety of certain government advertising programs conducted during 2005-06. These programs were alleged to have a political bias and to involve significant outlays of public funds. The media attention directed to this area also referred to a request to the Auditor-General by the Leader of the Opposition for an investigation of the 2005-06 advertising expenditure. The Committee understands that the Auditor-General has formally responded to this request, and has advised that an audit investigation would be undertaken with the results presented to Parliament during the 2005-06 autumn session. Irrespective of the findings of the Auditor-General arising from the impending audit, the Committee believes that the propensity for government advertising to attract recurring political and media controversy warrants the introduction of a framework in Victoria that strengthens the enforcement of the guidelines.

Complementing its recommendation to strengthen the enforceability of advertising guidelines, the Committee has also called for the annual reporting requirements of agencies to be widened to encompass information on the cost and management of advertising and promotional programs.

**Chapter 5: Parliamentary departments**

The budget for the parliamentary departments was $96.6 million in 2004-05. Actual expenditure was $92.6 million, which was $4 million or 4.1 per cent below budget.

The parliamentary departments carried forward from 2004-05 to 2005-06 output funding of $1.58 million and asset funding of $3.8 million.

The parliamentary departments achieved or exceeded almost all of their performance targets in 2004-05.

The annual report of the Department of Parliamentary Services did not provide comprehensive details of its actual performance against targets set for performance measures of a qualitative, quantitative timeliness and cost nature. This practice is inconsistent with the government departments’ disclosure requirements which are
prescribed by the Standing Directions of the Minister for Finance. The Committee believes that all parliamentary departments should adhere to the Standing Directions of the Minister for Finance, as to the disclosure of output targets and actual performance against those targets.

The Committee also noted that the parliamentary departments did not provide summarised results of the 2005 members survey in their annual reports. The Committee considers that the inclusion of these results in the Parliamentary Departments’ annual reports, with previous survey results included for comparative purposes, would assist stakeholders to monitor and assess the level of satisfaction with services provided, and reinforce a customer focus within the Parliamentary Departments.

The total equivalent full-time staff at 30 June 2005 was 429.6, compared with 446.4 at 30 June 2004. The Committee noted that while staff numbers have declined slightly, the classification profile of parliamentary officers has changed significantly. More staff are now at higher classification levels because of the new classification structure implemented during 2004-05.

The Committee noted the implementation of organisational structure changes arising from the One Parliament project in 2004-05 and considers that an evaluation of its implementation and success in achieving its original goals would be timely.

**Chapter 6: Victorian Auditor-General’s Office**

The output budget for the Victorian Auditor-General’s Office for 2004-05 was $25.5 million. Actual output expenditure for the year of $24.3 million was $1.2 million (or 4.7 per cent) below budget estimates.

The Victorian Auditor-General’s Office achieved or exceeded three of its nine 2004-05 performance targets published in the budget papers. In terms of targets not met, the three performance measures that attracted the largest variations between targeted and actual performance concerned the finishing of reports, acknowledging inquiries from Members of Parliament and the public and issuing management letters within established time frames.

Despite stipulating that ‘savings’ agreed with agencies from acting on the Office’s recommendations was to be one of the indicators of success, audits undertaken in 2004-05 focused on recommending improvements in the management of programs/projects. Possible savings had not been quantified. Although the Committee considered that target setting was central to this issue, the Office advised that due to the nature of this measure, targets had not been established by the Office. The Committee highlighted that in another audit jurisdiction, albeit significantly larger than the Victorian Auditor-General’s Office, a target had been set for the achievement of validated savings from audit work. The UK National Audit Office reported in its 2005 annual report that:
From its work, the Office secured £515 million independently validated savings for the taxpayer in 2004, meeting its target of achieving an eightfold return on its net costs.

The Committee considers that greater attention needs to be given to building the concept of identifying cost savings from the audit process into topic selection, audit program development, target setting and annual reporting.

The Committee noted that when the Office compares the cost of undertaking performance audits to budget, the variance analysis is confined to measuring performance against a revised budget and not the initial budget. This practice prevents the Office from being fully accountable for explaining variations between actual costs incurred and the original budget approved prior to commencing the audit. The Committee also maintains that if a performance audit budget is increased to reflect changing circumstances that occurred during the course of the audit, the Auditor-General should explain in the Office’s annual report any compensating adjustments made to budgets of other performance audits planned to be undertaken during the year, and the effect of all budget overruns on the performance audit program for the year.

Of the ten performance audits completed in 2004-05 at an average cost of $441,991, five exceeded the initial or revised budget. In terms of budget performance, the Managing stormwater flooding risks in Melbourne audit, which exceeded the revised budget by $64,400 or 13 per cent, attracted the largest budget overrun. Conversely, the Effectiveness of strategies to minimise absenteeism in schools audit was completed at a cost that was $101,400 or 24 per cent below the revised budget.

In noting that the 77 per cent client satisfaction level with the Office’s financial statement audit services for 2004-05 continued to be below the 80 per cent target (client satisfaction in 2003-04 was 74 per cent), feedback varied significantly and mainly related to specific matters in individual audits. According to the Office, while improving client satisfaction was often dependent on the way specific matters were dealt with on an individual client basis, the three most common issues raised by clients related to continuity of audit staff, the level of audit fees and the value added by the financial audit process. The Committee acknowledges that the Office has implemented various initiatives to improve client satisfaction with its financial statement audit services and notes that it will conduct a review during 2005-06 to consider what additional qualitative measures and targets might be used in future for reporting on the quality of financial audits externally.

The Office issued 76 per cent of management letters within four weeks of the audit opinion being signed in 2004-05 (86 per cent in 2003-04) compared with a target of 100 per cent. The amount of time clients require to review draft letters and include (where appropriate) management’s response to issues raised was a significant factor affecting the timely completion of these letters. Responding to the Committee’s inquiry relating to benchmarking, the Office indicated that it would contact audit offices in other jurisdictions to obtain information about timeframes for issuing
management letters. This information would then be used to reassess its current performance measure and target for issuing management letters.

**Chapter 7: Department of Education and Training**

The output budget for the Department of Education and Training for 2004-05 was $6,717.1 million. Actual output expenditure for the year of $6,824 million was $106.9 million (or 1.6 per cent) over budget estimates. All departmental outputs had expenditure within 10 per cent of budgeted costs.

The Committee commented in its *Report on the 2003-04 Budget Outcomes* that, despite the Standing Directions of the Minister for Finance, the department’s 2003-04 annual report did not include actual and budgeted costs for outputs. This continues to be the case regarding the department’s 2004-05 annual report.

Between June 2004 and June 2005, the staffing composition of the teaching service reflected an increase in the number of ongoing teachers (1,017.9 EFT) and a decrease in the number of fixed term teachers (405.2 EFT). This decrease reverses a trend from previous years where the number of fixed term teachers has steadily increased from 5,842.8 as at June 2001 to 6,983.5 as at June 2003. The number of fixed term teachers should be centrally monitored as the overuse of fixed term employment can act as a disincentive to attracting and retaining high quality teachers.

Victoria’s vocational education and training (VET) system has a number of unique characteristics compared with other states. With over 1,100 private providers, fee for service in Victoria in 2004 constituted approximately 22 per cent of recurrent revenue funding, while in New South Wales and Queensland, fee for service only constituted 8 and 6 per cent respectively. Conversely, the state current contribution to total recurrent revenue is 47 per cent, compared with New South Wales (60 per cent) and Queensland (61 per cent).

The government has announced a new skills strategy entitled *Maintaining the Advantage: Skilled Victorians*. Funding of $241.47 million will be provided including $42.26 million to fund an additional 3,500 VET places with 500 places allocated to address skill shortages in construction and engineering.

The *Blueprint for Government Schools*, which was released in November 2003, included a number of key initiatives in relation to performance management and providing leadership for under-performing schools.

In terms of performance management, the department has advised the Committee that it has introduced a performance and development system in 2006 for principals and assistant principals. This system uses multiple sources of information and feedback to assess performance and guide professional development. The *Blueprint for Government Schools* did not comment on whether this system should be extended below Principal/Assistant Principal. The department should assess the implementation
of this system and establish its position on whether this performance and development system should be extended below principal class.

On the issue of providing leadership in under-performing schools, the Boston Consulting Group report *School workforce development*, which formed the basis for some of the initiatives in the *Blueprint for Government Schools*, reported that research had found that principals have a significant influence on school improvement including improved student outcomes. The *Blueprint for Government Schools*, which acknowledged poor student outcomes in some schools and regions, included a commitment to develop a program to place better-performing principals in under-performing schools. Despite the significance of this issue and the critical role principals play in improving school performance, no such placements have occurred to date.

To reduce the number of under-performing schools, the government was reported as having developed a draft policy where schools seeking capital funding had to demonstrate they had a plan to improve student achievement levels. Schools with declining enrolments and poor student outcomes would be encouraged to merge but no schools would be directed to close. At the time of completing this report, the reported draft policy has not been finalised. The Committee looks forward to the release of the policy.

The department also introduced the Student Resource Package (SRP) for the 2005 school year to provide for a fairer distribution of existing resources across government schools. A further $61.9 million was allocated over 4 years for an additional 250 teachers. Funding changes will occur over 5 years. While SRP is designed to contribute to better student outcomes by aligning resources to individual student learning needs, the department advised that details of additional expenditure by schools were not available. The school review process should incorporate an examination of school funding decisions flowing from SRP and their consistency with the goal of improved student outcomes.

The Victorian Certificate of Applied Learning (VCAL) was established to provide for those Year 11 and 12 students who are more likely to undertake TAFE training, an apprenticeship or find employment rather than pursue a university qualification. As at 2004-05, the department advised the completion rate for VCAL was approximately 60 per cent and that this reflected the fact that many students commence apprenticeships or traineeships before completing VCAL.

The department also advised the Committee that information on the tracking of students who exit VCAL is not currently available. This information however will be available for the 2005 student cohort in 2006 where students will be tracked 6 months after leaving VCAL. The Committee considers that it is important that, for those students who either have completed or have failed to complete VCAL and are not employed or involved in education and training after this 6 month period, adequate monitoring takes place as part of a longitudinal study. The results of such a study
could provide a basis for developing appropriate program responses to issues identified.

The department owns 293 residential houses with a 2004 valuation of $24.3 million. Total rental income from these houses for 2004-05 was $979,948 with operating costs of $662,252. The occupancy rate was 88 per cent.

Concerns have been expressed that inadequate levels of maintenance were detracting from the positive impact of government incentives to attract teachers to work in difficult to staff locations. There was a considerable variation in the value of departmental properties with a house in Lorne valued at over $700,000. The Committee believes that an examination of departmental housing would be timely to not only examine the adequacy of the level of maintenance provided but whether houses need to be provided in more attractive locations such as Lorne or Apollo Bay. Conversely, this examination could also assess whether additional housing should be made available in difficult to staff locations.

Chapter 8: Department of Human Services

The output budget for the Department of Human Services for 2004-05 was $9,888.5 million. Actual output expenditure for the year of $10,089.7 million was $201.2 million (or 2 per cent) above the budget estimates. Of the department’s 67 outputs, the cost of delivering five outputs in 2004-05 exceeded the initial budget allocation by 10 per cent or more.

In terms of service delivery, the department achieved or exceeded approximately 181 or 73 per cent of its 248 performance targets in 2004-05. With regard to acute hospital inpatient services, the cost for the Admitted Services output in 2004-05 was $3,770 million. Compared with the target of $3,694.4 million, this represented an increase of $75.6 million or 2 per cent. The department disclosed in its annual report that the increase in output expenses compared with budget reflected additional funding for a range of matters, including extra resources to increase elective capacity as part of the Hospital Futures Strategy and extra revenue received from the Commonwealth government and the Transport Accident Commission. Because of the size and nature of the Admitted Services output, the Committee maintained that the department should have disclosed the impact of the additional funding in terms of additional services provided in 2004-05 and the performance of the department in meeting or exceeding its targets.

An issue of alleged financial irregularities at the NorthWestern Mental Health Service, managed and operated by Melbourne Health, was brought to the Committee’s notice in July 2005. Accounting irregularities involved errors and other anomalies totalling $17.2 million. Independent investigations revealed that, although there was no misappropriation of cash, financial controls at Melbourne Health were poor. The Committee noted that in fully disclosing this matter in its 2004-05 financial statements, Melbourne Health reported that the errors, which occurred between July 2003 and March 2005 and comprised the over-accrual of income and the deferral of
expenditure from previous financial periods, was corrected in the financial statements for the year ended 30 June 2005. Melbourne Health also restated the financial information to show the information that would have been disclosed in the 2004 financial report, had the error not been made.

The Auditor-General found that this situation highlighted the need for vigilance by board directors, executive staff, managers, internal auditors and external auditors. Key lessons include the need to ensure appropriate reporting of financial information to boards and rigorous analysis of movements in the financial statements.

The Committee found that notionally various major redevelopment and upgrading works, which commenced at regional health services during 2004-05, had progressed at a slower rate than initially envisaged, based on a comparison of actual to estimated expenditure for that year. Conversely, the Polwarth Nursing Home in Colac was significantly ahead of schedule.

In terms of workforce shortages experienced in community dental clinics (statewide vacancy rate in rural areas of 31 per cent in March 2005), workforce shortages have been experienced generally across rural community dental clinics. At June 2005, shortages affected clinics at Newcomb, Hamilton, Warrnambool, Ararat, St Arnaud, Edenhope, Nhill, Horsham, Dimboola, Boort, Bendigo, Echuca, Maryborough, Mildura, Swan Hill, Wangaratta, Shepparton, Wodonga, Bairnsdale, Sale, Orbost, Moe, Churchill, Wonthaggi and Omeo. The Committee learned, however, that rural vacancy rates decreased from 36 per cent in June 2004 to 29 per cent in June 2005 through the implementation of a wide range of initiatives.

The Committee noted that approximately 20 per cent of the respite episodes provided to those involved in the care of people with disabilities were delivered in bed-based facilities. The remaining 80 per cent comprised flexible, community based respite, which included in home respite, overnight camps, support in a family environment, holiday programs, cultural festivals, and other options to suit the needs of the person with a disability and their family or carer. To maximise the creation of new respite opportunities for people with a disability and their families and enhance their quality of support, the Committee considered that the department should assess whether there is a need to expand the availability of flexible, community based respite options in preference to bed based facilities.

Because respite waiting lists or equivalent service needs lists are managed at an individual agency level, the department was unable to quantify the level of unmet need for the provision of respite services to those involved in the care or people with disabilities, nor details about average waiting times for obtaining overnight respite care. The Committee was interested to find that, although 48 people were in respite beds awaiting suitable accommodation in an alternative setting at 30 June 2005, the number of people in long term respite had decreased by 23 per cent (from 62 to 48) since September 2003 and the department had implemented a range of initiatives to address this issue. In addition, the number of respite bed days used by people awaiting a permanent placement could not be provided because the operating times of respite
houses fluctuated according to demand, available funding and seasonal peaks such as school holidays. The Committee considered that the extent of respite bed days occupied by people awaiting a permanent placement is an important outcome for disability services that warrants monitoring, given that the use of respite bed days for this purpose deprives those in need of respite care from accessing this service.

Regarding community building and inclusion activities associated with disability services, it was brought to the Committee’s notice that as at 29 June 2005, 44 Victorian Councils/Shires had formally agreed to accept the Companion Card at their facilities. A number of measures were underway to encourage the remaining 35 Councils/Shires to be affiliated with the program.

The Committee noted that Victoria’s rate of 63 per 1,000 indigenous children who had been the subject of child protection substantiations during 2004-05 was ten times more than that of other children and the highest rate on a national basis. With a rate of 40.7 per 1,000 indigenous children in out-of-home placements at 30 June 2005, Victoria also had the highest representation of indigenous children in the child protection system nationally. A number of initiatives have been implemented by the department to reduce the over-representation of indigenous children in the child protection and placement system.

The department advised that Victoria’s apparent rate of people who were homeless in 2001 (43.6 per 10,000) was still well below the national average (53 per 10,000). Further, census data indicated that in 2001, there were fewer numbers and proportions of Victorians experiencing primary homelessness (that is, those who were ‘sleeping rough’, without conventional forms of accommodation, such as people living on the streets, sleeping in parks, squatting in derelict buildings, or using cars or railway carriages as temporary shelter) compared with the national figures (1,871 Victorians or 9 per cent of the homeless population were in the primary homelessness category compared with 14,158 Australians or 14 per cent of the homeless population in the primary category nationally). Census data also revealed that the proportion of Victorians accessing the Supported Accommodation Assistance Program (SAAP) and transitional housing management assistance was significantly greater than that nationally (25 per cent of the homeless in Victoria compared with 14 per cent across Australia). According to the department, it is evident that SAAP services continue to provide assistance to a substantial number of Victorians who are homeless, with numbers of clients increasing from 34,950 clients in 2003-04 to 36,100 in 2004-05.

Chapter 9: Department of Infrastructure

The output budget for the Department of Infrastructure for 2004-05 was $3,062.9 million. Actual output expenditure for the year of $3,066.3 million was $3.4 million (or 0.1 per cent) above the budget estimates.

The Department of Infrastructure achieved or exceeded 145 (61 per cent) of its 237 performance targets in 2004-05.
The development, delivery and maintenance of key elements of the state’s infrastructure such as roads, ports and public transport assume a strong focus within the department’s role and functions. Accordingly, many of the department’s output targets reflect, in aggregate, key planned milestones and expected achievements for individual projects and services over the ensuing twelve months.

The Committee considers that the department could enhance its reporting of annual performance by identifying in its annual report its key planned outcomes and expected main achievements for the ensuing year and reporting against the projections at year-end as part of its presentation of output performance.

The department advised the Committee that it fully achieved its targeted savings of $18.3 million in 2004-05. These savings comprised general efficiencies in government administration, $13.3 million, VicRoads workforce strategy, $4 million, and rationalisation of external contractors, $1 million.

During 2004-05, the government announced a further revised budget of $750 million for its Regional Fast Rail Project, an increase of $200 million on the initial cost budget of $550 million. In its past reports, the Committee has provided commentary to Parliament on matters associated with the development of this significant rail project, including progress against cost and time targets.

In December 2005, the Auditor-General presented a short interim report on the project to Parliament. Because of the complexity and sensitivity of negotiations associated with the project, the Auditor-General advised Parliament that significant demands had been placed on the project’s management team which meant they were not able to participate in the audit. In such circumstances, the Auditor-General determined to defer the audit and recommence it in early 2006.

The Committee welcomes the Auditor-General’s decision to recommence this audit without delay. It considers that the accountability obligations of the department relating to this major project require that Parliament is furnished on a timely basis with an independent assessment of the manner in which it has planned and managed the project. The department should therefore ensure that it facilitates timely completion of the remaining phases of the Auditor-General’s work.

A total of $1,137.1 million was announced in the 2004-05 State Budget to meet expected additional output costs arising over the five year period 2003-04 to 2007-08 from the public transport partnership agreements entered into by the government in April 2004. The Committee was pleased to hear from the department that actions identified under the agreements such as additional trains and trams, increased security and improved standards for the upkeep and trams and tram stops, were implemented within established timelines.

However, the department was not able to provide a comparison of actual against budgeted costs to date for the key categories of additional costs assumed by the government under the 2004 agreements. It advised the Committee that such matters form part of the agreed aggregate annual subsidy to the transport operators.
Given that the 2004-05 Budget Papers envisaged annual increased expenditure of over $217 million during the period of the agreements, the Committee considers the department’s annual report should include a comparison of actual and budgeted expenditure for the key categories of additional costs assumed by the government under the transport agreements.

Chapter 10: Department of Innovation, Industry and Regional Development

The output budget for the Department of Innovation, Industry and Regional Development for 2004-05 was $334 million. Actual output expenditure for the year of $334 million was $15 million (or 4.3 per cent) under the budget estimates. Of the 12 outputs, eight had a variation of 10 per cent or more. The more significant variations were in relation to outputs such as the Regional Infrastructure Development output where $36.5 million was expended against a budget of $78.7 million. The department advised that this under expenditure was due to grantees not meeting milestones.

The department met or exceeded approximately 87 per cent of its 2004-05 performance targets. Some outputs such as the Business Development and Regional Economic Development had performance that was substantially in excess of targets. This ranged up to 134 per cent and 296 per cent respectively. In the interests of transparency, the department should provide explanations in its annual report for the more significant variations between actual performance and targets.

In terms of departmental staffing, the number of full-time equivalent staff has remained relatively stable. In June 2004, staff numbers were 718.7 and this increased marginally to 727.7 as at June 2005. The composition of the workforce has changed however with an increase in more highly classified jobs and a reduction in lower level jobs. The department has advised that this was due to a review of positions on vacancy. The Committee has indicated that this issue needs careful monitoring and management.

The department’s key objective is to achieve a range of positive outcomes in terms of economic and employment growth, developing innovative companies and creating a business environment that is positive to investors. Given the emphasis on achieving outcomes, the Committee commented in its Report on the 2005-06 Budget Estimates on the importance of embedding an outcomes focus in all major areas of the department’s operations.

The department has advised the Committee that it is in the process of implementing a departmental evaluation framework. The Committee’s view is that guidance statements should be developed on the application of the most appropriate evaluation design techniques as a supplement to the department’s framework. The monetary nature of many of the department’s economic and employment outcomes is conducive to the undertaking of cost benefit analyses.
The Committee noted that an outcome review conducted of the Science Technology and Innovation initiative by Allen Consulting Group employed a model to measure broad economic activity rather than utilising a cost benefit analysis to assess the net benefit attributable to a program. The Auditor General, Australian Capital Territory in his audit of the V8 Car Races in Canberra commented that the method used to assess benefits, which was based on measuring broad economic activity, overstated the benefits of the event.

The Australian Synchrotron project is scheduled to open in 2007. The project has a total estimated investment of $157.2 million. The government announced in August 2004 that the New Zealand government had agreed to contribute $5 million toward the beamlines. This is in addition to the more than $20 million contributed by bodies such as the Commonwealth Scientific and Industrial Research Organisation.

The department advised that the project’s National Scientific Advisory Committee recommended on a suite of up to 13 beamlines. Nine beamlines are expected to be available at commissioning. The Committee will pursue the extent to which the government’s considerable investment in this project has been maximised in future budget estimate hearings. Targets should be set for the further investment in beamlines and the usage of the facility with public reporting of performance against these targets.

In relation to the Docklands Film and Television Studios, the government announced in April 2005 that the private operator was building new facilities in order for the complex to remain competitive. As a consequence, the government has signed new contracts with the private operator. The department has advised that the state has become guarantor of the new bank loan in the event of a default by the private operator. The Committee is concerned that there are adequate safeguards over risks accruing to the state from these new arrangements and they represent good value for Victoria. Consequently, the Committee has recommended that the Auditor-General review these new contractual arrangements to form a conclusion on these issues.

Chapter 11: Department of Justice

The output budget for the Department of Justice for 2004-05 was $2,409.4 million. Actual output expenditure for the year of $2,399.5 million was $9.9 million (or 0.4 per cent) below the budget estimates.

The Department of Justice achieved or exceeded 143 (approximately 71 per cent) of its 201 performance targets in 2004-05.

The overall standard of explanations in the department’s annual report for significant variations between budgeted and actual output performance was higher in 2004-05, but scope remains for further improvement.
The Committee was pleased to receive in November 2005 from the Minister for Corrections copies of the original Prison Service Agreements for Victoria’s two privately-operated prisons, Port Phillip Prison and Fulham Correctional Centre. The Committee had been seeking material relating to the costs of private prisons since its 2002-03 Budget Outcomes inquiry.

The Minister had earlier informed the Committee in May 2005 that a triennial review (the second to occur) of the Prison Service Agreements for the private prisons had commenced. The Minister further advised that these reviews allow him to reset the contractors’ performance targets and allow them to re-bid for the provision of services. The Minister went on to say that, if the re-bids are rejected, a full market tender can be sought, the outcome of which must ensure value for money for the state. The Minister emphasised to the Committee that these circumstances, and legal advice received dealing with the commercial confidentiality of prison cost data, meant that disclosure of information during the review process would be inappropriate in terms of maximising value for money and achieving the best possible outcome.

The Committee recognises the benefit to it of now having, at first hand, the original contractual framework for the two private prisons. However, its particular interest extends beyond this historical context and relates to the adequacy of information on prison costs periodically published by the department.

The department’s annual report disclosures the aggregate cost for the prisoner supervision and support output. Expenditure under this output in 2004-05 (covering all prisons) was $316.5 million and represented the largest outlay for the year across the suite of outputs directly managed by the department. The Committee considers that the department should substantially expand the level of disclosure on prison costs in its annual report.

The Committee is also of the view that the occurrence of triennial reviews of the Prison Service Agreements should not, in itself, impede the publishing of cost data, given that the specific details of individual elements comprising each cost category would not need to be disclosed. The Committee considers that the overriding factors influencing decisions on the breadth of published cost material are the magnitude of public funds directed each year to the operations of public and private prisons, and the consequential right of Parliament and the community to have access to sufficient information to form judgement on the calibre of the management of such funds.

The Home Detention Pilot Program, a program of high public interest which commenced in January 2004, is currently the subject of an external evaluation to assess its effectiveness. The department describes the program as:

...an innovative sentencing option to help keep non-violent offenders out of prison. As a pre-release option for prisoners it enables offenders to be released on parole and still have their whereabouts monitored.
The Adult Parole Board plays a key role in the assessment of applications from offenders wishing to join the program.

The department informed the Committee that the 2004-05 budget allocation for the pilot program was $1.6 million and expenditure of $1.4 million was incurred in the year.

The Committee commends the department for the early commissioning of an external evaluation of the program’s initial effectiveness. The Committee looks forward to considering, in due course, the results of the evaluation study and any consequential changes to the program’s future scope and direction.

**Chapter 12: Department of Premier and Cabinet**

The output budget for the Department of Premier and Cabinet for 2004-05 was $432.3 million. Actual output expenditure for the year of $397.4 million was $34.9 million (or 8.1 per cent) under the budget estimates.

The department achieved or exceeded 98 (approximately 90 per cent) of its 109 performance targets in 2004-05.

The department’s 2004-05 annual report did not provide explanations for signification variations between budget and actual output costs, and for the variations in targets established for its performance measures. The Committee had recommended these disclosures in its *Report on the 2003-04 Budget Outcomes*.

The department employed 306.4 equivalent full-time staff (EFT) at June 2005. Salary costs were $22.8 million in 2004-05, an increase of $1.7 million from the previous year. The largest increase was in casual staff salary costs which increased by $114,461 in 2004-05.

The targets established for the quantitative performance measures for the ICT Strategy and Services output (representing the Office of the Chief Information Officer) shows the aggregate of projects completed and underway. There is scope to expand these performance measures to identify separately, the number of projects to be completed and the number of ongoing projects.

The department’s 2004-05 annual report provided limited information on cross departmental initiatives. Additional information detailing the departments or agencies responsible for delivering these initiatives and the department’s contribution to the outcomes of these initiatives would provide readers of the annual report with a clearer indication of the accountability arrangements for these initiatives.
Chapter 13: Department of Primary Industries

The output budget for the Department of Primary Industries for 2004-05 was $349.6 million. Actual output expenditure for the year of $349.6 million was $6.8 million (or two per cent) over the budget estimates. Of the department’s seven outputs, six had expenditure within 10 per cent of budget. The exception was the Mineral’s and Petroleum Industry Development and Information output, whereby expenditure exceeded budget by $2.7 million (or 26.7 per cent).

The department reported the over-expenditure was for costs associated with the Cooperative Research Centre (CRC) for Clean Power from Lignite project, to reflect a change in criteria for capitalisation, and a change in the allocation of amortisation costs for the Victorian Initiative for Minerals and Petroleum (VIMP) information database. Further information obtained by the Committee of an explanatory nature revealed that the department’s contribution to costs associated with the CRC project were capitalised in previous years, and served to reflect the department’s interest in the potential commercialisation of the research outcomes of the project. Given that Commonwealth funding for the project ceased, and the CRC project itself subsequently ceased, there was no longer a basis or justification for capitalising CRC costs in 2004-05. All costs associated with this project in both current and previous years were therefore written off or expensed in 2004-05. In addition, the Treasurer’s action to approve a transfer of $1 million in capital funding to output funding for the VIMP project during 2004-05 resulted in a variance of $1 million against budget for VIMP expenditure for that year.

With regard to operational performance, the department achieved or exceeded 41 (71.9 per cent) of its 57 performance targets in 2004-05.

The Committee noted that the department did not reach its 2004-05 target of 1,200 extension groups to promote sustainable farming systems, instead engaging only 766 groups. A six month delay in receiving funding from the Commonwealth and state governments for the FarmBis 3 program, which occurred due to a change in national program focus to address the strategic areas of drought and better use of water, restricted extension activity and may have resulted in slowing the rate of adoption of sustainable farming practices for the year.

The diversion of resources to meet a range of other priorities meant the department could not complete the management plans for Anderson Inlet, Mallacoota Inlet and Lake Tyers Fisheries Reserves in 2004-05. While the management plan for Anderson Inlet has been approved by the Minister for Agriculture and was to be gazetted in late March or early April 2006, the management plans for the remaining two areas are to be finalised and gazetted in May 2006 and August 2006 respectively.

In comparison to a targeted satisfaction level of more than 65 per cent, the Committee noted the department only achieved a 30 per cent customer satisfaction score in the aquaculture sector of fisheries in 2004-05. A range of actions have been instituted by the department to address the contributing factors.
Against a target of 128 occupational health and safety audits of high or critical mining sites to be completed in 2004-05, 113 audits were completed during the year. The audits of the 15 mining sites across Victoria, not completed in 2004-05 due to higher regulatory demands experienced by the inspection group, were completed by 1 September 2005. Included among these sites were the open cut coal mines connected with Yallourn Energy and the Loy Yang Power.

The department claims that much of its operations led to increased economic activity primarily through increased investment and exports, and explains how this is achieved by describing its activities throughout the year. From an outcomes perspective, the Committee considers the department needs to explore avenues to substantiate and quantify the demonstrated impact of its activities on economic activity in terms of jobs, investments and exports, particularly in the Agriculture portfolio. The Committee noted the significant contribution made to the Victorian economy by minerals and petroleum industries of more than $8 billion a year, which was facilitated by the department providing information on natural resources’ potential in Victoria and encouraging industries to adopt new technologies and tackle barriers inhibiting progress.

The department undertook 53 investigations and planned operations of illegal fishing in 2004-05 compared with 36 investigations in 2003-04, significantly exceeding the target of 30. Abalone was the main area targeted with 33 investigations and planned operations undertaken. While not limited to investigations and planned operations outputs, enforcement activity in 2004-05 resulted in 143 offenders being found guilty (150 in 2003-04) and the generation of $46,953 in revenue from the sale of forfeited products and equipment ($10,359 in 2003-04).

Following the 2002-03 drought and criticism of the federal government’s national drought policy, the department initiated work to examine the policy and provide advice on alternative approaches. The Committee noted that during 2004-05, the Primary Industries Ministerial Council introduced a number of changes, including development of the national agricultural monitoring scheme, changes in business assistance arrangements and a greater focus on drought preparedness.

During 2004-05, the department completed major redevelopments of its research facilities at Ellinbank and Queenscliff. Due to various reasons, neither project was completed within the original budget or on time. The budget for the modernising facilities at Agriculture Victoria Ellinbank was increased from $11.5 million to $13.2 million. Practical completion did not occur until February 2005 (the initial completion date was June 2004). The new Queenscliff research centre was completed in line with the revised budget of $20 million. Practical completion occurred in late September 2004, compared with the original timeline of July 2004.

The Committee observed that the quantifiable contingent liability relating to mining rehabilitation reduced from $5,260,000 at 30 June 2004 to $160,000 at 30 June 2005. Given that a decision was made by the department to rehabilitate the Benambra Mine (with a contingent liability exposure of $5.1 million) over a staged process
commencing 2004-05, the contingent nature of this liability was therefore removed for that year.

Chapter 14: Department of Sustainability and Environment

The output budget for the Department of Sustainability and Environment for 2004-05 was $864 million. Actual output expenditure for the year of $1,094.9 million was $230.9 million (or 26.7 per cent) over the budget estimates. This additional expenditure was attributed to a range of factors including additional funding received from the Treasurer’s Advance, the Commonwealth Government, various revenue streams, moneys transferred from capital to output, various government initiatives, and carry overs not included in the initial output cost for 2004-05. Some of the additional expenditure was incurred on projects such as those that relate to protecting and repairing Victoria’s water resources, restoring environmental flows, salinity and commercial forests.

Four of the department’s 11 outputs had expenditure within 10 per cent of the budgeted cost. Of the remainder, outputs with the largest variances included:

- sustainable water management and supply: $47 million variance (+52 per cent);
- sustainable catchment management: $45.7 million variance (+45.6 per cent);
- public land and sustainable forest management services: $77.4 million (+49.7 per cent).

In terms of operational performance, the department achieved or exceeded 104 (or 73.8 per cent) of its 141 performance targets in 2004-05.

The growth in the number of equivalent full-time field staff by 21.2 (or 10 per cent) that occurred between 2003-04 and 2004-05 reflected additional resources allocated to the Public Land Fire initiative to strengthen the department’s fire management and suppression capability.

The Committee noted that the department, which implemented the Bushfire Recovery Strategy in 2003-04, had spent $35.1 million (or 74.2 per cent) of its net budget of $47.3 million at 30 June 2005, leaving an unspent balance of $12.2 million (or 25.8 per cent) at that date. While the initial restoration funding was directed at new projects for commencement in 2003-04, infrastructure works will continue throughout 2005-06, three years later. Eight million dollars directed at bushfire recovery initiatives, as part of North East Region Water Authority’s infrastructure program, will form a major component of this expenditure. The Committee considers that the department should conduct an evaluation of the implementation of the Bushfire Recovery Strategy before embarking on any new initiatives to address restoration works connected with this summer’s bushfires, so that any lessons learned (where multiple agencies are involved) can be addressed in future bushfire recovery strategies.
In terms of inputs and activities connected with Victoria’s wild dog program, the number of staff involved in wild dog management was increased from 13 to 26 in 2004-05. Funding amounting to $3.6 million was spent on the program during that year. In the light of 3,600 sheep and lambs, on average, killed by wild dogs each year, the Minister for Environment stated that extensive baiting and trapping programs have been undertaken and over 300 kilometres of new wild dog control fencing has been erected during 2004-05. Over this period, baiting programs equated to 57,850 bait nights and trapping programs equated to 177,600 trapping nights. More than 1,000 wild dogs were destroyed in the year. The Victorian Government announced in November 2005 that a two-phase aerial baiting trial was to commence to determine its value as part of the current range of integrated wild dog control techniques.

The most recent Index of Stream Condition (2004) showed that about 21 per cent of major rivers and tributaries in Victoria were in good or excellent condition, 47 per cent were in moderate condition, and 32 per cent were in poor or very poor condition. Streams in good or excellent condition have been identified and protected, and those in poor or very poor condition, with only a few exceptions, do not appear to have deteriorated further. The Committee questions whether the findings of the catchment management authorities according to the ISC is a good result for Victoria, as claimed by the department, given that one in three major rivers and tributaries selected were found to be in poor or very poor condition. The Committee considers the department should disclose in its annual report the strategies employed to improve the health of Victoria’s major rivers and tributaries, together with outcome related information.

According to the Minister for Water, the new rising block tariff pricing regime could reduce consumption by 2 to 4 per cent for the metropolitan area, which equates to between 9.6 gigalitres and 19.2 gigalitres (that is, 9,600 million litres to 19,200 million litres). Authorities have advised the department that it is too early to analyse the impact of new pricing structures on water savings. More time is required to analyse historical versus current use and to undertake the difficult task of isolating the impact of pricing compared with the many other factors influencing consumption such as climate, water restrictions, education campaigns, rebate schemes and the ongoing drought. The department advised the Committee that further analysis will be undertaken by authorities prior to the Essential Services Commission’s next review of water prices, which will set prices for the period commencing 1 July 2008. It was also noted that the Sustainable Household Challenge was launched by the Minister for Environment in April 2005 with a view to encouraging Victorians to improve the health of the environment. The Committee intends to keep these matters under review.

**Chapter 15: Department of Treasury and Finance**

The output budget for the Department of Treasury and Finance for 2004-05 was $185.7 million. Actual output expenditure for the year of $180 million was $5.7 million (or 3.1 per cent) under the budget estimates.
The department achieved or exceeded 113 (approximately 90 per cent) of its 126 performance targets in 2004-05.

The department employed 534.6 equivalent full-time staff (EFT) at June 2005. Staff numbers increased in 2004-05 mainly due to the establishment of the Victorian Competition and Efficiency Commission secretariat, in the Gateway and Partnerships Victoria business units, and additional staffing requirements to oversee governance in the water sector. Salary costs were $40.2 million in 2004-05, an increase of $4.2 million (or 11.7 per cent) from the previous year.

The State Revenue Office (SRO) has in its employment 393.2 EFT staff at June 2005. SRO salary costs were $2.8 million (or 13.1 per cent) higher compared with 2003-04.

The state entered into a contract in October 2004 with the ConnectEast Consortium to design, build, operate and maintain EastLink, previously known as the Mitcham-Frankston Freeway. The consortium will construct the tollway over a four year period and will then operate the tollway for 35 years.

In the Auditor-General’s November 2005 report on the state’s finances, it was stated that the financial impact of the project on the state’s finances in 2004-05 was a net cost of $282.4 million. The Committee asked the department to explain the reasons for the variation between the government’s estimated cost of around $150 million and the Auditor-General’s estimate of costs to date of $282.4 million.

Apart from certain other variances, the department advised that the largest single difference between the amounts is the value of the land previously acquired for the project, which was not taken into account because the construction contract had not been signed at the date of property acquisition.

The Committee understands the reasons for the variation, but considers that a benchmark figure should be established for the cost to the state of the tollway, inclusive of the cost of all land acquisitions and the value of works undertaken by the state.

Budget Paper No. 4, 2005-06 Statement of Finances, acknowledges that there are a number of Partnership Victoria projects, including EastLink, which may include the right of the state to receive assets in the future. The government acknowledges that these assets are not disclosed in the financial report of the state, pending authoritative guidance or the development of an accounting standard dealing with the appropriate treatment of such assets.

The Committee emphasises the importance of an appropriate accounting standard, or authoritative guidance at the minimum, especially given the increasing trend of governments within Australia to use public private partnership arrangements to provide public infrastructure. Failure to do so will increasingly mean that the entitlement to future control of major assets will not be acknowledged in government financial reports, potentially compromising the information presented.
A dividend of $295 million was paid to the government in 2004-05 by the Transport Accident Commission following a net operating profit of $590 million in 2003-04. In 2004-05 an operating profit of $464 million was achieved and the Treasurer was to make a formal declaration as to the dividend to be paid.

The Committee was advised by the Department of Treasury and Finance that the profit for 2004-05 was substantially higher than expected due to strong investment returns. As a consequence of the volatility of investment markets, profits such as those achieved in 2004-05 cannot be sustained in the longer term.

Whilst the Committee understands that dividends are an important source of revenue for the government, the Committee also considers that where windfall profits are achieved, as occurred in 2003-04 and 2004-05, it may be prudent to exclude a proportion of such surpluses to act as a buffer against future operational losses which can occur every few years and to protect the capital of the Transport Accident Commission.

**Chapter 16: Department for Victorian Communities**

The output budget for the Department for Victorian Communities for 2004-05 was $446.1 million. Actual output expenditure for the year of $365.6 million was $80.5 million (or 18 per cent) under the budget estimates.

The Commonwealth Games output expenditure in 2004-05 was $95.3 million, which was $78.5 million (or 45.2 per cent) lower than budget. This was due mainly to the early receipt of federal government funding of $40 million in 2003-04 which was originally budgeted for 2004-05 and the change in classification of Commonwealth Games Village expenditure ($28 million) from output to capital and deferred expenditure.

The department achieved or exceeded 112 (90.3 per cent) of its 124 performance targets in 2004-05.

The department employed 770.5 equivalent full-time staff (EFT) at June 2005. Staff increased by 27 per cent in 2004-05 largely due to additional resources required for the Melbourne 2006 Commonwealth Games, the transfer of the Office of Senior Victorians and the veterans’ affairs function to the department and new government initiatives.

Salary costs were $49.8 million in 2004-05, an increase of $12.4 million from the previous year. The largest increase was in casual staff salary costs which increased by $259,581 in 2004-05.

Revenue of the Community Support Fund was $91.8 million and expenditure was $105.7 million in 2004-05. Both revenue and expenditure were significantly lower than was projected in the 2004-05 Budget. The impact on the fund’s revenue of
smoking bans in gaming venues and competing demands for funding indicate a need to closely monitor future funding levels.

A change in the accounting treatment of the department’s capital projects resulted in the reclassification of project expenditure from capital to operating expenditure, which had the effect of lowering the projected capital cost, while increasing the costs of affected outputs. The change in accounting treatment and the impact on output costs should have been clearly disclosed in the department’s annual report.

**Chapter 17: Government response to the Committee’s report on parliamentary control and management of appropriations**

Of the 27 recommendations contained in the Committee’s *Report on the review of the Auditor-General’s report on parliamentary control and management of appropriations*, six were accepted, eight were accepted in part, two were under review and 11 were rejected.

The Committee drew attention to a 2005 High Court decision which concluded that the financial accountability framework in place in the Commonwealth Government was not subject to the scrutiny of, and accountability to the Australian Parliament. The Commonwealth system is very similar to the financial management and accountability framework within Victoria which the Committee also concluded lacked transparency and accountability to the Victorian Parliament.

The Committee does not agree with a number of the reasons received for the recommendations rejected and suggests that certain issues be further reviewed by the government. The major issues involved the lack of parliamentary scrutiny over budget supplementation, failure to develop performance information pertaining to government performance, not providing Parliament with details of moneys provided to departments from the Treasurer’s Advance and the capability of computer systems across the public sector to produce performance information.

**Chapter 18: Review of annual reports of departments and agencies**

During the course of the Budget Outcomes inquiry, the Committee continued the practice of conducting a review of the annual reports of all the departments as well as a selected number of agencies. The main focus of the review was on performance reporting and compliance with the disclosure requirements under the *Financial Management Act* 1994. Agencies’ performance reporting is a crucial element of accountability by the Executive Government because it allows the stakeholders to judge achievement of outcomes and also value for money in the delivery of services.

Generally, the Committee has found only very limited improvement in the reporting of performance by agencies over the last few years. Although there are pockets of good reporting, the progress across the public sector has been slow despite concerns
raised by the Committee and the Auditor-General in a number of recent reports to Parliament.

Varying degrees of structural problems are evident within the reports examined mainly due to the fact that certain of the key elements of good performance reporting are either absent or not adequately addressed. The most significant concern is that agencies generally still tend to focus on reporting outputs as well as initiatives, projects and activities (often with excessive details) rather than achievement of corporate objectives and government outcomes.

At this stage, only a limited number of key performance indicators are reported by most agencies on their objectives and usually those indicators do not cover all major aspects of the operations. In addition, agencies’ reporting of ‘measures of progress’ in the achievement of the broad government outcomes also seems to be piecemeal and incomplete.

In the area of performance reporting, the Committee has also identified other issues of concern such as:

- none of the agencies has actually provided in the report a systematic comparison between those major projects and initiatives planned for the year and the ones that were actually able to be delivered;
- it is not common for agencies to provide multi year performance data to allow the tracking and analysis of performance over time;
- there is limited evidence of benchmarking comparison with the performance results achieved by similar agencies in other Australian jurisdictions; and
- very few agencies have actually adopted a strategic focus in providing an adequate commentary on the future operating environment, developments and challenges.

Given the inadequacies found in a majority of the agencies’ performance reports, the Committee has concluded that, at present, it would be quite difficult for the stakeholders to actually carry out a proper assessment of how the outputs and initiatives have contributed to the achievement of the corporate objectives and government outcomes. It has been the Committee’s view for some time that the annual report is often seen by some agencies as merely a ‘compliance’ and ‘public relations’ document (with the emphasis on ‘good news’) rather than an instrument of accountability. This view has again been reaffirmed following an examination of the 2004-05 reports.

The Committee can see a number of major obstacles to good performance reporting within the Victorian public sector. To overcome those obstacles, the Committee has recommended a series of strategies for immediate adoption by the government.
RECOMMENDATIONS

The Committee recommends that:

Chapter 1: Introduction and responses to previous budget outcomes report

Recommendation 1: The financial report of the Parliamentary Departments disclose appropriation transfers between output groups.

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Recommendation 2: The Department of Treasury and Finance amend section 4.2, paragraph (k) of the Standing Directions of the Minister for Finance to clearly specify the output targets to be included in annual reports.

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Recommendation 3: The Department of Treasury and Finance issue guidance to departments clarifying their responsibility for reporting in their annual reports, performance targets for outputs delivered by portfolio agencies.

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Recommendation 4: The Department of Treasury and Finance issue instructions to departments about specifying the threshold for disclosing explanations for significant variations between output targets and actual performance in their annual reports.

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Recommendation 5: The Department of Treasury and Finance review the guidelines for reporting asset investment projects in Budget Information Paper No.1, Public Sector Asset Investment Program, to include asset projects currently excluded by the guidelines.

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Recommendation 6: The Department of Treasury and Finance include in Financial Reporting Direction 22 a requirement for departments to provide explanations for year-on-year movements in non-executive officer positions.

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Recommendation 7: The Department of Treasury and Finance amend the Standing Directions to require agencies to make the disclosure recommended by the Committee in recommendation no.68 in its Report on the 2003-04 Budget Outcomes.

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Chapter 3: New VPS staffing structure; stress claims; and performance bonuses

Recommendation 8: The State Services Authority, or the Victorian WorkCover Authority:

(a) undertake further research on workplace bullying in the Victorian public sector;
(b) evaluate the effectiveness of existing deterrent strategies; and
(c) if necessary, develop further strategies to address these problems.

Page 89

Recommendation 9: The State Services Authority, or the Victorian WorkCover Authority, continue to conduct evaluations of departmental strategies to promote early return to work following a stress related claim.

Page 93
Recommendation 10: The State Services Authority, or the Victorian WorkCover Authority, continue to conduct research into the factors contributing to stress related workers compensation claims in the Victorian public sector.

Page 94

Recommendation 11: To ensure that processes established for executive performance assessment and allocation of performance pay across government agencies are fair and provide bonus ranges that are generally consistent across the Victorian public sector, the State Services Authority encourage all agencies to make performance incentive payments that fall within the bands specified by the government.

Page 96

Recommendation 12: Given that the vast majority of the most senior executives in government agencies continued to be assessed as performing at a level that exceeded the requirements of most or all criteria, and in some cases even far exceeded the expectations in the more critical areas, the characteristics of superior or exceptional performance be described in a personal achievements section of the annual reports of departments:

(a) as recognition of performance excellence for the year; and

(b) to demonstrate how this level of executive performance was linked to organisational performance, thereby contributing to achieving or exceeding planned outputs and outcomes for the year, bearing in mind that executives effectively carrying out their duties should not receive a bonus. As part of the process of disclosing the parameters used to determine eligibility, performance pay should be linked to performance on social, environmental and financial criteria as well as on ethical issues where appropriate.

Page 104
Recommendation 13: The prevalence of bonuses paid to the most senior executives in agencies in a given year be reflected in the proportion of lower level executives receiving performance pay in the same performance assessment period.

Page 104

Recommendation 14: Where the performance of executives has been assessed as superior or exceptional, performance criteria and targets be made more challenging for the following year.

Page 104

Recommendation 15: The financial statements and annual reports of all public sector agencies disclose full details of remuneration packages paid to the most senior executives in those organisations, including the payment of performance bonuses.

Page 106

Chapter 4: Environmental reporting; Project Rosetta; advertising and promotional expenditure

Recommendation 16: The Minister for Finance amend Financial Reporting Direction 24 or establish a new Financial Reporting Direction mandating that annual reports of government departments and agencies include:

(a) targets in areas such as paper use and water consumption to assess agency performance in reducing environmental impacts;

(b) costs and savings (where available) of office-based environmental impacts, as well as the comparative data from the previous financial year; and

(c) an environmental auditor’s verification statement on the reliability and accuracy of data used for environmental reporting.

Page 119
Recommendation 17: The government, when determining future action to be taken beyond the June 2006 greenhouse targets:

(a) examine the potential to redefine existing mandatory targets such as expanding the existing target on greenhouse gas emissions from the government vehicle fleet to include total energy use; and

(b) include a requirement that agencies report in their annual reports progress on the degree to which mandatory greenhouse targets have been achieved against baseline data.

Page 119

Recommendation 18: The Victorian Government develop a policy for the progressive introduction of reporting of non office-based environmental impacts within annual reports of departments and agencies.

Page 120

Recommendation 19: The Department of Sustainability and Environment:

(a) be designated and supported as the first Victorian department to move to triple bottom line reporting; and

(b) in conjunction with the Department of Treasury and Finance, have the lead responsibility for encouraging and assisting other departments in adopting triple bottom line reporting.

Page 122
Recommendation 20: The Department of Premier and Cabinet expand the guidelines for government advertising and communication to reflect the government quotas for the proportion of departmental advertising expenditure to be dedicated each year to:

(a) culturally and linguistically diverse activities; and

(b) activities associated with rural and regional audiences in Victoria.

Page 136

Recommendation 21: The Department of Premier and Cabinet widen the guidelines for government advertising and communication to ensure that achieving value for money is a criterion for engaging in advertising activities.

Page 136

Recommendation 22: The Department of Treasury and Finance expand the annual reporting requirements of departments to incorporate information on the cost and management of government advertising and promotional programs.

Page 137

Recommendation 23: To enhance the transparency of government advertising and promotional programs, all departments be required to review their accounts relating to advertising and promotion to ensure that communication activities are appropriately reported on an annual basis.

Page 137

Recommendation 24: The Department of Premier and Cabinet require all departmental communication units to report directly to their departmental Secretary.

Page 137
Chapter 5: Parliamentary departments

Recommendation 25: The Department of Parliamentary Services improve its level of accountability to the community by including in its annual report quantitative measures of actual and targeted levels of performance.

Recommendation 26: The parliamentary departments include in their annual reports, summarised results of the survey of Members, with previous survey results included for comparative purposes. Key strategies the parliamentary departments intend to undertake to address issues raised by survey results should also be provided in their annual reports.

Chapter 6: Victorian Auditor-General’s Office

Recommendation 27: To demonstrate the impact that audits have had in terms of generating cost savings from the adoption of audit recommendations, the Victorian Auditor-General’s Office give consideration to:

(a) evaluating the benefits of topics for inclusion in the annual plan in terms of the ability to generate potential cost savings;

(b) framing lines of enquiry in audit specifications specifically directed at exploring areas that may contribute to potential savings; and

(c) quantifying the scale and source of savings generated from the implementation of audit recommendations in the annual report of the Victorian Auditor-General’s Office.
Recommendation 28: The Victorian Auditor-General’s Office seek to establish a suitable target for the extent of validated financial savings to be generated each year from the implementation of audit recommendations by public sector agencies.

Page 178

Recommendation 29: The Victorian Auditor-General’s Office ensure comparisons are made against the original budgets for each audit when reporting the final costs of completing performance audits. To ensure that full accountability is preserved, explanations for budget variations should, in part, be linked to any changed circumstances that occurred during the course of the audit.

Page 180

Recommendation 30: Where a performance audit budget is increased to reflect changing circumstances, the annual report of the Victorian Auditor-General’s Office include an explanation about the affect of this adjustment on the remainder of the performance audit program for the year.

Page 180

Recommendation 31: To finalise financial statement audits in a timely manner, the Auditor-General consider advising audit committees of the importance of reviewing and responding to draft management letters as soon as possible.

Page 186

Recommendation 32: To conclude the annual financial audit process, the Victorian Auditor-General’s Office consider surveying client agencies to determine their expectations regarding an appropriate timeframe for receiving the finalised management letter.

Page 187
Chapter 7:  Department of Education and Training

Recommendation 33:  The Department of Education and Training centrally monitor levels of fixed term teacher employment to determine whether this is likely to act as a disincentive to attracting and retaining high quality teaching staff.

Page 194

Recommendation 34:  The Department of Education and Training assess the introduction of the balanced score card approach to performance management for the principal class, and use the outcomes to inform the future direction of this initiative.

Page 198

Recommendation 35:  The Department of Education and Training quickly resolve the placement of better performing principals in challenging schools and, if this initiative is to proceed, it be accompanied by the establishment of:

(a) goals and outcomes from these placements;
(b) support arrangements for principals; and
(c) incentive packages to encourage the take up of these placements.

Page 200

Recommendation 36:  The Department of Education and Training examine, as part of the school review process, the extent to which decisions by schools on the use of additional funding, arising from the Student Resource Package, are consistent with the department’s goals of improved student engagement and learning outcomes.

Page 201
Recommendation 37: The Department of Education and Training conduct a longitudinal study of all students, who have either completed or have failed to complete the Victorian Certificate of Applied Learning and are not in employment or in other forms of education and training, as a means of determining additional action that may be required to address any significant concerns.

Page 202

Recommendation 38: The Department of Education and Training review the provision of departmental housing, taking into account:

(a) whether there is a need to retain departmental housing in more attractive locations or provide other housing options and, conversely, whether additional housing should be provided in difficult-to-staff locations;

(b) the appropriate level of maintenance taking into account the current condition of houses; and

(c) the need for more formalised tenancy arrangements with teachers.

Page 203

Chapter 8: Department of Human Services

Recommendation 39: To enable meaningful analysis to be undertaken between planned and actual performance, the Department of Human Services ensure targets reflect sustainable improvements in service levels when performance has consistently exceeded expectations over prior years.

Page 211
Recommendation 40: To assist in the understanding and interpretation of performance related information, the budget papers and the annual report of the Department of Human Services fully explain the basis for developing the new measure to quantify respite services provided to individuals, families or carers of people with disabilities.

Page 211

Recommendation 41: Where it may not be clear whether a significant variance between planned activity and actual performance should be commended or viewed with concern, the Department of Human Services disclose in its annual report an explanation as to whether the result reported against the performance measure, represents a positive or a negative outcome for the department and the community.

Page 213

Recommendation 42: The Department of Human Services appropriately disclose in its reporting framework details about additional funding received and show the affect that this funding has had in terms of the ability of the department to meet or exceed its performance targets.

Page 217

Recommendation 43: The Department of Human Services ensure it has an effective monitoring regime in place so that corporate governance arrangements at Melbourne Health involving the role of the board, its audit committee, senior management, and internal audit provide ongoing and adequate oversight of financial management and accounting practices. Such a monitoring regime should cover all public hospitals in future.

Page 221
Recommendation 44: After the investigations have been completed regarding the erroneous accounting entries made to overstate revenue at the NorthWestern Mental Health Service and to defer expenditure from previous financial periods, the Department of Human Services should disclose the causes that led to this situation and ensure that its financial management strategies address these causes in future.

Page 221

Recommendation 45: The Department of Human Services take action to ensure that the new major redevelopment and upgrading works at regional health services, which commenced in 2004-05, are completed in a timely manner.

Page 224

Recommendation 46: The Department of Human Services commission a mid term evaluation of the Public Dental Health Strategy to ensure that the government’s four year funding program, which involved an additional $97.2 million to 2007-08, remains well focused.

Page 227

Recommendation 47: The Department of Human Services monitor dental health outcomes in community health clinics affected by workforce shortages, particularly those situated in the larger regional centres of Victoria such as Bendigo, Wangaratta, Shepparton, Wodonga, Warrnambool and Mildura.

Page 227

Recommendation 48: With a view to maximising the creation of new respite opportunities for people with a disability and their families and enhance their quality of support, the Department of Human Services review whether there is a need to expand the availability of flexible, community based respite options in preference to bed based facilities.

Page 228
Recommendation 49: To monitor statewide the adequacy of respite services to those involved in the care of people with disabilities, the Department of Human Services collect summary information from its service providers about:

(a) the level of unmet need for the provision of respite services; and

(b) average waiting times for accessing overnight respite.

Page 228

Recommendation 50: The Department of Human Services collect information from respite accommodation to monitor statewide the extent of respite bed days allocated to people with a disability requiring permanent placement, and this information be used to inform future resource management decisions in terms of policy and budget formulation.

Page 230

Recommendation 51: The Department of Human Services include in its annual report the progress made in reducing the overrepresentation of indigenous children in the child protection and placement system.

Page 237

Recommendation 52: Given that the most recent figures quantifying the number of homeless Victorians related to the position in 2001, the department undertake a research project to evaluate the effectiveness of the Victorian Homelessness Strategy to ensure that it is responding to the needs of people experiencing, or at risk of, homelessness.

Page 239
Chapter 9:  Department of Infrastructure

Recommendation 53:  The Department of Infrastructure include in future annual reports key planned actions and expected main achievements for the ensuing year and report against the projections at year-end as part of its presentation of output performance.

Page 248

Recommendation 54:  The Department of Infrastructure include in its 2005-06 annual report a mid term report identifying the collective impact to date on public transport services of actions taken under the 2004 partnership agreements.

Page 255

Recommendation 55:  The Department of Infrastructure inform Parliament in its annual report of the financial impact to the state of the changed funding arrangements for public transport services embodied in the 2004 transport agreements. The reported information should incorporate a comparison of actual and budgeted expenditure for the key categories of additional costs assumed by the government under the agreements.

Page 257

Chapter 10:  Department of Innovation, Industry and Regional Development

Recommendation 56:  The Department of Innovation, Industry and Regional Development include in its annual report explanations for significant differences (for example more than 10 per cent) between targeted and actual performance.

Page 264
Recommendation 57: The Department of Innovation, Industry and Regional Development develop guidance statements to underpin its evaluation framework.

Recommendation 58: The Department of Innovation, Industry and Regional Development undertake cost benefit analyses of key projects as a continuation of the strategy, recommended in the Report on the 2005-06 Budget Estimates, of increasing the focus on planning, managing, evaluating and reporting on outcomes.

Recommendation 59: The Department of Innovation, Industry and Regional Development set targets for the attraction of further investment in beamlines and on the usage of the facility and publicly report on the degree to which these targets have been met.

Recommendation 60: The Auditor-General conduct a review of the new contract arrangements covering the upgrade of the Docklands Film and Television Studios to determine if they represent good value to the state and whether any additional risks have been adequately addressed.

Recommendation 61: Industrial Relations Victoria ensure that appropriate human resource management programs are in place in preparation for the next round of major enterprise bargaining agreement negotiations.
Chapter 11: Department of Justice

Recommendation 62: The Department of Justice continue its efforts to improve the standard of explanations in its annual report for significant differences between targeted and actual output performance.

Page 282

Recommendation 63: The Department of Justice provide meaningful comparisons of costs and benefits between public and private prisons in future annual reports. These comparisons should include:

(a) expenditure totals in the financial year for all prisons under their major cost categories;
(b) average cost of housing a prisoner for the year in each prison;
(c) explanations for major variations in expenditure on an individual prison basis;
(d) assessed aggregate performance against service delivery outcomes by each prison and the resulting impact on the amount of the performance linked fee in the case of private prisons; and
(e) commentary on matters relevant to any comparisons that can be drawn between costs of public and private prisons.

Page 290

Recommendation 64: That the Department of Justice publish the results of the external evaluation of the effectiveness of the Home Detention Pilot Program, and the nature of any consequential changes to the program’s future scope and direction, as soon as practicable after completion.

Page 292
Chapter 12: Department of Premier and Cabinet

Recommendation 65: The Department of Premier and Cabinet include explanations for material differences between budgeted and actual output costs in its annual report.

Page 297

Recommendation 66: The Department of Premier and Cabinet explain key variations between targets and actual achievement for performance measures in its annual report.

Page 297

Recommendation 67: The Department of Premier and Cabinet re-examine the quantitative performance measures established for the ICT Strategy and Services output with the purpose of developing performance measures that separately identify:

(a) the number of projects to be completed; and
(b) the number of projects that are underway/ongoing.

Page 301

Recommendation 68: The Department of Premier and Cabinet expand the level of disclosure in its annual report to include a section on cross departmental initiatives, and include information such as:

(a) the responsibilities for the delivery of these initiatives; and
(b) the department’s contribution to the outcomes of these initiatives.

Page 304
Chapter 13: Department of Primary Industries

Recommendation 69: The Department of Primary Industries evaluate whether any adverse impacts on practice occurred as a result of the reduced level of extension activities to promote sustainable farming systems during 2004-05.

Page 309

Recommendation 70: Where a planned activity has not been completed by the due date, the Department of Primary Industries consider providing an explanation in its annual report as to why the target was not met, in addition to disclosing the current status of the particular item.

Page 310

Recommendation 71: Given that customer satisfaction with the aquaculture sector of fisheries declined from 77 per cent in 2001-02 to 30 per cent in 2004-05, the Department of Primary Industries evaluate whether its responses to address this issue have been effective, and examine the impact that low customer satisfaction may have on the aquaculture sector.

Page 311

Recommendation 72: When setting targets for the number of audits of high risk or critical sites to be completed in a given year, the Department of Primary Industries consider the potential impact that any higher regulatory demands may have on the planned audit program for the forthcoming year.

Page 312
Recommendation 73: From an effectiveness and accountability viewpoint, the Department of Primary Industries examine avenues for establishing, quantifying and reporting the effect that its operations undertaken in a given year has had in terms of fostering strong economic activity evidenced by jobs, investments and exports, particularly in the agriculture portfolio.

Page 317

Recommendation 74: The Department of Primary Industries develop a performance management and reporting system that enables monitoring of the cost effectiveness of the various components of the department’s enforcement activities.

Page 319

Recommendation 75: The Department of Primary Industries monitor the impact that changes at the federal level to drought policy are having on the farming community in Victoria in terms of whether drought assistance is reaching those in need in a timely manner.

Page 321

Chapter 14: Department of Sustainability and Environment

Recommendation 76: The Department of Sustainability and Environment ensure that where additional funding has been received during a year, appropriate disclosure is contained in the department’s annual report to show the affect that this funding has had in terms of its ability to meet or exceed its performance targets for the year.

Page 328
Recommendation 77: To enable meaningful analysis to be undertaken between planned and actual performance, the Department of Sustainability and Environment ensure targets reflect any adjustments made to funding allocations for the year, or that notes to the published performance information explain funding adjustments that may have occurred subsequent to revising performance measures for a given year.

Page 331

Recommendation 78: Where actual performance data for an output measure is not available at the time of reporting, the Department of Sustainability and Environment provide a note accompanying performance information in its annual report, disclosing that the actual result is an estimate only and that the final result may differ from information published.

Page 331

Recommendation 79: Where revenue exceeds the estimate (as in the 2005-06 state budget) or where redistributions have occurred subsequent to the preparation of the budget, the Department of Sustainability and Environment ensure the effect – in terms of exceeding output targets – is explained in its annual report when commenting on variances between target and actual performance.

Page 335
Recommendation 80: Prior to embarking on any new bushfire recovery strategies, the Department of Sustainability and Environment:

(a) arrange for an independent evaluation to be undertaken of the initial strategy that involved the commencement of restoration works in 2003-04, so that any lessons learned can be incorporated into the new strategy; and

(b) implement a sound monitoring framework to ensure that restorative works are completed efficiently and effectively.

Page 338

Recommendation 81: The Department of Sustainability and Environment disclose in its annual report a commentary on the strategies employed to improve the health of Victoria’s major rivers and tributaries assessed to be in poor or very poor condition, together with progressive outcome related information that takes into account the time lag between carrying out works and measuring related results.

Page 342

Recommendation 82: The Department of Sustainability and Environment assess the effectiveness of the rising block tariff pricing regime in terms of reducing the consumption of water and the Sustainables Household Challenge in the context of encouraging Victorians to improve the health of the environment.

Page 344

Recommendation 83: The Department of Sustainability and Environment include commentary in its annual report on the outcomes achieved from the introduction of the rising block tariff pricing regime and the Sustainables Household Challenge.
**Chapter 15: Department of Treasury and Finance**

Recommendation 84: The Department of Treasury and Finance determine the estimated cost to the state of the EastLink project over the construction period, inclusive of land acquisitions and works directly associated with the tollway.

Page 353

Recommendation 85: The Department of Treasury and Finance give priority to developing authoritative guidance on the accounting treatment of assets forming part of public private partnership projects that will ultimately revert back to the state.

Page 353

Recommendation 86: The Department of Treasury and Finance evaluate the merits of excluding a proportion of windfall surpluses from dividend calculations to protect the Transport Accident Commission’s long term financial position.

Page 355

**Chapter 16: Department for Victorian Communities**

Recommendation 87: The annual report of the Department for Victorian Communities include information on changes to total estimated investment costs of capital projects, the reasons for the changes, and the affect on output costs compared with budget.

Page 367
Chapter 18: Review of annual reports of departments and agencies

Recommendation 88: The Department of Treasury and Finance launch a new comprehensive performance management and reporting initiative for the public sector that is in line with local and international best practice, and that the department actively monitor its implementation by agencies, as a matter of priority.

Page 391

Recommendation 89: Commencing in 2006-07, the Financial Reporting Directions be amended to require agencies to report:

(a) key performance indicators showing the achievement of government outcomes and corporate objectives (relative to the targets set);

(b) major completed projects and initiatives against those planned for the year; and

(c) a benchmarking comparison of performance with other similar agencies.

Page 392

Recommendation 90: The Department of Treasury and Finance assume a more active role in providing practical guidance and training to agencies by publishing education materials and conducting regular training seminars, workshops and discussion forums on annual reporting.

Page 392

Recommendation 91: The Department of Treasury and Finance develop an annual reporting manual with best practice guidance, in collaboration with line agencies, to provide tools and resources for preparing annual reports.

Page 392
Recommendation 92: A special Premier’s awards scheme for annual reporting be established and be jointly co-ordinated by the Department of Premier and Cabinet and the Department of Treasury and Finance.
1.1 Introduction

The Public Accounts and Estimates Committee’s review of the budget outcomes aims to improve the accountability of government departments and agencies to Parliament for the money raised ($29,904 million) and spent ($27,760.1 million) in 2004-05. This follow-up process complements the budget estimates hearings the Committee held in May and June 2004 which reviewed the new initiatives, programs and services to be delivered in 2004-05. This report comments on some aspects of what departments and agencies intended to achieve in 2004-05 and what was achieved.

1.2 The review process

The Committee wrote to the Premier, senior departmental Ministers and the Presiding Officers of Parliament on 1 December 2005, seeking responses to questions about the outcomes of departmental activities in 2004-05. In particular, the Committee sought details about:

- output costs and performance measures, where these were not reported in annual reports;
- reasons for variations in output costs and in performance measures compared with target, where these were not reported in annual reports;
- the cost of implementing the new Victorian public sector career structure in 2004-05;
- stress related claims and strategies to manage stress in the workplace;
- executive officers’ performance payments;
- advertising and promotional expenditure;
- progress in meeting energy efficiency and emissions reduction targets;
- the status of implementing Project Rosetta, an integrated electronic directory service;

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1 Department of Treasury and Finance, 2004-05 Annual Financial Report for the State of Victoria, p.63
2 ibid.
• efficiency savings achieved by departments;
• departmental trust funds; and
• progress of new initiatives.

Ministers were asked to respond to the questions by 20 December 2005 and the Committee acknowledges the prompt responses by Ministers to the Committee’s questionnaire. The Committee was disappointed that the response from the Parliamentary Departments was not received until 10 February 2006, seven weeks after the deadline.

In this inquiry, the Committee also followed up issues identified as needing further examination in the Committee’s Report on the 2005-06 Budget Estimates.3

The Committee also wrote to the Treasurer seeking an update on recommendations that the government indicated were ‘under review’ in its response to the Committee’s budget outcomes reports for 2002-03 and 2003-04. The Committee intends to release the government’s response to this request on its internet web site.

In preparing this report, the Committee has drawn heavily on material provided in the departmental responses to its questionnaire and follow-up questions; departments’ and agencies’ annual reports for 2004-05; the 2004-05 Annual Financial Report for the State of Victoria; and reports of the Auditor-General.

The cost of this inquiry was approximately $141,235.

1.3 Legislative requirement to respond to the Committee’s recommendations

Section 36(1) of the Parliamentary Committees Act 2003 requires responsible Ministers to respond, within six months, to recommendations in the Committee’s reports tabled in Parliament.

1.4 Previous recommendations

The Committee made 97 recommendations in its Report on the 2003-04 Budget Outcomes.4 Three recommendations related to the operations of the Victorian Auditor-General’s Office and seven related to the operations of the Parliamentary Departments.

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1.4.1 Auditor-General’s response

The Auditor-General accepted in principle the three recommendations suggested by the Committee.\(^5\)

Responding to the Committee’s recommendation that the Auditor-General consider including the extent of changes and savings achieved as a result of, or partly due to, the implementation of audit recommendations in the Victorian Auditor-General’s Office annual report (recommendation 20), the Committee noted that the Auditor-General will, where appropriate, report savings that have been agreed by agencies acting on the Office’s recommendations.\(^6\)

1.4.2 Parliamentary Departments’ response

The Parliamentary Departments accepted two recommendations, accepted in principle three recommendations and rejected two recommendations.\(^7\)

The Committee is disappointed that the Parliamentary Departments rejected the recommendation that it disclose information about the transfer of appropriations between output groups in its financial report.\(^8\) The Committee considers such disclosure will make the transfers of appropriations between the three Parliamentary Departments and the Parliamentary Committees more transparent. Since section 31 of the Financial Management Act 1994 expressly allows for the transfer of items of appropriations between parliamentary departments,\(^9\) it is appropriate that such transfers be disclosed in the financial report.

Accordingly, the Committee recommends that:

**Recommendation 1:** The financial report of the parliamentary departments disclose appropriation transfers between output groups.

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\(^{5}\) Victorian Government, response to the Committee’s Report on the 2003-04 Budget Outcomes, tabled October 2005, p.10

\(^{6}\) ibid.

\(^{7}\) ibid., pp.8–9

\(^{8}\) ibid., recommendation no.15, p.8

\(^{9}\) Financial Management Act 1994, s.31
1.4.3 **Government response**

The government response to the Committee’s recommendations was tabled in the Legislative Assembly on 4 October 2005.\(^{10}\)

Of the 87 recommendations relating to government departments and agencies, 48 were accepted (55 per cent); 12 were accepted in part (14 per cent); 13 were accepted in principle (15 per cent); seven are under review (8 per cent); and seven were rejected (8 per cent). The Committee considers that its recommendations promote disclosure and accountability and is disappointed with the low acceptance rate.

**Exhibit 1.1: Government response to the recommendations in the Public Accounts and Estimates Committee 2003-04 Budget Outcomes report**

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Note: \(^{(a)}\) recommendations nos. 2, 5, 6, 8 and 11


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\(^{10}\) The Victorian Government response to the Committee’s recommendations is available at the Public Accounts and Estimates Committee’s website at [www.parliament.vic.gov.au/paec](http://www.parliament.vic.gov.au/paec)
Chapter 1: Introduction and responses to previous budget outcomes report

The Committee draws attention to the government’s response to the following recommendations.

(a) **Disclosure of output targets in annual reports**

(i) **Reporting of output targets**

The Standing Directions of the Minister for Finance specify that ‘*A government department must include a comparison of the output targets specified in the State Budget with actual performance against those targets*’,¹¹ but fail to specify that this requirement applies to output targets established for quantitative, qualitative, timeliness and cost measures.

The Committee’s budget outcomes inquiries for 2002-03 and 2003-04 observed the omission of reporting cost measures in annual reports. The Committee recommended in its *Report on the 2003-04 Budget Outcomes* that two departments report their cost measures.¹² The Committee also made an across-the-board recommendation that *‘the annual reports of departments include details of budget and actual costs for outputs’*.¹³ The government accepted this recommendation and advised that *‘consideration will be made to change the Standing Directions to make the paragraph more specific by listing what is required including output costs’*.¹⁴

The Committee recommended similar changes in its *Report on the 2002-03 Budget Outcomes*,¹⁵ and the government gave an undertaking that *‘consideration will be given to further clarifying this requirement in the next update of the standing directions’*.¹⁶

The Committee is concerned by the government’s lack of action on this issue, and urges the Department of Treasury and Finance to resolve this as a matter of urgency.

¹¹  Department of Treasury and Finance, *Standing Directions of the Minister for Finance*, updated July 2005, s.4.2(k), p.72
¹³  ibid., recommendation no.2, p.58
¹⁶  Victorian Government, response to the Committee’s *Report on the 2002-03 Budget Outcomes*, tabled October 2004, recommendation no.11, p.6
The Committee recommends that:

**Recommendation 2:** The Department of Treasury and Finance amend section 4.2, paragraph (k) of the Standing Directions of the Minister for Finance to clearly specify the output targets to be included in annual reports.

(ii) **Responsibility for reporting targets for outputs**

The Committee recommended that two departments report in their annual reports the performances of targets for outputs delivered by their portfolio agencies.\(^\text{17}\)

The Department of Justice rejected this recommendation, advising the Committee that the ‘Department of Justice provides grant funding to these entities which under legislation are separate reporting entities. They are required to produce their own annual reports, which include full financial statements and output performance reports’.\(^\text{18}\)

The Committee agrees with the Department of Justice regarding the separate reporting responsibilities of its entities, but is aware that the Departments of Premier and Cabinet and Treasury and Finance disclose in their annual reports the performances of outputs delivered by their agencies.

In the interests of improved accountability and disclosure, the Committee considers there is a need for the Department of Treasury and Finance to further clarify the responsibilities of departments in this matter.

The Committee recommends that:

**Recommendation 3:** The Department of Treasury and Finance issue guidance to departments clarifying their responsibility for reporting in their annual reports, performance targets for outputs delivered by portfolio agencies.

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(iii) **Explanations for variations in output targets**

The Committee recommended that six departments expand the commentary in their annual reports to explain all significant variations between actual performance and their output targets.\(^{19}\) The Committee considers a variation to be significant where the change in output target (comparing actual performance to targets specified in the budget paper) is 10 per cent or more.

While departments responded positively to this recommendation, the Committee considers that the Department of Treasury and Finance should provide further guidance to departments to clarify the Committee’s expectations.

Accordingly, the Committee recommends that:

**Recommendation 4:** The Department of Treasury and Finance issue instructions to departments about specifying the threshold for disclosing explanations for significant variations between output targets and actual performance in their annual reports.

**(b) Reporting of asset investment projects**

The Committee raised the issue of reporting of asset investment projects in Budget Information Paper No.1, *2003-04 The Public Sector Asset Investment Program* in relation to two departments.\(^{20}\)

The departments’ responses indicated that they followed the Department of Treasury and Finance (DTF) guidelines on reporting asset projects in Budget Information Paper No.1 (BIP 1).\(^{21}\) The guidelines state that projects with a total estimated investment (TEI) equal to or greater than $100,000 are to be reported, but projects in the final year of implementation where the planned capital expenditure is less than $30,000, are excluded from being reported.\(^{22}\)

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20 ibid., recommendation nos.31, p.181; 61, p.258
The Committee considers that the government must be fully accountable for expenditure on its asset investment program, and that there is scope to expand its reporting criteria to include projects that are currently excluded either because the TEI of the project or the project cash flows in the final year of delivery were below this criteria. The Committee believes projects with TEI equal to or greater than $50,000 and all projects in the final year of delivery, should be reported regardless of the size of their cash flows.

The Committee recommends that:

**Recommendation 5:** The Department of Treasury and Finance review the guidelines for reporting asset investment projects in Budget Information Paper No.1, *Public Sector Asset Investment Program*, to include asset projects currently excluded by the guidelines.

(c) **Other matters**

After considering other matters outlined in the government’s response, the Committee identified two recommendations it considers the government should revisit.

(i) **Explanations for movements in non-executive officer positions**

The Committee recommended that year-on-year movements in non-executive officer positions be explained in each department’s annual report.

The government rejected this recommendation citing the reporting requirements of Financial Reporting Direction 22, which precludes the need to report movements in staff numbers in annual reports. The government further indicated that ‘there are no current plans to vary this reporting requirement’.

The Committee disagrees with the government’s view and considers that such disclosure would promote greater transparency about non-executive staff movements within departments.

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24 Victorian Government, response to the Committee’s *Report on the 2003-04 Budget Outcomes*, tabled October 2005, recommendation no.6, p.4
The Committee recommends that:

**Recommendation 6:** The Department of Treasury and Finance include in Financial Reporting Direction 22 a requirement for departments to provide explanations for year-on-year movements in non-executive officer positions.

(ii) Disclosure of financial policies for arts agencies

The Committee recommended that arts agencies disclose financial policies for funding depreciation and explanations of the impact of depreciation expense funding arrangements on financial performance and asset replacement needs.\(^{25}\)

The government accepted this recommendation, but indicated it has no authority to enforce the Committee’s recommendation because:

...the agencies’ financial statements are the responsibility of their separate independent boards...\(^{26}\)

The Committee considers such disclosure would assist readers of annual reports to make informed assessments about the operations of arts agencies.

The Committee recommends that:

**Recommendation 7:** The Department of Treasury and Finance amend the Standing Directions to require agencies to make the disclosure recommended by the Committee in recommendation no.68 in its Report on the 2003-04 Budget Outcomes.\(^{27}\)

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\(^{26}\) Victorian Government, response to the Committee’s *Report on the 2003-04 Budget Outcomes*, tabled October 2005, recommendation no.68, p.31

\(^{27}\) Recommendation no. 68 requires ‘The Department of Premier and Cabinet ensure that the annual reports and financial statements of its agencies disclose financial policies for funding depreciation and provide an explanation about the impact of these arrangements on financial performance and asset replacement needs.’
CHAPTER 2: 2004-05 BUDGET OVERVIEW

Key findings of the Committee:

2.1 The operating result for the general government sector for 2004-05 was a budget surplus of $2,143.9 million, an increase of $1,598.9 million (293.4 per cent) compared with the initial budget surplus of $545 million. The surplus reflected financial reports prepared under generally accepted accounting principles which were the basis for the preparation of the 2004-05 budget. Revenue growth in 2004-05 increased by 3.2 per cent compared with the budget, while expenditure declined by 2.4 per cent.

2.2 Total revenue was $29,904 million compared with the initial budget of $28,984.9 million, an increase of $919.1 million. The increased revenue was mainly due to additional grants from the Commonwealth Government, improved investment returns and increases in the sale of goods and services.

2.3 Expenditure decreased by $679.8 million compared with the initial budget of $28,439.9 million, mainly due to a decrease of $1,209.1 million in the superannuation expense on account of better than expected investment performance in the state’s superannuation funds. Had it not been for the unexpected reduction in the superannuation expense, expenditure would have exceeded the budget estimates by around $529 million mainly due to an increase of $266 million in employee entitlements.

2.4 Expenditure on employee entitlements exceeded the budget estimates of $10,480.5 million by $266 million or 2.5 per cent. Given the government policy of restricting pay increases in the public sector to 3 per cent, which was allowed for in the budget projection, the extent to which the budget was exceeded demonstrates a need to firmly control this expenditure if future budget projections are to be realised.

2.5 The government received dividends of $501 million from public financial corporations and public non-financial corporations including the water sector in 2004-05. The government has also decided to allow the water sector to increase borrowings by around $300 million in 2005-06. The Committee recognises that although dividends are an important source of revenue for the government, care must be taken not to place agencies in a position whereby capital works need to be financed from borrowings, as compared with retaining surpluses for this purpose.
2.6 The value of physical assets in the general government sector increased by $9,305.9 million in 2004-05 to $53,787.6 million. Most of the increase involved the revaluation of assets including crown land, schools, road infrastructure and health facilities. There were also significant asset additions, including hospital buildings ($380 million), public housing ($276 million), education buildings ($271 million) and medical equipment ($215 million).

2.7 The government intends investing in excess of $10 billion in infrastructure over the next four years to 2008-09. The Committee supports this investment, but draws attention to the extended delays that are occurring with many large projects. While some of these delays may have been unavoidable, they must continue to be addressed to ensure project benefits to the public are realised as soon as possible.

2.8 General government sector debt, comprising borrowings and finance leases remains low and although this debt will increase in future years as borrowings are intended, debt levels will remain moderate. Nevertheless, the Committee draws attention to the increasing number of finance leases arising from the handover of assets completed under public private partnership contracting arrangements. This debt is invariably long term, which must be met by future governments.

2.9 Although the Department of Treasury and Finance advised the Committee in October 2005 of its intention to improve its budget forecasting method, the budget surplus again substantially exceeded the initial estimate by $1,598.9 million (293.4 per cent), and by 304.9 per cent in 2003-04. Considerable scope still remains for the Department of Treasury and Finance to further improve its forecasting method.

2.1 General government sector outcomes for 2004-05

This report focuses on the outcomes for the general government sector, as distinct from the whole of government which includes all government agencies including public financial corporations such as the Treasury Corporation of Victoria and the Transport Accident Commission.

The general government sector consists of all government departments, statutory offices and other entities reliant on the budget either wholly or partly for funding. The primary function of entities within the general government sector is to provide public services (outputs) either free of charge or at prices significantly below their cost of production. In the 2004-05 Annual Financial Report for the State of Victoria, 211
entities were listed as part of the general government sector, including public hospitals, health services and Technical and Further Education (TAFE) institutions. This chapter focuses primarily on the activities of the government departments, from which funding is provided to various other respective entities under the control of various Ministers.

The general government sector produced a surplus of $2,143.9 million in 2004-05, as compared with the initial budget forecast of $545 million, an increase of 293 per cent. Although not addressed in detail in this report, the net result for the whole of government (that is, the State of Victoria) was a surplus of $3,961.7 million, an increase of $195.6 million on the 2003-04 result of $3,766.1 million.

The general government sector net result reflected a result obtained from financial reports prepared under generally accepted accounting principles (GAAP), which were the basis for the budget preparation for 2004-05. The Auditor-General’s opinion on the 2004-05 annual financial report was also on this basis.

The Department of Treasury and Finance included in the 2004-05 annual financial report a summary statement of financial performance prepared in accordance with the Australian equivalents to International Financial Reporting Standards (A-IFRS) format, which was the format introduced in the 2005-06 budget. The summary statement disclosed a net result from transactions of $794.9 million, compared with the net result of $2,143.9 million under the GAAP format. The major difference between the two formats is that under the A-IFRS principles the superannuation expense is excluded, on the basis that the government does not control movements in superannuation expenses that result from changes in financial markets.

The Committee observed that the net result from transactions of $794.9 million under the A-IFRS format was also consistent with the government’s target of an operating surplus of at least $100 million in each year.

Exhibit 2.1 shows the budgeted and actual results for 2004-05.

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29 ibid., p.63
30 Budget Paper No.4, 2004-05 Statement of Finances, p.8
32 ibid.
33 as shown in exhibit 2.1
35 ibid., pp.14, 15
### Exhibit 2.1: General government sector
#### Statement of financial performance 2004-05 (b)

<table>
<thead>
<tr>
<th>Column 1</th>
<th>Column 2</th>
<th>Column 2-1</th>
<th>Column (2-1)/1</th>
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<td>Variation</td>
</tr>
<tr>
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<td>Actual</td>
<td>(a)</td>
<td>(a)</td>
</tr>
<tr>
<td>($ million)</td>
<td>($ million)</td>
<td>($ million)</td>
<td>(%)</td>
</tr>
</tbody>
</table>

#### Revenue

- **Taxation**: 10,384.2 10,414.9 30.7 0.3
- **Fines and regulatory fees**: 617.0 651.8 34.8 5.6
- **Investment revenue**: 1,225.4 1,362.6 137.2 11.2
- **Grants**: 13,080.5 13,462.3 381.8 2.9
- **Sale of goods and services**: 2,231.3 2,381.8 150.5 6.7
- **(Loss)/gain on the disposal of physical assets**: 11.9 -26.6 -38.5 -323.5
- **Inter sector capital asset charge**: 587.5 599.0 11.5 2.0
- **Fair value of assets received free of charge or for nominal consideration**: - 16.7 16.7 n/a
- **Other revenue**: 847.1 1,041.5 194.4 22.9

**Total revenue**: 28,984.9 29,904.0 919.1 3.2

#### Expenses

- **Employee benefits**: 10,480.5 10,746.5 266.0 2.5
- **Superannuation**: 1,789.2 580.1 -1,209.1 -67.6
- **Depreciation**: 1,142.7 1,072.0 -70.7 -6.2
- **Amortisation**: 67.0 66.8 -0.2 -0.3
- **Borrowing costs**: 476.2 448.8 -27.4 -5.8
- **Grants and transfer payments**: 5,087.7 5,160.0 72.3 1.4
- **Supplies and services**: 9,311.0 9,460.1 149.1 1.6
- **Other expenses**: 85.4 225.9 140.5 164.5

**Total expenses**: 28,439.9 27,760.1 -679.8 -2.4

**Net result**: 545.0 2,143.9 1,598.9 293.4

#### Notes:

(a) a negative variation denotes a decrease compared with the 2004-05 budget

(b) the above statement for 2004-05 reflects financial information prepared under existing generally accepted accounting principles. Information prepared under the government’s proposed A-IFRS format, which was included in the government’s annual financial report, differs from the above information but was not subject to audit by the Auditor-General. The audit opinion expressed by the Auditor-General drew attention to this matter

(c) some figures may not add up due to rounding

#### Sources:


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36 ibid., p.13
37 ibid., p.61
The 2004-05 result occurred after payment of dividends of $501 million (from public financial corporations such as the Transport Accident Commission and public non-financial corporations including the water sector) into the Consolidated Fund. All of these bodies are external to the general government sector. The Committee observed that in the water sector, authorities will be permitted to increase capital works borrowings by around $300 million in 2005-06. Retention of surpluses as distinct from paying dividends would reduce the need for borrowings and minimise cost increases necessary to meet borrowing costs. Although acceptable at this stage, the extent to which dividends are payable to the Consolidated Fund, as distinct from internally funding infrastructure improvements, needs to be carefully controlled.

The operating surplus of $2,143.9 million again resulted in the government easily achieving its key financial policy objective of producing an operating surplus of at least $100 million in each year. This financial objective was introduced in the 2000-01 budget and has been easily met every year since, despite budget outlays increasing significantly since that period. Given that achievement of an operating surplus is critical to the government’s ability to invest in infrastructure without significant borrowings, the Committee considers it may be appropriate for the government to increase the $100 million target to reflect the substantial growth in the state’s budget. Surpluses generated provide an important source of funding for asset investment.

The biggest single factor contributing to the large budget surplus was the reduction in the superannuation expense from an estimated $1,789.2 million to an actual expense of $580.1 million, representing a saving of $1,209.1 million (exhibit 2.1). This reduction was largely due to the higher investment returns earned by the state’s public sector superannuation schemes, resulting in a reduced contribution from the government towards the unfunded liability of these schemes, predominately the State Superannuation Fund.

Other major factors contributing to the large surplus included increased grants (largely due to goods and services tax (GST) grants and special purpose grants) of $381.8 million (exhibit 2.1); additional investment revenue of $137.2 million; an increase in the sale of goods and services revenue of $150.5 million; and an increase in other revenue of $194.4 million which mainly comprises locally raised funds and donations from the private sector to schools, hospitals and arts institutions.

38 Department of Treasury and Finance, response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 29 December 2005, Attachment 1
39 Budget Paper No.2, 2005-06 Strategy and Outlook, p.70
40 Department of Treasury and Finance, 2004-05 Annual Financial Report for the State of Victoria, pp.11, 23
41 ibid., p.91
General government sector revenue for 2004-05 was $29,904 million, $919.1 million more than the budget estimate of $28,984.9 million (exhibit 2.1). The government expects revenue to continue to grow to $30,909.6 million in 2005-06. Most of this increase is expected to be from the GST and from other Commonwealth Government grants, despite the Australian economy slowing particularly in the housing sector and along with consumer spending – factors that have an impact on GST collections.

The stronger than expected growth in GST revenue collections by the Commonwealth Government in 2004-05 resulted in additional grants to Victoria, therefore, there was no need for Victoria to be provided with GST transitional grants. Such grants can be provided under the national taxation arrangements to guarantee that no state or territory is worse off because of the introduction of the GST and the removal of state taxes. However, the 2005-06 Budget Papers drew attention to the possibility that transitional grants may be required in that year because of the further removal of state taxes, such as the debits tax. Factors such as these could ultimately restrain revenue growth in future years as the government becomes less reliant on state taxes to generate increased revenue.

Revenue in 2004-05 was $919.1 million or 3.2 per cent above projected estimates (exhibit 2.1). Total expenditure was budgeted at $28,439.9 million, compared with actual expenditure of $27,760.1 million, a saving of $679.8 million (exhibit 2.1). As previously stated, the reduction in expenditure could mainly be attributed to the reduced superannuation expense, along with a $70.7 million reduction in the depreciation expense and a $27.4 million reduction in borrowing costs (exhibit 2.1).

Employee benefits, which include all costs related to employment, amounted to $10,746.5 million and exceeded the budget of $10,480.5 million by $266 million or 2.5 per cent (exhibit 2.1). The budget for employee benefits was based on staff profiles and existing salaries and conditions and adjusted for a 2.25 per cent pay increase with a further 0.75 per cent productivity increase, provided identifiable productivity improvements were made during 2004-05. Given the above constraints imposed by government policy, it would have been expected that budget projections would have a high degree of certainty, including allowing for additional recruitment in areas where shortages exist such as in health and education. A budget overrun of the magnitude of $266 million that occurred in 2004-05, must be minimised in the future if budget surpluses are to be maintained.

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42 For comparative purposes, the revised income for 2005-06 of $30,871.4 million shown in Table 3.1 was adjusted for income from other economic flows of $38.2 million (Source: Department of Treasury and Finance, 2005-06 Budget Update, p.18)
43 Department of Treasury and Finance, 2004-05 Annual Financial Report for the State of Victoria, p.18
44 Budget Paper No.2, 2005-06 Strategy and Outlook, p.84
45 Budget Paper No.4, 2004-05 Statement of Finances, p.20
The value of physical assets in the general government sector increased by $9,305.9 million from $44,481.7 million in 2003-04 to $53,787.6 million in 2004-05.46 Most of the increase related to the revaluation of assets including crown land ($6,480 million); schools ($472 million); road infrastructure ($521 million) and health facilities ($183 million). However there was also significant expenditure on hospital buildings ($380 million); public housing ($276 million); education buildings ($271 million); medical equipment ($215 million) and computer acquisitions ($166 million).47

While the above investments in physical assets are welcome, it is difficult to evaluate the extent to which asset investment is addressing a backlog of demand, especially in areas such as the rural road system and the refurbishment of buildings such as government schools. In his report on the Finances of the State of Victoria 2004-05 the Auditor-General analysed the purchase of property, plant and equipment over the period 2000-01 to 2004-0548 and although the net addition to the state’s asset base had increased (after depreciation) from $1,083 million in 2000-01 to $1,839 million in 2004-05, asset purchases as a percentage of gross state product (GSP) had actually declined from 0.91 per cent in 2002-03 to 0.84 per cent in 2004-05.49 The decline would suggest there is a need for increased asset investment to keep pace with demand.

Of some concern is that, although the Victorian Government intends investing around $2.8 billion per year in infrastructure over the next four years to 2008-09,50 extended delays to completing many large projects are occurring, a factor that delays benefits the projects. The Auditor-General’s report on the Finances of the State of Victoria 2004-05 recorded seven major projects where the capital outlay during 2004-05 was at least $10 million below projected outlays. In aggregate, the forecast outlay for these projects was $241.7 million, as compared with actual outlays of $83.8 million, leaving a shortfall of $157.9 million.51

The Committee acknowledges that project delays can occur for a range of reasons, many of which may be outside the control of the government. Nevertheless, given the extent of the delays that are occurring, the government must take action to improve the delivery of capital projects. The Committee acknowledges recent initiatives, such as the Gateway initiative to identify risks and improve project delivery. Where projects are in trouble, Gateway is designed to bring them back in line with capital budgets. The Department of Treasury and Finance has also developed a new asset

46 Department of Treasury and Finance, 2004-05 Annual Financial Report for the State of Victoria, Table 2.6, p.24
48 ibid., p.98
49 ibid.
50 Department of Treasury and Finance, 2005-06 Budget Update, December 2005, p.17
management framework to assist all departments better manage their assets. The Committee will evaluate the effectiveness of these strategies in future years.

The Committee noted that interest bearing liabilities (borrowings and finance leases) within the general government sector were $5,530.3 million at 30 June 2005. However, liquid financial assets of $3,986.5 million were held at that date, which could be used to redeem debt in a period of financial difficulty. The government intends to undertake moderate borrowings to finance its capital works program and estimates that by 2008-09, borrowings will be $6,984.5 million, a level that will not impact on the state’s credit rating.

Most of the debt in 2004-05 relates to domestic borrowings, but at 30 June 2005 finance lease liabilities were $208.1 million. Finance lease liabilities will increase by $615 million in 2005-06, representing the expected completion and handover of the Spencer Street Station redevelopment and two new prisons that were undertaken under public private partnership arrangements. Finance lease obligations will continue to increase significantly in the future as further public private partnership arrangements are completed. While acknowledging that debt in the general government sector remains low, the Committee draws attention to the long term nature of finance leases that will be payable by future governments. It is important that debt incurred under public private partnership arrangements is closely controlled.

The Committee observed that at 30 June 2005 the aggregate balance of moneys held in the Trust Fund was around $1,709 million, an increase of $126 million from the previous year’s balance of $1,583 million. In its Report on the review of the Auditor-General’s report on parliamentary control and management of appropriations in September 2005, the Committee questioned the need for the continued operation of many trust funds, particularly given the lack of parliamentary oversight over trust fund transactions and that since the advent of accrual output based funding, trust fund accounts could easily be absorbed within existing financial arrangements in departments.

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52 Budget Paper No.2, 2005-06 Strategy and Outlook, p.59
54 Calculated from cash assets and current other financial assets. (Source: Department of Treasury and Finance, 2004-05 Annual Financial Report for the State of Victoria, p.64)
55 Department of Treasury and Finance, 2005-06 Budget Update, December 2005, p.29
57 Department of Treasury and Finance, 2005-06 Budget Update, December 2005, p.29
2.2 Budget forecasting

The Committee’s Report on the 2003-04 Budget Outcomes drew attention to the wide disparity between budget estimates and final outcomes. An operating surplus of $244.5 million was projected in 2003-04 compared with the final operating surplus of $990.1 million, a variation of $745.6 million or 304.9 per cent.\(^{60}\) The Committee recommended that the Department of Treasury and Finance improve its data collection and re-evaluate its budget forecasting method.\(^{61}\) The department advised the Committee that it will continue to refine the budget forecasting method in line with best practice.\(^{62}\)

The Committee questions whether any improvements in forecasting have occurred; the operating surplus was $2,143.9 million in 2004-05 compared with the initial estimate of $545 million, an increase of $1,598.9 million or 293.4 per cent (exhibit 2.1); a rate similar to 2003-04\(^{63}\). As stated previously, the large variation in 2004-05 was primarily due to the impact of better than expected superannuation funds’ investment returns together with additional grants from the Commonwealth Government. While the Committee acknowledges the volatility of GST revenue and ensuing grants from the Commonwealth Government, it has difficulty accepting that improved investment returns from the superannuation funds in 2004-05 could not have been more accurately predicted, following the experience in 2003-04.

The Committee also observed in the December 2004 budget update, that the superannuation expense estimate for 2004-05 was further revised upward by $39.6 million to $1,828.8 million.\(^{64}\) This revision occurred despite the government anticipating in the budget update that investment revenue would further increase\(^{65}\), along with a further reduction in the unfunded superannuation liability.\(^{66}\)

The extent to which estimates have varied from the actual results are depicted in exhibit 2.2 below. As can be seen from the exhibit, with the exception of expenditure in 2004-05, estimates for revenue and expenditure have consistently been $1 billion or more less than the actual results. Similarly, with the exception of 2001-02 and 2002-03, the net result has also exceeded estimates by a wide margin.

\(^{60}\) Public Accounts and Estimates Committee, Report on the 2003-04 Budget Outcomes, April 2005, p.70
\(^{61}\) ibid., p.73
\(^{63}\) The 2003-04 budget surplus exceeded the initial estimate by 304.9 per cent (Source: Public Accounts and Estimates Committee, Report on the 2003-04 Budget Outcomes, April 2005, p.65)
\(^{64}\) Department of Treasury and Finance, 2004-05 Budget Update, December 2005, p.54
\(^{65}\) ibid., p.75
\(^{66}\) ibid., p80; Budget Paper No.4, 2004-05 Statement of Finances, p.36
Exhibit 2.2: General government sector financial results – 1998-99 to 2004-05 (a)

<table>
<thead>
<tr>
<th></th>
<th>1998-99 ($ million)</th>
<th>1999-00 ($ million)</th>
<th>2000-01 ($ million)</th>
<th>2001-02 ($ million)</th>
<th>2002-03 ($ million)</th>
<th>2003-04 ($ million)</th>
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<td>Estimate</td>
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<td><strong>Net result</strong></td>
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<td>522</td>
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<tr>
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<td>1,217</td>
<td>273</td>
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<td>990</td>
<td>2,144</td>
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Notes:  
(a) Victorian budgets were produced on an accrual accounting basis from 1998-99. Hence, no comparative figures are available before 1998-99.  
(b) The figures for 2004-05 reflect information prepared in accordance with Australian Accounting Standards in particular AAS 31 ‘Financial Reporting by Governments’ and the Financial Management Act 1994. The Auditor-General’s opinion was expressed on this basis. The figures differ slightly from the figures reported by the government which were provided in an A-IFRS format.  

Sources: Victorian Budget Papers, years 1998-99 to 2004-05; Financial Report for the State of Victoria, years 1998-99 to 2004-05

The accuracy of budget estimates can have a significant impact on the ability of governments to plan and provide additional services and to finance capital works. The Committee expects the Department of Treasury and Finance to improve its forecasting method.

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CHAPTER 3: NEW VPS STAFFING STRUCTURE; STRESS CLAIMS; AND PERFORMANCE BONUSES

Key findings of the Committee:

3.1 Departments have declined to provide the Committee with details of the proportion of staff who received salary progression under the VPS career structure, citing an Australian Industrial Relations Commission decision in December 2004 denying a similar request from the Community and Public Sector Union. The Committee does not see the relevance of this decision to a request by a parliamentary committee for information about the expenditure of parliamentary appropriations. This issue will continue to be pursued in the forthcoming budget estimates hearings.

3.2 Employee benefits, which include wages and salaries, annual leave and long service leave, for the general government sector were budgeted at $10,480.5 million in 2004-05. However, actual costs for this period were $10,746.5 million. Given that wages outcomes for the Victorian public service for 2004-05 complied with the government’s wages policy guidelines, the level of additional costs associated with salary progression under the career structure is considered to be a factor in this increase.

3.3 For the departments, budget funded agencies and the parliamentary departments, the cost of stress related WorkCover claims was estimated to be $19.8 million in 2004-05, which was $81,710 (or 0.4 per cent) higher than the $19.7 million in 2003-04.

3.4 Departments and agencies with the largest stress claims costs were public hospitals ($5.9 million), Department of Human Services ($4.8 million), Victoria Police ($2.8 million), Department of Education and Training ($2.5 million) and Ambulance Service Victoria ($1.1 million).

3.5 The number of stress claims in 2004-05 was 901, which was 21 claims (or 2.4 per cent) more than the 880 in 2003-04. Aggregate staff numbers also showed an increase in 2004-05.

3.6 Stress claims at Victoria Police (264 claims), Department of Education and Training (206), Department of Human Services (145) and public hospitals (163) accounted for 86 per cent of the 901 claims in 2004-05.
3.7 For the 2004-05 performance assessment period, 452 (or 78.1 per cent) of 579 eligible executives in government departments were paid performance bonuses totalling $5,328,400 compared with 81.3 per cent of executives for the previous assessment period.

3.8 With the exception of the Department of Justice, the requirement for departments and associated agencies to target 75 per cent of executives for the payment of a performance bonus was generally met.

3.9 Agencies with the highest proportion of executive officers awarded a bonus for 2004-05 were:

- the Department of Justice – 64 out of 67 executives or 95.5 per cent (average bonus, $9,400);
- the Southern and Eastern Integrated Transport Authority - all of the seven executives (average bonus, $24,961); and
- the State Revenue Office – all of the six executives (average bonus, $12,349).

3.10 The following departments paid all officers in particular classifications a bonus for the 2004-05 assessment period:

- Department of Justice: 23 officers (Secretary, EO1 and EO2); and
- Department for Victorian Communities: 12 officers (Secretary, EO1 and EO2).

3.11 The Committee cautions that annual bonuses should not become another guaranteed element of executive remuneration, but be awarded on an exception basis to executives who have clearly performed at a superior or exceptional standard.

3.12 The Department of Primary Industries had the lowest proportion of executives paid a bonus – 14 out of 20 executives or 70 per cent (average bonus, $11,500); 2003-04, 100 per cent paid a bonus (average bonus, $8,700).
3.13 A significantly greater proportion of higher classified executives were paid bonuses for 2004-05 compared with EO3s – 85.1 per cent of senior executives, that is, Secretaries, EO1s and EO2s (189 of 222) compared with 73.7 per cent of EO3s (263 of 357). The Committee maintains that, if the vast majority of the most senior executives are assessed as being very high achievers in a particular year, this pattern should also be reflected in the proportion of lower level executives and managers receiving performance pay, a trend that is not obvious in the significantly lower proportion of EO3s awarded performance pay for 2004-05 across most departments.

3.14 Executives employed by the Southern and Eastern Integrated Transport Authority received, on average, the highest performance pay of $24,961 compared with an average of $11,800 paid to executives across government departments for the 2004-05 assessment period.

3.15 The average performance bonus paid to the higher classified executives (Secretaries, EO1s and EO2s) for 2004-05 amounted to $15,500 compared with an average of $9,100 for EO3s.

3.16 A review of annual reports disclosed only minimal information relating to annual bonuses paid to individual executives. The Committee considers that the disclosure requirements for listed companies relating to compensation payments made to each key management person as contained in the accounting standards and corporations law should apply to the most senior managers of government departments and associated agencies, that is, departmental Secretaries and EO1s.

### 3.1 Implementation of the new VPS career structure

The Committee requested that agencies provide details of the implementation of the VPS career structure. This included details on the proportion of staff who received salary progression within value ranges for various classification grades for 30 September 2004 and 30 June 2005 progression cycles.

The Exceptional Matters Order established the implementation of the VPS career structure and work organisational review arrangements. These principles were subsequently incorporated into the Victorian public service Agreement 2004. In relation to the issue of progression, the Exceptional Matters Order states that:68

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68 *Victorian Public Service Agreement 2004*, certified 2 June 2004, Melbourne, Appendix 1 - Exceptional Matters Order, p.80
The parties acknowledge that within Grades 1 to 4 the progression criteria will not be as onerous as those which will be required for Grades 5 to Senior Technical Specialist.

The Exceptional Matters Order went on to state that for Grades 5 to Senior Technical Specialist:

It is expected that progression at these levels will be both more challenging and difficult to achieve.

Individual departments have provided a consistent response to the Committee’s request for information on the proportion of staff who received salary progression by referring to the Australian Industrial Relations Commission (AIRC) hearing between the Department of Premier and Cabinet (Victoria) and the Community and Public Sector Union (CPSU) on 9 December 2004. The Commission considered the request by the CPSU to access individual department’s progression cycle outcomes, however the outcome of hearings before the Commission was that this information would not be provided. Based on this decision, departments refused to provide similar information to this Committee.

The Committee has considerable difficulty in accepting the relevance of an AIRC decision regarding an application by a union for access to information and a parliamentary committee’s request for similar information. This Committee has a clear legislative mandate to scrutinise expenditure by executive government arising from parliamentary appropriations.

In placing this issue in a broader context, the Committee noted that the cost of employee benefits for the general government sector, which includes wages and salaries, annual leave and long service leave, increased from $9,988.4 million in 2003-04 to $10,746.5 million in 2004-05. This represents a 7.6 per cent increase. In contrast, employee benefits increased 4.7 per cent from 2002-03 to 2003-04.

The Committee also noted that employee benefits for the general government sector for 2004-05 were budgeted at $10,480.5 million, however, actual costs were $10,746.5 million. The Department of Innovation Industry and Regional Development has advised the Committee that the government’s wages policy guidelines of a 3 per cent average annual increase was met in relation to 2004-05 Victorian public service wages outcomes. Given the Department of Treasury and

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69 ibid.
70 The general government sector comprises all government departments, offices and other bodies engaged in providing services free of charge or at prices significantly below their cost of production. (Source: Department of Treasury and Finance, 2004-05 Annual Financial Report for the State of Victoria, p.191)
72 ibid., p.64
74 Department of Innovation Industry and Regional Development, response to the Committee’s 2005-06 Budget Estimates questionnaire, received 5 May 2005, p.22
Finance would have factored this level of increase into its budget estimates, the Committee would have expected minimal difference between 2004-05 budgeted and actual employee costs. The Committee therefore considers that the additional salary costs from progression payments under the VPS career structure would be a factor in these cost increases.

This Committee will continue to pursue this issue at the forthcoming budget estimates hearings.

3.2 Stress related WorkCover claims

The Committee reported in its Report on the 2002-03 Budget Outcomes and its Report on the 2003-04 Budget Estimates that the Victorian public sector workforce has a relatively high proportion of employees on stress leave. During the 2003-04 Budget Estimates process, the Minister for WorkCover acknowledged that the incidence of stress claims had increased across all sections of the Victorian public service, but the Committee was informed that a number of WorkSafe strategies had been developed to address this problem. Figures provided by departments in the 2004-05 Budget Outcomes questionnaire indicate that this problem is continuing to grow, although at a modest rate.

The Committee noted in the departments’ responses to the 2004-05 Budget Outcomes questionnaire that the estimated cost and the number of claims attributed to stress had increased modestly, by 0.4 per cent and 2.4 per cent respectively (exhibit 3.1). For the departments, budget funded agencies and the Parliamentary Departments, the cost of these claims was estimated to be $19.8 million in 2004-05, which was $81,710 higher than $19.7 million in 2003-04 (exhibit 3.1). The estimated cost for stress claims in 2004-05 varied by agency, with the largest being: public hospitals ($5.9 million); Department of Human Services ($4.8 million); Victoria Police ($2.8 million); Department of Education and Training ($2.5 million); and Rural Ambulance Victoria ($1.1 million). Collectively, the Department of Human Services, public hospitals and ambulance services accounted for 64 per cent of the total estimated cost of stress related claims in 2004-05.

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78 Includes TAFE institutes, public hospitals, Rural Ambulance Victoria, Ambulance Service Victoria Metropolitan Region, VicRoads, Victoria Police, Metropolitan Fire and Emergency Services Board, Country Fire Authority, Office of Police Integrity, Office of Chief Parliamentary Counsel and State Revenue Office
79 Departments’ responses to the Committee’s 2004-05 Budget Outcomes questionnaire: Department of Human Services, received 13 January 2006, pp.5–6; Department of Justice, received 9 January 2006, p.11; Department of Education and Training, received 6 January 2006, p.5
Stress related claims represent a relatively small but growing share of the total workers compensation claims made in Victoria. In 2004-05, the Victorian WorkCover Authority reported 30,489 workers compensation claims lodged, of which 2,773 were stress related.\(^{80}\) As a share of total claims, stress related claims increased from 4.8 per cent in 1995-96 to 9.1 per cent in 2004-05.\(^{81}\)

The Committee noted with interest the results of a recent survey of state employees by the State Services Authority. The People Matter Survey 2005 indicates:

...only 62 per cent of employees agree that their workplace is free from bullying and harassment; 37 per cent had observed these behaviours in their organisation; and just over one in five people (21 per cent) had personally experienced harassment or bullying in the 12 months prior to the survey.\(^{82}\)

While the Committee recognises that the factors contributing to stress related workers compensation claims are complex, and the factors contributing to claims may not strictly relate to workplace circumstances or experiences in some cases, it recognises that on occasions there can be a connection between bullying behaviour and workplace stress. As a consequence, the Committee is concerned about the results of this survey, not only in terms of the cost of stress claims and the potential loss of productive staff, but also because the state has a legal obligation to provide a safe environment for its employees.

In departmental responses to the Committee’s 2004-05 Budget Outcomes questionnaire, only one department – the Department of Justice – identified that it addresses the major causes of stress related claims through an emphasis on the use of anti-bullying programs.\(^{83}\) Given the results of the People Matter Survey 2005, the Committee suggests that workplace bullying become a key area of attention through further research in the Victorian public sector, evaluation of existing strategies, and the development of a service-wide anti-bullying strategy.

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\(^{81}\) ibid.


\(^{83}\) Department of Justice, response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 12 January 2006, p.13
The Committee recommends that:

**Recommendation 8:** The State Services Authority, or the Victorian WorkCover Authority:

(a) undertake further research on workplace bullying in the Victorian public sector;

(b) evaluate the effectiveness of existing deterrent strategies; and

(c) if necessary, develop further strategies to address these problems.

In 2004-05, 16 per cent of all stress claims and 24 per cent of the total cost of stress claims came from the Department of Human Services. The Committee noted and welcomes the implementation of a stress prevention pilot project – in partnership with the Community and Public Sector Union and WorkSafe Victoria – within the department. The department reported to the Committee that following evaluation, lessons from the pilot program will be used to implement a suitable model within the department.

The following exhibit 3.1 shows the stress claims information for departments, budget funded agencies (TAFE institutes, public hospitals, Rural Ambulance Victoria, Ambulance Service Victoria Metropolitan Region, VicRoads, Victoria Police, Metropolitan Fire and Emergency Services Board, Country Fire Authority, Office of Police Integrity, Office of Chief Parliamentary Counsel and State Revenue Office) and the parliamentary departments.

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84 Department of Human Services, response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 13 January 2006, p.7
85 ibid.
### Exhibit 3.1: Stress related claims by departmental portfolios

<table>
<thead>
<tr>
<th>Department</th>
<th>Claims lodged 2003-04 (number)</th>
<th>Claims lodged 2004-05 (number)</th>
<th>Variation (a)</th>
<th>Variation (a) (per cent)</th>
<th>Cost of claims 2003-04 ($)</th>
<th>Cost of claims 2004-05 ($)</th>
<th>Variation (a) ($)</th>
<th>Variation (a) (per cent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Department of Education and Training (b)</td>
<td>225</td>
<td>227</td>
<td>2</td>
<td>0.9</td>
<td>2,280,106</td>
<td>3,353,288</td>
<td>1,073,182</td>
<td>47.1</td>
</tr>
<tr>
<td>Department of Human Services (c)</td>
<td>312</td>
<td>334</td>
<td>22</td>
<td>7.1</td>
<td>13,937,475</td>
<td>12,607,233</td>
<td>-1,330,242</td>
<td>-9.5</td>
</tr>
<tr>
<td>Department of Infrastructure (d)</td>
<td>17</td>
<td>7</td>
<td>-10</td>
<td>-58.8</td>
<td>250,358</td>
<td>46,764</td>
<td>-203,594</td>
<td>-81.3</td>
</tr>
<tr>
<td>Department of Innovation, Industry and Regional Development</td>
<td>2</td>
<td>4</td>
<td>2</td>
<td>100.0</td>
<td>21,939</td>
<td>4,940</td>
<td>-16,999</td>
<td>-77.5</td>
</tr>
<tr>
<td>Department of Justice (e)</td>
<td>306</td>
<td>304</td>
<td>-2</td>
<td>-0.7</td>
<td>2,660,008</td>
<td>3,474,270</td>
<td>814,262</td>
<td>30.6</td>
</tr>
<tr>
<td>Department of Premier and Cabinet (f)</td>
<td>3</td>
<td>7</td>
<td>4</td>
<td>133.3</td>
<td>71,679</td>
<td>172,402</td>
<td>100,723</td>
<td>140.5</td>
</tr>
<tr>
<td>Department of Primary Industries</td>
<td>3</td>
<td>8</td>
<td>5</td>
<td>166.7</td>
<td>7,948</td>
<td>25,116</td>
<td>17,168</td>
<td>216.0</td>
</tr>
<tr>
<td>Department of Sustainability and Environment</td>
<td>7</td>
<td>7</td>
<td>0</td>
<td>-</td>
<td>356,831</td>
<td>40,169</td>
<td>-316,662</td>
<td>-88.7</td>
</tr>
<tr>
<td>Department of Treasury and Finance (g)</td>
<td>0</td>
<td>2</td>
<td>2</td>
<td>n/a</td>
<td>0</td>
<td>53,035</td>
<td>53,035</td>
<td>n/a</td>
</tr>
<tr>
<td>Department for Victorian Communities</td>
<td>2</td>
<td>1</td>
<td>-1</td>
<td>-50.0</td>
<td>6,977</td>
<td>1,159</td>
<td>-5,818</td>
<td>-83.4</td>
</tr>
<tr>
<td>Parliamentary Departments</td>
<td>3</td>
<td>0</td>
<td>-3</td>
<td>-100.0</td>
<td>103,345</td>
<td>-</td>
<td>-103,345</td>
<td>-100.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>880</strong></td>
<td><strong>901</strong></td>
<td><strong>21</strong></td>
<td><strong>2.4</strong></td>
<td><strong>19,696,666</strong></td>
<td><strong>19,778,376</strong></td>
<td><strong>81,710</strong></td>
<td><strong>0.4</strong></td>
</tr>
</tbody>
</table>
Notes:  
(a) a negative variance indicates the number of claims/claims costs for 2004-05 were lower than 2003-04
(b) includes TAFE institutes
(c) includes public hospitals, Rural Ambulance Victoria and Ambulance Service Victoria Metropolitan Region
(d) includes VicRoads
(e) includes Victoria Police, Metropolitan Fire and Emergency Services Board and Country Fire Authority
(f) includes Office of Police Integrity and Office of Chief Parliamentary Counsel
(g) Includes State Revenue Office

n/a not applicable

Sources: Departments’ responses to the Committee’s 2004-05 Budget Outcomes questionnaire: Department of Education and Training, received 6 January 2006, pp.5–6; Department of Human Services, received 13 January 2006, pp.5–6; Department of Infrastructure, received 22 December 2005, p.8; Department of Innovation, Industry and Regional Development, received 21 December 2005, p.6; Department of Justice, received 9 January 2006, pp.11–12; Department of Premier and Cabinet, received 23 December 2005, pp.4–5; Department of Primary Industries, received 20 December 2005, p.9; Department of Sustainability and Environment, received 20 January 2006, p.14; Department of Treasury and Finance, received 29 December 2005, p.5; Department for Victorian Communities, received 21 December 2005, p.6; Parliamentary Departments, received 10 February 2006, p.5
The aggregated information in exhibit 3.1 does not show the significant differences in the number of stress related claims across the departmental portfolios. Public servants in the health, policing and education sectors generally have higher claims. For 2004-05 the statistics were: Victoria Police (264 claims); Department of Education and Training (206); Department of Human Services (145); and public hospitals (163).\(^86\) Collectively, the stress claims of Victoria Police, Department of Education and Training, Department of Human Services and public hospitals accounted for 86 per cent of the total stress related claims in 2004-05.

Six departments advised the Committee the number of stress related claims in their organisation had increased in 2004-05,\(^87\) while three departments reported a decline.\(^88\) Staffing information provided to the Committee also showed there had been an increase in aggregate staff numbers\(^89\) in 2004-05.\(^90\) Of the budget funded agencies, the number of stress claims for Victoria Police increased by 12 in 2004-05.\(^91\)

The Committee is aware the decline in the cost of stress claims can be attributed to an active return-to-work program and collaboration with insurers in investigating the circumstances that caused the stress.

Departments advised the Committee that early intervention and early return-to-work programs were a key part of their strategies to manage stress related claims.\(^92\) Most departments reported at least some positive impact from their strategies. Ongoing evaluation of these programs will need to occur to ensure they remain effective.

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86 Departments’ responses to the Committee’s 2004-05 Budget Outcomes questionnaire: Department of Human Services, received 13 January 2006, pp.5–6; Department of Justice, received 9 January 2006, p.11; Department of Education and Training, received 6 January 2006, p.5
87 Department of Education and Training (4 claims); Department of Human Services (15 claims); Department of Innovation, Industry and Regional Development (2 claims); Department of Premier and Cabinet (2 claims); Department of Primary Industries (5 claims); Department of Treasury and Finance (1 claim)
88 Department of Infrastructure (1 claim); Department of Justice (13 claims); Department for Victorian Communities (1 claim)
89 The Committee was not provided with staff numbers for public hospitals, Rural Ambulance Victoria and the Ambulance Service Victoria Metropolitan Region (source: Department of Human Services, response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 13 January 2006, p.6)
90 Departments’ responses to the Committee’s 2004-05 Budget Outcomes questionnaire: Department of Education and Training, received 6 January 2006, pp.5–6; Department of Human Services, received 13 January 2006, pp.5–6; Department of Infrastructure, received 22 December 2005, p.8; Department of Innovation, Industry and Regional Development, received 21 December 2005, p.6; Department of Justice received 9 January 2006, pp.11–12; Department of Premier and Cabinet received 23 December 2005, pp.4-5; Department of Primary Industries received 20 December 2005, p.9; Department of Sustainability and Environment received 20 January 2006, p.14; Department of Treasury and Finance received 29 December 2005, p.5, Department for Victorian Communities received 21 December 2005, p.6; Parliamentary Departments, received 10 February 2006, p.5
91 Department of Justice, response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 9 January 2006, p.11
92 Department of Justice, response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 9 January 2006, p.13; Department of Sustainability and Environment, response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 20 January 2006, p.14; Department of Primary Industries, response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 20 December 2006, pp.10-11; Department of Human Services, response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 13 January 2006, pp.6–7
The Committee recommends that:

**Recommendation 9:** The State Services Authority, or the Victorian WorkCover Authority, continue to conduct evaluations of departmental strategies to promote early return to work following a stress related claim.

The Committee noted that Victoria Police has reported some success in 2004-05 in reducing:

- the frequency of stress related claims caused by discrimination/harassment, work pressure, and workplace conflict; and
- the duration of stress claims caused by critical incidents and work pressure.

The Committee welcomes Victoria Police’s ongoing commitment to reducing stress through means such as re-launching its stress intervention program, developing a Prevention and Resolution of Workplace Conflict policy, and establishing an Equity and Conflict Resolution Unit. The Committee also welcomes the ongoing provision of support to police following critical incidents, through de-briefing sessions and counselling. This support has played a key role in reducing the duration of stress claims at Victoria Police.

Departments identified the following factors that contributed to stress related claims:

- organisational change;
- workload and personal/social issues;
- performance management processes/issues, management of unsatisfactory/unacceptable performance and/or behaviour in the workplace; and
- conflict with managers and/or colleagues.

The Committee noted ongoing efforts by departments to understand and address issues relating to stress related claims, with these efforts likely to contribute to reducing both the incidence and cost of future claims. The benefits from lower direct and indirect costs of occupational stress highlight the value of ongoing reviews.

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93 Department of Justice, response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 9 January 2006, p.13
94 ibid.
95 ibid.
96 Departments’ responses to the Committee’s 2004-05 Budget Outcomes questionnaire: Department of Human Services, received 13 January 2006, p.6; and Department of Primary Industries, received 20 December 2005, p.10
The Committee recommends that:

**Recommendation 10:** The State Services Authority, or the Victorian WorkCover Authority, continue to conduct research into the factors contributing to stress related workers compensation claims in the Victorian public sector.

### 3.3 Performance bonuses paid in departments and selected agencies

#### 3.3.1 Percentage spread of bonus allocations to executives

Bonuses are payable only to executive officers (EOs) whose performance is rated at 3 or 4 in the four level rating scale (exhibit 3.2).\(^97\)

**Exhibit 3.2:** Rating scale for performance related incentive payments made to executives in government departments

<table>
<thead>
<tr>
<th>Rating</th>
<th>Category</th>
<th>Bonus range (proportion of total remuneration package) (%)</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rating 4</td>
<td>Exceptional</td>
<td>9 – 17</td>
<td>Exceeds the requirements of all criteria and far exceeds expectations in the more critical areas</td>
</tr>
<tr>
<td>Rating 3</td>
<td>Superior</td>
<td>0 – 8</td>
<td>Exceeds the requirements of most criteria</td>
</tr>
<tr>
<td>Rating 2</td>
<td>Competent</td>
<td>No bonus</td>
<td>Meets all or most criteria</td>
</tr>
<tr>
<td>Rating 1</td>
<td>Improvement required</td>
<td>No bonus</td>
<td></td>
</tr>
</tbody>
</table>

*Source: Department of Premier and Cabinet, Executive Employment Handbook pp.60-61*

According to the *Executive Employment Handbook*, the consistent application of the rating scale is designed to assure fairness of decision making across departments and to promote efficient data collection for whole of government reporting and analysis.\(^98\) It is also intended that, in part, the processes established for executive performance assessment and allocation of performance pay provide outcomes generally consistent across the Victorian public sector.\(^99\)

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\(^{98}\) ibid. pp.60–61

\(^{99}\) ibid.
The Committee was interested in examining whether the actual range of bonuses paid by public sector agencies, expressed as a percentage of the executives’ remuneration package, was in accordance with the percentage spread of bonus allocations as per the government’s Performance Management Policy set out in the *Executive Employment Handbook* and was generally consistent across the Victorian public sector. Exhibit 3.3 shows the results of this analysis.

**Exhibit 3.3: Bonus range paid to executives for the 2004-05 performance assessment period**

<table>
<thead>
<tr>
<th>Department/agency</th>
<th>Superior category bonus range of remuneration package (%)</th>
<th>Exceptional category bonus range of remuneration package (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Department of Education and Training</td>
<td>3 – 9</td>
<td>12 – 15</td>
</tr>
<tr>
<td>Department of Human Services</td>
<td>3 – 8</td>
<td>9 – 14</td>
</tr>
<tr>
<td>Department of Infrastructure</td>
<td>3 – 8</td>
<td>9 – 13</td>
</tr>
<tr>
<td>Southern and Eastern Integrated Transport Authority (SEITA)</td>
<td>9</td>
<td>11 – 18</td>
</tr>
<tr>
<td>VicRoads</td>
<td>2 – 8</td>
<td>9 – 12</td>
</tr>
<tr>
<td>Department of Innovation, Industry and Regional Development</td>
<td>3 – 8</td>
<td>9 – 12</td>
</tr>
<tr>
<td>Department of Justice</td>
<td>2 – 8.75</td>
<td>9</td>
</tr>
<tr>
<td>Department of Premier and Cabinet</td>
<td>3.18 – 6.44</td>
<td>8.97 – 16.79</td>
</tr>
<tr>
<td>Department of Primary Industries</td>
<td>3.3 – 10.6</td>
<td></td>
</tr>
<tr>
<td>Department of Sustainability and Environment</td>
<td>5 – 8</td>
<td>10 – 15</td>
</tr>
<tr>
<td>Department of Treasury and Finance</td>
<td>4 – 9</td>
<td>13 – 17</td>
</tr>
<tr>
<td>State Revenue Office</td>
<td>2 – 8</td>
<td></td>
</tr>
<tr>
<td>Department for Victorian Communities</td>
<td>3 – 8</td>
<td>9 – 11</td>
</tr>
</tbody>
</table>

*Source: Departments’ responses to the Committee’s 2004-05 Budget Outcomes questionnaire*

As shown in exhibit 3.3, executives whose performance was rated as superior received, in general, performance pay of between 3 and 8 per cent of their total remuneration package. In terms of varying practices between agencies for the calculation of bonuses within the established bands, the Committee noted that the Southern and Eastern Integrated Transport Authority paid executives in the superior category of performance at a flat rate of 9 per cent of total remuneration package, while the range adopted by the Department of Primary Industries varied from a low of 3.3 per cent to a high of 10.6 per cent. For those executives whose performance was rated ‘exceptional’, the most common rate for calculating performance pay was generally somewhere between 9 and 12 per cent of total remuneration package. The Committee noted, however, that the Department of Justice chose to adopt a flat rate of 9 per cent (similar to the rate applied by the Southern and Eastern Integrated Transport Authority for the ‘superior’ category), while at the other extreme, the Department of
Premier and Cabinet elected to apply a wide range of between 8.97 per cent and 16.79 per cent.

The Committee noted that, while in all cases bonuses were only paid to executives assessed above the competent level of meeting all or most criteria, five agencies paid performance related incentives that marginally exceeded in some cases the specified band for the particular performance category. These agencies were the Department of Education and Training, the Southern and Eastern Integrated Transport Authority, the Department of Justice, the Department of Primary Industries and the Department of Treasury and Finance.

The Committee considers there is room for promoting a greater level of consistency between agencies in determining the rates they apply when calculating performance pay by ensuring that agencies remain within the bands specified in the Executive Employment Handbook.

The Committee recommends that:

**Recommendation 11:** To ensure that processes established for executive performance assessment and allocation of performance pay across government agencies are fair and provide bonus ranges that are generally consistent across the Victorian public sector, the State Services Authority encourage all agencies to make performance incentive payments that fall within the bands specified by the government.

### 3.3.2 Allocation and amount of performance incentive payments made to executives

The Committee stated in its *Report on the 2002-03 Budget Outcomes* that it was surprised that more than 80 per cent of executive officers in most departments received bonuses, even though government policy stated that bonuses were to be paid only where performance was exceptional or substantially above the performance criteria.\(^{100}\) The Committee also stressed the importance of performance bonuses being assessed and applied in a consistent manner across the Victorian public sector.\(^{101}\) Drawing on the Committee’s findings from a subsequent review of bonus payments made to executives for the 2003-04 assessment period, the Committee noted that:\(^{102}\)

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\(^{100}\) Public Accounts and Estimates Committee, *Report on the 2002-03 Budget Outcomes*, April 2004, p.131

\(^{101}\) ibid., p.132

• there was an expectation that around 70-75 per cent of executive officers in the larger departments would qualify for the payment of a bonus; and
• four of the larger agencies exceeded this intended outcome.

While the government accepted in principle the Committee’s recommendation in its *Report on the 2003-04 Budget Outcomes*, that the Department of Premier and Cabinet ensure government agencies correctly apply the criteria for assessing the performance of executives, the government responded that:"^{103}

> Individual executive performance is dependent on the requirements of the individual executive’s contract. It is each department’s responsibility to ensure that the performance is correctly assessed. The Executive Handbook also provides that the threshold for a bonus is ‘superior’ performance. Effectively carrying out duties will not of itself suffice to attract a bonus.

The Committee noted that according to the 2004-2005 Executive Bonus Reporting Guidelines issued by the State Services Authority, each department should ‘target 75 per cent of executives assessed for a bonus actually receiving a bonus’.^{104} The Committee also noted that approved performance related incentive payments are to be based on work performance and departmental performance.

In collecting information on performance bonuses paid to eligible executives across certain budget funded agencies for the 2004-05 performance assessment period (exhibit 3.4), the Committee found that:

• 452 (or 78.1 per cent) of 579 eligible executives employed by departments were paid performance bonuses totalling $5,328,400 for the 2004-05 performance assessment period (81.3 per cent of the executives employed by departments were paid performance bonuses for the 2003-04 performance assessment period);

• unlike the situation for the 2003-04 assessment period where executive performance pay varied considerably between departments, in the vast majority of cases departments paid between 70 and 80 per cent of executives a performance bonus for the 2004-05 assessment period;

• with the exception of the Department of Justice, the requirement for 75 per cent of executive officers to be targeted to receive a performance bonus was generally met;

• the agencies with the highest proportion of executive officers awarded a bonus for 2004-05 were:

^{103} Victorian Government, response to the Committee’s *Report on the 2003-04 Budget Outcomes*, tabled October 2005, recommendation no.7, p.4

^{104} State Services Authority, *2004-05 Guidelines for Reporting Executive Bonuses*, p.1
the Department of Justice – 95.5 per cent (64 out of 67 executives) at a cost of $599,800 (average bonus, $9,400) – 86.4 per cent of executives awarded a bonus for 2003-04; average bonus $11,000;

the Southern and Eastern Integrated Transport Authority – 100 per cent (all seven executives) at a cost of $174,724 (average bonus, $24,961); and

the State Revenue Office – 100 per cent (all six executives) at a cost of $74,095 (average bonus, $12,349);

the Department of Primary Industries had the lowest proportion of executives paid a bonus – 70 per cent (14 out of 20 executives) at a cost of $161,300 (average bonus, $11,500); in 2003-04 100 per cent paid a bonus (average bonus, $8,700);

a significantly greater proportion of the higher classified executives in departments were paid bonuses for 2004-05 compared with EO3s – 85.1 per cent of senior executives, that is, Secretaries, EO1s and EO2s (189 of 222) compared with 73.7 per cent of EO3s (263 of 357). The Department of Education and Training and the Department of Innovation, Industry and Regional Development were the only departments where the proportion of EO3s receiving a bonus (82.1 and 75.8 per cent respectively) exceeded the combined percentage for the more senior executives of the departments (65.6 and 70.6 per cent respectively);

the proportion of EO3s paid a bonus ranged from 93.2 per cent (41 of 44) in the Department of Justice to 54.5 per cent (6 of 11) in the Department of Primary Industries;

the following departments paid 100 per cent of officers in particular classifications a bonus for the 2004-05 assessment period:
– Department of Justice: 23 officers (Secretary, EO1 and EO2)
– Department for Victorian Communities: 12 officers (Secretary, EO1 and EO2);

the proportion of executives paid a bonus for 2004-05 in the Department of Education and Training (74.6 per cent), the Department of Primary Industries (70 per cent) and the Department for Victorian Communities (80 per cent) was significantly less than for the prior period (Department of Education and Training - 88.2 per cent, Department of Primary Industries - 100 per cent and Department for Victorian Communities - 95.2 per cent);

an average performance bonus of $11,800 was paid to executives across government departments for the 2004-05 assessment period ($11,300 in 2003-04);

departments where the average performance pay increased by the largest margin from that of the previous assessment period were:
– Department of Human Services: average performance pay increased from $10,100 to $12,300 ($2,200 or 21.8 per cent);
Chapter 3: New VPS staffing structure; stress claims; and performance bonuses

- Department of Premier and Cabinet: average performance pay increased from $11,400 to $14,300 ($2,900 or 25.4 per cent); and
- Department of Primary Industries: average performance pay increased from $8,700 to $11,500 ($2,800 or 32.2 per cent);

- executives employed by the Southern and Eastern Integrated Transport Authority received, on average, the highest performance pay of $24,961 compared with an average performance pay of $11,800 across departments, the next highest average of $14,300 paid by the Department of Premier and Cabinet and the lowest average of $7,749 paid by VicRoads; and

- the average performance bonus paid to the higher classified executives (Secretaries, EO1s and EO2s) for 2004-05 amounted to $15,500 compared with an average of $9,100 for EO3s.
### Exhibit 3.4:

**Victorian budget funded agencies’ performance bonus payments to Secretaries and executive officers for the performance assessment periods 2003-04 and 2004-05**

<table>
<thead>
<tr>
<th>Department</th>
<th>Total 2003-04 (a)</th>
<th>Secretary, EO1 and EO2 2004-05</th>
<th>EO3 2004-05</th>
<th>Total 2004-05</th>
<th>Total value of bonuses paid 2004-05 (h)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>% paid a bonus</td>
<td>Total value of bonuses paid</td>
<td>Avg. bonus</td>
<td>Awarded bonus</td>
<td>Awarded bonus</td>
</tr>
<tr>
<td></td>
<td>($000)</td>
<td>($000)</td>
<td>(no.)</td>
<td>(no.) &amp; (%)</td>
<td>(no.) &amp; (%)</td>
</tr>
<tr>
<td>Parliamentary Departments (b)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Department of Education and Training (c)</td>
<td>88.2</td>
<td>735.2</td>
<td>12.3</td>
<td>37</td>
<td>21</td>
</tr>
<tr>
<td>Department of Human Services</td>
<td>80.5</td>
<td>918.8</td>
<td>10.1</td>
<td>37</td>
<td>33</td>
</tr>
<tr>
<td>Department of Infrastructure (d)</td>
<td>77.8</td>
<td>660.7</td>
<td>11.8</td>
<td>(e) 28</td>
<td>27</td>
</tr>
<tr>
<td>Department of Innovation, Industry and Regional Development</td>
<td>73.9</td>
<td>383.3</td>
<td>11.3</td>
<td>12</td>
<td>17</td>
</tr>
<tr>
<td>Department of Justice</td>
<td>86.4</td>
<td>627.2</td>
<td>11.0</td>
<td>23</td>
<td>23</td>
</tr>
</tbody>
</table>
Exhibit 3.4: Victorian budget funded agencies’ performance bonus payments to Secretaries and executive officers for the performance assessment periods 2003-04 and 2004-05 (continued)

<table>
<thead>
<tr>
<th>Department</th>
<th>Total 2003-04 (a)</th>
<th>Secretary, EO1 and EO2 2004-05</th>
<th>EO3 2004-05</th>
<th>Total 2004-05</th>
<th>Total value of bonuses paid 2004-05 (h)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>% paid a bonus</td>
<td>Total value of bonuses paid</td>
<td>Avg. bonus</td>
<td>Eligible for a bonus</td>
<td>Awarded bonus</td>
</tr>
<tr>
<td>Department of Premier and Cabinet (f)</td>
<td>76.5</td>
<td>296.1</td>
<td>11.4</td>
<td>21</td>
<td>17</td>
</tr>
<tr>
<td>Department of Primary Industries</td>
<td>100</td>
<td>139.9</td>
<td>8.7</td>
<td>9</td>
<td>8</td>
</tr>
<tr>
<td>Department of Sustainability and Environment</td>
<td>81.6</td>
<td>454.2</td>
<td>11.4</td>
<td>17</td>
<td>14</td>
</tr>
<tr>
<td>Department of Treasury and Finance (g)</td>
<td>73.2</td>
<td>622.3</td>
<td>12.0</td>
<td>22</td>
<td>18</td>
</tr>
<tr>
<td>Department for Victorian Communities</td>
<td>95.2</td>
<td>256.8</td>
<td>12.8</td>
<td>12</td>
<td>12</td>
</tr>
<tr>
<td>Total</td>
<td>81.3</td>
<td>5,094.5</td>
<td>11.3</td>
<td>222</td>
<td>189</td>
</tr>
</tbody>
</table>
Notes:  
(a) Figures do not include the new ‘Secretary’ classification created during the 2003-04 reporting period  
(b) As indicated in last year’s outcomes report, Parliament has not adopted the practice of awarding bonuses to its Executive Officers given the nature of their appointment and business. While other executive officers in the public service are normally appointed on term contracts, parliamentary executive officers are appointed on an ongoing basis (not on a fixed term) and therefore are not entitled to bonus payments. In addition, because parliamentary (executive) officers provide independent advice to all Members of Parliament, meeting targets for bonus payments may affect their ability to provide unfettered advice  
(c) The figures in the exhibit relate to the number of executive staff employed over the full financial year, not at a point of time, whose performance was reviewed in the 2004-05 cycle. To be eligible, an executive officer in the department must have worked with the department for three months or more in the review cycle  
(d) In addition to Department of Infrastructure staff, 57 (79.2 per cent) of the 72 executive officers at VicRoads were awarded a performance bonus for the 2004-05 assessment period at a total cost of $441,684 (average bonus of $7,749). In comparison with the 2003-04 assessment period, 67 (91 per cent) of the 74 executive officers at VicRoads were awarded a bonus at a total cost of $569,816 (average bonus of $8,505). Of the seven executive officers eligible for performance payments in the Southern and Eastern Integrated Transport Authority, in 2004-05 all were awarded a bonus at a total cost of $174,724 (average bonus of $24,961)  
(e) The number of eligible executive officers includes all officers employed for all or part of 2004-05. It is not the number of executive officers  
(f) In addition to Department of Premier and Cabinet central staff, 10 (83.3 per cent) of the 12 executive officers at the department’s statutory agencies (State Services Authority, Office of the Chief Parliamentary Counsel, Office of Police Integrity and the Ombudsman) were awarded a performance bonus for the 2004-05 assessment period at a total cost of $117,659 (average bonus of $11,766)  
(g) In addition to Department of Treasury and Finance staff, six (100 per cent) of the executive officers at the State Revenue Office were awarded a performance bonus for the 2004-05 assessment period at a total cost of $74,095 (average bonus of $12,349)  
(h) Calculated by the Public Accounts and Estimates Committee  

Sources: Departmental responses to the Committee’s 2004-05 Budget Outcomes questionnaire and follow-up questions; and Public Accounts and Estimates Committee, Report on the 2003-04 Budget Outcomes, April 2005, pp.86–88
The Committee acknowledges that the performance of the most senior executives across government agencies has continued to be assessed at a very high standard throughout 2004-05 and it agrees with the government that it is each agency’s responsibility to ensure that performance is correctly assessed in line with the established performance criteria. The Committee maintains that, if the vast majority of the most senior executives are assessed as being very high achievers in a particular year, it is reasonable to expect that this pattern would also be reflected in the proportion of lower level executives and managers receiving performance pay, a trend that is not obvious in the significantly lower proportion of EO3s awarded performance pay for 2004-05 across most departments. Generally speaking, it could be argued that it is incongruous for the most senior managers to be rewarded for performance of a superior or exceptional nature, and not those who contribute to their success. The Committee also maintains that performance conditions should be more challenging in the following year, having the effect of ‘stretching’ individual and organisational performance.

The Committee also stresses that annual bonuses should not be allowed to become another guaranteed element of executive remuneration, but rather, they should always be awarded on the basis of exception for executives whose performance can be clearly demonstrated to be superior or exceptional.
The Committee recommends that:

**Recommendation 12:** Given that the vast majority of the most senior executives in government agencies continued to be assessed as performing at a level that exceeded the requirements of most or all criteria, and in some cases even far exceeded the expectations in the more critical areas, the characteristics of superior or exceptional performance be described in a personal achievements section of the annual reports of departments:

(a) as recognition of performance excellence for the year; and

(b) to demonstrate how this level of executive performance was linked to organisational performance, thereby contributing to achieving or exceeding planned outputs and outcomes for the year, bearing in mind that executives effectively carrying out their duties should not receive a bonus. As part of the process of disclosing the parameters used to determine eligibility, performance pay should be linked to performance on social, environmental and financial criteria as well as on ethical issues where appropriate.

**Recommendation 13:** The prevalence of bonuses paid to the most senior executives in agencies in a given year be reflected in the proportion of lower level executives receiving performance pay in the same performance assessment period.

**Recommendation 14:** Where the performance of executives has been assessed as superior or exceptional, performance criteria and targets be made more challenging for the following year.

### 3.3.3 Disclosure of bonuses paid to departmental Secretaries and senior executives

A review of annual reports disclosed only minimal information relating to annual bonuses paid to individual executives. For annual reporting purposes, departments disclosed information relating to the remuneration of responsible persons and
executive officers according to numbers that fall within income bands. Details were presented in two forms - according to base remuneration as well as total remuneration which included bonus payments, long service leave payments and redundancy and retirement. This practice, which only enabled a comparison of the number of responsible persons and executive officers within income bands, categorised according to base remuneration and total remuneration for each department that included bonus payments, led the Committee to seek further information from departments in an effort to make performance pay more transparent.

At the outset, the Committee endeavoured to obtain details that differentiated between the performance bonuses paid to departmental Secretaries and executives in aggregate at each of the EO1, EO2 and EO3 levels. While this information was not forthcoming in the prescribed format, three departments elected to combine the upper ranges with that of the EO2 level; seven departments did not provide any details on the basis that the information sought by the Committee had the potential to breach privacy provisions of individual executives. As a compromise, the Committee requested and received from the remaining seven departments, information that consolidated performance pay relating to the Secretary and EO1s with that of the EO2 classification level.

The Committee considers that the disclosure requirements for listed companies relating to compensation payments made to each key management person as contained in the accounting standards and corporations law should apply to the most senior managers of government departments and associated agencies, that is, departmental Secretaries and EO1s. In the same way that shareholders of companies have a right to know relevant details relating to the emoluments paid to their most senior company executives, the Committee considers that this principle should be embodied in the financial reporting disclosure requirements for all public sector agencies, so that taxpayers are aware of the nature and amounts that comprise senior executive remuneration. The Committee does not consider that this level of disclosure will impinge on the privacy of individuals. In fact, there is no reason why the remuneration of the five highest paid executives, including the Secretary or Chief Executive Officer in each agency, should not be disclosed separately in departmental financial statements and annual reports in the same way that applies to listed companies.

105 Australian Accounting Standards Board, *AASB 124, Related Party Disclosures*, December 2005, paragraph 25.4
106 *Corporations Act* 2001, s.300A, Annual directors’ report – specific information to be provided by listed companies
The Committee recommends that:

**Recommendation 15:** The financial statements and annual reports of all public sector agencies disclose full details of remuneration packages paid to the most senior executives in those organisations, including the payment of performance bonuses.
CHAPTER 4: ENVIRONMENTAL REPORTING; PROJECT ROSETTA; ADVERTISING AND PROMOTIONAL EXPENDITURE

Key findings of the Committee:

4.1 Most departments have advised they are on track to achieve a 15 per cent reduction in energy use in buildings by June 2006. The degree to which some departments have exceeded this target suggests that future targets need to be made more challenging.

4.2 Current greenhouse energy efficiency and emission reduction targets to be met by June 2006 could be expanded to include, for example, the level of greenhouse gas emissions from total energy use.

4.3 Departments are not required to report progress in meeting these June 2006 targets in annual reports. Any establishment of targets beyond this date should include a requirement for this to occur.

4.4 Financial Reporting Direction (FRD) 24 - Reporting of Office-Based Environmental Impacts by Government Departments does not require departments to report in their annual reports the financial implications of environmental impacts. FRD 24 should also be more explicit in requiring departmental annual reports to include comparisons with previous years’ results.

4.5 Victorian departments are required to audit their Environmental Management Systems (EMS) and appoint an environmental auditor under the Environmental Protection Act 1970. The Committee supports the inclusion of a verification statement from the environmental auditor on the accuracy and completeness of EMS data that is reported in the annual report under FRD 24. Currently the Auditor-General does not form an opinion on the accuracy and completeness of this data.

4.6 If the government is to progress the standard of environmental reporting within the Victorian public sector, significant challenges remain. These include extending the coverage of FRD 24 to include non office-based environmental reporting and moving towards the introduction of triple bottom line reporting. In relation to triple bottom line reporting, the Victorian public sector appears to lag behind the Commonwealth Government.
4.7 The roll out of Project Rosetta, the whole of government integrated electronic directory service, across all ten government departments is to be completed in May 2006, instead of the original December 2005 timeframe. Changes in project scoping and additional complexities were the reasons for the delay.

4.8 The Telecommunications Purchasing and Management Strategy (TPAMS) provided funding for Project Rosetta. The project budget was $15.4 million. Total project expenditure to June 2005 was $7.6 million, or 49 per cent of budget.

4.9 Additional departmental resources including staff and related on-costs, and overheads consumed in the roll out of Project Rosetta have not been determined.

4.10 Expenditure by departments in 2004-05 on 18 advertising and promotional programs costing in excess of $100,000 amounted to $14.2 million, with four programs involving expenditure of $1 million or more.

4.11 The annual reporting requirements of departments should be expanded to incorporate information on the cost and management of government advertising and promotional programs.

4.1 Environmental reporting

4.1.1 Background

At the national Business Leaders Forum on Sustainable Development in February 2002, the Premier announced a commitment to introduce best practice for environmental management in government departments. Departments were required to:

- adopt an environmental management system (EMS);
- develop an environmental improvement plan that includes waste reduction targets;
- comply with green purchasing policy;
- report annually on their environmental performance; and
- audit their EMS.

An EMS is defined as:108

...a program that can be used to identify, manage and reduce an organisation’s impact on the environment and generate reports on environmental performance progress. It provides a systematic and methodical approach to planning, implementing and reviewing an organisation’s response to those impacts.

By implementing an EMS, an organisation can ensure that addressing environmental issues is explicitly incorporated into normal business operations.

Financial Reporting Direction 24 (FRD 24) requires all departments and environmental agencies to report in their annual reports on office-based consumption of natural resources and related greenhouse gas emissions covering energy use, waste production, paper use, water consumption, and transportation on a total and per unit basis.109

FRD 24 also indicates that from September 2004 entities must report on their environmental performance in their 2003-04 annual reports.110

The government set the following energy efficiency and emission reduction mandatory targets, measured from a baseline of 1999-2000, that were to be achieved by June 2006:111

- a 15 per cent reduction in energy use in buildings;
- ten per cent of electricity to be purchased in the form of green power; and
- a ten per cent reduction in greenhouse gas emissions from the government’s passenger vehicle fleet.

The government also established a Commissioner for Environmental Sustainability in 2003, under the Commissioner for Environmental Sustainability Act 2003. Under section 7 of the Act, the objectives of the commissioner are to:

- report on matters relating to the condition of the natural environment of Victoria;
- encourage decision making that assists ecologically sustainable development;
- enhance knowledge and understanding of issues relating to ecologically sustainable development and the environment; and

108 ibid.
109 Department of Treasury and Finance, Financial Reporting Directions, FRD 24 Reporting of Office-Based Environmental Impacts by Government Departments, 14 June 2002 pp.1–2
110 ibid., p.4
• encourage sound environmental practices and procedures to be adopted by the Victorian Government and local government as a basis for ecologically sustainable development.

4.1.2 Current status of environmental reporting

While FRD 24 requires departments to include environmental reporting information in their annual reports, the Committee noted a wide variation in the level of disclosure. Also FRD 24 indicates that in addition to areas of mandatory reporting, departments can report on a broader set of performance criteria if desired, although the Committee noted this option is generally not taken up.

In some cases, departments only reported the minimum FRD 24 requirements, while other departments provided comparisons of environmental impacts to previous years’ results or, as well as these points, progress on achieving certain mandatory June 2006 greenhouse energy efficiency and emission reduction targets referred to above. The Committee considers that the Department of Sustainability and Environment’s annual report provides a good example of a high level of public disclosure on environmental issues.

In addition, the Commissioner for Environmental Sustainability completed the first strategic audit of Victorian agencies’ environmental management systems under Section 18 of the Commissioner for Environmental Sustainability Act 2003 in January 2005. The report on this audit indicated that:

This annual audit reports on the effectiveness of these systems and ensures the Victorian Government is given the opportunity to understand its performance and achieve best practice in this process.

The commissioner commented that:

The first audit acknowledges that agencies are at varying stages of implementing their EMS programs and that it is too early to report quantitative progress towards meeting EMS objectives and targets.

113 Department of Education and Training, 2004-05 Annual Report, p.137
114 Department of Human Services, 2004-05 Annual Report, p.140
115 Department of Sustainability and Environment, 2004-05 Annual Report, pp.70–71
117 Ibid.
The report noted that processes for auditing and reviewing of EMS were the least developed area. The report recommended that:118

*independent EMS audit parameters, structure and deliverables be set centrally to communicate the required detail for independent EMS audits and to ensure individual audit reports are of similar scope and quality.*

The Commissioner’s second strategic audit of environmental management systems in 2006 concluded that despite progress in agencies’ ability to monitor and report environmental data:119

*there are still considerable improvements required to enhance existing data collection, analysis, reporting and feedback systems both at agency and WoVG level.*

**4.1.3 Reporting progress against Victorian Greenhouse Strategy mandatory targets**

Exhibit 4.1 indicates that most departments have advised the Committee that they are on track to achieve the 2006 greenhouse target for a 15 per cent reduction in energy use in buildings. The degree to which some departments have exceeded this target as at June 2005 suggests future targets should be made more challenging.

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118 ibid., p.9
119 ibid., p.36
## Exhibit 4.1: Progress against mandatory targets as at June 2005

<table>
<thead>
<tr>
<th>June 2006 target</th>
<th>Department of Education and Training (%)</th>
<th>Department of Human Services (%)</th>
<th>Department of Infrastructure (%)</th>
<th>Department of Innovation, Industry and Regional Development (%)</th>
<th>Department of Justice (%)</th>
<th>Department of Premier and Cabinet (%)</th>
<th>Department of Primary Industries (%)</th>
<th>Department of Sustainability and Environment (%)</th>
<th>Department of Treasury and Finance (%)</th>
<th>Department for Victorian Communities (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fifteen per cent reduction in energy use in buildings</td>
<td>4.6</td>
<td>14</td>
<td>17.4</td>
<td>Not provided</td>
<td>27.4</td>
<td>11</td>
<td>15.9</td>
<td>9.6</td>
<td>11</td>
<td>17.3</td>
</tr>
<tr>
<td>Ten per cent of electricity purchased in the form of green power</td>
<td>10 (a)</td>
<td>5.6</td>
<td>6.7</td>
<td>Not provided</td>
<td>5</td>
<td>12</td>
<td>5.4</td>
<td>4.2</td>
<td>10</td>
<td>6.2</td>
</tr>
<tr>
<td>Ten per cent reduction in greenhouse gas emissions from the government’s passenger fleet</td>
<td>(b)</td>
<td>(b)</td>
<td>(c)</td>
<td>Not provided</td>
<td>(b)</td>
<td>(b)</td>
<td>(b)</td>
<td>(b)</td>
<td>(d)</td>
<td>(b)</td>
</tr>
</tbody>
</table>

**Notes:**

- (a) Applies to Department of Education and Training major office buildings only
- (b) The department advised that they provide information directly to the Department of Treasury and Finance for collation and analysis. The Department of Treasury and Finance has advised that they are unable to provide at this stage across the board information in relation to this target.\(^{120}\)
- (c) Compared to the 2001-02 baseline year, greenhouse gas emissions have slightly decreased, despite departmental growth. Department of Infrastructure is increasing its 'green fleet' (hybrid, LPG and 4-cylinder vehicles) in a bid to achieve further reductions.

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\(^{120}\) Department of Treasury and Finance, email, received 10 February 2006
(d) A number of initiatives have been implemented to achieve this goal by seeking to improve fuel efficiency, promoting alternative travel options, introducing the requirement that vehicles that are expected to travel more than 30,000 kilometres a year must be LPG or 4-cylinder vehicles. These initiatives are continuously reviewed. An updated method of assessing GHG emissions is in progress and results will be made available as soon as possible.

Sources: Department of Education and Training, response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 6 January 2006, p.10 and Department of Education and Training, email, received 2 March 2006; Department of Human Services, response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 13 January 2006, p.11; Department of Infrastructure, response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 22 December 2005, p.14; Department of Innovation, Industry and Regional Development, response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 21 December 2005, p.11; Department of Justice, response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 9 January 2006, p.17; Department of Premier and Cabinet, response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 23 December 2005, p.8; Department of Primary Industries, response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 20 December 2005, p.14; Department of Sustainability and Environment, response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 20 January 2006, p.21; Department of Treasury and Finance, response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 29 December 2005, p.9; Department for Victorian Communities, response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 21 December 2005, p.12
4.1.4  **Financial savings – office-based environmental impacts under FRD 24**

Exhibit 4.2 indicates that some departments are able to quantify or estimate financial savings from environmental programs, while others were unable to provide this data.

It should be emphasised that reducing environmental impacts of departments’ office-based activities, rather than achieving financial savings, are the main focus of FRD 24. On the other hand, the Committee considers it important that the financial implications arising from environmental impacts are monitored. The Department of Innovation, Industry and Regional Development acknowledged the higher cost of purchasing green power.\textsuperscript{121} Reporting in financial terms is commented on later in this report.

\textsuperscript{121} Department of Innovation, Industry and Regional Development, response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 21 December 2005, p.10
### Exhibit 4.2: Estimated financial savings - Office-based environmental impacts 2004-05 (a)

<table>
<thead>
<tr>
<th>Department</th>
<th>2003-04</th>
<th>2004-05</th>
<th>Energy use</th>
<th>Paper use</th>
<th>Transportation</th>
<th>Waste production</th>
<th>Water consumption</th>
</tr>
</thead>
<tbody>
<tr>
<td>Department of Human Services</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>2003-04</td>
<td>2004-05</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Department of Infrastructure</td>
<td>-</td>
<td>-</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Department of Innovation, Industry and Regional</td>
<td>-</td>
<td>-</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Development</td>
<td>(a)</td>
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<tr>
<td>Department of Justice</td>
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<tr>
<td>Department of Primary Industries</td>
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<tr>
<td>Department of Sustainability and Environment</td>
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<tr>
<td>Department of Treasury and Finance</td>
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<td>Department for Victorian Communities</td>
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</tbody>
</table>

**Notes:**

(a) Departments’ responses to the Public Accounts and Estimates Committee’s 2004-05 Budget Outcomes questionnaire for the Department of Premier and Cabinet, (p.8) and Department of Education and Training, (p.9) stated that no data was available

(b) the total cost of paper use in 2004-05 was $95,332

(c) n/a – data not available

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122 ibid.
123 ibid.
124 ibid.
Sources: Department of Human Services, response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 13 January 2006, p.11; Department of Infrastructure, response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 22 December 2005, p.13; Department of Innovation, Industry and Regional Development, response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 21 December 2005, p.10; Department of Justice, response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 9 January 2006, p.17; Department of Primary Industries, response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 20 December 2005, p.13; Department of Sustainability and Environment, response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 20 January 2006, p.20; Department of Treasury and Finance, response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 29 December 2005, p.8; Department for Victorian Communities, response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 21 December 2005, p.11
4.1.5 Improvements in current environmental reporting arrangements

The Committee has identified a number of potential improvements in environmental reporting within the following areas.

(a) Targets to assess agency performance

The Committee noted that FRD 24 requires the reporting of environmental impacts in terms of energy use, waste production, paper usage, water consumption and transportation use as part of each agency’s annual reporting. Unlike the Victorian Greenhouse Strategy, no reporting of the achievement of targets is required to allow an assessment of departmental performance in reducing environmental impacts in these areas.

Greenhouse targets cover a more defined number of areas, namely energy use, purchase of green power, and greenhouse gas emissions from the vehicle fleet. These environmental targets must be met by June 2006. The Committee’s view is these targets should be reviewed in terms of their application beyond June 2006 to examine whether existing environmental targets need to be redefined or expanded. For example, this may include broadening the target of greenhouse gas emissions to include total energy use, not just emissions from the government vehicle passenger fleet.

(b) Reporting environmental impacts in financial and comparative terms

FRD 24 requires departments to disclose in their annual report information on office-based environmental impacts on energy use, waste production, paper use, water consumption, transportation and green purchasing on a total and per unit basis. The Committee considers that in addition to reporting on energy use within these key areas, the cost and any savings from environmental programs should also be included in each department’s annual report. The Committee’s view is that details expressed in financial terms, where available, are more meaningful to the public and to employees.

Further, while reporting of environmental impacts under FRD 24 relates to a particular financial year, the Committee noted that some departments have included comparative data from 2003-04 in their 2004-05 annual report while other departments have not. The Committee considers that FRD should explicitly state that departments should

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125 Department of Treasury and Finance, Financial Reporting Directions, FRD 24 Reporting of Office-Based Environmental Impacts by Government Departments, 14 June 2002, p. 2
include data from previous financial years for comparison purposes in annual reports, in terms of environmental impacts as well as associated costs and savings.

(c) Progress reporting against mandatory targets in annual reports

The Department of Sustainability and Environment has included progress reporting on meeting certain June 2006 greenhouse energy efficiency and emission reduction targets in its 2004-05 annual report.\(^{126}\) The Committee found that because departments are not required to report on the extent of progress achieved in their annual reports, this approach tends to be the exception rather than the rule.

The Victorian Greenhouse Strategy Action Plan Update 2005 commented that:\(^{127}\)

\begin{quote}
Targets for reducing energy use in buildings and in the transport fleet will continue to be pursued vigorously and will be reviewed to determine further action beyond the target date of June 2006.
\end{quote}

The Committee considers that any establishment of new targets beyond 2006 should include a requirement that progress in achieving these targets be reported in annual reports.

(d) Auditor's verification statement

The Auditor-General currently does not form an opinion on the accuracy or completeness of environmental data reported as per FRD 24 within the Report of Operations or appendices of annual reports. The Auditor-General has the power to audit non-financial information under the Section 8 (3) of the \textit{Audit Act} 1994 including information contained in FRD 24. However FRD 27 – Presentation of Reporting and Performance Information, which sets out requirements to report on agency performance, only applies to the state’s 15 regional water authorities.

Departments are required to establish an EMS as stated above. As part of this process, an annual audit of the EMS must be conducted by an environmental auditor appointed under the \textit{Environment Protection Act} 1970.\(^{128}\) In the interest of transparency, the Committee considers that a verification statement from the auditor on the accuracy and completeness of EMS environmental data reported under FRD 24 should be included in departmental annual reports.

\(^{126}\) Department of Sustainability and Environment, \textit{2004-05 Annual Report}, p.70
The Committee recommends that:

**Recommendation 16:** The Minister for Finance amend Financial Reporting Direction 24 or establish a new Financial Reporting Direction mandating that annual reports of government departments and agencies include:

(a) targets in areas such as paper use and water consumption to assess agency performance in reducing environmental impacts;

(b) costs and savings (where available) of office-based environmental impacts, as well as the comparative data from the previous financial year; and

(c) an environmental auditor’s verification statement on the reliability and accuracy of data used for environmental reporting.

**Recommendation 17:** The government, when determining future action to be taken beyond the June 2006 greenhouse targets:

(a) examine the potential to redefine existing mandatory targets such as expanding the existing target on greenhouse gas emissions from the government vehicle fleet to include total energy use; and

(b) include a requirement that agencies report in their annual reports progress on the degree to which mandatory greenhouse targets have been achieved against baseline data.

### 4.1.6 Challenges in introducing significant reforms in environmental reporting

The Victorian public sector continues to face a number of challenges in the achievement of further major reforms in this area. These include:
(a) **Extending environmental reporting to non office-based areas**

FRD 24 requires the provision of environmental reporting on office-based impacts of entities defined as departments under Section 3 of the *Financial Management Act 1994* and environmental agencies. The Commissioner for Environmental Sustainability in his January 2005 strategic audit of agencies’ EMS found that:129

*FRD 24 data consistency, normalisation and data flow efficiency needs to be improved.*

The Commissioner’s second strategic audit tabled in April 2006 concluded that:130

*Considerable progress has been made to enhance agencies’ ability to monitor and report mandatory environmental data (FRD 24) during the past twelve months, although this remains an area in significant need of further work.*

It is apparent to the Committee that improvements in current reporting on office-based environmental impacts are likely to occur incrementally over time.

The Committee noted that with the focus on office-based environmental reporting, significant areas of public sector operations such as field operations within the Department of Sustainability and Environment are not covered by existing environmental reporting requirements. The breadth, complexity and diversity of non-office based operations would create formidable difficulties in ensuring accurate, consistent, complete and reliable environmental information. The Committee favours setting a long term timetable for the future progressive introduction of non office-based environmental reporting.

The Committee recommends that:

**Recommendation 18:** The Victorian Government develop a policy for the progressive introduction of reporting of non office-based environmental impacts within annual reports of departments and agencies.

130 ibid., p.36
4.1.7 Introduction of triple bottom line reporting

The Australian National Audit Office has defined a triple bottom line report as:\(^{131}\)

\textit{an integrated approach to reporting on social, economic (including financial) and environmental outcomes against established benchmarks.}

The Committee envisages that environmental impacts currently reported under FRD 24 could be included within a triple bottom line reporting approach and any subsequent amendments or additions to FRD 24 should be consistent with triple bottom line reporting.

Currently, no department prepares a triple bottom line report on its total operations and the Committee is unaware of any recent whole of government approach to moving towards triple bottom line reporting. The Department of Sustainability and Environment includes in its 2004-05 annual report a triple bottom line summary, however this is not the case across the Victorian public service.\(^{132}\)

The Commonwealth Department of Family and Community Services (FaCS) has indicated that its 2002-03 triple bottom line report was the first instance of an Australian Government department producing such a report.\(^{133}\) The department has subsequently produced a further report covering the 2003-04 period.\(^{134}\) These reports included an independent verification statement from the Australian Auditor-General on the accuracy of data presented.\(^{135}\)

The department further reported that in its role as secretariat to the Prime Minister’s Community Business Partnership, FaCS is one of a number of organisations working to develop a national triple bottom line reporting framework for Australian business.\(^{136}\)

The Australian National Audit Office’s survey, conducted as part of its 2005-06 audit on green office procurement, found that 11 Commonwealth agencies were planning a triple bottom line report within the next three years.\(^{137}\)

\(^{131}\) Australian National Audit Office, \textit{Cross Portfolio Audit of Green Office Procurement}, Performance Audit, 2005, p.64

\(^{132}\) Department of Sustainability and Environment, \textit{2004-05 Annual Report}, pp.18–20


\(^{134}\) Department of Family and Community Services, \textit{Triple bottom line report 2003-04, our commitment to social, environmental and economic performance, October 2004}

\(^{135}\) ibid., pp.56–57; Department of Family and Community Services, \textit{Triple bottom line report 2002-03, our commitment to social, environmental and economic performance, September 2003 pp.47–48}


\(^{137}\) Australian National Audit Office, \textit{Cross Portfolio Audit of Green Office Procurement}, Performance Audit, 2005, p.64
The difficulties in introducing triple bottom line reporting have been well-documented. As mentioned previously, the Commissioner for Environmental Sustainability’s strategic EMS audit points to significant difficulties with the capture of consistent and reliable environmental data. It is likely that the capture of other data within a triple bottom line format would be equally problematic. Despite these challenges, the Committee considers that the introduction of triple bottom line reporting within the Victorian public sector should be a long term objective of the government.

It is apparent that FaCS has played a significant leadership role in encouraging the introduction of triple bottom line reporting in the Commonwealth public service. The potential exists for the Department of Sustainability and Environment to play a similar role within the Victorian public service, working in conjunction with the Department of Treasury and Finance in terms of its role in whole of government reporting. In this regard, the Department of Sustainability and Environment may need additional developmental resources to progress this task.

The Committee recommends that:

**Recommendation 19:** The Department of Sustainability and Environment:

(a) be designated and supported as the first Victorian department to move to triple bottom line reporting; and

(b) in conjunction with the Department of Treasury and Finance, have the lead responsibility for encouraging and assisting other departments in adopting triple bottom line reporting.

### 4.2 Implementation of Project Rosetta

#### 4.2.1 Background

Project Rosetta, the whole of government integrated electronic directory service, is managed by the Chief Technology Office on behalf of the Department of Infrastructure. This project commenced in 2002-03.\(^{139}\)

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\(^{138}\) Department of Infrastructure provided the whole of government response on Project Rosetta

The government awarded the contract to design, develop, implement and support Project Rosetta over five years to an external contractor (Novell) in July 2004. The cost of the contract was estimated at the time to be approximately $9.5 million.\textsuperscript{140}

Project Rosetta is to be delivered in three ‘streams’, identified as:\textsuperscript{141}

- Stream 1 – which creates a whole of government directory infrastructure, with tailored access in each department. Stream 1 is delivered in three ‘stages’;
- Stream 2 – which develops identity management frameworks to increase security; and
- Stream 3 – which extends Stream 1 functionality to expand identity management capabilities (that is, expand the range of business applications serviced by the directory infrastructure).

Stream 1 is currently being implemented and involves establishing the directory’s technical design and the roll out of the directory to ten government departments.\textsuperscript{142}

At June 2005, Project Rosetta was underway in three departments\textsuperscript{143} – the Department of Justice; the Department of Primary Industries; and the Department of Sustainability and Environment. The project is to be rolled out to the remaining seven departments during 2005-06.

\textbf{4.2.2 Project timeline}

The Department of Infrastructure identified the three stages in Stream 1, and their status:\textsuperscript{144}

- Stage 1 – analysis, design and planning – completed at June 2005;
- Stage 2 – roll out to lead (pilot) department\textsuperscript{145} and whole of Victorian government directory – commenced in June 2005; and
- Stage 3 – roll out to all other departments – scheduled to commence in 2005-06.

\textsuperscript{140} Hon. M Thomson, MLC, Minister for Information and Communication Technology, \textit{Novell awarded contract for Rosetta project}, media release, 1 July 2004
\textsuperscript{142} ibid.
\textsuperscript{143} ibid.
\textsuperscript{144} Department of Infrastructure, response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 22 December 2005, pp.18–19
\textsuperscript{145} Department of Justice is the pilot department (Source: Department of Infrastructure, email, received 10 February 2006)
Stages 1 and 2 commenced as scheduled in August 2004 and October 2004 respectively. The Department of Infrastructure explained why the commencement of Stage 3, and the completion dates for all three stages, were delayed and therefore extended:\textsuperscript{146}

- Stage 1 completion extended by about four months, from February 2005 to June 2005 because of:
  - a change in program scope to include the Department of Sustainability and Environment, and the Department of Primary Industries (impact of one month); and
  - additional complexity faced by the supplier (impact of three months).
- Stage 2 completion extended by about six months, from June 2005 to December 2005 due to:
  - the rescheduling of Stage 1 completion; and
  - additional complexity encountered by the supplier and departments.
- Stage 3 commencement extended from May 2005 to June 2005 (about two months) because of the rescheduling of Stages 1 and 2 completion; and
- Stage 3 completion extended from December 2005 to May 2006 (about five months) because of the rescheduling of Stage 2 completion.

The Committee believes monitoring of the implementation of Project Rosetta could be better facilitated by disclosing more detailed project milestones and analysis of progress on the project’s website.

\textbf{4.2.3 Expenditure in 2004-05}

Exhibit 4.3 shows the 2004-05 budget and actual expenditure on Project Rosetta, representing payments payable to the external contractor (Novell).\textsuperscript{147} Funding for this project was provided from the Telecommunications Purchasing and Management Strategy (TPAMS) initiative announced in the 2002-03 Budget.\textsuperscript{148}

Stage 2 payments were $2.407 million in 2004-05, which was 52.8 per cent less than budget (exhibit 4.3). The Department of Infrastructure advised this was because the ‘rescheduling of Stage 2 has meant that payments to the main supplier were not due by June 2005’.\textsuperscript{149}

\textsuperscript{146} Department of Infrastructure, response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 22 December 2005, p.18
\textsuperscript{147} Department of Infrastructure, response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 22 December 2005, p.19
\textsuperscript{148} Budget Paper No.2, \textit{Budget Statement 2002-03}, pp.192–193
\textsuperscript{149} Department of Infrastructure, response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 22 December 2005, p.19
The department further advised there was no expenditure on Stage 3 because the project ‘deliverables were not due for payment by June 2005.’

Exhibit 4.3:
Project Rosetta
Expenditure (a) – 2004-05

<table>
<thead>
<tr>
<th>Stage</th>
<th>Initial budget 2004-05 ($ million)</th>
<th>Revised budget ($ million)</th>
<th>Actual cost June 2005 ($ million)</th>
<th>Variation (b) (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stage 1</td>
<td>1.36</td>
<td>-</td>
<td>1.36</td>
<td>-</td>
</tr>
<tr>
<td>Stage 2</td>
<td>5.096</td>
<td>-</td>
<td>2.407</td>
<td>-52.8</td>
</tr>
<tr>
<td>Stage 3</td>
<td>0.2</td>
<td>-</td>
<td>0.0</td>
<td>-100.0</td>
</tr>
<tr>
<td>Total</td>
<td>6.656</td>
<td>-</td>
<td>3.767</td>
<td>-43.4</td>
</tr>
</tbody>
</table>

Notes: (a) excludes Goods and Services Tax
(b) a negative figure indicates the actual cost is lower than budget

Source: Department of Infrastructure, response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 22 December 2005, p.19

4.2.4 Project budget and costs

At the 2004-05 Budget Estimates hearing, the Committee was advised that the budget for Project Rosetta included: operating costs ($2.2 million) and capital costs ($13.2 million).

Exhibit 4.4 shows the project budget, expenditure in 2004-05 and cumulative project expenditure to June 2005. The Department of Infrastructure indicated that the cumulative operating costs were $1.488 million and capital expenditure was $6.063 million at June 2005. Total cumulative operating and capital costs at June 2005 were $7.551 million, or 49 per cent of the project budget.

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150 ibid.
151 excludes depreciation and capital asset charge
Exhibit 4.4: Project Rosetta
Project budget and expenditure – June 2005

<table>
<thead>
<tr>
<th></th>
<th>Project budget (a)</th>
<th>Expenditure 2004-05</th>
<th>Total project expenditure to June 2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital costs</td>
<td>13.2</td>
<td>2.999</td>
<td>6.063</td>
</tr>
<tr>
<td>Operating costs</td>
<td>2.2</td>
<td>0.768</td>
<td>1.488</td>
</tr>
<tr>
<td>Total</td>
<td>15.4</td>
<td>3.767</td>
<td>7.551</td>
</tr>
</tbody>
</table>

Note: (a) As advised to the Committee at the 2004-05 Budget Estimates hearing

Sources: Hon. M Thomson, MLC, Minister for Information and Communication Technology, response to the Committee’s follow-up questions, 2004-05 Budget Estimates, received 23 July 2004, p.9; Department of Infrastructure, response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 22 December 2005, pp.19–20

Information in exhibit 4.4 shows that 45.9 per cent of the capital budget and 67.6 per cent of the operating budget had been spent on the project since its implementation in 2002-03. At the 2005-06 Budget Estimates hearing the Committee was advised that the project is on target to be delivered within its overall budget projection. The project is scheduled to be completed in 2005-06.

The Committee’s 2004-05 Budget Outcomes questionnaire to departments requested the ‘full costs’ of implementing Project Rosetta. The Department of Infrastructure advised that ‘the additional costs of all departmental resources (staff, hardware, infrastructure and on-costs) have not been determined or included’ in the information provided in exhibit 4.4. Because the department did not provide this additional information, the Committee is unable to determine the overall level of commitment to the implementation of the project.

Responses received from the departments indicated:

- Department of Human Services’s costs were $499,165. The department identified the costs as: $295,267 in expenditure for hardware, software, external contractor (around $134,000) and operating costs that were directly related to Stage 1; and

153 Hon., M Thomson, MLC, Minister for Information and Communication Technology, response to the Committee’s follow-up questions, 2004-05 Budget Estimates, 23 July 2004, p.9
155 Department of Infrastructure, email, received 10 February 2006
156 Department of Human Services, response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 17 January 2006, pp.15–16
$203,898 in other costs such as additional capital expenses, staffing costs (around $147,000), staff related on-costs, departmental overheads and external contractor costs;

- Department of Primary Industries and the Department of Sustainability and Environment’s costs were $416,000 respectively;\(^{157}\)
- Department of Justice’s costs were $223,000;\(^{158}\) and
- the costs for the Department of Premier and Cabinet, and Department of Treasury and Finance, which have a shared IT service, were $12,150 respectively.\(^{159}\) These were for pre-project planning and scoping workshops, and attendance at board meetings and reference groups.\(^{160}\)

With the exception of the Department of Justice, which received some project funding, the departments’ responses indicated that they did not receive additional project funding for these costs.\(^{161}\) The Department of Justice indicated that of the abovementioned costs of $223,000, an amount of $173,000 was funded from a combination of the department’s and the Department of Infrastructure (Multimedia Victoria) funding.\(^{162}\)

Project Rosetta was promoted as a world-leading online directory service\(^{163}\) and a first of its type (in scope and complexity) to be implemented by any government in Australia.\(^{164}\) Because of the significance of this project, the Committee believes it is important for the Department of Infrastructure to conduct a post-implementation review and to also identify the overall cost for developing and implementing Project Rosetta and for this information to be made available publicly. Furthermore, this analysis should be conducted for each of the three ‘streams’.

\(^{157}\) Department of Sustainability and Environment response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 20 January 2006, p.27; Department of Primary Industries, email, received 20 February 2006

\(^{158}\) Department of Justice, email, received 9 February 2006

\(^{159}\) Department of Premier and Cabinet, response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 23 December 2005, p.12; Department of Treasury and Finance, response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 29 December 2005, p.13

\(^{160}\) ibid.

\(^{161}\) ibid.

\(^{162}\) ibid.

\(^{163}\) Hon. M Thomson, MLC, Minister for Information and Communication Technology, Novell awarded contract for Rosetta project, media release, 1 July 2004

\(^{164}\) Hon. M Thomson, MLC, Minister for Information and Communication Technology, 2005-06 Budget Estimates hearing, transcript of evidence, 9 June 2005, p.3
4.2.5 **Net savings and efficiencies**

The Committee’s questionnaire asked whether departments conducted an analysis of the projected net savings and efficiencies from implementing Project Rosetta. The questionnaire also asked for the details and timeframes to be provided.

The Department of Infrastructure provided the following whole of government response:165

*Rosetta will establish an authoritative, integrated and automated electronic whole of government directory service to:*

- improve integrity, efficiency and dependability for the location of, and communication between people, initially across [ten] government departments;
- produce gains in security, efficiency and effectiveness of current directory infrastructure within departments; and
- deliver a platform suitable for other e-government initiatives.

The Committee expects the department to provide further details on the tangible and intangible benefits of such a significant whole of government project as part of the 2006-07 Budget Estimates process.

Responses received from participating departments indicate that as Project Rosetta is a whole of government project, these departments have not conducted a separate analysis of the net savings and efficiencies that will be achieved from this project. The Committee also noted that departments’ participation in this project is largely based on the whole of government benefits, rather than on local departmental cost savings.

The participating departments’ responses to the Committee’s question on the net savings and efficiencies of the project are set out below:

The Department of Human Services indicated that they:

*...have not conducted an analysis of projected savings for streams 1 and 2, which are implementing the base infrastructure...Achievement of benefits to the department will follow after the full implementation of Rosetta in stream 3. [The department] will conduct an analysis for savings and efficiencies as part of stream 3 activities and scoping.*166

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165  Department of Infrastructure, response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 22 December 2005, p.20

166  Department of Human Services, email, received 28 February 2006
The Department of Primary Industries advised ‘there are no savings and minimal benefits from Stream 1’.  

The Department for Victorian Communities pointed out that:

Individual departments have made commitments to participate in Rosetta largely based on the whole of government benefits, rather than on local departmental cost savings.

The [department] is not projecting any savings in the implementation of the project. Department for Victorian Communities may incur some additional costs associated with the project, however these costs will be minimised through activities such as the sharing of IT infrastructure.

The Committee was provided with examples by the Department of Education and Training, the Department of Premier and Cabinet, and the Department of Treasury and Finance of efficiencies that will be achieved from Project Rosetta.

The Department of Education and Training advised it expects the project will:

- reduce account creation times across key systems from days to minutes;
- reduce manual overheads in account creation;
- improve the quality of directory information across the department’s systems;
- enable improved self service facilities for staff to update key information such as phone numbers across multiple systems; and
- provide enhanced administration and reporting tools for directory information.

The Department of Premier and Cabinet, and the Department of Treasury and Finance, which have a shared IT service, identified the following efficiencies arising from Project Rosetta:

- improved revocation from directories;
- reduction in duplication of forms;
- improved security to directories and applications;
- reduced search time;
- improved accountability and control over entity management processes;
- consistency of process across the Department of Premier and Cabinet and the Department of Treasury and Finance;

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167 Department of Primary Industries, email, received 20 February 2006
168 Department for Victorian Communities, email, received 14 February 2006
169 Department of Education and Training, email, received 2 March 2006
170 Department of Treasury and Finance, response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 29 December 2005, pp.14–15
• increase accuracy of personal data for all employees and contractors;
• improved quality of data returned on search results;
• infrastructure to support future projects;
• establishment of a technology platform to enable the two departments to pursue future opportunities; and
• improved occupational health and safety.

4.3 Advertising and promotional expenditure

4.3.1 Introduction

The magnitude and propriety of advertising and promotional expenditure by governments has been the subject of extensive examination in both international and Australian jurisdictions. The Victorian Auditor-General has undertaken two audits on the topic in the last decade.

In a March 1996 special report on the marketing of government services, the Auditor-General acknowledged that the use of public funds for advertising and promotion aimed at explaining policies and programs, and informing the public of their rights, is often appropriate. The report also recognised that communication of information designed to encourage behaviour regarded by the community as in the public interest is also generally appropriate. However, the Auditor-General also identified various instances where material appeared to be party-political in nature and, therefore, considered to be an inappropriate use of public moneys. The Auditor-General called for the development of a convention in Victoria to provide guidance in the area of publicly-funded advertising and promotion.

The results of the Committee’s follow-up of the Auditor-General’s March 1996 report were presented to Parliament in June 1999. The Committee’s report identified that the then government did not support the Auditor-General’s call for development of a convention. The Committee found that guidelines for publicly-funded advertising were in place in New Zealand and in the United Kingdom, and that much

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171 Victorian Auditor-General’s Office, Marketing government services: Are you being served?, Special Report No.39, March 1996, p.75
172 ibid.
173 ibid., pp.76–81
174 ibid., p.81
175 Public Accounts and Estimates Committee, Review of Auditor-General’s Reports Nos.39 to 41, June 1999
176 ibid., p.5
177 ibid., p.16
178 ibid., pp.18–19
consideration had been given to the need for similar guidance in Australia. The Committee indicated it would continue to monitor developments in this area.

The Auditor-General’s most recent report on the subject was presented to Parliament in June 2002. This report summarised the results of the Auditor-General’s examination of a number of instances of alleged party-political material that were referred to his Office in the six years since the earlier audit report. In broad terms, the criteria utilised by the Auditor-General required that in developing material to be communicated to the public, the material should be:

- relevant to government policies;
- explanatory and objective, fair and factual;
- not liable to interpretation as party-political; and
- produced and distributed in an efficient, effective and relevant way.

Features of advertising that, in the opinion of the Auditor-General, could lead to interpretations that the material was party-political in nature included the following:

- the regular use of the terms ‘the Bracks Government’ or ‘the Bracks Labor Government’;
- frequent quotes from Ministers, which did not add information of substance to the articles;
- examples of communicating/promoting government proposals, without providing both the benefits and the impacts of such proposals;
- the particular content of text that accompanies references to, and photographs of, a Minister can lead to the material being deemed party-political in nature that is, if the content of the text is not fair, factual and objective; and
- statements that attacked or scorned the views, policies or actions of others.

The audit findings were similar to those in 1996, with examples of both appropriate advertising practice and practice that could be interpreted as party-political. The Auditor-General recommended that conventions or guidelines for government, supported by all political parties, be adopted as soon as possible. Subsequent to this recommendation, the Government introduced guidelines for government advertising and communications in Victoria. The Victorian guidelines set out basic principles
applying to advertising and communications, from which the following nine objectives for the use of public funds are drawn:187

- to maximise compliance with the law
- to achieve awareness of a new or amended law
- to raise awareness of a planned or impending initiative
- to ensure public safety, personal security or encourage responsible behaviour
- to assist in the preservation of order in the event of a crisis or emergency
- to promote awareness of rights, responsibilities, duties or entitlements
- to encourage usage of, or familiarity with, government products or services
- to report on performance in relation to government undertakings
- to encourage social cohesion, civic pride, community spirit and tolerance or assist in the achievement of a widely supported public policy outcome.

The guidelines emphasise the importance of avoiding misuse of public funds and prohibit public funded communications where:188

- the party in government is mentioned by name
- a reasonable person could misinterpret the message as being on behalf of a political party or other grouping
- a political party or other grouping is being disparaged or held up to ridicule
- members of the government are named, depicted or otherwise promoted in a manner that a reasonable person would regard as excessive or gratuitous
- the method or medium of communication is manifestly excessive or extravagant in relation to the objective being pursued
- there is no clear line of accountability, appropriate audit procedures or suitable purchasing process for the communication process
- the government is in caretaker mode, unless the purpose of communication is related purely to achieving compliance with the law, ensuring public safety, personal security, encouraging responsible behaviour or the preservation of order in a crisis or emergency.

The guidelines also articulate 13 desirable features of government communications to aid compliance with the highest standards of fairness, equity, probity and public responsibility.189

188  ibid.
189  ibid.
When assessing the material provided by departments during its 2004-05 Budget Outcomes inquiry, the Committee became aware of political and media comment concerning the propriety of certain government advertising programs conducted during 2005-06. These programs were alleged to have a political bias and to involve significant outlays of public funds.

The media attention directed to this area also referred to a request to the Auditor-General by the Leader of the Opposition for an investigation of the 2005-06 advertising expenditure. The Committee understands that the Auditor-General has formally responded to this request, and has advised that an audit investigation would be undertaken with the results presented to Parliament during the 2005-06 autumn session.

Mindful of the above background and a general absence in departmental annual reports of information on advertising costs, the Committee determined, as part of its 2004-05 Budget Outcomes inquiry, to seek from departments:

- details of their publicly-funded government advertising and promotional programs that incurred expenditure in excess of $100,000 in 2004-05; and
- the strategies put in place for these programs to address:
  - their relevance to government responsibilities;
  - the achievement of value for money; and
  - meeting the needs of people from non-English speaking backgrounds.

The purpose of this exercise was not for the Committee to obtain a comprehensive picture of the government’s total expenditure outlays on government advertising and promotion for 2004-05, nor to conduct detailed examinations of departmental advertising and promotional programs; such examinations would be necessary to form an opinion on whether the programs adhered to the established guidelines. To form a view on whether the programs complied with the rules in the guidelines for avoiding misuse of public funds would require close scrutiny of the finer details of each program, including specific content, and the existence or otherwise of any undue or inappropriate bias or emphasis in tone or message.

Rather, from a materiality viewpoint, the Committee’s principal objectives were to establish the amount and nature of funds directed by departments to advertising and promotion campaigns that were in excess of $100,000 in 2004-05 and to gain an insight into management strategies concerning relevance of outlays, attainment of value for money and for meeting the needs of people of diverse backgrounds. As such, the financial analysis presented in this section, which is based entirely on information provided by departments to the Committee, cannot be construed to represent the full expenditure on government advertising and promotion. This matter will be pursued by

190 M Murphy, ‘State faces audit on ad campaigns’, The Age newspaper, 10 February 2006, p.3
the Public Accounts and Estimates Committee during the forthcoming 2006-07 Budget Estimates process.

With regard to the information sought from departments, the Committee found that the material provided by the Department of Human Services was inconclusive because it did not cover the $458,000 information program regarding the launch and promotion of the Austin and Mercy complex. In response to the Committee’s follow-up question regarding this matter, the department provided the Committee with the following response:\footnote{191}

\begin{quote}
...the Minister's response is to refer you to page 3 of the January – June 2005 Your Hospitals report which contained relevant information on the objectives, target audience and total cost of the launch.
\end{quote}

As part of its review of the 2006-07 Budget Estimates, the Committee will seek a more informative response outlining the following details relating to this information program: the funding contributions from the respective parties and the specific strategies that were implemented to ensure the program was relevant to government responsibilities, achieved value for money and met the needs of people from non-English speaking backgrounds.

### 4.3.2 2004-05 advertising and promotional expenditure by departments

Exhibit 4.5 shows the information for each department presented to the Committee regarding their 2004-05 advertising and promotional expenditure and associated management strategies.

The information revealed that:

- departments managed 18 advertising and promotional programs with expenditure in excess of $100,000 in 2004-05;
- aggregate departmental expenditure for these programs was $14.2 million;
- the collective outlays of five departments – Department of Human Services, the Department of Innovation, Industry and Regional Development, the Department of Premier and Cabinet, the Department of Sustainability and Environment, and the Department for Victorian Communities – was $12.8 million, representing about 90 per cent of the aggregate expenditure;
- four programs involved expenditure of $1 million or more;
- departments used a range of avenues for disseminating advertising material, while most used television, radio and the press – one program relied solely on the internet; and

\footnote{191 Department of Human Services, response to the Committee’s follow-up question, received 10 April 2006}
• targeted audiences ranged from specific groups through to the general public and, in some cases, a mix of selected and wider audiences.

The responses provided by the departments on the three categories of management strategies identified by the Committee indicated that:

1. **for ensuring relevance to government responsibilities** – most departments cited linkages between their programs and higher-level government policies or strategies such as *Growing Victoria Together* or other strategic documents more specifically connected to the program. The Department of Education and Training and VicRoads also provided some more general and less evident links to government responsibilities (see responses in exhibit 4.5).

2. **achieving value for money** – several departments (Education and Training, Justice, Premier and Cabinet and Victorian Communities) referred to their use of the government’s Master Media Agency Services (MAMS) described by the Department of Premier and Cabinet as a whole of government media contract, which ensures the best value for money is negotiated due to the benefits of pooled funds across government. The Department of Premier and Cabinet indicated this arrangement provides volume discounts that are significantly below the market rates and other added value bonuses and savings. Again, the Committee received some general responses that related to broad organisational approaches to value for money rather than the steps taken to achieve value for money with the specifically identified advertising program (refer to the responses from the Department of Infrastructure, VicRoads, and the Department of Sustainability and Environment in exhibit 4.5).

3. **meeting the needs of people from non-English speaking backgrounds** – most departments indicated that this important aspect of their advertising was addressed through incorporation of a dedicated culturally and linguistically diverse (CALD) component in line with the government’s wider commitment to meeting CALD objectives. Other departments mentioned the government’s policy of directing 5 per cent of advertising expenditure against CALD activities, with others referring to the placement of advertisements in ethnic media and making translation and interpreting services available.

### 4.3.3 Enforceability of guidelines

The Victorian guidelines seek to assist government agencies manage advertising and promotional expenditure. The guidelines also seek to establish a framework to enable agencies to maintain the propriety of such expenditure.

Irrespective of the findings of the Victorian Auditor-General arising from the latest audit, the Committee considers that the propensity for government advertising to attract recurring political and media controversy warrants the introduction of a framework in Victoria that strengthens the enforcement of the guidelines. Such a
framework would also give greater assurance to Parliament and the community on the appropriateness of advertising expenditure.

The Committee recommends that:

**Recommendation 20:** The Department of Premier and Cabinet expand the guidelines for government advertising and communication to reflect the government quotas for the proportion of departmental advertising expenditure to be dedicated each year to:

(a) culturally and linguistically diverse activities; and

(b) activities associated with rural and regional audiences in Victoria.

**Recommendation 21:** The Department of Premier and Cabinet widen the guidelines for government advertising and communication to ensure that achieving value for money is a criterion for engaging in advertising activities.

### 4.3.4 Public disclosure of advertising and promotional expenditure by departments

There is a general absence of information dealing with advertising and promotional expenditure within the annual reports of departments.

Because advertising and promotional outlays by governments are often significant, the Committee considers it important to have adequate public disclosure of such outlays by government agencies. The Committee also considers that published material on advertising should extend beyond core cost data and encompass informative explanations by management on:

- procedures followed to provide assurance on adherence to established guidelines;
- the relevance of individual advertising programs to government responsibilities;
- specific measures taken to achieve value for money in the management of each program and the extent of success of such measures; and
- actions taken to ensure the needs of people from CALD backgrounds are adequately met.
Widening of the annual reporting requirements of departments by the Department of Treasury and Finance to encompass specific information on the cost and management of advertising programs, would be a useful measure to increase transparency and accountability in this area of high public interest.

The Committee recommends that:

**Recommendation 22:** The Department of Treasury and Finance expand the annual reporting requirements of departments to incorporate information on the cost and management of government advertising and promotional programs.

**Recommendation 23:** To enhance the transparency of government advertising and promotional programs, all departments be required to review their accounts relating to advertising and promotion to ensure that communication activities are appropriately reported on an annual basis.

**Recommendation 24:** The Department of Premier and Cabinet require all departmental communication units to report directly to their departmental Secretary.
### Exhibit 4.5: Departmental advertising and promotional programs, undertaken in 2004-05 with expenditure in excess of $100,000

**Department of Education and Training**

<table>
<thead>
<tr>
<th>Name of advertising and promotion program</th>
<th>Description</th>
<th>Date commenced</th>
<th>Key objectives</th>
<th>Target audience</th>
<th>Expenditure 2004-05 ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Back to School</td>
<td>This program includes advertising to inform parents of term dates and the availability of <em>Bringing Learning to Life – an information handbook for parents</em>, book bag for all prep students and media kit.</td>
<td>25 January 2005 – mid February</td>
<td>To promote Victorian government schools, and to inform parents, students and schools about key issues and initiatives for the 2005 school year.</td>
<td>Parents, general public</td>
<td>105,275</td>
</tr>
<tr>
<td>Education Week</td>
<td>Education Week provides an opportunity to showcase the diverse range of educational programs on offer in Victorian government schools.</td>
<td>15 May 2005 – 21 May 2005</td>
<td>To enhance opportunities for students and teachers to participate in a range of free, and innovative educational experiences during Education Week, highlight key government initiatives and pay tribute to the outstanding achievements of students, teachers and school communities across the state.</td>
<td>Teachers, students, parents, general public</td>
<td>117,006</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>222,281</td>
</tr>
</tbody>
</table>
Exhibit 4.5: Departmental advertising and promotional programs, undertaken in 2004-05 with expenditure in excess of $100,000 (continued)

**Department of Education and Training (continued)**

<table>
<thead>
<tr>
<th>Relevance to government responsibilities</th>
<th>Value for money</th>
<th>Meeting the needs of people from non-English speaking backgrounds</th>
</tr>
</thead>
<tbody>
<tr>
<td>The relevance of advertising and promotions programs to government responsibilities is assured through the Department of Education and Training’s business planning processes including the department’s corporate plan and divisional business plans.</td>
<td>All Victorian Government departments, statutory authorities and agencies are required to use the Master Agency Media Service (MAMS) contractors to book all advertising. MAMS is a whole of government contract where all advertising space is booked and placed through government appointed media buying agencies. These whole of government contracts enable high service levels, the negotiation of cost-effective advertising rates and immediate expenditure/commitment reporting for all government bodies. The department’s Communications Division uses the services of MAMS when booking all advertising.</td>
<td>The Department of Education and Training is committed to ensuring people from non-English speaking backgrounds have access to information on education and training in Victoria, through appropriate advertising, translation services for telephone calls to the department’s Information and Referral Service, and by making publications, such as <em>Bringing Learning to Life – an information handbook for parents</em>, available in languages other than English. The department also contributes information about education and training to the CALD guide, a comprehensive reference for Victorian Government services that are helpful, relevant and accessible to culturally and linguistically diverse communities.</td>
</tr>
</tbody>
</table>
Exhibit 4.5: Departmental advertising and promotional programs, undertaken in 2004-05 with expenditure in excess of $100,000 (continued)

**Department of Human Services**

<table>
<thead>
<tr>
<th>Name of advertising and promotion program</th>
<th>Description</th>
<th>Date commenced</th>
<th>Key objectives</th>
<th>Target audience</th>
<th>Expenditure 2004-05 ($)</th>
</tr>
</thead>
</table>
| Problem Gambling-Phase 3                 | Since its launch in November 2000, the Problem Gambling communications campaign has become a key component of the Victorian Government's tackling of problem gambling. Phase 3 built on the success of Phases 1 and 2, delivering an integrated campaign consisting of advertising, public relations, CALD communications, and regional/rural communications, underpinned by extensive research. | July 2004 | • Create self identification of at-risk or problem behaviour associated with gambling,  
• Maintain a level of awareness for Gambler’s Help services;  
• Continue to build community recognition of the campaign as an effective government strategy to minimise the impact and level of problem gambling in Victoria; and  
• Create greater understanding of the risks associated with problem gambling. | Problem and at risk gamblers, heavy gamblers, family members and friends of problem gamblers, service and health professionals, local government, community organisations and the general public, CALD target groups, and indigenous target groups. | 2,905,568 |
Exhibit 4.5: Departmental advertising and promotional programs, undertaken in 2004-05 with expenditure in excess of $100,000 (continued)

Department of Human Services (continued)

<table>
<thead>
<tr>
<th>Name of advertising and promotion program</th>
<th>Description</th>
<th>Date commenced</th>
<th>Key objectives</th>
<th>Target audience</th>
<th>Expenditure 2004-05 ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fad diet community awareness campaign</td>
<td>A community awareness campaign implemented as part of the whole of Victorian Government Healthy and Active Victoria strategy. Campaign tools included: brochures, posters, post cards, four weeks outdoor and convenience advertising. This campaign responded specifically to the increasing use of fad diets that promise a ‘quick fix’ to weight loss, but have short and long term health risks.</td>
<td>January 2005</td>
<td>• Provide target groups with information that allows them to identify fad diets. To warn of the danger of restricting entire food groups. To inform about the low success rate associated with fad diets. To encourage healthy weight through healthy, balanced eating and physical activity.</td>
<td>• Young adult females aged 20-35 years who are on, are considering or have been on, a fad diet.</td>
<td>273,605</td>
</tr>
</tbody>
</table>

Total                                                                                                                                |                                                         |                |                                                                                           | 3,179,173 |
Exhibit 4.5: Departmental advertising and promotional programs, undertaken in 2004-05 with expenditure in excess of $100,000 (continued)

Department of Human Services (continued)

<table>
<thead>
<tr>
<th>Relevance to government responsibilities</th>
<th>Value for money</th>
<th>Meeting the needs of people from non-English speaking backgrounds</th>
</tr>
</thead>
<tbody>
<tr>
<td>• The Problem Gambling communications strategy was developed as part of a range of measures employed by the government to address this social problem. The strategy was devised to more effectively explain the personal and social impact of excessive gambling, and to encourage those with behavioural problems to seek help, including counselling.</td>
<td>All communication suppliers are subject to competitive engagement processes, using key selection criteria to determine best value for money. Once major projects are completed, market research is generally used to measure effectiveness. Specifically:</td>
<td>• The Problem Gambling communications strategy has a separate culturally and linguistically diverse (CALD) communications strategy, targeting specific CALD audiences relevant to the Problem Gambling communications strategy.</td>
</tr>
<tr>
<td>• The ‘Fad Diets Won’t Work’ campaign was delivered as part of a whole of Victorian Government commitment to improving the health and wellbeing of all Victorians and to address the rising prevalence of obesity and diabetes. This campaign was developed to encourage a balanced, safe approach to maintaining a healthy weight.</td>
<td>• the Problem Gambling communications strategy used tracking research to determine advertising effectiveness.</td>
<td>• The ‘Fad Diets Won’t Work’ campaign used tracking research to determine advertising effectiveness.</td>
</tr>
</tbody>
</table>
### Exhibit 4.5: Departmental advertising and promotional programs, undertaken in 2004-05 with expenditure in excess of $100,000 (continued)

**Department of Infrastructure**

<table>
<thead>
<tr>
<th>Name of advertising and promotion program</th>
<th>Description</th>
<th>Date commenced</th>
<th>Key objectives</th>
<th>Target audience</th>
<th>Expenditure 2004-05 ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revitalising Victorian Rail Open Day</td>
<td>Open day at Spencer Street Station with displays of new trains and information booths by all rail parties.</td>
<td>April 2005</td>
<td>Communicate the progress being made to revitalise the rail system and the benefits this will bring.</td>
<td>Existing and potential rail users, Victorian community, nearby businesses, media.</td>
<td>122,000</td>
</tr>
<tr>
<td>Metropolitan Transport Plan (MTP)</td>
<td>The MTP provides a comprehensive vision for how the Victorian Government will address Melbourne’s travel and transport needs over the next decade; with particular focus on strategies and actions for the next 4-5 years. Press advertising (including advertising in ethnic newspapers) was undertaken, along with information collateral for industry and community stakeholders. The MTP was launched by the Minister for Transport, media and stakeholders were invited.</td>
<td>Launched 25 November 2004</td>
<td>To inform industry and community stakeholders of the Victorian Government’s vision – the Metropolitan Transport Plan – for Melbourne’s transport sector for the next decade, particularly focusing on strategies over the next 4-5 years.</td>
<td>Industry stakeholders; the Melbourne community and the media.</td>
<td>142,360</td>
</tr>
</tbody>
</table>
Exhibit 4.5: Departmental advertising and promotional programs, undertaken in 2004-05 with expenditure in excess of $100,000 (continued)

**Department of Infrastructure (continued)**

<table>
<thead>
<tr>
<th>Name of advertising and promotion program</th>
<th>Description</th>
<th>Date commenced</th>
<th>Key objectives</th>
<th>Target audience</th>
<th>Expenditure 2004-05</th>
</tr>
</thead>
<tbody>
<tr>
<td>‘Not Number Plates - Fashion Plates’.</td>
<td>Advertising the introduction of five new background colours to the existing range of nine number plate colours.</td>
<td>Week commencing 5 June 2005</td>
<td>Raise consumer awareness of the new custom plates range and increase sales revenue.</td>
<td>Men and women aged 18–29 years, car enthusiasts and collectors.</td>
<td>135,171</td>
</tr>
<tr>
<td>‘School Speed Zones’ (VicRoads component – TAC also provided support)</td>
<td>Introduction of lower school speed zones in Victoria.</td>
<td>2 October 2003</td>
<td>Inform motorist about the new lower speed zones.</td>
<td>Victorian road users.</td>
<td>170,687</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td><strong>570,218</strong></td>
</tr>
</tbody>
</table>
**Exhibit 4.5: Departmental advertising and promotional programs, undertaken in 2004-05 with expenditure in excess of $100,000 (continued)**

**Department of Infrastructure (continued)**

<table>
<thead>
<tr>
<th>Relevance to government responsibilities</th>
<th>Value for money</th>
<th>Meeting the needs of people from non-English speaking backgrounds</th>
</tr>
</thead>
<tbody>
<tr>
<td>All of the department’s communication programs support the government's infrastructure and other policies as expressed in the <em>Growing Victoria Together</em> strategy and other policy documents. A rigorous planning process is followed for each major communication project to ensure that program objectives are aligned with core policy objectives. Proposed strategies and executions for each major communication program are also reviewed thoroughly by a communications review group drawn from senior communication professionals.</td>
<td>During the strategy development phase, careful assessment is made of the various communication options and tools to achieve the objectives. This includes assessing the best value for money to ensure that maximum impact is achieved for the available budget.</td>
<td>Major communication projects routinely incorporate communications targeting non-English speakers. In particular, the department operates an information hotline with information about current major policies and initiatives in the main community languages.</td>
</tr>
<tr>
<td>VicRoads expenditure on advertising and promotion supports or promotes achievement of its responsibilities (including commercial operations) and objectives provided by legislation.</td>
<td>VicRoads expenditure is targeted to achieve the objectives in a cost effective manner.</td>
<td>Where appropriate, documents and communications are provided in a range of languages (that is, the School Speed Zones program).</td>
</tr>
</tbody>
</table>
Exhibit 4.5: Departmental advertising and promotional programs, undertaken in 2004-05 with expenditure in excess of $100,000 (continued)

Department of Innovation, Industry and Regional Development

<table>
<thead>
<tr>
<th>Name of advertising and promotion program</th>
<th>Description</th>
<th>Date commenced</th>
<th>Key objectives</th>
<th>Target audience</th>
<th>Expenditure 2004-05 ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Make It Happen in Provincial Victoria</td>
<td>Television, press and radio advertising.</td>
<td>October 2003</td>
<td>To raise awareness of the lifestyle, employment and investment opportunities in provincial Victoria. To encourage more Melburnians to live, work and invest in provincial Victoria. To work in partnership with the 48 rural and regional councils to promote provincial Victoria.</td>
<td>Primary: Melburnians, Secondary: rural and regional Victorians.</td>
<td>950,000</td>
</tr>
</tbody>
</table>
### Exhibit 4.5: Departmental advertising and promotional programs, undertaken in 2004-05 with expenditure in excess of $100,000 (continued)

**Department of Innovation, Industry and Regional Development (continued)**

<table>
<thead>
<tr>
<th>Name of advertising and promotion program</th>
<th>Description</th>
<th>Date commenced</th>
<th>Key objectives</th>
<th>Target audience</th>
<th>Expenditure 2004-05 ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Common Rule</td>
<td>The campaign incorporates newspaper and radio advertising campaigns, direct marketing, public relations, information sessions and a telephone information service.</td>
<td>27 November 2004</td>
<td>To make relevant employers and employees aware of changes to working conditions of Schedule 1A workers (that is, Schedule 1A of the Workplace Relations Act 1996). To warn Schedule 1A workers to be wary of signing away future conditions by becoming a party to an inferior agreement and to seek appropriate advice. To generate approximately 300-400 calls a week to Information Victoria every week of the campaign. To generate approximately 100-200 visits to Industrial Relations Victoria’s website each week of the campaign.</td>
<td>Victorian Schedule 1A workers and business people employing Schedule 1A workers.</td>
<td>157,500</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1,107,500</td>
</tr>
</tbody>
</table>
Exhibit 4.5: Departmental advertising and promotional programs, undertaken in 2004-05 with expenditure in excess of $100,000 (continued)

Department of Innovation, Industry and Regional Development (continued)

<table>
<thead>
<tr>
<th>The Department of Innovation, Industry and Regional Development strategies to address the following:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Relevance to government responsibilities</td>
</tr>
<tr>
<td><strong>Make it Happen in Provincial Victoria</strong></td>
</tr>
<tr>
<td>The MIHIPV campaign is an initiative aimed at helping meet the government’s goal of growing the whole of the state (as outlined in <em>Growing Victoria Together</em>). Specifically, the campaign aims to help meet the government’s target of 1.25 per cent per year population growth in regional Victoria.</td>
</tr>
<tr>
<td>Regional Development Victoria (RDV) aims to ensure it receives value for money from all contractors working on the campaign. As an example, RDV has not engaged an agency to ‘run’ the campaign in 2005-06, instead utilising internal resources to maximise the media spend (which research has shown is vital to drive enquiries).</td>
</tr>
<tr>
<td>In line with the government’s policy, five per cent of the advertising budget is spent on SBS television.</td>
</tr>
<tr>
<td><strong>Common Rule</strong></td>
</tr>
<tr>
<td>The Victorian Government is committed to developing fair and equitable workplaces. In 1996 approximately 350,000 workers were corralled into Schedule 1A of the federal Workplace Relations Act, when the previous government referred Victoria’s industrial relations powers to the Commonwealth. These low-paid workers had just five job entitlements, instead of the 20 entitlements found in a typical federal award.</td>
</tr>
<tr>
<td>The advertising campaign was conducted through radio and newspapers and targeted in terms of locations and age-groups of workers. Because research showed that there was a high concentration of Schedule 1A workers in regional Victoria, the campaign was weighted towards regional radio and newspapers. In the metropolitan area the campaign was conducted through daily newspapers and radio stations focusing on youth, another group represented in Schedule 1A, and talkback.</td>
</tr>
<tr>
<td>Given the budget, the campaign was skewed towards regional and rural Victoria, where most employees are covered by common rule awards. Local media in languages other than English are virtually non-existent, and it was felt that the radio component was sufficient. To do a broad sweep of the ethnic working community, advertisements were placed in large circulation newspapers in Greek, Chinese, Vietnamese, Turkish and Khmer.</td>
</tr>
</tbody>
</table>
**Exhibit 4.5: Departmental advertising and promotional programs, undertaken in 2004-05 with expenditure in excess of $100,000 (continued)**

*Department of Innovation, Industry and Regional Development (continued)*

<table>
<thead>
<tr>
<th>Relevance to government responsibilities</th>
<th>Value for money</th>
<th>Meeting the needs of people from non-English speaking backgrounds</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Common Rule (continued)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>For a number of years the government had negotiated with the Commonwealth Government to make a referral of industrial relations power to enable the Australian Industrial Relations Commission to make industry-wide ‘common rule’ awards in Victoria. This would bring, over time, Schedule 1A workers into the federal award system. The common rule advertising campaign informed relevant employees that their work conditions may be about to change, with common rule awards taking effect from 1 January 2005. The campaign also informed employers that competitors could no longer seek an advantage through paying lower than award wages. At the time of the Victorian Government’s campaign, the federal Department of Employment and Workplace Relations had not conducted any mass communication about the impending ‘common rule awards’. Victoria’s common rule campaign sought to minimise confusion for employees and maximise compliance among employers who would be affected by the changes.</td>
<td>Nearly 1,100 telephone inquiries were recorded over the four week campaign through Information Victoria and JobWatch, the two enquiry lines promoted. Industrial Relation Victoria also received a small flow of calls. This was a good result because the campaign was run in the lead up to Christmas and the January period - one of the most difficult periods of the year to reach people. The campaign was followed up by an information forum around the state.</td>
<td></td>
</tr>
</tbody>
</table>
Exhibit 4.5: Departmental advertising and promotional programs, undertaken in 2004-05 with expenditure in excess of $100,000 (continued)

**Department of Justice**

<table>
<thead>
<tr>
<th>Name of advertising and promotion program</th>
<th>Description</th>
<th>Date commenced</th>
<th>Key objectives</th>
<th>Target audience</th>
<th>Expenditure 2004-05 ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Play it Safe by the Water</td>
<td>Television advertising, billboard advertising, radio advertising, CALD radio advertising.</td>
<td>November 2004 to Easter 2005</td>
<td>To raise community awareness of water safety in Victoria.</td>
<td>Primary audience: general community secondary audience: the young male risk-taker.</td>
<td>553,658</td>
</tr>
</tbody>
</table>

**Total** | 553,658 

The Department of Justice strategies to address the following:

<table>
<thead>
<tr>
<th>Relevance to government responsibilities</th>
<th>Value for money</th>
<th>Meeting the needs of people from non-English speaking backgrounds</th>
</tr>
</thead>
<tbody>
<tr>
<td>The ‘Play it Safe by the Water’ campaign communication strategy reinforces the department’s vision of ‘a safe, just, innovative and thriving Victoria’. This vision emerges from the ‘Caring communities’ vision statement from the government’s Growing Victoria Together strategy. The campaign has a crucial role in delivering the emergency services outcome of ‘Prevent and respond to emergencies’, specifically addressing the key goal of ‘reduced death and injury rates’.</td>
<td>Value for money was obtained through efficient and effective purchasing practice. The Victorian Government has established a Master Agency Media Service (MAMS), which purchases all media space for departments, statutory authorities and agencies. The MAMS agreement enables individual departments and agencies to benefit from volume discounts and the negotiating power that comes from a unified approach.</td>
<td>An amount of $47,505 was allocated to the needs of the CALD communication strategy.</td>
</tr>
</tbody>
</table>
Exhibit 4.5:  Departmental advertising and promotional programs, undertaken in 2004-05 with expenditure in excess of $100,000 *(continued)*

**Department of Premier and Cabinet**

<table>
<thead>
<tr>
<th>Name of advertising and promotion program</th>
<th>Description</th>
<th>Date commenced</th>
<th>Key objectives</th>
<th>Target audience</th>
<th>Expenditure 2004-05 ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Healthy and Active Victoria</td>
<td>Go for your Life mass media campaign, (whole of government brand, media funded by departments).</td>
<td>November 2004</td>
<td>Encourage Victorians to become more active, eat better and be more involved in their communities.</td>
<td>All Victorians. Parents with children, culturally and linguistically diverse – selected groups.</td>
<td><em>2,700,000</em></td>
</tr>
<tr>
<td>Channel 31 sponsorship</td>
<td>Whole of government annual sponsorship of community television station.</td>
<td>July 2004</td>
<td>Encourage a whole of government approach for using channel 31 in media planning. Encourage savings and value for money through negotiating a whole of government sponsorship.</td>
<td>People aged 20 - 35 years and 55 years and over.</td>
<td>600,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td><strong>3,300,000</strong></td>
</tr>
</tbody>
</table>

*Note: *this is the whole of government expenditure (includes Department of Human Services and Department for Victorian Communities)
Exhibit 4.5: Departmental advertising and promotional programs, undertaken in 2004-05 with expenditure in excess of $100,000 (continued)

**Department of Premier and Cabinet (continued)**

<table>
<thead>
<tr>
<th>The Department of Premier and Cabinet strategies to address the following:</th>
<th>Value for money</th>
<th>Meeting the needs of people from non-English speaking backgrounds</th>
</tr>
</thead>
<tbody>
<tr>
<td>Relevance to government responsibilities</td>
<td>Value for money</td>
<td>Meeting the needs of people from non-English speaking backgrounds</td>
</tr>
<tr>
<td>The healthy and active campaign supports a core government responsibility to address the issues of future illness amongst more Victorians due to increasing obesity amongst adults and children and the strain it will place on the public health system, the workforce and the economy. The campaign aims to raise awareness of these issues and change attitudes by encouraging Victorians to be more physically active, eat better and be more connected to their community.</td>
<td>The Master Agency Media Services (MAMS) is a whole of government media contract which ensures the best value for money is negotiated due to the benefits of pooled funds across government. This arrangement provides volume discounts that are significantly below the market rates and other added value bonuses and savings. All of the department’s advertising campaigns are booked through this master media contract.</td>
<td>Government aims for a target of 5 per cent in advertising spent against CALD communities. The healthy and active campaign included a CALD component.</td>
</tr>
</tbody>
</table>
Exhibit 4.5: Departmental advertising and promotional programs, undertaken in 2004-05 with expenditure in excess of $100,000 (continued)

Department of Sustainability and Environment

<table>
<thead>
<tr>
<th>Name of advertising and promotion program</th>
<th>Description</th>
<th>Date commenced</th>
<th>Key objectives</th>
<th>Target audience</th>
<th>Expenditure 2004-05 ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cattle grazing in the Alpine National Park</td>
<td>Metropolitan and regional print press advertising; regional television commercial; and metropolitan and regional radio advertisements. Also focus group market research.</td>
<td>24 May 2005</td>
<td>To convey to Victorians the government’s decision to stop cattle grazing in the Alpine National Park and to explain rationale for this landmark decision.</td>
<td>Metropolitan Melbourne and selected regional areas (Ballarat, Bendigo, Gippsland, Shepparton).</td>
<td>42,860</td>
</tr>
<tr>
<td>Our Water Our Future behavioural change advertising campaign, Phase II</td>
<td>Integrated mass media strategy that includes television, radio, press and outdoor executions to drive mainstream behavioural change across metropolitan Melbourne.</td>
<td>1 November 2004</td>
<td>To inspire Melburnians to make saving water a life-long habit. To raise awareness of the need to save water for people, rivers, farms and catchments. To reinforce that if we all do our bit, we can make a difference.</td>
<td>Metropolitan households with gardens, including families with children. Secondary audience: 18-35 year olds who are less aware or unsure of water issues.</td>
<td>3,500,000</td>
</tr>
</tbody>
</table>
### Exhibit 4.5: Departmental advertising and promotional programs, undertaken in 2004-05 with expenditure in excess of $100,000 (continued)

**Department of Sustainability and Environment (continued)**

<table>
<thead>
<tr>
<th>Name of advertising and promotion program</th>
<th>Description</th>
<th>Date commenced</th>
<th>Key objectives</th>
<th>Target audience</th>
<th>Expenditure 2004-05 ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Water Saver Garden Centres pilot program</td>
<td>Targeting members of the Nursery Garden Industry Association of Victoria (NGIV) and active Melbourne garden, this pilot program is based on an accreditation approach whereby nurseries received Our Water Our Future (OWOF) accreditation that will see their staff trained in best practice water wise principles and pass their knowledge onto customers.</td>
<td>21 February 2004</td>
<td>Influence gardening water use behaviour (35 per cent of water use is outdoor). Position gardening and the sensible use of water in the garden as positive, something to be enjoyed and fashionable. Influence purchasing decisions – buy the right water saving products/services. Influence the nursery/garden industry to help build momentum to save water. Change products/services on offer to reflect water conservation. Change customer service. Work with others. Build relationships with the industry.</td>
<td>Melbourne’s top 100 (60 in first year) nurseries are being targeted by the program.</td>
<td>350,000</td>
</tr>
</tbody>
</table>
Exhibit 4.5: Departmental advertising and promotional programs, undertaken in 2004-05 with expenditure in excess of $100,000 (continued)

<table>
<thead>
<tr>
<th>Name of advertising and promotion program</th>
<th>Description</th>
<th>Date commenced</th>
<th>Key objectives</th>
<th>Target audience</th>
<th>Expenditure 2004-05 ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Sustainables Household Challenge</td>
<td>A promotion to encourage Victorians to live sustainably at home by signing up to 10 key actions.</td>
<td>20 April 2005</td>
<td>To increase awareness of actions that Victorians can take. To achieve 10,000 sign-ups by end of 2005.</td>
<td>25-35 year old home-makers and families.</td>
<td>185,000</td>
</tr>
</tbody>
</table>

Total | | | | | 4,077,860 |
### Exhibit 4.5: Departmental advertising and promotional programs, undertaken in 2004-05 with expenditure in excess of $100,000 (continued)

**Department of Sustainability and Environment (continued)**

<table>
<thead>
<tr>
<th>The Department of Sustainability and Environment strategies to address the following:</th>
<th>Value for money</th>
<th>Meeting the needs of people from non-English speaking backgrounds</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Relevance to government responsibilities</strong></td>
<td><strong>Value for money</strong></td>
<td><strong>Meeting the needs of people from non-English speaking backgrounds</strong></td>
</tr>
<tr>
<td>Cattle grazing</td>
<td>The income the government gets from grazing licences does not cover the cost of managing the land that is damaged in the process. The Victorian public ultimately pays for the management of the land. The return on investment that will flow from a more pristine park will benefit more Victorians than cattle grazing ever could.</td>
<td>The department’s Customer Service Centre was set up to deal with queries from the public on the issue of cattle grazing ending in the Alpine National Park. A translation service is available via the centre. The issue of cattle grazing in the high country was considered to be of relatively low significance to a non-English speaking audience.</td>
</tr>
</tbody>
</table>

The Department of Sustainability and Environment strategies to address the following:

- **Relevance to government responsibilities**
- **Value for money**
- **Meeting the needs of people from non-English speaking backgrounds**
Exhibit 4.5: Departmental advertising and promotional programs, undertaken in 2004-05 with expenditure in excess of $100,000 (continued)

Department of Sustainability and Environment (continued)

<table>
<thead>
<tr>
<th>Relevance to government responsibilities</th>
<th>Value for money</th>
<th>Meeting the needs of people from non-English speaking backgrounds</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Water campaign</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The behavioural change campaign directly supports a ministerial statement delivered on 10 April 2003 by the Minister for Water. This statement was a stake in the ground, highlighting the need to change the way water is used by Victorians. It also provided the impetus to launch the first phase of the <em>Our Water Our Future</em> behavioural change campaign for Melbourne. Following this statement, the government's Green Paper was released for discussion and, after extensive community consultation, the White Paper – <em>Our Water Our Future</em> – was issued. The behavioural change campaign fits within the framework of the White Paper action plan supporting smarter water use in cities and towns. The campaign also supports the government’s target to reduce per capita drinking water consumption in Melbourne by 15 per cent by 2010.</td>
<td>The total value of advertising across television, radio, press and outdoor mediums for Phase II of the <em>Our Water Our Future</em> campaign was $589,855.</td>
<td>During phase II, the department worked with the ethnic arm of Optimedia to develop a specific strategy to target Melbourne’s culturally and linguistically diverse communities. The media spend for this strategy totalled $68,874. Under Phase III (2005-06), a new initiative was launched to investigate CALD community knowledge, attitudes and behaviours towards water usage. CALD specialist agency, Cultural Partners, is currently undertaking this research.</td>
</tr>
</tbody>
</table>
Exhibit 4.5: Departmental advertising and promotional programs, undertaken in 2004-05 with expenditure in excess of $100,000 (continued)

Department of Sustainability and Environment (continued)

<table>
<thead>
<tr>
<th>Relevance to government responsibilities</th>
<th>Value for money</th>
<th>Meeting the needs of people from non-English speaking backgrounds</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sustainability campaign</td>
<td></td>
<td></td>
</tr>
<tr>
<td>The Sustainables Household Challenge is an initiative of Victoria’s Environmental Sustainability Framework, released by the government in April 2005. The challenge brings together 10 key actions that are promoted by the government on a daily basis across a range of areas – from waste avoidance to protection of native habitat and water saving.</td>
<td>The household challenge uses a low-cost medium – the internet – to promote environmental sustainability messages on a regular basis to the (current) base of 5000 people. Each one of these people will have received five contacts from the Victorian Government on sustainable living at home by early December 2005. The cost/benefit ratio will continue to improve over time as more and more Victorians sign-up to the challenge, despite the program costs remaining steady.</td>
<td>Due to a limited project budget, communications efforts have been focused on communicating with the two target markets – people aged 25-35 years and young families. The CALD audience has not been specifically targeted.</td>
</tr>
</tbody>
</table>
Exhibit 4.5:  Departmental advertising and promotional programs, undertaken in 2004-05 with expenditure in excess of $100,000 (continued)

**Department for Victorian Communities**

<table>
<thead>
<tr>
<th>Name of advertising and promotion program</th>
<th>Description</th>
<th>Date commenced</th>
<th>Key objectives</th>
<th>Target audience</th>
<th>Expenditure 2004-05 ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Go for your Life campaign</td>
<td>The Healthy and Active Victoria strategy and Go for your Life campaign aims to get Victorians off the couch and actively involved in their local community. This significant public education campaign funded until June 2007 is supported by a website and hotline to provide practical information on getting healthy and active.</td>
<td>December 2004</td>
<td>To increase levels of physical activity across Victoria. To address and help prevent obesity and diabetes. To promote healthy and active living to senior Victorians. To promote healthy eating.</td>
<td>Young Victorians, families, senior Victorians, community and sporting groups.</td>
<td>1,137,000</td>
</tr>
</tbody>
</table>
Exhibit 4.5: Departmental advertising and promotional programs, undertaken in 2004-05 with expenditure in excess of $100,000 (continued)

Department for Victorian Communities (continued)

<table>
<thead>
<tr>
<th>Name of advertising and promotion program</th>
<th>Description</th>
<th>Date commenced</th>
<th>Key objectives</th>
<th>Target audience</th>
<th>Expenditure 2004-05 ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Skilled Migration strategy (SMP)</td>
<td>This is a marketing communications program to increase Victoria’s share of Australia’s skilled and business migrants to 25 per cent. The strategy seeks to help Victorian industries and businesses meet skill needs by attracting skilled and business migrants to Victoria, particularly regional Victoria.</td>
<td>April 2004</td>
<td>Develop and implement consistent branding for the strategy. Position Victoria, with a particular focus on regional Victoria, as the place to live and work for skilled and business migrants. To promote the Regional Migration Incentive Fund (RMIF). Develop and promote the Skilled Migration website as the key source of information for potential skilled migrants and increase the number of visitors to the website by 10 per cent per year. Improve partnerships with relevant government departments and agencies, making the most of leveraging possibilities.</td>
<td>Potential skilled and business migrants, regional Victorian communities, Victorian employers, government departments and agencies.</td>
<td>1,000,000</td>
</tr>
</tbody>
</table>
Exhibit 4.5: Departmental advertising and promotional programs, undertaken in 2004-05 with expenditure in excess of $100,000 (continued)

Department for Victorian Communities (continued)

<table>
<thead>
<tr>
<th>Name of advertising and promotion program</th>
<th>Description</th>
<th>Date commenced</th>
<th>Key objectives</th>
<th>Target audience</th>
<th>Expenditure 2004-05 ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grants, recruitment and mandatory advertising</td>
<td>Advertising for grants programs, job vacancies and mandatory public notices including tenders in metropolitan, regional and local media.</td>
<td>June 2004</td>
<td>Grants - To ensure a range of community groups across Victoria have the opportunity to apply for relevant grants. Mandatory advertising – To ensure the Victorian public is informed of opportunities to tender for services and of legislative changes. Recruitment – To attract the best candidates from the market to fill job vacancies.</td>
<td>Community groups, sporting groups, local governments, Victorian businesses, Job seekers, Victorian public</td>
<td>458,227</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td><strong>2,595,227</strong></td>
</tr>
</tbody>
</table>
Exhibit 4.5: Departmental advertising and promotional programs, undertaken in 2004-05 with expenditure in excess of $100,000 (continued)

Department for Victorian Communities (continued)

<table>
<thead>
<tr>
<th>The Department for Victorian Communities strategies to address the following:</th>
<th>Value for money</th>
<th>Meeting the needs of people from non-English speaking backgrounds</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Relevance to government responsibilities</strong></td>
<td><strong>All advertising by the department is placed through the Master Agency Media Service (MAMS), a whole of government contract where all advertising space is booked and placed through government appointed media buying agencies. These whole of government contracts enable high service levels, the negotiation of cost-effective advertising rates and immediate expenditure/commitment reporting for all government bodies to take advantage of. The MAMS contract is divided into campaign and non-campaign advertising - with Optimedia Australia being appointed as the contractor for campaign advertising and all recruitment advertising and HMA Blaze the contractor for all remaining non-campaign advertising.</strong></td>
<td><strong>The department addresses the needs of people from non-English speaking backgrounds through its communications in a number of ways:</strong></td>
</tr>
<tr>
<td><strong>The Active and Healthy Victoria Strategy and the Go for your Life campaign are directly linked to the government’s commitment to increase Victoria’s share of Australia’s skilled migrants by at least 25 per cent by 2007, and to have a regional population of 1.75 million by 2025.</strong></td>
<td><strong>by placing advertising and public relations in ethnic media;</strong></td>
<td></td>
</tr>
<tr>
<td><strong>The Skilled Migration Campaign is directly linked to the government’s commitment to increase Victoria’s share of Australia’s skilled migrants by at least 25 per cent by 2007, and to have a regional population of 1.75 million by 2025.</strong></td>
<td><strong>by providing translations of key communications materials; and</strong></td>
<td></td>
</tr>
<tr>
<td><strong>by using the VITS Language Link for interpreting services for key programs and on request.</strong></td>
<td><strong>Note:</strong></td>
<td><strong>(a) The Department of Primary Industries and the Department of Treasury and Finance reported no advertising and promotion program expenditure in 2004-05.</strong></td>
</tr>
</tbody>
</table>

**Sources:**  
Department’s responses to the Public Accounts and Estimates Committee’s 2004-05 Budget Outcomes questionnaire; Department of Education and Training (received 6 January 2006); Department of Human Services (received 17 January 2006); Department of Infrastructure (received 22 December 2005); Department of Innovation, Industry and Regional Development (received 21 December 2005); Department of Justice (received 9 January 2006); Department of Premier and Cabinet (received 23 December 2005); Department of Primary Industries (received 20 December 2005); Department of Sustainability and Environment (received 20 January 2006); Department of Treasury and Finance (received 29 December 2005); Department for Victorian Communities (received 21 December 2005); Parliamentary departments (received 10 February 2006) and Victorian Auditor–General’s Office (received 20 December 2005)
CHAPTER 5: PARLIAMENTARY DEPARTMENTS

Key findings of the Committee:

5.1 The output budget for the parliamentary departments was $96.6 million in 2004-05; actual output cost was $92.6 million, $4 million (or 4.1 per cent) below budget. This lower than expected expenditure was due to underspending in all four output groups.

5.2 All four output groups had expenditure within 10 per cent of the budgeted cost.

5.3 The parliamentary departments have advised that $1.58 million was carried forward from 2004-05 to 2005-06 for the provision of outputs and $3.8 million was carried forward for additions to the net asset base.

5.4 The parliamentary departments achieved or exceeded almost all of their performance targets. However, while information on the extent to which performance targets were met was reported in the annual reports of the Department of the Legislative Council and the Department of the Legislative Assembly, similar information was not provided in the annual report of the Department of Parliamentary Services, resulting in diminished accountability for the department’s activities.

5.5 The parliamentary departments did not provide summarised results in their annual reports of the survey of Members of Parliament conducted in 2004-05.

5.6 The salary costs of the parliamentary departments in 2004-05 were $24.2 million, an increase of $1.4 million (or 6.3 per cent) from 2003-04. The Parliamentary Library, Hansard and parliamentary committees had salary costs increases of more than 10 per cent in 2004-05 due to the translation of staff to the new career structure.

5.1 Financial analysis – comparison with budget

The parliamentary departments were responsible for the delivery of nine outputs (one each for the Department of the Legislative Assembly, the Department of the Legislative Council and the Parliamentary Investigatory Committees, and six for the Department of Parliamentary Services) in 2004-05, and these outputs were initially

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192 Budget Paper No.3, 2004-05 Service Delivery, pp.251–256
budgeted to cost $96.6 million.\textsuperscript{193} Actual output expenditure in 2004-05 was $92.6 million,\textsuperscript{194} $4 million (or 4.1 per cent) under budget.

Exhibit 5.1 shows an underspending in all four output groups. Despite a request from the Committee for details of the actual expenditure for the six outputs in the Department of Parliamentary Services, this information was not provided nor was it published in the department’s annual report. Consequently, the Committee was not able to ascertain which outputs were under budget in 2004-05 (see exhibit 5.1). The Committee considers there is no valid reason for the Department of Parliamentary Services not to provide this information.

The Committee noted that the Department of the Legislative Assembly and the Department of Parliamentary Services have not included in their 2004-05 annual reports, details of budget and actual costs.\textsuperscript{195} Exhibit 5.1 shows this information.

\begin{flushright}
\textsuperscript{193} Parliamentary departments, response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 10 February 2006, p.1
\textsuperscript{194} ibid.
\textsuperscript{195} Department of the Legislative Assembly, 2004-05 Annual Report, p.40; Department of Parliamentary Services, 2004-05 Annual Report, pp.48–49
\end{flushright}
### Exhibit 5.1: Parliamentary departments

**Output costs – 2004-05**

<table>
<thead>
<tr>
<th>Output groups/outputs</th>
<th>2004-05 Budget ($000)</th>
<th>2004-05 Actual ($000)</th>
<th>Variation (a) (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Legislative Council (b)</td>
<td>14,375</td>
<td>13,780</td>
<td>-4.1</td>
</tr>
<tr>
<td>Procedural support, documentation preparation and provision of information for Council</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Legislative Assembly (c)</td>
<td>27,627</td>
<td>25,847</td>
<td>-6.4</td>
</tr>
<tr>
<td>Procedural support, documentation preparation and provision for information for Assembly</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Parliamentary Services</td>
<td>49,044</td>
<td>47,456</td>
<td>-3.2</td>
</tr>
<tr>
<td>Information provision</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Information access</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Research</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Public relations and education</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hansard, sessional indexes and committee transcripts</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Support services</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Parliamentary Investigatory Committees</td>
<td>5,562</td>
<td>5,557</td>
<td>-0.1</td>
</tr>
<tr>
<td>Reports tabled and papers published</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>96,608 (d)</td>
<td>92,640</td>
<td>-4.1</td>
</tr>
</tbody>
</table>

**Notes:**

(a) A negative variance indicates that the actual results for 2004-05 were lower than budget

(b) Includes special appropriations (2004-05 budget: $11,506,000; 2004-05 actual: $10,915,000)

(c) Includes special appropriations (2004-05 budget: $23,060,000; 2004-05 actual: $21,285,000)

(d) Includes a carry over from 2003-04 of $1.8 million and additional funding/Treasurer’s Advance of $1.3 million\(^{196}\)

**Source:** Parliamentary departments, email, received 15 February 2006

The budget information shown in exhibit 5.1 varies from the information contained in the 2004-05 Budget Paper No.3 because of carry over funding from the previous year ($1.8 million) and additional funding or Treasurer’s advances ($1.3 million). Exhibit 5.2 provides a reconciliation.

\(^{196}\) Parliamentary departments, email, received 15 February 2006
Exhibit 5.2: Parliamentary departments
Reconciliation of output group budgets – 2004-05

<table>
<thead>
<tr>
<th></th>
<th>Legislative Council ($ million)</th>
<th>Legislative Assembly ($ million)</th>
<th>Parliamentary Services ($ million)</th>
<th>Parliamentary Investigatory Committees ($ million)</th>
<th>Total ($ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Budget (as per Budget Paper No.3, 2004-05 Service Delivery)</td>
<td>14.1</td>
<td>27.1</td>
<td>46.9</td>
<td>5.3</td>
<td>93.4</td>
</tr>
<tr>
<td>Carry over funding from 2003-04</td>
<td>0.1</td>
<td>0.2</td>
<td>1.3</td>
<td>0.2</td>
<td>1.8</td>
</tr>
<tr>
<td>Additional funding/Treasurer’s Advances</td>
<td>0.2</td>
<td>0.3</td>
<td>0.7</td>
<td>0.1</td>
<td>1.3</td>
</tr>
<tr>
<td>Rounding adjustments</td>
<td>-0.1</td>
<td></td>
<td>0.1</td>
<td></td>
<td>-</td>
</tr>
<tr>
<td>Budget (as per exhibit 5.1) (a)</td>
<td>14.3</td>
<td>27.6</td>
<td>49.0</td>
<td>5.6</td>
<td>96.5</td>
</tr>
</tbody>
</table>

Note: (a) The slight difference in total output group costs shown in this exhibit, compared with exhibit 5.1 can be attributed to rounding

Source: Parliamentary departments, email, received 15 February 2006

5.2 Performance information

The 2004-05 annual reports of the parliamentary departments indicate that they achieved or exceeded almost all of their performance targets. While quantitative measures of performance were provided in the 2004-05 annual reports of the Department of the Legislative Council and the Department of the Legislative Assembly, this information was not provided in the 2004-05 annual report of the Department of Parliamentary Services.

The publication of performance measures is a critical component of the accountability process involving Parliament and the public. In response to the Committee’s enquiry on the failure to report its performance using quantitative measures, the Department of Parliamentary Services advised:

197 Department of the Legislative Assembly, 2004-05 Annual Report, p.40; Department of the Legislative Council, 2004-05 Annual Report, p.60; Department of Parliamentary Services, 2004-05 Annual Report, pp.48–49
198 Department of the Legislative Council, 2004-05 Annual Report, p.60
199 Department of the Legislative Assembly, 2004-05 Annual Report, p.40
200 Department of Parliamentary Services, 2004-05 Annual Report, pp.48–49
…in reporting output performance measures in the 2004-05 annual report, [the department] has drawn a distinction between internal and external use of performance data:

(a) the internal uses of such information include providing timely feedback on the performance of outputs and administered items so that action can be taken during the budget year to ensure that targets can be met. Performance information is also used to provide feedback to staff on their contribution to the management of outputs and administered items;

(b) externally, the purpose of performance information is to give stakeholders and management a clear understanding of performance results and of achievement of targets. In this context, a top-level strategic overview is essential.

To this end, the department has provided external stakeholders with a strategic overview and clear statements on the achievement of output targets.201

The Committee rejects this explanation and points out that the Department of Parliamentary Services has an obligation to be accountable to Parliament for its performance and use of taxpayer funds as occurs with the other parliamentary departments. Standard practice with the public sector is to identify outputs and performance measures involving quantity, quality, timeliness and cost. Actual performance in meeting the targets identified is published along with explanations for major variances. It is not sufficient for the Department of Parliamentary Services to identify performance measures used and then state whether the measures were met, without any supplementary information identifying each category of performance measure, targets set, actual performance against targets and information on major variances.

Failure to do so is, in the opinion of the Committee, contrary to the primary objective of the Parliamentary Administration Act 2005, to ‘promote the highest standards of governance in the administration of the Parliament of Victoria’.

The Standing Directions of the Minister for Finance quite clearly specify that an annual report of a government department must include ‘...a comparison of the output targets specified in the State Budget with actual performance against those targets.’202 While the parliamentary departments are not required to comply with this requirement, in the interests of transparency and accountability, the Committee

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201 Parliamentary departments, response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 10 February 2006, p.2
202 Department of Treasury and Finance, Standing Directions of the Minister for Finance, updated July 2005, s.4.2(k), p.72
considers that the Department of Parliamentary Services should provide more detail on actual and targeted levels of performance in its annual report.

The Committee recommends that:

**Recommendation 25:** The Department of Parliamentary Services improve its level of accountability to the community by including in its annual report quantitative measures of actual and targeted levels of performance.

The parliamentary departments did not include in their annual reports the results of the survey of Members of Parliament on the satisfaction with the services provided. This could include summarised results of survey findings in the parliamentary departments’ annual reports, with previous survey results included for comparative purposes, and would assist stakeholders to monitor and gauge Members’ satisfaction with services provided. Key strategies that the departments intend to undertake to address issues raised in surveys should also be provided.

The Committee recommends that:

**Recommendation 26:** The parliamentary departments include in their annual reports, summarised results of the survey of Members, with previous survey results included for comparative purposes. Key strategies the parliamentary departments intend to undertake to address issues raised by survey results should also be provided in their annual reports.

**5.3 Other matters**

**5.3.1 Staffing matters**

Exhibit 5.3 shows that the total number of staff in the parliamentary departments at 30 June 2005 was 429.6 equivalent full-time (EFT) positions.

The Committee noted in a comparison between staffing at 30 June 2004 and at 30 June 2005 that the total number of staff (including electorate officers) decreased by 16.8 EFT from 446.4 EFT at June 2004 to 429.6 EFT at June 2005.
Exhibit 5.3: Parliamentary departments
Equivalent full-time staff – 2003-04 and 2004-05

<table>
<thead>
<tr>
<th>Classification</th>
<th>June 2004 (EFT)</th>
<th>June 2005 (EFT)</th>
<th>Variance (EFT)</th>
<th>Variance (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executive officers</td>
<td>7.0</td>
<td>6.0</td>
<td>-1.0</td>
<td>-14.3</td>
</tr>
<tr>
<td>Parliamentary officers – grades 1 - 6</td>
<td>200.6</td>
<td>195.2</td>
<td>-5.4</td>
<td>-2.7</td>
</tr>
<tr>
<td>Electorate officers</td>
<td>233.0</td>
<td>222.0</td>
<td>-11.0</td>
<td>-4.7</td>
</tr>
<tr>
<td>Sessional staff</td>
<td>5.8</td>
<td>6.4</td>
<td>0.6</td>
<td>10.3</td>
</tr>
<tr>
<td><strong>Total EFT staff</strong></td>
<td><strong>446.4</strong></td>
<td><strong>429.6</strong></td>
<td><strong>-16.8</strong></td>
<td><strong>-3.8</strong></td>
</tr>
</tbody>
</table>

Sources: Parliamentary departments, response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 10 February 2006, pp.7–8; parliamentary departments, email received 3 April 2006; parliamentary departments, response to the Committee’s 2005-06 Budget Estimates questionnaire, received 5 May 2005, p.6

Exhibit 5.3 shows a decrease of 11 electorate officers (EFT) in 2004-05, which was due to the discontinuation from 1 July 2004 of the pool system for electorate officers.\(^{203}\)

The Committee requested explanations for significant variation in staff numbers. For the parliamentary officers, the parliamentary departments advised that ‘in August 2004, the Parliament transferred from the broad band 5 grade classification system to the new [six] grade system. … This has resulted in significant changes in the spread of staff at each level’.\(^{204}\) The Committee’s analysis indicated that the classification profile of parliamentary officers had changed significantly (by more than 10 per cent at each classification level), with staff moving to higher classification levels during 2004-05.

Exhibit 5.4 shows the staff breakdown by employment type and associated salary costs in 2004-05.

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\(^{203}\) Parliamentary departments, response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 10 February 2006, p.8

\(^{204}\) Ibid.
Salary costs for parliamentary departments increased by $1.4 million or 6.3 per cent in 2004-05 (exhibit 5.4). Fixed term staff salary costs increased by $426,696 or 17.7 per cent in 2004-05, while casual staff costs decreased by $207,247 or 16.3 per cent in 2004-05.

Exhibit 5.5 shows the 2003-04 and 2004-05 salary costs for staff employed by the various units comprising the parliamentary departments. The increased salary costs were due to the translation of staff to the new career structure during the year.
Chapter 5: Parliamentary departments

Exhibit 5.5: Parliamentary departments or business units
Salary costs – 2003-04 and 2004-05

<table>
<thead>
<tr>
<th>Parliamentary Departments or Business Units</th>
<th>2003-04 ($)</th>
<th>2004-05 ($)</th>
<th>Variation (a) (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Legislative Council</td>
<td>1,069,973</td>
<td>1,161,350</td>
<td>8.5</td>
</tr>
<tr>
<td>Legislative Assembly</td>
<td>1,791,483</td>
<td>1,781,723</td>
<td>-0.5</td>
</tr>
<tr>
<td>Parliamentary Services</td>
<td>3,632,108</td>
<td>3,876,403</td>
<td>6.7</td>
</tr>
<tr>
<td>Parliamentary Library</td>
<td>1,341,470</td>
<td>1,477,980</td>
<td>10.2</td>
</tr>
<tr>
<td>Hansard</td>
<td>1,760,262</td>
<td>1,984,056</td>
<td>12.7</td>
</tr>
<tr>
<td>Parliamentary Committees</td>
<td>2,265,649</td>
<td>2,605,901</td>
<td>15.0</td>
</tr>
<tr>
<td>Electorate Officers</td>
<td>10,910,876</td>
<td>11,318,573</td>
<td>3.7</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>22,771,821</strong></td>
<td><strong>24,205,986</strong></td>
<td><strong>6.3</strong></td>
</tr>
</tbody>
</table>

Note: A negative figure indicates a decrease salary costs in 2004-05
Source: Parliamentary departments, response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 10 February 2006, pp.8–9

The Committee requested details of executive officer level 3 and parliamentary officers grade 6 positions that were established in 2004-05. The parliamentary departments advised there were no executive positions created in 2004-05. In relation to the grade 6 positions:

- Legislative Council – two new positions created: Assistant Clerk Procedure and Usher of the Black Rod; and Assistant Clerk – Committees (Council); and two positions abolished;
- Legislative Assembly – two new positions created – Assistant Clerk Procedure and Sarjeant-at-Arms; and Assistant Clerk – Committees (Assembly) – to replace two equivalent positions that were abolished; and
- Department of Parliamentary Services – ten new positions created and nine positions abolished.

The net cost of establishing the new grade 6 positions was $130,197 (Legislative Council: $7,744; Legislative Assembly: $ nil; and Department of Parliamentary Services: $122,453).

The parliamentary departments advised there were no Voluntary Departure Packages or Targeted Separation Packages in 2004-05.

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205 ibid., p.9
206 ibid.
207 ibid.
208 ibid., p.12
5.3.2 Carry over funding

The parliamentary departments indicated that $1.58 million was carried forward from 2004-05 to 2005-06 for the provision of outputs, and $3.8 million was carried forward from 2004-05 to 2005-06 for additions to the net asset base. The parliamentary departments further advised that all output funding carried over from 2004-05 related to allowances and expenditure of Members of Parliament, and will be applied against the same outputs.

While the parliamentary departments advised that all capital projects were completed within timelines and within budget, they also indicated that funding for the catering refurbishment project was carried over to 2005-06. The catering refurbishment project was contracted to Major Projects Victoria because of the nature and size of the required capital works.

5.4 Major issue

5.4.1 One Parliament Project

Under the ‘One Parliament’ project, the number of parliamentary departments was reduced from five to three. The service departments comprising the former Departments of Parliamentary Library, Parliamentary Debates and Joint Services were merged to create the new Department of Parliamentary Services.

The parliamentary departments advised the Committee in its inquiry into the 2004-05 Budget Estimates the new administrative structure will:

- enable the Presiding Officers to focus on high level, strategic issues;
- allow the Clerk of the Legislative Assembly and the Clerk of the Legislative Council to focus on running their respective departments, without being diverted by operational issues from the service departments;
- support a high level of coordination between the service departments; and
- streamline the integration of policy and service delivery across the Parliament.
The Committee noted the implementation of this structure in 2004-05 and considers an evaluation of its implementation and success in achieving the above goals would be timely, particularly as the Department of Parliamentary Services 2004-05 annual report does not provide details of their quantitative measures or detailed information about how the implementation of the major organisational change has affected performance. Quantitative evaluation of performance with respect to service levels, staff productivity and service response times should be key measures reported on by the department.
CHAPTER 6: VICTORIAN AUDITOR-GENERAL’S OFFICE

Key findings of the Committee:

6.1 Output expenditure incurred by the Victorian Auditor-General’s Office in 2004-05 amounted to $24.3 million, $1.2 million (or 4.7 per cent) below the budget estimates.

6.2 The Victorian Auditor-General’s Office achieved or exceeded three of the nine performance targets that related to the performance measures published in the 2004-05 Budget Papers.

6.3 Despite the Office stating in its corporate plan for 2004-05 to 2006-07 that savings agreed with agencies, from acting on the Office’s recommendations, is to be one of the indicators of its success in achieving its outcomes, possible savings had not been quantified from its audits in 2004-05, although improvements in management programs/projects had been recommended. The Public Accounts and Estimates Committee considers there is scope for a greater focus to be given to targeting areas likely to generate cost savings when selecting areas to audit in future.

6.4 Of the ten performance audits completed in 2004-05, five audits exceeded the initial or revised estimated cost.

6.5 If circumstances change on a performance audit subsequent to approval of the original budget, this can result in a revision to the initial budget. The revised budget is then used for analysing variances between actual costs incurred and budget. This practice prevents the Office from being fully accountable for explaining variations between the actual costs incurred and the original approved budget prior to commencing the audit. An example of this situation relates to the performance audit, Our children are our future: improving outcomes for children and young people in Out of Home Care. The original budget of $568,000 was finalised from the detailed planning phase of the audit, but was subsequently revised upwards to $670,464 (an 18 per cent increase) to reflect changing circumstances.

6.6 In terms of budget performance, the performance audit that covered Managing stormwater flooding risks in Melbourne, which exceeded the revised budget by $64,400 or 13 per cent, attracted the largest budget overrun. Conversely, the audit that examined the Effectiveness of strategies to minimise absenteeism in schools was completed at a cost that was $101,400 or 24 per cent below the revised budget.
6.7 Client satisfaction with the Office’s financial statement audit services was 77 per cent for 2004-05 compared with the target of 80 per cent (client satisfaction in 2003-04 was 74 per cent). Although feedback from clients varied significantly and mainly related to specific matters in individual audits, the three most common issues related to continuity of audit staff, the level of audit fees, and the value added by the financial audit process. The Committee noted that the Office has implemented various initiatives to improve client satisfaction with its financial statement audit services.

6.8 The Office issued 76 per cent of management letters within four weeks of the audit opinion being signed in 2004-05 (86 per cent in 2003-04); the target was 100 per cent. A significant factor affecting the timely completion of these letters is the time clients require to review draft letters and include (where appropriate) management’s response to issues raised by audit.

6.1 Financial analysis – comparison with budget

The Victorian Auditor-General’s Office was responsible for delivering two outputs during 2004-05 at a budgeted cost of $25.5 million.\(^{215}\) Output expenditure incurred by the Office for 2004-05 was $24.3 million, $1.2 million (or 4.7 per cent) below the budget estimates.\(^{216}\)

6.2 Performance information

The Office achieved or exceeded 33.3 per cent of the nine performance targets that related to the performance measures published in the 2004-05 Budget Papers.\(^{217}\) The three performance measures that attracted the largest variations related to:

- finishing reports within time frames, which occurred in 81 per cent of cases compared with a target of 100 per cent;\(^{218}\)
- acknowledging inquiries from Members of Parliament and the public within seven days and responding within four weeks, which occurred in 70 per cent of cases compared with the 95 per cent target;\(^{219}\) and

\(^{215}\) Victorian Auditor-General’s Office, 2004-05 Annual Report, pp.12, 39
\(^{216}\) ibid.
\(^{217}\) ibid.
\(^{218}\) ibid., p.12
\(^{219}\) ibid.
• issuing management letters relating to financial statement audits within set time frames, which occurred in 76 per cent of cases compared with a target of 100 per cent.\textsuperscript{220}

### 6.3 Major issues

The Committee identified a number of issues relating to the budget of the Victorian Auditor-General’s Office.

#### 6.3.1 Quantifying savings generated from implementing audit recommendations

The Office’s corporate plan 2004-05 to 2006-07 indicated that savings agreed with agencies, from acting on the Office’s recommendations, is to be one of the indicators of success in attaining the outcome by June 2007 of providing Parliament, executive government and agencies with greater confidence in the accountability and performance of public sector agencies.\textsuperscript{221}

The Committee was advised that, while audits in 2004-05 recommended improvements in the management of programs/projects, possible savings had not been quantified.\textsuperscript{222} The Committee was also informed that due to the nature of this measure, targets had not been established.\textsuperscript{223}

The Committee was interested to learn that in another audit jurisdiction overseas, targets have been set for the achievement of validated savings from audit work. The UK National Audit Office reported in its 2005 annual report that:\textsuperscript{224}

> From its work, the Office secured £515 million independently validated savings for the taxpayer in 2004, meeting its target of achieving an eightfold return on its net costs.

The Committee appreciates that the UK National Audit Office has significantly more resources than that of the Victorian Auditor-General’s Office and is better placed to quantify and validate cost savings generated from audit activity.

The Committee commends the Victorian Auditor-General’s Office for recognising that identifying the scale of savings achieved by public sector agencies from acting on audit recommendations is a valuable indicator of outcome achievement in a given year. However, in pursuing its agenda of contributing to savings reform throughout the public sector, the Committee suggests that a greater focus may need to be given to

\textsuperscript{220} ibid., p.39
\textsuperscript{221} Victorian Auditor-General's Office, \textit{Corporate Plan 2004-05 to 2006-07}, June 2004
\textsuperscript{222} Victorian Auditor-General’s Office, response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 20 December 2005, p.2
\textsuperscript{223} ibid.
\textsuperscript{224} National Audit Office (United Kingdom), \textit{2005 Annual Report}, p.43
targeting areas likely to generate cost savings when selecting areas to audit. The Committee also recognises that any focus on undertaking performance audits likely to generate cost savings from the implementation of audit recommendations may result in an undue concentration of audit activity on large agencies and issues directed at examining issues connected with economy and efficiency. The Committee, nevertheless, considers there is merit in the Office setting a suitable target for savings to be achieved from implementing audit recommendations, which would be beneficial in ensuring that this concept is considered in topic selection and in the framing of audit objectives and lines of inquiry for particular performance audits.

The Committee recommends that:

**Recommendation 27:** To demonstrate the impact that audits have had in terms of generating cost savings from the adoption of audit recommendations, the Victorian Auditor-General’s Office give consideration to:

(a) evaluating the benefits of topics for inclusion in the annual plan in terms of the ability to generate potential cost savings;

(b) framing lines of enquiry in audit specifications specifically directed at exploring areas that may contribute to potential savings; and

(c) quantifying the scale and source of savings generated from the implementation of audit recommendations in the annual report of the Victorian Auditor-General’s Office.

**Recommendation 28:** The Victorian Auditor-General’s Office seek to establish a suitable target for the extent of validated financial savings to be generated each year from the implementation of audit recommendations by public sector agencies.

**6.3.2 Cost of performance audits**

The Office advised the Committee that at the time an audit specification is prepared an initial estimate of the likely audit cost is developed.225 Once the consultative process with the Committee and the relevant agencies is completed, a more detailed audit plan

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225 Victorian Auditor-General’s Office, response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 20 December 2005, p.4
is developed.\textsuperscript{226} This plan includes the detailed audit steps necessary to achieve the audit objectives.\textsuperscript{227} As part of the detailed planning, the initial estimate of the audit cost is reassessed and revised, where necessary.\textsuperscript{228} During the course of the audit, the revised estimate is further adjusted to reflect changing circumstances.\textsuperscript{229} An example of how the budget for a particular performance audit was revised from the original budget to reflect changing circumstances that occurred during the course of the audit, is shown in exhibit 6.1. Other performance audits that were in this category were:\textsuperscript{230}

- Regulating Operational Rail Safety – revised estimate $505,537
- Managing Occupational Health and Safety in local government – revised estimate $553,480
- Managing Intellectual Property in Government Agencies – revised estimate $380,455

\textbf{Exhibit 6.1: Variation to performance audit budget}

<table>
<thead>
<tr>
<th>Performance audit</th>
<th>Original budget after finalisation of the detailed plan ($000)</th>
<th>Revised budget to reflect changing circumstances ($000)</th>
<th>Variation ($000)</th>
<th>Variation (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>\textit{Our Children are our Future: Improving Outcomes for Children and Young People in Out of Home Care}</td>
<td>568.0</td>
<td>670.5</td>
<td>102.5</td>
<td>18.0</td>
</tr>
</tbody>
</table>

\textbf{Sources:} Victorian Auditor-General’s Office, response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 20 December 2005, p.5; Victorian Auditor-General’s Office, response to the Committee’s follow-up question, received 10 January 2006

The Committee noted that where circumstances change subsequent to the setting of the original approved budget and the original approved budget is revised, the Office uses the revised budget for variance analysis.\textsuperscript{231}

The Committee maintains that when comparisons are made between budget and actual costs incurred in undertaking performance audits, the budget used for this purpose should reflect the estimated cost after the detailed planning has been completed. Where circumstances change during the course of the audit after the plan has been finalised, and the original budget is subsequently adjusted for internal monitoring purposes, such changes should be used to explain the variance to the original budget.

\textsuperscript{226} ibid.
\textsuperscript{227} ibid.
\textsuperscript{228} ibid.
\textsuperscript{229} ibid.
\textsuperscript{230} Victorian Auditor-General’s Office, response to the Committee’s follow-up question, received 10 January 2006
\textsuperscript{231} ibid.
that was finalised after the detailed planning for the audit had been completed. Variance analysis along these lines enables an organisation to fully account for significant budget overruns due to changes of a material nature that may have occurred after the approved budget was initially set.

The Committee also considers that if a performance audit budget is increased to reflect changing circumstances that occurred during the course of the audit, the Auditor-General should explain the compensating adjustment(s) made to the budgets of other performance audits planned to be undertaken during the year and the effect of all budget overruns on the performance audit program for the year, in the Office’s annual report.

The Committee recommends that:

**Recommendation 29:** The Victorian Auditor-General’s Office ensure comparisons are made against the original budgets for each audit when reporting the final costs of completing performance audits. To ensure that full accountability is preserved, explanations for budget variations should, in part, be linked to any changed circumstances that occurred during the course of the audit.

**Recommendation 30:** Where a performance audit budget is increased to reflect changing circumstances, the annual report of the Victorian Auditor-General’s Office include an explanation about the affect of this adjustment on the remainder of the performance audit program for the year.

Exhibit 6.2 compares the cost of the ten performance audits completed in 2004-05 (average cost of $441,991) with the initial/revised estimate. Of the audits completed in 2004-05, five where completed at a cost that exceeded the initial or revised budget. The Committee noted that the audit *Managing stormwater flooding risks in Melbourne*, which exceeded the revised budget by $64,400 or 13 per cent, attracted the largest budget overrun. Conversely, the audit which examined the *Effectiveness of strategies to minimise absenteeism in schools* was completed at a cost that was $101,400 or 24 per cent below the revised budget. This constituted the largest budget underspend.
### Exhibit 6.2: Cost of performance audits completed

<table>
<thead>
<tr>
<th>Audit</th>
<th>Initial/ revised estimate ($000)</th>
<th>Actual ($000)</th>
<th>% difference compared with initial/revised estimate (%)</th>
<th>Explanation of variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Meeting our future Victorian public service workforce needs</td>
<td>425.0</td>
<td>461.0</td>
<td>8</td>
<td></td>
</tr>
<tr>
<td>Effectiveness of strategies to minimise absenteeism in schools</td>
<td>420.1</td>
<td>318.7</td>
<td>-24</td>
<td>Less resources used than planned.</td>
</tr>
<tr>
<td>Regulating operational rail safety</td>
<td>505.5</td>
<td>567.1</td>
<td>12</td>
<td>The variation is due largely to an increase in the sample size, further analysis of findings (Steering Committee recommendations), and additional time spent on the draft report following receipt of additional material from the department.</td>
</tr>
<tr>
<td>Managing adverse events in public hospitals</td>
<td>419.7</td>
<td>430.2</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>Managing occupational health and safety in local government</td>
<td>553.5</td>
<td>501.8</td>
<td>-9</td>
<td></td>
</tr>
<tr>
<td>Managing stormwater flooding risks in Melbourne</td>
<td>485.6</td>
<td>550.0</td>
<td>13</td>
<td>Actual cost reflects the additional work needed to prepare, for each audited organisation, separate reports on the results of the audit.</td>
</tr>
<tr>
<td>Human resource management - recruitment</td>
<td>429.5</td>
<td>387.9</td>
<td>-10</td>
<td>Less resources used than planned.</td>
</tr>
<tr>
<td>Management of intellectual property in government agencies</td>
<td>380.5</td>
<td>390.0</td>
<td>2</td>
<td>To reflect additional audit work required to verify procedures in some organisations.</td>
</tr>
<tr>
<td>Our children are our future: improving outcomes for children and young people in out of home care</td>
<td>670.5</td>
<td>620.1</td>
<td>-8</td>
<td></td>
</tr>
<tr>
<td>Measuring the success of the Our Forests, Our Future policy</td>
<td>247.7</td>
<td>193.0</td>
<td>-22</td>
<td>Less resources used than planned.</td>
</tr>
</tbody>
</table>

**Sources:** Victorian Auditor-General’s Office, response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 20 December 2005, p.5; response to the Committee’s follow-up question, received 10 January 2006
6.3.3 Client satisfaction with financial statement audit services

Client satisfaction with the Office’s financial statement audit services was 77 per cent for 2004-05 compared with the target of 80 per cent (client satisfaction in 2003-04 was 74 per cent). Given this result, the Committee was interested in determining:

- the level of client satisfaction with financial statement audits carried out by external audit service providers compared with audits conducted by in-house staff;
- the elements of the financial statement audit services that need to be improved, based on feedback from clients through the survey process, for the Office to meet or exceed its performance target of 80 per cent client satisfaction in future;
- whether the Office has used any measures other than client surveys to assess the quality of audits undertaken by in-house staff and external audit service providers; and
- what action had been taken by the Office to improve the level of client satisfaction with financial statement audit services.

The Committee learned that there was little difference in the overall level of client satisfaction between financial statement audits carried out by external audit service providers (76.9 per cent) and those conducted by in-house staff (76.3 per cent). Feedback from clients varied significantly and mainly related to specific matters in individual audits. While the Office advised the Committee that improving client satisfaction is often dependent on the way that specific matters are dealt with on a client by client basis, it also explained that the three most common issues raised in survey responses related to continuity of audit staff, the level of audit fees and the value added by the financial audit process. Specific comments provided by the Office on each of these areas are provided below.

(a) Continuity of audit staff

Continuity of staff is an ongoing issue that is progressively monitored by the Office. As a general aim, at least one member of an audit team is allocated to the subsequent audit of the client concerned. Standards have also been set for continuity on an audit

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232 Victorian Auditor-General’s Office, 2004-05 Annual Report, p.44
233 Victorian Auditor-General’s Office, response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 20 December 2005, p.8
234 ibid.
235 ibid.
236 ibid.
237 ibid.
238 ibid.
for various levels of staff (for example, an audit director will continue on a particular audit for five years before rotation, where possible).\textsuperscript{239} However, the ability to maintain continuity is affected by a range of factors including the relatively high turnover rate of staff in financial audit (at similar rates experienced across the accounting profession); the progressive advancement and development of staff; and the need to maintain an appropriate level of independence through the rotation of staff across audits.\textsuperscript{240} These areas are constantly reviewed to improve both the management of staff resources and the continuity of staff on audits.\textsuperscript{241}

\textbf{(b) Level of audit fees}

Audit legislation requires the Office to recover the cost associated with financial audits.\textsuperscript{242} Accordingly, fees are reviewed and set annually to meet this requirement.\textsuperscript{243}

The Office is, however, fully aware of the need to ensure that fees are kept as low as possible, without affecting the quality of financial audit work.\textsuperscript{244} With this in mind, the Office is continually looking for ways of improving efficiency, which will reduce costs and associated audit fees.\textsuperscript{245}

A recent example of cost reduction strategies implemented by the Office – the streamlining of processes for managing audits contracted to external service providers – has resulted in these costs decreasing by around 50 per cent over the last three years.\textsuperscript{246} These cost savings have enabled fee increases to be generally maintained at a rate below the rate of cost of living increases.\textsuperscript{247}

On an ad hoc basis, fee levels are compared with other jurisdictions and the private sector.\textsuperscript{248} These reviews indicate that fees are generally comparable to, or lower than, fees charged for similarly sized organisations in other jurisdictions or in the private sector.\textsuperscript{249}

\textsuperscript{239} ibid., pp.8–9
\textsuperscript{240} ibid., p.9
\textsuperscript{241} ibid.
\textsuperscript{242} ibid.
\textsuperscript{243} ibid.
\textsuperscript{244} ibid.
\textsuperscript{245} ibid.
\textsuperscript{246} ibid.
\textsuperscript{247} ibid.
\textsuperscript{248} ibid.
\textsuperscript{249} ibid.
(c) Value added by financial audits

A primary aim of financial audits is to add value by providing assurance to Parliament, the government and senior management of entities, that annual financial reports fairly represent the financial transactions for the year.\(^{250}\)

The Office also aims to improve the value added to clients from undertaking financial audits without impinging on the independence required to meet the primary aim of these audits.\(^{251}\) Specific actions being undertaken include providing:\(^{252}\)

- recommendations on ways of improving both the efficiency and effectiveness of financial management systems, procedures and controls;
- timely advice on accounting and financial management issues facing entities; and
- assistance to develop standard financial reporting frameworks to help entities improve the efficiency of preparing annual financial reports.

There are a number of ways that the Office ensures ongoing quality for financial audits.\(^{253}\) The Office undergoes a triennial performance audit commissioned by the Public Accounts and Estimates Committee; an independent annual review of a selection of audits undertaken by internal staff and by contracted external audit service providers is conducted (all audits reviewed were assessed as satisfactory in 2004-05); the Office’s audit methodology (as evidenced by the recent development of ipsam, the Office’s new financial audit methodology) is updated regularly; and the professional development of staff is ongoing.\(^{254}\)

The Office informed the Committee that, while it does not currently have any other specific targets and measures to report the quality of financial audits externally, a review will be conducted during 2005-06 to consider what additional qualitative targets and measures might be used for reporting in the future.\(^{255}\)

The Office assured the Committee that it is constantly looking at ways to improve the quality of service delivery and client satisfaction.\(^{256}\)

In particular, the Office is ensuring that more senior staff (both internal and contracted from accounting firms) are increasing their level of interaction with senior client management and client management boards and committees.\(^{257}\) The Office is also

\(^{250}\) ibid.
\(^{251}\) ibid.
\(^{252}\) ibid., pp.9–10
\(^{253}\) ibid., p.10
\(^{254}\) ibid.
\(^{255}\) ibid.
\(^{256}\) ibid.
\(^{257}\) ibid.
progressively streamlining its processes to clear issues and process audit opinions to ensure that client deadlines are met for the finalisation of annual reports.\textsuperscript{258}

The Committee noted the initiatives taken by the Office to improve the level of client satisfaction with the financial statement audit services and looks forwarded to improved performance in this area in 2005-06.\textsuperscript{259}

### 6.3.4 Financial statement audits – timeliness of finalising management letters

The Office issued 76 per cent of management letters within four weeks of the audit opinion being signed in 2004-05 (86 per cent in 2003-04) compared with the target of 100 per cent.\textsuperscript{260}

The Office advised the Committee that this figure relates primarily to final management letters issued for audits with 30 June 2004 or 31 December 2004 balance dates – that is, management letters that were due to be issued at the completion of financial audits throughout the 2004-05 financial year.\textsuperscript{261} The Office further informed the Committee that outstanding management letters for audits with a 30 June 2005 balance date were followed up in December 2005 and any outstanding letters would be issued by 31 December 2005.\textsuperscript{262}

The Committee learned that a significant factor affecting the timely completion of management letters is the time clients take to review draft letters and include (where appropriate) management’s response to issues raised by audit.\textsuperscript{263}

The Committee considers that it is unacceptable that one in every four management letters was not issued on time in 2004-05 and notes that this situation is worse than the previous year. Given that delays in issuing finalised management letters mean that action to rectify reported weaknesses may not be implemented in a timely manner, the Committee considers that the Auditor-General should advise all audit committees of the need for priority to be given to reviewing and responding to matters contained in draft management letters so that outstanding matters can be finalised as soon as possible after the audit opinion is expressed on agencies’ financial statements.

\begin{footnotes}
\footnotetext{258}{ibid.}
\footnotetext{259}{ibid., pp.8–10}
\footnotetext{260}{Victorian Auditor-General's Office, 2004-05 Annual Report, pp.39, 43}
\footnotetext{261}{Victorian Auditor-General’s Office, response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 20 December 2005, p.11}
\footnotetext{262}{ibid.}
\footnotetext{263}{ibid.}
\end{footnotes}
The Committee recommends that:

**Recommendation 31:** To finalise financial statement audits in a timely manner, the Auditor-General consider advising audit committees of the importance of reviewing and responding to draft management letters as soon as possible.

The Office also informed the Committee that its new financial audit methodology and electronic working papers, *ipsam*, incorporate a feature that will allow a management letter to be generated automatically (based on issues progressively recorded in an audit database), and that this should reduce the time necessary to prepare a final management letter at the conclusion of the audit.\(^{264}\) To reduce often lengthy delays that occur during this process, the Office has imposed more stringent timelines so that clients respond more quickly to issues that will be included in the management letter.\(^{265}\)

Further, more emphasis has been placed on measuring the timeliness of management letters in the annual performance plans of each staff member.\(^{266}\) The ability of each staff member to meet Office targets for management letters is to be a key part of regular performance feedback and assessments, with appropriate professional development strategies implemented for staff needing to improve their skills in the delivery of management letters.\(^{267}\)

Responding to the Committee’s inquiry about whether any performance benchmarks have been set in other audit jurisdictions for issuing management letters, the Office advised that no detailed benchmarking exercise has been undertaken.\(^{268}\) According to the Office, a review of the annual reports of other Australian audit offices indicated that there is virtually no public reporting of the time taken to report to individual client entities. Instead, performance reporting mostly relates to the timeliness of reporting to Parliament on the outcome of audits.\(^{269}\)

The Office indicated that it would address this issue by contacting audit offices in other jurisdictions in 2005-06 to obtain information about timeframes for issuing management letters, and use this information to reassess its current performance target and measure related to the issue of management letters.\(^{270}\)

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\(^{264}\) ibid., p.12
\(^{265}\) ibid.
\(^{266}\) ibid.
\(^{267}\) ibid.
\(^{268}\) ibid.
\(^{269}\) ibid.
\(^{270}\) ibid.
The Committee recommends that:

Recommendation 32: To conclude the annual financial audit process, the Victorian Auditor-General’s Office consider surveying client agencies to determine their expectations regarding an appropriate timeframe for receiving the finalised management letter.
CHAPTER 7: DEPARTMENT OF EDUCATION AND TRAINING

Key findings of the Committee:

7.1 The output budget for the Department of Education and Training was $6,717.1 million in 2004-05; actual output cost was $6,824 million, $106.9 million (or 1.6 per cent) above the budget estimates.

7.2 All departmental outputs had expenditure within 10 per cent of the budgeted cost.

7.3 The Department of Education and Training achieved or exceeded approximately 70 per cent of its performance targets in 2004-05.

7.4 Despite the Minister for Finance’s Standing Directions, the department’s 2004-05 annual report does not include actual and budgeted costs for outputs.

7.5 The number of fixed term teachers has decreased from 7,053.3 teachers at June 2004 to 6,648.1 teachers at June 2005. This reverses a trend where the number of fixed term teachers has steadily increased in previous years from 5,842.8 at 30 June 2001 to 6,983.5 at 30 June 2003. The over-use of fixed term employment can act as a disincentive to attracting and retaining high quality teachers within the government school system.

7.6 With more than 1,100 private providers, Victoria’s vocational education and training system has a significantly higher proportion of recurrent revenue generated on a fee for service basis than other states.

7.7 The government recently released a skills strategy entitled *Maintaining the Advantage: Skilled Victorians*. This provides for funding of $241.5 million including $42.3 million to fund an additional 3,500 vocational education and training places, particularly to address skill shortages in occupations and industries such as construction and engineering. Targets to measure progress in addressing skill shortages should be established at the outset and publicly reported when appropriate.
The government was reportedly developing a new policy for the provision of school infrastructure, linking spending to schools that are able to demonstrate they have a coherent plan to improve student results. Under performing schools with dwindling enrolments and poor student outcomes would be encouraged to merge, but schools would not be directed to merge or close. The Committee looks forward to the formal release of this policy.

The department has introduced a new performance management system for all principals and assistant principals for 2006, which uses multiple sources of feedback and information to inform performance assessment and professional development. The department should assess this approach and reach a position on whether to extend it below principal and assistant principal levels.

Substantial evidence indicates that principals have a significant effect on school improvement and student outcomes. The Blueprint for Government Schools released in 2003 acknowledged that there is a high concentration of poor outcomes in some schools and regions. The blueprint proposed the establishment of a development program for high performing principals, including placing better performing principals in under performing schools. The department advised no such placements have yet taken place.

The department has introduced a revised resource allocation model for the 2005 school year (the Student Resource Package) which will see funding changes occurring over five years. The package is designed to more fairly distribute the existing resource base to improve the delivery of services and to achieve better student outcomes by aligning resources to individual learning needs. Additional funding of $61.9 million has also been allocated over four years for 250 additional teachers. The school review process should include monitoring the degree to which the use of additional funding by schools is consistent with the goal of improving student outcomes.

The Victorian Certificate of Applied Learning (VCAL) was introduced as an option for students in years 11 and 12 who are more likely to pursue options such as a Technical and Further Education (TAFE) qualification or an apprenticeship, rather than attend university. A longitudinal study should be conducted of all students who have either completed or failed to complete VCAL and who have not taken up apprenticeships, traineeships, employment or other further education and training options after 6 months. The results of this study should inform future policy and program decisions to address the needs of this cohort of students.
7.13 The provision of departmental houses is considered important to encourage teachers to work in difficult to fill rural locations. At June 2005, the department had 293 residential houses with a 2004 valuation of $24.3 million. The individual valuation of houses ranged from $12,000 to more than $700,000. Rental income for 2004-05 was $979,948 and operational costs were $662,252. The Committee considers that there should be a broad review of departmental housing. Issues that could be examined as part of this review include the adequacy of the overall level of maintenance, whether houses in more attractive work locations should be retained or divested or, conversely, additional housing provided in more difficult to staff locations.

7.1 Financial analysis – comparison with budget

The Department of Education and Training and its agencies were responsible for the delivery of outputs which were initially budgeted to cost $6,717.1 million.271 The department’s 2004-05 annual report did not include details of budget and actual costs for outputs.272

The Committee reiterates the comment included in its Report on the 2003-04 Budget Outcomes:273

Omission of output budget and cost details both obviates accountability and transparency and limits the ability of Parliament to assess the department’s performance in delivering services and programs within budget.

Given the Committee has raised this issue in successive budget outcomes reports, the Committee expected that the department’s 2004-05 annual report would comply with the Standing Directions of the Minister for Finance. The department provided the Committee with details of expenditure against outputs (exhibit 7.1). All departmental outputs had expenditure within 10 per cent of budgeted costs.274

271 Budget Paper No.3, 2004-05 Service Delivery, pp.54–68
273 ibid.
274 Department of Education and Training, response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 6 January 2006, p.1
Exhibit 7.1: Department of Education and Training
Output group summary

<table>
<thead>
<tr>
<th>Output group/outputs</th>
<th>Column (1)</th>
<th>Column (2)</th>
<th>Variation (a)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2004-05 Budget ($ million)</td>
<td>2004-05 Actual ($ million)</td>
<td>(column 2-1)/1</td>
</tr>
<tr>
<td>Compulsory years</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Early years</td>
<td>1,855.1</td>
<td>1,884.6</td>
<td>1.6</td>
</tr>
<tr>
<td>Middle years</td>
<td>1,983.8</td>
<td>2,011.3</td>
<td>1.4</td>
</tr>
<tr>
<td>Post compulsory years</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Later years</td>
<td>1,163.4</td>
<td>1,179.5</td>
<td>1.4</td>
</tr>
<tr>
<td>Training and further education</td>
<td>1,102.2</td>
<td>1,120.4</td>
<td>1.7</td>
</tr>
<tr>
<td>Adult and community education</td>
<td>34.9</td>
<td>34.6</td>
<td>-0.9</td>
</tr>
<tr>
<td>Cross-sectoral</td>
<td>36.6</td>
<td>36.4</td>
<td>-0.5</td>
</tr>
<tr>
<td>Services to students</td>
<td>494.9</td>
<td>512.9</td>
<td>3.6</td>
</tr>
<tr>
<td>Portfolio management services</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Services to Ministers and policy</td>
<td>26.9</td>
<td>26.8</td>
<td>-0.4</td>
</tr>
<tr>
<td>Regulation</td>
<td>19.3</td>
<td>17.5</td>
<td>-9.3</td>
</tr>
<tr>
<td>Total</td>
<td>6,717.1</td>
<td>6,824.0</td>
<td>1.6</td>
</tr>
</tbody>
</table>

Note: (a) A negative variance indicates that the actual results for 2004-05 were lower than budget.

Sources: Budget Paper No.3, 2004-05 Service Delivery, pp.48–62; Department of Education and Training, response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 6 January 2006, p.1

7.2 Performance information

The department achieved or exceeded approximately 70 per cent of the performance targets published in its 2004-05 annual report, improving on the 2003-04 results, where the department met or exceeded 61 per cent of its performance measures. Where performance targets were not met, the differential between actual and planned performance was generally less than 10 per cent. The department does not have complete control over the achievement of some measures. For example, while the target for the number of apprenticeship/trainees commenced in 2004-05 was 64,325, the actual result was 58,939. While the department can influence this result through funding and policy, it has indicated that performance in this instance reflects the recruitment decisions of employers.275

There are measures where the department has direct control over outcomes achieved, for example, providing responses to ministerial correspondence within 14 days. Despite a target of 100 per cent, the department only achieved a 76 per cent result. The department commented in its 2004-05 annual report that due to enhancements in administrative processes, the percentage of responses provided on time was 96 percent.

275 Department of Education and Training, 2004-05 Annual Report, p.53
for the last three months of 2004-05.\textsuperscript{276} It is important for the department to monitor whether this improvement is sustained. The department’s 2004-05 annual report indicated that key performance measures regarding the percentage of students reaching reading and numeracy benchmarks for years 3 and 5 were not available because 2004 national benchmark results have not been released.\textsuperscript{277}

### 7.3 Other matters

#### 7.3.1 Staffing matters

Exhibit 7.2 shows that the total number of staff in the department at 30 June 2005 was 51,186.2.

<table>
<thead>
<tr>
<th>Classification</th>
<th>Ongoing (EFT)</th>
<th>Fixed term (EFT)</th>
<th>Casual (b) (EFT)</th>
<th>Funded vacancy (c) (EFT)</th>
<th>Total (EFT)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Teaching – Principals, leading teachers, teachers and instructors</td>
<td>32,872.8</td>
<td>6,750.4</td>
<td></td>
<td></td>
<td>39,623.2</td>
</tr>
<tr>
<td>Non-teaching school based</td>
<td>5,631.6</td>
<td>3,970.9</td>
<td></td>
<td></td>
<td>9,602.5</td>
</tr>
<tr>
<td>Public service executive officer</td>
<td>66.0</td>
<td>1.0</td>
<td></td>
<td></td>
<td>67.0</td>
</tr>
<tr>
<td>Other public service</td>
<td>1,657.4</td>
<td>229.1</td>
<td></td>
<td></td>
<td>1,886.5</td>
</tr>
<tr>
<td>Other (d)</td>
<td>4.0</td>
<td>3.0</td>
<td></td>
<td></td>
<td>7.0</td>
</tr>
<tr>
<td><strong>Total EFT staff</strong></td>
<td><strong>40,231.8</strong></td>
<td><strong>10,954.4</strong></td>
<td></td>
<td></td>
<td><strong>51,186.2</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Salary costs:</th>
<th>($ million)</th>
<th>($ million)</th>
<th>($ million)</th>
<th>($ million)</th>
<th>($ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003-04</td>
<td>2,182.4</td>
<td>593.4</td>
<td></td>
<td></td>
<td>2,775.8</td>
</tr>
<tr>
<td>2004-05</td>
<td>2,303.9</td>
<td>586.5</td>
<td></td>
<td></td>
<td>2,890.4</td>
</tr>
<tr>
<td>Increase/(decrease) in salary costs (a) (e)</td>
<td>121.5</td>
<td>-6.9</td>
<td></td>
<td></td>
<td>114.6</td>
</tr>
<tr>
<td>Increase/(decrease) in salary costs (a) (e)</td>
<td>5.6%</td>
<td>-1.2%</td>
<td></td>
<td></td>
<td>4.1%</td>
</tr>
</tbody>
</table>

Notes:  
(a) A negative figure indicates salary costs in 2004-05 are lower than 2003-04  
(b) The department advised that casual staff are employed at the school or work unit level. Centralised records are not maintained on such employment  
(c) The department advised that because it does not undertake a position management function, this information is not held centrally  
(d) This includes ministerial staff and chairs of statutory and other bodies  
(e) Calculated by the Public Accounts and Estimates Committee secretariat

Source: Department of Education and Training, response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 6 January 2006 pp.11–14

\textsuperscript{276} ibid., p.57  
\textsuperscript{277} ibid., pp.50–51
The Committee noted that in a comparison of staffing levels at June 2004 and June 2005 that:

- the number of ongoing teachers has increased by 1,017.9;
- the number of fixed term teachers had declined by 405.2;
- the number of executive officers has remained relatively steady but the number of VPS staff has increased by 112.6;
- salary costs have increased by $114.6 million.

The Committee noted an increase in the number of ongoing teachers and the slight reduction in teacher student ratios for primary and secondary schools since 2002-03.278

At June 2004, 7,053.3 teachers (approximately 22.4 per cent) were on fixed term employment, but this had reduced to 6,648.1 teachers (approximately 20.6 per cent) at 30 June 2005.279 This represents a reversal of the trend of previous years where there has been a steady increase in the number of teachers on fixed term employment. As at 30 June 2001, there were 5,842.8 fixed term teachers and this increased to 6,353.6 and 6,983.5 as at 30 June 2002 and 2003 respectively.280

While staffing decisions are made at the individual school level, the Committee considers that the overall level of fixed term employment should be centrally monitored to safeguard against the over-use of fixed term employment acting as a major disincentive to attracting and retaining high quality teaching staff.

The Committee recommends that:

**Recommendation 33:** The Department of Education and Training centrally monitor levels of fixed term teacher employment to determine whether this is likely to act as a disincentive to attracting and retaining high quality teaching staff.

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278 Budget Paper No.3, 2004-05 Service Delivery, pp.55–56
279 Department of Education and Training, response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 6 January 2006, pp.10–12
280 Department of Education and Training, response to the Committee’s follow-up question, received 14 March 2006
7.3.2 Departmental savings

The department advised the Committee that there were no new savings requirements in 2004-05 and that Expenditure Review Committee ongoing savings from previous years were achieved.²⁸¹

7.4 Major issues

7.4.1 Addressing skill shortages in the vocational education and training sector

Victoria’s vocational education and training (VET) system has a number of distinctive features when compared with other states, for example, Victoria has a significantly higher level of recurrent funding on a fee for service basis (exhibit 7.3).

Exhibit 7.3: Vocational education and training system Fee for service revenue contribution – 2004

<table>
<thead>
<tr>
<th></th>
<th>Fee for service revenue ($ million)</th>
<th>Percentage of State total recurrent revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>Victoria</td>
<td>265.9</td>
<td>21.6</td>
</tr>
<tr>
<td>New South Wales</td>
<td>126.6</td>
<td>8.2</td>
</tr>
<tr>
<td>Queensland</td>
<td>45.0</td>
<td>6.1</td>
</tr>
<tr>
<td>Western Australia</td>
<td>38.3</td>
<td>7.7</td>
</tr>
<tr>
<td>South Australia</td>
<td>35.4</td>
<td>9.6</td>
</tr>
</tbody>
</table>


With over 1,100 private providers registered to deliver training in Victoria, the department has advised the Committee that it believes the Victorian system has fostered a more entrepreneurial approach, and that the capacity to generate private revenue is seen as an indicator of the relevance of programs to individuals and firms.²⁸² However, the proportion of recurrent funding provided by the Victorian Government to the system is proportionately less than other states (exhibit 7.4).

²⁸¹ Department of Education and Training, response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 6 January 2006, p.17
²⁸² ibid., p.21
Exhibit 7.4: Vocational education and training system
State Governments’ contribution – 2004

<table>
<thead>
<tr>
<th></th>
<th>Total recurrent revenue ($ million)</th>
<th>Recurrent revenue from the State Government ($ million)</th>
<th>Percentage of State total recurrent revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>Victoria</td>
<td>1,231.2</td>
<td>582.5</td>
<td>47.3</td>
</tr>
<tr>
<td>New South Wales</td>
<td>1,535.7</td>
<td>916.5</td>
<td>59.7</td>
</tr>
<tr>
<td>Queensland</td>
<td>734.9</td>
<td>445.9</td>
<td>60.7</td>
</tr>
<tr>
<td>Western Australia</td>
<td>497.8</td>
<td>309.5</td>
<td>62.2</td>
</tr>
<tr>
<td>South Australia</td>
<td>369.3</td>
<td>192.2</td>
<td>52.1</td>
</tr>
</tbody>
</table>


The Minister for Education and Training released a paper on the future directions of the Victorian VET system in June 2002. The Minister’s foreword commented that:

Victorian businesses need to access the right skills and knowledge if Victoria is to develop as a highly skilled economy, and students need the skills to equip them for changing employment opportunities.

The statement also included a reference from the Victorian Learning and Employment Skills Commission about the need to provide detailed advice on priorities for public expenditure on VET in an innovation economy. These priorities are contained within Victorian study areas (regions) and include a re-allocation of existing government funding from low priority sectors such as business administration to higher priority sectors such as process manufacturing.

In terms of new funding initiatives for VET, the Committee noted that the 2003-04 and 2004-05 Victorian budgets included some specific initiatives for this sector, such as the apprenticeship/trainee completion bonus which was introduced in conjunction with the removal of the payroll tax exemption for wages paid to trainees and apprentices. The 2005-06 budget, however, provided very limited new VET funding initiatives.

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283 Hon. Lynne Kosky, MP, Minister for Education and Training, Knowledge and Skills for the Innovation Economy, ministerial statement, June 2002
284 ibid., p.13
The Committee also noted that the Premier’s 2005 paper on national reform for the Council of Australian Governments (COAG) commented that:

*High overall participation rates in VET by international standards masks the reality that there was no significant acceleration in workforce skills in the 1990s, and that a high proportion of Australia’s workers lack both basic skills and the engagement with learning that they will need in the years ahead.*

National and state skills shortage lists prepared by the Commonwealth Department of Employment and Workplace Relations identified statewide shortages nationally and in Victoria, particularly for engineering, vehicle, and electrical/electronics trades.

The Committee is aware that the government recently announced a new skills strategy *Maintaining the Advantage: Skilled Victorians.* The strategy includes the provision of $241.5 million over a number of years. This will include $42.3 million to fund an additional 3,500 VET places with 500 places allocated to address skills shortages in the areas of construction and engineering.

The Committee will follow-up this issue with the Minister at the 2006-07 Budget Estimates hearings.

### 7.4.2 Government schools under performing

A media report indicated that the government had developed a draft policy linking spending on school infrastructure to raising student achievement levels, as a means to narrow the gap between under-performing and high-achieving schools. In other words, schools requesting capital funding must first demonstrate to the department that they have a coherent plan to improve student results.

The article further commented that schools with dwindling enrolments and poor student achievement levels would be encouraged to talk to neighbouring schools about merging or reorganising into junior and senior campuses. These reorganisations would lead to some school closures and the sale of sites, but the department would not direct schools to merge or close. In effect, schools that refuse to participate in these discussions would not receive capital funding upgrades. The Committee noted that the department’s draft policy had significant support from the key stakeholders such as the Australian Secondary Principals Association. The article indicated that the policy

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291 ibid., p.34
292 C Milburn, ‘Our shrinking schools’ *The Age* newspaper, 28 November 2005, p.6
was due for release shortly, but at the time this report was prepared, no announcement had been made.293

The Committee looks forward to the release of this policy.

### 7.4.3 Performance management for teachers

*Blueprint for Government Schools*, which was launched in November 2003, outlined the government’s reform agenda for the public school system. Seven flagship strategies were introduced, one of which was building leadership capacity. While a balanced score card approach to improve the performance management of principals was introduced as part of this strategy, the Blueprint was silent on the extension of this approach to levels below principal class.294

The department has advised that:295

> Guidelines for principal class performance and development were distributed in November 2005 for implementation in 2006 for all principals and assistant principals. The new process incorporates a balanced score card approach through the use of multiple sources of feedback to inform performance and development. Some principals have indicated that they are eager to adapt the principal class process and proforma for use with their leadership teams and staff generally.

The Committees noted these developments and the intention of some schools to extend the balanced score card approach to the leading teacher class and below. An assessment of the introduction of the balanced score card approach for principals and assistant principals should inform the future directions of this initiative and, in particular, whether to extend this approach below the principal class.

The Committee recommends that:

**Recommendation 34:** The Department of Education and Training assess the introduction of the balanced score card approach to performance management for the principal class, and use the outcomes to inform the future direction of this initiative.

293 ibid.
295 Department of Education and Training, response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 6 January 2006, p.19
7.4.4 Providing leadership in challenging schools

The Boston Consulting Group report *School workforce development strategy*, which formed the basis for many of the initiatives contained in the *Blueprint for Government Schools* reform initiative, quoted substantial research indicating that at the school level, principals have a significant and measurable influence on school effectiveness, school improvement, and student achievement.296

The Blueprint acknowledges that there is a high concentration of poor outcomes in some schools and regions,297 and includes a number of strategies to deal with this issue, such as the establishment of a development program for high-performing principals including placing better performing principals in challenging schools.298

The department advised that in May 2005, 47 principals were selected as the first cohort to participate in the development program for high performing principals, but no direct placements in challenging schools has occurred.299 The issue of challenging schools continues to remain a concern. Indeed, the department’s 2004-05 annual report states that 8 per cent of secondary schools and 5 per cent of primary schools were not performing at or above expected levels according to the triennial review,300 and the 2005-06 Budget Papers anticipate around 10 per cent of secondary schools and 7 per cent of primary schools will fall into this category over this period.301 The department’s 2004-05 annual report indicates there were 1,222 primary schools, 50 primary-secondary schools, 261 secondary schools and 80 special schools in 2005.302

The Committee considers the initiative of placing better performing principals in these schools should be resolved quickly, given the importance of the principal’s role in improving overall school performance and student learning outcomes, and the ongoing need to address the issue of challenging schools. This may involve:

- the articulation of clear goals and outcomes from principal placements such as the establishment of effective leadership teams at these schools;
- the development of strong support arrangements for principals (for example, mentoring/coaching arrangements) with regions playing a major coordinating and monitoring role; and
- the provision of an incentive package to encourage principals to participate in this initiative.

298 ibid., p.18
299 Department of Education and Training, response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 6 January 2006, p.19
The Committee recommends that:

**Recommendation 35:**

The Department of Education and Training quickly resolve the placement of better performing principals in challenging schools and, if this initiative is to proceed, it be accompanied by the establishment of:

(a) goals and outcomes from these placements;
(b) support arrangements for principals; and
(c) incentive packages to encourage the take up of these placements.

**7.4.5 Student resource package – monitoring**

The department introduced a revised resource allocation model for the 2005 school year entitled the Student Resource Package (SRP). The department advised that the SRP is primarily designed to provide a fairer distribution of the existing resource base across government schools. In addition, $61.9 million has been allocated over four years for 250 additional teachers,\(^{303}\) which represents approximately a 0.6 per cent increase on 30 June 2005 equivalent full-time teaching numbers.

Changes to funding arrangements will take place over five years to allow schools time to make adjustments; 800 schools are to receive transitional funding support in 2005.\(^{304}\) While the department stated that the SRP will aid the delivery of improved services and better outcomes for all students by aligning resources to individual learning needs, details of expenditure by individual schools using additional funding allocated through the SRP are not available.\(^{305}\)

Given the importance of this issue, and the amount of public funds involved, the Committee is of the view that school funding decisions arising from the SRP should be examined as part of the school review process, to determine the extent to which these decisions are congruent with the package’s goals of improved student engagement and learning outcomes.

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\(^{303}\) Department of Education and Training, response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 6 January 2006, p.19

\(^{304}\) ibid.

\(^{305}\) ibid., p.20
The Committee recommends that:

**Recommendation 36:** The Department of Education and Training examine, as part of the school review process, the extent to which decisions by schools on the use of additional funding, arising from the Student Resource Package, are consistent with the department’s goals of improved student engagement and learning outcomes.

### 7.4.6 Study of students not completing the Victorian Certificate of Applied Learning and not in employment or education and training options

The government introduced the Victorian Certificate of Applied Learning (VCAL) as a ‘hands on’ option for students in years 11 and 12 who are more likely to be interested in training at TAFE (Technical and Further Education), doing an apprenticeship, or finding employment after leaving school rather than proceeding to university. Students select accredited VCE (Victorian Certificate of Education) and VET modules and units from four compulsory streams – literacy and numeracy skills; work related skills; industry specific skills; and personal development skills.306

The department reported that for 2004-05, 8,125 students enrolled in the VCAL with an actual completion rate of 59.7 per cent.307 The department advised that many students commence full-time apprenticeships or traineeships or work before completing VCAL, and that a higher completion rate would not necessarily reflect better student outcomes.308

In terms of the employment and study status of students who fail to complete VCAL, the department indicated that:309

> This information cannot be reported at this stage, but will be able to be provided in 2006 as the On Track survey will involve the 2005 student cohort.

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308 Department of Education and Training, response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 6 January 2006, p.2
309 ibid.
The Committee understands that tracking of students under On Track occurs six months after leaving the program.\textsuperscript{310} The Committee is of the opinion that all students, who have either completed or failed to complete VCAL and are not in apprenticeships, traineeships, employment or further education after this six month period, should be subject to a more detailed study. The results of this study should help inform the department about the extent to which existing education and training options need to be modified and new initiatives developed to address any significant concerns in this area.

The Committee recommends that:

\textbf{Recommendation 37:} The Department of Education and Training conduct a longitudinal study of all students, who have either completed or have failed to complete the Victorian Certificate of Applied Learning and are not in employment or in other forms of education and training, as a means of determining additional action that may be required to address any significant concerns.

\textbf{7.4.7 Departmental housing}

The department informed the Committee that at June 2005 it owns 293 residential properties.\textsuperscript{311} The most recent valuation of these properties (in 2004) placed their total value at $24.3 million.\textsuperscript{312} The department also advised that:\textsuperscript{313}

- the average occupancy rate for the houses was 88 per cent;
- total rental revenue in 2004-05 was $979,948 while operational costs were $662,252. (Operational costs include urgent and essential repairs such as roofing, guttering, electrical work, plumbing, carpet cleaning and replacement as well as municipal, water and sewerage rates.\textsuperscript{314})

The Committee noted a media report that quoted rural teachers as stating that the positive effect of government incentives to encourage teachers to work in difficult-to-staff rural locations often is undone by the very poor standard of department supplied accommodation. This was attributed not only to inadequate levels

\textsuperscript{310} Budget Paper No.2, 2003-04 Budget Statement, p.205
\textsuperscript{311} Department of Education and Training, response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 6 January 2006, p.22
\textsuperscript{312} ibid., p.30–36
\textsuperscript{313} ibid., p.22
\textsuperscript{314} Department of Education and Training response to the Committee’s follow-up questions, received 2 March 2006, p.4
of maintenance but also to the lack of any formal tenancy agreement which would reinforce a teacher’s obligations in terms of the care of the property.315

The Committee also noted that the valuation of individual houses varied markedly across locations, from as low as $12,000 in Werrimull to more than $700,000 in Lorne.316 In the Committee’s view, the department should determine whether it is necessary to provide departmental housing in more attractive locations such as Apollo Bay and Lorne. Conducting a cost benefit analysis to assess the relative merits of retaining or divesting these more expensive properties, and possibly providing rental assistance, may assist decision making. Conversely, consideration could also be given to whether additional housing should be provided in more difficult-to-staff locations.

The Committee considers that a review of departmental housing is merited, taking into account the level of capital funding invested and the importance that the maintenance of an adequate standard of housing plays in attracting and retaining teachers to more difficult-to-staff locations.

The Committee recommends that:

Recommendation 38: The Department of Education and Training review the provision of departmental housing, taking into account:

(a) whether there is a need to retain departmental housing in more attractive locations or provide other housing options and, conversely, whether additional housing should be provided in difficult-to-staff locations;

(b) the appropriate level of maintenance taking into account the current condition of houses; and

(c) the need for more formalised tenancy arrangements with teachers.

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315 L Mitchell, ‘The country’s calling’, The Age newspaper, 24 October 2005, p.6
316 Department of Education and Training, response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 6 January 2006, pp.30–36
(h) Reporting levels of outstanding school maintenance

The Committee has raised on many occasions the need for public reporting on the level of outstanding school maintenance.317 In response to the Committee’s 2004-05 recommendations, the government rejected the disclosure of this information on the basis that it would be inconsistent with the current level of reporting in the annual report.318

As part of the 2004-05 Budget Outcomes process, the Committee sought the release of details on the categories of outstanding maintenance on a regional basis. The department responded as follows:319

The department undertakes maintenance audits to provide schools with professional advice so that they might better plan and implement their maintenance programs. This process provides schools with an accurate and detailed list of urgent maintenance items as well as a detailed listing of other items which may be planned for completion in future years. As the responsibility for maintenance is managed at the individual school level rather than the regional level, the department does not collate information on outstanding maintenance on a regional basis.

The Committee will pursue this issue with the Minister at the 2006-07 Budget Estimates hearings.

318 ibid., p.139
319 Department of Education and Training, response to the Committee’s follow-up questions, received 2 March 2006, p.3
CHAPTER 8: DEPARTMENT OF HUMAN SERVICES

Key findings of the Committee:

8.1 The output budget for the Department of Human Services was $9,888.5 million in 2004-05; actual output cost was $10,089.7 million, $201.2 million (or 2 per cent) above the budget estimates.

8.2 Of the department’s 67 outputs, the cost of delivering five outputs in 2004-05 exceeded the initial budget allocation by 10 per cent or more. The Public Accounts and Estimates Committee considers the department provided satisfactory explanations for the variances.

8.3 The department achieved or exceeded approximately 181 (73 per cent) of its 248 performance targets in 2004-05.

8.4 For the year ended 30 June 2005, errors and other anomalies totalling $17.2 million (relating to the over-accrual of revenue and the deferral of prior period expenditure between July 2003 and March 2005) were discovered at the NorthWestern Mental Health Service, which is managed and operated by Melbourne Health. Of this total, $6.6 million related to a fundamental error carried forward from the year ended 30 June 2004. These errors, which did not involve the misappropriation of cash, were corrected in the financial statements for the year ended 30 June 2005. Investigations into this matter found that the financial controls at Melbourne Health were poor and its governance and monitoring functions had failed to identify these errors and other anomalies. The matter has been referred to Victoria Police.

8.5 For the 11 new major redevelopment and upgrading works at regional health services that commenced in 2004-05, a number of projects had progressed at a slower rate than expected, based on a notional comparison between actual and estimated expenditure for 2004-05.

8.6 While workforce shortages have been experienced generally across rural community dental clinics, rural vacancy rates have decreased from 36 per cent in June 2004 to 29 per cent in June 2005. At June 2005, shortages affected clinics at Newcomb, Hamilton, Warrnambool, Ararat, St Arnaud, Edenhope, Nhill, Horsham, Dimboola, Boort, Bendigo, Echuca, Maryborough, Mildura, Swan Hill, Wangaratta, Shepparton, Wodonga, Bairnsdale, Sale, Orbost, Moe, Churchill, Wonthaggi and Omeo.
8.7 The 2004-05 Budget provided an additional $97.2 million over four years for a Public Dental Health Strategy to improve public dental health services in Victoria. The department advised the Committee that the capacity of the public dental health system is being expanded to manage growing demand through new and upgraded dental clinics, cooperative arrangements with private providers, and workforce development.

8.8 Of the 21,778 respite episodes provided to families and carers involved in the care of people with disabilities in 2004-05, about 15 per cent of respite service delivery was undertaken by government agencies. The remaining 85 per cent was undertaken by community service organisations. Approximately 20 per cent of the respite episodes were delivered in bed based facilities; the other 80 per cent comprised flexible community based respite options.

8.9 Because respite waiting lists or equivalent service need lists are managed at an individual agency level, the department was unable to quantify the level of unmet need for the provision of respite services to those involved in the care of people with disabilities. Similarly, the department could not provide the Committee with details regarding average waiting times for obtaining overnight respite care.

8.10 At 30 June 2005, 48 people were in respite beds awaiting suitable accommodation in an alternative setting. The Committee was interested to find that the number of people residing in long term respite care has decreased by 23 per cent from 62 to 48 since September 2003, and that the department had implemented a range of initiatives to address this issue.

8.11 The department is not aware of the number of respite bed days used in terms of people awaiting a permanent placement because operating times of respite accommodation fluctuated according to demand, available funding, and seasonal peaks such as school holidays.

8.12 Notwithstanding the fact that community residential units remained important as a means of housing people with a disability, there is now more focus on the provision of flexible services through individual planning and support to improve the range of accommodation choices available to people with a disability.
8.13 The Committee learned that this individualised planning and support approach, through the Support and Choice initiative, provided an opportunity for 100 people with a disability to move from their existing shared supported accommodation to independent community housing in 2003-04 and 2004-05, opening up those 100 places in community residential units for others in need.

8.14 Many initiatives have been introduced to enhance community building and inclusion for people with a disability, including the expansion of the Companion Card with over 650 outlets now recognising the card. The Committee learned, however, that 35 councils/shires (44 per cent) had not committed to accept the card at their facilities as at 29 June 2005.

8.15 Victoria had a rate of 63 per 1,000 indigenous children who had been the subject of child protection substantiations during 2004-05, which was ten times more than that of other children and the highest rate on a national basis.

8.16 With a rate of 40.7 indigenous children in out-of-home placements at 30 June 2005 per 1,000 indigenous children, Victoria had the highest representation of indigenous children in the child protection system nationally.

8.17 There is inadequate public data to report on the extent of people who are homeless in Victoria.

8.18 While it is difficult to compare the numbers of Victorians who were homeless between 30 June 2004 and 30 June 2005, it is evident that services provided through the Supported Accommodation Assistance Program continue to provide assistance to a substantial number of people who are homeless, with numbers of clients accessing services increasing from 34,950 in 2003-04 to 36,100 in 2004-05.

8.1 Financial analysis – comparison with budget

The Department of Human Services and its agencies were responsible for the delivery of 67 outputs in 2004-05. These outputs were initially budgeted to cost $9,888.5 million,\textsuperscript{320} actual output expenditure was $10,089.7 million,\textsuperscript{321} $201.2 million (or 2 per cent) over budget.

\textsuperscript{320} Budget Paper No.3, 2004-05 Service Delivery, pp.70–110
\textsuperscript{321} Department of Human Services, 2004-05 Annual Report, pp.97–121
In reviewing the department’s 2004-05 output costs compared with budget, the Committee sought additional information from the department about four output cost variations of 10 per cent or more to supplement explanations already provided in the department’s annual report. Exhibit 8.1 outlines the information obtained from the department. There was only one other output that had a variance of more than 10 per cent; this variance was satisfactorily explained in the department’s annual report.
Exhibit 8.1: Department of Human Services
Information sought by the Committee for selected outputs

<table>
<thead>
<tr>
<th>Output groups/outputs</th>
<th>Column (1) 2004-05 Budget ($ million)</th>
<th>Column (2) 2004-05 Actual ($ million)</th>
<th>Variation (%)</th>
<th>Explanation provided by department</th>
</tr>
</thead>
<tbody>
<tr>
<td>Juvenile justice services</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Juvenile justice community based services</td>
<td>26.2</td>
<td>29.3</td>
<td>11.8</td>
<td>The increase in the cost for juvenile justice community based services was offset by a decrease in the output cost for juvenile justice custodial services. This reflects changes in court sentencing practice and is consistent with the objectives of the Juvenile Justice Reform Strategy, to minimise the use of custodial sentences for young offenders.</td>
</tr>
<tr>
<td>Concessions to pensioners and beneficiaries</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Energy concessions</td>
<td>92.6</td>
<td>107.1</td>
<td>15.7</td>
<td>Energy concessions are entitlement based. The increase in the 2004-05 energy concessions is due to the increasing number of concession households and the increasing number of single households, gas network expansion, and increasing per capita consumption of gas and electricity.</td>
</tr>
<tr>
<td>Water and sewerage concessions</td>
<td>66.5</td>
<td>76.3</td>
<td>14.7</td>
<td>Water and sewerage concessions are entitlement based. The increase in the 2004-05 water and sewerage concessions are a result of a combination of factors, but principally the extension of the entitlement of health care card holders – increasing eligible households, and increasing water prices.</td>
</tr>
<tr>
<td>Trustee services</td>
<td>9.5</td>
<td>12.6</td>
<td>32.6</td>
<td>Trustee services are entitlement based and are provided under the Community Services Obligation Agreement with State Trustees. The increase in 2004-05 for trustee services was a result of the growing demand for trustee services and the limited potential to recover revenue that are/can be recovered from low-income clients.</td>
</tr>
</tbody>
</table>

Source: Department of Human Services, response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 17 January 2006, p.1
The Committee considers that the department’s 2004-05 annual report should have expanded on the reasons given for output cost variances.

### 8.2 Performance information

The department achieved or exceeded approximately 181 (73 per cent) of its 248 performance targets published in its 2004-05 annual report. The Committee noted that this outcome represented an improvement on the prior year result, where the department achieved or exceeded 71 per cent of its performance targets when the Committee decided that the department needed to strive for a higher success rate.322

While information contained in the department’s 2004-05 annual report explained major variations between actual performance and published targets, the Committee sought further details about selected performance measures and actual outcomes in 2004-05.

#### Exhibit 8.2: Department of Human Services
Information sought by the Committee on selected performance measures

<table>
<thead>
<tr>
<th>Output/performance measure</th>
<th>Unit of measure</th>
<th>Target 2004-05</th>
<th>Actual 2004-05</th>
</tr>
</thead>
<tbody>
<tr>
<td>Disability services – planning and coordination</td>
<td>Average case management waiting time</td>
<td>Days</td>
<td>(a) 50</td>
</tr>
</tbody>
</table>

Explanation provided by department:
Concerted effort applied over recent years, to improve case management services and to undertake comprehensive planning for people with a disability with an individualised focus, has enabled the department to exceed the target for average case management waiting time by 16 days in 2004-05.

Note: (a) Budget Paper No.3, 2004-05 Service Delivery, p.93
Source: Department of Human Services, revised response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 17 January 2006, p.2

The Committee noted that the average case management waiting times in the disability services area of 32 days in 2003-04323 and 34 days in 2004-05324 were substantially shorter than the target of 50 days. This target has remained the same for 2005-06. For meaningful comparisons to be made between actual and planned performance, the Committee considers that performance targets must reflect the results of recent years.

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323 Budget Paper No.3, 2005-06 Service Delivery, p.86
324 Department of Human Services, *2004-05 Annual Report*, p.97
The Committee recommends that:

**Recommendation 39:** To enable meaningful analysis to be undertaken between planned and actual performance, the Department of Human Services ensure targets reflect sustainable improvements in service levels when performance has consistently exceeded expectations over prior years.

**Exhibit 8.3:** Department of Human Services
Information sought by the Committee on selected performance measures

<table>
<thead>
<tr>
<th>Output/performance measure</th>
<th>Unit of measure</th>
<th>Target 2004-05</th>
<th>Actual 2004-05</th>
</tr>
</thead>
<tbody>
<tr>
<td>Disability services – primary support</td>
<td>number</td>
<td>(a) 16,460</td>
<td>21,778</td>
</tr>
</tbody>
</table>

**Explanation provided by department:**
An episode of respite is defined as a period of time during which an individual, family or carer received respite support from a service provider. A respite episode covers an agreed and planned period of time, where a person receives support, at least on a monthly basis.
Because the measure counts episodes of respite, the volume actually delivered may fluctuate depending on the intensity of respite episodes received.
The department is reviewing this measure ahead of the 2006-07 budget.

*Note:* (a) Budget Paper No.3, 2004-05 Service Delivery, p.94

*Source:* Department of Human Services, revised response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 17 January 2006, p.2

Given the difficulties experienced by the department in accurately measuring episodes of respite provided in 2004-05, the Committee considers that the department should disclose the basis for the new measure to be introduced for 2006-07 so that readers of the budget papers and the annual report fully understand how information has been collected and reported. The Committee looks forward to examining the performance of the department against its new measure.

The Committee recommends that:

**Recommendation 40:** To assist in the understanding and interpretation of performance related information, the budget papers and the annual report of the Department of Human Services fully explain the basis for developing the new measure to quantify respite services provided to individuals, families or carers of people with disabilities.
Exhibit 8.4: Department of Human Services
Information sought by the Committee on selected performance measures

<table>
<thead>
<tr>
<th>Output/performance measure</th>
<th>Unit of measure</th>
<th>Target 2004-05</th>
<th>Actual 2004-05</th>
</tr>
</thead>
<tbody>
<tr>
<td>Disability services – primary support</td>
<td>per cent</td>
<td>(a) 80</td>
<td>80</td>
</tr>
</tbody>
</table>

Explaination provided by department:

Carers who are satisfied with the quality of respite support provided, enjoy having a break, the availability of respite services, and the quality of caring staff. Where carers are not satisfied, the main concerns relate to lack of availability, location, and the use of casual staff.

In order to address these concerns, the department is expanding the respite options available. The department is committed to pursuing a diversification of respite options that are based on a continuum of support, beginning with community participation.

It is important to develop respite support options that enable children and their families to participate in the everyday life of the community through access, for example, to activities like family day care, out-of-school hours care and school camps, and recreation and leisure activities.

The measure for carer households satisfied with the quality of respite services provided relates to just one survey question. Eighty per cent of respondents reported a level of satisfaction, 14 per cent were neither satisfied nor dissatisfied, and 6 per cent were dissatisfied.

Results for other questions in the survey, such as rating the overall quality of support, achieved a 93 per cent satisfaction rate. This validates that the majority of users are satisfied with the quality of respite.

Note: (a) Budget Paper No.3, 2004-05 Service Delivery, p.94
Source: Department of Human Services, revised response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 17 January 2006, p.3

The Committee supports the department’s endeavours to develop respite options for people with a disability and their families that provide a means for participating in activities both commonplace and accessible to the general community. Further comments are contained in the Major Issues section of this chapter.

The Committee also noted two performance measures connected with the Juvenile justice custodial services output, where the department specified that the youth training centre occupancy rates were a positive outcome when the actual results were less than the targets.325 The department explained that the results were consistent with the objectives of the Juvenile Justice Reform Strategy, to minimise the use of custodial sentences for young offenders.326 The Committee noted this performance. The Committee considers the department should explain major variations that occur between targeted and actual performance, in the interests of enhancing accountability, where it may not be clear whether a material variance is a positive or a negative outcome. Exhibit 8.5 provides examples of some of these performance measures and results.

325 ibid., p.108
326 ibid., note (a)
Exhibit 8.5: Types of performance measures that may warrant disclosure where the outcome for the Department of Human Services is unclear

<table>
<thead>
<tr>
<th>Output</th>
<th>Performance measures</th>
<th>Unit of measure</th>
<th>2004-05 Target</th>
<th>2004-05 Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sub-acute care services</td>
<td>Sub-acute bed days</td>
<td>number</td>
<td>722,200</td>
<td>680,899</td>
</tr>
<tr>
<td>Statutory child protection services</td>
<td>Notifications to child protection services</td>
<td>number</td>
<td>36,900</td>
<td>37,245</td>
</tr>
<tr>
<td>Early childhood intervention services</td>
<td>Total number of clients</td>
<td>number</td>
<td>8,010</td>
<td>8,363</td>
</tr>
<tr>
<td>Personal support services</td>
<td>Total number of clients receiving a family violence or sexual assault support service</td>
<td>number</td>
<td>12,500</td>
<td>12,439</td>
</tr>
<tr>
<td>Dental services</td>
<td>Ratio of emergency to general courses of dental care</td>
<td>ratio</td>
<td>49:51</td>
<td>55:45</td>
</tr>
</tbody>
</table>


The Committee recommends that:

**Recommendation 41:** Where it may not be clear whether a significant variance between planned activity and actual performance should be commended or viewed with concern, the Department of Human Services disclose in its annual report an explanation as to whether the result reported against the performance measure, represents a positive or a negative outcome for the department and the community.

### 8.3 Staffing matters

Exhibit 8.6 shows that the total number of equivalent full-time staff (EFT) in the department at 30 June 2005 was 11,093.2. Departmental staff are situated throughout a decentralised structure consisting of eight regions, eight major divisions, hundreds of branches and thousands of cost centres.327

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327 Department of Human Services, revised response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 17 January 2006, p.14
Exhibit 8.6: Department of Human Services
Equivalent full-time staff – 2004-05

<table>
<thead>
<tr>
<th>Classification</th>
<th>Ongoing (EFT)</th>
<th>Fixed term (EFT)</th>
<th>Casual (EFT)</th>
<th>Total (EFT)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executive officers</td>
<td></td>
<td>109.4</td>
<td></td>
<td>109.4</td>
</tr>
<tr>
<td>VPS staff</td>
<td>3,560.2</td>
<td>466.1</td>
<td>20.9</td>
<td>4,047.2</td>
</tr>
<tr>
<td>Allied Health</td>
<td>358.3</td>
<td>80.2</td>
<td></td>
<td>438.5</td>
</tr>
<tr>
<td>Child, Adolescent and Family Welfare Officers</td>
<td>1,216.2</td>
<td>237.4</td>
<td>69.1</td>
<td>1,522.7</td>
</tr>
<tr>
<td>Disability, Development and Support Officers</td>
<td>3,174.6</td>
<td>589.2</td>
<td>409.1</td>
<td>4,172.9</td>
</tr>
<tr>
<td>Housing Customer Services Officers</td>
<td>38.1</td>
<td>2.6</td>
<td></td>
<td>40.7</td>
</tr>
<tr>
<td>Housing Services Officers</td>
<td>353.7</td>
<td>25.1</td>
<td></td>
<td>378.8</td>
</tr>
<tr>
<td>Nurses</td>
<td>167.3</td>
<td>17.2</td>
<td>3.4</td>
<td>187.9</td>
</tr>
<tr>
<td>Other</td>
<td>122.1</td>
<td>70.8</td>
<td>2.2</td>
<td>195.1</td>
</tr>
<tr>
<td><strong>Total EFT staff</strong></td>
<td>8,990.5</td>
<td>1,598.0</td>
<td>504.7</td>
<td>11,093.2</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Salary costs:</th>
<th>($ million)</th>
<th>($ million)</th>
<th>($ million)</th>
<th>($ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003-04</td>
<td>485.1</td>
<td>79.5</td>
<td>26.1</td>
<td>590.7</td>
</tr>
<tr>
<td>2004-05</td>
<td>524.6</td>
<td>81.9</td>
<td>30.4</td>
<td>636.9</td>
</tr>
<tr>
<td>Increase in salary costs (a)</td>
<td>39.5</td>
<td>2.4</td>
<td>4.3</td>
<td>46.2</td>
</tr>
<tr>
<td>Increase in salary costs (a)</td>
<td>8.1%</td>
<td>3.0%</td>
<td>16.5%</td>
<td>7.8%</td>
</tr>
</tbody>
</table>

Note: (a) Calculated by the Public Accounts and Estimates Committee secretariat

Source: Department of Human Services, revised response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 17 January 2006, pp.12–14

Information provided by the department to explain movements in the number of equivalent full-time staff between June 2004 and June 2005 is shown in exhibit 8.7.
### Exhibit 8.7: Department of Human Services

**Variations in equivalent full-time staff**

**June 2004 compared with June 2005**

<table>
<thead>
<tr>
<th>Classification</th>
<th>June 2004</th>
<th>June 2005</th>
<th>Net variation</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(EFT)</td>
<td>(EFT)</td>
<td>(EFT)</td>
<td>(%)</td>
</tr>
<tr>
<td>Allied Health (a)</td>
<td>0.0</td>
<td>438.5</td>
<td>438.5</td>
<td>n/a</td>
</tr>
<tr>
<td>Child, Adolescent and Family Welfare Officers</td>
<td>1,558.4</td>
<td>1,522.7</td>
<td>-35.7</td>
<td>-2.3</td>
</tr>
<tr>
<td>Disability, Development and Support Officers</td>
<td>4,164.3</td>
<td>4,172.9</td>
<td>8.6</td>
<td>0.2</td>
</tr>
<tr>
<td>Executive Officers</td>
<td>113.6</td>
<td>109.4</td>
<td>-4.2</td>
<td>-3.7</td>
</tr>
<tr>
<td>Other (b)</td>
<td>170.4</td>
<td>195.1</td>
<td>24.7</td>
<td>14.5</td>
</tr>
<tr>
<td>Housing Customer Services Officers (c)</td>
<td>632.8</td>
<td>40.7</td>
<td>-592.1</td>
<td>-93.6</td>
</tr>
<tr>
<td>Housing Services Officers (d)</td>
<td>467.5</td>
<td>378.8</td>
<td>-88.7</td>
<td>-19.0</td>
</tr>
<tr>
<td>Nurses (a)</td>
<td>0.0</td>
<td>187.9</td>
<td>187.9</td>
<td>n/a</td>
</tr>
<tr>
<td>VPS staff</td>
<td>3,965.6</td>
<td>4,047.2</td>
<td>81.6</td>
<td>2.1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>11,072.6</strong></td>
<td><strong>11,093.2</strong></td>
<td><strong>20.6</strong></td>
<td><strong>0.2</strong></td>
</tr>
</tbody>
</table>

**Notes:**

- (a) No unique classification at this period, translated from Housing Customer Services Officers
- (b) Consists of 32 unique classifications, trend varies across each grouping: Solicitors (former VPS) net gain of 25 FTE; Youth Trainees -7.6; Facility Services Officers net loss of 6.8 FTE; Senior Technical Specialist +5 FTE; Senior Medical Advisors +5.6 FTE
- (c) Absorbed into Allied Health, VPS and Nurse classifications
- (d) Partially translated into VPS classification
- n/a Not applicable

**Sources:**

Department of Human Services, revised response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 17 January 2006, p.14; Department of Human Services, email, received 9 March 2006
8.4 Major issues

8.4.1 Acute hospital inpatient services

The department’s Metropolitan Health and Aged Care Services Division is responsible for funding and monitoring the performance of all metropolitan-based public hospitals and has statewide policy, funding and program responsibility for public hospitals.328

The cost for the Admitted Services output in 2004-05 was $3,770 million. Compared with the target of $3,694.4 million, this represented an increase of $75.6 million or 2 per cent.329 The department disclosed in its annual report that the increase in output expenses, compared with the 2004-05 budget, reflects additional funding provided for enterprise bargaining agreement outcomes and additional public holidays; funding for additional elective capacity as part of the Hospital Futures Strategy; and medical indemnity insurance.330 The increase in output expenses also reflects additional revenue received from the Commonwealth Government and the Transport Accident Commission.331

The Committee noted that eight performance measures have been developed for the Admitted Services output – two to measure quantity, three to measure quality, and three to measure timeliness.332 The annual report also briefly mentions some of the achievements in 2004-05 in the operation of public hospitals, such as decreases in waiting times for elective surgery.333 The Committee noted that the Your hospitals report for the period January to June 2005 disclosed whether various targets were met, such as those associated with emergency department triage categories, admissions from emergency departments, admission of patients awaiting elective surgery, and percentage of time emergency departments went on hospital bypass.

Because of the size and nature of the Admitted Services output, the Committee is of the view that the department should have disclosed the impact of the additional funding in terms of additional services that were provided in 2004-05 and the performance of the department in meeting or exceeding its targets.

328 ibid., p.38
329 ibid., p.102
330 ibid., p.103, note (d)
331 ibid.
332 ibid., p.102
333 ibid., pp.5, 14
The Committee recommends that:

**Recommendation 42:** The Department of Human Services appropriately disclose in its reporting framework details about additional funding received and show the affect that this funding has had in terms of the ability of the department to meet or exceed its performance targets.

### 8.4.2 Alleged financial irregularities at Melbourne Health

An issue of alleged financial irregularities at Melbourne Health, involving the overstatement of revenues in 2004-05, was brought to the attention of the Committee in July 2005. The Committee was interested in examining the circumstances surrounding these alleged financial irregularities and the current status of investigations into this matter. In particular, the Committee sought information from the department about:

- the errors and/or anomalies that allegedly took place at Melbourne Health in relation to financial reporting practices during the 2004-05 financial year;
- the key findings from each of the reviews that have taken place (for example internal control reviews and police investigations), including any deficiencies that have been highlighted in the corporate governance regime in place at the time;
- the implications of the allegations to Melbourne Health and the financial management of Victorian hospitals and health services; and
- action taken to ensure that such a situation is not repeated at Melbourne Health and elsewhere in the Victorian public health system.

Melbourne Health identified accounting irregularities at NorthWestern Mental Health Service (NWMHS), which it manages and operates, in May 2005. These irregularities involved the alleged false and deliberate recording of an estimated $17.2 million of revenue with a corresponding increase in real expenditure in the 2003-04 and 2004-05 financial years.

The board of Melbourne Health appointed three firms of independent experts to investigate the accounting treatment of transactions at NWMHS over the period in question to determine whether there had been any inappropriate use of funds or fraudulent activity by Melbourne Health and NWMHS. The findings of the reports indicate that while there was no misappropriation of cash, there were poor financial

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334 Department of Human Services, revised response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 17 January 2006, p.23
335 ibid.
336 ibid.
controls in place at Melbourne Health.\textsuperscript{337} The reports also confirmed that overstating of revenue was restricted to the accounts of NWMHS.\textsuperscript{338}

The key recommendations arising from the reviews included the introduction of appropriate policies and procedures to ensure segregation of duties and delegated authorities were clearly defined.\textsuperscript{339} The Department of Human Services has advised all health services about the findings and is encouraging them to undertake a review of their financial controls to ensure they are not susceptible to any inappropriate or fraudulent actions.\textsuperscript{340}

As a result of these reviews, there have been changes in Melbourne Health’s senior management structure;\textsuperscript{341} the Chief Executive Officer and the executive director of finance have both resigned.\textsuperscript{342}

The department has also commissioned an independent review of the NWMHS to examine whether resource allocation aligns with its service delivery role.\textsuperscript{343}

Ongoing meetings between the Melbourne Health Board, senior hospital management and the department are occurring to ensure Melbourne Health returns to a financially viable service.\textsuperscript{344}

The Committee noted the following information disclosed in Melbourne Health’s financial statements for 2004-05.\textsuperscript{345}

- during the year ended 30 June 2005, errors and other anomalies totalling $17.2 million were discovered in the mental health division of Melbourne Health;
- the errors occurred between July 2003 and March 2005;
- the errors have two components; the over-accrual of income and the deferral of expenditure from previous financial periods;
- the errors have been corrected in the financial statements for the year ended 30 June 2005. Of the total, $6.6 million relates to the fundamental error carried forward from the 30 June 2004 year;
- the financial statements for the year ended 30 June 2004 had not been reissued;

\textsuperscript{337} ibid.
\textsuperscript{338} ibid.
\textsuperscript{339} ibid.
\textsuperscript{340} Department of Human Services revised response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 17 January 2006, p.23
\textsuperscript{341} ibid., p.24
\textsuperscript{342} ibid.
\textsuperscript{343} ibid.
\textsuperscript{344} ibid., p.23
\textsuperscript{345} Melbourne Health, 2004-05 Annual Report, p.18
• financial information was restated to show the information that would have been disclosed in the 2004 financial report, had the error not been made.

In December 2005, the Auditor-General reported that Melbourne Health’s 2003-04 financial statements overstated revenue and receivables by $6.6 million.\textsuperscript{346} Melbourne Health highlighted and corrected this overstatement in its 2004-05 financial statements.\textsuperscript{347} The Auditor-General also reported that the three separate and independent investigations found that Melbourne Health governance and monitoring functions had failed to identify the errors and other anomalies that related to the over-accrual of revenue and the deferral of prior period expenditure.\textsuperscript{348}

The Auditor-General also revealed that the individual responsible for these erroneous accounting entries, which occurred between July 2003 and March 2005, left Melbourne Health prior to the discovery of the errors.\textsuperscript{349} The matter has been referred to Victoria Police.\textsuperscript{350}

In his report, the Auditor-General stated that this investigation has highlighted the need for vigilance by board directors, executive staff, managers, internal auditors and external auditors.\textsuperscript{351} Key lessons include the need to ensure appropriate reporting of financial information to boards and rigorous analysis of movements in the financial statements.\textsuperscript{352}

The Committee noted that the operating deficit for Melbourne Health decreased from $13,798,000 in 2002-03 to $1,604,000 in 2003-04.\textsuperscript{353} With a negative working capital position of $39,508,000 at 30 June 2003 compared with $35,765,000 at 30 June 2004, the Auditor-General reported that Melbourne Health continued to be one of the hospitals facing financial difficulties at 30 June 2004.\textsuperscript{354} In relation to 2004-05, Melbourne Health reported an operating surplus (net result from ordinary activities) of $7,599,000, with a negative working capital position of $42,452,000.\textsuperscript{355}

The Committee is concerned that such a situation was allowed to occur given the financial position of Melbourne Health in 2003-04 and the number of checks and balances in the financial reporting and auditing system performed by various parties. At the very least, the Committee would have expected that internal controls would have been fully assessed by external audit, and that quality assurance processes in place at the Victorian Auditor-General’s Office would have detected any shortcomings in the audit procedures adopted for a high risk audit such as Melbourne.

\textsuperscript{346} Victorian Auditor-General's Office, \textit{Auditor-General’s Report – Results of 30 June 2005 financial statement and other audits}, December 2005, p.89
\textsuperscript{347} ibid.
\textsuperscript{348} ibid.
\textsuperscript{349} ibid.
\textsuperscript{350} ibid.
\textsuperscript{351} ibid., p.90
\textsuperscript{352} ibid.
\textsuperscript{353} ibid., p.72
\textsuperscript{354} ibid.
\textsuperscript{355} Melbourne Health, \textit{2004-05 Annual Report}, Part B Financial Statements
Health. It is also not clear to the Committee why the individual made these erroneous accounting entries, given that the independent investigations found that these errors and other anomalies did not result in a loss to Melbourne Health of any cash or physical assets, nor in any personal financial gain for the individual involved.

The Committee considers that the department needs to carefully monitor the situation to ensure that the pressure placed on hospital administrators to improve the financial standing of health services in a background of tight budgetary constraints is not encouraging behaviour designed to artificially inflate financial results, rather than promoting initiatives to improve the economy and efficiency of hospital operations. As indicated below, the Committee noted the recent comments made by the Auditor-General regarding the financial position of some segments of the public sector, which draw attention to the need to ensure that an appropriate balance has been struck between price and estimated volumes of activities.\(^{356}\)

\begin{quote}
The financial health of some segments of the public sector, while improved on past years, still requires something more than simply close monitoring to provide the necessary assurance that the price and estimated volumes of activities are appropriately balanced, and that we continue to reinforce the long term perspective in planning so as to provide certainty to present management practices. This is particularly true around capital development work, but could equally be applied to assessing resource requirements associated with long term service demand.
\end{quote}

Regarding the adequacy of health services’ control environments, the Committee noted the assurance provided by the Auditor-General when reporting on the results of 30 June 2005 financial statement and other audits:\(^{357}\)

\begin{quote}
Our audit process confirmed that the control environments of sector agencies, and the internal control systems that we examined, were generally satisfactory.
\end{quote}

The Committee looks forward to the autumn 2006 release of the Auditor-General’s findings covering the outcome of a detailed review of the key factors that affect public hospital financial sustainability, and the department’s management and monitoring of public hospital performance.\(^{358}\)


\(^{358}\) ibid., p.88
The Committee recommends that:

**Recommendation 43:** The Department of Human Services ensure it has an effective monitoring regime in place so that corporate governance arrangements at Melbourne Health involving the role of the board, its audit committee, senior management, and internal audit provide ongoing and adequate oversight of financial management and accounting practices. Such a monitoring regime should cover all public hospitals in future.

**Recommendation 44:** After the investigations have been completed regarding the erroneous accounting entries made to overstate revenue at the NorthWestern Mental Health Service and to defer expenditure from previous financial periods, the Department of Human Services should disclose the causes that led to this situation and ensure that its financial management strategies address these causes in future.

### 8.4.3 Major redevelopment and upgrading works at regional health services

The Committee examined the achievements of the department for 2004-05 as described in its annual report, noting that major redevelopment and upgrading works had commenced at 11 regional health services during 2004-05.\(^\text{359}\) The Committee was interested in examining the status of these projects at 30 June 2005 in terms of completion. A notional analysis undertaken by the Committee, based on a comparison of actual with the estimated expenditure to be incurred on these new projects during 2004-05, revealed that the development of some of these projects had progressed at a slower rate than initially expected. Conversely, the analysis shows that the development of the Polwarth Nursing Home in Colac was well ahead of schedule.

\(^{359}\) Department of Human Services, *2004-05 Annual Report*, p.5
### Exhibit 8.8:

**Regional health services**

*New major redevelopment and upgrading works*

*Actual expenditure compared with estimate for 2004-05*

<table>
<thead>
<tr>
<th>Project description</th>
<th>Total estimated investment ($000)</th>
<th>Estimated expenditure 2004-05 ($000)</th>
<th>Expenditure to 30 June 2005 ($000)</th>
<th>Variance (a) ($000)</th>
<th>Variance (a) (%)</th>
<th>Explanation provided by department</th>
</tr>
</thead>
<tbody>
<tr>
<td>Colac Area Health, Polwarth Nursing Home (Colac)</td>
<td>14,000</td>
<td>500</td>
<td>1,956</td>
<td>1,456</td>
<td>291.2</td>
<td>Project expenditure was accelerated in 2004-05 due to completion of an early works demolition package ahead of the main construction works.</td>
</tr>
<tr>
<td>Echuca Regional Health Acute Redevelopment: Theatres (Echuca)</td>
<td>7,700</td>
<td>2,000</td>
<td>1,215</td>
<td>-785</td>
<td>-39.2</td>
<td>Initial commencement variance due to protraction of negotiations with tenderer. The project is back on track for completion on time.</td>
</tr>
<tr>
<td>Geelong Hospital Radiotherapy Service (Geelong)</td>
<td>18,000</td>
<td>1,000</td>
<td>1,000</td>
<td>Nil</td>
<td>Nil</td>
<td>The project is on target.</td>
</tr>
<tr>
<td>Grace McKellar Centre – Redevelopment Stage 2 (Geelong)</td>
<td>50,000</td>
<td>8,000</td>
<td>5,975</td>
<td>-2,025</td>
<td>-25.3</td>
<td>Inclement weather and latent soil conditions have resulted in a minor variance for this project, which is currently progressing well to the revised program.</td>
</tr>
<tr>
<td>Maryborough District Health Redevelopment Stage 2 (Maryborough)</td>
<td>9,500</td>
<td>3,500</td>
<td>3,379</td>
<td>-121</td>
<td>-3.5</td>
<td>Minor variance incurred due to unidentified latent conditions discovered during demolition. The project is on target to achieve the revised plan.</td>
</tr>
<tr>
<td>Doutta Galla Community Health Service (Niddrie)</td>
<td>2,000</td>
<td>1,500</td>
<td>816</td>
<td>-684</td>
<td>-45.6</td>
<td>Construction start variance due to negotiations on expanded project scope (dental facilities – funded in 2005-06). The project is now on target to achieve the revised program.</td>
</tr>
</tbody>
</table>
## Exhibit 8.8: Regional health services
### New major redevelopment and upgrading works
#### Actual expenditure compared with estimate for 2004-05 (continued)

<table>
<thead>
<tr>
<th>Project description</th>
<th>Total estimated investment ($000)</th>
<th>Estimated expenditure 2004-05 ($000)</th>
<th>Expenditure to 30 June 2005 ($000)</th>
<th>Variance (a) ($000)</th>
<th>Variance (a) (%)</th>
<th>Explanation provided by department</th>
</tr>
</thead>
<tbody>
<tr>
<td>Seymour District Memorial Hospital – Nursing Home Redevelopment (Seymour)</td>
<td>5,000</td>
<td>1,500</td>
<td>623</td>
<td>-877</td>
<td>-58.5</td>
<td>Construction program was extended to accommodate complex staging of the works. The project is currently progressing well to the accepted contract program.</td>
</tr>
<tr>
<td>Goulburn Valley Health Dental Services (Shepparton)</td>
<td>3,000</td>
<td>2,000</td>
<td>1,013</td>
<td>-987</td>
<td>-49.3</td>
<td>Part of a $14M redevelopment, this project is now completed and fully expended.</td>
</tr>
<tr>
<td>Latrobe Regional Hospital Cancer Treatment Centre (Traralgon)</td>
<td>11,000</td>
<td>5,000</td>
<td>4,225</td>
<td>-775</td>
<td>-15.5</td>
<td>Expenditure variance in 2004-05 was due to adverse in-ground conditions. Construction is now progressing to a revised program with no significant risks.</td>
</tr>
<tr>
<td>Latrobe Valley Community Care Unit and Mental Health Centre (Traralgon)</td>
<td>8,000</td>
<td>3,000</td>
<td>2,378</td>
<td>-622</td>
<td>-20.7</td>
<td>The project was delayed by initial concerns in relation to asbestos, which were unfounded. Construction is proceeding well to the revised program.</td>
</tr>
<tr>
<td>Yarrawonga District Health Service Acute and Aged Redevelopment Stage 1 (Yarrawonga)</td>
<td>10,500</td>
<td>4,000</td>
<td>2,024</td>
<td>-1,976</td>
<td>-49.4</td>
<td>Expenditure variance in 2004-05 was due to an extended construction program resulting from the complex staging of the works. The project is currently progressing well to the accepted contract program.</td>
</tr>
</tbody>
</table>

Note: (a) A negative variance indicates expenditure to 30 June 2005 is lower than estimated expenditure 2004-05

Sources: Budget Information Paper No.1, 2004-05 Public Sector Asset Investment Program, pp.45–46 and Budget Information Paper No.1, 2005-06 Public Sector Asset Investment Program, pp.38–40; Department of Human Services, email, received 5 April 2005
The Committee considers it important to provide regional Victoria with health services that are not delayed due to the late completion of major works. The department must ensure that effective project management procedures are applied so that major redevelopment and upgrading works at regional centres are completed in a timely manner.

The Committee recommends that:

**Recommendation 45:** The Department of Human Services take action to ensure that the new major redevelopment and upgrading works at regional health services, which commenced in 2004-05, are completed in a timely manner.

### 8.4.4 Workforce shortages in community dental clinics

In terms of workforce shortages experienced in community dental clinics (statewide vacancy rate in rural areas of 31 per cent in March 2005), the Committee was interested in establishing:

- the particular areas in country Victoria where dental workforce shortages existed at 30 June 2005;
- the strategies implemented in 2005-06 to address these shortages;
- the monitoring processes employed by the department in 2004-05 to assess the level of unmet need in rural areas, and the resulting health outcomes; and
- the alternatives available for people in rural areas to access public dental services.

The department advised the Committee that the 2004-05 budget provided an additional $97.2 million over four years for a Public Dental Health Strategy to improve public dental health services in Victoria, which represented a major investment in improving the dental health of those communities with the poorest dental health. The capacity of the public dental health system is being expanded to manage growing demand through new and expanded dental clinics, cooperative arrangements with private providers and workforce development.

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360 Hon. B. Pike, MP, Minister for Health, response to the Committee’s follow-up questions, 2005-06 Budget Estimates, received 15 August 2005, p.16

361 Department of Human Services, revised response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 17 January 2006, p.20

362 ibid.
According to the department, the strategy is significantly increasing the provision of public dental services to adults and adolescents in most need of care. New public dental clinics are being built in areas where there is poor access, and private practitioners are being encouraged to continue and expand their involvement in treating public patients. A ‘hot spot’ strategy is providing additional services for people who have been waiting the longest time. The strategy also aims to significantly cut the waiting time for people who need dentures, to increase access for kindergarten children to dental services, and to improve recall times for primary school children attending the School Dental Service. The department advised that more than 77,000 kindergarten children and 75,000 school children will benefit from this program over the period from 2004-05 to 2007-08.

Over four years, $3 million is being allocated to strengthen the public dental workforce strategy, to reduce the shortages of dental professionals, particularly in rural Victoria. New or expanded initiatives include improved statewide professional development, an enhanced mentor program for recent graduates, accommodation and travel assistance for dentists moving to rural areas and scholarships for undergraduates willing to work in the rural public sector. These initiatives have been effective in recruiting dental clinicians to:

- Dental Health Services Victoria Ballarat Clinic, which recruited an additional three clinicians and is now fully staffed;
- Bellarine Peninsula Community Health Centre in Point Lonsdale, which recruited one new clinician and is now at full capacity; and
- Sunraysia Community Health Service in Mildura, which recruited an additional 1.2 full-time equivalent staff.

Workforce shortages have been experienced generally across rural community dental clinics. At June 2005, shortages affected clinics at Newcomb, Hamilton, Warrnambool, Ararat, St Arnaud, Edenhope, Nhill, Horsham, Dimboola, Boort, Bendigo, Echuca, Maryborough, Mildura, Swan Hill, Wangaratta, Shepparton, Wodonga, Bairnsdale, Sale, Orbost, Moe, Churchhill, Wonthaggi and Omeo. Rural vacancy rates have, however, decreased from 36 per cent in June 2004 to 29 per cent in June 2005 through implementation of initiatives to address this significant issue.

363 ibid.
364 ibid.
365 ibid.
366 ibid.
367 ibid.
368 ibid., pp.20–21
369 ibid., p.20
Expanding undergraduate training and providing students with positive exposure to the public sector, particularly in rural areas, will receive increased focus in 2005-06.\textsuperscript{370} The government is supporting the establishment of a Bachelor of Oral Health Science at the Bendigo Campus of La Trobe University in 2006, which will provide students with the opportunity to undertake training in a rural setting. It is expected that undergraduate initiatives, particularly scholarships, will continue to expand. These initiatives are expected to increase the supply of trained public dental professionals in Victoria. An international recruitment campaign has also been expanded to include the implementation of the Public Sector Dental Workforce Scheme. This scheme allows a wider group of overseas trained professionals to practice in the Victorian public sector in Victoria under restricted registration.\textsuperscript{371}

Work has commenced to integrate the two main program areas in the public dental system – the School Dental Service and the Community Dental Program. Integration will allow the full use of the dental team and is expected to increase the level of services provided.\textsuperscript{372}

The department works closely with Dental Health Services Victoria to monitor workforce levels at each community dental clinic which is combined with waiting list data to assess where efforts should be targeted.\textsuperscript{373}

In clinics experiencing higher workforce pressures, private sector voucher schemes have been used to provide patients with alternative access to public dental care. Additionally, the Travel Assistance Scheme is available to patients who are willing to travel to another clinic to receive care sooner.\textsuperscript{374} Travelling dental teams are also used to visit clinics with the longest waiting times and workforce shortages. The teams have significantly reduced waiting times at clinics visited in 2004-05. A revised schedule of visits has been developed to continue this success for 2005-06.\textsuperscript{375}

The Committee noted the significant government funding, which included the additional $97.2 million over four years provided in the 2004-05 Budget, that has been allocated to the implementation of the state’s Public Dental Health Strategy.\textsuperscript{376}

\textsuperscript{370} ibid., p.21
\textsuperscript{371} ibid.
\textsuperscript{372} ibid.
\textsuperscript{373} ibid.
\textsuperscript{374} ibid.
\textsuperscript{375} ibid.
\textsuperscript{376} ibid., p.20
The Committee recommends that:

**Recommendation 46:** The Department of Human Services commission a mid term evaluation of the Public Dental Health Strategy to ensure that the government’s four year funding program, which involved an additional $97.2 million to 2007-08, remains well focused.

**Recommendation 47:** The Department of Human Services monitor dental health outcomes in community health clinics affected by workforce shortages, particularly those situated in the larger regional centres of Victoria such as Bendigo, Wangaratta, Shepparton, Wodonga, Warrnambool and Mildura.

**8.4.5 Respite for families and carers involved in the care of people with disabilities.**

The Committee examined the outcomes achieved in 2004-05 in providing respite for those involved in the care of people with disabilities. The Committee was interested in seeking from the department:

- a breakdown of the number of episodes of respite provided in 2004-05 according to the different types of service offerings;
- the level of unmet need at 30 June 2005 (or at the nearest time of assessment);
- the average waiting time for receiving overnight respite care during 2004-05 and action taken to reduce this waiting time;
- the number of people in respite beds awaiting a permanent placement as at 30 June 2005;
- the number of respite bed days taken by people in respite but awaiting permanent placement during 2004-05; and
- the average waiting time that people with a disability, assessed as having an urgent status, had to wait for a permanent placement in 2004-05.

The Committee learned that of the 21,778 respite episodes provided in 2004-05, about 15 per cent of respite service delivery was undertaken by government agencies and the remaining 85 per cent by community service organisations.\(^{377}\) Approximately

\(^{377}\) ibid., p.19
20 per cent of the respite episodes were delivered in bed based facilities. The other 80 per cent comprised flexible, community based respite, which included in-home respite, overnight camps, support in a family environment, holiday programs, cultural festivals, and other options to suit the needs of the person with a disability and their family or carer.

The Committee recommends that:

**Recommendation 48:** With a view to maximising the creation of new respite opportunities for people with a disability and their families and enhance their quality of support, the Department of Human Services review whether there is a need to expand the availability of flexible, community based respite options in preference to bed based facilities.

Because respite waiting lists or equivalent service need lists are managed at an individual agency level, the department was unable to provide the Committee with the level of unmet need for the provision of respite services to those involved in the care or people with disabilities. Similarly, the department could not provide the Committee with details about average waiting times for obtaining overnight respite care. These matters will be followed up in the next budget estimates process.

The Committee recommends that:

**Recommendation 49:** To monitor statewide the adequacy of respite services to those involved in the care of people with disabilities, the Department of Human Services collect summary information from its service providers about:

(a) the level of unmet need for the provision of respite services; and

(b) average waiting times for accessing overnight respite.

The department advised the Committee that it was developing a range of initiatives to offer viable alternatives to overnight respite, by building a respite continuum to support people with a disability to continue living within their communities and family units. This includes developing a range of respite supports, including

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378 Ibid.
379 Ibid.
380 Ibid., p.18
381 Ibid., p.19
382 Ibid.
identifying individual needs, extended family and community respite opportunities, in-home and out-of-home assistance, which may include camps, recreation and social activities, and holidays with and without family.\textsuperscript{383} Facility based respite is considered one component of the respite continuum, and is not the only way that carers and families can receive an overnight break.\textsuperscript{384} The respite service system is working towards a more flexible, planned and individualised approach to provide carers with flexible supports based on individual needs, including future planning for carers, increasing the range of accommodation options, and having a greater understanding of why care relationships breakdown and the service system response.\textsuperscript{385}

At 30 June 2005, 48 people were accommodated in respite beds awaiting suitable accommodation in an alternative setting.\textsuperscript{386} The Committee was interested to find that the number of people residing in long term respite has decreased from 62 to 48 (23 per cent) since September 2003, and that the department had implemented a range of initiatives to address this issue.\textsuperscript{387} For existing long term respite residents, the department is exploring accommodation options such as family options for children and support and choice/ housing initiatives for adults.\textsuperscript{388}

The department advised the Committee that the number of respite bed days used by people awaiting a permanent placement was not readily available because the operating times of respite houses fluctuated according to demand, available funding and seasonal peaks such as school holidays.\textsuperscript{389}

The Committee considers that the extent of respite bed days occupied by people awaiting a permanent placement is an important outcome for disability services, one that warrants monitoring by the department. The occupancy rate needs to be kept to a minimum because the allocation of respite beds to people with a disability who require permanent placement deprives those in need of respite care from accessing this service. This matter will be followed up during the forthcoming budget estimates hearings.

\textsuperscript{383} Department of Human Services revised response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 17 January 2006, p.19
\textsuperscript{384} ibid.
\textsuperscript{385} ibid.
\textsuperscript{386} Department of Human Services, response to the Committee’s follow-up question, received 15 March 2006
\textsuperscript{387} Department of Human Services revised response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 17 January 2006, p.18; Department of Human Services, response to the Committee’s follow-up question, received 15 March 2006
\textsuperscript{388} Department of Human Services, revised response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 17 January 2006, p.18
\textsuperscript{389} ibid.
The Committee recommends that:

**Recommendation 50:** The Department of Human Services collect information from respite accommodation to monitor statewide the extent of respite bed days allocated to people with a disability requiring permanent placement, and this information be used to inform future resource management decisions in terms of policy and budget formulation.

The department advised that for families requiring emergency respite, there was no waiting list because a service was provided urgently. Through the department’s Intake and Response and Respite Coordination and Planning services, families waiting for overnight respite care may be offered alternatives and interim supports until they are able to access their requested respite.

**8.4.6 Broader accommodation and support options compared with shared supported accommodation or institutions**

At the 2005-06 Budget Estimates hearing, the Minister explained that community residential units remained an important means of housing people with a disability, but that service offerings now focus more on providing flexible services involving an individualised planning and support approach that improves the range of accommodation choices available for people with a disability. The Minister stated that:

*One of the most important things that we have to do if we are going to have an impact on waiting lists is provide more flexible services and provide them earlier so that people do not slip into a crisis and so we are able to link people into the supports that might already be there in the community. It is not just about providing more of the same; it is about providing things in a different way and providing new things. It is about strengthening the community so it is able to respond and help.*

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390 ibid.
391 ibid.
392 Hon. S Garbutt, MP, Minister for Community Services, 2005-06 Budget Estimates hearing, transcript of evidence, 2 June 2005, p.9
393 Hon. S Garbutt, MP, Minister for Community Services, response to the Committee’s follow-up questions, 2005-06 Budget Estimates, received 4 August 2005, pp.6–7
394 Hon. S Garbutt, MP, Minister for Community Services, 2005-06 Budget Estimates hearing, transcript of evidence, 2 June 2005, pp.3–4
The Committee acknowledges that a range of factors need to be taken into account in considering the alternatives available for people with a disability who require accommodation:395

_The government believes that people with a disability should be able to live and participate in the life of the Victorian community, with the same rights, responsibilities and opportunities as all other citizens of Victoria. The government is committed to working with local communities, parents and carers to promote the inclusion and participation of people with a disability in their local communities._

One way to give people with a disability more choice in housing is to support access to a broader range of housing, including public and community housing and private rental.

The Minister advised the Committee that the individualised planning and support approach, through the Support and Choice initiative, provided an opportunity for 100 people to move from their existing shared supported accommodation to independent community housing in 2003-04 and 2004-05,396 opening up those places in community residential units (CRUs) for others in need.397

### 8.4.7 Community building and inclusion

(a) **The Companion Card**

Over 10,000 people with disabilities have sought the Companion Card so they can participate in events and programs – for things like the grand prix, the AFL football finals, their local government swimming pool and a whole range of facilities, events and activities in which they may want to participate.398 Over 650 outlets have agreed to recognise the Companion Card, including every public transport service, over 40 local councils and the 2006 Melbourne Commonwealth Games through The Equal First program,399 so the person with a disability can take their carer where they cannot attend without a carer, and they will not pay the double price.400 The Minister indicated at the hearing that further effort needs to be directed at eliciting the support of the remaining councils towards recognising the companion card.401

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395 Hon. S Garbutt, MP, Minister for Community Services, response to the Committee’s follow-up questions, 2005-06 Budget Estimates, received 4 August 2005, pp.6–7
396 ibid., p.7
397 Hon. S Garbutt, MP, Minister for Community Services, 2005-06 Budget Estimates hearing, transcript of evidence, 2 June 2005, p.3
398 ibid., p.14
399 ibid., p.16
400 ibid., p.14
401 ibid.
Subsequent to the hearing and in response to further enquiries, the Committee learnt that as at 29 June 2005, 44 Victorian Councils/Shires had formally agreed to accept the Companion Card, by affiliating with the program.\textsuperscript{402} The remaining 35 councils/shires were yet to formally commit to the acceptance of the card at their facilities.\textsuperscript{403}

In terms of what action was being taken by the department to encourage their participation in recognising the card at their facilities, the Committee was advised of the following:\textsuperscript{404}

- the Disability Services division of the department had written to the Mayor and Chief Executive Officer of every Victorian council/shire on several occasions, to inform them about the Companion Card and seek their formal participation (affiliation) with the program;
- Disability Services had requested all staff involved in the \textit{Rural and Metropolitan Access} and \textit{Access for All Abilities} programs to continue to raise the acceptance of the Companion Card at the councils/shires they work with;
- Disability Services continued to work with the Municipal Association of Victoria to raise awareness of the Companion Card across all councils/shires and increase affiliation in local government;
- Disability Services was in the process of meeting with all non-affiliated councils individually to continue to seek their affiliation, and was meeting with all currently affiliated councils to seek to expand the range of activities they have nominated to accept the Companion Card; and
- the Victorian Network on Recreation and Disability, which developed the Companion Card concept, had recently written to all Disability Advisory Committees in Victoria, asking them to raise the issue of the acceptance of the Companion Card with their respective councils.

\textsuperscript{402} Hon. S Garbutt, MP, Minister for Community Services, response to the Committee’s follow-up questions, 2005-06 Budget Estimates, received 4 August 2005, p.14
\textsuperscript{403} ibid.
\textsuperscript{404} ibid., pp.14–15
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(b) The RuralAccess program and the MetroAccess program

As part of the RuralAccess program established in 2000, twenty five full-time rural access workers, based in local government or community health centres across rural Victoria, have developed a range of initiatives and programs to ensure their local community is more accessible to people with disabilities.

Building on the RuralAccess program, the MetroAccess Program commenced with four local governments as a pilot (the City of Hobsons Bay, the Shire of Nillumbik, the City of Kingston and the City of Maroondah) and is now operating across 18 metropolitan council areas. The Minister announced that additional funding of $2.7 million will be provided as part of a three year program in partnership with local government to be rolled out over all of the 31 metropolitan municipal areas. Under the program, each metropolitan council will receive around $85,000 annually to employ a qualified community worker. The Minister advised that the department has funded a partnership with the Municipal Association of Victoria so it will also work on this program and support the individual metro access workers.

The City of Maroondah, for example, indicated that the local table tennis association had said that every one of their table tennis coaches and team managers were available to communicate with anyone with disabilities interested in table tennis. The Minister also cited an example to the Committee of three people with disabilities who had gone into six different primary schools talking about their own situation and increasing the understanding that primary school students have of people with disabilities and what their needs are. One commented that she also understood her own disability much better now she had had to analyse it and talk about it.

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405 Hon. S Garbutt, MP, Minister for Community Services, media release, $2.7 million for greater access for people with disabilities, 1 June 2005
407 ibid.
408 ibid.
409 ibid.
410 ibid.
411 ibid.
412 ibid.
413 ibid.
414 ibid.
(c) **Other initiatives**

Other measures brought to the Committee’s notice that have been introduced to promote community building and inclusion included the following:\(^{415}\)

- Disability Online, an Internet-based resource, enables people as well as agencies to access information from their computers at home;
- the disability services cultural and linguistically diverse strategy, which enables people from culturally and linguistically diverse backgrounds to also access disability services;
- the redevelopment of Kew Residential Services;
- the Disability Housing Trust is aimed at increasing the choice of housing options;
- the disability access plan applies to the ten government departments (nine plus the police) whereby each of the government departments will have to consider its action plan to increase access for people with disabilities, increase their opportunities in jobs, increase their understanding of information that is issued and generally provide for accessibility in line with the state plan; and
- the Deaflympics were held in January 2005, which included funding for programs that particularly centred around interpreter training and making volunteer training available in Auslan.

The Committee enquired as to why no quality performance measures for the Community Participation and Inclusion output have been included in the 2005-06 budget papers and whether the department intended developing qualitative performance measures for the Community Participation and Inclusion output for inclusion in the 2006-07 Budget Papers.

The Minister advised that:\(^{416}\)

- the 2005-06 Budget Papers reflect a simplified output structure;
- the Victorian Standards for Disability Services were being revised to enable the development of quality performance measures for the Community Participation and Inclusion output; and
- it was anticipated that the revised Victorian Standards for Disability Services would be implemented and reported against from January 2006. This would provide the potential to inform the development of a qualitative performance measure for the Community Participation and Inclusion output in the budget papers in the future.

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\(^{415}\) ibid., p. 17

\(^{416}\) Hon. S Garbutt, MP, Minister for Community Services, response to the Committee’s follow-up questions, 2005-06 Budget Estimates, received 4 August 2005, p. 6
The Committee noted the wide range of initiatives that the department has implemented which are aimed at promoting community building to further independence, community participation and inclusion. The Committee intends to follow with interest the success of the department in encouraging the remaining 35 councils/shire (44 per cent) to accept the Companion Card concept at their facilities. The Committee will also be interested in reviewing performance of a qualitative nature disclosed in future budgets that cover the department’s Community Participation and Inclusion output.

8.4.8 Aboriginal and Torres Straight Islander children in the child protection and placement system

The Committee noted that according to a recent report of the Australian Institute of Health and Welfare, Victoria had a rate of 63 per 1,000 indigenous children who had been the subject of child protection substantiations during 2004-05, which was ten times more than that of other children and the highest rate on a national basis (see exhibit 8.9).

Exhibit 8.9: Child protection

Children aged 0-16 years who were the subject of substantiations – 2004-05

<table>
<thead>
<tr>
<th>State/territory</th>
<th>Number of children</th>
<th>Rate per 1,000 children</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Indigenous</td>
<td>Other</td>
</tr>
<tr>
<td>New South Wales</td>
<td>1,642</td>
<td>7,556</td>
</tr>
<tr>
<td>Victoria</td>
<td>770</td>
<td>6,244</td>
</tr>
<tr>
<td>Queensland</td>
<td>1,186</td>
<td>11,700</td>
</tr>
<tr>
<td>Western Australia</td>
<td>353</td>
<td>682</td>
</tr>
<tr>
<td>South Australia</td>
<td>481</td>
<td>1,317</td>
</tr>
<tr>
<td>Tasmania</td>
<td>37</td>
<td>599</td>
</tr>
<tr>
<td>Australian Capital Territory</td>
<td>99</td>
<td>758</td>
</tr>
<tr>
<td>Northern Territory</td>
<td>319</td>
<td>128</td>
</tr>
</tbody>
</table>

Notes: 1. Due to small numbers involved, children aged 17 years were not included in this table
2. Data from Tasmania should be interpreted carefully due to a lower rate of recording Indigenous status at the time of the substantiation

The Committee also noted that with a rate of 40.7 indigenous children in out-of-home placements at 30 June 2005 per 1,000 indigenous children, Victoria had the highest representation of indigenous children in the child protection system nationally as demonstrated by the following findings released by the Australian Institute of Health and Welfare (exhibit 8.10):

### Exhibit 8.10: Child protection
Children in out-of-home care – aged 0-17 years
at 30 June 2005

<table>
<thead>
<tr>
<th>State/territory</th>
<th>Number of children</th>
<th>Rate per 1,000 children</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Indigenous</td>
<td>Other</td>
</tr>
<tr>
<td>New South Wales</td>
<td>2,543</td>
<td>6,687</td>
</tr>
<tr>
<td>Victoria</td>
<td>526</td>
<td>3,882</td>
</tr>
<tr>
<td>Queensland</td>
<td>1,275</td>
<td>4,382</td>
</tr>
<tr>
<td>Western Australia</td>
<td>692</td>
<td>1,137</td>
</tr>
<tr>
<td>South Australia</td>
<td>286</td>
<td>1,043</td>
</tr>
<tr>
<td>Tasmania</td>
<td>78</td>
<td>498</td>
</tr>
<tr>
<td>Australian Capital Territory</td>
<td>60</td>
<td>282</td>
</tr>
<tr>
<td>Northern Territory</td>
<td>218</td>
<td>106</td>
</tr>
<tr>
<td>Australia</td>
<td>5,678</td>
<td>18,017</td>
</tr>
</tbody>
</table>


The Committee noted that a number of initiatives have been implemented by the department to reduce the overrepresentation of indigenous children in the child protection and placement system.\(^{417}\) Specific developments include Aboriginal Family Decision Making to reduce the number of children placed away from their families and communities, and Aboriginal Best Start projects aimed at improving the health, development, learning and wellbeing of Aboriginal children.\(^{418}\) In relation to child protection, the department revealed that Aboriginal family services innovations projects have been expanded and are showing success in reducing child protection notification rates.\(^{419}\) These projects are aimed at providing vulnerable families with support for complex and long term needs before crises arise and children are endangered.\(^{420}\)
The Committee recommends that:

**Recommendation 51:** The Department of Human Services include in its annual report the progress made in reducing the overrepresentation of indigenous children in the child protection and placement system.

### 8.4.9 Assistance provided to people who are homeless

The government has significantly increased funding to assist people who are homeless across the state, since commissioning the Victorian Homelessness Strategy in 2000.\(^{421}\) Currently, approximately $125 million is allocated through the department for services provided to people who are homeless compared with approximately $87 million in 1999-2000.\(^{422}\)

This includes:\(^{423}\)

- an increase in total Supported Accommodation Assistance Program (SAAP) funding by approximately 60 per cent from $52.1 million in 1999-2000 to an estimated $83.3 million in 2005-06, including part of the funding allocated for the Youth Homelessness Action Plan and part of the funding allocated to delivering new and improved accommodation and service responses for women and children escaping family violence; and
- an increase in capital and recurrent funding for crisis supported and transitional housing, including the Housing Establishment Fund by about 23 per cent from $34.8 million in 1999-2000 to an estimated $42.8 million in 2005-06.

The increase in SAAP funding has enabled more clients to be assisted. Since 1999 the number of support periods and clients assisted has increased 57 per cent and 26 per cent respectively.\(^{424}\) Further, 830 additional crisis and transitional properties have been acquired since 1999, bringing the total number of crisis and transitional properties to 3,804 at June 2005.\(^{425}\)

The department indicated that ‘while it is difficult to compare the numbers of Victorians experiencing homelessness at 30 June 2004 with those at 30 June 2005, it is evident that SAAP services in Victoria continue to provide homelessness assistance to a substantial number of Victorians, with numbers of clients accessing SAAP services increasing from 34,950 clients in 2003-04 (AIHW: 2004) to 36,100 clients in

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\(^{421}\) Department of Human Services, revised response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 17 January 2006, p.22

\(^{422}\) ibid.

\(^{423}\) ibid., pp.22–23

\(^{424}\) ibid., p.23

\(^{425}\) ibid.
A comparison of other forms of assistance provided to people who were homeless during 2004-05 to the previous year is shown in exhibit 8.11.

Exhibit 8.11: Assistance provided to people who were homeless 2003-04 compared with 2004-05

<table>
<thead>
<tr>
<th>Performance measure</th>
<th>2003-04</th>
<th>2004-05</th>
</tr>
</thead>
<tbody>
<tr>
<td>SAAP and transitional housing management information or referral occasions of service</td>
<td>nm</td>
<td>81,300</td>
</tr>
<tr>
<td>Households assisted with crisis/transitional housing during the year</td>
<td>13,000</td>
<td>12,700</td>
</tr>
<tr>
<td>Households assisted with housing establishment assistance during the year</td>
<td>30,500</td>
<td>30,500</td>
</tr>
<tr>
<td>Households assisted with private rental brokerage during the year (a)</td>
<td>50</td>
<td>150</td>
</tr>
<tr>
<td>Total crisis supported and transitional housing properties</td>
<td>nm</td>
<td>3,804</td>
</tr>
</tbody>
</table>

Notes: nm new measure

(a) Defined as women, and women with children who are escaping violence

Source: Department of Human Services, 2004-05 Annual Report, p.100

The department’s annual report for 2004-05 states that a key action of the Victorian Homelessness Strategy is developing the Homelessness Assistance Service Standards to improve consistency and responsiveness in addressing the needs of people experiencing or at risk of homelessness. The department piloted the standards in four organisations funded under the Victorian Homelessness Strategy. In terms of improving assistance to people who are homeless, the Committee was interested in determining the number of people experiencing or at risk of homelessness at 30 June 2005 compared with the situation at 30 June 2004 and, if this number increased in 2004-05, establishing the contributing factors and hearing about the strategies adopted by the department to address the level of need.

The Committee was informed by the department that enumerating the number of Victorians who are homeless is problematic, given the practical difficulties associated with counting a highly mobile group and the complex and diverse cultural definitions of homelessness.

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426 ibid., p.22
427 Department of Human Services, 2004-05 Annual Report, p.30
428 ibid.
429 Department of Human Services, revised response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 17 January 2006, p.21
According to the department, Chris Chamberlain and David MacKenzie’s research, *Counting the Homeless 2001*, provides the most accurate information on the homeless population, drawing on 2001 Census and Australian Institute of Health and Welfare data related to the Supported Accommodation Assistance Program, which is the primary service response to homelessness.\(^{430}\) The Victorian report of the *Counting the Homeless 2001* research provides a useful comparison of the level and nature of homelessness in Victoria against the national average.\(^{431}\)

Victoria’s apparent rate of homeless people in 2001 (43.6 per 10,000) was still well below the national average (53 per 10,000).\(^{432}\) Further, census data indicates that in 2001, there were fewer numbers and proportions of Victorians experiencing primary homelessness (for example, those who were ‘sleeping rough’, without conventional forms of accommodation, such as people living on the streets, sleeping in parks, squatting in derelict buildings, or using cars or railway carriages as temporary shelter)\(^{433}\) compared with the national figures (1,871 Victorians or 9 per cent of the homeless population were in the primary homelessness category compared with 14,158 Australians or 14 per cent of the homeless population in the primary category nationally).\(^{434}\)

Census data also revealed that the proportion of Victorians accessing SAAP and transitional housing management (THM) assistance was significantly greater than that nationally (25 per cent of the homeless in Victoria compared with 14 per cent across Australia). The report attributes this to the significant expansion of the THM program in Victoria.\(^{435}\)

The Committee recommends that:

**Recommendation 52:** Given that the most recent figures quantifying the number of homeless Victorians related to the position in 2001, the department undertake a research project to evaluate the effectiveness of the Victorian Homelessness Strategy to ensure that it is responding to the needs of people experiencing, or at risk of, homelessness.

\(^{430}\) ibid., p.22
\(^{431}\) ibid.
\(^{432}\) ibid.
\(^{433}\) Department of Human Services, response to the Committee’s additional follow-up question, received 14 March 2006
\(^{434}\) Department of Human Services, revised response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 17 January 2006, p.22
\(^{435}\) ibid.
Key findings of the Committee:

9.1 The output budget for the Department of Infrastructure was $3,062.9 million in 2004-05; actual output cost was $3,066.3 million, $3.4 million (or 0.1 per cent) above the budget estimates.

9.2 Eighteen of the department’s 30 outputs had expenditure within 10 per cent of the budgeted cost. For six of the remaining 12 outputs with variances above or below budget by more than 10 per cent, the Committee required additional information from the department over and above that provided in its annual report.

9.3 The department achieved or exceeded 145 (61 per cent) of its 237 performance targets in 2004-05.

9.4 The department fully achieved its targeted savings of $18.3 million in 2004-05 from a combination of general efficiencies in government administration, the VicRoads workforce strategy, and rationalisation of external contractors.

9.5 The department should include information in its annual report on the financial impact to the state of the changed funding basis for public transport services embodied in the 2004 transport partnership agreements. The reported information should incorporate a comparison between actual and budgeted expenditure for the key categories of additional costs assumed by the state under the agreements.

9.1 Financial analysis – comparison with budget

The Department of Infrastructure and its agencies were responsible for the delivery of 30 outputs in 2004-05 which were budgeted to cost $3,062.9 million. Aggregated output expenditure in 2004-05 was $3,066.3 million, marginally above the budget for the year.

While the department’s year-end output result was in line with the aggregate budget, seven outputs incurred costs in excess of budget by more than 10 per cent and, for five outputs, costs were under budget by more than ten per cent.
For six of the 12 outputs involving variances above or below budget by more than ten per cent, the Committee sought additional information from the department to supplement explanations already provided in its annual report. Exhibit 9.1 shows the information provided by the department.

**Exhibit 9.1:** Department of Infrastructure
Information sought by the Committee for selected outputs

<table>
<thead>
<tr>
<th>Output groups/outputs</th>
<th>2004-05 Budget ($ million)</th>
<th>2004-05 Actual ($ million)</th>
<th>Variation (a) (%)</th>
<th>Explanation provided by department</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regional and rural transport infrastructure</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Regional public transport passenger and freight development</td>
<td>68.4</td>
<td>49.7</td>
<td>-27.3</td>
<td>The budget originally included depreciation expense for infrastructure projects that were expected to be completed in 2004-05. The depreciation expense was built into the department’s budget on the basis that the assets would end up on its books. Because it was subsequently determined that these assets would be owned by VicTrack, the department did not fund VicTrack’s depreciation expense.</td>
</tr>
<tr>
<td>Regional road projects</td>
<td>146.1</td>
<td>175.4</td>
<td>20.0</td>
<td>Given the nature of VicRoads program, it is difficult to accurately forecast the precise mix of operating and capital expenditure in any given year. Although projects and their accounting treatment are identified during initial planning stages, the final nature of the work may alter at the time of delivery. This is the situation with projects involving intersection treatments and signalisation; pavement strengthening and signals; installation of roundabouts; bridge strengthening and sealed shoulders.</td>
</tr>
</tbody>
</table>
Exhibit 9.1: Department of Infrastructure Information sought by the Committee for selected outputs *(continued)*

<table>
<thead>
<tr>
<th>Output groups/outputs</th>
<th>Column 1 2004-05 Budget ($ million)</th>
<th>Column 2 2004-05 Actual ($ million)</th>
<th>Variation (a) (%)</th>
<th>Explanation provided by department</th>
</tr>
</thead>
<tbody>
<tr>
<td>Metropolitan transport infrastructure and public development projects</td>
<td>18.3</td>
<td>12.1</td>
<td>-33.9</td>
<td>The budget originally included depreciation expense for infrastructure projects that were expected to be completed in 2004-05. The depreciation expense was built into the department’s budget on the basis that the assets would end up on its books. Because it was subsequently determined that these assets would be owned by VicTrack, the department did not fund VicTrack’s depreciation expense.</td>
</tr>
<tr>
<td>Metropolitan arterial road links</td>
<td>157.4</td>
<td>189.2</td>
<td>20.2</td>
<td>Given the nature of VicRoads program, it is difficult to accurately forecast the precise mix of operating and capital expenditure in any given year. Although projects and their accounting treatment are identified during initial planning stages, the final nature of the work may alter at the time of delivery. This is the situation with projects involving intersection treatments and signalisation; pavement strengthening and signals; installation of roundabouts; bridge strengthening and sealed shoulders.</td>
</tr>
<tr>
<td>Major public construction and land development</td>
<td>1.6</td>
<td>17.5</td>
<td>993.75</td>
<td>The budget for this output reflects figures published in the state Budget in early May 2004. The additional expenditure involves projects approved post the state Budget, including gas remediation works at Docklands, redevelopment works at St Heliers in Collingwood and Dandenong Transit Cities.</td>
</tr>
</tbody>
</table>
### Exhibit 9.1: Department of Infrastructure
Information sought by the Committee for selected outputs (continued)

<table>
<thead>
<tr>
<th>Output groups/outputs</th>
<th>Column 1</th>
<th>Column 2</th>
<th>Column (2-1)/1</th>
<th>Explanation provided by department</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transport safety and accessibility</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accessible transport initiatives</td>
<td>59.1</td>
<td>52.6</td>
<td>-11.0</td>
<td>The budget for this output reflects figures published in the state Budget in early May 2004. Subsequently, a review of the Multi Purpose Taxi Program resulted in the introduction of more equitable eligibility and usage criteria to ensure that the program continued to provide assistance to members of the community with severe and permanent disabilities who cannot use public transport. This resulted in less expenditure than originally anticipated.</td>
</tr>
</tbody>
</table>

**Notes:** (a) A negative variance indicates that the actual results for 2004-05 are lower than budget

**Sources:** Department of Infrastructure, 2004-05 Annual Report, pp.136–165; Department of Infrastructure, response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 22 December 2005, pp.1–3

The Committee reiterates the view it expressed in its *Report on the 2003-04 Budget Outcomes* that the department must ensure the reasons given in its annual report for all significant output cost variances adequately inform the reader.

### 9.2 Performance information

The department achieved or exceeded approximately 61 per cent (145) of the 237 output performance targets published in its 2004-05 annual report. The equivalent level of achievement in 2003-04 was 67.4 per cent. Exhibit 9.2 shows those outputs with the largest proportion of unmet performance 2004-05 targets.
Exhibit 9.2: Department of Infrastructure
Outputs with a large proportion of unmet performance targets for 2004-05

<table>
<thead>
<tr>
<th>Output</th>
<th>Performance targets not met (no.)</th>
<th>Performance targets not met (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Port development strategies</td>
<td>4</td>
<td>80.0</td>
</tr>
<tr>
<td>Ports and intermodal freight</td>
<td>5</td>
<td>100.0</td>
</tr>
<tr>
<td>Passenger interchange development</td>
<td>5</td>
<td>71.4</td>
</tr>
<tr>
<td>Regional public transport and freight development</td>
<td>5</td>
<td>62.5</td>
</tr>
<tr>
<td>Metropolitan arterial road links</td>
<td>8</td>
<td>66.6</td>
</tr>
<tr>
<td>Vehicle and driver regulation</td>
<td>7</td>
<td>70.0</td>
</tr>
</tbody>
</table>

Source: Department of Infrastructure, 2004-05 Annual Report, pp.139, 142, 143, 147, 157, 163

While the department’s annual report included information on the non-achievement of targets, the Committee sought further details on the reasons targets were not met for selected performance measures (exhibit 9.3).

Exhibit 9.3: Department of Infrastructure
Information sought by the Committee on selected performance measures

<table>
<thead>
<tr>
<th>Outputs/performance measures</th>
<th>Unit of measure</th>
<th>Target 2004-05</th>
<th>Actual 2004-05</th>
</tr>
</thead>
<tbody>
<tr>
<td>Port development strategies</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Projects completed against agreed plans and time frames</td>
<td>per cent</td>
<td>100</td>
<td>20</td>
</tr>
</tbody>
</table>

Explanation provided by department:
On 31 March 2005, the Minister for Planning announced that the project proponent is now required to prepare a supplementary environment effects statement (EES).
This measure related solely to progress on the Channel Deepening Project (CDP) during 2004-05. Based on the agreed timeframe of the CDP, it was expected that the environment effects statement assessment and project approvals process could be achieved by the end of 2004-05. However, the independent panel appointed to review the EES recommended in February 2005 that the Port of Melbourne Corporation (PoMC) carry out significant further work prior to project approval. As a result of this recommendation, the Minister for Planning outlined in his statement on 31 March 2005, that the PoMC is required to prepare a supplementary EES and to undertake trial dredging, significantly extending the project's timeline. The actual measure, therefore, reflects progress against the revised scope and extended work program for the CDP.
Exhibit 9.3: Department of Infrastructure
Information sought by the Committee on selected
performance measures (continued)

<table>
<thead>
<tr>
<th>Outputs/performance measures</th>
<th>Unit of measure</th>
<th>Target 2004-05</th>
<th>Actual 2004-05</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Ports and intermodal freight</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><em>Freight and Logistics Strategy completed</em></td>
<td>per cent</td>
<td>100</td>
<td>80</td>
</tr>
<tr>
<td><strong>Explanation provided by department:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Significant parts of the Freight and Logistics Strategy were published in the Metropolitan Transport Plan and Victorian Ports Strategic Framework in 2004-05. The strategy is intended to be completed in 2005-06.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The Freight and Logistics Strategy was expected to be completed during 2004-05, but feedback from key stakeholders on a consultation draft of the strategy during 2004 indicated that further work was needed before release.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nevertheless significant components of a broad freight and logistics strategy were published as part of the Victorian Ports Strategic Framework released on 12 November 2004, and in the Metropolitan Transport Plan released on 25 November 2004.</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

| **Masterplan implementation for Dynon Rail Precinct**                  | per cent        | 50             | 25            |
| **Explanation provided by department:**                                |                 |                |               |
| The plan is proposed to be finalised in 2005-06.                        |
| Since Pacific National (PN) acquired Freight Australia in the second half of 2004, there has been a shift in focus and a more cooperative approach to rail projects across the state, and specifically on the Dynon Masterplan. It has been necessary for Port@L Development Strategy work to occur in parallel with the PN/Dynon Masterplanning work and also with longer term road network planning. This has resulted in progress being slower than anticipated. |

| **Projects completed within agreed time frames**                       | per cent        | 100            | 65            |
| **Explanation provided by department:**                                |                 |                |               |
| Significant parts of the Freight and Logistics Strategy were published in the Metropolitan Transport Plan and Victorian Ports Strategic Framework in 2004-05. The strategy is intended to be completed in 2005-06. |
| This result reflects the delays in developing the Victorian Freight and Logistics Strategy, as outlined above, which had yet to be completed at the end of 2004-05. The Geelong Port Rail Access project was behind schedule, delayed when Freight Australia controlled the Victorian intrastate rail network, and is now being reassessed by the new lessee, Pacific National (PN). An agreement with PN for the project is expected to be signed in the second quarter of 2005-06. Since PN acquired Freight Australia, there has been a greater focus on rail projects across the state and specifically on the Dynon Masterplan. |

| **Metropolitan arterial road links**                                    |                 |                |               |
| *Projects delivered in accordance with the original planned completion date* | per cent        | 95             | 60            |
| **Explanation provided by department:**                                |                 |                |               |
| Two projects out of the expected five were not completed by the original planned date. |
| The Greensborough Highway project was delayed due to resolution of issues relating to industrial relations on the worksite and the Edgars Road project was delayed due to late award of contract. |
Exhibit 9.3: Department of Infrastructure
Information sought by the Committee on selected performance measures (continued)

<table>
<thead>
<tr>
<th>Outputs/performance measures</th>
<th>Unit of measure</th>
<th>Target 2004-05</th>
<th>Actual 2004-05</th>
</tr>
</thead>
<tbody>
<tr>
<td>Road safety initiatives and regulation</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Road safety projects/initiatives – safer roads</td>
<td>number</td>
<td>56</td>
<td>47</td>
</tr>
</tbody>
</table>

Explanation provided by department:
Several road projects were delayed but are now progressing.
This variance relates to:
- two projects delayed due to late completion of Utility Pole Guidelines that required resolution of complex issues with the utilities, and the tabling of the Road Safety Committee report in response to a Parliamentary Inquiry into roadside hazards that was later than expected; and
- five projects delayed due to contract issues and traffic signal work that required police to control traffic whilst the work was undertaken. Because police work bans were in place during this period, the work was delayed until the necessary traffic management service could be provided. These projects were:
  - Princes Highway East at Huntingdale Road (contract issues)
  - Maroondah Highway - Wantirna Road/Ringwood Street, Ringwood (traffic management issues)
  - Springvale Road - Mitcham Road, Donvale (traffic management issues)
  - Heatherton Road - Hanna Road/John Fawkner Drive, Endeavour Hills (traffic management issues)
  - Burke Road - Canterbury Road/Rathmines Road, Camberwell (traffic management issues)

The completion of two level crossing projects was carried over into 2005-06. Note: From 2005-06, safety works at pedestrian and rail level crossings are reported under a separate output measure, in the Public Transport and Safety Regulation output.

Sources: 
Department of Infrastructure, 2004-05 Annual Report, pp.139–164; Department of Infrastructure, response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 22 December 2005, pp.4–6

The Committee recognises that the department has acted to improve the way it explains variances between targeted and actual performance in its annual report. It is important that the department continue to direct attention to this area because of the magnitude and significance to the community of the strategies, projects and activities addressed in its output framework.

The development, delivery and maintenance of key elements of the state’s infrastructure such as roads, ports and public transport assume a strong focus within the department’s role and functions. With this focus, many of the departments’ output targets reflect, in aggregate, key planned milestones and expected achievements for individual projects and services over the ensuing twelve months.
The Committee considers that the department’s reporting of annual performance would be enhanced if it highlighted in its annual report its key planned outcomes and intended achievements for the ensuing year and reported against those projections at year-end as part of its presentation of output performance.

The inclusion of such information would enable the linking of ex-post performance information in each annual report with previously signalled intended performance. It would also complement the department’s informative summary of main achievements under its identified outcomes currently presented in an early section of the annual report. In doing so, the department’s annual report would give a clearer picture of how the output performance each year has contributed to the achievement of the department’s specified outcomes and higher level government outcomes. Such action would also provide a useful basis for the department to more thoroughly explain any changed circumstances, within or beyond its control, that have influenced its output performance, and would reinforce its accountability obligations to Parliament.

The Committee recommends that:

Recommendation 53: The Department of Infrastructure include in future annual reports key planned actions and expected main achievements for the ensuing year and report against the projections at year-end as part of its presentation of output performance.

9.3 Other matters

9.3.1 Staffing matters

Exhibit 9.4 shows the total number of equivalent full-time staff in the department, in the Southern and Eastern Integrated Transport Authority (SEITA) and at VicRoads at 30 June 2005, together with the movement in salary costs from 2003-04 to 2004-05.
Exhibit 9.4: Department of Infrastructure
Equivalent full-time staff – 2004-05

<table>
<thead>
<tr>
<th>Classification</th>
<th>Ongoing (EFT)</th>
<th>Fixed term (EFT)</th>
<th>Casual (EFT)</th>
<th>Funded Vacancy (EFT)</th>
<th>Total (EFT)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Department of Infrastructure</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Secretary and executive officers</td>
<td>57.8</td>
<td></td>
<td>6.0</td>
<td></td>
<td>63.8</td>
</tr>
<tr>
<td>VPS staff</td>
<td>700.0</td>
<td>173.9</td>
<td>3.0</td>
<td>45.0</td>
<td>921.9</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>757.8</td>
<td>173.9</td>
<td>3.0</td>
<td>51.0</td>
<td>985.7</td>
</tr>
<tr>
<td><strong>VicRoads</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Executive officers</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Engineers/professional</td>
<td>1,035.7</td>
<td>3.0</td>
<td></td>
<td></td>
<td>1,038.7</td>
</tr>
<tr>
<td>Administrative</td>
<td>845.9</td>
<td></td>
<td></td>
<td></td>
<td>845.9</td>
</tr>
<tr>
<td>Technical</td>
<td>135.6</td>
<td></td>
<td></td>
<td></td>
<td>135.6</td>
</tr>
<tr>
<td>Field/trade-related</td>
<td>323.9</td>
<td></td>
<td></td>
<td></td>
<td>323.9</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>2,341.1</td>
<td>68.0</td>
<td></td>
<td></td>
<td>2,409.1</td>
</tr>
<tr>
<td><strong>SEITA</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Executive officers</td>
<td>1.0</td>
<td>6.0</td>
<td>2.0</td>
<td></td>
<td>9.0</td>
</tr>
<tr>
<td>VPS staff</td>
<td>1.4</td>
<td>18.4</td>
<td>5.0</td>
<td></td>
<td>24.8</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>2.4</td>
<td>24.4</td>
<td>7.0</td>
<td></td>
<td>33.8</td>
</tr>
</tbody>
</table>

**Salary costs:**

<table>
<thead>
<tr>
<th>Classification</th>
<th>2003-04 ($ million)</th>
<th>2004-05 ($ million)</th>
<th>Increase in salary costs (a)</th>
<th>Increase in salary costs (a)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Department of Infrastructure</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2003-04</td>
<td>48.1</td>
<td>3.8</td>
<td>0.1</td>
<td>19.0%</td>
</tr>
<tr>
<td>2004-05</td>
<td>54.2</td>
<td>7.5</td>
<td>0.2</td>
<td>9.9</td>
</tr>
<tr>
<td>Increase in salary costs (a)</td>
<td>6.1</td>
<td>3.7</td>
<td>0.1</td>
<td>9.9</td>
</tr>
<tr>
<td>Increase in salary costs (a)</td>
<td>12.7%</td>
<td>97.4%</td>
<td>100%</td>
<td>19.0%</td>
</tr>
<tr>
<td>VicRoads</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2003-04</td>
<td>132.9</td>
<td>9.8</td>
<td>142.7</td>
<td></td>
</tr>
<tr>
<td>2004-05</td>
<td>145.6</td>
<td>10.5</td>
<td>156.1</td>
<td></td>
</tr>
<tr>
<td>Increase in salary costs (a)</td>
<td>12.7</td>
<td>0.7</td>
<td>13.4</td>
<td></td>
</tr>
<tr>
<td>Increase in salary costs (a)</td>
<td>9.6%</td>
<td>7.1%</td>
<td>9.4%</td>
<td></td>
</tr>
<tr>
<td>SEITA</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2003-04</td>
<td>0.7</td>
<td>0.8</td>
<td>1.5</td>
<td></td>
</tr>
<tr>
<td>2004-05</td>
<td>1.4</td>
<td>1.6</td>
<td>3.0</td>
<td></td>
</tr>
<tr>
<td>Increase in salary costs (a)</td>
<td>0.7</td>
<td>0.8</td>
<td>1.5</td>
<td></td>
</tr>
<tr>
<td>Increase in salary costs (a)</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td></td>
</tr>
</tbody>
</table>

Note: (a) Calculated by the Public Accounts and Estimates Committee secretariat

Sources: Department of Infrastructure, response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 22 December 2005, pp.15–17; Department of Infrastructure, response to the Committee’s follow-up question, received 28 February 2006
The department indicated that the increase in staffing levels across the department can be attributed to:

- projects under management increasing from $16.8 billion in 2003-04 to $20 billion in 2004-05, resulting in an increase in staffing in the Capital Projects Division and commercial and financial management areas;
- an emphasis on the safety and security of infrastructure that has resulted in an increase in staff numbers in the Energy and Security Division, and the establishment of public transport safety as a statutory office; and
- Public Transport Division’s improved capability in contractual management and network planning.

VicRoads staff numbers increased in 2004-05 largely due to a higher graduate intake and increased road construction and maintenance program.

The increase in staffing levels for SEITA from 2003-04 to 2004-05 can be attributed to ongoing recruitment to fill remaining vacancies within the organisation.

### 9.3.2 Departmental savings

The department advised the Committee that it fully achieved its targeted savings of $18.3 million in 2004-05, and that savings comprised:

- general efficiencies in government administration – $13.3 million;
- VicRoads workforce strategy – $4 million; and
- rationalisation of external contractors – $1 million.

### 9.4 Major issues

#### 9.4.1 Regional Fast Rail Project

In its past reports, the Committee has provided commentary to Parliament on matters associated with the development of this significant rail project, including progress against cost and time targets.

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439 Department of Infrastructure, response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 22 December 2005, p.16
440 Department of Infrastructure, response to the Committee’s follow-up question, received 28 February 2006
441 Department of Infrastructure, response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 22 December 2005, p.16
442 ibid., p.20
The latest information on the project reported by the Committee was set out in its November 2005 *Report on the 2005-06 Budget Estimates* which identified that the government had announced a revised budget estimate of $750 million for the project in December 2004. This was an increase of $133 million on the previously revised estimate of $617 million in November 2003 and an increase of $200 million on the initial budget estimate of $550 million.

The Committee reported extensions advised by the department to original dates set for completion of construction works across the fast rail project’s four corridors in its April 2005 *Report on the 2003-04 Budget Outcomes*. The revised dates reported by the Committee at the time were:

- Bendigo corridor – December 2005, an extension of 13 months
- Latrobe corridor – December 2005, an extension of 21 months
- Ballarat corridor – October 2005, an extension of four months
- Geelong corridor – June 2005, an extension of four months

The Auditor-General provided an interim report to Parliament on the Regional Fast Rail Project in December 2005. The Auditor-General identified that the targets for completion of works for the Ballarat and Geelong corridors had been further revised to March 2006, thus extending delays in those corridors to around nine months.

The department stated in its 2004-05 annual report that by mid-2006, all elements of the Regional Fast Rail Project will be complete, with improved services and a new timetable. The department also indicated that a draft timetable had been drawn up following community consultation, and that the timetable is being further developed in readiness for the new services.

The two earlier mentioned Committee reports summarised the factors cited by the government as contributing to the need to revise the project’s estimated cost and timelines.

The December 2005 interim audit report of the Auditor-General itemised several matters contributing to the amended cost and time projections such as contractors’ claims, contractors’ performance, changes to the project’s safety regulatory regime,
and the impact of the limited availability of signalling resources.\textsuperscript{452} The Auditor-General expressed the view that the project has now reached a critical phase with the installation and commissioning of an upgraded signalling system across the four corridors.\textsuperscript{453}

Because the department was involved in complex and sensitive negotiations associated with the project, the Auditor-General advised Parliament that significant demands had been placed on the project’s management team, which meant they were not able to participate in the audit.\textsuperscript{454} Given these circumstances, the Auditor-General determined to defer the audit and recommence it in early 2006.\textsuperscript{455}

The Committee welcomes the Auditor-General’s decision to recommence this audit and recognises the intensity of the task faced by the department in managing the project’s remaining development tasks. It is also mindful that more than $700 million of public funds will have been spent on the project by mid-2006. The Committee considers that the related accountability obligations of the department require Parliament to be provided with an independent assessment, of the manner in which the project has been planned and managed, in a timely manner.

The Committee looks forward to considering at an early stage the Auditor-General’s report to Parliament.

\textbf{9.4.2 2004 public transport partnership agreements}

The Committee’s November 2004 \textit{Report on the 2004-05 Budget Estimates} identified that a major budget output initiative of the department related to new five year public transport partnership agreements entered into by the government with Connex (for train services) and Yarra Trams (for tram services), effective April 2004.\textsuperscript{456}

The 2004-05 Budget Papers disclosed that the government had allocated $1,137.1 million as additional output funding under this initiative over the five year period commencing 2003-04, with the following projected annual output expenditure (exhibit 9.5).\textsuperscript{457}

\begin{itemize}
  \item \textsuperscript{452} Victorian Auditor-General's Office, \textit{Auditor-General’s Report – Results of 30 June 2005 financial statement and other audits}, December 2005, p.281
  \item \textsuperscript{453} ibid.
  \item \textsuperscript{454} ibid., pp.281–282
  \item \textsuperscript{455} ibid., p.282
  \item \textsuperscript{457} Budget Paper No.3, \textit{2004-05 Service Delivery}, pp.285–286
\end{itemize}
Exhibit 9.5: Department of Infrastructure
Additional output funding under the five year public transport partnership agreements

<table>
<thead>
<tr>
<th>Year</th>
<th>($ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003-04</td>
<td>245.6</td>
</tr>
<tr>
<td>2004-05</td>
<td>225.2</td>
</tr>
<tr>
<td>2005-06</td>
<td>226.1</td>
</tr>
<tr>
<td>2006-07</td>
<td>222.9</td>
</tr>
<tr>
<td>2007-08</td>
<td>217.3</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,137.1</strong></td>
</tr>
</tbody>
</table>


The budget papers indicated that the new agreements form part of the government’s commitment to restore stability to the public transport system and improve service to customers.\(^{458}\) The budget papers mentioned that the funding incorporates the cost of additional customer service staff, additional services, and increased security patrols on night trains.\(^{459}\) It was also stated that the funding also includes improving travel times for trams, New Year’s Eve public transport coverage, and a significant component set aside as a contingency.\(^{460}\)

The Auditor-General presented a performance audit report on *Franchising Melbourne’s train and tram system* to Parliament in September 2005.\(^{461}\) The audit examined the government’s renegotiation of public transport arrangements and sought to determine whether the 2004 transport partnership agreements represented value for money.\(^{462}\)

The Auditor-General’s overall conclusion was that the new agreements represent reasonable value for money assuming that franchise performance meets contracted levels.\(^{463}\) The Auditor-General commented that this conclusion was principally based on the audit assessment that the payments the government negotiated with the train and tram franchisees were close to the best possible prices it could have negotiated for the sustainable operation of the metropolitan train and tram system.\(^{464}\)

The Auditor-General’s report identified the additional costs associated with operating the metropolitan train and tram system that accrue to the government under the new agreements, and those risks that were returned to the state. The additional costs include insurance (estimated to be $16.6 million per year), and contributions towards

\(^{458}\) Budget Paper No.3, 2004-05 Service Delivery, p.286
\(^{459}\) ibid.
\(^{460}\) ibid.
\(^{461}\) Victorian Auditor-General's Office, *Franchising Melbourne’s train and tram system*, September 2005
\(^{462}\) ibid., p.4
\(^{463}\) ibid.
\(^{464}\) ibid.
MetLink’s operations and marketing.\textsuperscript{465} Costs retained by the state included the operation of the current ticketing system and the introduction of a new ticketing system.\textsuperscript{466} The risks assumed by the state include potential higher insurance costs, a fall in revenue should problems occur with the new ticketing system, and the financial consequences if the condition of rail infrastructure is not appropriately maintained.\textsuperscript{467} The Auditor-General recommended that the department quantify all state retained risks and have strategies in place to mitigate them.\textsuperscript{468}

The Committee sought information from the department on its performance in 2004-05 against expected timelines and budgeted output costs arising from implementation of the new agreements.

**(a) Performance in 2004-05 against expected timelines**

The department advised that, with the exception of the introduction of new trains, all actions associated with the new agreements that were scheduled for introduction by 30 June 2005 were implemented by that date.\textsuperscript{469} It further advised that the last of five additional new six-carriage trains was introduced in December 2005, consistent with its expected date of delivery.\textsuperscript{470}

The department provided details about its performance against the various expected timelines:\textsuperscript{471}

For trains:

- at least 100 additional customer service staff were employed by February 2005;
- staffing of at least 30 extra stations in the morning peak. Phased implementation occurred between April and July 2004 to staff an additional 31 stations;
- staffing of 20 extra stations on weekday afternoons on a rotating basis. Phased implementation occurred between April and July 2004 to staff an additional 22 stations;
- there were increased security patrols on trains after 9 pm. From January 2005, Connex began scheduling more authorised officers on to trains after 9 pm;
- all-night services on New Year’s Eve on all routes. This commitment was achieved in 2004 and is ongoing;

\textsuperscript{465} ibid., p.28
\textsuperscript{466} ibid.
\textsuperscript{467} ibid.
\textsuperscript{468} ibid., p.7
\textsuperscript{469} Department of Infrastructure, response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 22 December 2005, p.22
\textsuperscript{470} ibid.
\textsuperscript{471} ibid., p.23
• the purchase of five additional new six carriage trains was completed, along with continued delivery of 60 new trains to be operating by 2005. The last of the five additional trains entered service in December 2005.

For trams:

• tram priority measures were introduced to reduce travel times and improve reliability. *Think Tram* is an ongoing program which involves a range of measures including intersection treatments to improve tram priority, measures to better separate trams from other traffic, improved tram infrastructure and connection of the tram control centre with the VicRoads centre;
• fifty additional customer service staff were employed by April 2004;
• the Docklands Drive tram was extended into New Quay and Waterfront City. This project was completed in December 2004;
• standards were improved for the upkeep of trams and tram stops. A revised system upkeep plan was approved on 30 June 2004 and Yarra Trams' performance is continually monitored by the department;
• services until 2am on New Year’s Eve. Tram services for New Year’s Eve 2004 were extended to run all night; and
• new trams continued to be delivered, with 95 new vehicles to be in service by 2005. The last of these trams became operational in March 2005.

The department produces a periodic bulletin, *Track Record*, (available on its website), which provides extensive information on the operation of the state’s public transport services, including the punctuality and reliability of operators and the related levels of customer satisfaction.\(^{472}\) The Committee considers it would be useful for the department to supplement this periodically published information with a mid term report that identifies the collective impact to date on public transport services of all key actions implemented under the 2004 partnership agreements. The reported data should be presented in a manner that enables Parliament to assess the extent to which such actions have contributed to improved delivery of the public transport system.

The Committee recommends that:

**Recommendation 54:** The Department of Infrastructure include in its 2005-06 annual report a mid term report identifying the collective impact to date on public transport services of actions taken under the 2004 partnership agreements.

\(^{472}\) The bulletins can be accessed on the department’s website at www.doi.vic.gov.au
(b) Performance against 2004-05 budgeted costs

The department informed the Committee that in relation to comparing actual against budgeted costs for 2004-05 under the partnerships agreements, the initiatives taken up to 30 June 2005 as described in the above-mentioned actions, were ‘part of the overall service package for the new tram and the new train partnership agreements for an agreed aggregate annual subsidy. Notwithstanding this, the implementation and performance of these initiatives have been monitored and reviewed with the operators.’

The only quantification of costs the department provided to the Committee related to expenditure incurred from funds set aside as a contingency within the government’s budgetary allocation of $1,137.1 million. The department indicated that over the five year period of the partnership agreements, $40 million ($8 million per year) has been set aside as a contingency and by the end of 2004-05, a total of $11.9 million had been spent on:

- track infrastructure maintenance, employee entitlements, CPI increases,
- and for the re-engineering of internal control processes and management reporting systems of Metlink as a consequence of the increased scope of operations.

Given the circumstances, the Committee asked the department whether a comparison of budgeted and actual costs for the various actions taken in 2004-05 under the 2004 partnership agreements was available for the Committee’s consideration. The department subsequently advised it was not able to provide a breakdown of such costs.

The Committee considers that the significance of the government’s special five year budgetary allocation of $1,137.1 million associated with the 2004 partnership agreements, with annual projected expenditure in 2004-05 of $225.2 million, requires robust accounting to Parliament of the annual application of funds.

To date, the department’s annual report has disclosed the aggregate annual expenditure incurred on train and tram services, by way of note to the annual financial statements and under the relevant output.

In addition, the department’s periodic bulletin, Track Record, includes global information on progressive payments made by the state to operators under the partnership agreements. The information is dissected according to key components of payments such as base contract items, collection and distribution of fares,

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473 Department of Infrastructure, response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 22 December 2005, p.23
474 Ibid., p.24
475 Department of Infrastructure, response to the Committee’s follow-up question, received 7 February 2006
maintenance of fixed infrastructure, track and signals, and levels of incentive and penalty payments.

The Committee encourages the department to further build on its public reporting initiatives in this area through disclosure in its annual report of expenditure incurred against targeted outlays for the key segments of the annual budgetary allocations identified in the 2004-05 Budget Papers relating to the expected additional costs to government arising from the 2004 partnership agreements and additional costs to government.

The Committee considers such disclosure would provide Parliament with a better view of the financial consequences of the changed funding basis for transport services embodied in the 2004 transport partnership agreements. It would also identify those factors, arising from actions of either operators or government, which have resulted in higher or lower additional costs to the state.

The Committee recommends that:

**Recommendation 55:**

The Department of Infrastructure inform Parliament in its annual report of the financial impact to the state of the changed funding arrangements for public transport services embodied in the 2004 transport agreements. The reported information should incorporate a comparison of actual and budgeted expenditure for the key categories of additional costs assumed by the government under the agreements.
CHAPTER 10: DEPARTMENT OF INNOVATION, INDUSTRY AND REGIONAL DEVELOPMENT

Key findings of the Committee:

10.1 The output budget for the Department of Innovation, Industry and Regional Development was $349 million in 2004-05; actual output cost was $334 million, $15 million (or 4.3 per cent) below the budget estimates.

10.2 Eight of the department’s 12 outputs had expenditure that varied by more than 10 per cent of the budgeted cost. In terms of significant variations, the Investment Facilitation and Attraction output costs exceeded budget by $34.4 million or 92 per cent due to a Treasurer’s Advance of $34.8 million for the Investment Support Program. The major area of under expenditure was in the Regional Infrastructure Development output, where there were delays in grantees meeting milestones. This output had actual costs of $36.5 million, 53.6 per cent under budget.

10.3 The department achieved approximately 87 per cent of its 2004-05 performance targets. For certain outputs such as Business Development, where performance exceeded targets, the extent of this differential ranged from 21.6 per cent to 134 per cent.

10.4 While the department is in the process of implementing a departmental evaluation framework, this should be supplemented by guidance statements on the appropriateness and application of various evaluation design techniques.

10.5 The monetary nature of departmental programs is conducive to undertaking cost benefit analyses of key programs. The Auditor-General of the Australian Capital Territory in his assessment of the costs and benefits of V8 car races concluded that a cost benefit analysis, which assesses costs and benefits directly attributable to a project, is preferable to methods that measure broad economic activity. The evaluation of the Science Technology and Innovation initiative commissioned by the department used the latter approach.
10.6 The Australian Synchrotron project has a total estimated investment of $157.2 million and the government announced in August 2004 that the New Zealand government had agreed to contribute $5 million towards the beamlines. This contribution is in addition to more than $20 million contributed by other organisations such as the Commonwealth Scientific and Industrial Research Organisation. Nine beamlines are expected to be available at commissioning in 2007. The National Scientific Advisory Committee in 2004 recommended a suite of 13 beamlines however the design of the facility provides for more than 30 beamlines as demand grows and funding becomes available. It is important from an accountability perspective that targets are set for further investment in beamlines and on the usage of the facility and there is public reporting of performance against these targets.

10.7 Budget funded public sector enterprise bargaining negotiations for 2004-05 included no agreements that exceeded a 3 per cent increase per financial year. The achievement of fiscally responsible pay outcomes is critical to the government’s strategy to keep the budget in surplus. It is important that the government has human resource management strategies in place that aim to develop and maintain the necessary capabilities for the next round of major enterprise bargaining negotiations.

10.1 Financial analysis – comparison to budget

The Department of Innovation, Industry and Regional Development was responsible for the delivery of 12 outputs in 2004-05.\textsuperscript{476} Actual output expenditure was $334 million, $15 million (or 4.3 per cent) under its budget estimate of $349 million.\textsuperscript{477}

The department has included details of budget and actual costs by output in the appendices of its 2004-05 annual report.\textsuperscript{478} Of the 12 outputs, eight had a variation of 10 per cent or more between budget and output costs (exhibit 10.1).

\textsuperscript{476} Budget Paper No.3, 2004-05 Service Delivery, pp.140–151
\textsuperscript{477} Department of Innovation, Industry and Regional Development, response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 21 December 2005, p.1
\textsuperscript{478} Department of Innovation, Industry and Regional Development, 2004-05 Annual Report, p.184
### Exhibit 10.1: Department of Innovation, Industry and Regional Development
Information sought by the Committee for selected outputs

<table>
<thead>
<tr>
<th>Outputs</th>
<th>Column 1 (2004-05 Budget, $ million)</th>
<th>Column 2 (2004-05 Actual, $ million)</th>
<th>Variation (a) (%)</th>
<th>Explanation provided by department</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment facilitation and attraction</td>
<td>37.4</td>
<td>71.8</td>
<td>92.0</td>
<td>The variance is largely attributable to the Treasurer’s Advance of $34.8 million for the Investment Support Program (ISP) for investment attraction initiatives approved by Cabinet. While the Minister indicated it was known that additional funding would be required for ISP, it was not possible to accurately estimate this amount for inclusion in the 2004-05 budget. This is because funding to companies under ISP is only paid after they have met pre-determined, legally committed milestone conditions.</td>
</tr>
<tr>
<td>Business development</td>
<td>39.4</td>
<td>27.9</td>
<td>-29.2</td>
<td>The variance is largely attributable to the lower than expected payments to grant recipients and suppliers related to delays in achieving contractual milestones. This level of underspending has been carried forward into 2005-06 and will be paid as milestones are achieved.</td>
</tr>
<tr>
<td>Small business support</td>
<td>14.6</td>
<td>11.0</td>
<td>-24.7</td>
<td>The variance is largely attributable to the lower than expected payments regarding the Victorian Business Master Key initiative resulting from delays in the website development and less than anticipated payments to grant recipients and suppliers related to delays in achieving contractual milestones. This underspending has been carried forward into 2005-06 and will be paid when milestones are achieved.</td>
</tr>
</tbody>
</table>
### Exhibit 10.1: Department of Innovation, Industry and Regional Development

**Information sought by the Committee for selected outputs (continued)**

<table>
<thead>
<tr>
<th>Outputs</th>
<th>Column 1 ($ million)</th>
<th>Column 2 ($ million)</th>
<th>Variation (a) (%)</th>
<th>Explanation provided by department</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industrial relations services</td>
<td>8.9</td>
<td>7.4</td>
<td>-16.9</td>
<td>The variance is largely attributable to information in budget papers for 2004-05 being overstated by $1.5 million due to the lower than expected final approved carry forward from 2003-04 to 2004-05.</td>
</tr>
<tr>
<td>Regional strategic leadership</td>
<td>1.6</td>
<td>4.7</td>
<td>193.8</td>
<td>The variance is largely attributable to information in budget papers for 2004-05 being understated by $1.8 million due to the higher than expected final approved carry forward from 2003-04 to 2004-05 and the reallocation of a further $800,000 of departmental overhead and direct program costs to this output after the 2004-05 budget.</td>
</tr>
<tr>
<td>Rural community development</td>
<td>6.6</td>
<td>9.1</td>
<td>37.9</td>
<td>The variance is largely attributable to information in budget papers for 2004-05 being understated by $3 million due to the higher than expected final approved carry forward from 2003-04 to 2004-05.</td>
</tr>
<tr>
<td>Regional infrastructure development</td>
<td>78.7</td>
<td>36.5</td>
<td>-53.6</td>
<td>The variance is largely attributable to delays in grantees meeting milestones.</td>
</tr>
<tr>
<td>Strategic policy</td>
<td>7.0</td>
<td>8.7</td>
<td>24.3</td>
<td>The variance is largely attributable to the reallocation of a further $3.1 million of direct program costs to this output after the 2004-05 budget.</td>
</tr>
</tbody>
</table>

**Note:** (a) a negative variance indicates the actual cost is below budget

**Sources:** Department of Innovation, Industry and Regional Development, response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 22 December 2005, pp. 1-2; Hon. J Brumby, MP, Minister for State and Regional Development, response to follow-up question, 6 April 2006
10.2 Performance information

The department achieved or exceeded approximately 87 per cent of its 2004-05 performance targets. The actual performance for outputs such as the Business Development output far exceeded targets in 2004-05. Exhibit 10.2 shows differences between actual and targeted performance for this output.

Exhibit 10.2: Department of Innovation, Industry and Regional Development
Business development output—significant differentials between 2004-05 performance and targets

<table>
<thead>
<tr>
<th>Performance measure</th>
<th>Unit of measure</th>
<th>2004-05 Target</th>
<th>2004-05 Performance</th>
<th>Variation (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Building momentum of innovation: companies participating in Innovation Insights Visits Program</td>
<td>number</td>
<td>200</td>
<td>468</td>
<td>134.0</td>
</tr>
<tr>
<td>Companies provided with assistance for growth opportunities</td>
<td>number</td>
<td>700</td>
<td>994</td>
<td>42.0</td>
</tr>
<tr>
<td>Companies provided with assistance for technology uptake</td>
<td>number</td>
<td>270</td>
<td>367</td>
<td>35.9</td>
</tr>
<tr>
<td>Companies provided with export assistance</td>
<td>number</td>
<td>3,050</td>
<td>3,708</td>
<td>21.6</td>
</tr>
<tr>
<td>Enterprise improvement services directed to small enterprises</td>
<td>per cent</td>
<td>65</td>
<td>91</td>
<td>40.0</td>
</tr>
<tr>
<td>Exports facilitated and imports replaced</td>
<td>$ million (a)</td>
<td>680</td>
<td>1,123</td>
<td>65.1</td>
</tr>
<tr>
<td>Attendees at presentations by keynote speakers</td>
<td>number</td>
<td>1,800</td>
<td>3,323</td>
<td>84.6</td>
</tr>
<tr>
<td>Number of firms participating in individual export specific programs</td>
<td>number</td>
<td>450</td>
<td>582</td>
<td>29.3</td>
</tr>
<tr>
<td>Participation in balance sheet ready program</td>
<td>number</td>
<td>50</td>
<td>66</td>
<td>32.0</td>
</tr>
<tr>
<td>Trade fairs and missions supported</td>
<td>number</td>
<td>29</td>
<td>43</td>
<td>48.3</td>
</tr>
</tbody>
</table>

Note: (a) Includes $500 million exports delivered from investments facilitated

Source: Department of Innovation, Industry and Regional Development, 2004-05 Annual Report, p.48

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Other outputs where actual performance substantially exceeded targets included the Regional Economic Development output – where the difference between actual and planned performance ranged from 83.2 per cent to 295.9 per cent – and Tourism Victoria.480

The department’s annual report provides no explanation for substantial variations between targeted and actual performance for performance measures as well as budgeted and actual costs. In the interests of transparency and accountability, the Committee considers the department should provide explanations in its annual report for the more significant variations.

The Committee recommends that:

**Recommendation 56:** The Department of Innovation, Industry and Regional Development include in its annual report explanations for significant differences (for example more than 10 per cent) between targeted and actual performance.

### 10.3 Staffing matters

Exhibit 10.3 shows that the total number of equivalent full-time staff in the department at 30 June 2005 was 727.7.

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Exhibit 10.3: Department of Innovation, Industry and Regional Development
Equivalent full-time staff – 2004-05

<table>
<thead>
<tr>
<th>Classification</th>
<th>Ongoing (EFT)</th>
<th>Fixed term (EFT)</th>
<th>Casual (EFT)</th>
<th>Funded Vacancy (EFT)</th>
<th>Total (EFT)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executive Officers</td>
<td>43.0</td>
<td>4.0</td>
<td></td>
<td>40.4</td>
<td>47.0</td>
</tr>
<tr>
<td>VPS staff</td>
<td>540.1</td>
<td>90.8</td>
<td>3.0</td>
<td>40.4</td>
<td>674.3</td>
</tr>
<tr>
<td>Other (a)</td>
<td>2.0</td>
<td>4.4</td>
<td></td>
<td></td>
<td>6.4</td>
</tr>
<tr>
<td><strong>Total EFT staff</strong></td>
<td><strong>542.1</strong></td>
<td><strong>138.2</strong></td>
<td><strong>3.0</strong></td>
<td><strong>44.4</strong></td>
<td><strong>727.7</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Salary costs:</th>
<th>($ million)</th>
<th>($ million)</th>
<th>($ million)</th>
<th>($ million)</th>
<th>($ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003-04</td>
<td>35.1</td>
<td>11.6</td>
<td>0.1</td>
<td>46.8</td>
<td></td>
</tr>
<tr>
<td>2004-05</td>
<td>36.7</td>
<td>12.6</td>
<td>0.1</td>
<td>49.4</td>
<td></td>
</tr>
<tr>
<td>Increase in salary costs (b)</td>
<td>1.6</td>
<td>1.0</td>
<td>0.0</td>
<td>2.6</td>
<td></td>
</tr>
<tr>
<td>Increase in salary costs (b)</td>
<td>4.6%</td>
<td>8.6%</td>
<td>0.0%</td>
<td>5.6%</td>
<td></td>
</tr>
</tbody>
</table>

Notes: (a) Includes ministerial drivers and the Small Business Commissioner
(b) Calculated by the Public Accounts and Estimates Committee secretariat

Source: Department of Innovation, Industry and Regional Development, response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 21 December 2005, pp.12–13

The total equivalent full-time staff at 30 June 2004 was 718.7 (compared with 727.7 at 30 June 2005). While staff numbers were relatively stable between June 2004 and June 2005, the staffing profile of the department has changed. The number of VPS grades 1 and 2 has declined from a full-time equivalent of 15 to 6 and 72 to 60.3 respectively. The department has attributed the reduction of grade 1 positions to a review of positions as they became vacant resulting in the reclassification of positions, the consolidation of positions, or fixed term and casual positions expiring. The number of grade 6 positions on a full-time equivalent basis over this period increased from 168.95 to 185.40 with the majority of this increase occurring in ongoing positions.482

The department advised the Committee that:483

*The change in the number of VPS grade 6 positions is the result of the review of positions on vacancy. In determining the appropriate classification level of positions the descriptors under the VPS Career Structure are used to evaluate the relative level of complexity of jobs. During 2004/05 such reviews resulted in a slight increase in the number of VPS grade 6 positions in DIIRD.*

481 Department of Innovation, Industry and Regional Development, response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 22 December 2005, p.11
482 ibid., pp.11–12
483 Department of Innovation, Industry and Regional Development, email, received 31 January 2006
Salary costs (excluding oncosts) increased by $2.6 million (5.6 per cent) from 2003-04 to 2004-05 and there were approximately nine additional full-time equivalent positions between June 2004 and June 2005. This increase in costs is also attributable to the higher classification profile. While the Committee acknowledges the department’s comments that the increase in the number of VPS grade 6 positions was based on VPS Career Structure descriptors, an almost 10 per cent increase at this level requires careful monitoring, particularly if there continues to be a trend towards a higher classification profile.

10.4 Major issues

10.4.1 Developing a program evaluation strategy

The department’s role involves the use of government funding to achieve key outcomes in the creation of opportunities for economic and employment growth, assistance in the development of productive and innovative companies, and the building of a competitive business environment attractive to investors. The Committee in its Report on the 2005-06 Budget Estimates commented on the need to instil an outcomes focused approach in all key aspects of the department’s operations as well as developing its in-house evaluation capacity.

The department advised the Committee that it is in the process of implementing a departmental evaluation framework. Key strategies underpinning this framework include integrating monitoring and evaluation considerations into program design; program design and evaluation training and guidance; development of an evaluation policy; and the establishment of an annual departmental evaluation plan.

Because departmental outcomes can be influenced both positively and negatively by confounding factors that are not attributable to the department’s programs, measuring the extent to which outcomes are achieved is a critical issue.

484 Department of Innovation, Industry and Regional Development, response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 22 December 2005, p.13
485 Department of Innovation, Industry and Regional Development, 2004-05 Annual Report, p.8
487 Department of Innovation, Industry and Regional Development, response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 22 December 2005, p.18
Confounding factors are defined as the effects of other events occurring at the same time as the policy or program intervention that also influence the intended outcome.488 An example of a confounding factor is a drop in the exchange rate which would increase the attractiveness of Australian exports in overseas markets at the same time as the introduction of an export promotion program.

If Australian exports subsequently increased, a key evaluation issue would be the degree to which this could be attributed to the export promotion program and not to confounding factors such as exchange rate fluctuations.

The department has indicated that the attribution of outcomes to departmental programs was considered in the development of the evaluation framework but that it was not feasible to establish a departmental wide approach because of the varying size and nature of programs. Specifically, introducing more sophisticated techniques that measure the level of attribution to departmental programs may not be cost effective in evaluating smaller programs.489

The Committee’s view is that a formal program evaluation should give clear priority to the more significant programs and initiatives in terms of the level of public resources involved and issues of public interest. Smaller programs generally should be monitored but not subject to a full impact assessment.

The prescription of a single evaluation approach is not feasible:490

_Our position is that evaluators must review the range of design options in order to determine the most appropriate one for a particular evaluation. The choice always involves trade-offs; there is no single, always best design that can be used universally in all impact assessments._

There are however a number of key design techniques that are relevant to the department; cost benefit analyses are particularly applicable to major programs and projects and were discussed in further detail in the following section. Other potentially relevant techniques include the use of control or comparison groups.491

The Committee favours the development of guidance statements on the application of the most appropriate techniques for particular programs. These statements could include the circumstances under which particular techniques are either appropriate or not appropriate, the common errors and potential remedies in applying techniques, and avenues to access the necessary expertise.

488 P H Rossi and H E Freeman, _Evaluation: a systematic approach_, 4th edn, p.233
489 Department of Innovation, Industry and Regional Development, response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 22 December 2005, p.18
490 P H Rossi, M Lipsey and H Freeman, _Evaluation: a systematic approach_, 7th edn, p.238
The Committee recommends that:

**Recommendation 57:** The Department of Innovation, Industry and Regional Development develop guidance statements to underpin its evaluation framework.

### 10.4.2 Conducting cost benefit analyses of projects

The Committee considers that the monetary nature of the department’s programs that aim to achieve economic and employment outcomes is conducive to conducting a cost benefit analysis of key projects. Under this approach, estimates are made of both tangible and intangible benefits and direct and indirect costs and are usually expressed in monetary terms.  

The Committee noted, however, that conducting cost benefit analyses is dependent on the evaluation of program outcomes or impacts.

Efficiency analyses, at least ex post analyses, can be considered an extension of, rather than alternative to, impact evaluation. It is impossible to engage in cost-benefit or cost-effectiveness calculations of programs in which impacts are unknown and inestimable.

Given the nature of the department’s programs, particular attention should be paid to several issues when conducting a cost benefit analysis including:

- the purging of confounding factors (refer previous section);
- the need to adjust costs and benefits to present values in net present value (NPV) terms as the department’s programs potentially incur costs and produce benefits over an extended period; and
- with the value of future cost and benefits of projects based on forecasts that inherently involve some degree of uncertainty, there is the need to change key assumptions and variables in the analysis and assess the impact on the NPV. Where the NPV is shown to be sensitive to changes in a key assumption/variable, its appropriateness should be tested.

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493 ibid., p.388  
494 ibid., p.404  
The Committee commented in its *Report on the 2005-06 Budget Estimates* that the Science Technology and Innovation initiative had been evaluated by The Allen Consulting Group.\(^{496}\) The methodology employed used a general equilibrium model which measures broad economic activity\(^{497}\) rather than the actual net benefit attributable to a particular project or program.

The Auditor General of the Australian Capital Territory in his assessment of the costs and benefits of V8 Car Races in Canberra concluded that the methodology employed to assess gross benefits, which was based on broad economic activity (for example, interstate visitor expenditure), resulted in an overstatement of the benefits of the event.\(^{498}\)

He further concluded that a cost-benefit analysis, which measures all major costs and benefits attributable to a project, was the preferred methodological approach for assessing the net benefit. The conducting of cost benefit analyses also allows the comparison of net benefits across projects.\(^{499}\)

In summary, the Committee favours a greater emphasis on the development of a cost benefit approach within the Department of Innovation, Industry and Regional Development to more accurately evaluate the net benefits from projects. This however is dependent on the department developing a greater focus on planning, managing and evaluating/reporting outcomes as recommended in the Committee’s *Report on the 2005-06 Budget Estimates*.

The Committee recommends that:

**Recommendation 58:** The Department of Innovation, Industry and Regional Development undertake cost benefit analyses of key projects as a continuation of the strategy, recommended in the *Report on the 2005-06 Budget Estimates*, of increasing the focus on planning, managing, evaluating and reporting on outcomes.

\(^{499}\) ibid., pp.68–69
(a) **Australian synchrotron project**

The Australian Synchrotron project is currently under construction and is scheduled to open in 2007. The 2005-06 Budget Information Paper No.1 indicate that the project has a total estimated investment of $157.2 million, with expenditure of $101.5 million to 30 June 2005. Expenditure of $49.5 million is estimated to occur in 2005-06.\(^{500}\) A synchrotron machine accelerates electrons that are deflected around a storage ring, giving off beams of intense light which are captured by specially designed beamlines used to perform various experiments.\(^{501}\)

The government announced in August 2004 that the New Zealand government had agreed in principle to contribute $5 million towards the beamlines. This contribution was in addition to more than $20 million committed by other organisations such as the University of Melbourne, Monash University, the Commonwealth Scientific and Industrial Research Organisation, and the Australian Nuclear Science and Technology Organisation.\(^{502}\)

The department has advised that, early in 2004, the National Scientific Advisory Committee for the Australian Synchrotron project recommended the establishment of a suite of up to 13 beamlines in the first few years of the facility’s life. Nine of these were general purpose beamlines, which are expected to be available or under construction at the commissioning of the synchrotron; two more beamlines are considered highly desirable. Consideration of the additional beamlines will be pursued after the initial nine are established. A further two beamlines were identified principally for industrial use, but their establishment is contingent on capital contributions and cost recovery through fee for service. The design of the facility provides for more than 30 beamlines to be constructed as demand grows and funds become available.\(^{503}\)

The Committee will pursue the degree to which the government’s investment in the Australian Synchrotron has been maximised including the level of return on its investment as part of future budget estimates hearings. The Committee considers it is important from an accountability perspective that targets are set for further investment in beamlines and on the usage of the facility and there is public reporting of performance against these targets.

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\(^{500}\) Budget Information Paper No.1, 2005-06 Public Sector Asset Investment Program, p.52

\(^{501}\) Victorian Government, *Australian Synchrotron, the brightest new tool for industry innovation*, 2005, front cover

\(^{502}\) Hon. S Bracks, MP, Premier, *New Zealand Joins Synchrotron Partnership*, media release, 12 August 2004

\(^{503}\) Department of Innovation, Industry and Regional Development, response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 22 December 2005, p.3
The Committee recommends that:

**Recommendation 59:** The Department of Innovation, Industry and Regional Development set targets for the attraction of further investment in beamlines and on the usage of the facility and publicly report on the degree to which these targets have been met.

(b) **Docklands Film and Television Studios**

In relation to the Docklands Film and Television Studios, the department has advised the Committee that the market for attracting productions is more difficult than several years ago.\(^{504}\)

In April 2005, the government announced that the private operator of these studios, Melbourne Central City Studios Pty Ltd (MCCS), was building new facilities at the complex so they could continue to remain competitive. This included workshops, craft shops, additional car parking and audience holding areas.\(^{505}\)

To allow for the expansion of the studios, the Victorian government has signed new contracts with MCCS. The department advised that: \(^{506}\)

> The Victorian government is supporting the expansion by helping MCCS secure finance for the project through a Tripartite Agreement with a bank.

The department further advised that the state has in effect become guarantor for the new bank loan as: \(^{507}\)

> The state will have the option to either pay out, or take over, the $14.5 million debt facility in the extreme event of default by MCCS.

The Minister advised the Committee that new contractual arrangements include key performance indicators such as: \(^{508}\)

- the delivery of a commercial and sustainable complex without recourse to any further funding from the state, beyond the facility;
- by the 2004-05 financial year, and each year thereafter, the sound stages forming part of the complex will have a utilisation rate (for the purposes of film and television production) of at least 70 per cent;

\(^{504}\) ibid., p.19  
\(^{505}\) ibid.  
\(^{506}\) ibid.  
\(^{507}\) ibid.  
\(^{508}\) Hon. J Brumby, MP, Minister for State and Regional Development, response to the Committee’s follow-up question, dated 6 April 2006
• by the 2004-05 financial year, and each year thereafter, the sound stages service film and television productions having an additional production spend of at least $100 million per annum as adjusted by CPI in each year after the 2004-05 financial year; and

• by the 2004-05 financial year, and each year thereafter, at least $25 million (as adjusted by CPI in each year after the 2004-05 financial year) additional production spend qualifies as Australian production.

The Minister further advised that in 2004-05 the complex achieved an utilisation rate of 72.5 per cent and an additional production spend of over $140 million of which $22 million qualified as Australian production.509

The Committee is interested to determine whether these new contract arrangements represent good value for Victoria and if there are adequate safeguards over any additional risks. The Committee will continue to pursue these issues during the 2006-07 Budget Estimates hearings. The Committee also supports an audit of these new contractual arrangements by the Auditor-General.

The Committee recommends that:

Recommendation 60: The Auditor-General conduct a review of the new contract arrangements covering the upgrade of the Docklands Film and Television Studios to determine if they represent good value to the state and whether any additional risks have been adequately addressed.

(c) Enterprise bargaining negotiations

The department advised that budget funded public sector enterprise bargaining negotiations in 2004-05 resulted in no agreements exceeding a 3 per cent increase per financial year.510 Industrial Relations policy statements indicate that an overall average annual increase of 3 per cent per annum should be used as a guide.511

509 ibid.
510 Department of Innovation, Industry and Regional Development, response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 22 December 2005, p.22
511 Industrial Relations Victoria, Industrial Relations Policy Statements 2005, p.13
The continuing achievement of fiscally responsible wages outcomes for the Victorian public sector is therefore crucial to assist the government to meet its financial objectives, particularly because the budget papers indicate taxation revenue is expected to decline by 0.5 per cent in 2005-06 relative to 2004-05, with a softening of the property market and the abolition of certain taxes.\textsuperscript{512}

It is important therefore that Industrial Relations Victoria, which has a prime role in advising government and guiding agencies and unions in public sector enterprise agreements, has human resource management programs to ensure the necessary staffing capabilities are in place prior to the next round of major enterprise bargaining agreements. These programs may include succession planning for key positions, a program to allow retirees to return in a mentoring role and intensive on the job training for key staff.

The Committee recommends that:

\textbf{Recommendation 61:} Industrial Relations Victoria ensure that appropriate human resource management programs are in place in preparation for the next round of major enterprise bargaining agreement negotiations.

CHAPTER 11: DEPARTMENT OF JUSTICE

Key findings of the Committee:

11.1 The output budget for the Department of Justice was $2,409.4 million in 2004-05; actual output cost was $2,399.5 million, $9.9 million (or 0.4 per cent) below the budget estimates.

11.2 Nine of the 40 outputs had expenditure in excess of budget by more than 10 per cent and seven outputs were under budget by a similar margin.

11.3 The department achieved or exceeded 143 (approximately 71 per cent) of its 201 performance targets in 2004-05.

11.4 The overall standard of explanations in the department’s annual report for significant variations between budgeted and actual output performance was higher in 2004-05 than in previous years, but scope remains for further improvement.

11.5 Victoria Police was unable to break down its salary cost information into the employment categories (ongoing, fixed term and casual) sought by the Committee.

11.6 In November 2005, the Minister for Corrections provided the Committee with copies of the original Prison Service Agreements for the two privately-operated prisons, Port Philip Prison and Fulham Correctional Centre.

11.7 The triennial reviews of Prison Service Agreements should not impede public disclosure of data relating to prison costs.

11.8 The Home Detention Pilot Program, a program of significant public interest, is currently the subject of an external evaluation to assess its initial effectiveness.

Output costs and performance measures information for the Department of Justice refer to consolidated information for outputs delivered by the department and its agencies.
11.1 Financial analysis – comparison with budget

The Department of Justice and its agencies were responsible for the delivery of 40 outputs in 2004-05, which were budgeted to cost $2,409.4 million.\(^{513}\) Actual output expenditure in 2004-05 was $2,399.5 million,\(^{514}\) marginally below the budget for the year.

While the year-end output result was in line with the aggregate budget, nine outputs incurred costs in excess of budget by more than 10 per cent and costs for seven outputs were under budget by more than 10 per cent.\(^{515}\)

Actual cost for the correctional system management output in 2004-05 was $34.4 million, $5.1 million (17.4 per cent) higher than the budget of $29.3 million for 2004-05.\(^{516}\) The Committee sought an explanation from the department in the absence of comment on this variance in its annual report. The department provided the Committee with the following explanation of the reasons for the variance:\(^{517}\)

Prior to 2004-05, all management costs for CORE (the Public Correctional Enterprise) were allocated 80:20 to outputs Prisoner Supervision and Support and Community Based Offender Supervision, respectively. In addition, all costs associated with the Office of the Correctional Services Commissioner (OCSC) were allocated to the output Correctional System Management. This reflected the separated functions of OCSC and CORE prior to 2004-05.

In 2004-05, OCSC and CORE amalgamated to form the current Corrections Victoria business unit within the Department of Justice, retaining the three outputs noted above. However, the amalgamation resulted in all CORE management costs being allocated to the Correctional System Management output – compared with the split in previous years between the two other outputs noted above. The $5.1m (17.4 per cent) increase ... in Correctional System Management output costs (against the published target) reflects this reallocation or transfer of those CORE costs from the other two output areas. Subsequently, the actual costs for the two remaining outputs, Prisoner Supervision and Support and Community Based Offender Supervision, were reduced, with both these outputs coming in under the target budget, fully offsetting the queried increase within the Correctional System Management output.


\(^{514}\) Department of Justice, 2004-05 Annual Report, pp.60–76; Department of Justice, response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 12 January 2006. p.1

\(^{515}\) Department of Justice, 2004-05 Annual Report, pp.60–76

\(^{516}\) ibid., p.72

\(^{517}\) Department of Justice, response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 12 January 2006, p.2
The department also advised that for 2005-06, the correctional system management output has been deleted and all associated costs have been allocated 70:30 to the two remaining outputs: the Prisoner supervision and support output and the Community based offender supervision output, respectively.\footnote{ibid.} Exhibit 11.1 shows additional information provided to the Committee for three output cost variances, to supplement explanations provided in the department’s annual report.
### Exhibit 11.1: Department of Justice
Information sought by the Committee for selected outputs

<table>
<thead>
<tr>
<th>Output groups/outputs</th>
<th>Column 1</th>
<th>Column 2</th>
<th>Column (2-1)/1</th>
<th>Explanation provided by department</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2004-05</td>
<td>2004-05</td>
<td>(a)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Budget</td>
<td>Actual</td>
<td>(%)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>($ million)</td>
<td>($ million)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Public safety policy</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Emergency readiness support</td>
<td>15.0</td>
<td>11.0</td>
<td>-26.7</td>
<td>The 2004-05 published estimated</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>output cost of $15m included</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>funding to be sourced from the</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Community Support Fund for the</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Community Safety Emergency</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Support Program and the Valuing</td>
</tr>
<tr>
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<td></td>
<td></td>
<td>Volunteer Emergency Services</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Workers initiative announced and</td>
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<tr>
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<td></td>
<td></td>
<td></td>
<td>commenced in the 2003-04 Budget.</td>
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<td></td>
<td></td>
<td>Subsequent to the initial</td>
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<td></td>
<td></td>
<td>budget decisions being announced,</td>
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<td></td>
<td>it was determined that part of</td>
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<td></td>
<td>the Community Safety Emergency</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td>Support Program would be delivered</td>
</tr>
<tr>
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<td></td>
<td>through the Country Fire Authority</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>. The 2004-05 outcomes reflect this</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>reallocation.</td>
</tr>
<tr>
<td><strong>Emergency prevention and response</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Statewide emergency services</td>
<td>35.9</td>
<td>45.9</td>
<td>27.9</td>
<td>Because funding for the Mobile</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Data Network rests with Victoria</td>
</tr>
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<td></td>
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<td></td>
<td>Police and the Metropolitan</td>
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<td></td>
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<td></td>
<td></td>
<td>Ambulance Service, the following</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>outputs will have been affected:</td>
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<tr>
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<td></td>
<td></td>
<td></td>
<td>• State Emergency Services</td>
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<td></td>
<td>(includes the Bureau of</td>
</tr>
<tr>
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<td></td>
<td></td>
<td>Emergency Services</td>
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<tr>
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<td></td>
<td></td>
<td>Telecommunications)</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td>• investigating crimes (Victoria</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Police)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>• facilitating justice outcomes</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(Victoria Police)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>• targeting road user behaviour</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(Victoria Police)</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>• responding to calls for</td>
</tr>
<tr>
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<td></td>
<td></td>
<td></td>
<td>assistance (Victoria Police)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>• community safety programs</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(Victoria Police)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>• community confidence in and</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>access to policing services</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(Victoria Police).</td>
</tr>
</tbody>
</table>
Exhibit 11.1: Department of Justice Information sought by the Committee for selected outputs (continued)

<table>
<thead>
<tr>
<th>Output groups/outputs</th>
<th>Column 1</th>
<th>Column 2</th>
<th>Column (2-1)/1</th>
<th>Explanation provided by department</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2004-05 Budget ($ million)</td>
<td>2004-05 Actual ($ million)</td>
<td>Variation (a) (%)</td>
<td></td>
</tr>
<tr>
<td>Protecting consumers</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Consumer protection</td>
<td>61.9</td>
<td>54.0</td>
<td>-12.8</td>
<td>The 2004-05 published estimate for the consumer protection output included an estimated $16.2m in grants and other costs to be paid from the Victorian Property Fund. Final expenditure was $10.5m, accounting for $5.7m of the $7.9m variance in actual output cost. Expenditure on grants from the Victorian Property Fund is dependent on the value of the applications that are assessed as worthy of funding. The total value of grants was expected to increase following the expansion of grant purposes in May 2004, but this did not happen. The expected increase in the value of applications has now occurred, and it is expected that grant funding over the next three years will be in line with budget estimates.</td>
</tr>
</tbody>
</table>

Note: (a) A negative variance indicates that the actual result for 2004-05 was lower than budget.

Source: Department of Justice, response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 12 January 2006, pp.3–4

11.2 Performance information

The department and its portfolio agencies achieved or exceeded approximately 72 per cent (144) of the 201 performance targets published in their 2004-05 annual reports. The equivalent level of achievement in 2003-04 was also 73 per cent.519

While the annual reports of the department and Victoria Police included information on the non-achievement of output performance targets, the Committee sought further details, for selected variances between targeted and actual performance (exhibit 11.2).

---

### Exhibit 11.2: Department of Justice
Information sought by the Committee on selected performance measures

<table>
<thead>
<tr>
<th>Outputs/performance measures</th>
<th>Unit of measure</th>
<th>Target 2004-05</th>
<th>Actual 2004-05</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Department of Justice</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Legal advice to Government</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><em>Client satisfaction with quality of legal advice provided</em></td>
<td>level</td>
<td>high</td>
<td>high</td>
</tr>
<tr>
<td><strong>Explanation provided by department:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The quality measures of 'Client satisfaction with legal advice' and 'Client satisfaction with timeliness' were assessed as part of a comprehensive client survey conducted by Beaton Consulting. The Beaton survey was the most comprehensive completed to date, and showed that the Victorian Government Solicitors Office (VGSO) is highly regarded for both the quality and timeliness of legal advice by clients, compared with private sector competitors. The overall outcome of the survey was a satisfaction rating of 7.7 out of 10, which is considered very high. In addition to the survey, the VGSO was also successful in securing a finalists award in the 2005 Australian Business Excellence Awards.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Client satisfaction with timeliness of legal advice provided</strong></td>
<td>level</td>
<td>high</td>
<td>high</td>
</tr>
<tr>
<td><strong>Explanation provided by department:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>As per above.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Matters in the Magistrates’ Court</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><em>Proportion of matters finalised within nine months – Victims Of Crime Assistance Tribunal (VOCAT)</em></td>
<td>per cent</td>
<td>50</td>
<td>43</td>
</tr>
<tr>
<td><strong>Explanation provided by department:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Delays in meeting Budget Paper No.3 targets for timelines can occur because of VOCAT’s policy of awaiting the outcome of criminal trials. Delays also occur when applicants fail to update their contact details following relocation. Other factors influencing this delay include applicants residing overseas, finalisation of medico-legal reports, and the provision of further legal advice.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><em>Proportion of matters finalised within six months – Crimes Family Violence (CFV)</em></td>
<td>per cent</td>
<td>99</td>
<td>94</td>
</tr>
<tr>
<td><strong>Explanation provided by department:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The timeliness target of 99 per cent was not achieved due to audit activity, whereby a large number of cases older than two years were struck out and recorded as finalised in 2004-05.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Matters in the Children’s Court</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><em>Matters disposed</em></td>
<td>number</td>
<td>16,452</td>
<td>13,907</td>
</tr>
<tr>
<td><strong>Explanation provided by department:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The 2002-03 and 2003-04 years indicated an upward trend in the number of criminal prosecutions. This was factored into the projections for the 2004-05 year, but this year has seen a downturn in incoming prosecutions. Victoria Police, a major prosecuting agency, has reported a recent emphasis around the state on local policing initiatives (for example, the establishment of police youth liaison officers throughout metropolitan and regional Victoria) designed to divert young people away from the court process where appropriate.</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Exhibit 11.2: Department of Justice
Information sought by the Committee on selected performance measures (continued)

<table>
<thead>
<tr>
<th>Outputs/performance measures</th>
<th>Unit of measure</th>
<th>Target 2004-05</th>
<th>Actual 2004-05</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Department of Justice (continued)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Legal aid</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><em>Applications processed within one day</em></td>
<td>per cent</td>
<td>85</td>
<td>77</td>
</tr>
<tr>
<td><strong>Explanation provided by department:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Victoria Legal Aid commenced the implementation of a business improvement process, part of which aims to improve the administration processing time of applications. Some delays in implementing the systems associated with these processes had an impact on its ability to meet the target.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Community based offender supervision</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><em>Offenders with a treatment or personal development program condition who have been appropriately referred to a program</em></td>
<td>per cent</td>
<td>85–90</td>
<td>79.7</td>
</tr>
<tr>
<td><strong>Explanation provided by department:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The data for this measure was affected by technical issues associated with IT system changes, which had an impact on data capture. Consequently, the limited performance difference reported does not reflect any significant reduction in service delivery standards.</td>
<td></td>
<td></td>
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</tr>
<tr>
<td><strong>Victoria Police</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Investigating crimes</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><em>Proportion of crimes against the person resolved</em></td>
<td>per cent</td>
<td>77.1</td>
<td>70.8</td>
</tr>
<tr>
<td><strong>Explanation provided by department:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The published result of 70.8 per cent was the result for quarter 4 (April – June 2005) only. The actual result for the full year was 78 per cent and represents 30,282 offences cleared from 38,584 offences recorded.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><em>Proportion of household burglaries resolved</em></td>
<td>per cent</td>
<td>12.2</td>
<td>9.4</td>
</tr>
<tr>
<td><strong>Explanation provided by department:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The published result of 9.4 per cent was the result for quarter 4 (April – June 2005) only. The actual result for the full year was 12.6 per cent and represents 4,133 offences cleared from 32,781 offences recorded.</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Department of Justice, response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 12 January 2006, pp.5–7

While the overall standard of the explanations in the department’s annual report for significant variations between performance targets and actual achievements was higher in 2004-05 than in previous years, the Committee considers that the department should further improve this important element of its public accountability obligations.
The Committee recommends that:

**Recommendation 62:** The Department of Justice continue its efforts to improve the standard of explanations in its annual report for significant differences between targeted and actual output performance.

11.3 Other matters

11.3.1 Staffing matters

Exhibit 11.3 shows the total number of equivalent full-time staff in the department and in Victoria Police at 30 June 2005, and the movement in salary costs from 2003-04 to 2004-05.
## Exhibit 11.3: Department of Justice and Victoria Police
### Equivalent full-time staff, 2004-05 and salary costs

<table>
<thead>
<tr>
<th>Staff numbers</th>
<th>Ongoing (EFT)</th>
<th>Fixed term (EFT)</th>
<th>Casual (EFT)</th>
<th>Funded vacancy (EFT)</th>
<th>Total (EFT)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Department of Justice (a)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Executive officers</td>
<td></td>
<td>64.7</td>
<td></td>
<td>4.0</td>
<td>68.7</td>
</tr>
<tr>
<td>VPS staff – Grades 1-7</td>
<td>3,130.8</td>
<td>420.7</td>
<td>53.3</td>
<td></td>
<td>3,604.8</td>
</tr>
<tr>
<td>Custodial officers</td>
<td>966.0</td>
<td>80.5</td>
<td>98.3</td>
<td></td>
<td>1144.8</td>
</tr>
<tr>
<td>Solicitors</td>
<td>33.1</td>
<td>4.0</td>
<td></td>
<td></td>
<td>37.1</td>
</tr>
<tr>
<td>Other (b)</td>
<td>18.8</td>
<td>245.7</td>
<td>26.1</td>
<td></td>
<td>290.6</td>
</tr>
<tr>
<td><strong>Total EFT staff – DOJ</strong></td>
<td>4,148.7</td>
<td>815.6</td>
<td>177.7</td>
<td>4.0</td>
<td>5,146.0</td>
</tr>
<tr>
<td><strong>Victoria Police</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Police officers</td>
<td>10,557.96</td>
<td>11.0</td>
<td></td>
<td></td>
<td>10,568.96</td>
</tr>
<tr>
<td>Police recruits in training</td>
<td></td>
<td>197.0</td>
<td></td>
<td></td>
<td>197.0</td>
</tr>
<tr>
<td>Reservists</td>
<td>16.42</td>
<td></td>
<td></td>
<td></td>
<td>16.42</td>
</tr>
<tr>
<td>Executive officers</td>
<td></td>
<td>13.0</td>
<td></td>
<td></td>
<td>13.0</td>
</tr>
<tr>
<td>VPS staff – Grades 1-7</td>
<td>1,782.06</td>
<td>292.45</td>
<td>27.13</td>
<td></td>
<td>2,101.64</td>
</tr>
<tr>
<td>Forensic officers</td>
<td>146.92</td>
<td>29.0</td>
<td></td>
<td></td>
<td>175.92</td>
</tr>
<tr>
<td>Protective service officers</td>
<td>143.31</td>
<td></td>
<td></td>
<td></td>
<td>143.31</td>
</tr>
<tr>
<td><strong>Total EFT staff – Victoria Police</strong></td>
<td>12,646.67</td>
<td>542.45</td>
<td>27.13</td>
<td></td>
<td>13,216.25</td>
</tr>
<tr>
<td><strong>Salary costs</strong></td>
<td>($ million)</td>
<td>($ million)</td>
<td>($ million)</td>
<td>($ million)</td>
<td>($ million)</td>
</tr>
<tr>
<td><strong>Department of Justice</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2003-04</td>
<td>186.3</td>
<td>23.5</td>
<td>3.6</td>
<td></td>
<td>213.4</td>
</tr>
<tr>
<td>2004-05</td>
<td>215.4</td>
<td>26.9</td>
<td>5.0</td>
<td></td>
<td>247.3</td>
</tr>
<tr>
<td>Increase in salary costs (c)</td>
<td>29.1</td>
<td>3.4</td>
<td>1.4</td>
<td></td>
<td>33.9</td>
</tr>
<tr>
<td>Increase in salary costs (c)</td>
<td>15.6%</td>
<td>14.5%</td>
<td>38.9%</td>
<td></td>
<td>15.9%</td>
</tr>
<tr>
<td><strong>Victoria Police</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2003-04</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>716.1</td>
</tr>
<tr>
<td>2004-05</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>757.4</td>
</tr>
<tr>
<td>Increase in salary costs (c)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>41.3</td>
</tr>
<tr>
<td>Increase in salary costs (c)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>5.8%</td>
</tr>
</tbody>
</table>

**Notes:**
(a) Numbers include Victorian Commission for Gambling Regulation
(b) Includes medical officers, forensic medical officers, pathologists and statutory appointees
(c) Calculated by the Public Accounts and Estimates Committee secretariat

**Sources:** Department of Justice, response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 12 January 2006, pp.18–20; Department of Justice, email, received 3 February 2006
The department provided the following reasons for increases in staff numbers of 10 per cent or more:\footnote{520}{Department of Justice, response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 12 January 2006, p.19}

- custodial officer grade 3 (increase of 12.34 per cent) and custodial officer grade 4 (increase of 13.33 per cent) – due to the intake of staff for new prisons;
- VPS grade 1 (decrease of 13.7 per cent) – due to staff movements such as promotions, terminations and translation to higher grades with introduction of the new VPS structure from 1 November 2004;
- principal solicitor level 1 (increase from eight to 10), senior solicitor level 1 (increase from one to three), solicitor level 2 (increase from six to nine), and solicitor level 3 (increase from 6.1 to 7.5) – due to the backfilling of roles, staff movements within these levels, and the appointment of three fixed term staff; and
- VPS grade 7 (increase from one to eight) – due to the filling of existing and already approved roles.

The department advised the Committee that its salary costs have been sourced from the department’s payroll system and exclude judicial officer remuneration and the salary costs of the Victorian Commission for Gambling Regulation, the Victorian Electoral Commission and the Office of Public Prosecution (exhibit 11.3).\footnote{521}{ibid., p.20}

The department provided the following information in relation to Victoria Police about reasons for significant variations in staff numbers:\footnote{522}{Department of Justice, email, received 3 February 2006}

- forensic officer grade 4 (increase of four staff to 23.0 or 21.1 per cent), forensic officer grade 3 (increase of seven staff to 47.1 or 17.5 per cent) and forensic officer grade 2 (increase of 15.1 staff to 65.8 or 29.7 per cent):
  
  \emph{Increase results from the appointment of additional scientific staff recruited to reduce backlogs in scientific analysis – specifically DNA samples. Additionally, the ‘explosion’ of knowledge in the evidence testing field means that the appropriate staff must be recruited at a higher grade than may have previously been the case.}

- forensic officer grade 1 (decrease of two staff to 6 or 25 per cent) – variation results from outcomes of Forensic Officer Review conducted at Forensic Science Centre and translation of two positions to FO-2 grade (that is, forensic officer grade 2);
- VPS grade 1 (decrease of 302.4 staff to 297.5 or 50.4 per cent) and VPS grade 2 (increase of 310.2 staff to 1,079.1 or 40.3 per cent) – variations
between these two levels largely reflect the implementation of the seven level VPS structure and the outcome of associated work value reviews;

- VPS grade 4 (increase of 50.5 staff to 212 or 31.2 per cent) – the increase in staff at this level is primarily due to the outcome of work value reviews undertaken as part of the implementation of the seven level VPS structure. It also reflects the appointment of additional staff in the area of organisational health; and

- VPS grade 5 (increase of 14.5 staff to 104.5 or 16.1 per cent) and VPS grade 6 (increase of 13.3 staff to 70.9 or 23 per cent):

Some small increase is due to the impact of work value reviews undertaken as part of the implementation of the seven-level VPS structure. The greater part of the increase results from the employment of additional specialist staff in the Victoria Police Department responsible for information technology.

The department also stated that Victoria Police was unable to provide information on salaries in the categories sought by the Committee, but provided aggregated figures (exhibit 11.3).523

11.3.2 Departmental savings

The department informed the Committee that its only specific savings requirement in 2004-05 was $160,000, related to the Victorian Electronic Records Strategy. The department further advised that this savings requirement was applicable across both the department and Victoria Police, and was fully achieved.524

11.4 Major issues

11.4.1 Private prison contracts

The Minister for Corrections advised in September 2005 that copies of the original Prison Service Agreements for the two privately-operated prisons (Port Phillip Prison and Fulham Correctional Centre) would be released to the Committee. The Committee had been seeking release of this material since its 2002-03 Budget Outcomes inquiry.525 The Committee received this material in November 2005.

523 Department of Justice, response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 12 January 2006, p.20
524 ibid., p.22
The Minister wrote to the Committee in May 2005 stating that a triennial review (the second to occur); of the Prison Service Agreements for the private prisons had commenced. The Minister advised that these reviews allow him to reset the contractors’ performance targets and allow them to re-bid for the provision of services. The Minister indicated that, if the re-bids are rejected, a full market tender can be sought, the outcome of which must ensure value for money for the state. The Minister emphasised to the Committee that these circumstances, and legal advice received dealing with the commercial confidentiality of prison cost data, meant that disclosure of information during the review process would be inappropriate in terms of maximising value for money and achieving the best possible outcome.526

The Auditor-General reported to Parliament in May 1999, providing an extensive analysis of the original contractual framework in place for Victoria’s prison system.527 The Auditor-General stated that it had been intended to include cost information in this report, but the related data was removed following receipt of legal advice obtained by the department, which questioned the legislative authority of the Auditor-General to report on commercially confidential material.528 The Committee is aware that subsequent amendments to the state’s audit legislation have substantially strengthened the Auditor-General’s reporting powers.

The Committee has examined the original Prison Service Agreements provided by the Minister. The agreements are complex documents that address many issues associated with the operation of the private prisons. Their complexity highlights the value that the Auditor-General’s wide-ranging independent examination would have provided to Parliament in 1999.

As identified in the Auditor-General’s 1999 report, the major components of payments to private prison operators set out in the agreements are:529

- an accommodation services charge paid monthly in arrears encompassing such elements as debt servicing, rent, maintenance and insurance;
- a correctional service fee predominately relating to core prison operations, which is also paid monthly in arrears, is adjusted annually to reflect price and wage movements, and may be increased or reduced according to prison numbers; and
- an annual performance linked fee with the fee dependent on the extent to which service delivery outcomes specified in the agreements have been met; outcomes are oriented to each prison’s profile.530

526  Hon. T Holding, MP, Minister for Corrections, response to the Committee on the subject of private prison contracts, received 17 May 2005
527  Victorian Auditor-General’s Office, Victoria’s prison system: Community protection and prisoner welfare, May 1999
528  ibid., p.vii
529  ibid., p.158
530  ibid., p.146
The service delivery outcomes are listed in an annexure to the agreements and address prison operations (such as escapes, assaults on and by prisoners and on staff), education and training, prison industry (including prisoner participation rate), and health services. They constitute the incentives built into the agreements for prison operators to achieve high standards of service delivery.

The Corrections Inspectorate, a unit within the department, has the important responsibility of monitoring the operations of both public and private prisons. The importance of the independence of the Inspectorate was highlighted by the Committee in its Report on the 2005-06 Budget Estimates.\(^{531}\)

The Committee acknowledges the benefit of being able to review the original contractual framework for the two private prisons. However, the Committee’s particular interest extends beyond this historical context, and relates to the adequacy of information on prison costs periodically published by the department.

The department’s key accountability document, its annual report, discloses the aggregate cost for the prisoner supervision and support output.\(^{532}\) Expenditure under this output in 2004-05 (covering all prisons) was $316.5 million\(^{533}\) and represented the largest outlay for the year across the suite of outputs directly managed by the department.

The Productivity Commission’s publication on 2004-05 government service provision includes national, state and territory data on two performance indicators relating to daily costs per prisoner, namely total cost per prisoner per day (capital and recurrent) and real recurrent cost per prisoner per day.\(^{534}\) The Victorian data published in the Commission’s report for these indicators (shown as exhibits 11.4 and 11.5) does not differentiate between public and private prisons.


\(^{532}\) Department of Justice, *2004-05 Annual Report*, p.72

\(^{533}\) ibid.

Exhibit 11.4: Total cost per prisoner per day 2004-05


Exhibit 11.5: Real recurrent cost per prisoner per day (2004-05 dollars)

The Victorian Government’s explanatory comments relating to 2004-05 prison costs, incorporated in the Commission’s report, were:535

In 2004-05, average prisoner costs increased significantly as a result of recurrent costs related to the major prison construction program, together with a decline in the daily average prisoner population and ongoing expenditure on programs under the Corrections Long Term Management Strategy. Nevertheless, Victoria’s expenditure on corrective services per head of total population remained the lowest of all jurisdictions and well below the national average.

Given the magnitude of annual prison outlays and the mix in Victoria of privately operated and publicly managed prisons, the Committee considers that the department needs to substantially expand the level of disclosure on prison costs in its annual report. As a minimum, such disclosure should include:

- expenditure totals in the financial year for all prisons under their major cost categories;
- average cost of housing a prisoner for the year in each prison;
- explanations for major variations in expenditure on an individual prison basis;
- assessed aggregate performance against service delivery outcomes by each prison and the resulting impact on the amount of the performance linked fee in the case of private prisons; and
- commentary on matters relevant to any comparisons that can be drawn between costs of public and private prisons.

The Committee considers that a suitable place for presenting such prison costs in the department’s annual report would be in the section dealing with commentary on the functions and output of the Corrections Inspectorate. Inclusion of a narrative on prisons costs within that section would complement the summation of independent monitoring tasks undertaken each year by the Inspectorate.

The Committee also considers that the occurrence of triennial reviews of the Prison Service Agreements should not impede the publishing of cost data, given that the specific details of individual elements comprising each cost category would not need to be disclosed. The Committee’s view is that the overriding factors influencing decisions on the breadth of published cost material to be included in the department’s annual report are the magnitude of public funds directed each year to the operations of public and private prisons, and the consequential right of Parliament and the community to have access to sufficient information to judge how well costs are managed within prisons. The Committee intends to follow up the costs of running prisons in its 2006-07 Budget Estimates inquiry.

535 ibid., p.7.30
The Committee recommends that:

**Recommendation 63:** The Department of Justice provide meaningful comparisons of costs and benefits between public and private prisons in future annual reports. These comparisons should include:

(a) expenditure totals in the financial year for all prisons under their major cost categories;
(b) average cost of housing a prisoner for the year in each prison;
(c) explanations for major variations in expenditure on an individual prison basis;
(d) assessed aggregate performance against service delivery outcomes by each prison and the resulting impact on the amount of the performance linked fee in the case of private prisons; and
(e) commentary on matters relevant to any comparisons that can be drawn between costs of public and private prisons.

### 11.4.2 Home Detention Pilot Program

The Home Detention Pilot Program commenced in January 2004. The department’s annual report describes the program as:536

> ...an innovative sentencing option to help keep non-violent offenders out of prison. As a pre-release option for prisoners it enables offenders to be released on parole and still have their whereabouts monitored.

The department advised the Committee that the program commenced in January 2004 for a period of three years as part of the Corrections Long Term Management Strategy. It stated that the dual objectives of the program are to divert offenders from prison and to provide for reintegration and rehabilitation of low risk offenders by addressing issues that have contributed to their offending behaviour. The department indicated that the pilot provides opportunities for both the courts (front end) and the Adult Parole Board (back end) to grant home orders.537

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537 Department of Justice, response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 12 January 2006, p.27
The 2004-05 budget allocation for the pilot program was $1.6 million; expenditure of $1.4 million was incurred in the year. 538

The department outlined the achievements to date under the pilot program: 539

As at the 9th of December 2005, 117 Home Detention Orders have been granted with 12 per cent made at the front end. There are currently 18 active Home Detention Orders with five prisoners awaiting release onto the program. The number of offenders subject to Home Detention has been lower than projected, primarily due to the lower than anticipated referral rate from the front end. Home Detention Unit is currently undertaking 23 assessments for the Adult Parole Board (back end) and two for the courts (front end). The breach and revocation rate for Home Detention Orders is 4 per cent; with 92 orders having been completed.

The department also stated that the University of Melbourne is currently evaluating the effectiveness of the pilot program. 540

The 2004-05 annual report of the Adult Parole Board contains its analysis of the program’s first full year of operation. 541 In that analysis, the Board identified that: 542

- during 2004-05 it received 293 applications from offenders wishing to participate in the program; 162 applications were determined to be ineligible and the balance (131) was referred to the Department of Justice’s Home Detention Unit for assessment;
- the information the unit takes into account when considering an application includes the offender’s:
  - criminal history;
  - past and present sentence structure;
  - psychological, psychiatric, medical and intervention order history;
  - accommodation arrangements;
  - prison conduct;
  - program participation;
- applications were deemed ineligible for a variety of reasons, including unsuitable accommodation, nature of past offences and insufficient time to undertake the program;

538 ibid.
539 ibid.
540 ibid.
541 Adult Parole Board of Victoria, 2004-05 Annual Report, pp.22–23
542 ibid.
sixteen offenders were assessed as unsuitable for the program due to poor criminal history, unsuitable residence and risk of non-compliance;

the Home Detention Unit will recommend an offender for the program only in cases where no risks exist with regard to the safety of any co-resident; ongoing monitoring ensures that any risk to co-residents is identified expeditiously; and

an electronic monitoring device is worn by all offenders on the program.

The Committee commends the department for commissioning an early external evaluation of the initial effectiveness of what is clearly a program of high public interest. The Committee looks forward to considering the results of the evaluation study and any consequential changes to the program’s future scope and direction.

The Committee recommends that:

**Recommendation 64:** That the Department of Justice publish the results of the external evaluation of the effectiveness of the Home Detention Pilot Program, and the nature of any consequential changes to the program’s future scope and direction, as soon as practicable after completion.
CHAPTER 12: DEPARTMENT OF PREMIER AND CABINET

Key findings of the Committee:

12.1 The output budget for the Department of Premier and Cabinet was $432.3 million in 2004-05; actual output cost was $397.4 million, $34.9 million (or 8.1 per cent) under the budget estimates.

12.2 Six of the department’s 14 outputs were over budget by more than 10 per cent. Five outputs had expenditure with variances within 10 per cent of the budgeted cost and three outputs were below budget by more than 10 per cent.

12.3 The department achieved or exceeded 98 (approximately 90 per cent) of its 109 performance targets in 2004-05.

12.4 Quantitative performance measures for the ICT Strategy and Services output do not separately identify ongoing and completed projects.

12.5 The department’s annual report does not clearly identify cross departmental initiatives, the agencies responsible for these initiatives and the department’s contribution to the outcomes of these initiatives.

Output costs and performance measures information for the Department of Premier and Cabinet refers to consolidated information for outputs delivered by the department and its agencies.

12.1 Financial analysis – comparison with budget

The Department of Premier and Cabinet and its agencies were responsible for the delivery of 14 outputs in 2004-05, with these outputs initially budgeted to cost $432.3 million. Actual output expenditure in 2004-05 was $397.4 million, $34.9 million (or 8.1 per cent) under budget. While the aggregated output expenditure was within 10 per cent of budget, six outputs exceeded their individual budgets by more than 10 per cent. Five outputs had expenditure with variances within 10 per cent of the budgeted cost.

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544 Department of Premier and Cabinet, 2004-05 Annual Report, pp.115–123
The department’s annual report did not provide explanations for significant variations between budget and actual output costs. The Public Accounts and Estimates Committee previously recommended such disclosures in its *Report on the 2003-04 Budget Outcomes.* The government responded to the Committee’s recommendation in terms of action taken to date, stating that:

*The Department of Premier and Cabinet (DPC) is undertaking work to improve the way output costs are reported in the annual report.‘*

The department provided further clarification, stating ‘in 2004-05 the department made significant improvements in aligning its operational reporting with its output reporting to provide more information behind the performance measure component of output reporting.’ The Committee noted this progress but reiterates that the issue of explaining variations in output costs had not been addressed by the department in its 2004-05 annual report. In chapter 1 of this report, the Committee reiterates its expectation that major variations in output costs should be explained in annual reports.

Exhibit 12.1 presents explanations sought for significant variations in output costs.

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545 See Department of Premier and Cabinet, *2004-05 Annual Report,* Appendix 5
548 Department of Premier and Cabinet, response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 23 December 2005, p.14
Exhibit 12.1: Department of Premier and Cabinet
Information sought by the Committee for selected outputs

<table>
<thead>
<tr>
<th>Output groups/outputs</th>
<th>2004-05 Budget ($ million)</th>
<th>2004-05 Actual ($ million)</th>
<th>Variation (a) (%)</th>
<th>Explanation provided by department</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Strategic policy advice and projects</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strategic policy advice</td>
<td>23.5</td>
<td>27.5</td>
<td>17.0</td>
<td>The increase is due to Treasurer's Advances for such items as the relief for the Asian Tsunami and the contribution towards the Sandridge Bridge sculptural figures. These Treasurer's Advances were allocated to this output because this is where the programs were either managed from or where the funding most logically fit.</td>
</tr>
<tr>
<td>Strategic policy projects (identified as policy leadership projects in the department's annual report)</td>
<td>4.0</td>
<td>7.2</td>
<td>80.0</td>
<td>The variations are the result of the transfer of funding for the Patronage and Cultural program from the Arts development and access output. The program is managed by the Strategic and policy projects Branch within the department and is part of this output.</td>
</tr>
<tr>
<td><strong>ICT strategy and services</strong></td>
<td>8.4</td>
<td>9.8</td>
<td>16.7</td>
<td>The variations include an adjustment in relation to capital asset charge and the carry forward of funding from 2003-04.</td>
</tr>
<tr>
<td><strong>Public sector management, governance and support</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Public sector employment and conduct services</td>
<td>1.9</td>
<td>3.0</td>
<td>57.9</td>
<td>The increase in costs reflects the 1 April 2004 start up costs for the State Services Authority.</td>
</tr>
</tbody>
</table>
Exhibit 12.1: Department of Premier and Cabinet
Information sought by the Committee for selected outputs (continued)

<table>
<thead>
<tr>
<th>Output groups/outputs</th>
<th>Column 1</th>
<th>Column 2</th>
<th>Column (2-1)/1</th>
<th>Explanation provided by department</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2004-05</td>
<td>2004-05</td>
<td>Variation</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Budget</td>
<td>Actual</td>
<td>(a) (%)</td>
<td></td>
</tr>
<tr>
<td>Arts and cultural development</td>
<td>($ million)</td>
<td>($ million)</td>
<td>($)</td>
<td></td>
</tr>
<tr>
<td>Arts development and access</td>
<td>32.8</td>
<td>27.4</td>
<td>-16.5</td>
<td>The decrease is the result of the transfer of the Cultural Patronage Program to the Strategic Policy Projects output.</td>
</tr>
<tr>
<td>Portfolio services and policy</td>
<td>3.0</td>
<td>3.9</td>
<td>30.0</td>
<td>The increase is the result of the reallocation of costs within the Arts and cultural development output group.</td>
</tr>
<tr>
<td>Arts portfolio agencies</td>
<td>218.4</td>
<td>170.4</td>
<td>-22.0</td>
<td>The 2004-05 budget includes external art agencies revenue of $44.4 million. The revenue of $44.4 million is not included within the $170.4 million (which is only the internal revenue). The $44.4 million and $170.4 million should be considered together when comparing the actual to the budget figures. When this is taken into consideration the variation is less than 1 per cent.</td>
</tr>
</tbody>
</table>

Note: (a) A negative variance indicates that the actual results for 2004-05 are lower than budget

Sources: Department of Premier and Cabinet, response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 23 December 2005, pp.1–2; and further response from the Department of Premier and Cabinet, received 10 April 2006

The explanation for the cost variance by the arts portfolio agencies demonstrates the importance of disclosures in the annual report. In this instance, the significantly lower actual output cost of $170.4 million was due to the omission of external revenues of $44.4 million that were previously included when calculating output cost for budget purposes.
Accordingly, the Committee re-iterates its previous recommendation that:

**Recommendation 65:** The Department of Premier and Cabinet include explanations for material differences between budgeted and actual output costs in its annual report.\(^{549}\)

### 12.2 Performance information

The department achieved or exceeded approximately 90 per cent of the performance targets published in its 2004-05 annual report.

The department’s 2004-05 annual report did not provide explanations for variations in targets established for its performance measures. A recommendation for this disclosure was previously raised in the *Report on the 2003-04 Budget Outcomes.*\(^{550}\)

Accordingly, the Committee reiterates its previous recommendation that:

**Recommendation 66:** The Department of Premier and Cabinet explain key variations between targets and actual achievement for performance measures in its annual report.

Exhibit 12.1 shows information sought on selected performance targets.

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\(^{549}\) Where the difference between budgeted and actual output cost is 10 per cent or more

Report on the 2004-05 Budget Outcomes

Exhibit 12.1: Department of Premier and Cabinet
Information sought by the Committee on selected performance measures

<table>
<thead>
<tr>
<th>Outputs/performance measures</th>
<th>Unit of measure</th>
<th>Target 2004-05</th>
<th>Actual 2004-05</th>
</tr>
</thead>
<tbody>
<tr>
<td>Arts portfolio agencies</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Visitors/users to all agencies</td>
<td>number</td>
<td>8,915,000</td>
<td>8,154,719</td>
</tr>
<tr>
<td>Explanation provided by department:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The breakdown of visitors/users by agencies showed:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ACMI loans (target: 1,410,000; actual: 768,212);</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ACMI @ Federation Square (target: 865,000; actual: 845,348);</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Film Victoria (target: 0; actual: 0);</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Geelong Performing Arts Centre (target: 155,000; actual: 152,428);</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Museum Victoria (target: 1,085,000; actual: 1,169,068);</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>National Gallery of Victoria (target: 2,000,000; actual: 2,006,333);</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>State Library of Victoria (target: 1,000,002; actual: 906,316);</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The Arts Centre (target: 2,400,000; actual: 2,307,013)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The shortfall in users of the Australian Centre for the Moving Image (ACMI) lending collection is a consequence of the federal government decision to transfer the management of the National Film and Video Lending Service to ScreenSound Australia in Canberra, significantly reducing the film collection available for loan – with a flow on effect on demand. The decision took effect from 1 July 2004.</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Value of film, television and new media production supported by Film Victoria program</th>
<th>$ million</th>
<th>78</th>
<th>140</th>
</tr>
</thead>
<tbody>
<tr>
<td>Explanation provided by department:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Several overseas productions (Ghost Rider, Charlotte’s Web, Seven Swords and a Bollywood production) have resulted in the value of film investment in Victoria being almost twice the target for the year.</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Additional employment from production supported by Film Victoria</th>
<th>no. of FTEs</th>
<th>2,900</th>
<th>5,122</th>
</tr>
</thead>
<tbody>
<tr>
<td>Explanation provided by department:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>See above. Level of investment has a direct impact on employment generated.</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Sources: Department of Premier and Cabinet, response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 23 December 2005, pp.2–3; further response from the Department of Premier and Cabinet, received 10 April 2006

12.3 Staffing matters

Exhibit 12.2 shows that the total number of equivalent full-time staff (EFT), excluding casual staff, in the department at 30 June 2005 was 306.4. The number of casual staff employed at 30 June 2005 was 20.
Exhibit 12.2: Department of Premier and Cabinet
Equivalent full-time staff – 2004-05

<table>
<thead>
<tr>
<th>Classification</th>
<th>Ongoing (EFT)</th>
<th>Fixed term (EFT)</th>
<th>Casual (EFT)</th>
<th>Funded vacancy (EFT)</th>
<th>Total (EFT)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Secretary</td>
<td>1.0</td>
<td></td>
<td></td>
<td></td>
<td>1.0</td>
</tr>
<tr>
<td>Executive officers</td>
<td>24.4</td>
<td></td>
<td></td>
<td></td>
<td>24.4</td>
</tr>
<tr>
<td>VPS staff – grades 1-6</td>
<td>227.5</td>
<td>23.7</td>
<td></td>
<td></td>
<td>251.2</td>
</tr>
<tr>
<td>Senior technical specialists</td>
<td>2.0</td>
<td>0.8</td>
<td></td>
<td></td>
<td>2.8</td>
</tr>
<tr>
<td>Drivers</td>
<td>20.0</td>
<td></td>
<td></td>
<td></td>
<td>20.0</td>
</tr>
<tr>
<td>Solicitors (b)</td>
<td>6.0</td>
<td>1.0</td>
<td></td>
<td></td>
<td>7.0</td>
</tr>
<tr>
<td><strong>Total EFT staff</strong></td>
<td><strong>255.5</strong></td>
<td><strong>50.9</strong></td>
<td><strong>(a)</strong></td>
<td>**</td>
<td><strong>306.4</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Salary costs:</th>
<th>($ million)</th>
<th>($ million)</th>
<th>($ million)</th>
<th>($ million)</th>
<th>($ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003-04</td>
<td>14.9</td>
<td>6.1</td>
<td>0.1</td>
<td></td>
<td>21.1</td>
</tr>
<tr>
<td>2004-05</td>
<td>16.5</td>
<td>6.1</td>
<td>0.2</td>
<td></td>
<td>22.8</td>
</tr>
<tr>
<td>Increase in salary costs (c)</td>
<td>1.6</td>
<td>0.0</td>
<td>0.1</td>
<td></td>
<td>1.7</td>
</tr>
<tr>
<td>Increase in salary costs (c) (%)</td>
<td>10.7%</td>
<td>0.0%</td>
<td>100%</td>
<td></td>
<td>8.1%</td>
</tr>
</tbody>
</table>

Notes:
(a) 20 casuals were employed at 30 June 2005. The department advised that casuals do not have an allocated EFT.551
(b) Includes Principal Solicitor, Senior Solicitor, Solicitor Level 2 and Solicitor Level 3 positions
(c) Calculated by the Public Accounts and Estimates secretariat

Source: Department of Premier and Cabinet, response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 23 December 2005, pp.8–9, 11

Exhibit 12.2 shows that between 2003-04 and 2004-05, total salary costs increased by $1.7 million. Salary costs for casual staff increased by $114,461 million in 2004-05.552

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551 Further response from the Department of Premier and Cabinet, received 10 April 2006
552 Department of Premier and Cabinet, response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 23 December 2005, p.11
12.4 Major issues

12.4.1 Information and Communication Technology (ICT) strategy and services output

The actual expenditure for the ICT Strategy and Services output, representing the Office of the Chief Information Officer (OCIO), was $9.8 million in 2004-05.\(^{553}\) Funding for this output came from the four year $33 million CIO eGovt initiative.\(^{554}\)

Exhibit 12.3 shows the quantitative performance measures for this output. These performance measures did not separately identify the targets for completed projects and for projects underway and/or ongoing.

Exhibit 12.3: ICT Strategy and Services output
Quantitative performance measures – 2004-05

<table>
<thead>
<tr>
<th>Description</th>
<th>Unit of measure</th>
<th>Total Target</th>
<th>Total Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>Projects relating to e-Government underway or completed</td>
<td>Number</td>
<td>12</td>
<td>12</td>
</tr>
<tr>
<td>Projects to implement whole-of-government standard ICT infrastructure</td>
<td>Number</td>
<td>40</td>
<td>43</td>
</tr>
<tr>
<td>strategy, architectures and services underway or completed</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Department of Premier and Cabinet, 2004-05 Annual Report, p.118

The department provided the Committee with information indicating that for the second quantitative performance measure\(^{555}\) 39 projects were completed in 2004-05.\(^{556}\) By deduction, there were four projects underway and/or ongoing at 30 June 2005. The completed projects fall into the categories of: strategy development; project reviews and advice; architecture and standards development.\(^{557}\)

Given the significant funding allocated to the CIO eGovt initiative, it is more appropriate for these performance measures to separately identify the number of projects to be completed and the number of projects that will be ongoing for a particular fiscal year.

\(^{553}\) Department of Premier and Cabinet, 2004-05 Annual Report, p.118
\(^{555}\) Projects to implement whole of government standard ICT infrastructure strategy, architectures and services underway or completed
\(^{556}\) Department of Premier and Cabinet, response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 23 December 2005, p.14
\(^{557}\) Ibid.
Accordingly, the Committee recommends that:

**Recommendation 67:** The Department of Premier and Cabinet re-examine the quantitative performance measures established for the ICT Strategy and Services output with the purpose of developing performance measures that separately identify:

(a) the number of projects to be completed; and

(b) the number of projects that are underway/ongoing.

### 12.4.2 Reporting cross-departmental initiatives

While the department’s 2004-05 annual report provided comprehensive information on initiatives and projects delivered during the year, it did not clearly point out the cross departmental initiatives. Furthermore, as indicated in chapter 18 of this report, the department’s annual report provided limited comments on the shared responsibilities for these initiatives and the department’s contribution to the joint outcomes of these initiatives.

Further information sought by the Committee is shown in exhibit 12.4, which identifies the significant cross departmental initiatives undertaken in 2004-05, the outcomes and the department/agency responsible for reporting on the progress of these initiatives.

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558 The top 10 cross departmental initiatives by dollar value
## Exhibit 12.4: Major cross-departmental initiatives 2004-05

<table>
<thead>
<tr>
<th>Cross departmental initiatives</th>
<th>Outcome</th>
<th>Department responsible for reporting on progress achieved</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Workforce skills</td>
<td>Project informed the government’s thinking and position on the availability of suitably skilled labour. A paper entitled <em>A New Approach to Workforce Skills for a More Prosperous Australia</em> was released by the Premier.</td>
<td>Department of Education and Training</td>
</tr>
<tr>
<td>2. Affordable housing for low income Victorians</td>
<td>Project considered ways to increase the supply of affordable housing for low income Victorians, beyond the traditional mechanism of acquiring or building more social (public) housing. Research and findings published in the report <em>Housing Research for a Fairer Victoria</em>.</td>
<td>Project complete, however responsibility for any extension likely to be with the Office of Housing, Department of Human Services.</td>
</tr>
<tr>
<td>3. Resources and infrastructure</td>
<td>Providing advice to the Premier on major projects including the Commonwealth Games Village, rail projects, the Royal Agricultural Showgrounds redevelopment, Melbourne Markets relocation, Spencer Street Station upgrade, Long term containment facility, Channel deepening and EastLink project.</td>
<td>Department responsible for the relevant infrastructure project.</td>
</tr>
<tr>
<td>4. Tsunami Reconstruction Fund</td>
<td>Assisting communities affected by the tsunami resume their lives, restore their self sufficiency and to rebuild their infrastructure.</td>
<td>Administered through the Department of Premier and Cabinet.</td>
</tr>
</tbody>
</table>
### Exhibit 12.4: Major cross-departmental initiatives 2004-05 (continued)

<table>
<thead>
<tr>
<th>Cross departmental initiatives</th>
<th>Outcome</th>
<th>Department responsible for reporting on progress achieved</th>
</tr>
</thead>
<tbody>
<tr>
<td>5. Graduate employment</td>
<td>Review of the Victorian public sector’s graduate employment and retention strategies, with a focus on training and professional development, mentoring, retention strategies, and career support.</td>
<td>State Services Authority</td>
</tr>
</tbody>
</table>
• Establishment of the State Services Authority as a key driver of the public sector reform agenda | State Services Authority                                   |
| 7. Major crime legislation package | • Introduction of major crime legislation to combat organised crime and police corruption  
• Establishment of the Office of Police Integrity | Office of Police Integrity                                   |
| 8. Brand Victoria project | Established a more coordinated and coherent approach to how we position and promote Victoria internationally. | Department of Premier and Cabinet                           |
| 9. Master Agency Media Service (MAMS), Marketing Services Panel (MSP), rationalisation of media monitoring services across government and rationalisation of Victorian Government White Pages listings | Improved the effectiveness and efficiency of government communications. | All departments |
| 10. Growing Victoria Together (GVT) refresh | Further developed the GVT measures to ensure they are responsive to community concerns | All departments are required to report progress against the GVT measures |

Source: Department of Premier and Cabinet, response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 23 December 2005, pp.15–16
The Committee recommends:

**Recommendation 68:** The Department of Premier and Cabinet expand the level of disclosure in its annual report to include a section on cross departmental initiatives, and include information such as:

(a) the responsibilities for the delivery of these initiatives; and

(b) the department’s contribution to the outcomes of these initiatives.
CHAPTER 13: DEPARTMENT OF PRIMARY INDUSTRIES

Key findings of the Committee:

13.1 The output budget for the Department of Primary Industries was $342.8 million in 2004-05; actual output cost was $349.6 million, $6.8 million (or two per cent) above the budget estimates.

13.2 Six of the department’s seven outputs had expenditure within 10 per cent of the budgeted cost, the exception being the Minerals and Petroleum Industry Development and Information output, which was over budget by 26.7 per cent.

13.3 The department achieved or exceeded 41 (71.9 per cent) of its 57 performance targets in 2004-05.

13.4 The department did not reach the 2004-05 target of 1,200 extension groups to promote sustainable farming systems, instead engaging only 766 groups. A six month delay in receiving funding from the commonwealth and state governments for the FarmBis 3 program, which occurred due to a change in national program focus to address the strategic areas of drought and better use of water, restricted extension activity and may have resulted in slowing the rate of adoption of sustainable farming practices for the year.

13.5 The management plans for Anderson Inlet, Mallacoota Inlet and Lake Tyers Fisheries Reserves were not completed in 2004-05 due to the diversion of resources to meet a range of other priorities. While the management plan for Anderson Inlet has been approved by the Minister for Agriculture and is to be gazetted in late March or early April 2006, the management plans for Mallacoota Inlet and Lake Tyers Fisheries Reserves are to be finalised and gazetted in May 2006 and August 2006.

13.6 The department only achieved a 30 per cent customer satisfaction score compared with the targeted satisfaction level of more than 65 per cent for the aquaculture sector of fisheries in 2004-05. The department has instituted a range of actions to address factors that contributed to this low satisfaction score.

13.7 Occupational health and safety audits of 15 high risk or critical mining sites across Victoria that were not completed in 2004-05, due to higher regulatory demands experienced by the inspection group, were completed by 1 September 2005.
13.8 While the department claims that much of its operations lead to increased economic activity, primarily through increased investment and exports, and explains how this is achieved by describing its activities throughout the year, the department needs to explore avenues to substantiate and quantify the demonstrated impact of its operations on economic activity in terms of jobs, investments and exports, particularly in the Agriculture portfolio.

13.9 The department undertook 53 investigations and planned operations of illegal fishing in 2004-05 compared with 36 investigations in 2003-04, significantly exceeding the target of 30. Abalone was the main area targeted with 33 investigations and planned operations undertaken. While not limited to investigations and planned operations outputs, enforcement activity in 2004-05 resulted in 143 offenders being found guilty (150 in 2003-04) and $46,954 in revenue generated from the sale of forfeited products and equipment ($10,359 in 2003-04).

13.10 Following the 2002-03 drought and criticism of the federal government’s national drought policy, the department initiated work to examine the policy and provide advice on alternative approaches. During 2004-05, the Primary Industries Ministerial Council introduced a number of changes, including development of the national agricultural monitoring scheme, changes in business assistance arrangements and a greater focus on drought preparedness.

13.11 The department completed major redevelopments of its research facilities at Ellinbank and Queenscliff in 2004-05. Due to various reasons, neither project was completed within the original budget or on time. The budget for the modernising facilities at Agriculture Victoria Ellinbank was increased from $11.5 million to $13.2 million. Practical completion did not occur until February 2005; the initial completion date was June 2004. The new Queenscliff research centre was completed in line with the revised budget of $20 million. Practical completion occurred in late September 2004 compared with the original timeline of July 2004.

13.12 The quantifiable contingent liability relating to mining rehabilitation reduced from $5,260,000 at 30 June 2004 to $160,000 at 30 June 2005. Following a decision in 2004-05 by the department to rehabilitate the Benambra Mine (with a contingent liability exposure of $5.1 million) over a staged process and commencing 2004-05, the contingent nature of this liability was removed.
13.1 Financial analysis – comparison with budget

The Department of Primary Industries and its agencies were responsible for the delivery of seven outputs in 2004-05. These outputs were initially budgeted to cost $342.8 million; actual output expenditure was $349.6 million, $6.8 million (or 2 per cent) over budget. Exhibit 13.1 shows that with the exception of the Minerals and Petroleum Industry Development and Information output, for which expenditure was over budget by $2.7 million (26.7 per cent), all of the department’s outputs had expenditure within 10 per cent of the budgeted cost.

The Committee noted in relation to the 26.7 per cent variance between budget and actual expenditure for the Minerals and Petroleum Industry Development and Information output, that the department reported the over expenditure was for costs associated with the Cooperative Research Centre (CRC) for Clean Power from Lignite project, to reflect a change in criteria for capitalisation, and a change in the allocation of amortisation costs for the Victorian Initiative for Minerals and Petroleum (VIMP) information database.

The Committee sought additional information from the department to explain the nature of these accounting entries, which revealed that the department’s contribution to costs associated with the CRC project were capitalised in previous years, and served to reflect the department’s interest in the potential commercialisation of the research outcomes of the project. Given that commonwealth funding for the project ceased, and the CRC project subsequently ceased, there was no longer a basis or justification for capitalising CRC costs in 2004-05. All costs associated with this project in both current and previous years were therefore written off or expensed in 2004-05.

The major cost variation is outlined in exhibit 13.1 and relates to the CRC capital expenditure write offs. In addition, the Treasurer approved the transfer of $1 million in capital funding to output funding for the VIMP project during 2004-05. This reclassification resulted in a variance of $1 million against budget for VIMP expenditure in 2004-05.

560 Department of Primary Industries, 2004-05 Annual Report, pp.18–28
561 ibid., p.28
562 Department of Primary Industries, response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 20 December 2005, p.2
563 ibid.
564 ibid.
565 ibid.
566 ibid.
567 ibid.
### Exhibit 13.1: Department of Primary Industries

#### Output costs

<table>
<thead>
<tr>
<th>Output groups/outputs</th>
<th>2004-05 Budget ($ million)</th>
<th>2004-05 Actual ($ million)</th>
<th>Variation (a) (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Biosecurity and market access</td>
<td>57.4</td>
<td>60.2</td>
<td>4.9</td>
</tr>
<tr>
<td>Sustainable agriculture and food sector development</td>
<td>224.3</td>
<td>227.5</td>
<td>1.4</td>
</tr>
<tr>
<td>Fisheries</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sustainable fisheries utilisation services</td>
<td>21.5</td>
<td>20.6</td>
<td>-4.2</td>
</tr>
<tr>
<td>Industry and community compliance services</td>
<td>17.7</td>
<td>17.1</td>
<td>-3.4</td>
</tr>
<tr>
<td>Aquaculture and fishing industry development</td>
<td>3.6</td>
<td>3.4</td>
<td>-5.6</td>
</tr>
<tr>
<td>Minerals and petroleum</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Minerals and petroleum regulation services</td>
<td>8.2</td>
<td>8.0</td>
<td>-2.4</td>
</tr>
<tr>
<td>Minerals and petroleum industry development and information</td>
<td>10.1</td>
<td>12.8</td>
<td>26.7</td>
</tr>
<tr>
<td>Total</td>
<td>342.8</td>
<td>349.6</td>
<td>2.0</td>
</tr>
</tbody>
</table>

**Note:** (a) A negative variance indicates that the actual results for 2004-05 are lower than budget

**Sources:** Budget Paper No.3, 2004-05 Service Delivery, pp.192–200; Department of Primary Industries, 2004-05 Annual Report, pp.18–28

#### 13.2 Performance information

The department achieved or exceeded approximately 71.9 per cent of its performance targets published in its 2004-05 annual report.\(^{568}\) Exhibits 13.2 to 13.5 provide further details that the Committee sought about selected performance measures and actual outcomes in 2004-05.

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\(^{568}\) Department of Primary Industries, 2004-05 Annual Report, pp.18–28
### Exhibit 13.2: Department of Primary Industries

**Information sought by the Committee on selected performance measures**

<table>
<thead>
<tr>
<th>Outputs/performance measures</th>
<th>Unit of measure</th>
<th>Target 2004-05</th>
<th>Actual 2004-05</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sustainable agriculture and food sector development</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Extension groups used to promote sustainable farming systems</strong></td>
<td>number</td>
<td>1,200</td>
<td>766</td>
</tr>
</tbody>
</table>

**Explanation provided by department:**

Funding for the FarmBis 3 program from the commonwealth and the state governments was delayed by six months. This delay impacted on the level of extension activities undertaken during 2004-05.

This was a delay due to a change in the national program focus to address the more strategic areas of drought and better use of water.

As there are strong linkages between training and practice change, the reduction in extension activities can result in slowing the rate of adoption of sustainable farming practices.

FarmBis targets are expected to be met through extra marketing and additional resource considerations.

**Sources:** Department of Primary Industries, 2004-05 Annual Report, p.18; Department of Primary Industries, response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 20 December 2005, p.5

The Committee recommends that:

**Recommendation 69:** The Department of Primary Industries evaluate whether any adverse impacts on practice occurred as a result of the reduced level of extension activities to promote sustainable farming systems during 2004-05.
### Exhibit 13.3: Department of Primary Industries

**Information sought by the Committee on selected performance measures**

<table>
<thead>
<tr>
<th>Outputs/performance measures</th>
<th>Unit of measure</th>
<th>Target 2004-05</th>
<th>Actual 2004-05</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sustainable fisheries utilisation services</td>
<td>number</td>
<td>3</td>
<td>nil</td>
</tr>
<tr>
<td><strong>Additional management plans completed</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Explanation provided by department:**

The original target was for the completion management plans for Anderson Inlet, Mallacoota Inlet, and Lake Tyers Fisheries Reserves. The target was not achieved due to:

- increased workloads of key staff on other priority projects, including a modification of the existing Abalone Fishery Management Plan to support required urgent regulatory changes to protect inshore reefs from over-harvesting;
- a change in priorities, at the request of stakeholders, to commence the preparation of inland fishery management plans, which included the development of a stakeholder approved process for the preparation of these plans; and
- the early commencement of the first inland fishery management plan for the Glenelg Hopkins region. In the 2004-05 year this included the establishment of a steering committee and the drafting of the first sections of the plan.

**Anderson Inlet:** The department has completed all public consultation and a final steering committee meeting was scheduled for January 2006. The management plan was approved by the Minister for Agriculture in early March 2006 and is to be gazetted in either late March or early April 2006.

**Mallacoota Inlet:** The Steering Committee has been formed, the planning process commenced, and the final round of public consultation was due to begin in January 2006. It is expected that this management plan will be finalised and gazetted in May 2006.

**Lake Tyers:** The development process for this management plan commenced in December 2005. The first round of public consultation is scheduled to begin in January 2006. This management plan will be finalised and gazetted in August 2006.

As mentioned above, it should be noted that the Glenelg Hopkins Fishery Management Plan commenced ahead of schedule. The first round of public consultation for this management plan is to begin in January 2006 and it is planned to finalise and gazette the management plan in May 2006.

**Sources:** Department of Primary Industries, 2004-05 Annual Report, p.22; Department of Primary Industries, response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 20 December 2005, pp.5–6 and response to additional follow-up question, received 14 March 2006

The Committee recommends that:

**Recommendation 70:** Where a planned activity has not been completed by the due date, the Department of Primary Industries consider providing an explanation in its annual report as to why the target was not met, in addition to disclosing the current status of the particular item.
Exhibit 13.4: Department of Primary Industries
Information sought by the Committee on selected performance measures

<table>
<thead>
<tr>
<th>Outputs/performance measures</th>
<th>Unit of measure</th>
<th>Actual 2001-02</th>
<th>Target 2004-05</th>
<th>Actual 2004-05</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industry and community compliance services</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Customer satisfaction with fisheries in the recreational, commercial and aquaculture sectors</strong></td>
<td>per cent</td>
<td>77</td>
<td>&gt;65</td>
<td>30</td>
</tr>
</tbody>
</table>

Explanation provided by department:
Some of the factors that have contributed to a low satisfaction score, along with DPI’s responses to these issues are shown below:
- Delay with the allocation of new marine farming waters resulting from the potential interaction with the proposed Channel Deepening project.
  DPI has led a multi-agency strategic response in line with an independent (KPMG) risk assessment strategy.
  DPI also provided expert scientific witness to the Channel Deepening EES (independent) Panel.
- Cost recovery and increases in licence fees and levies.
  DPI established the Aquaculture Cost Recovery Standing Committee to improve the quality of industry representation to aid in the implementation of cost recovery.
- Implementation of seafood safety legislation.
  DPI provided funding to Seafood Industry Victoria to raise industry awareness of seafood safety legislation, develop templates for food safety plans and provide educational material to relevant industry sectors.
- Adversarial nature of the Victorian Aquaculture Council (VAC) (former peak body) in its communication to its membership and role as adviser to government.
  In collaboration with the VAC, DPI has commissioned an independent review of the aquaculture peak body arrangements. The recommendations of the review, including the revocation of the peak body status of the VAC, have been implemented.
  DPI has also established sector communication avenues with key industry sectors and facilitated the establishment of the Victorian Marine Farmers Group.
  Historically DPI surveys each sector every 3 years. In line with this schedule the Commercial and Recreational sectors were not surveyed in 2004-05. DPI has reviewed this practice and will be implementing an alternative strategic stakeholder survey package increasing the robustness in the surveying techniques.

Sources: Department of Primary Industries, 2004-05 Annual Report, p.23; Department of Primary Industries, response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 20 December 2005, pp.6–7

The Committee recommends that:

**Recommendation 71:** Given that customer satisfaction with the aquaculture sector of fisheries declined from 77 per cent in 2001-02 to 30 per cent in 2004-05, the Department of Primary Industries evaluate whether its responses to address this issue have been effective, and examine the impact that low customer satisfaction may have on the aquaculture sector.
Exhibit 13.5: Department of Primary Industries
Information sought by the Committee on selected performance measures

<table>
<thead>
<tr>
<th>Outputs/performance measures</th>
<th>Unit of measure</th>
<th>Target 2004-05</th>
<th>Actual 2004-05</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minerals and petroleum regulation services</td>
<td>number</td>
<td>128</td>
<td>113</td>
</tr>
<tr>
<td>Audits of high or critical sites completed</td>
<td>number</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Explanation provided by department:

The department has a pro-active auditing program in place for the review of high or critical mining and quarry sites across Victoria. Audits are a key mechanism to ensure the effectiveness of OH&S regulations in the state’s mining and extractive sectors and have helped to significantly improve the level of safety performance in the industry.

The 15 mine and quarry sites that could not be audited during the course of 2004-05 due to higher regulatory priorities were as follows:

- CSR Leongatha South – Hillside quarry
- Cosgrove Quarry
- Perseverance Fosterville – open cut mine (gold, silver, platinum)
- Castella Quarries
- Casacir Quarry
- Loy Yang Power – coal mine
- Basin Minerals Holdings – gold mine
- Hammonds Gravel Pit
- Loy Yang Power – open cut mine (coal)
- Harcourt Granite – quarry

As these audits were not completed by 30 June 2005 they became high priority for 2005-06. The audits for each of these sites were completed by 1 September 2005.

The audit schedule maintained by the department is reviewed annually and updated as appropriate on the basis of the risk assessed for each site. Any outstanding audits from the previous year are generally given priority in the audit schedule for the following year.

Sources: Department of Primary Industries, 2004-05 Annual Report, p.28; Department of Primary Industries, response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 20 December 2005, pp.7–8

The Committee recommends that:

**Recommendation 72:** When setting targets for the number of audits of high risk or critical sites to be completed in a given year, the Department of Primary Industries consider the potential impact that any higher regulatory demands may have on the planned audit program for the forthcoming year.

### 13.3 Staffing matters

Exhibit 13.6 shows that the total number of equivalent full-time staff (EFT) in the department at 30 June 2005 was 2,635.2.
### Exhibit 13.6: Department of Primary Industries
Equivalent full-time staff – 2004-05

<table>
<thead>
<tr>
<th>Classification</th>
<th>Ongoing (EFT)</th>
<th>Fixed term (EFT)</th>
<th>Casual (EFT)</th>
<th>Funded vacancy (a) (EFT)</th>
<th>Total (EFT)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executive officers</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>VPS Staff - grades 1-6</td>
<td>1,992.4</td>
<td>385.8</td>
<td>134</td>
<td></td>
<td>2,512.2</td>
</tr>
<tr>
<td>Field staff</td>
<td>48.6</td>
<td>4.0</td>
<td>7.0</td>
<td></td>
<td>59.6</td>
</tr>
<tr>
<td>Senior technical specialist</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Principal scientist</td>
<td>41.6</td>
<td></td>
<td></td>
<td></td>
<td>41.6</td>
</tr>
<tr>
<td><strong>Total EFT staff</strong></td>
<td><strong>2,082.6</strong></td>
<td><strong>411.6</strong></td>
<td><strong>141</strong></td>
<td></td>
<td><strong>2,635.2</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Salary costs:</th>
<th>($ million)</th>
<th>($ million)</th>
<th>($ million)</th>
<th>($ million)</th>
<th>($ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003-04</td>
<td>105.4</td>
<td>16.0</td>
<td>1.0</td>
<td>122.4</td>
<td></td>
</tr>
<tr>
<td>2004-05</td>
<td>115.1</td>
<td>16.1</td>
<td>1.2</td>
<td>132.4</td>
<td></td>
</tr>
<tr>
<td>Increase in salary costs (b)</td>
<td>9.7</td>
<td>0.1</td>
<td>0.2</td>
<td>10.0</td>
<td></td>
</tr>
<tr>
<td>Increase in salary costs (b)</td>
<td>9.2%</td>
<td>0.6%</td>
<td>20%</td>
<td>8.2%</td>
<td></td>
</tr>
</tbody>
</table>

**Notes:**
(a) The department does not currently store information regarding funded vacancies, except for executive officers. This is being designed as part of the new Human Resource Information System currently being developed.
(b) Calculated by the Public Accounts and Estimates Committee secretariat

**Source:** Department of Primary Industries, response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 20 December 2005, pp.15–16

Exhibit 13.7 explains variances of more than 10 per cent in the total number of EFT staff for classification levels between 2003-04 and 2004-05.
Exhibit 13.7: Department of Primary Industries
Explanations for major variations in EFT staff numbers
2003-04 to 2004-05

<table>
<thead>
<tr>
<th>Classification</th>
<th>30 June 2004</th>
<th>30 June 2005</th>
<th>Variance (%) (a)</th>
<th>Explanation of Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Field Staff</td>
<td>65.62</td>
<td>59.62</td>
<td>-9.1</td>
<td>Transfer of five Wild Dog staff to the Department of Sustainability &amp; Environment.</td>
</tr>
<tr>
<td>Grade 1</td>
<td>125.35</td>
<td>97.5</td>
<td>-22.2</td>
<td>A decrease in the number of staff due to evaluations of job sizes and values under the new VPS career structure. Also a number of separations due to Fixed Term contracts not being renewed.</td>
</tr>
<tr>
<td>Grade 6</td>
<td>214.94</td>
<td>246.64</td>
<td>14.7</td>
<td>An increase in the number of staff due to evaluations of job sizes and values under the new VPS career structure, also sixteen new commencements.</td>
</tr>
<tr>
<td>Senior Technical Specialist</td>
<td>1</td>
<td>3</td>
<td>200</td>
<td>Appointment of two staff to this classification.</td>
</tr>
<tr>
<td>Principal Scientist</td>
<td>46.6</td>
<td>41.6</td>
<td>-10.7</td>
<td>Decrease in the number of staff due to one separation and four staff accepting Grade 6 roles.</td>
</tr>
</tbody>
</table>

Note: (a) A negative figure indicates a decrease in EFT staff in 2005
Source: Department of Primary Industries, response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 20 December 2005, pp.14–16

13.4 Major issues

13.4.1 Quantifying the impact of departmental activities on strong economic activity

The department’s 2004-05 annual report discloses an objective for ‘strong economic activity evidenced by jobs, investments and exports’ with strategies to ‘facilitate investment in the sustainable use of natural resources [and] promote trade by protecting and enhancing access to markets’.569

In examining outcomes for 2004-05 in the department’s Agriculture and Resources portfolios, the Committee considered it fundamental to request that the department articulate how its objective was met in 2004-05, and provide a comparison with the 2003-04 outcome. In other words, to what extent did strategies employed by the department in 2004-05 actually lead to strong economic activity evidenced by jobs, investments and exports?

569 Department of Primary Industries, 2004-05 Annual Report, p.5
The department advised the Committee that because it is a sustainable development agency, much of its operations lead to increased economic activity, primarily through increased investment and exports.\footnote{Department of Primary Industries, response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 20 December 2005, p.21}

The following outputs lead directly to increased investment in the sustainable use of natural resources, a key strategy, which leads to stronger economic activity:\footnote{ibid., pp.21–22}

- sustainable food and agriculture sector development;
- aquaculture and fishing industry development; and
- minerals and petroleum industry development and information.

Specific measures within these outputs that the department cited to demonstrate the impact of their outputs on investment were:\footnote{ibid., p.22}

- departmental scientists produced 309 papers in 2004-05 (311 papers were produced in 2003-04), which were published in international and peer review journals. These papers advance knowledge of technologies that ‘will increase farm productivity on a sustainable basis’. The department channels this knowledge and information through more than 700 farmer groups. Individual farmers then invest in the technology on their farms, which increases productivity and thus economic growth. The importance of new technologies is demonstrated by continued strong growth in broadacre farm productivity of 2.6 per cent per year. The value of production of agricultural commodities in Victoria grew from $7.4 billion in 2002-03 to $8.7 billion in 2003-04, despite dry conditions, and Victoria was Australia’s largest producing state;

- three aquaculture zone management plans were developed and these will directly result in increased investment in aquaculture. Aquaculture investment was facilitated by the department approving 86 per cent of licences without delay; and

- new generation mapping of Victoria’s earth resources has now been completed in 79 per cent of strategic areas, up from 76 per cent in 2003-04, and 95 per cent of VIMP data releases were completed without delay. The mapping and release of geological information such as this will directly result in increased investment in Victoria’s earth resources. This investment is assisted by the department inputting to 100 per cent of Environmental Effects Statements without delay.

The significant contribution made to the Victorian economy by minerals and petroleum industries of more than $8 billion a year, facilitated by the department’s provision of information on natural resources’ potential and encouragement of
adopting new technologies and tackling barriers inhibiting progress, is noted by the Committee.\textsuperscript{573}

The department also indicated that it has a positive affect on exports and trade, and thus upon economic activity, by protecting and enhancing access to international and domestic markets for Victoria’s meat, grains and horticulture products.\textsuperscript{574} Freedom from plant and animal pests, diseases and chemical residues as a result of effective surveillance, and the ability to respond rapidly to incidents when they occur, are critical.\textsuperscript{575} The department’s agribusiness initiatives are also contributing to exports.\textsuperscript{576}

The department cited the following specific measures within the Biosecurity and Market Access Output to demonstrate the department’s impact on exports:\textsuperscript{577}

- the department continued to maintain control plans for nine plant and animal pests or diseases and met three international and national certification authority audits in 2004-05 as in 2003-04; and
- response times to plant and animal pest and disease incidents were maintained in 2004-05, as in 2003-04, including for the citrus canker outbreak in July 2004. Victoria’s preparedness was further tested in November 2004 in a national simulation of an emergency animal disease outbreak, called Exercise Gallus, which proved the department’s capacity to respond.

The Committee acknowledges the operational activities of the department in 2004-05, which are designed to increase economic activity in Victoria, and that external forces affecting primary industries such as climate and exchange rates also impact on the level of investment and exports, despite the strategies employed by the department. The Committee considers, however, that more effort needs to be directed at examining avenues for establishing causal links between the activities of the department and economic activity in terms of quantifying, where possible, the impact of the department’s strategies on jobs, investments and exports, particularly in the agriculture portfolio. Given the stated objectives of the department, this outcome based information should be featured in the department’s annual report to demonstrate the effect of the department’s operational strategies over sufficient time periods.

\begin{itemize}
\item \textsuperscript{573} Department of Primary Industries, \textit{2004-05 Annual Report}, p.25
\item \textsuperscript{574} Department of Primary Industries, response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 20 December 2005, p.22
\item \textsuperscript{575} ibid.
\item \textsuperscript{576} ibid.
\item \textsuperscript{577} ibid.
\end{itemize}
The Committee recommends that:

**Recommendation 73:** From an effectiveness and accountability viewpoint, the Department of Primary Industries examine avenues for establishing, quantifying and reporting the effect that its operations undertaken in a given year has had in terms of fostering strong economic activity evidenced by jobs, investments and exports, particularly in the agriculture portfolio.

### 13.4.2 Illegal fishing

In 2004-05, 53 investigations and planned operations targeting illegal fishing took place (36 in 2003-04) compared with a target of 30. The target was exceeded due to a greater use of planned operations.

An analysis of the forms of illegal fishing targeted in 2004-05 compared with 2003-04 is shown in exhibit 13.8.

**Exhibit 13.8:** Department of Primary Industries Investigations and planned operations targeting illegal fishing 2003-04 to 2004-05

<table>
<thead>
<tr>
<th>Target activity</th>
<th>2003-04</th>
<th>2004-05</th>
</tr>
</thead>
<tbody>
<tr>
<td>Abalone</td>
<td>20</td>
<td>33</td>
</tr>
<tr>
<td>Abalone/Southern rock lobster</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Recreational fishing</td>
<td>8</td>
<td>6</td>
</tr>
<tr>
<td>Commercial scale fishing</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Marine parks</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Commercial rock lobster</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Noxious fish</td>
<td>0</td>
<td>2</td>
</tr>
<tr>
<td>Netting</td>
<td>4</td>
<td>1</td>
</tr>
<tr>
<td>Native fish/aquaculture</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Native fish</td>
<td>0</td>
<td>2</td>
</tr>
<tr>
<td>Southern rock lobster</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Commercial abalone</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Eel</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>36</strong></td>
<td><strong>53</strong></td>
</tr>
</tbody>
</table>

*Source: Department of Primary Industries, response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 20 December 2005, p.23*

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578 Department of Primary Industries, 2004-05 Annual Report, pp.4, 23
579 ibid.
The outcome of the investigations and planned operations in terms of the number of Penalty Infringement Notices issued, the number of prosecution briefs prepared and the results derived from the preparation of the prosecution briefs (for example, convictions and the seizure of boats and equipment) in 2003-04 and 2004-05 are shown in exhibit 13.9. In interpreting this information, the department advised that the figures reflect the total number of enforcement results for the respective financial periods, which includes, but is not limited to, investigations and planned operations outputs.\footnote{Department of Primary Industries, response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 20 December 2005, p.24} The department also brought to the Committee’s notice that there can be a substantial time lag between the successful completion of a planned operation and the finalisation of subsequent court proceedings.\footnote{ibid.} Some significant matters resulting from planned operations in 2004-05 are still before the courts.\footnote{ibid.} The information on court results relates to matters determined by the courts during 2003-04 and 2004-05.\footnote{ibid.}

\begin{table}[h]
\centering
\begin{tabular}{|l|c|c|}
\hline
\textbf{Department of Primary Industries} & \textbf{Enforcement results} & \\
\textbf{2003-04 to 2004-05} & \textbf{2003-04} & \textbf{2004-05} \\
\hline
Penalty Infringement Notices issued & 1708 & 1631 \\
Prosecution briefs prepared & 115 & 108 \\
Results derived from the preparation of the prosecution briefs & & \\
\hspace{1cm} Court results (a): & & \\
\hspace{1.5cm} Total number of offenders & 152 & 146 \\
\hspace{1.5cm} Total number of offenders with findings of guilt & 150 & 143 \\
\hspace{1.5cm} Total number of charges & 1792 & 1780 \\
Revenue generated from sale of forfeited product and equipment (a) & $10,359 & $46,954 \\
\hline
\end{tabular}
\caption{Enforcement results for 2003-04 to 2004-05}
\end{table}

\textit{Note:} (a) \emph{It should be noted that the number of offenders, charges with finding of guilt and total revenue generated do not serve as proxies for resource protection. Planned operations are based on resource risk, where on occasions an individual with a low value operation can damage the resource to a greater extent than a group of thieves.}

\textit{Source:} Department of Primary Industries, response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 20 December 2005, p.24

The Committee maintains that the department should develop an information system that tracks for each component of the department’s total enforcement effort the actual results so that judgements can be made regarding the cost effectiveness of each type of activity, such as the costs compared with outcomes derived from investigations and planned operations that target illegal fishing.

\footnotesize{\textsuperscript{580} Department of Primary Industries, response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 20 December 2005, p.24} 
\footnotesize{\textsuperscript{581} ibid.} 
\footnotesize{\textsuperscript{582} ibid.} 
\footnotesize{\textsuperscript{583} ibid.}
The Committee recommends that:

Recommendation 74: The Department of Primary Industries develop a performance management and reporting system that enables monitoring of the cost effectiveness of the various components of the department's enforcement activities.

13.4.3 Drought policy

Following the 2002-03 drought, the federal government established a drought review panel to canvass the views of stakeholders on the effectiveness of all governments' responses to drought.584 The panel received over 300 written submissions and held 60 meetings across every state and the Northern Territory.585 It released its report, Consultations on National Drought Policy: Preparing for the Future, in March 2004.586

On 14 April 2004, after the release of the Review Panel's report, a National Drought Roundtable was attended by agriculture ministers, farmers, and representatives of farming organisations, financial institutions, rural counsellors, rural accountants, social and welfare organisations, and non-farm businesses.587

Comments that arose from these reviews are summarised below:

Business support was inappropriate

Overall, stakeholders were not in favour of business support measures (such as the Exceptional Circumstances (EC) Interest Rate Subsidy) in comparison to family income support (such as EC Relief Payments). Producers that received business support measures appreciated them.588

Confusion over different assistance measures

Stakeholders were confused about the wide range of drought assistance measures available from both the federal and state governments and the eligibility requirements that needed to be met.589

584 Department of Primary Industries response to the Committee’s follow-up questions, received 16 March 2006
585 ibid.
586 ibid.
587 ibid.
589 ibid.
**Drought assistance was not provided early enough**

Stakeholders in general considered that drought assistance provided for the 2002-03 drought was not provided early enough.\(^{590}\)

**The EC application process was seen as too complex and demanding**

State/territory governments were required to collect detailed information to demonstrate that weather and income criteria had been met in an area. The federal government was then required to undertake a detailed assessment of the application once it has been lodged.\(^{591}\)

**Difficulty in accessing assistance**

Stakeholders perceived that it was too difficult to access government assistance. For example, the forms, income and assets tests involved to access assistance were seen as unnecessarily demanding.\(^{592}\)

**Equity Issues**

Lines on a map, which led to some people being eligible for assistance while others facing the same circumstances were not, was seen as a major accessibility and equity issue. A similar issue arose where certain industries in an area could obtain assistance, but others could not. These situations led to frustration for producers that missed out on assistance.\(^{593}\)

In response to criticism of the federal government’s national drought policy by farm organisations, the general community and state departments of agriculture, work was initiated within the Department of Primary Industries to examine the policy and provide advice on alternative approaches.\(^{594}\) In December 2004, the department’s Economics and Policy Research Branch published a paper entitled *Incentives, Information & Drought Policy*.\(^{595}\)

The Committee, in seeking a summary of key findings and outcomes delivered from the review, was advised by the department that the views expressed in the paper were those of the authors and did not represent Victorian government policy.\(^{596}\) The key conclusions of the study were that drought policy was a complex problem and that the national drought policy did not work well during the 2002-03 drought.\(^{597}\) The study

\(^{590}\) ibid. p.3
\(^{591}\) ibid.
\(^{592}\) ibid.
\(^{593}\) ibid., p.4
\(^{594}\) Department of Primary Industries, response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 20 December 2005, p.25
\(^{595}\) ibid.
\(^{596}\) ibid.
\(^{597}\) ibid.
canvassed alternative approaches such as HECS-style schemes, multi-peril insurance, rainfall insurance, risk management deposits and incentive contracts and concluded that more work needed to be done to develop and evaluate these options. Reform of the tax system to remove incentives against self-insurance was also highlighted.\textsuperscript{598}

The results were presented to commonwealth and state officials involved in the review of national drought policy and reform discussions at Primary Industries Ministerial Council. During 2004-05, the council introduced a number of changes, including development of the national agricultural monitoring scheme, changes in business assistance arrangements and a greater focus on drought preparedness.\textsuperscript{599}

The Committee will be interested in keeping under review the extent to which drought assistance reaches those in need in a timely manner in future.

The Committee recommends that:

**Recommendation 75:** The Department of Primary Industries monitor the impact that changes at the federal level to drought policy are having on the farming community in Victoria in terms of whether drought assistance is reaching those in need in a timely manner.

### 13.4.4 Redevelopment of research facilities

In 2004-05, the department completed major redevelopments of two of its research facilities at Ellinbank ($3 million for the modernisation of facilities) and Queenscliff ($2 million for the redevelopment).\textsuperscript{600} The Committee sought information about whether these projects were completed according to the timelines and budget that were originally set.

The Committee learned that the redevelopment of the Ellinbank research facility at the time of project commencement had a published completion date of June 2004.\textsuperscript{601} As a result of the insolvency of one of the main building contractors and ongoing issues with changes to the building design and associated revisions, the project did not reach practical completion until February 2005.\textsuperscript{602} All staff relocated to the new premises in March 2005.\textsuperscript{603} As a result of these delays, approval was received for the transfer of 1.7 million to this project from the contingency contained within the $50 million

\textsuperscript{598} ibid.
\textsuperscript{599} ibid.
\textsuperscript{600} Department of Primary Industries, \textit{2004-05 Annual Report}, pp.8–9
\textsuperscript{601} Department of Primary Industries, response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 20 December 2005, p.26
\textsuperscript{602} ibid.
\textsuperscript{603} ibid.
Science Innovation and Education Precincts capital program.\textsuperscript{604} This resulted in the Ellinbank project increasing from a Total Estimated Investment (TEI) of $11.5 million to $13.2 million.\textsuperscript{605} The department advised that the $50 million Science Innovation and Education Precincts capital program was delivered on budget.\textsuperscript{606}

The Committee was also informed that the construction of the new Queenscliff research centre was not completed to the original timelines.\textsuperscript{607} This was as a result of extensive community consultation and environmental monitoring and the discovery of asbestos contamination on the site during construction works. The delay in completing this project did not impact on delivery of services and outputs as the previous Marine and Freshwater Resources Institute (MAFRI) site remained fully operational during this time. In comparison to the completion date of July 2004 with a revised TEI of $20 million, the project achieved practical completion in late September 2004 with staff relocating to their new premises in November 2004. The project was completed in line with the revised budget of $20 million.\textsuperscript{608}

13.4.5 Contingent liability – mining rehabilitation

The quantifiable contingent liability relating to mining rehabilitation reduced from $5,260,000 at 30 June 2004 to $160,000 at 30 June 2005.\textsuperscript{609}

In 2003-04, a significant component of the mining rehabilitation contingent liability related to the Benambra Mine ($5.1 million).\textsuperscript{610} Seven other minor mine sites were also recognised as containing some contingent liability exposures for rehabilitation ($160,000).\textsuperscript{611}

Prior to 2004-05, the rehabilitation of the Benambra Mine by the department was contingent on the outcomes of a feasibility study that was being undertaken by a company interested in re-opening the mine.\textsuperscript{612} In 2004-05, the contingent nature of this liability was removed, following a decision by the department to rehabilitate the mine over a staged process commencing 2004-05.\textsuperscript{613} While some of the initial costs associated with this decision were expensed during 2004-05, the department advised that the major financial impacts will be more apparent in its 2005-06 financial statements with associated liability and commitment disclosures.\textsuperscript{614}

\textsuperscript{604} ibid.
\textsuperscript{605} ibid.
\textsuperscript{606} ibid.
\textsuperscript{607} ibid.
\textsuperscript{608} ibid.
\textsuperscript{609} Department of Primary Industries, 2004-05 Annual Report, p.95
\textsuperscript{610} Department of Primary Industries, response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 20 December 2005, p.27
\textsuperscript{611} ibid.
\textsuperscript{612} ibid.
\textsuperscript{613} ibid.
\textsuperscript{614} ibid.
CHAPTER 14: DEPARTMENT OF SUSTAINABILITY AND ENVIRONMENT

Key findings of the Committee:

14.1 The output budget for the Department of Sustainability and Environment was $864 million in 2004-05; actual cost was $1,094.9 million, $230.9 million (or 26.7 per cent) above the budget estimates. This additional expenditure was attributed to a range of factors including additional funding received from the Treasurer’s Advance, the Commonwealth Government, various revenue streams, moneys transferred from capital to output, various government initiatives, and carry overs not included in the initial output cost for 2004-05.

14.2 Four of the department’s 11 outputs had expenditure within 10 per cent of the budgeted cost. Outputs where the actual output cost exceeded budget by more than 10 per cent in 2004-05 were:

- sustainable water management and supply (52 per cent)
- sustainable catchment management (45.6 per cent)
- service for management and governance of Victoria’s parks (11.9 per cent)
- services for biodiversity conservation, ecosystem, heritage recreation and tourism (23.5 per cent)
- public land and sustainable forest management services (49.7 per cent)
- fire prevention, operations and planning environment (11.8 per cent)
- sustainable cities, regions and heritage conservation (19.3 per cent).

14.3 The department achieved or exceeded 104 (or 73.8 per cent) of its 141 performance targets in 2004-05.

14.4 The number of equivalent full-time field staff increased by 21.2 (10 per cent) between 2003-04 and 2004-05. This growth reflects the resources allocated to the Public Land Fire initiative to increase fire management and suppression capability. This four year initiative has been undertaken in conjunction with Parks Victoria.
14.5 The department’s 2005-06 revenue budget, as disclosed in the budget papers, has been subsequently revised to take into account an additional $20.5 million from research funding, additional sales, entry fees for Werribee Mansion, commercial forest revenue, and the redistribution and increase in federal funding.

14.6 The department implemented the Bushfire Recovery Strategy in 2003-04, and spent $35.1 million (74.2 per cent) of its net budget of $47.3 million at 30 June 2005, leaving a balance of $12.2 million (25.8 per cent) unspent at that date. The department advised the Public Accounts and Estimates Committee that the North East Region Water Authority is to commence its infrastructure program, which includes $8 million for bushfire recovery.

14.7 The most recent Index of Stream Condition (2004) shows that about 21 per cent of major rivers and tributaries in Victoria were in good or excellent condition, 47 per cent were in moderate condition, and 32 per cent were in poor or very poor condition. Streams in good or excellent condition have been identified and protected, and those in poor or very poor condition, with only a few exceptions, do not appear to have deteriorated further. In the department’s opinion, this is a good result.

14.8 According to the Minister for Water, the new rising block tariff pricing regime could reduce consumption by 2 to 4 per cent for the metropolitan area, which equates to between 9.6 gigalitres and 19.2 gigalitres, that is, 9,600 million litres to 19,200 million litres.

14.1 Financial analysis – comparison with budget

The Department of Sustainability and Environment and its agencies were responsible for the delivery of 11 outputs in 2004-05. These outputs were initially budgeted to cost $864 million. Actual output expenditure in 2004-05 was $1,094.9 million, $230.9 million (or 26.7 per cent) over budget. This was due to a range of factors including additional funding received by the department from the Treasurer’s Advance, contributions from the federal government, various revenue streams, funding transferred from capital to output, various government initiatives, and carry over funding not included in the initial output cost for 2004-05. Some of the additional expenditure was incurred on projects such as those that relate to protecting and...
repairing Victoria’s water resources, restoring environmental flows, salinity and commercial forests (refer to exhibit 14.2 for further details). 617

Exhibit 14.1 shows seven of the department’s 11 outputs where the actual output cost exceeded budget by more than 10 per cent in 2004-05.

**Exhibit 14.1: Department of Sustainability and Environment Output costs**

<table>
<thead>
<tr>
<th>Output groups/outputs</th>
<th>Column 1</th>
<th>Column 2</th>
<th>Column (2–1)/1</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2004-05 Budget ($ million)</td>
<td>2004-05 Actual ($ million)</td>
<td>Variation (a) (%)</td>
</tr>
<tr>
<td><strong>Catchment and water</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sustainable water management and supply</td>
<td>90.4</td>
<td>137.4</td>
<td>52.0</td>
</tr>
<tr>
<td>Sustainable catchment management</td>
<td>100.2</td>
<td>145.9</td>
<td>45.6</td>
</tr>
<tr>
<td><strong>Environment protection</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Policy frameworks, regulations and services to protect the environment</td>
<td>61.1</td>
<td>66.7</td>
<td>9.2</td>
</tr>
<tr>
<td><strong>Land stewardship and biodiversity</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Service for management and governance of Victoria’s parks</td>
<td>145.4</td>
<td>162.7</td>
<td>11.9</td>
</tr>
<tr>
<td>Services for biodiversity conservation, ecosystem, heritage recreation and tourism</td>
<td>43.0</td>
<td>53.1</td>
<td>23.5</td>
</tr>
<tr>
<td>Public land and sustainable forest management services</td>
<td>155.7</td>
<td>233.1</td>
<td>49.7</td>
</tr>
<tr>
<td>Fire prevention, operations and planning environment</td>
<td>92.7</td>
<td>103.6</td>
<td>11.8</td>
</tr>
<tr>
<td><strong>Planning and land services</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Land information</td>
<td>101.1</td>
<td>110.0</td>
<td>8.8</td>
</tr>
<tr>
<td>Sustainable cities, regions and heritage conservation</td>
<td>33.2</td>
<td>39.6</td>
<td>19.3</td>
</tr>
<tr>
<td><strong>Sustainability policy and programs</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Urban and regional strategies and programs</td>
<td>10.5</td>
<td>9.6</td>
<td>–8.6</td>
</tr>
<tr>
<td>Sustainability and greenhouse policy</td>
<td>30.7</td>
<td>33.2</td>
<td>8.1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>864.0</strong></td>
<td><strong>1,094.9</strong></td>
<td><strong>26.7</strong></td>
</tr>
</tbody>
</table>

Note: (a) A negative variance indicates that the actual result for 2004-05 was lower than budget.


617 Department of Sustainability and Environment response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 20 January 2006, pp. 2–4
The Committee sought additional information from the department for six output cost variations of 10 per cent or more, to supplement explanations already provided in the department’s annual report; exhibit 14.2 displays this information. One other output had a variance of more than 10 per cent; this was satisfactorily explained in the department’s annual report.

**Exhibit 14.2: Department of Sustainability and Environment**

Information sought by the Committee for selected outputs

<table>
<thead>
<tr>
<th>Output groups/outputs</th>
<th>2004-05 Budget ($ million)</th>
<th>2004-05 Actual ($ million)</th>
<th>Variation (%)</th>
<th>Explanation provided by department</th>
</tr>
</thead>
<tbody>
<tr>
<td>Catchment and water</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
| Sustainable water management and supply| 90.4                       | 137.4                       | 52.0          | The key areas that attracted the additional expenditure in 2004-05 were:  
  Treasurer’s Advance – Our Water Our Future initiative:  
  • protecting and repairing our water sources  
  • smart urban water initiatives and recycling  
  • boosting water smart farms, sustainable irrigation and land management initiatives  
  • water security for cities, farms and the environment  
  • COAG – Living Murray initiative  
  Carry over of unspent allocations from 2003-04:  
  • River Murray environmental flows  
  • waterways – restoring environmental flows  
  Federal government contribution towards joint government enterprise. |
| Sustainable catchment management       | 100.2                      | 145.9                       | 45.6          | Increases in budget and expenditure were in the key areas of the National Action Plan for Salinity, the Natural Heritage Trust and the National Landcare Program, which attracted total expenditure of $83.4 million and resulted in a variation of $45.7 million between budget and actual. |
Exhibit 14.2: Department of Sustainability and Environment
Information sought by the Committee for selected outputs (continued)

<table>
<thead>
<tr>
<th>Output groups/outputs</th>
<th>Column 1</th>
<th>Column 2</th>
<th>Column (2-1)/1</th>
<th>Explanation provided by department</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2004-05</td>
<td>2004-05</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Budget ($ million)</td>
<td>Actual ($ million)</td>
<td>Variation (%)</td>
<td></td>
</tr>
<tr>
<td>Land stewardship and biodiversity</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Service for management and governance of Victoria’s parks</td>
<td>145.4</td>
<td>162.7</td>
<td>11.9</td>
<td>Increases in budget and expenditure were in the key areas of the Parks and Reserves Trust fund, the National Parks Service, and unspent previous year’s appropriations for the Box-Iron Bark program initiative, which contributed to the variation of $17.3 million between budget and actual.</td>
</tr>
<tr>
<td>Services for biodiversity conservation, ecosystem, heritage recreation and tourism</td>
<td>43.0</td>
<td>53.1</td>
<td>23.5</td>
<td>An increase in budget and expenditure was in the key area of the Project Trust Account, with a total expenditure of $10.9 million resulting in a variation of $10.1 million between budget and actual.</td>
</tr>
<tr>
<td>Public land and sustainable forest management services</td>
<td>155.7</td>
<td>233.1</td>
<td>49.7</td>
<td>This output had impacts in the key areas of increased revenue from the Australian Paper Agreement and a revaluation of commercial forests, contributing to the variation of $77.4 million between budget and actual.</td>
</tr>
<tr>
<td>Planning and land services</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sustainable cities, regions and heritage conservation</td>
<td>33.2</td>
<td>39.6</td>
<td>19.3</td>
<td>During 2004-05, the department transferred funding from capital to output for grant payments to local councils to complete transit city projects. These payments were recognised as output expenditure pursuant to AAS 27. In addition, the department’s contribution to planning exceeded initial estimates. Because of unanticipated increases in the demand for planning services, the department needed to realign its resources to absorb additional unanticipated costs against this output.</td>
</tr>
</tbody>
</table>

Source: Department of Sustainability and Environment response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 20 January 2006, pp.2–4
The Committee considers that the department should have disclosed the impact of the additional funding in terms of additional services that were able to be provided during 2004-05 and the performance of the department in meeting or exceeding its targets.

The Committee recommends that:

**Recommendation 76:** The Department of Sustainability and Environment ensure that where additional funding has been received during a year, appropriate disclosure is contained in the department’s annual report to show the affect that this funding has had in terms of its ability to meet or exceed its performance targets for the year.

### 14.2 Performance information

The department achieved or exceeded 104 (73.8 per cent) of the 141 performance targets published in its 2004-05 annual report. While information contained in the annual report explained major variations between actual performance and published targets, the Committee sought further details about selected performance measures and actual outcomes in 2004-05 (exhibit 14.3).
### Exhibit 14.3: Department of Sustainability and Environment

Information sought by the Committee on selected performance measures

<table>
<thead>
<tr>
<th>Outputs/performance measures</th>
<th>Unit of measure</th>
<th>Target 2004-05</th>
<th>Actual 2004-05</th>
</tr>
</thead>
<tbody>
<tr>
<td>Catchment and water/sustainable water management and supply</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Additional area protected from salinity by surface drainage</td>
<td>hectare</td>
<td>8,380</td>
<td>2,727</td>
</tr>
<tr>
<td><strong>Explanation provided by department:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Funding for the Salinity Infrastructure Program was reduced by approximately $1 million in 2003-04 and a further $600,000 in 2004-05. The Expenditure Review Committee (ERC) performance measures for the Salinity Infrastructure Program (namely Additional area protected from salinity by surface drainage and Additional area protected from salinity by sub-surface drainage) had not been altered to take into consideration the funding reductions over these two years. The targets, unless revised, would not have been achievable. The reprioritised funds were not directed into another part of the Salinity Infrastructure Program, or into the Sustainable Irrigation Program, which is the broader program within which the Salinity Infrastructure Program sits. The funds were redirected to the reprioritisation pool, which was allocated at the discretion of the secretariat.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Additional area protected from salinity by sub-surface drainage</td>
<td>hectare</td>
<td>4,882.5</td>
<td>2,250</td>
</tr>
<tr>
<td><strong>Explanation provided by department:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Please refer to previous answer relating to surface drainage with regard to the amount of funds reprioritised and where they were redirected. In relation to why the revised target was not achieved, the department indicated that as advised in the fourth quarter ERC report for 2004-05, the revised target was not reached in 2004-05 due to problems securing electricity connections to the new groundwater pumping sites, which enables sub-surface drainage protection. Although groundwater pumps were installed, without the electricity connection enabling the pump sites to operate, the additional area is not rated as protected. Extract from fourth quarter 2004-05 ERC report: ‘Works have been progressing according to plan and investigative works have been completed; however pump connection has been delayed due to problems with the electrical supply authority providing connections to pumps. Five public pumps have been commissioned; one has been constructed, two are in the design phase and one is in the construction phase. There are currently 52 private pumps under investigation; 21 investigations have already been completed and nine suitable private pump sites have been determined’. There is also further difficulty in determining appropriate targets for ERC performance measures due to the timing of when revised performance measures for the next financial year are requested and when indicative program allocations are provided, that is, revised ERC performance measures are required prior to having indicative program funding allocations.</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Exhibit 14.3: Department of Sustainability and Environment
Information sought by the Committee on selected performance measures (continued)

<table>
<thead>
<tr>
<th>Outputs/performance measures</th>
<th>Unit of measure</th>
<th>Target 2004-05</th>
<th>Actual 2004-05</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rebates approved to households for improved water efficiency in the house and garden</td>
<td>number</td>
<td>15,000</td>
<td>42,371</td>
</tr>
<tr>
<td>Length of river where works have been undertaken to improve river health</td>
<td>kilometre</td>
<td>540</td>
<td>956</td>
</tr>
<tr>
<td>Land stewardship and biodiversity/service for management and governance of Victoria’s parks</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Two-wheel drive access roads in fair to good condition</td>
<td>per cent</td>
<td>85</td>
<td>71</td>
</tr>
</tbody>
</table>

Explanation provided by department:
- The revised target was set at 50,000 based on the uptake in the previous year. However, due to the significant overspend in 2003-04, the scheme was not promoted to the same extent and this was the most likely impact on overall rebates granted. In addition, because the rebate scheme has been in operation since January 2003, it is likely that the rate of uptake has peaked and is now beginning to slow.
- The target of 540 km was an estimate established prior to the beginning of 2004-05. This target assumed existing investment, and excluded any additional resources the program might receive from the Protecting and Repairing Our Water Resources initiative, part of the white paper, *Our Water Our Future*.
- Additional resources received through the Protecting and Repairing Our Water Resources initiative, along with a focus on riparian restoration activities, led to the significant increase in the target, from 540 km to 1004 km.
- The actual figure of 956 km is within the 10 per cent variation of this revised target.
- The actual figure of 71 per cent is within the 10 per cent variation of this revised target.

Sources: *Department of Sustainability and Environment Annual Report 2004-05, pp.153, 154, 157; Department of Sustainability and Environment, response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 20 January 2006, pp.5–10*

The Committee considers that action needs to be taken to minimise timing differences between the time that revised performance measures for the next financial year are requested, and when indicative program funding is allocated. This will ensure that performance targets accurately reflect activities funded for the year, thereby aiding meaningful variance analyses at year end.
The Committee recommends that:

**Recommendation 77:** To enable meaningful analysis to be undertaken between planned and actual performance, the Department of Sustainability and Environment ensure targets reflect any adjustments made to funding allocations for the year, or that notes to the published performance information explain funding adjustments that may have occurred subsequent to revising performance measures for a given year.

**Recommendation 78:** Where actual performance data for an output measure is not available at the time of reporting, the Department of Sustainability and Environment provide a note accompanying performance information in its annual report, disclosing that the actual result is an estimate only and that the final result may differ from information published.

### 14.3 Staffing matters

Exhibit 14.4 shows the total number of equivalent full-time staff (EFT) in the department at 30 June 2005 was 2,765.3.
Exhibit 14.4: Department of Sustainability and Environment
Equivalent full-time staff, 2004-05 and salary costs

<table>
<thead>
<tr>
<th>Staff numbers</th>
<th>Ongoing (EFT)</th>
<th>Fixed term (EFT)</th>
<th>Casual (EFT) (a)</th>
<th>Funded vacancy (EFT) (b)</th>
<th>Total (EFT)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executive officers</td>
<td></td>
<td>46.0</td>
<td>6.0</td>
<td>52.0</td>
<td></td>
</tr>
<tr>
<td>VPS staff – grades 1–6</td>
<td>2,085.9</td>
<td>294.4</td>
<td>19.0</td>
<td>45.0</td>
<td>2,444.3</td>
</tr>
<tr>
<td>Field staff</td>
<td>205.0</td>
<td>45.0</td>
<td>5.0</td>
<td>255.0</td>
<td></td>
</tr>
<tr>
<td>Senior technical specialist</td>
<td>3.0</td>
<td>1.0</td>
<td>3.0</td>
<td>7.0</td>
<td></td>
</tr>
<tr>
<td>Principal scientist</td>
<td>3.0</td>
<td>4.0</td>
<td></td>
<td>7.0</td>
<td></td>
</tr>
<tr>
<td><strong>Total EFT staff</strong></td>
<td><strong>2,296.9</strong></td>
<td><strong>390.4</strong></td>
<td><strong>19.0</strong></td>
<td><strong>59.0</strong></td>
<td><strong>2,765.3</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Salary costs (c)</th>
<th>($ million)</th>
<th>($ million)</th>
<th>($ million)</th>
<th>($ million)</th>
<th>($ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003-04</td>
<td>118.4</td>
<td>45.6</td>
<td>0.8</td>
<td>164.8</td>
<td></td>
</tr>
<tr>
<td>2004-05</td>
<td>124.3</td>
<td>46.6</td>
<td>0.9</td>
<td>171.8</td>
<td></td>
</tr>
<tr>
<td>Increase in salary costs (d)</td>
<td>5.9</td>
<td>1.0</td>
<td>0.1</td>
<td>7.0</td>
<td></td>
</tr>
<tr>
<td>Increase in salary costs (d)</td>
<td>5.0%</td>
<td>2.2%</td>
<td>12.5%</td>
<td>4.2%</td>
<td></td>
</tr>
</tbody>
</table>

Notes:
(a) Casual EFT numbers reflect an average of casual staff engaged from time to time during the year across the department.
(b) The number of funded vacancies reflects an estimate of positions existing at 30 June 2005 that were at various stages of the recruitment process, with the exception of the executive officer and senior technical specialist jobs. In the case of these jobs, when added to filled roles, they represent the approved positions for the department.
(c) Because salary costs for some employment categories are not readily identifiable, an estimate has been prepared based on the employment profile of ongoing, fixed term and casual staff, including approximately $20 million to employ 600–700 summer project firefighters for fire suppression and management work (included in fixed term staff costs). The salary costs include, for example, overtime and standby, but exclude employment related costs such as superannuation.
(d) Calculated by the Public Accounts and Estimates Committee secretariat.

Source: Department of Sustainability and Environment response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 20 January 2006, pp.22, 24

Exhibit 14.5 provides information about various classification levels that experienced staff movements of more than 10 per cent between 2003-04 and 2004-05, compared with the total number of EFT staff.
Exhibit 14.5: Department of Sustainability and Environment
Explanation of movements of more than 10 per cent in Equivalent full-time staff

<table>
<thead>
<tr>
<th>Classification</th>
<th>Total EFT 2003-04</th>
<th>Total EFT 2004-05</th>
<th>Change (EFT) (a)</th>
<th>Change (%) (a)</th>
<th>Explanation provided by department</th>
</tr>
</thead>
<tbody>
<tr>
<td>Field staff</td>
<td>228.8</td>
<td>250.0</td>
<td>21.2</td>
<td>10</td>
<td>The increase reflects resourcing of the Public Land Fire initiative to increase fire management and suppression capability. This four year initiative has been undertaken in conjunction with Parks Victoria.</td>
</tr>
<tr>
<td>VPS grade 1</td>
<td>28.3</td>
<td>24.4</td>
<td>-3.9</td>
<td>-14</td>
<td>This grade is typically used to place trainees following completion of their traineeship and to engage short term administrative staff to address peak work loads. Trainees typically move reasonably quickly to grade 2 roles.</td>
</tr>
<tr>
<td>VPS grade 2</td>
<td>475.8</td>
<td>378.4</td>
<td>-97.4</td>
<td>-20</td>
<td>This reduction is largely attributed to two factors: 1. The review and reclassification of grade 2 roles to grade 3 (including some that were approved in late 2003-04 but not implemented until 2004-05) as part of the introduction of the VPS career structure 2. The movement of grade 2 staff to VicForests in July 2005.</td>
</tr>
<tr>
<td>VPS grade 4</td>
<td>445.7</td>
<td>509.0</td>
<td>63.3</td>
<td>14</td>
<td>The increases can be largely attributed to two factors: 1. The review and reclassification of roles (including some that were approved in late 2003-04 but not implemented until 2004-05) as part of the introduction of the VPS career structure 2. An increase in the work value of some roles when reviewed, for example, new roles or on vacancy. Reviews are conducted in accordance with departmental policy and use the VPS descriptors of work contained within the VPS certified agreement. This process ensures that a proper assessment of the organisational need and work value for the role is undertaken.</td>
</tr>
<tr>
<td>VPS grade 5</td>
<td>396.7</td>
<td>463.3</td>
<td>66.6</td>
<td>17</td>
<td>See grade 4 explanation</td>
</tr>
<tr>
<td>VPS grade 6</td>
<td>261.0</td>
<td>317.5</td>
<td>56.5</td>
<td>21</td>
<td>See grade 4 explanation</td>
</tr>
<tr>
<td>Senior technical specialist</td>
<td>0.0</td>
<td>6.0</td>
<td>6.0</td>
<td>n/a</td>
<td>These roles are allocated by the Department of Premier and Cabinet. Within this allocation, the number filled or vacant at any time is due to natural staff turnover.</td>
</tr>
</tbody>
</table>

Notes: (a) A negative figure indicates that the EFT staff numbers in 2004-05 were lower than 2003-04
n/a not applicable
Source: Department of Sustainability and Environment response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 20 January 2006, pp.23–24
14.4 Major issues

14.4.1 Revenue raising activities of the department

As foreshadowed in its Report on the 2005-06 Budget Estimates, the Committee requested a list of any new revenue raising initiatives planned for implementation in 2005-06 and/or major changes to existing revenue initiatives that are to occur in 2005-06. Exhibit 14.6 provides the department’s response.

Exhibit 14.6: Department of Sustainability and Environment
New or changed revenue initiatives, 2005-06

<table>
<thead>
<tr>
<th>Revenue initiative</th>
<th>2005-06 State Budget (Pg 189 BP4) ($ million)</th>
<th>2005-06 Revised budget (as per S29 FMA) ($ million)</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>State revenue</td>
<td>1.7</td>
<td>12.8</td>
<td>$3.2 million increase in research funding and $600,000 increase in additional sales through Environment Protection Authority Victoria. $4.8 million for entry fees to Werribee Mansion. $2.6 million for commercial forest revenue.</td>
</tr>
<tr>
<td>Commonwealth specific purpose payments</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>National Action Plan for Salinity</td>
<td>43.0</td>
<td>27.9</td>
<td></td>
</tr>
<tr>
<td>National Heritage Trust</td>
<td>12.2</td>
<td>23.2</td>
<td></td>
</tr>
<tr>
<td>National Land Care Program</td>
<td>2.4</td>
<td>5.1</td>
<td></td>
</tr>
<tr>
<td>National Water initiative</td>
<td></td>
<td></td>
<td>10.8</td>
</tr>
<tr>
<td>Total</td>
<td><strong>59.3</strong></td>
<td><strong>79.8</strong></td>
<td></td>
</tr>
</tbody>
</table>

Notes: FMA – Financial Management Act 1994
BP4 – Budget Paper No.4 2005-06 Statement of Finances

Source: Department of Sustainability and Environment response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 20 January 2006, p.33
The Committee recommends that:

**Recommendation 79:** Where revenue exceeds the estimate (as in the 2005-06 state budget) or where redistributions have occurred subsequent to the preparation of the budget, the Department of Sustainability and Environment ensure the effect – in terms of exceeding output targets – is explained in its annual report when commenting on variances between target and actual performance.

### 14.4.2 Bushfire Recovery Strategy

The Committee signalled in its *Report on the 2005-06 Budget Estimates* that it would seek further information in the next outcomes report about the operation of the Bushfire Recovery Strategy. The purpose of this action is to identify the various organisations involved in the strategy and the output expenditure and capital outlays incurred by each of these organisations to June 2005.619

Exhibit 14.7 provides a financial summary for the Bushfire Recovery Strategy, from its inception in 2003-04 to 2004-05, which discloses the budget for each department and agency involved in the strategy and related expenditure. While the Department of Primary Industries has spent its net budget of $12.2 million, the Department of Sustainability and Environment and its agencies had spent $35.1 million of the net budget of $47.3 million (74.2 per cent) at 30 June 2005, leaving $12.2 million (25.8 per cent) unspent at that date.

Exhibit 14.7:  Bushfire Recovery Strategy, financial summary to June 2005

<table>
<thead>
<tr>
<th>Department/agency</th>
<th>Output ($ million)</th>
<th>Assets ($ million)</th>
<th>Total ($ million)</th>
<th>Reduction in insurance ($ million)</th>
<th>Net budget ($ million)</th>
<th>Output ($ million)</th>
<th>Assets ($ million)</th>
<th>Total ($ million)</th>
<th>Output ($ million)</th>
<th>Assets ($ million)</th>
<th>Total ($ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Department of Sustainability and Environment</td>
<td>14.9</td>
<td>11.4</td>
<td>26.3</td>
<td>-2.6</td>
<td>-1.0</td>
<td>22.7</td>
<td>12.9</td>
<td>5.6</td>
<td>18.5</td>
<td>1.0</td>
<td>3.2</td>
</tr>
<tr>
<td>Parks Victoria</td>
<td>8.5</td>
<td>12.4</td>
<td>20.9</td>
<td>-5.2</td>
<td>0.0</td>
<td>15.7</td>
<td>8.5</td>
<td>7.2</td>
<td>15.7</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>North East Region Water Authority</td>
<td>0.0</td>
<td>8.0</td>
<td>8.0</td>
<td>0.0</td>
<td>0.0</td>
<td>8.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>8.0</td>
</tr>
<tr>
<td>Alpine Resorts</td>
<td>0.9</td>
<td>0.0</td>
<td>0.9</td>
<td>0.0</td>
<td>0.9</td>
<td>0.9</td>
<td>0.9</td>
<td>0.9</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Total DSE</td>
<td>24.3</td>
<td>31.8</td>
<td>56.1</td>
<td>-7.8</td>
<td>-1.0</td>
<td>47.3</td>
<td>22.3</td>
<td>12.8</td>
<td>35.1</td>
<td>1.0</td>
<td>11.2</td>
</tr>
<tr>
<td>Department of Primary Industries</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fisheries</td>
<td>0.3</td>
<td>0.0</td>
<td>0.3</td>
<td>0.0</td>
<td>-0.1</td>
<td>0.2</td>
<td>0.2</td>
<td>0.0</td>
<td>0.2</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Catchment Agriculture Services</td>
<td>14.2</td>
<td>0.0</td>
<td>14.2</td>
<td>0.0</td>
<td>-2.2</td>
<td>12.0</td>
<td>12.0</td>
<td>0.0</td>
<td>12.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Total DPI</td>
<td>14.5</td>
<td>0.0</td>
<td>14.5</td>
<td>0.0</td>
<td>-2.3</td>
<td>12.2</td>
<td>12.2</td>
<td>0.0</td>
<td>12.2</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Total</td>
<td>38.8</td>
<td>31.8</td>
<td>70.6</td>
<td>-7.8</td>
<td>-3.3</td>
<td>59.5</td>
<td>34.5</td>
<td>12.8</td>
<td>47.3</td>
<td>1.0</td>
<td>11.2</td>
</tr>
<tr>
<td>Appropriated funds</td>
<td>26.9</td>
<td>8.5</td>
<td>35.4</td>
<td>-3.3</td>
<td>32.1</td>
<td>22.6</td>
<td>8.5</td>
<td>31.1</td>
<td>0.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reprioritised funds</td>
<td>11.9</td>
<td>10.5</td>
<td>22.4</td>
<td>22.4</td>
<td>11.9</td>
<td>2.5</td>
<td>14.4</td>
<td>1.0</td>
<td>8.0</td>
<td>9.0</td>
<td></td>
</tr>
<tr>
<td>Funding from insurance recoups</td>
<td>0</td>
<td>12.8</td>
<td>12.8</td>
<td>-7.8</td>
<td>5.0</td>
<td>0.0</td>
<td>1.8</td>
<td>1.8</td>
<td>3.2</td>
<td>3.2</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>38.8</td>
<td>31.8</td>
<td>70.6</td>
<td>-7.8</td>
<td>-3.3</td>
<td>59.5</td>
<td>34.5</td>
<td>12.8</td>
<td>47.3</td>
<td>1.0</td>
<td>11.2</td>
</tr>
</tbody>
</table>

Source:  Department of Sustainability and Environment response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 20 January 2006, p.34.
Exhibit 14.7 shows that there have been no major variations to budget and that all appropriated funds have been spent. The department advised that:

- reprioritised funds are funds redirected from base funding;
- a Treasurer’s Advance received in 2002-03 could not be fully spent in the time available because staff who were required to deliver recovery services were needed to fight the fires that occurred over January, February and early March 2003 (a Treasurer’s Advance is to be spent in the financial year received or returned to the Consolidated Fund);
- insurance claims were an estimate and have been reduced to reflect assessed recoups;
- the remaining $1 million of output funds will be spent on alpine grazing in 2005-06; and
- it expects $3.2 million of insurance work to be finalised and the North East Region Water Authority to start its infrastructure program, which includes $8 million for bushfire recovery.

The Committee noted that, while the first Bushfire Recovery Strategy restoration funding involved a capital budget of $31.8 million to fund new projects for commencement in 2003-04, infrastructure works will continue throughout 2005-06, three years later. The Committee considers that the department should conduct an evaluation of the implementation of the Bushfire Recovery Strategy before embarking on any new initiatives to address restoration works connected with this summer’s bushfires, so that any lessons learned (where multiple agencies are involved) can be addressed in future bushfire recovery strategies.

The department needs to develop a sound monitoring framework that involves site visits and physical verification of projects to ensure that recovery strategies are implemented efficiently and effectively within reasonable timeframes.

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620 Department of Sustainability and Environment response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 20 January 2006, p.35
The Committee recommends that:

**Recommendation 80:** Prior to embarking on any new bushfire recovery strategies, the Department of Sustainability and Environment:

(a) arrange for an independent evaluation to be undertaken of the initial strategy that involved the commencement of restoration works in 2003-04, so that any lessons learned can be incorporated into the new strategy; and

(b) implement a sound monitoring framework to ensure that restorative works are completed efficiently and effectively.

**14.4.3 Victoria’s wild dog program**

The Committee noted that the government has increased the number of staff involved in wild dog management from 13 to 26, and invested $3.6 million in the program in 2004-05. With an average of 3,600 sheep and lambs killed by wild dogs each year, the Minister for Environment stated that in 2004-05, extensive baiting and trapping programs have been undertaken, over 900 steel-jawed leg-hold traps have been replaced with rubber-jawed leg-hold traps, and over 300 kilometres of new wild dog control fencing has been erected. According to the Department of Primary Industries annual report for 2004-05, baiting programs equated to 57,850 bait nights while trapping programs equated to 177,600 trapping nights, with over 1,000 wild dogs destroyed.

The Minister for Environment advised that introducing the option of joining New South Wales in an aerial baiting program presented practical problems and increased the potential for killing native fauna. The Minister explained that a thorough analysis must be undertaken before implementing this technique.

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622 Hon. J Thwaites, MP, Minister for Environment, *Aerial baiting trial to begin*, media release, 23 November 2005
623 ibid.
624 Department of Primary Industries, *2004-05 Annual Report*, p.34
Responding to the Committee’s enquiries about any developments or any proposed actions in this area, the department supplied the following information:\(^{626}\)

- following consideration of all the relevant and available research, the Victorian Government announced in November 2005 a two-phase aerial baiting trial to determine the value of aerial baiting in conjunction with the current range of integrated wild dog control techniques;\(^{627}\)
- the trial will be carried out on public land in a ‘buffer zone’ adjacent to private land, in line with other wild dog control activities being implemented in the Wild Dog Program under the Victorian Pest Management Framework and the Wild Dog Management Strategy;
- the first phase of the trial, consists of testing the accuracy of delivering baits from the air, and determining the difference in bait uptake rates by wild dogs and other animals between aerially deployed baits and those buried conventionally;
- the two-phased approach to the trial will ensure that the baits can be deployed from the air accurately, and that the surface-laid baits do not have an adverse impact on native species, in particular, the spotted-tailed quoll;
- a recent New South Wales study into the impact of aerial baiting on quoll populations concluded that aerial baiting was unlikely to have a significant population-level impact on spotted-tailed quolls in that state. The department is of the opinion that while this information is useful, it does not provide definitive information about the impact of aerial baiting on Victoria’s population of spotted-tailed quolls, which are considered to be more fragile than those in New South Wales;
- a stakeholder consultative committee, consisting of a variety of interest groups throughout the community and including the chairpersons of the North East and Gippsland Wild Dog Management Groups, is being formed to review the trial;
- phase two will proceed if assessment of phase one shows that aerial baiting can be effective in assisting wild dog control and does not constitute an unacceptable risk to non-target species;
- if approved, the second phase of the trial will involve deploying toxic 1080 baits from the air into the buffer zone and be accompanied by regular physical site monitoring of quoll and wild dog populations to determine the effectiveness and impacts of the technique; and
- if it is determined that aerial baiting is not effectively assisting in wild dog control or is adversely affecting quoll populations, the trial will be reassessed.

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\(^{626}\) Department of Sustainability and Environment response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 20 January 2006, p.36

\(^{627}\) Hon. J Thwaites, MP, Minister for Environment, *Aerial baiting trial to begin*, media release, 23 November 2005
The Committee will be interested in reviewing the effectiveness of aerial baiting as part of the integrated range of wild dog control techniques in Victoria.

### 14.4.4 State of Victoria’s rivers

The department reported that the Healthy Rivers initiative (one of a number of actions) contributes to the Victorian Government’s water target to significantly improve the ecological health of rivers by 2010 by increasing environmental flows and undertaking riverbank and catchment works.\(^{628}\) The department explained that during 2004-05, priority river and management works were undertaken on the Tarra River and on the Broken River floodplain.\(^{629}\) These works included removing exotic vegetation, increasing fencing, assisting with landholder management agreements, delivering weed control, removing fish barriers, and investing in biological monitoring.\(^{630}\) The Committee noted that while works were undertaken to improve 956 kilometres of river in 2004-05, which did not reach the revised target of 1,004 kilometres,\(^{631}\) the result for the year represented a 23 per cent increase on the prior year.\(^{632}\)

The Committee was interested in the department’s evaluation or synopsis of the findings from the latest Index of Stream Condition (ISC) assessment that was finalised by catchment management authorities in 2004, in terms of measuring the health of Victoria’s rivers. The ISC is implemented every five years.\(^{633}\)

The department advised that since 1999, there has been no overall change in statewide condition. Indeed, the deterioration in stream condition appears to have been controlled, with basins in the east of the state generally in better condition than those in the mid and west regions.\(^{634}\) In 2004, about 21 per cent of major rivers and tributaries were in good or excellent condition, 47 per cent were in moderate condition, and 32 per cent were in poor or very poor condition.\(^{635}\)

The department considers this to be a good result. While there may not have been any net improvement in condition, the halting of deterioration is a major achievement, as the department highlighted, while the health of Victorian rivers has been declining for 200 years, a turnaround in condition could not be expected in five years.\(^{636}\) Streams in good or excellent condition have been identified and protected, and those in poor or

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\(^{628}\) Department of Sustainability and Environment, 2004-05 Annual Report, p.35
\(^{629}\) ibid.
\(^{630}\) ibid.
\(^{631}\) Department of Sustainability and Environment response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 20 January 2006, p.9
\(^{632}\) Department of Sustainability and Environment, 2004-05 Annual Report, pp.35, 154
\(^{633}\) Hon. J Thwaites, MP, Minister for Water, response to the Committee’s follow-up questions to the 2005-06 Budget Estimates hearing, received 4 July 2005, p.1
\(^{634}\) Department of Sustainability and Environment response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 20 January 2006, p.37
\(^{635}\) ibid.
\(^{636}\) ibid.
very poor condition – with only a few exceptions – do not appear to have deteriorated further.637

The ISC results confirm the department’s opinion that there is no quick or easy solution to solving river health problems. Instead, long term management objectives, clear priorities for on-ground works, and continued investment and commitment by government and natural resource agencies are required for long term improvements in river health.638

While the 2004 ISC covers approximately 26,000 kilometres of stream length, a relatively small length of stream has been actively worked on by catchment management authorities over the past five years. With all sites for the ISC being randomly chosen (a necessary requirement for a statewide river health assessment), many of the sites that have undergone improvements would not have been part of the 2004 assessment. The department advised that there is also a time lag between when works are carried out and when improvements can be measured, and this time lag will vary for different activities. The impact of installing fish passage will be evident in under one year, for example, while the local water quality benefits for improved riparian vegetation will be evident in three to five years, local benefits of the enhanced environmental water reserve will take approximately three years, and the habitat benefit of improved riparian vegetation will take between 25 and 30 years.639

The department informed the Committee that the 1999 ISC method underwent a major review to incorporate improved scientific knowledge. In so doing, a trade off was required between comparability of 1999 and 2004 results and an improved, more accurate and useful data set. The largest changes were to the hydrology and streamside zone sub-indices. While many of the results for 2004 were lower than those for 1999, this does not mean that flow/riparian vegetation deteriorated since 1999; rather, the 2004 results provide a more accurate representation of the condition of rivers and tributaries.640

Some improvements in water quality scores were identified, especially for total phosphorus and turbidity. Because of ongoing drought conditions, low runoff results in fewer nutrients and sediments entering the waterways, resulting in improved total phosphorus and turbidity levels. Once the drought breaks, these levels could be expected to increase.641

The Committee questions whether the findings of the catchment management authorities according to the ISC are a good result for Victoria, given that one in three major rivers and tributaries selected were found to be in poor or very poor condition. The Committee considers the department should disclose in its annual report the
strategies employed to address this issue in future, accompanied with outcome related information.

The Committee recommends that:

**Recommendation 81:** The Department of Sustainability and Environment disclose in its annual report a commentary on the strategies employed to improve the health of Victoria’s major rivers and tributaries assessed to be in poor or very poor condition, together with progressive outcome related information that takes into account the time lag between carrying out works and measuring related results.

### 14.4.5 Reducing water consumption and improving the state of the environment

The department’s 2004-05 annual report notes that prior to the release of the *Our Water Our Future* initiative, there was little financial incentive or signal for people to reduce water use.\(^{642}\) Rising block tariffs were introduced to all residential customers served by the three metropolitan water retailers on 1 October 2004.\(^{643}\) The block tariff provides customers who use large volumes of water with greater incentive to reduce their consumption.\(^{644}\)

The Committee learned from the Minister as part of its inquiry into the 2005-06 Budget Estimates that in relation to the new rising block tariff pricing regime for residential water, the new pricing system could reduce consumption by 2 per cent to 4 per cent for the metropolitan area, depending on how customers respond.\(^{645}\)

The Committee indicated in its 2005-06 estimates report that as part of the 2004-05 outcomes report, it would ask the Minister to quantify the amount of metropolitan water a reduction of between 2 per cent and 4 per cent in water consumption represents.\(^{646}\) The Committee also enquired whether any analysis had been undertaken of outcomes achieved in 2004-05 in terms of the affect of the new pricing system on reducing water consumption, bearing in mind the other factors that can influence consumption.

\(^{642}\) Department of Sustainability and Environment, *2004-05 Annual Report*, p.38
\(^{643}\) ibid.
\(^{644}\) ibid.
\(^{645}\) Hon. J Thwaites, MP, Minister for Water, response to the Committee’s follow-up questions to the 2005-06 Budget Estimates hearing, received 4 July 2005, p.10
The Committee learned that in Melbourne, a reduction of 2 per cent to 4 per cent in water consumption would represent 9.6 gigalitres to 19.2 gigalitres, that is 9,600 million litres to 19,200 million litres.647

According to the department, authorities have advised that it is too early to analyse the impact of new pricing structures on water savings.648 More time is required to analyse historical versus current use and to undertake the difficult task of isolating the impact of pricing compared with the many other factors influencing consumption such as climate, water restrictions, education campaigns, rebate schemes and the ongoing drought.649

The department advised that further analysis will be undertaken by authorities prior to the Essential Services Commission’s next review of water prices, which will set prices for the period commencing 1 July 2008.650 The Committee intends to keep this matter under review.

The Committee noted that the Minister for Environment launched The Sustainables Household Challenge in April 2005 to encourage Victorians to improve the health of our environment.651 The challenge asks Victorians to complete the following 10 simple actions at home to keep our environment healthy:652

- take a four minute power shower
- take reusable bags when shopping
- turn off lights and appliances at the switch when not in use
- sign up to green power with your electricity supplier
- buy the most energy and water efficient appliances you can afford
- put your food and plant scraps in the compost or worm farm
- look out for products without unnecessary packaging
- walk, cycle or use public transport when you can, and leave the car at home
- grow plants in your garden that are native to your area
- go green when you clean.

The Committee considers that the department needs to establish mechanisms to progressively assess the effectiveness of the rising block tariff pricing regime in terms of conserving water in the long term and the Sustainables Household Challenge in the

647 Department of Sustainability and Environment response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 20 January 2006, p.38
648 ibid.
649 ibid.
650 ibid.
651 Department of Sustainability and Environment, 2004-05 Annual Report, p.56
652 ibid.
context of encouraging Victorians to improve the health of the environment. These matters will be kept under review by the Committee.

The Committee recommends that:

**Recommendation 82:** The Department of Sustainability and Environment assess the effectiveness of the rising block tariff pricing regime in terms of reducing the consumption of water and the Sustainables Household Challenge in the context of encouraging Victorians to improve the health of the environment.

**Recommendation 83:** The Department of Sustainability and Environment include commentary in its annual report on the outcomes achieved from the introduction of the rising block tariff pricing regime and the Sustainables Household Challenge.
CHAPTER 15: DEPARTMENT OF TREASURY AND FINANCE

Key findings of the Committee:

15.1 The output budget for the Department of Treasury and Finance was $185.7 million in 2004-05; actual output cost was $180 million, $5.7 million (or 3.1 per cent) under the budget estimates.

15.2 Six of the department’s 20 outputs were over budget by more than 10 per cent, while 5 outputs were below budget by a similar margin.

15.3 The department achieved or exceeded 113 (approximately 90 per cent) of its 126 performance targets in 2004-05.

15.4 There is an urgent need for detailed guidance or an accounting standard to be developed for the treatment of infrastructure assets arising from public private partnerships that will eventually revert to government ownership.

15.5 Where windfall surpluses are recorded by the Transport Accident Commission it would be prudent to retain a proportion of such surpluses to provide a buffer for years when deficits occur, usually as a result of the volatility of returns from investments and claims experience.

15.1 Financial analysis – comparison with budget

The Department of Treasury and Finance and its agencies were responsible for the delivery of 20 outputs in 2004-05. These outputs were initially budgeted to cost $185.7 million, actual output expenditure in 2004-05 was $180 million, $5.7 million (or 3.1 per cent) under budget.

While the aggregated output expenditure was within 10 per cent of budget, expenditure of six outputs exceeded the budget by more than 10 per cent. In contrast, the expenditure of five outputs was more than 10 per cent below budget.

The department’s annual report did not provide explanations for major variations, for example, of more or less than 10 per cent, between budget and actual output costs. The Committee iterates its expectation in chapter 1 (recommendation number 4) of this report that major variations in output costs should be explained in annual reports.

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654 ibid.
Exhibit 15.1 presents explanations sought by the Committee for significant variations in output costs in 2004-05.

### Exhibit 15.1: Department of Treasury and Finance
**Information sought by the Committee for selected outputs**

<table>
<thead>
<tr>
<th>Output groups/outputs</th>
<th>Column 1 2004-05 Budget ($ million)</th>
<th>Column 2 2004-05 Actual ($ million)</th>
<th>Column (2-1) /1 (%)</th>
<th>Explanation provided by department</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Strategic policy advice</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
| Financial and resource management frameworks | 8.9 | 7.1 | -20.2 | • The variance is a funding transfer to other outputs to cover identified pressures and new priorities at mid-year and a review of corporate services costs allocation to all outputs.  
• This output also carried over $175,000 of 2004-05 funding into 2005-06. |
| Strategic policy and research | 3.3 | 2.9 | -12.1 | The use of internal resources rather than consultancies has resulted in savings in delivering this output. |
| **Financial management services** | | | | |
| Financial reporting | 14.5 | 12.2 | -15.9 | The variance relates to the reallocation of resources within the department’s output portfolio and the review of corporate services costs allocation to all outputs. |
| Taxation (state revenue) monitoring and forecasting services | 0.7 | 0.8 | 14.3 | Funding was reallocated internally to this output to enhance the achievement of deliverables. |
| GBE performance monitoring services | 1.6 | 2.6 | 62.5 | Funding was reallocated to this output to enhance the achievement of deliverables, particularly relating to the governance review of non-metropolitan water authorities. |
| **Resource management services** | | | | |
| Government accommodation services | 28.1 | 25.1 | -10.7 | Movement relates to the reduction of the $3.7 million in the Transport House lease arrangement and additional capital asset charge applied to properties held for re-sale.⁶⁵⁵ |

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⁶⁵⁵ Department of Treasury and Finance, email, received 16 March 2006
Exhibit 15.1: Department of Treasury and Finance
Information sought by the Committee for selected outputs (continued)

<table>
<thead>
<tr>
<th>Output groups/outputs</th>
<th>Column 1</th>
<th>Column 2</th>
<th>Variation (a) (%)</th>
<th>Explanation provided by department</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2004-05 Budget ($ million)</td>
<td>2004-05 Actual ($ million)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Resource management services (continued)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Government land and property services</td>
<td>6.1</td>
<td>9.0</td>
<td>47.5</td>
<td>Internal funding was reallocated to this output resulting from the Auditor-General’s requirement to apply capital asset charge during 2004-05 onwards to land and buildings held for restricted use.</td>
</tr>
<tr>
<td>Management of motor vehicle leases</td>
<td>2.6</td>
<td>3.6</td>
<td>38.5</td>
<td>This output received Treasurer’s approval to access unapplied prior year’s surplus to cover the interest on the losses incurred on the sale of motor vehicles leased from the previous motor vehicle lease arrangement with the Commonwealth Bank of Australia.</td>
</tr>
<tr>
<td>Regulatory services</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Economic regulatory services (b)</td>
<td>12.2</td>
<td>15.4</td>
<td>26.2</td>
<td>This output received Treasurer’s approval to access unapplied prior year’s surplus to ensure the achievement of deliverables relating to the price determination for electricity distribution and water.</td>
</tr>
<tr>
<td>Business environment policy advice (c)</td>
<td>2.8</td>
<td>3.6</td>
<td>28.6</td>
<td>This output is higher than the original estimate because the initial forecast for absorbing existing corporate services costs was reviewed following the outputs establishment.</td>
</tr>
<tr>
<td>Revenue management services</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenue management services to government (d)</td>
<td>58.1</td>
<td>50.6</td>
<td>-12.9</td>
<td>A change in accounting policy has meant that municipal valuations are now amortised in the year the revenue is earned, rather than the year of purchase of the valuations.</td>
</tr>
</tbody>
</table>

Notes:  
(a) A negative variance indicates that the actual results for 2004-05 were lower than budget  
(b) Output delivered by the Essential Services Commission  
(c) Output delivered by the Victorian Competition and Efficiency Commission  
(d) Output delivered by the State Revenue Office

Source: Department of Treasury and Finance response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 29 December 2005, pp.1–2
15.2 Performance information

The department achieved or exceeded approximately 90 per cent of its performance targets published in its 2004-05 annual report.

In addition to the information contained in the department’s annual report explaining variations to performance targets, the Committee sought further explanations on selected performance measures (exhibit 15.2).

Exhibit 15.2: Department of Treasury and Finance
Information sought by the Committee on selected performance measures

<table>
<thead>
<tr>
<th>Outputs/performance measures</th>
<th>Unit of measure</th>
<th>Target 2004-05</th>
<th>Actual 2004-05</th>
</tr>
</thead>
<tbody>
<tr>
<td>GBE performance monitoring services</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Analysis of GBE quarterly performance reports</td>
<td>number</td>
<td>72</td>
<td>63</td>
</tr>
<tr>
<td>Explanation provided by department:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The sale of Overseas Project Corporation of Victoria (OPCV) meant that no quarterly reports were analysed. The later than forecast commencement of operations for VicForests resulted in fewer quarterly records being provided for analysis. An administrative decision to transfer the monitoring of the TAC to another output within DTF meant that the work was not recorded within the GBE output.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Board appointments to relevant GBEs</td>
<td>number</td>
<td>27</td>
<td>18</td>
</tr>
<tr>
<td>Explanation provided by department:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nine metropolitan water board appointments occurred slightly later than forecast – in July 2005 rather than June 2005. This reflects a short delay in the timing of the Cabinet meeting at which this item was scheduled.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>GBE dividends negotiated</td>
<td>number</td>
<td>26</td>
<td>20</td>
</tr>
<tr>
<td>Explanation provided by department:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The sale of OPCV removed the need to negotiate dividends. The later than forecast commencement of operations for VicForests meant that dividends were not paid in 2004-05. (However, a final dividend for the year 2004-05 was paid in October 2005, and will be captured in the 2005-06 performance measure results). An administrative decision to transfer the monitoring of the TAC to another output within DTF meant that the work was not recorded within the GBE output.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Business environment policy advice</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reviews of regulatory impact assessments (RIS/BIS) (a)</td>
<td>number</td>
<td>30</td>
<td>50</td>
</tr>
<tr>
<td>Explanation provided by department:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The number of assessments exceed forecast because the forecast was low, reflecting the output's inaugural year of operation.</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note: (a) RIS – Regulatory impact statements
BIA – Business impact assessments

Sources: Department of Treasury and Finance, 2004-05 Annual Report, pp.26, 33; Department of Treasury and Finance, response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 29 December 2005, p.3
15.3 Staffing matters

Exhibit 15.3 shows the total equivalent full-time staff (EFT) in the department at 30 June 2005 was 534.6.

Exhibit 15.3: Department of Treasury and Finance
Equivalent full-time staff – 2004-05

<table>
<thead>
<tr>
<th>Classification</th>
<th>Ongoing (EFT)</th>
<th>Fixed term (EFT)</th>
<th>Casual (EFT)</th>
<th>Funded Vacancy (EFT)</th>
<th>Total (EFT)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executive officers</td>
<td>75.8</td>
<td>75.8</td>
<td></td>
<td></td>
<td>75.8</td>
</tr>
<tr>
<td>VPS staff - grades 1-6</td>
<td>429.0</td>
<td>26.2</td>
<td>0.8</td>
<td></td>
<td>456.0</td>
</tr>
<tr>
<td>Senior technical specialist</td>
<td>2.0</td>
<td>0.8</td>
<td></td>
<td></td>
<td>2.8</td>
</tr>
<tr>
<td><strong>Total EFT staff</strong></td>
<td><strong>431.0</strong></td>
<td><strong>102.8</strong></td>
<td><strong>0.8</strong></td>
<td></td>
<td><strong>534.6</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Salary costs:</th>
<th>($ million)</th>
<th>($ million)</th>
<th>($ million)</th>
<th>($ million)</th>
<th>($ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003-04</td>
<td>24.2</td>
<td>11.6</td>
<td>0.2</td>
<td></td>
<td>36.0</td>
</tr>
<tr>
<td>2004-05</td>
<td>27.6</td>
<td>12.5</td>
<td>0.1</td>
<td></td>
<td>40.2</td>
</tr>
<tr>
<td>Increase/(decrease) in salary costs (a) (b)</td>
<td>3.4</td>
<td>0.9</td>
<td>-0.1</td>
<td></td>
<td>4.2</td>
</tr>
<tr>
<td>Increase/(decrease) in salary costs (a) (b)</td>
<td>14.0%</td>
<td>7.8%</td>
<td>-50%</td>
<td></td>
<td>11.7%</td>
</tr>
</tbody>
</table>

Notes: (a) A negative figure indicates salary costs in 2004-05 are lower than 2003-04
(b) Calculated by the Public Accounts and Estimates Committee secretariat

Source: Department of Treasury and Finance, response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 29 December 2005, pp.9, 11

The Committee sought explanations for variances of more than 10 per cent in total EFT staff between 2003-04 and 2004-05. The department advised:

- the increase in executive officer level 2 positions reflects the filling of vacancies within the department’s existing allocation;
- the growth in VPS grade 5 and 6 levels reflects:
  - the Business and Environment Policy Advice output being set up to provide secretariat services to the Victorian Competition and Efficiency Commission;
  - increasing in-house organisational development capability;
  - strengthening budget and financial management capability; and
  - additional activities in strategic procurement, and in commercial and infrastructure risk management. The latter is in response to growing...

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656 Department of Treasury and Finance, response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 29 December 2005, p.10
demand for Gateway and Partnerships Victoria advice and the Treasurer’s increased governance responsibilities in the water sector.

The department advised that these increases were managed within its approved budget.

Exhibit 15.3 also shows that the department’s salary costs increased by $4.2 million between 2003-04 and 2004-05. Salary costs for ongoing staff increased by $3.4 million in 2004-05.

Exhibit 15.4 shows the total EFT staff in the State Revenue Office (SRO) at 30 June 2005 was 393.2. The SRO did not employ any casual staff.

**Exhibit 15.4:**

**State Revenue Office**

**Equivalent full-time staff – 2004-05**

<table>
<thead>
<tr>
<th>Classification</th>
<th>Ongoing</th>
<th>Fixed term</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(EFT)</td>
<td>(EFT)</td>
<td>(EFT)</td>
</tr>
<tr>
<td>Executive officers</td>
<td>0</td>
<td>6.0</td>
<td>6.0</td>
</tr>
<tr>
<td>VPS staff - grades 1-6</td>
<td>363.6</td>
<td>23.6</td>
<td>387.2</td>
</tr>
<tr>
<td>Total EFT staff</td>
<td>363.6</td>
<td>29.6</td>
<td>393.2</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Salary costs:</th>
<th>($ million)</th>
<th>($ million)</th>
<th>($ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003-04</td>
<td>18.5</td>
<td>2.9</td>
<td>21.4</td>
</tr>
<tr>
<td>2004-05</td>
<td>20.8</td>
<td>3.4</td>
<td>24.2</td>
</tr>
<tr>
<td>Increase in salary costs (a)</td>
<td>2.3</td>
<td>0.5</td>
<td>2.8</td>
</tr>
<tr>
<td>Increase in salary costs (a)</td>
<td>12.4%</td>
<td>17.2%</td>
<td>13.1%</td>
</tr>
</tbody>
</table>

*Note: (a) Calculated by the Public Accounts and Estimates Committee secretariat*

*Source: Department of Treasury and Finance, email, received 10 February 2006*

The Committee was advised that a decrease in lower level staff at the SRO during 2004-05 reflects the shift from operational administrative tasks to more technical, compliance focused tasks in line with the SRO’s business plan.\(^{657}\)

Exhibit 15.4 also shows that total salary costs for SRO increased by $2.8 million in 2004-05.

\(^{657}\) ibid.
15.4 Major issues

15.4.1 EastLink Tollway

The state entered into a contract in October 2004 with the ConnectEast Consortium to design, build, operate and maintain EastLink, previously known as the Mitcham-Frankston Freeway. The consortium will construct the tollway over a four year period and will then operate the tollway for 35 years.658

The project is being constructed on state owned land, leased to ConnectEast for a nominal consideration. In February 2004, eight months prior to the contract being entered into, the public sector comparator (a tool developed by the government to determine the benefits or otherwise of the construction of projects by the private sector) was used to determine the estimated net cost to the state budget of toll operation over the 35 year period. The net cost was estimated at $150 million in net present value terms and a benchmark was set by the government reflecting this amount.659

In the Auditor-General’s November 2005 report on the state’s finances, it was stated that the financial impact of the project on the state’s finances in 2004-05 was a net cost of $282.4 million. This cost comprised the value of state land required for the project ($218 million); the value of road works undertaken by the state to form part of the tollway ($100 million); which was offset in part by contributions of $35.6 million from the consortium to the state.660

The Committee asked the department to explain the reasons for the variation between the government’s estimated cost of around $150 million and the Auditor-General’s estimate of costs to date of $282.4 million.

The department responded that the amounts were not comparable because the costs identified by the Auditor-General reflected the undertaking of the project as a privately funded public private partnership arrangement, whereas the estimated net cost to the government of $150 million was on the basis that the state would undertake the project.661

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661 Department of Treasury and Finance, response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 29 December 2005, p.20
Apart from certain other variances, the department advised that the largest single difference between the amounts is the value of the land previously acquired for the project. The $150 million calculation excluded the value of $218 million for the land acquired, because it was purchased before the decision was made to proceed with the project in October 2004. Conversely, the calculation did include the estimated cost of residual acquisitions of land, discounted to net present value.

The Committee understands the reasons for the variation, but considers that a benchmark figure should be established for the cost to the state of the tollway, inclusive of the cost of land acquisitions and the value of works undertaken. This figure should be included in budget documents and progressively updated each year.

The freeway and associated land will be recognised as a state asset when the contract with ConnectEast expires in 2047, after the cost of construction is recouped by ConnectEast from tolls imposed on motorists using the freeway.

The $218 million value of state land acquired for the project was written off as an expense in 2004-05, with the asset (land and buildings) reduced accordingly. The accounting entry was necessary because although the state still owns the land, control of the land effectively passed to ConnectEast under Australian Accounting Standards, and therefore the asset will be disclosed in the financial reports of the consortium. The land is nominally leased to ConnectEast by the state.

Given that the land and freeway will revert to state ownership in 2047, the Auditor-General in his Report on the Finances of the State of Victoria 2004-05, reported that the freeway and associated land will be disclosed as a contingent asset in the government annual financial report. Note 32 to the Annual Finance Report 2004-05, which describes contingent assets and liabilities, refers to the EastLink contract, but not in the context of land acquisitions and associated works undertaken by the state that will be under the control of ConnectEast until 2047.

The Committee is uncertain whether the description of these assets as contingent assets is appropriate, given the certainty under the contract that these assets will eventually revert back to state control.

Budget Paper No. 4, 2005-06 Statement of Finances, acknowledges that there are a number of Partnership Victoria projects, including EastLink, which may include the right of the state to receive assets in the future. The government acknowledges that these assets are not disclosed, pending authoritative guidance or the development of an

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662 ibid.
663 Department of Treasury and Finance, response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 29 December 2005, pp.20-21
665 ibid., p.82
666 ibid., p.83
accounting standard dealing with the appropriate treatment of such assets. 668 The Committee emphasises the importance of an accounting standard, or authoritative guidance at the minimum, especially given the increasing trend of governments within Australia to use public private partnership arrangements to provide public infrastructure. Failure to do so will increasingly mean that the entitlement to future control of major assets will not be acknowledged in government financial reports, potentially compromising the information presented.

Failing to recognise an accruing entitlement to such assets could also ultimately result in major adjustments to future financial reports as these assets are progressively recognised, potentially distorting the financial position for those years in which contracts expire.

Public private partnerships are not a new concept in some countries, especially in the United Kingdom, where an accounting standard has been in place since 1994 and updated in 1998. 669 The Committee is therefore surprised that long delays are occurring in modifying the accounting treatment used in these countries to the Australian situation, pending the issue of an international accounting standard.

The Committee recommends that:

**Recommendation 84:** The Department of Treasury and Finance determine the estimated cost to the state of the EastLink project over the construction period, inclusive of land acquisitions and works directly associated with the tollway.

**Recommendation 85:** The Department of Treasury and Finance give priority to developing authoritative guidance on the accounting treatment of assets forming part of public private partnership projects that will ultimately revert back to the state.

### 15.4.2 Transport Accident Commission dividends

In accordance with section 29B of the *Transport Accident Act* 1986, the Transport Accident Commission (TAC) is required to pay to the Victorian government a dividend as determined by the Treasurer. The Treasurer, when determining whether a dividend should be paid, must have regard to the solvency of the TAC and its ability to meet outstanding claims liability.

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668 Budget Paper No.4, 2005-06 Statement of Finances, p.37
669 Mr J Lenders, MLC, Minister for Finance, response to the Committee’s follow-up questions to the 2005-06 Budget Estimates hearing, received 21 July 2005, Attachment 1 *Additional Guidance on the application of FRS 5 – Methods to determine control (ownership) of Infrastructure Assets used in the Australian Public Sector*, January 2004, p.2
In 2004-05 a dividend of $295 million was paid to the government following a net operating profit of $590 million in 2003-04. In 2004-05 an operating profit of $464 million was achieved and the Treasurer was to make a formal declaration as to the dividend to be paid.

The TAC is currently in a strong financial position with an excess of assets over outstanding claims liabilities of 119 per cent at 30 June 2005, comfortably within the TAC’s policy of maintaining funding levels between 115 per cent and 125 per cent of outstanding claims liabilities. The TAC also includes a prudential margin of 15 per cent ($655 million) which is included in its outstanding claims liability ($5,240 million at 30 June 2005). The purpose of this margin is to reflect the potential for unexpected adverse events to suddenly increase the outstanding claims liability and to provide a measure of certainty that any claims could be met from existing assets.

The Committee observed in the 2004-05 annual report of the TAC that it was accepted that the annual profit is volatile with losses expected on average every four years, largely due to the volatility of investment returns which in 2004-05 totalled $859.6 million or 46.6 per cent of total operating revenue of $1,842.9 million. The remainder of operating revenue is largely from premiums paid by motorists.

In 2004-05 TAC received a return on its investments of 13.7 per cent, which was a major factor in achieving an operating profit of $464 million. The Committee was advised by the Department of Treasury and Finance that the profit for 2004-05 was substantially higher than expected due to strong investment returns. Due to the volatility of investment markets, profits such as those achieved in 2004-05 cannot be sustained in the longer term.

The Committee acknowledges the volatility of the annual operating result of the TAC as a result of external factors. The Committee also observed that the TAC does not have any reserves apart from the Motorcycle Road Safety Reserve which is a specific reserve dedicated to improving motorcycle road safety in Victoria.

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670 Transport Accident Commission, 2004-05 Annual Report, p.37
671 ibid., p.51
672 ibid., p.37
673 ibid., p.51
674 ibid., p.31
675 ibid., p.30
676 ibid., p.50
677 ibid.
678 ibid., p.30
679 ibid., p.37
680 ibid.
681 ibid., p.31
682 Department of Treasury and Finance, response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 29 December 2005, pp.21–22
683 Transport Accident Commission, 2004-05 Annual Report, p.51
Although recognising that dividends are an important source of revenue for the government, the Committee also considers that where windfall profits are achieved, as occurred in 2003-04 and 2004-05, it may be prudent to exclude a proportion of such surpluses from dividend calculations to establish a buffer against future operational losses in order to protect the capital of the TAC.

The Committee recommends that:

**Recommendation 86:** The Department of Treasury and Finance evaluate the merits of excluding a proportion of windfall surpluses from dividend calculations to protect the Transport Accident Commission’s long term financial position.
CHAPTER 16: DEPARTMENT FOR VICTORIAN COMMUNITIES

Key findings of the Committee:

16.1 The output budget for the Department for Victorian Communities was $446.1 million in 2004-05; actual output cost was $365.6 million, $80.5 million (or 18 per cent) under the budget estimates. This is largely due to the Commonwealth Games output being $78.5 million (or 45.2 per cent) under the budget estimates.

16.2 Seven of the department’s 11 outputs had expenditure within 10 per cent of the budgeted cost. The Indigenous Community and Cultural Development output, and the Community Building output were over budget by more than 10 per cent. Outputs under budget by more than 10 per cent were the Employment output and the Commonwealth Games output.

16.3 The department achieved or exceeded 112 (90.3 per cent) of its 124 performance targets in 2004-05.

16.4 Details of changes to the project costs of capital projects, attributed to a change in their accounting treatment, were not disclosed in the department’s annual report for 2004-05.

16.1 Financial analysis – comparison with budget

The Department for Victorian Communities was responsible for the delivery of 11 outputs in 2004-05. These outputs were budgeted to cost $446.1 million. Actual output expenditure in 2004-05 was $365.6 million, $80.5 million (or 18 per cent) under budget. The Commonwealth Games output expenditure was $78.5 million (or 45.2 per cent) under budget. The department attributes this to ‘... the early receipt of Commonwealth Government funding and the reallocation of funding between operating and capital for certain infrastructure projects in line with required accounting treatment.’ Exhibit 16.1 provides further details.

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684 Department for Victorian Communities, 2004-05 Annual Report, pp.40–58
685 ibid.
686 ibid., p.58
687 ibid.
The expenditure of seven outputs was within 10 per cent of budget. The Indigenous Community and Cultural Development output, and the Community Building output were over budget by more than 10 per cent, while the Employment output and the Commonwealth Games output were under budget by more than 10 per cent.

In addition to the explanations for output cost variations contained in the department’s 2004-05 annual report, exhibit 16.1 also provides further details that the Committee sought about selected output costs variations in 2004-05.

**Exhibit 16.1: Department for Victorian Communities**

**Information sought by the Committee for selected output costs**

<table>
<thead>
<tr>
<th>Output groups/outputs</th>
<th>Column 1 2004-05 Budget ($ million)</th>
<th>Column 2 2004-05 Actual ($ million)</th>
<th>Variation (a) %</th>
<th>Explanation provided by department</th>
</tr>
</thead>
<tbody>
<tr>
<td>People, community building and Information services</td>
<td>20.5</td>
<td>23.6</td>
<td>15.1</td>
<td>In 2004-05, the department enhanced the presence of small local teams in regional and metropolitan areas. Their work includes linking existing youth, employment, local government and sport and recreation activities with opportunities. In particular, these local teams are working to create new local opportunities by: • encouraging volunteering and other forms of community participation; • supporting the development of new partnerships between government, business and community organisations; • providing access to information about government programs and processes; • helping communities to develop better grant applications that support local initiatives; and • working with local stakeholders to develop community building activities.</td>
</tr>
</tbody>
</table>
Exhibit 16.1: Department for Victorian Communities
Information sought by the Committee for
selected output costs (continued)

<table>
<thead>
<tr>
<th>Output groups/outputs</th>
<th>Column 1 2004-05 Budget ($ million)</th>
<th>Column 2 2004-05 Actual ($ million)</th>
<th>Variation (a) (%)</th>
<th>Explanation provided by department</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sport, recreation and the Commonwealth Games</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commonwealth Games</td>
<td>173.8</td>
<td>95.3</td>
<td>-45.2</td>
<td>The receipt of Commonwealth government funding of $40 million in June 2004 was earlier than expected and therefore reduced the funding requirement for the Organising Committee for 2004-05. The Office of Commonwealth Games Coordination (OCGC) funding agreement for 2004-05 was adjusted to reflect receipt of the $40 million late in the previous financial year. The reclassification of the majority of the 2004-05 Commonwealth Games Village expenditure from output to either capital or deferred expenditure, resulted in $28 million under expenditure on the target 2004-05 output cost. This accounting treatment better reflects the nature of these expenditures, is in accordance with approved accounting standards, and has been approved by the Auditor-General. The majority of whole of Games contingency appropriated for 2004-05 was not required during the year and has been carried forward to 2005-06. Further, $11.1 million of the 2004-05 expenditure for temporary works for the Commonwealth Games athletics track was transferred from capital funding (Total Estimated Investment) to output expenditure</td>
</tr>
</tbody>
</table>

Note:  (a)  A negative variance indicates that the actual results for 2004-05 were lower than budget

Source: Department for Victorian Communities, response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 21 December 2005, p.2

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688 The $40 million was transferred from the Department for Victorian Communities to Melbourne 2006 Commonwealth Games Corporation (Organising Committee) on 30 June 2004 (Source: Department for Victorian Communities, response to the Committee’s 2003-04 Budget Outcomes questionnaire, received 20 December 2004, p.4)
Exhibit 16.1 identifies the reclassification of Commonwealth Games Village expenditure of $28 million (or 16.1 per cent of the budgeted output cost) during 2004-05. Given the significance of this expenditure and to minimise subsequent major revisions to output costs, the department should exercise greater care in formulating its output costs for budget purposes.

16.2 Performance information

The department achieved or exceeded approximately 90.3 per cent of the performance targets published in its 2004-05 annual report.

In addition to the information contained in the department’s annual report for 2004-05, the Committee sought further details about selected performance measures (exhibit 16.2).

Exhibit 16.2: Department for Victorian Communities
Information sought by the Committee on selected performance measures

<table>
<thead>
<tr>
<th>Outputs/performance measures</th>
<th>Unit of measure</th>
<th>Target 2004-05</th>
<th>Actual 2004-05</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sport and recreation sector development</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Combat sports licences and permits issued</td>
<td>number</td>
<td>250</td>
<td>324</td>
</tr>
<tr>
<td><strong>Explanation provided by department:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The performance target was exceeded due to an increase in kickboxing and martial arts events and contestants.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employment programs</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Community Jobs Program – commencements</td>
<td>number</td>
<td>875</td>
<td>1,066</td>
</tr>
<tr>
<td><strong>Explanation provided by department:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Completion rates for:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• 2003-04 – was 82 per cent</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• 2004-05 – was 84 per cent</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>These completion rates are based on the number of participants who completed their CJP-J&amp;T (Community Jobs Program – Jobs and Training) project as a proportion of the number of participants who commenced, CJP-J&amp;T projects in the respective financial year, and which have now concluded.</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Chapter 16: Department for Victorian Communities

Exhibit 16.2: Department for Victorian Communities
Information sought by the Committee on selected performance measures (continued)

<table>
<thead>
<tr>
<th>Outputs/performance measures</th>
<th>Unit of measure</th>
<th>Target 2004-05</th>
<th>Actual 2004-05</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Employment programs (continued)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Jobs for Young People – apprenticeships and traineeships commenced</td>
<td>number</td>
<td>275</td>
<td>466</td>
</tr>
</tbody>
</table>

Explanation provided by department:
In 2004-05, 47 per cent of these positions were apprenticeships and 53 per cent were traineeships. (a)
A breakdown of apprenticeships by trade is:
- automotive – 20 per cent
- building and construction – 43 per cent
- electro-technology and communications – 8 per cent
- general manufacturing – 5 per cent
- metals and engineering – 16 per cent
- primary and forest – 1 per cent
- tourism and hospitality – 3 per cent
- wholesale, retail and personal services – 2 per cent
The completion rate for JYP positions commenced in 2003-04 currently stands at 42 per cent, with a further 42 per cent of participants who commenced in 2003-04 still engaged and yet to complete their apprenticeship or traineeship. The completion rate for participants who commenced in 2004-05 currently stands at 2 per cent, with a further 85 per cent still engaged and yet to complete their apprenticeship or traineeship. (a)

<table>
<thead>
<tr>
<th>Multicultural affairs</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Use of grants monitored</td>
<td>per cent</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

Explanation provided by department:
As part of the reporting requirements for the grant, each grantee is required to submit an accountability report, which details how the grant monies have been spent. This report measures the effectiveness of the grant outcomes in relation to government priorities.

Note: (a) Data for 2004-05 includes placements through the Regional Jobs Package
Sources: Department for Victorian Communities, 2004-05 Annual Report, pp.43, 48, 56; Department for Victorian Communities, response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 21 December 2005, pp.3–4

16.3 Staffing matters

Exhibit 16.3 shows that the total equivalent full-time staff (EFT) in the department at 30 June 2005 was 770.5.
Exhibit 16.3: Department for Victorian Communities
Equivalent full-time staff – 2004-05

<table>
<thead>
<tr>
<th>Classification</th>
<th>Ongoing (EFT)</th>
<th>Fixed term (EFT)</th>
<th>Casual (EFT)</th>
<th>Funded vacancy (EFT)</th>
<th>Total (EFT)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Secretary</td>
<td>1.0</td>
<td></td>
<td></td>
<td></td>
<td>1.0</td>
</tr>
<tr>
<td>Executive officers</td>
<td>29.0</td>
<td></td>
<td></td>
<td></td>
<td>29.0</td>
</tr>
<tr>
<td>VPS staff – grades 1-6</td>
<td>572.8</td>
<td>150.7</td>
<td></td>
<td></td>
<td>723.5</td>
</tr>
<tr>
<td>Senior technical specialist</td>
<td>3.0</td>
<td></td>
<td></td>
<td></td>
<td>3.0</td>
</tr>
<tr>
<td>Casual</td>
<td></td>
<td></td>
<td>14.0</td>
<td></td>
<td>14.0</td>
</tr>
<tr>
<td><strong>Total EFT staff</strong></td>
<td><strong>575.8</strong></td>
<td><strong>180.7</strong></td>
<td><strong>14.0</strong></td>
<td></td>
<td><strong>770.5</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Salary costs: (a)(b) ($ million)</th>
<th>2003-04</th>
<th>2004-05</th>
<th>Increase in salary costs (c)</th>
</tr>
</thead>
<tbody>
<tr>
<td>($ million)</td>
<td>33.2</td>
<td>42.6</td>
<td>9.4</td>
</tr>
<tr>
<td>($ million)</td>
<td>4.0</td>
<td>6.8</td>
<td>2.8</td>
</tr>
<tr>
<td>($ million)</td>
<td>0.2</td>
<td>0.4</td>
<td>0.2</td>
</tr>
<tr>
<td>($ million)</td>
<td>37.4</td>
<td>49.8</td>
<td>12.4</td>
</tr>
<tr>
<td>Increase in salary costs (c) (%)</td>
<td>28.3%</td>
<td>70.0%</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

Notes: (a) Includes salary costs (that is salary and wages, superannuation, annual leave and long service leave) only for VPS staff and total remuneration package costs for executive officers.
(b) Salaries for executive officers are included under the ongoing category.
(c) Calculated by the Public Accounts and Estimates Committee secretariat.

Source: Department for Victorian Communities, response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 21 December 2005, pp.13–14

Exhibit 16.3 shows that total salary costs increased by $12.4 million between 2003-04 and 2004-05. Salary costs for fixed term staff increased by $2.8 million in 2004-05. The costs of casual staff increased by $259,581 million.689

The Committee sought explanations for variations of more than 10 per cent in total EFT staff across classification levels between 2003-04 and 2004-05. The department advised it had a 27 per cent increase in employees during 2004-05 across several classification levels, mainly due to:

- increased resourcing to support the delivery of the Melbourne 2006 Commonwealth Games;
- the transfer of the Office of Senior Victorians and the Veterans’ Affairs functions to the department;
- new initiatives developed and announced during 2004-05, such as Victoria’s Skilled Migration Strategy, youthcentral and the E-grants system; and

689 Department for Victorian Communities response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 21 December 2005, p.14
690 ibid.
• priority functions funded through internal reallocation, including grants management and local teams functions.

16.4 Major issues

16.4.1 Community Support Fund

At 30 June 2005, the balance in the Community Support Fund (CSF) was $83.4 million, a decrease of $13.9 million (or 14.3 per cent) from the previous year’s balance of $97.3 million.

During the 2004-05 budget estimates inquiry, the Committee was advised the budgeted CSF expenditure in 2004-05 was to be $131.2 million. This was subsequently revised downwards to $110 million. Exhibit 16.4 shows actual expenditure from the fund in 2004-05 was $105.7 million.

Actual revenue of the fund was also lower compared with budget (exhibit 16.4). The impact of smoking bans in gaming venues has been a key factor in the decline in the fund’s revenue.

Exhibit 16.4 shows the budget, revised and actual expenditure and revenue of the CSF for 2004-05.

Exhibit 16.4: Community Support Fund Expenditure and revenue – 2004-05

<table>
<thead>
<tr>
<th></th>
<th>2004-05 Expenditure ($ million)</th>
<th>2004-05 Revenue ($ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Budget expenditure/revenue (a)</td>
<td>131.2</td>
<td>113.2</td>
</tr>
<tr>
<td>Revised expenditure/revenue (b)</td>
<td>110.0</td>
<td>94.4</td>
</tr>
<tr>
<td>Actual expenditure/revenue</td>
<td>105.7</td>
<td>91.8</td>
</tr>
<tr>
<td>Percentage decrease from revised budget</td>
<td>-3.9 per cent</td>
<td>-2.8 per cent</td>
</tr>
</tbody>
</table>

Notes: (a) Advised to the Committee during the 2004-05 budget estimates inquiry
(b) Advised to the Committee during the 2005-06 budget estimates inquiry

Sources: Public Accounts and Estimates Committee, Report on the 2004-05 Budget Estimates, November 2004, p.660; Department for Victorian Communities, response to the Committee’s 2005-06 Budget Estimates questionnaire, received 6 May 2005, p.21; and Department for Victorian Communities response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 21 December 2005, p.17

691 Department for Victorian Communities, 2004-05 Annual Report, p.95
692 ibid.
Exhibit 16.5 shows the allocation of CSF expenditure in 2004-05. Included in the total expenditure of $105.7 million is an administration expenditure component\(^{695}\) of $2.7 million. Expenditure for community applications ($22 million), gambling services ($11.5 million) and community services and grant programs ($69.5 million) excludes administration expenditure.

**Exhibit 16.5: Community Support Fund**

**Total expenditure – 2004-05**

<table>
<thead>
<tr>
<th>Category</th>
<th>Expenditure</th>
</tr>
</thead>
<tbody>
<tr>
<td>COMMUNITY APPLICATIONS</td>
<td>$22 million</td>
</tr>
<tr>
<td>Community Strengthening</td>
<td>$6.5 million</td>
</tr>
<tr>
<td>Community Infrastructure</td>
<td>$15.5 million</td>
</tr>
<tr>
<td>GAMBLING SERVICES</td>
<td>$11.5 million</td>
</tr>
<tr>
<td>COMMUNITY SERVICES &amp; GRANT PROGRAMS</td>
<td>$69.5 million</td>
</tr>
<tr>
<td>Sport</td>
<td>$33.3m</td>
</tr>
<tr>
<td>Human Services</td>
<td>$5.6m</td>
</tr>
<tr>
<td>Arts</td>
<td>$5.4m</td>
</tr>
<tr>
<td>Libraries</td>
<td>$4.8m</td>
</tr>
<tr>
<td>Justice</td>
<td>$4.7m</td>
</tr>
<tr>
<td>Volunteering &amp; Community Enterprise</td>
<td>$3.4m</td>
</tr>
<tr>
<td>Regional</td>
<td>$2.8m</td>
</tr>
<tr>
<td>Community Building</td>
<td>$3.1m</td>
</tr>
<tr>
<td>Women</td>
<td>$1.7m</td>
</tr>
<tr>
<td>Education</td>
<td>$1.5m</td>
</tr>
<tr>
<td>Youth</td>
<td>$1.0m</td>
</tr>
<tr>
<td>Other</td>
<td>$2.2m</td>
</tr>
</tbody>
</table>

**Source:** Department for Victorian Communities, response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 21 December 2005, p. 19

Exhibit 16.5 shows community services and grant programs received the most funding (around 68 per cent). Community applications, which represent direct grant applications to the CSF, received around 21 per cent and gambling services around 11 per cent\(^{696}\).

Exhibit 16.6 compares the actual and revised expenditure for each of the three categories identified in exhibit 16.5.

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\(^{695}\) Department for Victorian Communities, email, received 6 March 2006

\(^{696}\) Calculated on total grant expenditure of $103 million (excludes administration expenditure of $2.7 million)
Exhibit 16.6: Community Support Fund
Revised and actual expenditure allocation – 2004-05 (a)

<table>
<thead>
<tr>
<th></th>
<th>2004-05 Revised expenditure (b) ($ million)</th>
<th>2004-05 Actual expenditure ($ million)</th>
<th>Variance (c)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Community services and grant programs</td>
<td>67.2</td>
<td>69.5</td>
<td>$2.3 million</td>
</tr>
<tr>
<td>Community services and grant programs</td>
<td>67.2</td>
<td>69.5</td>
<td>3.4 per cent</td>
</tr>
<tr>
<td>Community applications</td>
<td>24.7</td>
<td>22.0</td>
<td>-$2.7 million</td>
</tr>
<tr>
<td>Community applications</td>
<td>24.7</td>
<td>22.0</td>
<td>-11 per cent</td>
</tr>
<tr>
<td>Gambling services</td>
<td>15.6</td>
<td>11.5</td>
<td>-$4.1 million</td>
</tr>
<tr>
<td>Gambling services</td>
<td>15.6</td>
<td>11.5</td>
<td>-26.3 per cent</td>
</tr>
<tr>
<td>Total</td>
<td>107.5</td>
<td>103.0</td>
<td>-$4.5 million</td>
</tr>
<tr>
<td>Total</td>
<td>107.5</td>
<td>103.0</td>
<td>-4.2 per cent</td>
</tr>
</tbody>
</table>

Notes:
(a) Excludes administration expenditure
(b) Calculated by the PAEC secretariat based on CSF information advised to the Committee during the 2005-06 budget estimates inquiry and adjusted for administration expenses ($2.5 million)
(c) A negative figure indicates actual expenditure is lower than revised expenditure


Exhibit 16.6 highlights actual expenditure was lower than the level previously estimated in the revised expenditure for:

- gambling services which was $4.1 million (or 26.3 per cent) less than previously estimated; and
- community applications which was $2.7 million (or 11 per cent) less.

However, expenditure on community services and grant programs was not affected by the lower than estimated actual CSF expenditure for 2004-05.

The decline in CSF revenue and the competing demands on CSF funding, highlight the need for the department to closely monitor future funding levels of the CSF.

16.4.2 Changes to asset investment project cost

The project costs of three capital projects in 2004-05 were revised down because of changes to their accounting treatment (exhibit 16.7).

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698 Department for Victorian Communities, email, received 31 March 2006
Exhibit 16.7: Capital projects with changes to project cost

<table>
<thead>
<tr>
<th>Project description</th>
<th>Original TEI ($ million)</th>
<th>Revised TEI ($ million)</th>
<th>Variation (a) ($ million)</th>
<th>Reason for change in project cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commonwealth Games athletics track – development (Melbourne Cricket Ground)</td>
<td>18.5</td>
<td>3.0</td>
<td>-15.5</td>
<td>A change in the accounting treatment of the project in 2004-05 led to $15.5 million of the total estimated investment being reclassified as operating expenditure.</td>
</tr>
<tr>
<td>Public Record Office of Victoria asset management (Melbourne)</td>
<td>8.809</td>
<td>8.509</td>
<td>-0.3</td>
<td>A change in the accounting treatment of the project in 2004-05 led to $300,000 of the total estimated investment being reclassified as operating expenditure.</td>
</tr>
<tr>
<td>Victorian Electronic Records Strategy – repository (North Melbourne)</td>
<td>5.5</td>
<td>4.855</td>
<td>-0.645</td>
<td>A change in the accounting treatment of the project in 2004-05 led to $645,000 of the total estimated investment being reclassified as operating expenditure.</td>
</tr>
</tbody>
</table>

Notes: (a) A negative figure indicates that the revised TEI is lower than the original TEI

TEI – total estimated investment

Source: Budget Information Paper No.1, 2005-06 Public Sector Asset Investment Program, p.66

The department provided the following response to the Committee’s request for details on the change in the TEI (total estimated investment) cost of the Commonwealth Games athletics track project:699

The Commonwealth Games athletics track project comprises both permanent improvements to the MCG arena and the installation and removal of temporary athletics track for the Commonwealth Games. The Total Estimated Investment (TEI) for the project was reduced to $3 million which represents the value of the capital improvements at the Melbourne Cricket Ground. The remaining $15.5 million700 of the original TEI of $18.5 million, which represents the value of the temporary works for the athletics track, was classified as output expenditure and has been transferred to the Commonwealth Games output costs for 2004-05 and 2005-06.

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699 Department for Victorian Communities, response to the Committee’s 2004-05 Budget Outcomes questionnaire, received 21 December 2005, p.18

700 Which was phased over two years, with $11.1 million in 2004-05 and $4.4 million in 2005-06 (Source: Department for Victorian Communities, email, received 31 March 2006)
The Committee reiterates the importance of the department establishing project cost estimates that reflect the nature of the project to be undertaken.

The Committee’s review of the department’s 2004-05 annual report noted no mention of the impact on output costs\(^{701}\) of the changes to the total estimated investment costs of the Public Record Office asset management and the Victorian Electronic Records Strategy repository projects identified in exhibit 16.7. Accordingly, the Committee recommends that:

**Recommendation 87:** The annual report of the Department for Victorian Communities include information on changes to total estimated investment costs of capital projects, the reasons for the changes, and the affect on output costs compared with budget.

[^701]: Department for Victorian Communities, *2004-05 Annual Report*, p.52
Key findings of the Committee:

17.1 The Public Accounts and Estimates Committee’s Report on the review of the Auditor-General’s report on – Parliamentary control and management of appropriations made 27 recommendations. Six recommendations were accepted, eight were accepted in part, two are under review and 11 were rejected.

17.2 The Committee does not agree with a number of the reasons received for the recommendations being rejected and suggests that certain issues be further reviewed by the government.

17.1 Legislative requirement

Pursuant to the Parliamentary Committees Act 2003, responsible Ministers must respond within six months to recommendations made in the Committee’s reports that are tabled in Parliament.

17.2 Report on the review of the Auditor-General’s report on – Parliamentary control and management of appropriations – previous recommendations

The Committee’s Report on the review of the Auditor-General’s report on – Parliamentary control and management of appropriations was tabled in the Legislative Assembly and the Legislative Council in September 2005. The government’s response was provided in February 2006.

Of the 27 recommendations contained in the report, six (22 per cent) were accepted, eight (30 per cent) were accepted in part, two (7 per cent) are under review and 11 (41 per cent) were rejected.
After considering the matters outlined in the government’s response, the Committee considers that the government should revisit a number of the rejected recommendations. The Committee’s recommendations were directed at improving transparency and accountability within government, and reinforcing the role of Parliament as intended under Victoria’s constitution.

A High Court challenge in 2005 – whereby the Australian Council of Trade Unions and the Australian Labor Party challenged the Commonwealth Government’s use of public money to fund the WorkChoice advertising campaign on the grounds that the expenditure was not specifically authorised by the Appropriation Act – is a case that has relevance to Victoria.702

The High Court found by majority judgement that because the Appropriation Act does not require the government to specify in advance the specific purposes for which money will be used, the expenditure was lawful. The judgement also found that under the financial management framework, Parliament has limited ability to determine how much money is available for particular purposes or the purposes for which money is to be spent.703

Although the judgement was limited to the government’s expenditure on advertising, the major issue arising from the judgement is that the appropriation process does not provide any restraint on the government regarding the purposes for which funding is applied.704

The Senate Finance and Public Administration Committee viewed the judgement as questioning the whole financial accountability framework in place in the Commonwealth Government, and Parliament’s role in monitoring and approving government expenditure.705 The Senate Committee recommended that the impact of outcome budgeting for appropriations on the accountability of, and parliamentary control over, government expenditure should be referred to a Senate Committee for inquiry and report. The intention of such an inquiry would be to consider ways in which parliamentary scrutiny of government expenditure could be enhanced before and after such expenditure has occurred.706

There are many similarities between the Commonwealth Government’s outcome based budgeting and financial system and Victoria’s accrual output based financial management framework. However, the Commonwealth Government’s appropriation bill provides more detail than the Victorian legislation. The Committee considers that the High Court’s view on the lack of parliamentary scrutiny of government expenditure reinforces its view, as outlined in the report on parliamentary control and management of appropriations, that successive financial reforms in Victoria have

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702 Combet v Commonwealth of Australia [2005] HCA 61 (21 October ), Gleeson C J
703 Commonwealth of Australia, Senate Finance and Public Administration Committee, Inquiry into Government Advertising and Accountability, 6 December 2005, p.xvii
704 ibid.
705 ibid.
706 ibid.
weakened the role of Parliament in terms of controlling expenditure from the public account. The Committee is concerned that without acceptance of its recommendations, there will be diminished transparency and accountability in the Victorian public sector.

The Committee observed that most of the recommendations rejected by the government related to improving accountability to Parliament. The government’s response maintains that the existing high degree of flexibility available with global appropriations, and the discretion given to the Treasurer under the Financial Management Act 1994, is compensated for by increased accountability to Parliament through mechanisms such as departmental annual reports, and mid year and annual financial reports on the general government sector and the State of Victoria.

The High Court decision reinforces the Committee’s view that Parliament should be provided with more information on intended government expenditure prior to such expenditure being authorised by Parliament, as originally intended under the Constitution Act.

17.3 Further action required to fully implement certain recommendations

The Committee recommended in its report that:

**Recommendation 3:** The Treasurer be required to provide Parliament with details of all moneys withdrawn or to be withdrawn from the Consolidated Fund to satisfy any liabilities arising from guarantees or indemnities provided by the Treasurer in respect of any contracts, agreements in general, or actions of certain public servants, within seven days of each such payment being agreed to by the Treasurer.

**Recommendation 4:** The government’s annual Financial Report for the State of Victoria include details of the circumstances leading to payment of liabilities arising from guarantees and indemnities provided by the Treasurer.
Government response

Both recommendations were rejected.\(^{707}\)

The Treasurer is often required to provide guarantees and indemnities to third parties in order to implement certain government commitments. Section 24(j) of the Financial Management Act 1994 already requires the responsible Minister to disclose in the annual financial report, payments made during the financial year in fulfilment of any guarantee by the government under any Act, and any moneys received or recovered in respect of guarantee payments. The Financial Management Act also requires disclosure of contingent liabilities under guarantees and indemnities.\(^{708}\)

The Department of Treasury and Finance will continue to report under existing provisions of the Financial Management Act 1994 and intends to continue managing guarantees or indemnities issued to minimise the cost to the Consolidated Fund.\(^{709}\)

Committee’s further comments

The Committee acknowledges that the need for the Treasurer to satisfy liabilities arising from guarantees or indemnities provided is not common. In fact, there were no payments of this nature in 2004-05.\(^{710}\)

Nevertheless, a contingent liability of $809.7 million\(^{711}\) was recorded in the 2004-05 Annual Financial Report for the State of Victoria, indicating a potential for large payments to be made by the state in fulfilling guarantees and indemnities given by the Treasurer. The collapse of the Pyramid Building Society many years ago is an example of a government forced to honour a very large guarantee, involving an authorised trustee investment organisation.

While the government is required to disclose in its annual financial report details of any payment made in fulfilment of any guarantee by the government, in the past, these ‘details’ have been restricted to disclosure of the amounts paid out, as distinct from the provision of any details about the circumstances involved, including the names of organisations or entities concerned.

The Committee reiterates its view that Parliament should be advised in advance of any intention of the Treasurer to honour guarantees or indemnities, actions that reflect the adequacy of the government’s risk management strategies. Further, in the interests of providing greater transparency, disclosure of payments involving guarantees and


\(^{708}\) ibid., p.2

\(^{709}\) ibid.

\(^{710}\) Department of Treasury and Finance, 2004-05 Annual Financial Report for the State of Victoria, p.161

\(^{711}\) ibid., p.117
indentities in the government’s annual financial report should be accompanied by a brief description of the circumstances involved.

**The Committee recommended in its report that:**

**Recommendation 5:** The government give further consideration to the Auditor-General’s recommendation that further statutory limits be placed on the extent of budget supplementation authorised by the Treasurer, and that exceeding these limits would require a supplementary appropriation.  
*Page 53*

**Recommendation 6:** The government’s annual Financial Report for the State of Victoria include an overview report explaining the use of budget supplementations by departments.  
*Page 53*

**Government response**

**Both recommendations were rejected.**

The Department of Treasury and Finance does not support any additional caps or limits on budget management provisions because ex-post accountability is strong under current arrangements.

The *Financial Management Act 1994* requires departments to report on actual delivery at the detailed output level compared with what was published in the budget papers for the scrutiny of Parliament.

A high level of flexibility under the existing system of global appropriations is compensated for by increased accountability to Parliament. Further controls by Parliament could reduce current management flexibility and incentives that are required to manage unforeseen or urgent circumstances.

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712 Victorian Government, response to the Public Accounts and Estimates Committee’s *Report on the review of the Auditor-General’s report on parliamentary control and management of appropriations*, tabled February 2006, p.4  
713 Ibid.  
714 Ibid.  
715 Ibid.
The Department of Treasury and Finance notes that accountability for the use of budget supplementation exists because departments are required to include in their annual reports a comparison between the actual cost of outputs and the output costs recorded in the budget papers.\textsuperscript{716}

The audited section of the state’s annual financial report includes a list of all payments from the advance to the Treasurer, including the purpose for the supplementation provided to departments under the annual Appropriation Act and payments under section 35 of the \textit{Financial Management Act 1994}.\textsuperscript{717}

The department intends to continue to monitor the reporting of budget supplementation contained within departmental annual reports.\textsuperscript{718}

\textbf{Committee’s further comments}

The Treasurer currently has considerable discretion under the provisions of the Financial Management Act and the Appropriation Act to provide additional funding that can extend to billions of dollars to departments, without the need to seek parliamentary approval. Reasons for the supplementary funding and the purposes are not provided to Parliament. This situation contrasts with the annual appropriation process, where the government’s intentions regarding expenditure within individual departments are outlined in the budget papers in the form of outputs.

The Committee’s recommendation to place a cap on the level of supplementary funding provided – the exceeding of which would require a supplementary appropriation backed up by supplementary estimates – was to enable parliamentary scrutiny of the intended purpose of the supplementary funding. The Committee noted in its report that supplementary funding is often provided for purposes other than new policy initiatives, projects and activities. Examples include budget overruns, revenue shortfalls, failure to achieve planned savings, or poor budget management. The Committee considers that Parliament should be aware of such factors for it to fulfil its constitutional role of exercising oversight of planned expenditure of taxpayer funds. The department’s view is that such controls would inhibit management flexibility and incentives. The Committee does not agree with this view.

The department’s response reiterates its view that increased parliamentary control is not required because the flexibility provided to departments in managing supplementary funding was offset by increased accountability. While accountability is achieved because departments are required to provide comparisons in their annual reports between actual output costs and the estimated output cost outlined in the budget papers, reasons for variances often lack detail, if provided, or are not provided

\textsuperscript{716} ibid.
\textsuperscript{717} ibid.
\textsuperscript{718} ibid.
at all. Departments have the capacity to transfer budget estimates between outputs, rendering comparisons with original budgets somewhat meaningless.

Departments are required to produce information detailing the various sources of funding provided under parliamentary authority, including annual appropriations, Treasurer’s advances, annotated receipts and supplementary funding provided by the Treasurer under various other provisions of the Financial Management Act and the Appropriation Act. This information is useful because it provides an overview of the total funding available to a department. However, its value is diminished because departments are not required to provide any detail regarding the outputs to which supplementary funding was provided or the purposes for which it was applied.

Similarly, any comparisons made between actual output costs and budget estimates are meaningless where supplementary funding of these outputs is not identified in the annual reports.

The department maintained that accountability for the use of budget supplementation was also achieved by providing details of payments from the advance to the Treasurer and temporary advances made by the Treasurer under section 35 of the Financial Management Act, in the Financial Report for the State of Victoria. This statement is only partly correct, because while details of advances and temporary advances from the Treasurer are provided in the annual financial report, similar disclosure is not provided in terms of budget supplementation available under various other sections of the Financial Management Act and the Appropriation Acts. As previously stated, it is also not possible to determine from the annual reports the outputs to which Treasurer’s advances and temporary advances were allocated.

The Committee does not accept the department’s view that ‘increased accountability’ exists for budget supplementation extending to millions of dollars through the comparison of actual output costs with budget estimates. This is particularly so when the outputs to which supplementation was provided are not identified, no detail is provided as to reasons for the supplementation and expenditure thereof, and limited explanations, if any, are provided for variances between budgets and actual expenditure for individual outputs.

The Committee considers that the response from the Department of Treasury and Finance to its recommendations was inadequate. The Committee also considers that the level of accountability provided for supplementary funding of departmental budgets in Victoria is inferior compared with some other states. The Committee’s report noted that in Western Australia, for example, budget supplementations must be explained in annual reports of departments and are also included in notes to the annual financial report for the state.

In Queensland and Tasmania, the respective Treasurers must table in Parliament each year a statement of all budget supplementations provided to departments and the reasons for providing supplementation.
The Committee considers that similar accountability provisions, at a minimum, should be introduced in Victoria. In addition, the use of supplementary appropriations as previously recommended by the Auditor-General and the Committee, warrants re-consideration to improve the level of parliamentary scrutiny of proposed expenditure.

**The Committee recommended in its report that:**

**Recommendation 13:** The Department of Treasury and Finance, unless justification to the contrary can otherwise be demonstrated, provide Parliament with a reconciliation between the Appropriation Bill and expenditure estimates contained in the Estimated Financial Statements, after taking into account retained revenue under section 29 of the Financial Management Act 1994.

**Government response**

Recommendation was rejected.\(^{719}\)

The Department of Treasury and Finance acknowledges that such reconciliation is technically possible, but it would be costly, impractical and of limited value, particularly given the range of assumptions required as to whether certain expenditure was funded by an appropriation, or from other revenue sources.\(^{720}\)

The costs and revenue for grouped outputs are already published in budget papers and in departmental annual reports.\(^{721}\)

**Committee’s further comments**

The Committee’s recommendation was directed towards enhancing the usefulness of the Estimated Financial Statements by establishing a direct linkage between the total expenses for the general government sector (as recorded in the Estimated Financial Statements) and the appropriation sought from Parliament as detailed in the Appropriation Bills. The Committee considers that this reconciliation would assist Members when voting on the Appropriation Bills to more precisely determine how much money was required from the public account to operate the state.

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\(^{719}\) ibid., p.7  
\(^{720}\) ibid.  
\(^{721}\) ibid.
While the Committee maintains that such reconciliation would be of benefit, it acknowledges the complexity of the task involved. Since the Committee’s report was tabled in Parliament, the Australian Accounting Standards Board (AASB) has undertaken a project involving the harmonisation between financial reports prepared in accordance with Government Finance Statistics (GFS) and Generally Accepted Accounting Principles (GAAP) as occurs in Victoria.

The AASB has sought comment from all interested parties on exposure draft ED142 *Financial Reporting of General Government Sectors by Governments* which proposes that financial reports would disclose variances between budgets and actual financial outcomes. This information, along with reasons for variations, would be subject to audit by the Auditor-General. The Committee’s report acknowledged that the Auditor-General already reviews all economic and financial decisions made between budget years that ultimately have an impact on the size of the parliamentary appropriation required.

Auditing budget information and subsequent variances by the Auditor-General would introduce a new degree of robustness in the preparation of budget estimates. Parliamentarians would therefore have greater assurance as to the integrity of budget estimates underpinning the funding of departments from the public account, when passing the Appropriation Acts.

While the exposure draft is still to be finalised, the Committee intends to evaluate its impact on the budget and appropriation process when it is eventually introduced.

**The Committee recommended in its report that:**

**Recommendation 14:** The government finalise the development of the Victorian Performance Management and Reporting Framework or a similar framework in order that performance information on portfolio programs and projects recorded in the Report of Operations of public sector agencies and departments can be audited by the Auditor-General, with the impact of operations on community outcomes becoming more readily identifiable.
**Recommendation 15:** The Minister for Finance issue a direction to all public sector agencies to include appropriate performance indicators in their Statement of Operations reflecting the extent to which departmental objectives and desired government outcomes are being implemented through various programs and projects and are being met with regard to economy, effectiveness and efficiency.

**Government response**

Both recommendations were rejected.722

As part of the government’s Financial Compliance Framework, departments are required to develop key financial performance indicators designed to measure and monitor their financial management performance.723

The Department of Treasury and Finance considers that the development of meaningful internal performance indicators and measures embedded into management decision making is a more appropriate approach.724

**Committee’s further comments**

The Committee considers that the government may have abandoned a key component of its long stated intention to finalise a Victorian performance management and reporting framework, which has been under development for several years, inclusive of performance indicators capable of being audited by the Auditor-General. The framework sought to align departmental outputs with departmental objectives and desired government outcomes. A critical component of the framework was the development of performance indicators reflecting the extent to which government programs were delivered with proper regard to economy, effectiveness and efficiency.

The government’s response in effect states that apart from a direction to develop key financial performance indicators, performance measures of a non-financial nature will be used for internal purposes only to assist with management decision making.

The Committee considers that this approach has a direct impact on the transparency and accountability of all departments to Parliament and the public because it fails to disclose performance information on whether desired objectives and outcomes for government taxpayer funded programs are being met. The combination of financial

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722 ibid., pp.7–8
723 ibid. p.7
724 ibid.
and non-financial performance indicators is essential for determining how well a government performs in terms of expending the money provided by Parliament.

The Committee urges the government to amend its approach to disclosing performance measures of a non-financial nature. It is not acceptable to Parliament that after giving the Auditor-General legislative authority to audit performance measures, this authority is unable to be implemented because the government has not developed such measures. Victoria is also lagging behind other jurisdictions in terms of initiatives introduced, for example, in Western Australia the Treasurer requires all government departments and statutory authorities to include in their annual reports key effectiveness indicators reflecting the extent to which outputs are meeting desired government outcomes.

**The Committee recommended in its report that:**

**Recommendation 16:** The Chief Information Officer in the Department of Premier and Cabinet be requested by the government to undertake a review of the capability of computer systems across the general government sector to collect data that can be used for performance monitoring and the development of suitable performance measures and indicators that are clear, understandable, economical and soundly based.

*Page 73*

**Recommendation 17:** As part of the certification process introduced under the whole of government Financial Management Compliance Framework, accountable officers be required to certify that, based on regular testing of information technology operations, information produced by the systems for performance purposes is accurate and complete.

*Page 73*
Government response

Both recommendations were rejected.\textsuperscript{725}

Departments and agencies are responsible for ensuring that computer systems have the capacity to generate suitable performance measures.\textsuperscript{726}

The government’s response also referred to its response to recommendation 14, which stated that apart from requiring departments to develop key financial performance indicators to measure financial management performance, other indicators and measures were seen as being restricted to use for internal purposes in decision making.\textsuperscript{727}

Committee’s further comments

The response from the Department of Treasury and Finance effectively reinforced its view that apart from financial performance indicators, other measures of a non-financial nature were only seen as being suitable for internal purposes, as distinct from being published externally in order to discharge departments from their accountability obligations to Parliament. The Committee considers this response also infers that government sector computer systems do not need to be used to capture performance data for external reporting purposes. If such data was required by departments for internal purposes, it was their responsibility to ensure the systems were capable of producing such information.

The Committee also noted that the Office of the Chief Information Officer was, among other things, established to:\textsuperscript{728}

- drive eGovernment, to transform service delivery; and
- align information communication and technology investment with government priorities and outcomes.

The Committee would have expected that the capability of computer systems to generate performance information to measure the extent to which government priorities and outcomes were being met would have been of interest to the Chief Information Officer.

Along with the need to improve performance information and indicators of a non-financial nature across the general government sector, the Committee considers the government should involve the Chief Information Officer in assessing the

\textsuperscript{725} ibid., pp.8–9
\textsuperscript{726} ibid., p.8
\textsuperscript{727} ibid., pp.8–9
\textsuperscript{728} Victorian Government, 2005-06 Victorian Government Directory, p.359
capability of the diverse range of systems within departments to generate information that can be used to measure the effectiveness of government service delivery.

The Committee recommended in its report that:

**Recommendation 22:** Details of expenditure authorised by the Treasurer from the Treasurer’s Advance be provided to Parliament at least on a quarterly basis. Details and reasons for the expenditure should also be provided.

**Recommendation 23:** The government require all departments to disclose in their annual reports the reasons why any supplementary funding was sought from the Treasurer’s Advance and the subsequent impact of the funding on their operations.

**Government response**

Both recommendations were rejected.729

The Department of Treasury and Finance considers that adequate accountability exists for use of the Treasurer’s advance because the expenditure amount and purpose is disclosed in the annual financial report and in the subsequent year’s annual Appropriation Bill.730

**Committee’s further comments**

Expenditure from the Treasurer’s advance was $464 million in 2004-05.731

The Committee acknowledges the need for a Treasurer’s Advance to meet expenditure of an urgent nature. The Committee also accepts that accountability for expenditure from the advance exists in that payments are disclosed in the annual financial report and in the subsequent year’s Appropriation Act. Nevertheless, the Committee maintains that expenditure from the advance should be progressively disclosed to Parliament in order to generate debate, if required, on the purposes for which the advance is utilised. Victoria could follow the lead of other jurisdictions, for example:

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729 ibid., pp.11–12
730 ibid.
731 Department of Treasury and Finance, 2004-05 Annual Financial Report for the State of Victoria, p.139
• the Western Australian Treasurer must publish in the Government Gazette movements in the Treasurer’s Advance each quarter;

• because of irregularities reported on by the Auditor-General in the Australian Capital Territory, the Treasurer must provide the Legislative Assembly within three days of providing an advance a copy of the authorisation and reasons for providing the funding; and

• the Commonwealth Government requires statements on the use of the Treasurer’s Advance to be tabled in the Senate each month.

The Committee considers that progressive disclosure to Parliament of expenditure from the advance would provide a higher level of accountability for the advance and would also serve to restrict expenditure to urgent matters that could not reasonably be foreseen at the time the budget estimates were prepared. Given the identified need for greater disclosure of such expenditure in other jurisdictions, the Committee does not accept that the Victorian situation does not warrant change. Indeed the Committee considers that accountability for the Treasurer’s Advance should be enhanced.
CHAPTER 18: REVIEW OF ANNUAL REPORTS OF DEPARTMENTS AND AGENCIES

Key findings of the Committee:

18.1 Agencies have generally shown only very limited improvement in the reporting of their performance in recent years. While there are pockets of good reporting, progress across the public sector has been slow despite concerns raised by the Committee and the Auditor-General in a number of reports to Parliament. Good performance reports are crucial to ensure an appropriate standard of accountability by the executive government. For a majority of the agencies, however, a wide gap still exists between the current approach and the ultimate best practice position.

18.2 The Committee has found different degrees of structural problems in the reports, mainly because some of the key elements of good performance reporting are either absent or not adequately addressed. The most significant concern is that agencies generally still tend to focus on reporting outputs, initiatives, projects, and activities – often with excessive details – rather than reporting the achievement of corporate objectives and government outcomes.

18.3 Agencies currently only report a limited number of key performance indicators on their objectives, which usually do not cover all major aspects of the operations. Further, reporting of measures of progress in the achievement of government outcomes tends to be piecemeal and incomplete.

18.4 The Committee has also identified three other related issues of concern. Firstly, no agency’s annual report has provided a comparison between those major projects and initiatives planned for the year and those that were actually delivered. Secondly, it is uncommon for agencies to incorporate multi-year performance data to allow performance to be tracked over time. Thirdly, there is limited evidence of benchmarking to indicate how close an agency’s performance is to best practice.

18.5 Because of the relatively narrow focus adopted by a majority of the agencies reporting their performance, it is difficult to properly assess the contribution of outputs and initiatives to the achievement of corporate objectives and the desired outcomes of the government and the community.
18.6 The Committee has considered for sometime that the annual report is seen by some agencies as merely a compliance and public relations document with the emphasis on delivering good news rather than being an instrument of accountability. This view has again been reaffirmed following an examination of the 2004-05 annual reports.

18.7 A number of major obstacles to good performance reporting currently exist within the Victorian public sector. The Committee, therefore, has recommended a series of strategies for immediate adoption by the government.

18.1 Introduction

To encourage high standards of annual reporting within the Victorian public sector, the Committee continued the practice of reviewing the annual reports of all the departments and a selected number of agencies during the course of the budget outcomes inquiry. The agencies selected include the Victorian Auditor-General’s Office, Victoria Police and VicRoads.

The Committee’s review of the 2004-05 annual reports focused on performance reporting and compliance with the disclosure requirements specified in the Financial Management Act 1994 and in the Standing Directions and Financial Reporting Directions issued by the Minister for Finance.

Performance reporting has been of interest to the Committee in recent years because it allows stakeholders to judge the government’s achievements. By examining an agency’s annual report, a reader should be able to gain some appreciation of whether tax dollars have been spent efficiently and effectively, whether the state’s resources are managed in the same way, and whether government services are delivered in line with the intended outcomes of government and community expectations.

Agencies’ performance reporting to Parliament and the community is, therefore, a crucial element in ensuring appropriate standards of accountability by the executive government. The Committee is also of the view that it can assist to instil a culture and systematic process of continuous improvement in resource management, as well as providing an incentive for agencies to actively manage for the results they have set out to achieve.

Together with accountability, openness and transparency have also assumed greater importance because of the variety of service delivery models adopted by the Victorian Government (for example, outsourcing and public private partnerships) and the increasing focus on good corporate governance in the public sector.
The Committee assessed the performance reporting of agencies in their 2004-05 annual reports, by adopting a set of reporting principles and criteria based on local and international best practice, briefly outlined below.

### 18.2 Reporting principles

The Committee generally expects that each annual report will provide information about:

- the organisation;
- the strategic and policy context/environment in which it operates;
- what it sets out to achieve;
- what it does and the services it provides;
- what it actually achieved;
- those factors that made it happen; and
- where the organisation is heading.

The report is also broadly evaluated as to the extent to which the following four desirable reporting principles have been adopted:

- relevance – the information is meaningful and relevant to the decision-making needs of user groups;
- reliability – the information is valid, complete, and free from bias and material errors;
- comparability – the report allows comparison with targets and earlier reports and with other comparable organisations; and
- clarity – the information is clear and concise, free of jargon and complex technical language and can be easily understood by the readers.

### 18.3 Specific review criteria

The Committee looked for the following key components when reviewing the reports:

- review by the Chief Executive Officer – conveying a series of key personal messages on matters such as highlights for the year and commitment to performance targets; acknowledgement of successes and failures; key performance results compared with targets and benchmarks; and future plans and challenges;
- overview of performance – presenting a high level summary of the performance results for the year, elaborating further on the matters covered in the Chief Executive Officer’s review;
• profile of the agency – providing a strategic and policy context for a meaningful discussion and analysis of performance. Matters that are expected to be addressed include:
  – the vision, mission, desired outcomes, objectives, corporate values and broad strategies of the agency, together with details of the major functions or services performed;
  – linkages between the departmental outputs and objectives and the government’s desired outcomes and policy priorities;
  – the environment in which the agency operates, the key challenges it faces, and the planned responses to those challenges; and
  – the structure of the organisation, its management systems and its stakeholder engagement systems;

• review of performance – providing a comprehensive discussion and analysis of the performance results of the agency that covers, at least, the following major matters:
  – key performance indicators and targets that are linked to the agency’s objectives and the government’s desired outcomes, and a comparison between actual performance achieved and targets set;
  – performance measures and targets for output delivery and the actual results obtained;
  – explanations for instances of major under and over performance and, in the case of under performance, details of lessons learned and actions taken to improve services and outcomes;
  – an analysis of past performance trends and a commentary on those factors (including resources and strategies) that had a major influence on results for the year;
  – a benchmarking comparison between performance results achieved by the agency and by similar agencies in other Australian jurisdictions (where applicable);
  – key initiatives and projects planned for the year and details of results achieved, together with explanations for any delay and the revised target date for completion;
  – shared responsibilities for cross-agency performance issues and the agency’s contribution to joint outcomes (where applicable);
  – highlights of major achievements as well as significant shortcomings, setbacks and performance problems; and
  – the future operating environment and developments as well as future plans and projects, including those designed to further improve performance;
• management and accountability – providing an overview of the main corporate governance issues relevant to the agency, and an assessment of its effectiveness in managing and developing staff and other resources; and

• financial commentary and analysis – presenting a commentary on those material factors that affected financial performance and position, together with analysis of past financial trends and future outlook. A brief overview of major financial management issues and initiatives should also be provided.

18.4 Major findings of the review

The Committee has generally found that departments and agencies have made only limited improvement in reporting their performance. In fact, the standard of reporting varies significantly across the Victorian public sector.

There are pockets of good performance reporting and the present reporting regime displays a number of strengths. In particular, the Committee is pleased to note that some agencies, for example Victoria Police, VicRoads and the Victorian Auditor-General's Office, have presented high quality performance information in their annual reports. Of the 10 departments, the Department of Infrastructure appears to have made the most progress in meeting the reporting principles and criteria adopted by the Committee.

Most agencies still tend to focus on reporting outputs, initiatives, projects and activities rather than on the achievement of departmental objectives and government outcomes. One of the main problems is that agencies report only a very limited number of key performance indicators on their objectives, which usually do not cover all major aspects of the operations. The Committee is also concerned that there is no across-the-board reporting by agencies of their achievement of government outcomes. Although the government now publishes a progress report on the achievement of the vision and goals of the Growing Victoria Together strategy in the budget papers each year, the Committee found that the reporting of the measures of progress had not fully flowed through to the agencies’ annual reports in a number of cases.

Given the narrow focus adopted by a majority of the agencies in performance reporting, the Committee considers that it would be difficult to determine the effectiveness of an agency’s outputs and initiatives in terms of contributing to the achievement of outcomes as desired by the government and the community.

It has been the Committee’s view for some time that the annual report is still seen by some agencies as merely a compliance and public relations document rather than as an instrument of accountability. While the Committee’s examination of the 2004-05 reports reaffirms this view, several areas have shown a degree of improvement including:
• the provision of explanations for major variances between output performance targets and actual results achieved;

• the reporting of measures of progress in achieving the government’s desired outcomes;

• the overview of corporate governance arrangements and initiatives to improve organisational capability; and

• the use of case studies to aid in conveying key messages and also providing a further insight into the operations.

Apart from the major performance reporting issues identified above, the Committee noted the following issues in its review of the 2004-05 annual reports:

• in a number of cases, the measures of progress for the government’s outcomes and the key performance indicators relating to the agencies’ objectives were found to be inconsistent with those already published in planning documents and the budget papers. In the case of measures of progress, for example, only three agencies have comprehensively disclosed those measures already shown in Budget Paper No.3, while the same reporting by five others is quite limited. The Committee has also noted that despite Standing Direction 4.4, which requires the development and reporting of key financial key performance indicators for management purposes, little such data can be found in the annual reports of agencies;

• twelve of the 14 agencies examined have still devoted a substantial part of their reports to the disclosure of projects, initiatives and ongoing activities; the two exceptions are the Victorian Auditor-General’s Office and Victoria Police. For the other 12 agencies, the reports contain an excessive amount of low level details. The Committee considers that the reports should be clear and concise, and that alternative methods should therefore be used to disseminate detailed information about the operations of an agency, such as through information booklets and by posting such information on the agency’s website;

• no agency articulated the major projects and initiatives planned for the year. In the absence of such information, it would be difficult for a reader to determine the degree of success in the delivery of the initiatives;

• one report did not explain under and over performance in output delivery and while two reports provided such explanations, they are rather limited in scope and content;

• agencies generally do not highlight and explain changes to the key performance indicators and measures to assist a reader’s interpretation and understanding;

• agencies do not tend to incorporate performance data for previous years to allow a discussion and analysis of past trends to be included and to track performance over time. For the very few that do so, the information is generally not comprehensive;
only the Victorian Auditor-General’s Office and Victoria Police have provided a limited benchmarking comparison of their performance against the results achieved by similar agencies in the other Australian jurisdictions. Without such information, it is not possible to know how close an agency’s performance comes to best practice;

there is a general lack of reporting on shared responsibilities for cross-agency performance issues and on an agency’s contribution to the joint outcomes. At present, the only mandatory cross-agency reporting is the reporting on performance in the four key areas of cultural diversity, women, youth and indigenous affairs (Premier’s Circular No. 2003/3). The Committee has found that improvements are needed in reporting outcomes, monitoring achievement of milestones, and tracking performance over time. At this stage, the Department of Infrastructure is the only agency that has stood out as having made a special effort in this area;

none of the reports has provided a balanced presentation because they have only highlighted the good news and there are very few references to problems, setbacks and performance results that did not meet expectations. A balanced and unbiased presentation serves to enhance the overall credibility of a report;

only two agencies have included a properly structured overview of performance section; six others have made only a partial attempt;

while nearly all agencies have included an outlook section, it mainly presents a list of major projects and initiatives planned for the next year and, in some cases, for the medium term as well. Apart from the Victorian Auditor-General’s Office (and the Department of Premier and Cabinet and the Department of Primary Industries to some extent), no report has actually adopted a strategic focus in providing a commentary on the future operating environment, developments and challenges;

the strategic and policy context (with the commentary also covering the linkages between departmental outputs and objectives and the government’s desired outcomes) has been adequately explained in only about half the reports;

only the Department of Sustainability and Environment has dedicated a special section to triple bottom line reporting addressing the economic, environmental and social impacts of its operations;

three of the agencies have not given any explanations for the major variances between actual and budget figures in the portfolio outcomes statements as required by Standing Direction 4.2(l);

four of the 14 agencies have not provided any key performance indicators in relation to occupational health and safety, even though it is a clear requirement in the Financial Reporting Direction FRD 22;

six of the 14 agencies have used case studies in their reports showing an increasing trend in the use of this particular communication aid; and
only seven agencies have given explanations for the photographs included in the reports.

18.5 Barriers to good performance reporting

It has been clear to the Committee for some time that there are a number of major obstacles to the achievement of good performance reporting within the Victorian public sector. The following five factors stand out as contributing to the current state of reporting:

- deficiencies within the government’s existing performance management and reporting framework;
- slowness in developing appropriate measures of progress for all government outcomes and also delays in developing a comprehensive set of key performance indicators to measure the achievement of agencies’ corporate objectives;
- absence of specific legislative provisions mandating the key elements of good performance reporting;
- limited guidance and monitoring by the Department of Treasury and Finance; and
- lack of incentives for good reporting and sanctions for poor reporting.

The first three factors have been documented in detail by both the Committee and the Auditor-General in a number of recent reports to Parliament. The two latest Committee reports in which the subject of performance reporting was examined are:

- the Report on Corporate Governance in the Victorian Public Sector (May 2005); and

18.6 New performance framework initiative

The Committee has identified the following major shortcomings in the existing performance management and reporting framework:

- the framework does not cover the full range of government outcomes nor all the public sector agencies that contribute to their achievement;
- the linkages between agencies’ outputs, resource allocation and objectives and the desired outcomes of the government are not sufficiently clear;
- the correlation between the corporate and business plans of agencies and their annual reports needs to be strengthened; and
• a significant amount of work is still required in terms of the development of performance indicators for the government’s desired outcomes and, in particular, agencies’ corporate objectives.

The Committee considers that a further cause of the delay in finalising the existing performance management and reporting framework is because the Department of Treasury and Finance is not currently monitoring the progress being made by individual agencies. To expedite the process, mechanisms must be established to track developments and to hold agencies accountable for the rate of progress.

The Committee recommends that:

**Recommendation 88:** The Department of Treasury and Finance launch a new comprehensive performance management and reporting initiative for the public sector that is in line with local and international best practice, and that the department actively monitor its implementation by agencies, as a matter of priority.

### 18.7 Legislative prescriptions

Another key obstacle to good performance reporting is the absence of a clear legislative prescription of the key elements that are essential for accountability. In the Committee’s view, the Financial Reporting Directions should mandate the following elements:

- the linkages between the government’s desired outcomes and the agencies’ objectives and outputs;
- measures of progress for the government outcomes and key performance indicators in relation to the achievement of agencies’ objectives, together with details of the targets set;
- a comparison of major completed projects and initiatives with those planned for the year, including details of target dates and timelines; and
- a benchmarking comparison of performance results with those achieved by similar agencies in other Australian jurisdictions.

Other important elements of good performance reporting (as detailed earlier) can be dealt with in the guidance materials to be issued by the Department of Treasury and Finance.

At present, Financial Reporting Direction FRD 22 issues only a vague reporting requirement that ‘An entity’s objectives, functions, powers and duties should be linked to a summary of its activities, programs and achievements for the reporting period’. The situation has not been helped by the guidance notes given in the Model Financial
Report issued under Standing Direction 4.2, which seems to concentrate on presenting output performance information when demonstrating achievements.

The Committee recommends that:

**Recommendation 89:** Commencing in 2006-07, the Financial Reporting Directions be amended to require agencies to report:

(a) key performance indicators showing the achievement of government outcomes and corporate objectives (relative to the targets set);

(b) major completed projects and initiatives against those planned for the year; and

(c) a benchmarking comparison of performance with other similar agencies.

**18.8 Leadership by the Department of Treasury and Finance**

A further concern of the Committee is the limited guidance provided by the Department of Treasury and Finance in relation to the implementation of the existing performance management and reporting framework by agencies. Also, at present, there are no formal arrangements in place to assist in sharing knowledge and information across the public sector in relation to annual reporting.

The Committee recommends that:

**Recommendation 90:** The Department of Treasury and Finance assume a more active role in providing practical guidance and training to agencies by publishing education materials and conducting regular training seminars, workshops and discussion forums on annual reporting.

**Recommendation 91:** The Department of Treasury and Finance develop an annual reporting manual with best practice guidance, in collaboration with line agencies, to provide tools and resources for preparing annual report.
18.9 Annual reporting awards

There is currently no formal mechanism within the Victorian public sector to encourage and acknowledge achievement of excellence in annual reporting. The Committee considers that such a mechanism can play an important role in the government’s overall strategy to achieve continuous improvement in this area.

The Committee has been informed that a number of Victorian public sector agencies have entered their annual reports in the Australasian Reporting Awards in the last few years. Australasian Reporting Awards Inc is an independent not-for-profit organisation run by volunteer professionals from the business community. The awards are open to all organisations in the private and public sectors. Apart from these awards, the Institute of Public Administration Australia also sponsors annual reporting awards for the public sectors in Western Australia, South Australia, Tasmania and the Northern Territory.

The Committee considers that a special Premier’s awards scheme for annual reporting should be established in Victoria. A similar awards scheme has recently been approved by the New South Wales government to be first applied to the annual reports for the 2004-05 year.

The scheme can be co-ordinated jointly by the Department of Premier and Cabinet and the Department of Treasury and Finance.

Award winners would be expected to showcase their achievements by, for example, participating in seminars and forums and by publishing educational materials. In addition, their reports could be showcased on the Department of Treasury and Finance’s website and linked to other best practice examples that are made available to agencies for guidance.

The Committee recommends that:

**Recommendation 92:** A special Premier’s awards scheme for annual reporting be established and be jointly co-ordinated by the Department of Premier and Cabinet and the Department of Treasury and Finance.
18.10 Detailed results of the review

18.10.1 Parliamentary departments

The review of the reports of the three parliamentary departments (that is, Department of Parliamentary Services, Department of the Legislative Assembly and Department of the Legislative Council) has identified a number of general issues in relation to performance reporting. All of these issues apply to each of the three departments to varying degrees.

One of the significant issues noted is that there is no consistency among the reporting structures adopted across the departments despite a statement in the Department of the Legislative Council’s report732 about the department heads having made a commitment ‘… to achieve uniformity in their reporting arrangements.’.

All of the reports contain vast amount of detail on initiatives, projects and activities rather than focusing only on priorities. Generally, the key performance indicators reported are not sufficient to properly demonstrate achievement of the objectives. However, it is acknowledged that the reports do show a few client satisfaction indices for the Legislative Council and Legislative Assembly. The Department of Parliamentary Services has disclosed only one indicator (that is, 99.5% of all invoices were paid on time733) and also a general statement that 100% of the timelines for taxation reporting were met.734

During the year, the Parliament conducted an annual client satisfaction survey among members, electorate officers and parliamentary staff to obtain feedback on the quality of the services provided. The Committee has found that a summary of the actual survey results for each of the departments (together with the targets set) and a trend analysis have not been provided. Apart from this, the reports also have not given any information on the survey methodology nor details of the organisational improvement initiatives implemented in response to the feedback provided by the survey.

Stakeholders’ surveys generally can help to assist measurement of efficiency and effectiveness and, therefore, it is important that the results be disclosed in the report. In fact, this applies to all internal and external reviews of operations including, for example, the corporate climate survey conducted by the Department of the Legislative Assembly during the year.735

In addition, the Committee has noted a discrepancy in the way that the output performance has been reported among the departments. In the case of the Department of the Legislative Council, performance measures are shown for all the outputs

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732 Department of the Legislative Council, 2004-05 Annual Report, p.35
733 Department of Parliamentary Services, 2004-05 Annual Report, p.19
734 ibid., p.24
735 Department of the Legislative Assembly, 2004-05 Annual Report, p.33
delivered.\textsuperscript{736} The details provided include targets and actual results for the current year as well as actual results for the previous year and targets for the following year. Similar details can be found in the report of the Department of the Legislative Assembly but without the results for last year and targets for next year.\textsuperscript{737} As for the Department of Parliamentary Services, there is no information at all on the actual results and targets except for a general statement that the targets for the period were met.\textsuperscript{738} The approach adopted by the Department of the Legislative Council is the one preferred by the Committee.

One of the positive features of all the reports is that there are occasional references to the problems and difficulties encountered during the year thus ensuring a fairly balanced presentation.

The Committee believes that all three reports could also benefit from the inclusion of:

- a systematic comparison between those major projects and initiatives planned for the year and the ones that were actually delivered;
- cross-references to other more detailed sources of information (for example, Parliament’s website and information booklets) to allow a cutting back of the existing amount of detail;
- an overview section at the beginning presenting a high level summary of the performance results for the year at a glance; and
- a separate section at the end dealing with future directions and developments and also the organisation’s planned responses to the future challenges (including key priority actions for next year).

Apart from the above general issues, set out below are some further comments that are applicable to the individual departments.

In the case of the Department of Parliamentary Services the Committee has found that:

- the Secretary’s foreword has been written in a well-structured way conveying a series of personal messages regarding the recent organisational changes and the accompanying capability building initiatives; and
- the workforce data presented does not have a gender split and a comparison to the previous year.\textsuperscript{739}

For the Department of the Legislative Assembly, the Committee recommends that a discussion and analysis be provided on the business statistics and committee statistics shown on pages 43, 46 and 47 so as to give a further insight into the patterns of work

\textsuperscript{736} Department of the Legislative Council, 2004-05 Annual Report, p.60
\textsuperscript{737} Department of the Legislative Assembly, 2004-05 Annual Report, p.40
\textsuperscript{738} Department of Parliamentary Services, 2004-05 Annual Report, pp.48–49
\textsuperscript{739} ibid., p.46
activities and any emerging trends. A similar recommendation is also made in relation to the daily sitting statistics provided in the report of the Department of the Legislative Council.\textsuperscript{740}

In addition to the expenditure statements, the Department of the Legislative Council has also given some information about the different sources of budget funding. This should be done by the Department of the Legislative Assembly as well.

\textbf{18.10.2 Victorian Auditor-General’s Office}

The Auditor-General has produced an exemplary document on accountability for performance within the Victorian public sector. It is clear and concise and has been written in a way to ensure ease of understanding of the subject matters reported.

The following are areas of excellence that are worthy of noting:

- the highlights section\textsuperscript{741} presents not only major completed initiatives but also quantitative key performance indicators (with effective cross-referencing to the main body of the report for further details);

- the Auditor-General’s review\textsuperscript{742} is unlike the majority of the other Chief Executive Officer reviews which mainly concentrate on projects and initiatives implemented during the year. This section of the report covers a wide range of matters such as the external operating environment, performance results, key drivers of performance, organisational capability building initiatives, results of an independent review of the Office as well as key priorities for the next year;

- there is a clear delineation of the links between the Office’s corporate purpose, key outcome, statutory objectives, key strategies and the services and products it delivers;

- in assessing the parliamentary reports, key performance indicators have been presented on the quantity, quality, timeliness and cost aspects of the outputs and they are accompanied by detailed explanations for any variance between actual and target as well as a trend analysis. The effectiveness of the report has been measured, in the main, through satisfaction ratings obtained by surveys of a wide range of stakeholders. The average cost of the parliamentary reports has been compared with the benchmarks established by the Australian Council of Auditors-General. In addition, there is information on the value-adding features of each major audit report and also on measures of clients’ satisfaction about the audit process and outcomes. There is a similar pattern of performance information disclosed for the financial statement audits;

\textsuperscript{740} Department of the Legislative Council, \textit{2004-05 Annual Report}, p.13
\textsuperscript{741} Victorian Auditor-General's Office, \textit{2004-05 Annual Report}, p.2
\textsuperscript{742} ibid., pp.4–6
an independent assessment of the performance of the Office was conducted during the year and the details of the findings and recommendations have been incorporated in the report together with an outline of the actions taken or being taken on the recommendations. The Committee has noted that very few departments and agencies actually have a policy of communicating the results of their internal and external reviews of operations to the stakeholders through annual reports. Providing the stakeholders with an insight into the issues and problems identified by the reviews, the lessons learned and the remedial actions taken is, in the Committee’s view, all part of the accountability process;

organisational capability building was an important issue for the Office and a range of completed initiatives have been reported against plans together with details of those earmarked for the next year as outlined in the various outlook for 2005-06 sections.743

The report does not appear to have fully complied with the following statutory and policy requirements:

- the reporting on occupational health and safety744 has not incorporated any key performance indicators (FRD 22);
- the executive officer disclosures745 have not included a gender split across classifications and the comparatives for the previous year (FRD 15); and
- the prescribed information as set out in FRD 24 Reporting of Office – Based Environmental Impacts by Departments has not been fully provided on page 66 of the report.

### 18.10.3 Department of Education and Training

The report contains a comprehensive coverage of the initiatives, projects and activities undertaken during the year. It is one of the few departments that have actually made a reference to the government goals that relate to its activities as set out in the Growing Victoria Together strategy and have presented the measures of progress together with the government’s targets.746

Overall, the scope of the review of performance is less than adequate in that there are very few key performance indicators reported against the departmental objectives and those that are reported are only referred to in the Secretary’s report747 rather than in the overview section748 and also the main body of the report. Other major performance reporting issues noted by the Committee are:

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743 ibid., pp.36, 46, 66, 70
744 ibid., p.64
745 ibid., p.122
747 ibid., p.5
748 ibid., pp.8–14
throughout the report, there is a vast amount of detail on initiatives and projects implemented during the year (some of which appear to be of a relatively minor nature). However, the reporting has not been done against plans (including target dates and timelines) thus making it difficult to effectively judge performance;

- interstate performance data on education and training and a range of other services is available from the Report on Government Services issued by the Steering Committee for the Review of Commonwealth/State Service Provision. The inclusion of a benchmarking comparison of performance results with those achieved by similar agencies in other Australian jurisdictions would add a further and useful dimension to the assessment process;

- there is an absence of information on the department’s performance in relation to cross-agency issues;

- the report has not provided an environmental context and outlook for the department’s operations. This can be addressed by the inclusion of a discussion and analysis of the department’s external and internal environments as well as the challenges it faces and the planned responses to those challenges. In this way, readers can gain a better understanding of the drivers behind the strategies and activities of the department; and

- the summary of financial results should be expanded to incorporate comments on financial and budgetary trends, future outlook as well as major financial management initiatives.

A review of compliance with other reporting requirements has shown the following:

- the workforce data is not accompanied by prior year’s comparatives (FRD 22);

- the report does not contain any executive officer disclosures (FRD 15);

- the commentary on whole of government reporting on target groups is incomplete as there is no reference to strategies proposed for the next year (Premier’s Circular No. 2003/3); and

- the disclosures regarding office-based environment impacts have not included detail of actions taken to reduce energy use in buildings and in the department’s vehicle fleet (FRD 24).

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749 ibid., pp.12–13
750 ibid., p.120
751 ibid., pp.124–136
752 ibid., p.137
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18.10.4 Department of Human Services

The department’s review of operations section has been structured in the following ways:

- an overview of the planning framework that describes the strategic policy context (based on the *Growing Victoria Together* strategy and the *A Fairer Victoria* action plan) as well as the key challenges, mission, departmental objectives and outcomes and corporate values;\(^{753}\)

- an achievements section\(^{754}\) which provides mainly details of completed projects and initiatives together with references to key performance indicators relating to limited aspects of the overall operations. The indicators highlighted include waiting times for elective surgery and public dental services. In all cases, the targets set have not been disclosed;

- the review of performance is presented under each of the six departmental objectives. There is a substantial amount of information on initiatives, projects and ongoing activities. The only key performance indicators reported are those referred to in the achievements section. Page 6 of the report refers to the new six-monthly report titled *Your Hospitals* which provides information on the performance of public hospitals and the health of Victorians as well as on the performance targets prescribed for the different operational areas of public hospitals. None of the data and commentaries have been reproduced in the annual report. Also, the review of performance has not provided any discussion and analysis of the problems and setbacks encountered during the year nor the responses to those issues that had an impact on the operating results;

- the future outlook section under each of the objectives only sets out a list of longer term planned outcomes. However, the details of the key strategic priorities to support the objectives and the targets and milestones identified for the achievement of the outcomes have not been given to allow future performance tracking. According to the report, these details are in the 2005-06 departmental plan; and

- the Secretary’s foreword\(^{755}\) has a relatively narrow focus in that it has mainly concentrated on identifying a number of specific initiatives that were implemented during the year. Even then, the initiatives referred to do not cover all major aspects of the department’s operations. There are no key performance indicators highlighted in this section nor a strategic overview of the future outlook.

\(^{753}\) Department of Human Services, *2004-05 Annual Report*, pp.2–4
\(^{754}\) ibid., pp.5–8
\(^{755}\) ibid., p.1
The Committee can see a number of major gaps in the overall performance reporting approach of the department:

- there is only limited reporting on the measures of progress in achieving the government’s vision and goals as set out in the *Growing Victoria Together* strategy and the *A Fairer Victoria* action plan. The following are examples of those measures that are related to the department but have not been reported although they are shown in Budget Paper No.3 for the 2005-06 year:
  - health status of Victorians;
  - levels of satisfaction with health and community services; and
  - reduction in disadvantage in health and housing;

- in the case of accountability for the achievement of the department’s six objectives and outcomes, the Committee is not able to find much information on key performance indicators throughout the report;

- the reporting of completed initiatives and projects has not been done against those planned for the year and, as a result, information on instances of delays and remedial actions taken is not available; and

- comments on cross-agency performance issues are limited and there is a clear absence of a benchmarking comparison with similar agencies in other Australian jurisdictions.

The Committee has also noted that the report has not fully complied with the following Financial Reporting Directions:

- no explanations have been provided for the major variances between the actual and budget figures in the budget portfolio outcomes statements – FRD 8;\(^{756}\)

- the workforce data is not accompanied by comparatives for the previous year – FRD 22;\(^{757}\)

- no commentary has been given on how the Freedom of Information Act operates – FRD 22;\(^{758}\) and

- consultancy fees disclosure has not provided all the required details – FRD 22:\(^{759}\)
  - for consultancies in excess of $100,000, the report has only provided ‘total commitment’ and ‘actual expenditure’ to 30 June 2005 but not a split between ‘total fee approved’, ‘expenditure for the period’ and ‘future commitment’; and

\(^{756}\) ibid., pp.123–126  
\(^{757}\) ibid., p.45  
\(^{758}\) ibid., p.127  
\(^{759}\) ibid., p.132
for consultancies less than $100,000, the total commitment amount is shown instead of total actual expenditure.

18.10.5 **Department of Infrastructure**

The department’s corporate plan for 2002-05 is a comprehensive document providing a strategic and policy context by setting out:

- the vision, mission, values, role and the nine desired outcomes of the organisation;
- the priority actions of the government under the *Growing Victoria Together* strategy together with the related measures of progress; and
- a detailed analysis of the external environment including changes and influences that are expected to have an impact on the department.

The department’s planning document is one of the few that has actually provided information on the performance targets for the departmental outcomes as well as details of the government’s priority actions and the related measures of progress.

However, the review has found that the department has not fully adopted the planning document as the framework for performance reporting. The review of operations mainly contains a detailed description of the initiatives, projects and activities carried out during the year under each of the nine departmental outcomes. Electronic links to other more detailed sources of information have also been provided.

A small number of key performance indicators have been disclosed for only four of the nine desired outcomes of the department. Examples of those reported indicators are:

- annual deaths and serious injuries from road crashes;\(^{760}\)
- reported crime on the public transport network;\(^{761}\)
- public transport customer satisfaction;\(^{762}\)
- port related freight carried on rail;\(^{763}\)
- trends in ship size;\(^{764}\) and
- net greenhouse emissions in Victoria.\(^{765}\)

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\(^{760}\) Department of Infrastructure, *2004–05 Annual Report*, pp.12–13

\(^{761}\) ibid., p.16

\(^{762}\) ibid., p.31–32

\(^{763}\) ibid., p.52

\(^{764}\) ibid.

\(^{765}\) ibid., p.61
Most of the above indicators are not accompanied by the targets set for the year. ‘Port related freight carried on rail’ is also a measure of progress under the Growing Victoria Together strategy but the Committee has noted that two other measures of progress relating to the department have not been reported that is, regional rail service availability and public transport use in Melbourne as a proportion of trips taken by motorised means.

In summary, the Committee has found that the department in future needs to further expand on its reporting of:

- the link between the nine outcomes of the department and the higher level government’s desired outcomes;
- the government’s commitments to strengthen Victoria’s transport, ports, major projects, energy and information and communication technology infrastructure;
- the measures of progress under the Growing Victoria Together strategy and other related policies; and
- the key performance indicators for the departmental outcomes.

Although a lot of details have been given on projects and initiatives completed or started during the year, there is an absence of a systematic comparison with what the department planned to deliver for the 2004-05 year. Also, the department has concentrated mainly on the presentation of good news and has made few references throughout the report to setbacks, problems and controversies encountered during the year.

Delivering major infrastructure projects on time, on budget and to the required scope and quality is a top priority for the department. In the report, it is indicated that the latest corporate plan has published a series of key performance indicators relating to adherence to agreed budget, timeline and scope. There are also target completion dates stipulated for the major projects. The Committee believes that it would be useful to incorporate a summary of the indicators together with a progress report on the status of the projects (including reasons for any delays and details of remedial actions).

In addition, the presentation of the report can be further enhanced by the inclusion of an overview section and a separate section dedicated to future directions and developments.

The 2004-05 report has a number of positive features including comprehensive explanations for output performance variances, use of case studies and electronic links as well as an exemplary format for the reporting of responses to the four targeted community areas (Premier’s Circular No. 2003/3).

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766 ibid., p.20
The only other issue for noting is that the reporting on occupational health and safety needs to be extended to incorporate more key performance indicators (FRD 22).

(a) VicRoads

The report has a number of useful features in relation to performance reporting which should greatly assist the readers in gaining a clear understanding of the policy context and environment in which the organisation operates; what it set out to achieve and what it has in fact achieved. Those aspects of the report that are worthy of noting include:

- an explanation of the statutory and policy obligations of the agency within the context of the Growing Victoria Together strategy and other related government plans and strategies;
- a set of reasonably comprehensive key performance indicators that are designed to measure efficiency and effectiveness in road management and development and also the achievement of the government’s desired outcomes (including brief explanations for the technical terms used);
- the reporting of completed projects and initiatives that are linked to not only the agency’s own objectives but also the government’s plans and strategies;
- a detailed analysis of the financial results, financial position, capital works expenditure as well as the funding sources for the agency;\(^{767}\) and
- effective use of photographs that are accompanied by brief commentaries to assist in conveying key messages to the stakeholders.

To further enhance accountability, the Committee has identified a number of ways in which the existing performance reporting approach can be modified in the future:

- on page 28 of the report, it is stated that VicRoads has, in the annual strategic business plans, identified performance targets for each of its core businesses: road system management; traffic and transport integration; road safety; and registration and licensing. However, in the review of performance section, the report has only referred to targets in relation to road system management and registration and licensing but not the other two core businesses. In future, all performance targets should be used for assessment purposes;
- the key performance indicators presented in the report should also be accompanied by commentaries on past trends. This has only been done to a limited extent in the 2004-05 report. The Committee has noted that the indicators reported for organisational performance\(^{768}\) are confined to occupational health and safety performance. They need to be expanded to cover

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\(^{767}\) VicRoads, 2004-05 Annual Report, p.84–89

\(^{768}\) ibid., p.15
other equally important issues such as organisational capacity, productivity, training and development and employee satisfaction;

• the major initiatives completed should be reported against those planned for the year so that an assessment can be made as to the degree of the agency’s success in meeting its commitments;

• Ausroads regularly collects and collates national performance indicators (NPIs) on the Australian and New Zealand road systems and road authorities. The indicators are classified into a large number of groups covering, for example, road safety, environmental impact, construction and maintenance, travel time and user satisfaction. A benchmarking comparison of VicRoads’ performance against the NPIs should be included in future reports;

• the highlights section\textsuperscript{769} focuses only on major initiatives implemented, together with a few references to key performance indicators. This section should be replaced by a more comprehensive overview section which can also incorporate what is currently in the ‘How we report on our performance’ section\textsuperscript{770}; and

• the report does not have a section on future directions and developments commenting on the future operating environment and developments as well as future plans and major projects that are designed to further improve performance.

Two other compliance issues have been noted and they are detailed below:

• there are no disclosures provided on office-based environmental impacts (FRD 24); and

• a statement has not been included regarding the agency’s response to cultural diversity, women, youth and indigenous affairs (Premier’s Circular No. 2003/3).

\textbf{18.10.6 Department of Innovation, Industry and Regional Development}

The report provides at the beginning a strategic and policy context by identifying the linkages between the \textit{Growing Victoria Together} strategy and other government policy statements with the corporate directions and objectives of the department.\textsuperscript{771} This is then followed by an overview of major initiatives completed during the year.

\textsuperscript{769} ibid., pp.10–11
\textsuperscript{770} ibid., pp.12–13
\textsuperscript{771} Department of Innovation, Industry and Regional Development, \textit{2004-05 Annual Report}, pp.8–11
The ‘Highlights at a glance for 2004/05’ section\(^{772}\) is simply a list of projects, initiatives and activities with only a few references to key performance indicators such as:

- completion of 165 contracts with a total value of over $4.9 billion that fell within the scope of the Victorian industry participation policy;
- companies confirming new investment facilitation results totalling $2,116.8 million and 5,866 jobs; and
- new investments of $1.099 billion attracted into rural and regional Victoria.

The achievements section mainly contains details of projects, initiatives and ongoing activities accompanied by only a limited number of key performance indicators on the effectiveness aspect of the operations. The results achieved, however, have not been compared against those planned or targeted for the year nor has a trend analysis been included. A further issue is that very limited explanations have been provided for instances of major under and over performance in the delivery of outputs.

Overall, the most significant issue in the area of performance reporting is that the department has not presented a comprehensive suite of key performance indicators to allow an effectiveness assessment of the achievement of the nine corporate objectives and the government’s priorities. The following measures of progress referred to in the budget papers for 2005-06 do not appear to have been reported on:

- annual employment and productivity growth rates;
- share of national business investment; and
- increase in export of goods and services.

There are a number of other related issues that the department should take into account in preparing its future reports such as:

- replacing the Highlights at a glance section with an overview section;
- inclusion of an environmental analysis together with a commentary on those external and internal factors that are likely to have an impact on the operations as well as on the department’s planned responses to the future challenges; and
- a clear identification of those major initiatives earmarked for the near future (particularly the next year) together with target dates and timelines.

The review of the report has identified the following instances of non-compliance with the Financial Reporting Directions and Premier’s directive:

\(^{772}\) ibid., pp.16–19
• last year’s comparatives have not been provided for the workforce data\textsuperscript{773} (FRD 22);

• the executive officer disclosures\textsuperscript{774} are deficient in that they have not provided any information on the split between ongoing and special project executives, the reconciliation of executive numbers with those shown in the financial statements and the details of executive officer numbers for all its portfolio authorities (FRD 15);

• the information on office-based environmental impacts\textsuperscript{775} is incomplete as there are no comments on actions taken to reduce energy use in buildings and vehicle fleet (FRD 24);

• the occupational health and safety disclosures\textsuperscript{776} have not included any key performance indicators nor targets and strategies for next year (FRD 22); and

• the statement on responding to cultural diversity, women, youth and indigenous affairs has not covered the community area of youth (Premier’s Circular No. 2003/3).

\subsection*{18.10.7 Department of Justice}

The first part of the report has provided an overview of the linkages between the \textit{Growing Victoria Together} outcomes for the government, the Justice portfolio policy outcomes and goals and the departmental outputs. However, in reporting on performance, the focus is mainly on initiatives, projects, activities and outputs as indicated by a statement made by the Secretary in the Year in review section\textsuperscript{777} that ‘\textit{This report highlights the services and activities of the Department of Justice in 2004-05.}’.

The Committee has noted that the department’s planning documents have not been fully adopted as a framework to account for its performance. Many of the key elements of the plans have not properly flowed through to the report such as:

• the key performance indicators for the measurement of the achievement of government priorities and portfolio outcomes and goals; and

• details of the initiatives and projects planned for 2004-05 (including target dates and timelines).

The achievement of the portfolio outcomes and goals has been demonstrated mainly by reference to a vast amount of details relating to initiatives, projects, ongoing activities and output performance. There are only a small number of key performance

\begin{itemize}
\item \textsuperscript{773} ibid., p.120
\item \textsuperscript{774} ibid., p.130
\item \textsuperscript{775} ibid., pp.134–135
\item \textsuperscript{776} ibid., p.168
\item \textsuperscript{777} Department of Justice, \textit{2004-05 Annual Report}, p.3
\end{itemize}
indicators reported for the portfolio outcomes and goals throughout the report covering issues such as:

- court workload performance in the criminal jurisdiction;\(^{778}\)
- daily average number of offenders under community-based jurisdictions in Victoria;\(^{779}\)
- daily average number of prisoners in Victoria;\(^{780}\)
- drug used in prisons;\(^{781}\)
- resolution of disputes out of court;\(^{782}\) and
- correctional system performance.\(^{783}\)

It is the Committee’s view that the reported indicators fall short of what is required to properly account for the efficiency and effectiveness of all major aspects of the department’s operations. However, it is acknowledged that there are some references to client satisfaction ratings in the ‘Report on outputs’ section.\(^{784}\) In addition, the Committee has noted that the reporting of the following measures of progress in terms of the department’s contribution to the achievement of the goals under the *Growing Victoria Together* strategy does not appear to have been done:

- rates of violent crime and perception of personal safety;
- reduction of prison population and re-offending rates; and
- Victorians’ awareness of their legal and civil rights.

The department’s future reporting structure could also benefit from the incorporation of an overview section at the beginning and another section specifically dedicated to a discussion and analysis of future directions and developments. Also, as interstate and national performance data on the Justice portfolio is publicly available, the department should further expand its scope of performance review by including a benchmarking comparison in the report.

There are a number of other compliance issues identified by the review:

\(^{778}\) ibid., p.22  
\(^{779}\) ibid., p.23  
\(^{780}\) ibid., p.25  
\(^{781}\) ibid., p.27  
\(^{782}\) ibid., p.38  
\(^{783}\) ibid., p.58  
\(^{784}\) ibid., pp.60–76
no explanations have been provided for the major variances between the budget and actual amounts shown in the budget portfolio outcomes statements\(^{785}\) (FRD 8);

the ‘Financial review of operations and condition’ section\(^{786}\) is deficient in that it does not contain a commentary on comparison with prior year’s financial results and position and also on past trends (FRD 22);

the report has disclosed the total amount approved for consultancies that are individually valued at less than $100,000 (exclusive of GST) but not the actual expenditure for the year (FRD 22); and

there are no statistics provided in relation to the administration of the Freedom of Information Act (FRD 22).

(a) **Victoria Police**

The agency has produced a report with a strong focus on accountability for performance outcomes. It has been written in a clear and succinct manner.

A major positive feature of the report is the extensive disclosure of indicators of achievement of performance outcomes such as reduction of crime rates, reduction of road toll, increase in community’s perception of safety and increase in community’s satisfaction with police services. These indicators are in addition to the output performance data provided. The results achieved have been reported against targets set for the year and there are detailed explanations of those critical factors that had a major impact on the agency’s performance.

The Committee considers that the already robust performance reporting structure can be further strengthened by the inclusion of more trend analyses and a benchmarking comparison with the results achieved by similar agencies in other Australian jurisdictions and with national averages. Interstate data is available from the Steering Committee on the Review of Commonwealth/State Service Provision established by the Council of Australian Governments.

The section providing a snapshot view of local policing results and initiatives in 2004-05\(^{787}\) effectively complements the reporting of the results achieved at the organisational level. This two-tiered approach to performance reporting provides a deeper insight into the operations.

There is a good coverage of the governance and organisational capability building initiatives. However, a systematic comparison with those planned for the year has not been provided.

\(^{785}\) ibid., pp.122–126

\(^{786}\) ibid., p.147

\(^{787}\) Victoria Police, 2004-05 Annual Report, pp.45–68
The Summary financial results\textsuperscript{788} is not accompanied by a commentary on the results achieved relative to the previous year nor an analysis of past trends.

Although there are comments on future outlook scattered throughout the report, it lacks a separate section at the end dedicated specifically to future directions and plans. The commentary is expected to cover the future operating environment and the agency’s planned responses to the challenges as well as an outline of the planned initiatives that are aimed at further improving performance.

There are two other issues noted in relation to compliance with the statutory disclosure requirements:

- no explanations provided for the major variances between the actual and budget figures in the budget portfolio outcomes statements\textsuperscript{789} (FRD 8); and

- no comments on actions taken to reduce energy use in buildings and vehicle fleet as required by FRD 24 Reporting of Office-Based Environmental Impacts by Government Departments.\textsuperscript{790}

18.10.8 Department of Premier and Cabinet

The report is prefaced by a profile section on the department\textsuperscript{791} which is then complemented by the Secretary’s commentary\textsuperscript{792} as well as other information on the organisation structure and staffing. The review of operations section focuses on the reporting of output performance and also initiatives and projects completed during the year. The presentation of the performance information has been structured under each of the output groups and it includes details on the output objectives, the individual output components and also the initiatives and projects delivered by each of the operational branches.

The Committee has identified a number of general issues in relation to the way in which the department has approached its performance reporting obligations:

- a significant gap in the existing performance reporting structure is the absence of information on the measures of progress in achieving the government outcomes and priority actions and on the key performance indicators relating to the four corporate objectives. The report also has not explained the linkages between the government’s high level outcomes and the objectives and outputs that the department is responsible for achieving. The emphasis on output reporting is actually alluded to on the inside front cover of the report which contains a statement which reads: ‘The 2004/05 Annual Report aims to provide

\textsuperscript{788} ibid., p.15
\textsuperscript{789} ibid., pp.90–93
\textsuperscript{790} ibid., p.94
\textsuperscript{791} Department of Premier and Cabinet, 2004-05 Annual Report, pp.4–5
\textsuperscript{792} ibid., pp.2–3
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details of the year’s achievements, highlights and future challenges against its output structure as detailed in State Budget Papers’;

• in the Our performance section793 and the Measurement of the department’s performance section,794 actual results of output performance have been presented against targets. However, there are no explanations provided for instances where there is a major variance between an output target and the result achieved. In those cases where the department under performed, a reader would expect to be informed of the reasons and also what remedial actions have been taken to improve output delivery;

• although there is comprehensive information on initiatives and projects delivered during the year, the results achieved have not been assessed against plans. Therefore, a reader would have difficulty in determining the extent of the success of the department’s efforts. Also, there is no commentary given on delays and revised target completion dates where plans have not been achieved. Further, a large number of the reported initiatives and projects appear to be of a relatively minor nature and, in fact, some of the items listed are only ongoing activities. The Committee believes that the comprehension of the report would benefit from a sharper focus on only the key strategic initiatives and a cut back on the descriptive details;

• the Secretary’s commentary has attempted to highlight the DPC’s stories with a focus on reporting the major government and internal initiatives as well as plans and challenges for the next year. This section of the report could be further improved by the incorporation of some of the more significant key performance indicators and targets and also a brief commentary on problems, setbacks and issues encountered during the year to ensure a more balanced presentation;

• the DPC at a glance section795 has presented a list of completed projects and initiatives under each of the objectives. However, a comparison with those planned for the year has not been given. In the Committee’s view, the report would benefit from the inclusion of an overview section at the beginning commenting briefly on:
  − significant issues and developments for the current year and future directions and outlook for the following year (including both positive and negative factors);
  − major projects and initiatives completed relative to plans a well as those identified for action in the following year;
  − key performance targets and results achieved; and
  − the financial results for the year;

793 ibid., p.10
794 ibid., pp.115–123
795 ibid., pp.11–13
• the department is involved, from time to time, with other agencies in the delivery of whole of government initiatives and programs. The report has provided very limited comments on shared responsibilities for cross-agency performance issues and the department’s contribution to the joint outcomes; and

• the key financial results 2000-01 to 2004-05 table\textsuperscript{796} is not accompanied by an analysis and commentary on past trends. Further, there are no references to major financial management issues and initiatives.

The report has a number of positive features in terms of enhancing the readers’ understanding of the operations of the department including:

• the use of case studies to provide a further insight into the work experiences of certain staff members thus capturing some of the behind-the-scenes stories of what it was like to be in the Department of Premier and Cabinet over the 2004-05 year; and

• the sections on future challenges and new initiatives in 2005-06\textsuperscript{797} giving a useful overview of the external forces and influences as well as some of the department’s planned responses to those challenges in the next year.

The report has not fully complied with the following requirements as specified in the Financial Reporting Directions and other policy documents:

• the disclosures in the report\textsuperscript{798} indicating the department’s responses to cultural diversity, women, youth and indigenous affairs are grossly inadequate (Premier’s Circular 2003/03); and

• the occupational health and safety information does not cover targets set for the 2004-05 year nor strategies and targets planned for the following year (FRD 22).

18.10.9 Department of Primary Industries

There is a statement on the inside front cover that the report has been prepared against the criteria set by the Australian Reporting Awards Inc and the Global Reporting Initiatives 2002 sustainability reporting guidelines. Whilst on the whole the document has covered all the key elements of best practice performance reporting, there are certain gaps in the contents of the materials provided.

\textsuperscript{796} ibid., p.60
\textsuperscript{797} ibid., pp.12–13
\textsuperscript{798} ibid., p.136
In essence, the major issues arising out of the review can be summarised as follows:

- it is not clear from the report as to how the outputs, strategies and objectives of the department are aligned with the government’s vision and priorities. In addition, although there is an abundance of information and data on output performance and initiatives, accountability for the achievement of the higher level objectives and government outcomes has, in the Committee’s view, not been adequately discharged because of the inadequacy in the reporting of key performance indicators;

- the highlights section\textsuperscript{799} only presents a short list of initiatives completed or commenced during the year. There are no key performance indicators reported nor a commentary on both the good and bad news. The About DPI section\textsuperscript{800} has included a table of output performance results together with last year’s comparatives but there are no details on the targets set. The Year in brief section\textsuperscript{801} has a short report on initiatives and other actions implemented during the year with cross referencing to the main body of the report for more details. There is an absence of key performance indicators on achievement of objectives and government outcomes and the reported initiatives have not been compared with those planned. The three sections on pages 3–5 can be amalgamated into a single overview section presenting a high level commentary on performance results and plans and outlook for the following year;

- in the review of services section\textsuperscript{802}, the information provided is mainly confined to projects and initiatives implemented and output performance data (covering not only the actual results and targets for the current year but also comparatives for the previous three years). The Committee has two issues with this particular section. Firstly, details of those key projects and initiatives planned for the year have not been given to allow an assessment to be made. Secondly, in those cases where there was an under performance in the delivery of an output, the explanations provided sometimes do not cover the details of remedial action taken or the reasons for the delay (where applicable) – see explanations given on pages 18, 22, 23 and 28; and

- the financial summary\textsuperscript{803} has not incorporated the data for the previous four years as required by FRD 22. Further, there is an absence of a comparative analysis with the prior year and also a commentary on past trends.

\textsuperscript{799} Department of Primary Industries, \textit{2004-05 Annual Report}, p.3
\textsuperscript{800} ibid., p.4
\textsuperscript{801} ibid., p.5
\textsuperscript{802} ibid., pp.13–40
\textsuperscript{803} ibid., p.8
18.10.10 Department of Sustainability and Environment

The report shows that the department was very active during the year by presenting a substantial amount of detail on projects, initiatives and ongoing functions under each of the nine outcomes as stated on page 1. The Committee has noted certain areas where the department has made a commendable effort including:

- detailed explanations for instances of under and over performance in output delivery and also comparative data for the previous two years;
- useful commentaries on all major variances between the actual and budget figures in the budget portfolio outcomes statements;
- triple bottom line reporting\(^{804}\) covering the economic, environmental and social aspects of its operations; and
- effective choice of case studies to provide a further insight into the different aspects of the organisation’s activities.

The Committee can see room for a number of improvements in performance reporting. In essence, this can be done by revamping the existing reporting structure and incorporating some additional information in the following ways:

- identification of the government’s desired outcomes and priorities on the protection of the environment and sustainable use of resources (as specified in the *Growing Victoria Together* strategy, Victoria’s environmental sustainability framework (2005) and other policy documents) and explaining their linkages to the nine departmental outcomes and eleven output groups;
- provision of information on measures of progress in achieving the desired outcomes of the government and also on key performance indicators in relation to the departmental outcomes. In the budget papers for 2005-06, there is a report on the progress measures as identified in the *Growing Victoria Together* strategy. Of the eight or so measures relating to sustainable development and environmental protection, only one has been specifically referred to in the annual report (that is, increase in the environmental flows in the Snowy River). For a number of the other measures relating to air and water quality, there is only a single statement quoting percentage of water supplies meeting water quality standards and percentage of samples meeting air quality standards without any further elaboration\(^{805}\). Additional measures that should also have been reported include those relating to the health of waterways, the condition of land and native vegetation, production and use of energy, water usage and waste reduction and recycling. Another concern is that the extent of achievement of the departmental outcomes clearly has not been adequately

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\(^{804}\) Department of Sustainability and Environment, 2004-05 Annual Report, pp.18–20

\(^{805}\) See ibid., pp.154, 156
demonstrated as there are only a very limited number of efficiency and
effectiveness indicators reported (for example, customer/community
satisfaction indices relating to the management of parks and bayspiers and
related waterways806);

• the Committee is aware that comprehensive performance indicators have been
developed by the World Health Organisation and a number of the environment
protection authorities in other Australian jurisdictions and they are published as
part of the annual *State of the Environment* reports. The department, therefore,
should provide a benchmarking comparison with the results achieved by other
similar agencies and also with national averages;

• because of the extensive details provided on a large volume of projects and
initiatives, a reader would have difficulty in identifying those that are of a
significant nature. The details should be cut back to concentrate only on the
major items. Another issue is that the projects and initiatives have not been
assessed against those planned for the year. Therefore, a judgement cannot be
made about the extent of the success in delivery nor the reasons for any delays;

• the Secretary’s foreword has only provided an overview of the key policy and
other initiatives implemented during the year. The scope of the review can be
expanded to also cover acknowledgement of successes as well as problems and
setbacks, key performance results relative to targets and benchmarks and also
responses to future challenges and developments.

• the Year in brief section807 only provides a list of completed projects and
initiatives. They have not been reported against plans and, in this section, there
is no reference to a set of key performance indicators nor a commentary on the
results achieved. The Year in brief section should be replaced by an overview
section giving a high level review of performance including:

− progress towards achievement of the department’s outcomes and the
government’s policy priorities;
− key performance indicators and targets and a brief review of achievement;
− extent of achievement of those major initiatives planned for the year;
− highlights and successes during the year as well as problems and setbacks
in performance; and
− plans and outlook for the following year.

• the outlook section presented under each of the nine outcomes covers only
planned actions and initiatives for next year described in a general way. No
target dates and timelines have been given for ex-post tracking of performance.
The Committee considers it important to dedicate a separate section at the end
of the report to deal specifically with future directions and developments; and

806 ibid., p.157
807 ibid., pp.14–17
the financial summary section\textsuperscript{808} could be enhanced with a further commentary on past trends and internal financial management issues and initiatives.

The review of the report has noted a number of other compliance issues requiring future attention:

\begin{itemize}
  \item a statement on implementation and compliance with the national competition policy has not been included (FRD 22);
  \item the workforce data\textsuperscript{809} is not accompanied by comparatives for the previous year (FRD 22); and
  \item there are limited performance indicators reported regarding responses to cultural diversity, women, youth and indigenous affairs and it is not clear what are the strategies proposed for next year\textsuperscript{810} (Premier’s Circular No. 2003/3).
\end{itemize}

18.10.11 Department of Treasury and Finance

The report has a strong focus on accountability for output performance and has been written with reader-friendly brevity. The information provided includes an overview analysis of output performance, details of output data and changes to output structure, output descriptions, explanations for instances of major under and over performance as well as a brief outline of major initiatives and projects planned for delivery next year.

The performance information, however, does not extend much beyond the output level in terms of the planning and accountability framework. In other words, there is an inadequate emphasis on the reporting of the achievement of the government’s desired outcomes and particularly the quantitative key performance indicators in relation to the department’s four objectives. There are some brief references to the maintenance of a budget operating surplus above the government’s target of $100 million and the affirmation of the state’s triple-A credit rating in the Secretary’s report.\textsuperscript{811} These are two of the measures of progress used for tracking the achievement of the government’s vision and goals under the \textit{Growing Victoria Together} strategy.

The Committee’s review has also identified the following additional matters in relation to the department’s overall approach to performance reporting:

\begin{itemize}
  \item the Output performance in summary section\textsuperscript{812} provides a brief statistical analysis of the output data. It should be expanded to incorporate a commentary on the major trends in output performance as well as an overview of the critical
\end{itemize}

\textsuperscript{808} ibid., p.174
\textsuperscript{809} ibid., p.85
\textsuperscript{810} ibid., pp.60–61
\textsuperscript{811} Department of Treasury and Finance, 2004-05 Annual Report, p.4
\textsuperscript{812} ibid., p.16
success factors and the significant problems and issues encountered during the year;

- in reporting on the key projects and initiatives completed or progressed during the year, the results achieved are not compared with those planned for the year thus making it difficult for the readers to track the performance of the department in the delivery of key initiatives over time;

- the measurement of the quality aspect of the outputs is mainly based on service provision ratings obtained from ministerial survey data. In future, the scope of the surveys should be extended to cover other key stakeholders such as departments and agencies in relation to the outputs for, for example, infrastructure project management, procurement services, government accommodation services and land and property services;

- the Year in review section\textsuperscript{813} is basically an expanded version of the Secretary’s report presenting mainly highlights (that is, good news), major initiatives completed and priorities for next year. The Committee considers it important for the overview section to also contain acknowledgement of problems and setbacks followed by key performance indicators with comparisons with targets and benchmarks. In addition, it would be useful to have a separate section, in the first few critical pages of the report, dealing with the policy context and environment in which the department operates and also the key challenges it faces and the planned responses to those challenges;

- Our focus in 2005-06 section\textsuperscript{814} sets out the department’s strategic priorities and the key projects to be delivered as part of those priorities. The Committee believes that this section could be broadened to cover the future directions and developments as well as future plans and major projects. This particular section is expected to provide a commentary on:
  - the future outlook for the department (including issues and events that are likely to have a significant impact on the following year’s performance);
  - expected future changes and trends within the operating environment; and
  - what the department aims to achieve in the coming periods (particularly in the next year) and objective measures of performance;

- there is an absence of a discussion and analysis of the department’s shared responsibilities (as a central agency) for cross-agency performance issues and its contribution to the joint outcomes; and

- the section on financial performance\textsuperscript{815} could be further enhanced by including a discussion and analysis of the trends as reflected in the five year financial summary and also a commentary on major internal financial management issues.

\textsuperscript{813} ibid., pp.2–7
\textsuperscript{814} ibid., p13
\textsuperscript{815} ibid., pp.36–37
Chapter 18: Review of annual reports of departments and agencies

The review of the report has identified a number of other issues as listed below in terms of compliance with the Financial Reporting Directions and other policy requirements:

- the occupational health and safety performance indicators\(^{816}\) have not included details of the targets set for the year nor targets and strategies and initiatives planned for achievement next year (FRD 22);
- the report has not fully complied with Premier’s Circular No. 2003/3 which requires the inclusion of a statement on responding to cultural diversity, women, youth and indigenous affairs together with the strategies proposed for the coming year as well as appropriate performance indicators regarding responses to the four community areas. The disclosures in the cultural diversity section\(^{817}\) are inadequate in both scope and content; and
- no statistics have been given in relation to the administration of the Freedom of Information Act during the year as required by FRD 22.\(^{818}\)

18.10.12 Department for Victorian Communities

In reporting on performance, the department has relied primarily on the presentation of a vast amount of descriptive detail on projects, initiatives and ongoing activities undertaken during the year that are linked to each of the six objectives. Throughout the report, there is a clear absence of a number of vital components which are essential for the department to adequately account for its performance to the wide range of stakeholders.

The Committee, however, believes its major concerns can be addressed by the inclusion of the following information in future reports:

- an outline of the government’s desired outcomes and strategic priorities (together with measures of progress) in so far as they are related to the objectives of the department. In this regard, the Committee has noted that the following measures of progress have not been referred to in the report although they are shown in the budget papers:
  - levels of community participation in community, cultural and recreational organisations;
  - ability to obtain help from friends, family or neighbours when needed; and
  - appreciation of diverse neighbourhoods and communities.

\(^{816}\) ibid., p.99
\(^{817}\) ibid., p.98
\(^{818}\) ibid., p.104
• a presentation of the key performance indicators and targets for the six objectives as well as a commentary on all major variances between targets and results. The report on page 16 indicates that the department, in May 2005, released a document titled *Indicators of Community Strength at the Local Government Area Level in Victoria*. The document discloses a series of indicators of community attitudes, participation and support. Those indicators measure how the combined actions of communities, governments and businesses are impacting on local areas. A summary of the indicators and a commentary on the results have not been incorporated in the report;

• an identification of the major initiatives planned for the year and the actual results achieved; and

• an inclusion of an overview section at the beginning and a separate section on future directions and developments. The highlights section\(^{819}\) is only a calendar of major events. Throughout the report, there is little information and commentary on the future environment and plans.

A further compliance matter noted is that the comparative figures for the previous year have not been provided in the Executive officer disclosures section – FRD 15.

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\(^{819}\) Department for Victorian Communities, *2004-05 Annual Report*, pp.4–5

This report was adopted by the Public Accounts and Estimates Committee at its meeting held on 10 April 2006 in the Legislative Council Committee room, at Parliament House.
<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
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<tr>
<td>AAS</td>
<td>Australian accounting standards</td>
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<td>AIRC</td>
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<td>Council of Australian Governments</td>
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<td>Community and Public Sector Union</td>
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<td>DSE</td>
<td>Department of Sustainability and Environment</td>
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</table>
DTF  Department of Treasury and Finance
DVC  Department for Victorian Communities
ED142 exposure draft 142 — Financial Reporting of General Government Sectors by Governments
EES  environment effects statement
EFT  equivalent full-time
EMS  environmental management system
ERC  Expenditure Review Committee
FaCS (Commonwealth) Department of Family and Community Services
FRD  financial reporting direction
FTE  full time employee
GAAP  generally accepted accounting principles
GBE  government business enterprises
GFS  government finance statistics
GHG  greenhouse gas
GSP  gross state product
GST  goods and services tax
ha  hectare
IPSAM  integrated public sector audit methodology
ISC  index of stream condition
JYP  Jobs for Young People
km  kilometres
LPG  liquid petroleum gas
MAFRRI Marine and Freshwater Resources Institute
MAMS  Master Media Agency Services
MCCS  Melbourne Central City Studios Pty Ltd
MIHIPV  Make it Happen in Provincial Victoria
MMV  Multimedia Victoria
MTP  Melbourne Transport Plan
NGIV  Nursery Garden Industry Association of Victoria
NPIs  national performance indicators
NPV  net present value
NWMHS  NorthWestern Mental Health Service
OCGC  Office of Commonwealth Games Coordination
OCIO  Office of the Chief Information Officer
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<th>Acronym</th>
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<td>OCSC</td>
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<td>OWOF</td>
<td>Our Water Our Future</td>
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<td>telecommunications purchasing and management strategy</td>
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<td>telecommunications device for the deaf</td>
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APPENDIX 2: RESPONSES RECEIVED TO THE COMMITTEE’S 2004-05 BUDGET OUTCOMES QUESTIONNAIRE

- Parliamentary Departments
- Victorian Auditor-General’s Office
- Department of Education and Training
- Department of Human Services
- Department of Infrastructure
- Department of Innovation, Industry and Regional Development
- Department of Justice
- Department of Premier and Cabinet
- Department of Primary Industries
- Department of Sustainability and Environment
- Department of Treasury and Finance
- Department for Victorian Communities