



PARLIAMENT OF VICTORIA
Public Accounts and Estimates Committee

**Report on the 2013-14
and 2014-15 Financial and
Performance Outcomes**

Parliament of Victoria
Public Accounts and Estimates Committee

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Committee functions

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.

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
- 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
- any proposal, matter or thing that is relevant to its functions and has been referred to the Committee by resolution of the Council or the Assembly or by order of the Governor in Council published in the Government Gazette.

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
- exempt, if ever deemed necessary, the Auditor-General from legislative requirements applicable to government agencies on staff employment conditions and financial reporting practices.

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This report is also available online at the Committee's website.

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Acronyms and terms

(Asset) investment through other sectors	'Asset investment' funded through another sector (most commonly funded by the 'general government sector' and through the 'public non-financial corporations sector') for an asset that becomes part of that other sector. May be reported as gross inflows, gross outflows or net cash flows.
AASB	Australian Accounting Standards Board
ABS	Australian Bureau of Statistics
Agency	Government entities which generally receive their funding through 'departments' and for which 'departments' are responsible for reporting. Examples include Victoria Police, hospitals and TAFEs. Agencies, like 'departments', are directly accountable through one or more ministers to Parliament.
Appropriation	The authority to withdraw funds from the Consolidated Fund. This may be a once-off authority (as provided in the annual Appropriation acts) or a standing authority (a special appropriation provided by another act).
Asset initiative	A new program or project ('initiative') that delivers assets. See 'asset investment'.
Asset investment	Expenditure on assets (generally infrastructure such as roads or hospitals) as opposed to expenditure on the delivery of products and services ('outputs').
Budget estimates	Forecasts for future years made in the budget papers about matters such as revenue, expenditure, assets, liabilities and goods and services to be delivered.
Budget papers	The set of documents released with the annual budget. These normally include the Treasurer's speech and volumes on: strategy and outlook; service delivery; capital investment; and the estimated financial statements. The set also includes the Annual Financial Report, published after the end of the budget period.
Contingencies/contingency provisions	Amounts included in a budget for expenses that have not been determined at the time of the budget. These provisions are for both predictable expenditure (such as dealing with population growth and initiatives to be released in future budgets) and unpredictable expenditure (such as unforeseen natural disasters).
Department	<p>Large government entities. Funding for most 'agencies' is generally provided through departments and departments are required to report on the financial and performance results of the agencies for which they are responsible. Departments, like 'agencies', are directly accountable through one or more ministers to Parliament.</p> <p>At 30 June 2014 there were nine departments in Victoria, plus the Parliamentary Departments.</p> <p>At 30 June 2015 there were seven departments in Victoria, plus Courts Victoria and the Parliamentary Departments.</p>

Depreciation	The amount of money it would require to keep the State's assets in the same condition as they were in last year. This amount is listed as an expense on the operating statement, and the cash equivalent to that amount is usually used to partially fund 'asset investment'.
Direct (asset) investment	'Asset investment' by the 'general government sector' managed by an 'entity' within that sector for an asset that becomes part of that sector.
DTF	Department of Treasury and Finance
Entity	Either a 'department' or an 'agency'.
Expenditure reduction initiative	Changes in the provision of 'outputs' that result in reductions to the cost of the 'output'. This may be done by reducing the services provided or providing the same services more efficiently. Expenditure reduction initiatives are only one factor affecting 'output expenditure'. Thus, they may not reduce a department's total 'output expenditure' compared to the previous year if other factors (such as 'output initiatives') are greater in value. Expenditure reduction initiatives are usually perpetual.
EWL	East West Link
Forward estimates period	The period for which estimates are made in the budget papers. This includes the budget year and the following three financial years. The forward estimates period for the 2013-14 Budget was 2014-15 to 2016-17 inclusive, and for the 2014-15 Budget it was 2015-16 to 2017-18 inclusive.
FRD	Financial reporting directions. A set of guidance documents provided and updated by the Department of Treasury and Finance setting out the annual reporting requirements for Government entities.
FTE	Full-time equivalent
General government sector (GGS)	Government 'entities' which provide services either with no charge to the user or with charges significantly below the cost of providing the services. This includes all 'departments' and many 'agencies'.
General-purpose (GST) grants	Grants from the Commonwealth Government to the State Government sourced from GST revenue. There are no restrictions imposed by the Commonwealth Government on how the funding can be spent.
GFC	Global financial crisis
Government infrastructure investment	A measure of 'general government sector' expenditure on infrastructure which includes 'direct asset investment', 'asset investment through other sectors' and some payments (including those made by the private sector) for 'public private partnerships' less proceeds from asset sales.
Gross state product (GSP)	The total value of goods and services produced by the state in a year. This includes the goods and services delivered by the Government and the private sector.
GPC	Government purpose classification

GST	Goods and Services Tax
ICT	Information and Communications Technology
Income tax equivalent (ITE) revenue	Revenue received from Government-owned corporations in payments that are levied to ensure the corporations operate on a competitively neutral basis with the private sector.
Initiative	A specific program or project detailed in the budget papers. Budget papers can include ‘asset initiatives’, ‘output initiatives’, ‘revenue initiatives’, ‘revenue foregone initiatives’ and ‘expenditure reduction initiatives’.
Investment through other sectors	‘Asset investment’ funded through another sector (most commonly funded by the ‘general government sector’ and through the ‘public non-financial corporations sector’) for an asset that becomes part of that other sector. May be reported as gross inflows, gross outflows or net cash flows.
Investments in financial assets for policy purposes	See ‘investment through other sectors’.
LSIC	Legal and Social Issues Committee
Liabilities	Amounts that an organisation is obliged to pay in future years. Examples include borrowings and defined benefits superannuation plans.
MOG	Machinery-of-government
Net borrowings	New interest bearing liabilities raised from public borrowings during the year (less interest bearing liabilities repaid). Not to be confused with ‘Net lending/borrowing’.
Net debt	A calculation based on the difference between the value of selected categories of financial assets and financial liabilities. Essentially, the difference in value between what the Government owes and assets that it could easily convert to cash. Not all financial assets and liabilities are included.
Net lending / borrowing	A measure of financial performance in a year. This indicator is similar to ‘operating surplus/deficit’, but also includes some asset investment transactions, including some public private partnerships. A negative figure indicates a net borrowing position, and a positive figure indicates a net lending position. The indicator does not take investments through other sectors into account.
Net operating balance	See ‘operating surplus/deficit’.
Net result	A measure of an entity’s financial performance in a year which is calculated by taking the ‘net result from transactions’ and then adding other economic flows, such as changes in the values of financial assets and liabilities. The net result is different to the ‘net result from transactions’ (see below). ‘Asset investment’ is not included in either the net result or the ‘net result from transactions’.
Net result from transactions	See ‘operating surplus/deficit’.

Operating revenue	See 'revenue'.
Operating surplus/deficit	A measure of an entity's financial performance in a year which is calculated by subtracting an entity's expenses in the year from its income. A positive result is referred to as a surplus; a negative result is a deficit. Also known as the 'net result from transactions' or 'net operating balance'. 'Asset investment' is not included in the operating balance.
Outcome	The impact of an 'output' on the community, such as healthier people or a reduction in crime.
Output	An aggregate of goods and services (such as health care or policing services) delivered by a 'department' or its 'agencies'. Outputs are identified in the budget papers.
Output expenditure	Expenditure on 'outputs' (that is, goods and services). This is distinct from 'asset investment', although it includes some expenditure on 'public private partnerships'.
Output initiative	A new program or project ('initiative') that delivers goods and services (part of a department's 'outputs'). Output initiatives are usually for a limited period of time, although they are sometimes perpetual.
PAEC	Public Accounts and Estimates Committee
PNFC	Public non-financial corporation — see 'public non-financial corporations sector'.
PPP infrastructure investment	An estimate of the amount invested each year by the private sector on behalf of the State on PPP projects under construction.
Public financial corporations (PFC) sector	Government 'agencies' which provide financial services, such as the Treasury Corporation of Victoria or the Transport Accident Commission.
Public non-financial corporations (PNFC) sector	Government 'agencies' which provide goods or services with charges that recover most of the cost of producing them, such as water authorities and trusts administering certain facilities. Does not include 'agencies' providing financial services (see 'public financial corporations sector').
Public private partnership (PPP)	An arrangement in which the private sector delivers an asset on behalf of the Government. Ownership of the asset usually passes to the Government after a defined period of time.
Public sector as a whole	The 'general government sector', 'public non-financial corporations sector' and 'public financial corporations sector' consolidated together. Referred to in the budget papers and Annual Financial Report as the 'State of Victoria'.
Purchases of non-financial assets	See 'direct investment'.
Revenue	Income received by the Government, mostly from State taxes and grants from the Commonwealth Government.

Revenue initiative	Changes in policy which result in an increase in ‘revenue’. Examples include new taxes or increasing existing taxes. Revenue initiatives are usually perpetual.
Specific-purpose grants	Grants from the Commonwealth Government to the State Government with restrictions on how the funding can be spent.
State of Victoria (SoV)	See ‘public sector as a whole’.
TAC	Transport Accident Commission
TAFE	Technical and Further Education. A range of State-funded tertiary institutions that provide mainly vocational education. This is in contrast to universities, which are mostly funded by the Commonwealth.
TCV	Treasury Corporation of Victoria
TEI/Total estimated investment	An estimate of the total amount of expenditure required to deliver an ‘asset investment’ project.
VAGO	Victorian Auditor-General’s Office
VWA	Victorian WorkCover Authority (also known as WorkSafe Victoria)

Chair's foreword

I am pleased to present the *Report on the 2013-14 and 2014-15 Financial and Performance Outcomes*. This report represents the final stage of the Committee's involvement in Victoria's regular cycle of accountability that begins with a report on the Budget estimates early in the financial year, and concludes with an examination of the State's actual financial performance at the end of the financial year.

This report discusses the outcomes of the two previous financial years, 2013-14 and 2014-15, due to the proroguing of Parliament in 2014, when all parliamentary committees were dissolved prior to the State election held in November.

The report brings together the evidence presented to the Committee in relation to the 2013-14 and 2014-15 financial and performance outcomes, including public hearings, questionnaire responses, budget papers and Annual Financial Reports.

The chapters included in this report examine the major budgetary and financial outcomes in Victoria for 2013-14 and 2014-15 in terms of revenue, expenses, debt, borrowings and asset investment. The major influences on the 2014-15 Budget are examined and discussed in further detail, together with a review of results for departmental performance measures and annual reports. The report also contains an update on how the Government has implemented the Committee's recommendations contained in its *Report on the 2012-13 Financial and Performance Outcomes*.

In this report, the Committee makes a series of findings and recommendations across the areas of economic forecasting, consistency in budgetary reporting over the financial year and disclosure of expenditure on various aspects of public private partnerships (PPPs). These findings and recommendations are all aimed at improving transparency and accountability in reporting budget outcomes, not only for the benefit of Parliament, but also the wider Victorian community.

For the first time in many years, the Committee conducted public hearings as part of the financial and performance outcomes inquiry. Held in February 2016, these hearings were attended by departmental secretaries, deputy secretaries and other senior executive staff across all the Victorian government departments. The Committee found their presentations, answers to members' questions and responses to questions taken on notice extremely useful. The Committee is very grateful not only to the witnesses who attended, but also to the staff who assisted with the preparation. The importance of the information provided by the witnesses can be seen throughout this report.

I would also like to express my gratitude to the Committee's secretariat for their support throughout the inquiry. Their extensive knowledge of budgets and public sector finance has proved invaluable to the Committee, and the administrative

support provided by Secretariat staff for committee meetings, and the recent outcomes hearings in particular, is also greatly appreciated by myself and Committee members.

Finally, I thank my fellow Committee members for their collegiate approach, enthusiasm and inquisitiveness in their analysis and spirit of co-operation in their deliberations on this report.

A handwritten signature in black ink, consisting of a stylized 'D' followed by a horizontal line.

Mr Danny Pearson MP
Chair

Findings and Recommendations

2	Overall financial outcomes for 2013-14	page
	FINDING 1: General government sector revenue was \$52.4 billion in 2013-14. This outcome is 7.7 per cent higher than in 2012-13 and 4.0 per cent above the 2013-14 budget estimate. In both cases, the increase was driven primarily by higher Commonwealth grants and taxation revenue, and partially offset by a decrease in dividends.	11
	FINDING 2: Output expenses by the general government sector were \$50.4 billion in 2013-14. This in an increase of 3.0 per cent compared to 2012-13.	12
	FINDING 3: It is not possible to compare estimates with actual results of the general government sector output expenditure by government purpose classification for 2013-14 due to different methodologies used by the Department of Treasury and Finance for the budget papers and the <i>2013-14 Financial Report</i> . The Department has indicated that the methodology has been consistent since the 2014-15 Budget.	12
	FINDING 4: General government sector net debt was \$21.2 billion at June 2014, an increase of 6.8 per cent over the previous year. However, this was \$1.8 billion, or 7.9 per cent, lower than the original budget estimate of \$23.0 billion. This was mainly caused by lower-than-expected borrowings as a result of a higher-than-originally-budgeted cash surplus.	15
	FINDING 5: The general government sector's net operating balance was \$1,979.8 million in 2013-14. According to the <i>2013-14 Financial Report</i> , this is higher-than-expected by \$1.8 billion in comparison to the budget estimate primarily due to unexpected Commonwealth grants at the time of the budget. However, the Committee considers that comparisons for the net operating balance between 2013-14 and 2012-13, including budget estimates, are not meaningful due to changes in the accounting policy which took place in 2013-14.	16
	FINDING 6: Treasury Corporation of Victoria does not forecast interest rates or exchange rates in the process of formulating their investment strategy, although interest rate forecasts are a service the Treasury Corporation of Victoria provides to their clients.	19
	FINDING 7: Large amounts of money flowed between the three sectors (that is, the general government, the public non-financial corporations and the public financial corporations sectors). The general government sector provided more money to both the public non-financial corporations and the public financial corporations sectors than it received in 2013-14.	21
	FINDING 8: The Victorian economy grew by 1.7 per cent in real terms between 2012-13 and 2013-14, which was lower than the expected economic growth of 2.25 per cent set out in the 2013-14 Budget.	25

FINDING 9: The economic environment in Victoria in 2013-14, in comparison to the 2013-14 initial estimates was characterised by the following:

- lower-than-expected employment growth
- higher-than-expected unemployment rate
- higher-than-expected inflation.25

FINDING 10: Outcomes for three economic variables, the real gross state product growth, property prices growth and property transaction volume growth, showed a significant variance compared to the initial estimates. This had a significant impact on the general government sector’s main budget items in 2013-14:

- lower-than-expected gross state product decreased revenue by \$98.8 million and increased net debt by \$94.7 million
- higher-than-expected property prices growth increased revenue by \$99.6 million and decreased net debt by \$108.0 million
- higher-than-expected property transaction volume growth increased revenue by \$371.2 million and decreased net debt by \$381.0 million.....27

FINDING 11: Although household consumption accounts for approximately 60 per cent of Victorian gross state product, the impact of variations to household consumption estimates on the general government sector’s main budget items are not modelled.27

RECOMMENDATION 1: Due to its significant contribution to Victoria’s gross state product, the Department of Treasury and Finance quantify the impact of household consumption on the main budget items via the sensitivity analysis in the budget papers.27

FINDING 12: Only one department and two agencies reported that the State’s economy had an impact on their financial outcomes in 2013-14.....28

FINDING 13: The Department of Treasury and Finance does not quantify the impact of the State’s main economic variables included in the budget papers on the public non-financial corporations and the public financial corporations sectors.. ...29

RECOMMENDATION 2: The Department of Treasury and Finance publish data on the impact of the State’s main economic variables on the public non-financial corporations sector.....29

RECOMMENDATION 3: The Department of Treasury and Finance develop methods to quantify the impact of the State’s main economic variables on the public financial corporations sector.29

FINDING 14: The former Government implemented a number of initiatives in the 2013-14 *Victorian Budget Update*. These initiatives were anticipated to increase revenue in 2013-14 by \$37.3 million, total output expenditure by \$77.0 million and asset expenditure by \$123.7 million, with additional efficiency measures expected to save \$10.0 million.30

FINDING 15: Dividends and similar revenue for the general government sector were \$445.9 million in 2013-14. This was lower by \$895.8 million compared to 2012-13. According to the Victorian Auditor-General, the decrease in dividends in 2013-14 was partially driven by decreased financial results in the state-controlled entities which were required to pay dividends, in addition to the State Electricity Commission of Victoria not paying dividends in the financial year after having paid dividends in 2012-13. 31

FINDING 16: Commonwealth grants to the State increased by 14.8 per cent between 2012-13 and 2013-14 to reach \$25.0 billion, primarily driven by additional grants related to public transport infrastructure and health programs. 32

3 Overall outcomes for 2014-15 page

FINDING 17: Total revenue for the general government sector for 2014-15 was \$53.8 billion. This was \$870.1 million (1.6 per cent) higher than had been anticipated in the 2014-15 budget papers. Taxation revenue and dividends and similar income provided more than had been anticipated, but grants from the Commonwealth provided less than expected. 40

FINDING 18: For 2014-15, total expenses for the general government sector were \$52.6 billion, \$982.9 million (1.9 per cent) higher than anticipated. This was primarily due to additional funding from the Commonwealth for transport projects, responses to family violence, and the cessation of the *East-West Link* project. 43

FINDING 19: The majority of expenditure in the general government sector was on education and health. The Department of Treasury and Finance has refined its methodology for allocating expense figures by government purpose classification to provide greater comparability between budget and actual information. 43

RECOMMENDATION 4: Future Annual Financial Reports for the State include discussion of significant variances between budget estimates and actual results for operating expenditure by government purpose classification. 43

FINDING 20: Section 30 transfers provide departments the ability to substitute between operating and capital expenditure. This will have no effect on the total appropriation for departments, but will affect departments' net result from transactions. Through amalgamation, while no effect is seen on the State's finances, these transfers will affect the State's net operating surplus. 44

RECOMMENDATION 5: Transfers greater than \$10.0 million by departments between capital and operating expenditure should be explained in annual reports, including:

- (a) why the expenditure had been classified as it had been at the time of the budget
- (b) why that had changed during the year
- (c) the effect of the change on the department's finances including its net result from transactions. 44

FINDING 21: Following the 2014 State election, the *2014-15 Victorian Budget Update* anticipated increased expenditure in the areas of ‘general public services’, ‘education’ and ‘housing and community amenities’ and lower expenditure in ‘other purposes’. These changes were a result of new initiatives by the incoming Government, changes in expenditure related to tied Commonwealth grants and administrative changes including demand for Government programs. **45**

RECOMMENDATION 6: In years where there is a change in Government, the budget papers (including budget updates) include additional discussion on changes in expenditure that are a result of the change in Government. **45**

FINDING 22: Operating public private partnership projects in Victoria added \$1.7 billion to total expenditure for the State. This amount is not disclosed as a separate figure in the *2014-15 Financial Report*. **46**

RECOMMENDATION 7: The Department of Treasury and Finance disclose expenditure on operating public private partnership projects as a fiscal aggregate in the consolidated comprehensive operating statement in Annual Financial Reports. **47**

FINDING 23: The *2014-15 Financial Report* states that the net operating surplus for the general government sector for 2014-15 was \$1.2 billion, \$765.8 million (38.7 per cent) less than for 2013-14. This was \$112.7 million (8.5 per cent) less than had been anticipated in the 2014-15 budget papers. The Victorian Auditor-General has expressed a different opinion on the net operating surplus. **48**

FINDING 24: Net lending/borrowing for 2014-15 was \$921.7 million, \$432.2 million less than 2013-14. This was \$561.3 million higher than had been anticipated, due to lower-than-expected levels of asset investment. **48**

FINDING 25: Recognition of a \$1.5 billion expense for repayment of the Commonwealth Government’s grant for the *East-West Link* project would have resulted in a net operating deficit of \$286.0 million. **50**

FINDING 26: Cash generated from operations that became available for investment for 2014-15 was \$4.2 billion, which included a net operating surplus of \$1.2 billion. This was close to the amount forecast at the time of the 2014-15 Budget. Recognition of a \$1.5 billion expense for repayment of the Commonwealth Government’s grant for the *East-West Link* project would have reduced cash available from operations to \$2.7 billion. **50**

FINDING 27: Annual asset investment for 2014-15 was \$5.3 billion, which was \$737.4 million less than the amount anticipated in the 2014-15 budget papers. Under expenditure in direct asset investment projects, associated with project extensions was a principal factor in this, as well as the sale of the Rural Finance Corporation. This was mitigated by an unbudgeted \$652.3 million payment related to debt repayment for the Port of Melbourne. **53**

FINDING 28: Real annual asset investment per Victorian was \$816.3 per head in 2014-15, and has followed a gradual downward trend since a peak in 2010-11. **53**

FINDING 29: Public private partnership infrastructure investment for 2014-15 was predicted to be \$1.9 billion. However, this does not represent a cash cost to the Government, as it represents expenditure made by the private sector on behalf of the State. No actual result for this figure is reported.	54
RECOMMENDATION 8: Future Annual Financial Reports include an actual result or an updated estimate of the value of asset investment carried out by the private sector public private partnership projects during the year. Significant variations from this figure and the initial estimate of public private partnership infrastructure investment should be explained.....	54
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FINDING 33: A lower-than-expected operating deficit and less-than-expected asset expenditure resulted in net debt for the public non-financial corporations sector falling to \$14.2 billion rather than rising to \$16.6 billion as had been forecast. Dividend payments to the general government sector were \$256.0 million, which was higher than anticipated in the 2014-15 budget papers. These payments did not affect the level of the sector's deficit, but did affect the level of net debt.	60
FINDING 34: The net result for the public financial corporations sector was \$429.5 million, which was \$185.7 million less than forecast. The sector paid \$566.2 million to the general government sector in dividends for 2014-15, \$221.3 million higher than forecast.	62
FINDING 35: The net operating balance for the public sector as a whole was a deficit of \$610.7 million for 2014-15. Net lending/borrowing takes additional costs of direct investment and other movements into account, and was a deficit of \$2.4 billion. Net borrowing for the State fell to 3.6 per cent of gross state product, assisted by lower-than-anticipated asset expenditure for the year and the sale of the Rural Finance Corporation.....	65

4 Major factors influencing the outcomes in 2014-15 page

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5	Review of department performance measures and annual reports for 2014-15	page
	FINDING 49: Results for 59.2 per cent of performance measures for 2014-15 were within 5 per cent of their targets. The Department of Treasury and Finance had the highest proportion of results close to targets. Court Services Victoria had the lowest proportion of results close to targets.	97
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	FINDING 51: While requirements for the budget portfolio outcomes section of departmental annual reports are generally being followed, no department adhered to all requirements the Committee examined. Some deficiencies exist in the provision of objective indicators data and calculation of variances.	102
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FINDING 55: The <i>2014-15 Model Report for Victorian Government Departments</i> requires departments to disclose expenses, assets or borrowings related to public private partnerships arrangements. The Committee's examination found a range of compliance with these requirements.	105
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FINDING 56: All departments that received objectives or outputs from other departments as a result of machinery-of-government changes disclosed these as required. Two departments did not disclose the transfer of objectives to other departments as required.	106
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FINDING 58: The <i>2014-15 Model Report for Victorian Government Departments</i> includes a list of required references for the disclosure index, taking into account that not all departments require sections in their financial statements across all entries. Departments have developed a range of solutions to situations where guidance is not comprehensive.	109
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(a) requiring all the prescribed entries in the disclosure index to be included, but allowing entities to use 'n/a' as page references if appropriate	
(b) the list of prescribed entries in the disclosure index	
(c) whether references in the disclosure index are to refer to sections disclosing data or sections discussing policy.	109
FINDING 59: The former Committee's <i>Review of the Performance Measurement and Reporting System</i> contained 11 recommendations that were supported, supported in principle or under review. Eight have been fully implemented and two have been partly implemented. One recommendation is yet to be implemented.	110

FINDING 60: The former Committee recommended that the requirement for data, history and commentary be incorporated into future Model Reports for reporting on departmental objective indicators. The Model Report was amended, but does not require quantification of departmental objective indicators in all cases. 111

FINDING 61: The former Committee recommended that nil reports be included in annual reports when activities did not trigger the disclosure requirements of relevant financial reporting directions or the Model Report. This has been implemented only in the context of government advertising expenditure, rather than for all sections of annual reports. 113

RECOMMENDATION 22: The Department of Treasury and Finance require departments and agencies to include all sections from the Model Report in their annual reports. Rather than allowing departments to omit sections that are not applicable, the Model Report require nil reports when departmental activities do not trigger the disclosure requirements of relevant financial reporting directions or the Model Report. 114

FINDING 62: The Committee’s recommendation on additional disclosure of information about completed capital projects has not yet been implemented. The Government has advised the Committee that implementation of this recommendation is in progress. 115

6 The Government’s responses to the former committee’s *Report on the 2012-13 Financial and Performance Outcomes* page

FINDING 63: The former Committee made ten recommendations in its *Report on the 2012-13 Financial and Performance Outcomes*. The Government supported seven of these recommendations (70 per cent). 119

FINDING 64: Departments having responsibility for implementing recommendations supported by the Government may hold a different view on the recommendation to the Government. In these cases, the department’s view may prevail. 122

FINDING 65: Of the seven recommendations made by the former Committee in the *Report on the 2012-13 Financial and Performance Outcomes* that were supported by the Government, one recommendation has been implemented, two recommendations have not yet been implemented to date, two have been partly implemented and two recommendations are not yet able to be assessed. 122

FINDING 66: The Department of Premier and Cabinet expects the revised version of the *Guidelines for Submissions and Responses to Inquiries* to be released in 2016. The current version dates from 2002. 126

1.1 Introduction

This report presents the Committee's findings from its inquiry into the 2013-14 and 2014-15 financial and performance outcomes. It completes the Committee's involvement in Victoria's regular cycle of accountability that begins with the Budget before the start of each financial year.

1.1.1 2014 Victorian State election and proroguing period

The former Committee did not have the opportunity to carry out a financial and performance outcomes inquiry for the 2013-14 financial year. This was due to the proroguing of Parliament in 2014, when all parliamentary committees were dissolved prior to the State election held in November.

Following the election and the appointment of the Public Accounts and Estimates Committee (PAEC) for the 58th Parliament, this inquiry provided the opportunity to examine the financial performance outcomes for 2013-14, in addition to the financial and performance outcomes for 2014-15.

1.1.2 Aim of this report

The principal aim of this report is to:

- examine what was achieved during 2013-14 under the previous government and how that compared to expectations set out in the 2013-14 Budget
- examine what was achieved during 2014-15 and how that compared to expectations recognising, where possible, where the change in government that occurred in November 2014 impacted on the State finances for the 2014-15 financial year
- determine if there is sufficient transparency and adequate disclosure of what occurred over the previous two financial years
- identify potential areas for improvement.

Key areas for improvement

Key areas for improvement that the Committee has identified in this inquiry include:

- better forecasting and estimation of key economic variables, their impact on the state's economy and following this, their impact on the budget. In the course of this inquiry the Committee found inaccuracies in the estimation of the impact of key economic variables on the Victorian economy and

budget, the exclusion of key economic variables from the Department of Treasury and Finance economic modelling and differing interpretations of the economic impact of key variables. While noting that a forecast is not a prediction, the Committee has recommended the Department of Treasury and Finance aim to improve its economic modelling and forecasting processes.

- ensuring reporting in post-budget paper reports, such as budget updates that are published during the financial year, as well as the Annual Financial Report published at the end of the financial year, aligns with information in the original budget papers. This would support accountability by enabling line items to be readily compared to budget estimates throughout a financial year
- greater disclosure of expenditure on public private partnership (PPP) projects. This includes disclosing aggregate expenditure on operating PPPs, together with estimates and actual amounts spent on asset investment expenditure on PPP projects
- updating the Department of Treasury and Finance Model Report to allow for greater transparency and reporting. This includes amendments to provide more information on machinery-of-government changes and greater public availability of departmental corporate planning documents.

1.2 Structure and content of the report

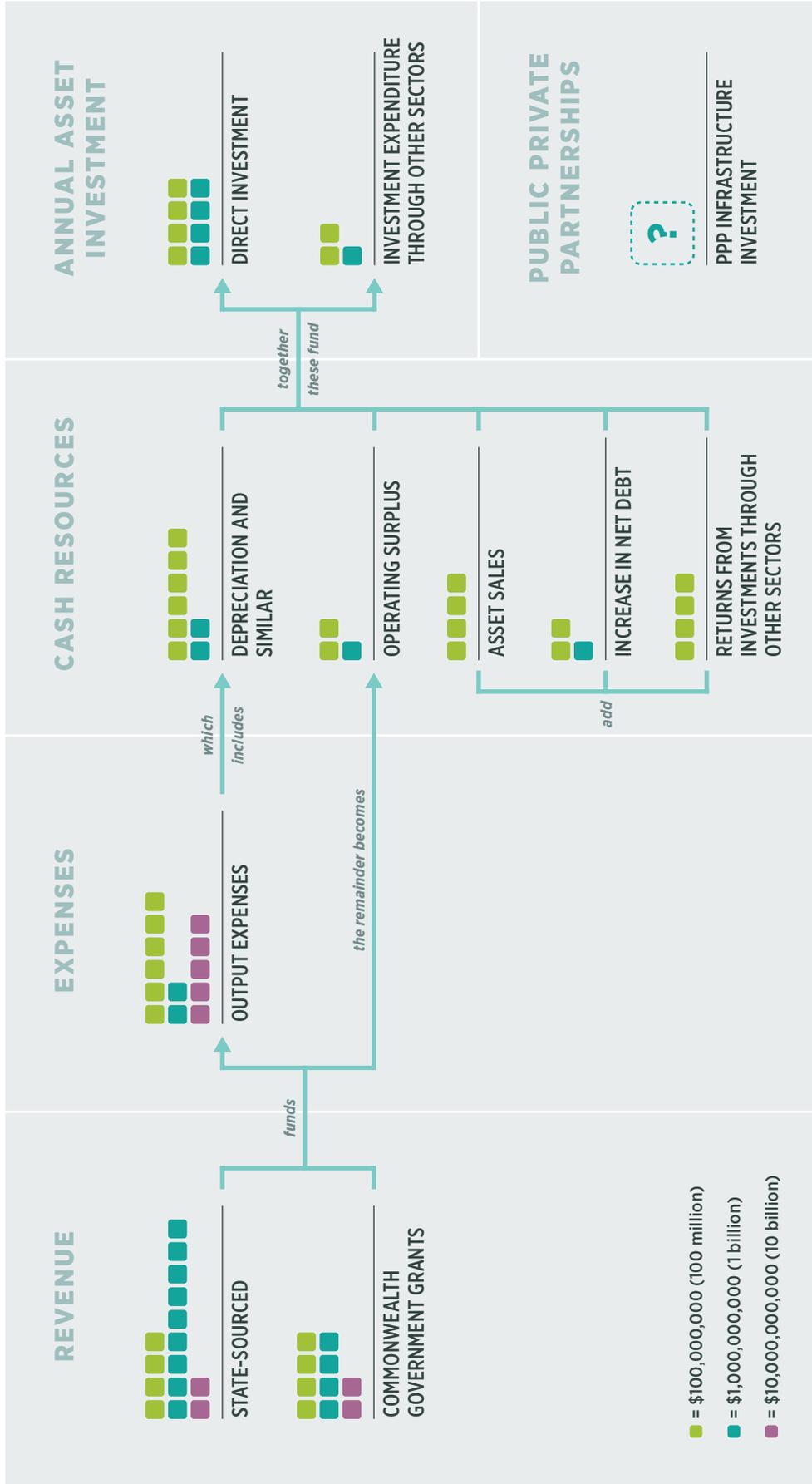
The report examines financial and performance outcomes across the public sector. It includes relevant commentary on the three sectors of government in Victoria, the general government sector, the public non-financial corporations sector and the public financial corporations sector.

Chapters 2 and 3 provide an overview of the State's finances for 2013-14 and 2014-15 respectively, comparing the actual finances to estimates published in the original budget papers. It addresses four key components of the Government finances:

- revenue
- expenses
- debt and borrowings
- asset investment.

As an example, these components are set out in Figure 1.1 for the general government sector for 2014-15. The figure shows how funds flow from one component to another, and how sources of funds flow through to asset creation or changes in net debt.

Figure 1.1 Key components of the 2014-15 Budget for the general government sector



Source: Public Accounts and Estimates Committee

Chapter 2 also contains an analysis of the changes to estimates announced in the previous Government's *2013-14 Victorian Budget Update* and finishes with an examination of the 2013-14 financial outcomes against the former Government's five overarching long-term financial management objectives and four financial measures that described its medium-term fiscal strategy.

Chapter 4 examines the major influences on the 2014-15 financial outcomes. Given the change of government in November 2014, the analysis in Chapter 4 distinguishes, where evidence permits, between the financial outcomes achieved as a result of decisions made by the former and the current Governments.

Chapter 5 contains a review of results for departmental performance measures and annual reports for 2014-15. The Committee's *Review of the Performance Measurement and Reporting System* was published in March 2014, examining the nature of public sector performance measurement and reporting. As departments may not have had the opportunity to fully implement the recommendations made in the review, no further recommendations regarding performance measures are made in this chapter. However, performance measures and reporting are of ongoing interest to the Committee and this chapter examines departmental performance against the various measures for 2014-15.

The review of departmental annual reports is an ongoing exercise undertaken by the Committee to assess whether departments are implementing recent changes to the guidance set by the Department of Treasury and Finance in the Model Report and other guidance documentation. The former Committee made recommendations that were aimed at improving guidance for annual reports, and this chapter also includes the Committee's assessment of the implementation of these recommendations.

Chapter 6 provides an update on how the Government has implemented the Committee's recommendations made as a part of its *Report on the 2012-13 Financial and Performance Outcomes*. The chapter includes comments on the status of actions taken to date by the Government in implementing those recommendations which received its support.

1.3 Scope of the report

The report focuses on all three sectors of public finances in Victoria:

- the general government sector — all government departments and other agencies which provide services either with no charge to users or charges that are significantly below the costs of delivery
- the public non-financial corporations sector — agencies, such as water bodies, which provide goods or services with charges that recover most of their costs
- the public financial corporations sector — agencies, such as the Transport Accident Commission, State Trustees Limited and Treasury Corporation of Victoria, which provide financial services to the Government and the wider community.

For all sectors, the report compares the actual performance by agencies against revenue and output expenditure budgets, based on published material and responses received from agencies to the Committee's questionnaires for this inquiry.

1.4 The inquiry process

1.4.1 Public hearings

The Committee held public hearings from 16 to 19 February 2016 with departmental secretaries, deputy secretaries and other senior executive staff across all the Victorian government departments. In total, the hearings lasted 21 hours. The aim of the hearings was to gather further information on the financial and performance outcomes for 2013-14 and 2014-15.

Transcripts of the public hearings, slide shows of the secretaries' presentations and documents tabled in the hearings, together with responses to any questions on notice, can be found on the Committee's website (www.parliament.vic.gov.au/paec).

1.4.2 Sources of information

In undertaking this inquiry, the Committee has primarily drawn on the following sources of information:

- the 2013-14 and 2014-15 budget papers
- the 2013-14 and 2014-15 budget updates
- the *2014 Victorian Pre-Election Budget Update*
- the 2013-14 and 2014-15 mid-year financial reports
- the *2013-14 Financial Report* and the *2014-15 Financial Report*
- the 2013-14 and 2014-15 annual reports of departments and agencies across the public sector
- the *Auditor-General's Report on the Annual Financial Report of the State of Victoria for 2013-14* and the *Auditor-General's Report on the Annual Financial Report of the State of Victoria for 2014-15*
- a general questionnaire on a range of topics determined as common to all departments and agencies
- an entity-specific questionnaire tailored to the circumstances of individual departments and agencies
- statements provided by witnesses at the public hearings held in February 2016
- responses to questions taken on notice from the public hearings.

Responses to the questionnaires and questions taken on notice have been published on the Committee's website (www.parliament.vic.gov.au/paec).

1.5 Acknowledgement

The Committee is aware of the significant time and effort allocated by departments and agencies across the public sector to this inquiry. Specifically, the Committee is grateful to the departmental secretaries, deputy secretaries, senior executives and other departmental staff in their preparation for and attendance at the public hearings. The Committee is also grateful to all staff who prepared responses to the questionnaires, as well as responses to the questions on notice arising from the public hearings. Both the statements from the hearings and the questionnaire responses from departments and agencies were major inputs to the Committee's research program for this inquiry.

2.1 Introduction

As part of the budget process and the reporting cycle in Victoria, each budget contains financial estimates for the year ahead. These estimates are framed around a number of assumptions about the national economy and the global economic outlook, as well as State and Commonwealth government decisions.

This chapter provides an overview of the State's financial outcomes in 2013-14,¹ with a particular focus on how they compared to the estimates set out in the 2013-14 Budget. This period was to the last full year of the 57th Parliament.

The chapter examines the main components of the State's finances and assesses the various external economic factors that influenced the financial outcomes for Victoria in 2013-14. The chapter outlines further actions the former Government took during the year that had not been anticipated at the time of the 2013-14 Budget (Sections 2.4.1 and 2.4.2), in addition to the actions the Commonwealth undertook for 2013-14 and the impact of these on the State's finances (Section 2.4.3). Finally, the chapter examines how the financial outcomes for 2013-14 compared to the former Government's targets in its economic and fiscal strategies (Section 2.5).

2.2 The State's finances in 2013-14

The public sector finances in Victoria are comprised of three different sectors:

- the general government sector, consisting of all government departments and government agencies that provide service delivery with no charges or charge significantly less than their costs
- the public non-financial corporations (PNFC) sector, which comprises government-owned entities that charge for the services they provide to recover their costs
- the public financial corporations (PFC) sector, which includes entities primarily engaged with the provision of financial services or insurance.²

1 Certain budget line items for 2013-14 were restated in the *2014-15 Financial Report*. In such cases, this report shows the restated figures. See Note 37, Department of Treasury and Finance, *2014-15 Financial Report* (2015), pp.156-61

2 Department of Treasury and Finance, *2013-14 Financial Report* (2014), p.245

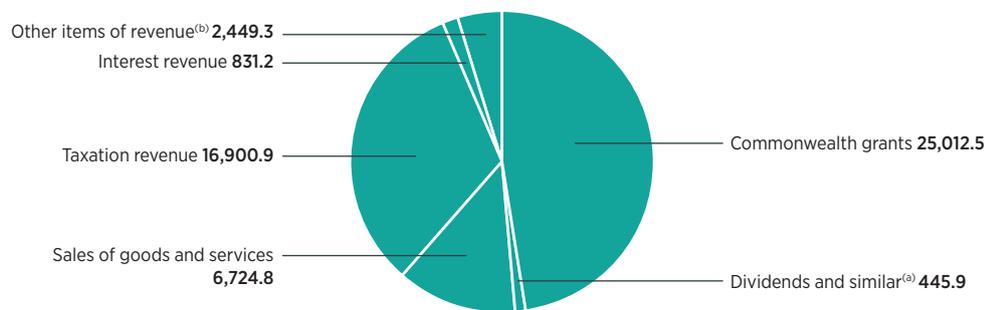
2.2.1 General government sector

Revenue

Figure 2.1 shows the major components for revenue in 2013-14 and Figure 2.2 shows the variances from the budget estimates for the individual components of revenue.

Revenue for the general government sector was \$52.4 billion in 2013-14, increasing by \$3.8 billion (7.7 per cent) compared to 2012-13 (\$48.6 billion).³ Commonwealth grants were the main component of general government sector revenue comprising \$25.0 billion, or 47.8 per cent of the total revenue, followed by taxation revenue (\$16.9 billion or 32.3 per cent) and sales of goods and services (\$6.74 billion or 12.8 per cent).

Figure 2.1 Main components of the general government sector revenue, 2013-14, \$ million



- (a) Referred to in the *2013-14 Financial Report* as 'Dividends and income tax equivalent and rate equivalent revenue'.
- (b) 'Other items of revenue' includes: 'other contribution and grants'; 'fair value of assets received free of charge or for nominal consideration'; 'fines'; 'royalties'; 'donations and gifts'; 'other non-property rental'; and 'other miscellaneous revenue'.

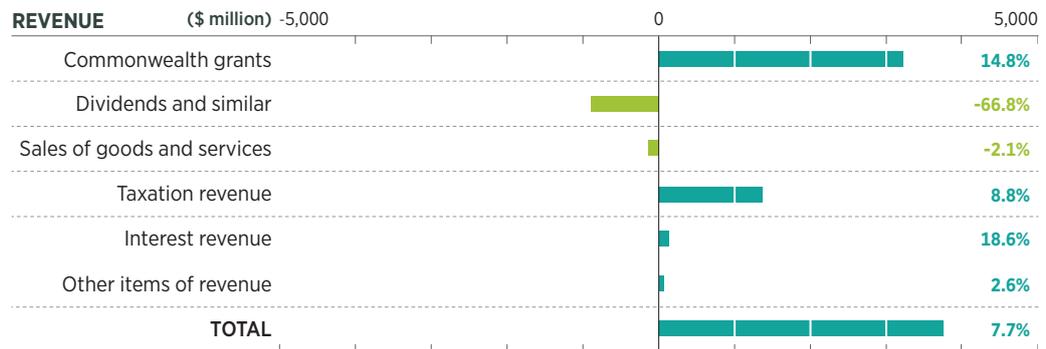
Source: Committee calculations based on Department of Treasury and Finance, *2013-14 Financial Report* (2014), pp.31, 78

As Figure 2.2 shows, the increase was primarily driven by Commonwealth grants and taxation revenue, partially offset by a decrease in dividends and similar revenue.

Additional details are shown in Appendix A2 (Appendix A2.1 compares the actual figures between 2012-13 and 2013-14 and Appendix A2.2 shows the actual figures and variances from amounts expected in the 2013-14 Budget for these components).

³ *ibid.*, p.31

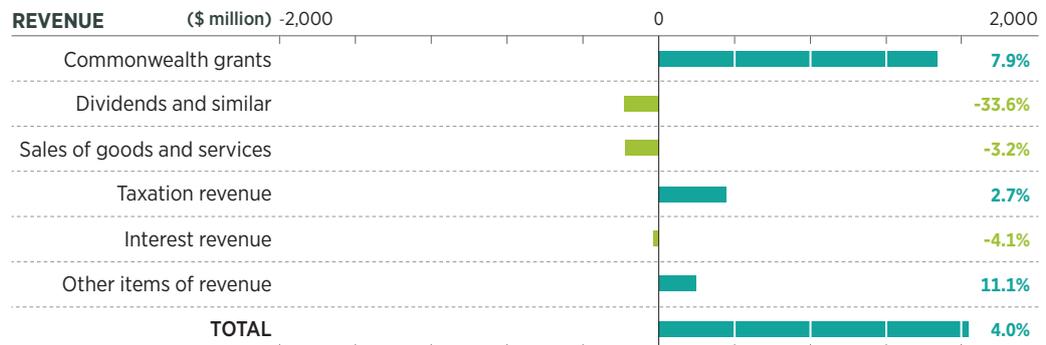
Figure 2.2 Change between actual results for the main components of the general government sector revenue, 2012-13 and 2013-14



Source: Committee calculations based on Department of Treasury and Finance, *2014-15 Financial Report* (2015), pp.26, 68; Department of Treasury and Finance, *2013-14 Financial Report* (2014), pp.31, 78

The 2013-14 actual result for the general government sector was also \$2.0 billion (4.0 per cent) above the initial estimate of \$50.3 billion in the 2013-14 Budget.⁴ This was once again primarily driven by higher-than-expected Commonwealth grants and taxation revenue and partially offset by lower-than-expected sales of goods and services and dividends (see Figure 2.3).

Figure 2.3 Variance between budget estimates and actual results for the main components of the general government sector revenue, 2013-14



Source: Committee calculations based on Department of Treasury and Finance, *Budget Paper No.5: 2013-14 Statement of Finances* (2013), pp.5, 25; Department of Treasury and Finance, *2014-15 Financial Report* (2015), pp.26, 68

Commonwealth grants

The *2013-14 Financial Report* stated that 'Grants revenue was \$3.2 billion higher in 2013-14 than in 2012-13, mainly reflecting higher specific purpose grants from the Commonwealth, including for the East West Link and Regional Rail Link projects'.⁵ Compared to the budget estimate, revenue from Commonwealth

⁴ Department of Treasury and Finance, *Budget Paper No.5: 2013-14 Statement of Finances* (2013), p.5

⁵ Department of Treasury and Finance, *2013-14 Financial Report* (2014), p.2

grants was 7.9 per cent (\$1.8 billion) higher, mainly due to an increase in specific-purpose grants for the road and rail investments mentioned above, as well as higher-than-expected goods and services tax revenue.⁶

Taxation revenue

Taxation revenue was \$16.9 billion in 2013-14, which was \$1.4 billion (8.8 per cent) higher than the previous year. This revenue component was also \$446.5 million (2.7 per cent) higher than originally anticipated.

The *2013-14 Financial Report* indicated that higher-than-expected taxation revenue was due to:

... higher land transfer duty reflecting a stronger property market, and higher payroll tax due to growth in aggregate employment and wages over the year.⁷

Dividends and similar

Dividends and similar revenue decreased from \$1.3 billion in 2012-13 to \$445.9 million in 2013-14.⁸

Dividends and similar were also \$225.6 million (33.6 per cent) lower than expected in the original budget estimate (\$671.5 million).⁹ According to the *2013-14 Financial Report*, 'this largely reflects the timing of dividends, with interim dividends from the water sector to now be paid in 2014-15'.¹⁰ Dividends are discussed further in Section 2.4.2 of this chapter.

Sales of goods and services

Revenue from sales of goods and services was \$6.7 billion in 2013-14, which was \$144.6 million less than in 2012-13 (\$6.9 billion). The *2013-14 Financial Report* states that:

The result was slightly lower than in 2012-13 by \$144 million (2.1 per cent), mainly due to higher one-off revenue recognised in 2012-13 associated with the commissioning of the desalination plant, partially offset by a higher capital asset charge for increased capital asset holdings in Victorian Rail Track in 2013-14.¹¹

This revenue component was also \$224.8 million (3.2 per cent) less than originally expected in the 2013-14 budget estimate of \$6.9 billion.¹²

6 *ibid.*, p.140

7 *ibid.*, p.8

8 *ibid.*, p.31

9 Department of Treasury and Finance, *Budget Paper No.5: 2013-14 Statement of Finances* (2013), p.5

10 Department of Treasury and Finance, *2013-14 Financial Report* (2014), p.9

11 *ibid.*, p.10

12 Department of Treasury and Finance, *Budget Paper No.5: 2013-14 Statement of Finances* (2013), p.5

FINDING 1: General government sector revenue was \$52.4 billion in 2013-14. This outcome is 7.7 per cent higher than in 2012-13 and 4.0 per cent above the 2013-14 budget estimate. In both cases, the increase was driven primarily by higher Commonwealth grants and taxation revenue, and partially offset by a decrease in dividends.

Expenses

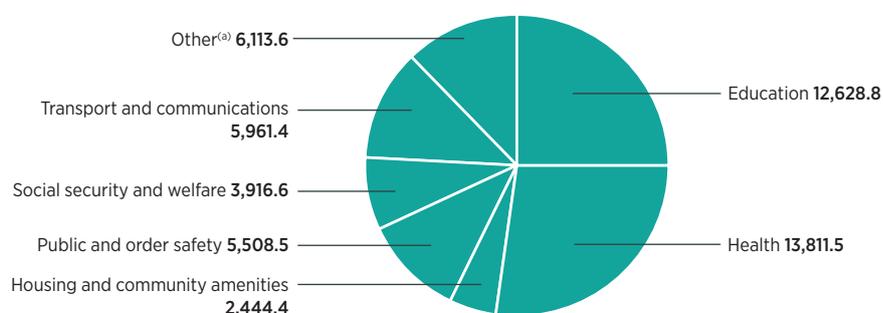
The Committee examined the general government sector's expenses according to the 'government purpose classification', which 'classifies expenses and acquisition of non-financial assets of the public sector and general government sector in terms of the purposes for which the transactions are made'.¹³

Expenditure by government purpose classification

The general government sector's total expenses increased to \$50.4 billion between 2012-13 and 2013-14 (an increase of 3.0 per cent).¹⁴ This was \$281.9 million above the initial estimate of \$50.1 billion.¹⁵

In terms of expenses by government purpose classification, the highest category was health (\$13.8 billion, or 27.4 per cent), followed by education (\$12.6 billion or 25.1 per cent) and transport and communications (\$6.0 billion or 11.8 per cent). Figure 2.4 shows the general government sector's output expenditure by major government purpose classification.

Figure 2.4 Output expenditure by major government purpose classification, 2013-14, \$ million



(a) 'Other' includes: 'General public services', 'Recreation and culture', 'Fuel and energy', 'Agriculture, forestry, fishing and hunting', 'Other economic affairs'; and 'Other purposes'.

Source: Department of Treasury and Finance, *2014-15 Financial Report* (2015), p.75

In relation to differences between expenses by government purpose classification actual and budget estimates in 2013-14, the Department of Treasury and Finance indicated that:

¹³ Department of Treasury and Finance, *2013-14 Financial Report* (2014), p.216

¹⁴ Department of Treasury and Finance, *2013-14 Financial Report* (2014), p.31; Department of Treasury and Finance, *2014-15 Financial Report* (2015), p.26

¹⁵ Department of Treasury and Finance, *Budget Paper No.5: 2013-14 Statement of Finances* (2013), p.5

It is difficult to make detailed comparisons between the 2013-14 original budget estimates and the 2013-14 Annual Financial Report due to significant differences in the allocation methodology used across classifications for the two publications. For the original budget estimates, the allocation methodology uses ratios based on historical data and the impact of policy and non-policy estimate variations, whereas actual expenditure is based on actuals data fed by output that is mapped to government purpose classifications (GPC). Since the 2014-15 Budget, enhanced and more consistent processes between publications, driven by the availability of more granular data, has helped ensure that the GPC disclosures are more comparable.¹⁶

Further discussion of variances between budget estimates and actual results by major government purpose classification can be found in Section 3.2.2 of this report.

FINDING 2: Output expenses by the general government sector were \$50.4 billion in 2013-14. This is an increase of 3.0 per cent compared to 2012-13.

FINDING 3: It is not possible to compare estimates with actual results of the general government sector output expenditure by government purpose classification for 2013-14 due to different methodologies used by the Department of Treasury and Finance for the budget papers and the *2013-14 Financial Report*. The Department has indicated that the methodology has been consistent since the 2014-15 Budget.

Asset investment

Asset investment is delivered in three ways:

- direct investment, where general government sector entities manage the construction and the delivery of assets¹⁷
- investment through other sectors, where the Government provides funds to other sectors (the PNFC and PFC sectors) which deliver assets¹⁸
- public private partnerships (PPPs), where the Government enters into an agreement with the private sector to deliver assets on behalf of the Government.

Direct investment by the general government sector was \$4.0 billion in 2013-14.¹⁹ This result was lower by \$871.6 million (17.9 per cent) compared to the initial budget estimate of \$4.9 billion.²⁰ It is also a reduction of \$135.9 million (3.3 per cent) compared to the direct investment made in 2013-14 of \$4.1 billion.²¹

16 Department of Treasury and Finance, *Response to the Committee's 2013-14 and 2014-15 Financial and Performance Outcomes General Questionnaire*, received 19 November 2015, p.29

17 Referred to in the budget papers and the Annual Financial Report as 'purchase of non-financial assets'.

18 Referred to in the budget papers and the Annual Financial Report as 'net cash flows from investments in financial assets for policy purposes'.

19 Department of Treasury and Finance, *2014-15 Financial Report* (2015), p.28

20 Department of Treasury and Finance, *Budget Paper No.5: 2013-14 Statement of Finances* (2013), p.8

21 Department of Treasury and Finance, *2013-14 Financial Report* (2014), p.70

Investment through other sectors was \$1.5 billion in 2013-14. This was 7.3 per cent higher than the initial budget estimate of \$1.4 billion.²² In comparison to 2012-13, the asset investment made through other sectors increased by \$161.5 million (12.3 per cent) from \$1.3 billion.²³

The 2013-14 budget papers introduced a new indicator related to PPP payments, referred to as 'cash flows from PPP payments'. These cash flows were expected to be \$310.1 million in 2013-14, according to the budget papers.²⁴ However, the outcome for this indicator is not published in the *2013-14 Financial Report*. This is demonstrated in Figure 1.1 of Chapter 1, and is also discussed further in Section 3.2.5.

Net debt and borrowings

Net debt is the difference in value between what the Government owes and assets that it could easily convert to cash.²⁵ The budget papers define net debt as 'the sum of deposits held, advances received and borrowings less the sum of cash, deposits, advances paid and investments, loans and placements'.²⁶

Net debt for the general government sector was \$21.2 billion at June 2014, \$1.8 billion lower than the original budget estimate of \$23.0 billion²⁷ and an increase of \$1.4 billion (6.8 per cent) over the previous financial year.²⁸

In relation to the lower-than-expected general government sector net debt in 2013-14, the *2013-14 Financial Report* indicates that 'the actual cash operating surplus of \$3.9 billion was \$1.2 billion higher than originally budgeted, which reduced the underlying borrowing requirement for 2013-14'.²⁹

In accordance with the definition of net debt, the level of borrowings contributes to the Government's net debt position. Borrowings are required when the cash resources available are not enough to cover the Government's infrastructure program. The Victorian Auditor-General notes:

... borrowings have increased year-on-year from \$15.8 billion in 2006-07 to \$51.3 billion in 2013-14 [including the general government sector, the PNFC and the PFC sectors], which is primarily a result of infrastructure programs in the education, transport and water sectors.

Continually borrowing to fund infrastructure investment is not sustainable in the long term. Increasing debt to fund short-term investment activity has a consequential impact on future generations who must repay that debt. The money available

22 Department of Treasury and Finance, *Budget Paper No.5: 2013-14 Statement of Finances* (2013), p.8

23 Department of Treasury and Finance, *2013-14 Financial Report* (2014), p.70

24 Department of Treasury and Finance, *Budget Paper No.4: 2013-14 State Capital Program* (2013), p.11

25 Department of Treasury and Finance, *2013-14 Financial Report* (2014), p.194

26 Department of Treasury and Finance, *Budget Paper No.2: 2013-14 Strategy and Outlook* (2013), p.58

27 Department of Treasury and Finance, *2013-14 Financial Report* (2014), p.141

28 Department of Treasury and Finance, *2014-15 Financial Report* (2015), p.27

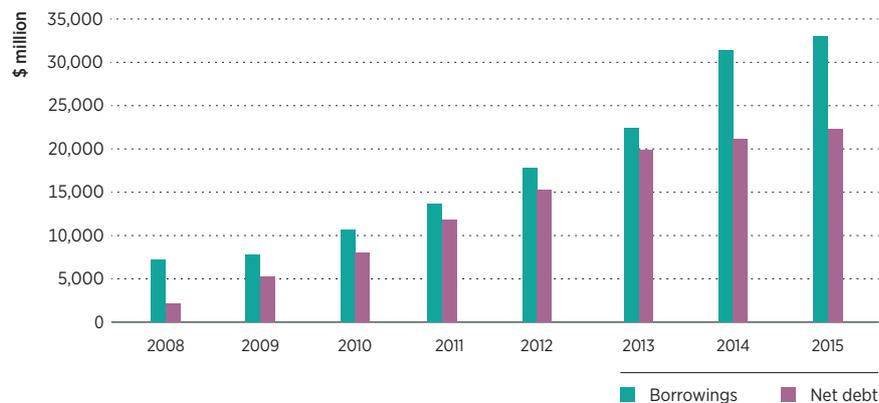
29 Department of Treasury and Finance, *2013-14 Financial Report* (2014), p.142

for public services, and the ability of government to respond to fluctuations in revenue or unforeseen expenditure, is reduced when additional debt commitments require servicing.³⁰

The general government sector's borrowings were \$33.0 billion at June 2014.³¹ This is an increase of \$1.6 billion (5.1 per cent) between 2012-13 and 2013-14.³² Similar to net debt, the outcome for borrowings was lower than expected, by \$1.9 billion compared to the 2013-14 budget estimate of \$34.8 billion.³³

Figure 2.5 shows general government sector net debt and borrowings from 2008 to 2015.

Figure 2.5 General government sector net debt and borrowings, 2008 to 2015



Source: Department of Treasury and Finance, *General Government Consolidated Comprehensive Operating Statement* (2015). Available at <dtf.vic.gov.au/Publications/Victoria-Economy-publications/Aggregate-financial-statements>, viewed 30 March 2016

Regarding net cash flows from operating activities, these were 44.3 per cent (\$1.2 billion) higher than expected in the budget.³⁴ The *2013-14 Financial Report* indicates that:

This was driven by higher than total budgeted receipts of \$1.8 billion primarily reflecting an increase in specific purpose grants for road and rail investments. This was partially offset by an increase in total payments of \$560 million, largely relating to the payment to Tatts Group of \$540 million in satisfaction of a Supreme Court judgement.³⁵

The Department of Treasury and Finance provided the Committee with this update on the Tatts payment:

³⁰ Victorian Auditor-General's Office, *Auditor-General's Report on the Annual Financial Report of the State of Victoria, 2013-14* (2014), p.25

³¹ Department of Treasury and Finance, *2013-14 Financial Report* (2014), p.32

³² Department of Treasury and Finance, *2014-15 Financial Report* (2015), p.27

³³ Department of Treasury and Finance, *Budget Paper No.5: 2013-14 Statement of Finances* (2013), p.7

³⁴ Department of Treasury and Finance, *2013-14 Financial Report* (2014), p.143

³⁵ *ibid.*

On 2 March 2016, the High Court of Australia overturned the Court of Appeal's decision relating to Tatts' proceedings ... The parties have exhausted all avenues of appeal and the proceedings are at an end.

As a result of the decision, Tatts is liable to repay the State \$540.5 million plus interest accrued since the payment was made on 27 June 2014. This amount will be reflected in the financial statements.

By 3 March 2016, Tatts had repaid all of the principal judgment sum together with all the interest on that sum Tatts considers reasonable and appropriate, amounting to \$567.1 million.

The State requested Tatts to provide full details of the methodology, including details of the calculations underlying the amounts that have been repaid.

The State will consider this information once it is provided by Tatts, and if it considers that further amounts should be repaid, the State will raise this issue with Tatts accordingly.³⁶

Net debt as a percentage of gross state product (GSP) was 6.1 per cent,³⁷ which is less than the budget estimate of 6.4 per cent.³⁸ Despite the lower-than-expected economic growth in 2013-14 (see also Section 2.3 of this report), the level of the general government sector's net debt decreased at a higher rate than expected. Victoria's net debt as a percentage of GSP is discussed further in Chapter 3.

FINDING 4: General government sector net debt was \$21.2 billion at June 2014, an increase of 6.8 per cent over the previous year. However, this was \$1.8 billion, or 7.9 per cent, lower than the original budget estimate of \$23.0 billion. This was mainly caused by lower-than-expected borrowings as a result of a higher-than-originally-budgeted cash surplus.

Operating surplus

The general government sector's operating surplus³⁹ was \$1,979.8 million in 2013-14.⁴⁰

In 2013-14, a revision of accounting standards changed the way defined benefit superannuation expenses are presented. As a result of these changes, the result for the net operating balance in 2012-13, which was previously stated as a surplus of \$316.4 million,⁴¹ was restated as deficit of \$316.6 million.⁴² The *2013-14 Financial Report* explains that:

³⁶ Department of Treasury and Finance, 2013-14 and 2014-15 Financial and Performance Outcomes hearings, Response to questions on notice, received 11 March 2016, p.8

³⁷ Committee calculations based on Department of Treasury and Finance, *Macroeconomic Indicators* (2015). Available at <www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Macroeconomic-indicators>, viewed 3 February 2016; Department of Treasury and Finance, *2013-14 Financial Report* (2014), p.141

³⁸ Department of Treasury and Finance, *Budget Paper No.2: 2013-14 Strategy and Outlook* (2013), p.58

³⁹ Referred to in the budget papers as 'net operating balance'.

⁴⁰ Restated figure as published in the *2014-15 Financial Report*. See Department of Treasury and Finance, *2014-15 Financial Report* (2015), pp.26, 156

⁴¹ Department of Treasury and Finance, *2012-13 Financial Report* (2013), p.25

⁴² Department of Treasury and Finance, *2013-14 Financial Report* (2014), p.31

Part of the actuarial gains, which had previously contributed to the State's operating surplus in 2012-13 are now reported as a remeasurement item under other comprehensive income, and no longer included in the State's operating surplus ... This revision only affected the presentation of these gains in the operating statement and continue to have no impact on the State's cash requirements or net debt.⁴³

Therefore, the Committee considers that no comparison between the 2012-13 and the 2013-14 net operating balance results is meaningful as no result for 2013-14 was published on the basis of the previous accounting policy.

The *2013-14 Financial Report* indicates that the variance between the actual outcome and the budget estimate was mainly driven by Commonwealth grants revenue, which was \$1.8 billion higher than expected due to higher-than-expected grants for infrastructure and higher-than-expected goods and services tax revenue.⁴⁴

Similarly, in comparison to the revised estimate in the *2013-14 Victorian Budget Update*, the *2013-14 Financial Report* indicates that net operating balance was \$1.0 billion higher than expected due to 'early unexpected receipt of Commonwealth grants payments which were not known or reflected in the revised estimate for 2013-14 at the time of the state's 2014-15 Budget'.⁴⁵

FINDING 5: The general government sector's net operating balance was \$1,979.8 million in 2013-14. According to the *2013-14 Financial Report*, this is higher-than-expected by \$1.8 billion in comparison to the budget estimate primarily due to unexpected Commonwealth grants at the time of the budget. However, the Committee considers that comparisons for the net operating balance between 2013-14 and 2012-13, including budget estimates, are not meaningful due to changes in the accounting policy which took place in 2013-14.

2.2.2 Public non-financial corporations sector

The public non-financial corporations (PNFC) sector is comprised of government-owned entities that charge for their services in order to recover costs, such as the Port of Melbourne Corporation, the water authorities and the Urban Renewal Authority Victoria (Places Victoria).

Table 2.1 shows the 2013-14 financial outcomes for the PNFC sector and compares them to the 2013-14 budget estimates and the 2012-13 outcomes.

43 *ibid.*

44 *ibid.*, p.140

45 *ibid.*, p.6

Table 2.1 Budget estimates and actual results, public non-financial corporations sector, 2012-13 and 2013-14

	2012-13 actual	2013-14 Budget	2013-14 ^(a) actual	Variance from Budget	Change from 2013
	(\$ million)	(\$ million)	(\$ million)	(\$ million)	(\$ million)
Revenue	8,252.0	9,305.1	9,298.4	-6.7	1,046.4
Output expenses	8,550.3	9,606.2	9,482.2	-124.0	931.9
Operating surplus/deficit	-298.2	-301.1	-183.8	117.3	114.4
Dividends paid	720.3	152.0	84.5	-67.5	-635.8
Net debt	14,765.3	16,221.3	14,753.8	-1,467.5	-11.5

(a) Restated figures as published in the 2014-15 Financial Report.

Sources: Department of Treasury and Finance, 2014-15 Financial Report (2015), pp.58, 60, 62; Department of Treasury and Finance, 2013-14 Financial Report (2014), pp.66, 70; Department of Treasury and Finance, Budget Paper No.5: 2013-14 Statement of Finances (2013), pp.45, 47, 49

In 2013-14, the PNFC sector's revenue was \$9.3 billion (lower by \$6.7 million compared to the budget estimate), with output expenses of \$9.5 billion (lower by \$124.0 million compared to the budget estimate). Therefore, the PNFC sector's operating deficit was \$183.8 million, which was \$117.3 million lower in comparison to the budget estimates.

The 2013-14 Financial Report indicates that the increase in the PNFC's sector revenue between 2012-13 and 2013-14 was due to:

- growth in sales of goods and services within the water sector, attributed to growth in sales volumes associated with the relatively warm and dry conditions, as well as the impact of higher water, sewerage, and waterways prices consistent with the 2013 Essential Services Commission price decisions. This is compared with the price freeze and rebates in 2012-13 which were implemented to achieve the return of early recovered desalination plant costs; and
- strong sales at Places Victoria's residential estates, stage releases at the Dandenong LOGIS eco-industrial park, as well as divestment of the entity's non-core assets.⁴⁶

The annual increase in expenses for the PNFC sector, according to the Department of Treasury and Finance, includes 'costs associated with Places Victoria's divestment of estates, and also includes a full 12 months of expenses associated with the Victorian Desalination Plant, which was commissioned in December 2012'.⁴⁷

Dividends paid by the PNFC sector were \$84.5 million in 2013-14. This outcome was lower than the \$720.3 million paid in 2012-13 and also \$67.5 million lower than the \$152.0 million budget estimate (see further discussion of dividends in Sections 2.2.1 and 2.4.2 of this report).

⁴⁶ *ibid.*, p.19

⁴⁷ *ibid.*, p.20

The PNFC sector's net debt was \$14.8 billion in 2013-14, lower than the budget estimate by \$1.5 billion. According to the *2013-14 Financial Report*, 'this reflects the stronger than expected performance within the general government and PNFC sectors, which contributed towards a reduced borrowing requirement for the year'.⁴⁸

2.2.3 Public financial corporations sector

The public financial corporations (PFC) sector includes entities primarily engaged in the provision of financial services or insurance such as the Transport Accident Commission (TAC) and Victorian WorkCover Authority (VWA).

Table 2.2 shows the 2013-14 financial outcomes for the PFC sector and compares them to the 2013-14 budget estimates and the 2012-13 outcomes.

Table 2.2 Budget estimates and actual results, public financial corporations sector, 2012-13 and 2013-14

	2012-13 actual	2013-14 Budget	2013-14 ^(a) actual	Variance from Budget	Change from 2013
	(\$ million)	(\$ million)	(\$ million)	(\$ million)	(\$ million)
Revenue	6,595.5	7,085.9	7,220.1	134.2	624.6
Output expenses	7,574.0	7,972.8	8,315.2	342.4	741.2
Operating surplus/deficit	-978.5	-886.9	-1,095.0	-208.1	-116.5
Dividends paid	440.6	293.9	136.0	-157.9	-304.6
Net debt	19,140.3	20,017.9	22,315.1	2,297.2	3,174.8

(a) Restated figures as published in the *2014-15 Financial Report*.

Sources: Department of Treasury and Finance, *2014-15 Financial Report* (2015), pp.58, 61, 67; Department of Treasury and Finance, *2013-14 Financial Report* (2014), pp.67, 71; Department of Treasury and Finance, *Budget Paper No.5: 2013-14 Statement of Finances* (2013), pp.61, 63, 65

The PFC sector's revenue for 2013-14 was \$7.2 billion, \$134.2 million higher than initial \$7.1 billion budget estimate and \$624.6 million higher than the sector's revenue for 2012-13. According to the Department of Treasury and Finance, the increase in the PFC's revenue was due to:

... steady growth in premium revenue for both the Transport Accident Commission (TAC) and the Victorian WorkCover Authority (VWA) reflecting a combination of factors, including scheduled rises in premium rates as well as growth in vehicle numbers (affecting TAC) and employment (affecting VWA).⁴⁹

Output expenses for the sector were \$8.3 billion, \$342.4 million higher than the budget estimate. This led to the PFC sector's operating deficit of \$1.1 billion for 2013-14, \$208.1 million higher than anticipated in the 2013-14 Budget. The *2013-14 Financial Report* further explained that the higher expenses for

48 *ibid.*, p.23

49 *ibid.*, p.19

the PFC sector ‘included higher claims costs incurred by the State’s insurance agencies, as well as higher interest costs⁵⁰ on Treasury Corporation of Victoria’s [TCV] external borrowings’.⁵¹

The PFC sector paid dividends of \$136.0 million in 2013-14. This outcome was lower than the \$440.6 million paid in 2012-13, as well as lower than the expected \$292.9 million budget estimate by \$157.9 million (see further discussion of dividends in Sections 2.2.1 and 2.4.2 of this report).

Net debt for the PFC sector increased to \$22.3 billion in 2013-14 which is an increase of \$3.2 billion (16.6 per cent) compared to the previous year. This is also higher than the \$20.0 billion original budget estimate for 2013-14 by \$2.3 billion (11.5 per cent). The increase in net debt for the PFC sector was primarily driven by the \$3.9 billion increase in borrowings between 2012-13 and 2013-14 reported by TCV.⁵² TCV did not provide further information in its response to the Committee’s questionnaire regarding the increase in borrowings.

Treasury Corporation of Victoria

TCV is the entity ‘responsible for managing the State’s access to financial markets, ensuring the liquidity of the State, and providing clients with access to investment products and treasury management advice’.⁵³ The Committee sought further information from TCV regarding the variance between forecasts and actual interest rates on the entity’s investment strategy in 2013-14. TCV supplied the following response:

Treasury Corporation of Victoria (TCV) does not forecast interest rates or exchange rates in determining our investment strategy. However, TCV does provide interest rate forecasts to our clients, from time to time, to assist them in determining the tactical timing of their funding activities.⁵⁴

FINDING 6: Treasury Corporation of Victoria does not forecast interest rates or exchange rates in the process of formulating their investment strategy, although interest rate forecasts are a service the Treasury Corporation of Victoria provides to their clients.

2.2.4 Transfers between sectors

Large amounts of money flow between the sectors each year. This can take the form of:

- the general government sector providing grants to the PNFC sector and funding towards some of the PNFC sector’s asset investment

⁵⁰ Interest expense for the public financial corporations sector was \$134.5 million higher in 2013-14 compared to 2012-13.

⁵¹ Department of Treasury and Finance, *2013-14 Financial Report* (2014), p.20

⁵² Treasury Corporation of Victoria, *Response to the Committee’s 2013-14 and 2014-15 Financial and Performance Outcomes - Entity-Specific Questionnaire*, received 27 January 2016, p.2

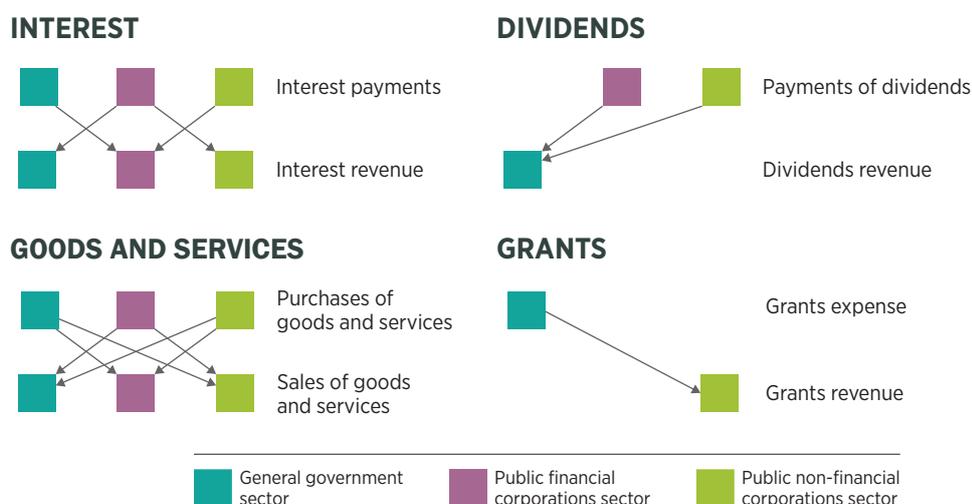
⁵³ Treasury Corporation of Victoria, *Annual Report 2014-15* (2014), p.30

⁵⁴ Treasury Corporation of Victoria, *Response to the Committee’s 2013-14 and 2014-15 Financial and Performance Outcomes - Entity-Specific Questionnaire*, received 27 January 2016, p.2

- the PNFC and PFC sectors paying dividends to the general government sector
- some general government sector and PNFC sector entities lending money to the PFC sector
- other general government sector and PNFC entities borrowing money from the PFC sector
- entities from all sectors purchasing services from entities in other sectors.

The nature of the various transfers between sectors is illustrated in Figure 2.6.

Figure 2.6 Payments between sectors



Source: Public Accounts and Estimates Committee

The Committee sought further details in relation to the amounts flowing between sectors and that are part of each sector’s operating statement in 2013-14. Information provided by the Department of Treasury and Finance is summarised in Table 2.3. Further details of these figures can be seen in Appendices A2.3 to A2.6.

Table 2.3 Transactions between sectors, 2013-14

	To/from PNFC sector (\$ million)	To/from PFC sector (\$ million)
Amount going from the general government sector	2,799.6	1,309.9
Amount coming to the general government sector	2,330.1	355.4
Net amount going to other sectors	469.5	954.5

Source: Committee calculations based on Department of Treasury and Finance, *Response to the Committee’s 2013-14 and 2014-15 Financial and Performance Outcomes – Entity-Specific Questionnaire*, received 27 January 2016, pp.15-16.

The general government sector and the PNFC sector

A total of \$2.8 billion flowed from the general government sector to the PNFC sector in 2013-14. This money was mainly related to ‘grants and other transfers’ (\$2.6 billion),⁵⁵ which accounted for 27.7 per cent of the PNFC sector’s revenue in 2013-14.⁵⁶

The total amount of funds flowing from the PNFC sector to the general government sector was \$2.3 billion in 2013-14. A substantial component of this general government sector’s revenue came from the ‘inter-sector capital assets charge’ (65.4 per cent). This charge is intended to indicate to the agencies the capital value of their assets, encouraging the sale of under-utilised assets by representing the opportunity cost of holding onto physical assets.⁵⁷

In addition, the general government sector received \$486.5 million from the PNFC sector as part of interest revenue and \$182.6 million from ‘income tax equivalent and local government rate equivalent revenue’.⁵⁸

The general government sector and the PFC sector

The general government sector received a total of \$355.4 million from the PFC sector in 2013-14. This included \$136.0 million of dividends, sales of goods and services of \$151.3 million, grants of \$106.6 million and interest revenue of \$92.5 million.⁵⁹

A total of \$1.3 billion flowed from the general government sector to the PFC sector, which accounted for 18.1 per cent of the PFC’s sector total revenue in 2013-14. The majority of this came through interest expenses of \$1.3 billion.⁶⁰

FINDING 7: Large amounts of money flowed between the three sectors (that is, the general government, the public non-financial corporations and the public financial corporations sectors). The general government sector provided more money to both the public non-financial corporations and the public financial corporations sectors than it received in 2013-14.

2.3 Economic factors that influenced outcomes in 2013-14

The performance of Victoria’s economy has a large influence on the level of the State’s revenue from taxes, the level of output expenditure and the amount of borrowings required.

55 *ibid.*, p.16

56 Department of Treasury and Finance, *2014-15 Financial Report* (2015), p.58

57 See Department of Treasury and Finance, *BFMG – 12 Capital Assets Charge* (2009), p.68

58 Department of Treasury and Finance, *Response to the Committee’s 2013-14 and 2014-15 Financial and Performance Outcomes – Entity-Specific Questionnaire*, received 27 January 2016, p.15

59 *ibid.*

60 *ibid.*, p.16

Table 2.4 compares the 2013-14 results to the initial budget estimates based on economic modelling undertaken by the Department of Treasury and Finance for the main economic variables for the State.

Table 2.4 Key economic projections estimates and actuals, 2013-14

Economic variable	Initial 2013-14 budget estimate ^(b)	Actual 2013-14 result ^(b)	Variance (per cent)
Real gross state product growth	2.25	1.7	-0.55
Employment growth	1.5	0.6	-0.9
Unemployment rate	5.5	6.2	0.7
Consumer price index growth	2.5	2.8	0.3
Wage price index growth	3.5	2.7	-0.8
Population growth	1.7	1.9	0.2
Interest rates ^(a)	2.88	2.53	-0.35
Household consumption growth	2.8	2.0	-0.8
Property prices growth ^(a)	5.8	8.2	2.4
Property transaction volume growth ^(a)	3.2	13.6	10.3
Enterprise bargaining agreement increases ^(a)	2.3	1.3 ^(c)	-1.0 ^(c)
Exchange rate	\$A1 = US\$1.01	\$A1 = \$US0.91	-9.9

(a) As defined for the sensitivity analysis in Budget Paper No.2.

(b) All units are percentages apart from the exchange rate.

(c) The Department of Treasury and Finance has used the actual results for 'Employee expenses' as a proxy for enterprise bargaining agreement increases.

Source: Department of Treasury and Finance, *Response to the Committee's 2013-14 and 2014-15 Financial and Performance Outcomes General Questionnaire*, received 19 November 2015, p.44

Gross state product

The Australian Bureau of Statistics (ABS) defines gross state product (GSP) as:

... the sum of expenditures undertaken within the economy within a given period and is equivalent to the total market value of goods and services produced in state or territory after deducting the costs of goods and services used in the process of production.⁶¹

The *2013-14 Financial Report* stated that the 'Victoria's economy grew steadily in 2013-14 despite challenging conditions'.⁶² Victoria's real GSP increased by 1.7 per cent between 2012-13 and 2013-14.⁶³ The *2013-14 Financial Report* further explained that:

61 Australian Bureau of Statistics, *Spotlight on National Accounts, 2009*, Cat. No. 5202.0. Available at <www.abs.gov.au/ausstats/abs@.nsf/ProductsbyReleaseDate/FB006D6F7FFDBAC7CA25789B0012COAD?OpenDocument> viewed on 15 March 2016

62 Department of Treasury and Finance, *2013-14 Financial Report* (2014), p.1

63 Department of Treasury and Finance, *Response to the Committee's 2013-14 and 2014-15 Financial and Performance Outcomes General Questionnaire*, received 19 November 2015, p.44

This growth was driven by improved business investment and household consumption, including stronger retail trade underpinned by higher consumer sentiment and a moderation in households' savings rate over the first half of the year.⁶⁴

Real annual GSP growth in Victoria was 0.55 per cent less than the original budget estimate of 2.25 per cent.⁶⁵ The Department of Treasury and Finance indicated in the *2013-14 Financial Report* that the less-than-anticipated GSP growth occurred despite 'improved business investment and household consumption'.⁶⁶ By contrast, in the Department's response to the Committee's questionnaire, it was reported that 'GSP growth was weaker than expected, largely due to slower household consumption and business investment, in the face of the uncertainty created by a deterioration in the international outlook'.⁶⁷ The *2013-14 Financial Report* further stated that 'business investment activity strengthened towards the end of 2013-14, consistent with higher levels of business conditions and confidence reported over the year'.⁶⁸

Household consumption

Like GSP, household consumption grew more slowly than expected between 2012-13 and 2013-14, at an annual rate of 2.0 per cent compared to the initial estimate of 2.8 per cent. The Department of Treasury and Finance indicated in its response to the Committee's questionnaire that 'sluggishness in overall economic activity, and uncertainty attributed to the international outlook and weak employment and wages growth, suppressed growth in consumption'.⁶⁹

Employment

In relation to employment rates in Victoria in 2013-14, the *2013-14 Financial Report* indicates:

Employment expanded modestly in 2013-14, and Victoria's growth exceeded that of the other non-mining states. The national unemployment rate rose, and the rise in the year-average unemployment rate in Victoria was consistent with the national trend.⁷⁰

However, as seen in Table 2.4, annual employment growth was 0.6 per cent in 2013-14, which was lower than the original budget estimate of 1.5 per cent.⁷¹ Similarly, the unemployment rate was 6.2 per cent in 2013-14, which was higher

⁶⁴ Department of Treasury and Finance, *2013-14 Financial Report* (2014), p.1

⁶⁵ Department of Treasury and Finance, *Response to the Committee's 2013-14 and 2014-15 Financial and Performance Outcomes General Questionnaire*, received 19 November 2015, p.43

⁶⁶ Department of Treasury and Finance, *2013-14 Financial Report* (2014), p.1

⁶⁷ Department of Treasury and Finance, *Response to the Committee's 2013-14 and 2014-15 Financial and Performance Outcomes General Questionnaire*, received 19 November 2015, p.43.

⁶⁸ Department of Treasury and Finance, *2013-14 Financial Report* (2014), p.2

⁶⁹ Department of Treasury and Finance, *Response to the Committee's 2013-14 and 2014-15 Financial and Performance Outcomes General Questionnaire*, received 19 November 2015, p.43

⁷⁰ Department of Treasury and Finance, *2013-14 Financial Report* (2014), p.1

⁷¹ Department of Treasury and Finance, *Response to the Committee's 2013-14 and 2014-15 Financial and Performance Outcomes General Questionnaire*, received 19 November 2015, p.43

than the anticipated budget estimate of 5.5 per cent. The Department of Treasury and Finance only attributed the outcome variance to the budget estimate for both variables as being ‘consistent with slower growth in GSP’.⁷²

The variance in labour market figures provided by ABS was discussed at the financial and performance outcomes hearings between the Committee and senior officers of the Department of Treasury and Finance, and is discussed further in Chapter 3.

Property market

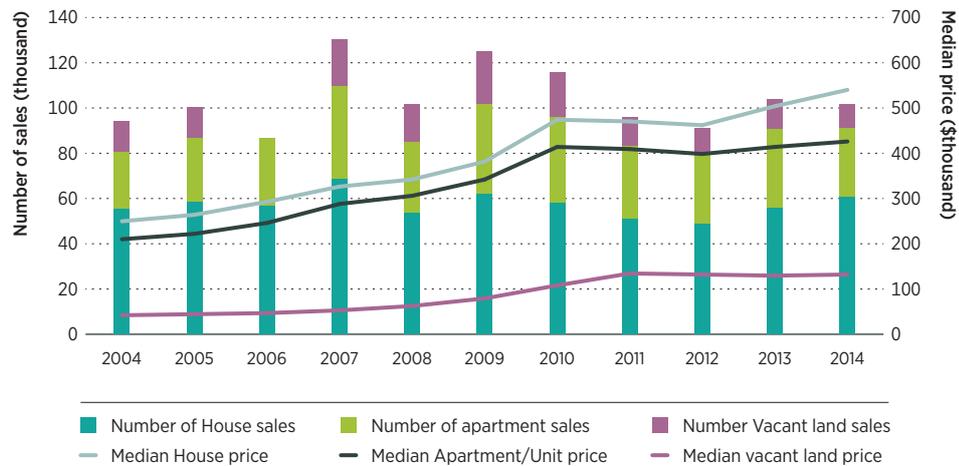
In relation to the property market growth in 2013-14, the Department of Treasury and Finance explained to the Committee that:

The property market was stronger than forecast largely reflecting a greater volume of properties transacted relative to the projections. This reflected the early stages of what became very strong (well above trend – around 6 per cent) investor demand for existing properties in Melbourne supported by strengthening demand from owner occupier purchasers. Property market cycles are difficult to project accurately, as much of the demand reflects behavioural preferences that are difficult to predict, especially in the beginning of a property cycle. Given the subdued performance of property markets in major economies as a result of the global financial crisis (GFC) the Department of Treasury and Finance anticipated similar caution in the Victorian property market at the time of formulating the 2013-14 Budget forecasts. In the event, the behavioural response of local purchasers and the sudden and renewed appetite for risk in Victoria was more positive than the experience of other countries.⁷³

Figure 2.7 on property sales and median prices in Melbourne over the period 2004 to 2014 demonstrates the subdued nature of the property market in the years following the GFC, followed by an increase in residential housing and apartment/unit sales over 2013 and 2014, together with property price growth. The growth in the median price for residential house sales in Melbourne over 2013 and 2014 was particularly strong.

⁷² *ibid.*

⁷³ Department of Treasury and Finance, *Response to the Committee’s 2013-14 and 2014-15 Financial and Performance Outcomes Entity-Specific Questionnaire*, received 19 November 2015, p.20

Figure 2.7 Property sales and median prices, Melbourne, 2000-2014

Source: Department of Environment, Land, Water and Planning, *A Guide to Property Values* (2015), available at <www.dtpli.vic.gov.au/property-and-land-titles/property-information/property-prices>, viewed 4 March 2016

Further details of the Department of Treasury and Finance's response to the Committee's questionnaire in relation to the variances between budget estimates and actual results for the main economic variables in 2013-14 can be found in Appendix A2.8.

FINDING 8: The Victorian economy grew by 1.7 per cent in real terms between 2012-13 and 2013-14, which was lower than the expected economic growth of 2.25 per cent set out in the 2013-14 Budget.

FINDING 9: The economic environment in Victoria in 2013-14, in comparison to the 2013-14 initial estimates was characterised by the following:

- lower-than-expected employment growth
- higher-than-expected unemployment rate
- higher-than-expected inflation.

Impact of economic variables on revenue, expenses and net debt

The Committee sought further details in relation to the impact of variances between budget estimates of relevant economic variables and actual results on the main budget items for each of the three sectors (that is, the general government, PNFC and PFC sectors).

General government sector

Table 2.5 shows the impact of variances between the budget estimates and actual results of relevant economic variables for the general government sector in 2013-14. Once again the estimates for the main variables are based on Department of Treasury and Finance economic modelling.

Table 2.5 Impact of variances between budget estimates and actuals of the main economic variables on the main budget items for the general government sector, 2013-14

Economic variable	Variance between budget estimate and actual	Impact on revenue	Impact on expenses	Impact on net debt
	(per cent)	(\$ million)	(\$ million)	(\$ million)
Real gross state product growth	-0.55	-98.8	-4.2	-94.7
Employment growth	-0.9	-46.0	1.2	-47.2
Unemployment rate	0.7	Not modelled	Not modelled	Not modelled
Consumer price index growth	< ±0.5 percentage points	-	-	-
Wage price index growth	-0.8	-35.4	-5.2	-30.2
Population growth	< ±0.5 percentage points	-	-	-
Interest rates	< ±0.5 percentage points	-	-	-
Household consumption growth	-0.8	Not modelled	Not modelled	Not modelled
Property prices growth	2.4	99.6	-2.6	108.0
Property transaction volume growth	10.3	371.2	-9.8	381.0
Enterprise bargaining ^(a) agreement increases	-1.0 ^(a)	n/a	64.7	64.7
Exchange rate	-9.9	Not modelled	Not modelled	Not modelled

(a) 'Although the variation in growth rates was negative, overall there was an increase in the value of employee expenses from that published in the Budget to the outcome for 2013-14'.

Source: Department of Treasury and Finance, *Response to the Committee's 2013-14 and 2014-15 Financial and Performance Outcomes General Questionnaire*, received 19 November 2015, p.47

The Committee notes that lower-than-expected annual GSP growth had a negative impact on general government sector revenue and net debt, decreasing revenue by an estimated of \$98.8 million and increasing net debt by an estimated of \$94.7 million.

The Department of Treasury and Finance indicated that lower-than-expected employment growth in 2013-14 reduced revenue by \$46.0 million and increased net debt by \$47.2 million.

Higher-than-expected growth in property prices was estimated to increase the general government sector revenue by \$99.6 million and decrease net debt by \$108.0 million. In addition, the higher-than-expected growth in property transaction volume by 10.3 per cent is estimated to have increased revenue by \$371.2 million and decreased net debt by \$381.0 million.

The Department of Treasury and Finance indicated that the impact of the unemployment rate and household consumption growth on the main budget items for the general government sector are not modelled. The Department further explained that:

The impact of variations in the unemployment rate on main budgetary items is broadly reflected in the sensitivity of the main budgetary items to employment growth, which is already modelled by the Department.

...

Household consumption accounts for approximately 60 per cent of Victorian GSP. The impact of variations in household consumption growth on main budgetary items is reflected in the sensitivity of major budgetary items to changes in real GSP as modelled by the Department.⁷⁴

FINDING 10: Outcomes for three economic variables, the real gross state product growth, property prices growth and property transaction volume growth, showed a significant variance compared to the initial estimates. This had a significant impact on the general government sector's main budget items in 2013-14:

- lower-than-expected gross state product decreased revenue by \$98.8 million and increased net debt by \$94.7 million
- higher-than-expected property prices growth increased revenue by \$99.6 million and decreased net debt by \$108.0 million
- higher-than-expected property transaction volume growth increased revenue by \$371.2 million and decreased net debt by \$381.0 million.

FINDING 11: Although household consumption accounts for approximately 60 per cent of Victorian gross state product, the impact of variations to household consumption estimates on the general government sector's main budget items are not modelled.

RECOMMENDATION 1: Due to its significant contribution to Victoria's gross state product, the Department of Treasury and Finance quantify the impact of household consumption on the main budget items via the sensitivity analysis in the budget papers.

Government departments and agencies

The Committee sought further details about the impact of the State's economy on government departments and agencies. In its questionnaire, the Committee asked departments and agencies about expectations at the time of the budget, what actually occurred, how the variance impacted on the budget outcomes and what decisions were made in response to any variance.

The Department of Justice and Regulation, the Victorian WorkCover Authority (WorkSafe Victoria) and the South East Water Corporation indicated that variances between estimates and actuals for main economic variables had an impact on their financial outcomes.

74 *ibid.*

The Department of Justice and Regulation indicated that the ‘return on financial asset investment (investment income)’ had a favourable impact of \$4.4 million in 2013-14 and stated that ‘in response to the low interest rate environment, the department changed the investment profile to be more diversified than predominantly interest only’.⁷⁵

The South East Water Corporation stated that ‘lower interest rates had a favourable impact on budget outcomes’, decreasing its ‘finance charges’ by \$7.4 million between the 2013-14 actual result and the expected outcome. It also indicated that it had ‘refinanced borrowings’ in 2013-14 as a result of these interest rates.⁷⁶

The Victorian WorkCover Authority (WorkSafe Victoria) explained that:

- Net investment return of 14.61 per cent was achieved in 2013-14 as a result of favourable conditions experienced in the investment markets
- The higher than budget investment return had a favourable impact on WorkSafe’s operating results and its investment portfolio at 30.6.14, which is held to back WorkCover insurance liabilities.⁷⁷

FINDING 12: Only one department and two agencies reported that the State’s economy had an impact on their financial outcomes in 2013-14.

Public non-financial corporations sector and public financial corporations sector

The Committee also inquired about the relationship between the State’s economy and the PNFC and PFC sectors. In its response to the Committee’s questionnaire, the Department of Treasury and Finance indicated it does not collect information at that level for either of the two sectors.⁷⁸ The Department further explained that:

While the general government sector can be viewed as one entity controlled by central government, there are 71 PNFCs and 8 PFCs that have separate boards to manage changes in the economic environment, manage their performance against corporate plan key performance indicators and mitigate risks. Changes to economic variables can affect each entity differently requiring the boards to take appropriate actions depending on the level of impact on that entity. The information required to assess impacts of variances between forecasts and actuals is not collected. Boards currently have the means to collect relevant information and monitor their own performances against various criteria.

⁷⁵ Department of Justice and Regulation, *Response to the Committee’s 2013-14 and 2014-15 Financial and Performance Outcomes General Questionnaire*, received 6 November 2015, p.57

⁷⁶ South East Water Corporation, *Response to the Committee’s 2013-14 and 2014-15 Financial and Performance Outcomes General Questionnaire*, received 6 November 2015, p.18

⁷⁷ Victorian WorkCover Authority (WorkSafe Victoria), *Response to the Committee’s 2013-14 and 2014-15 Financial and Performance Outcomes General Questionnaire*, received 6 November 2015, p.21

⁷⁸ Department of Treasury and Finance, *Response to the Committee’s 2013-14 and 2014-15 Financial and Performance Outcomes General Questionnaire*, received 19 November 2015, pp.49-52

The aggregate performance of the PNFCs and PFCs flows into the budget via the receipt of dividends and income tax equivalents (ITEs). Consequently, this impact is reflected in the sensitivity analysis of the various economic parameters on revenues, net result from transactions, and net debt of the general government sector.⁷⁹

While the Committee recognises the broad range of entities that comprise the PFC and PNFC sectors, further information regarding the impact of wider economic forces and market movements on these entities would assist in assessing their role in the State finances.

FINDING 13: The Department of Treasury and Finance does not quantify the impact of the State's main economic variables included in the budget papers on the public non-financial corporations and the public financial corporations sectors.

RECOMMENDATION 2: The Department of Treasury and Finance publish data on the impact of the State's main economic variables on the public non-financial corporations sector.

RECOMMENDATION 3: The Department of Treasury and Finance develop methods to quantify the impact of the State's main economic variables on the public financial corporations sector.

2.4 Government actions that influenced outcomes in 2013-14

2.4.1 Initiatives in the 2013-14 Victorian Budget Update

The former Government released a number of revenue, efficiency, output and asset initiatives in the *2013-14 Victorian Budget Update*. Output and asset initiatives were expected to cost \$200.7 million for 2013-14 and were partially offset in the financial year by efficiency (that is, savings) initiatives of \$10.0 million together with initiatives to increase revenue by \$37.3 million.⁸⁰

Initiatives to increase revenue included:

- the *Casino Electronic Gaming Machine Levy* estimated to collect \$13.9 million for the remainder of 2013-14 and \$170.4 million over the forward estimates period
- the *Hotel and Club Electronic Gaming Machine Tax* estimated to collect \$17.7 million for the remainder of 2013-14 and \$269.3 million over the forward estimates period
- an extra \$5.7 million for 2013-14 together with \$128.7 million over the forwards estimates period from public transport fare changes.⁸¹

⁷⁹ *ibid.*, p.21

⁸⁰ Department of Treasury and Finance, *2013-14 Budget Update* (2013), Appendix A

⁸¹ Department of Treasury and Finance, *2013-14 Victorian Budget Update* (2013), Appendix A

The *Casino Electronic Gaming Machine Levy* was reversed in the 2014-15 Budget. The 2014-15 budget papers indicated that:

The introduction of a casino electronic gaming machine levy and the associated estimates in the 2013-14 Budget Update were subject to the satisfactory conclusion of negotiations and mutual agreement between the Victorian Government and the casino operator. While discussions are continuing, mutual agreement has not been reached at this time. Consequently the associated estimates are not included in the 2014-15 Budget.⁸²

The Committee notes that discussion of this former revenue initiative has not been included in subsequent budget papers.

The \$194 million in asset initiatives announced in the 2013-14 budget update was mainly comprised of:

- The *Police Information Technology Refresh* (\$25.9 million for the remainder of 2013-14), aimed at upgrading Victoria Police's ageing information technology infrastructure
- The *Prison Capacity Expansion Program*, budgeted at \$49.5 million for the remainder of 2013-14 and \$36.6 million in 2014-15, to provide an additional 673 beds and bed units across the prison system to meet increasing growth
- \$37.7 million for the *Mildura Hospital Redevelopment*.⁸³

The additional \$338.4 million in output initiatives were mainly comprised of:

- further funding for the *Prison Capacity Expansion Program* (\$12.3 million for the remainder of 2013-14 and \$227.2 million over the forward estimates period)
- The *Highbett Gas Works Site* relocation and remediation project (\$13.0 million for the remainder of 2013-14)
- the *Victorian Government ICT Strategy* budgeted at \$8.3 million for the remainder of 2013-14 and \$4.2 million in 2014-15
- A further \$26.8 million for the remainder of 2013-14 for the *Police Information Technology Refresh*.⁸⁴

The budget update also announced a return of \$10.0 million from the *Energy Technology Innovation Strategy*. Full details of the 2013-14 budget update initiatives can be found in Appendix A2.7.

FINDING 14: The former Government implemented a number of initiatives in the *2013-14 Victorian Budget Update*. These initiatives were anticipated to increase revenue in 2013-14 by \$37.3 million, total output expenditure by \$77.0 million and asset expenditure by \$123.7 million, with additional efficiency measures expected to save \$10.0 million.

82 Department of Treasury and Finance, *Budget Paper No.3: 2014-15 Service Delivery* (2014), p.78

83 Department of Treasury and Finance, *2013-14 Victorian Budget Update* (2013), pp.132-3

84 *ibid.*, pp.132-6

2.4.2 Dividends

As stated in Section 2.2.1, dividends and similar revenue decreased from \$1.3 billion in 2012-13 to \$445.9 million in 2013-14.⁸⁵ This was \$225.6 million (33.6 per cent) lower than expected in the original budget estimate (\$671.5 million).⁸⁶ The *2013-14 Financial Report* explains that this is due to the State's insurance agencies paying lower dividends as a result of reduced profitability in 2012-13 and a one-off dividend paid from the State Electricity Commission of Victoria in the previous year.⁸⁷ The Victorian Auditor-General further explains that:

In 2013-14, the general government sector (GGS) received dividends of \$220 million from state-controlled entities that operate outside the GGS, and reported a net surplus from transactions of \$1,976.2 million. The decrease of \$941 million in dividends compared to 2012-13 is partially driven by decreased financial results in the state-controlled entities that are required to pay dividends. The decrease is also a result of special dividends not being required from the State Electricity Commission of Victoria in 2013-14 (\$413.8 million in 2012-13).⁸⁸

The variance between the budget estimate and the actual outcome for dividends, according to the *2013-14 Financial Report*, 'largely reflects the timing of dividends, with interim dividends from the water sector to now be paid in 2014-15'.⁸⁹

FINDING 15: Dividends and similar revenue for the general government sector were \$445.9 million in 2013-14. This was lower by \$895.8 million compared to 2012-13. According to the Victorian Auditor-General, the decrease in dividends in 2013-14 was partially driven by decreased financial results in the state-controlled entities which were required to pay dividends, in addition to the State Electricity Commission of Victoria not paying dividends in the financial year after having paid dividends in 2012-13.

2.4.3 Commonwealth decisions

In addition to the budget initiatives announced by the former Government in the *2013-14 Victorian Budget Update*, decisions made by the Commonwealth also influenced Victoria's financial outcomes in 2013-14.

As seen in section 2.2.1, Commonwealth grants were higher than expected, primarily driven by other specific-purpose grants, which were higher than the original estimate of \$8.9 billion by \$1.9 billion.⁹⁰ The *2013-14 Financial Report* indicated that:

⁸⁵ Department of Treasury and Finance, *2013-14 Financial Report* (2014), p.31

⁸⁶ Department of Treasury and Finance, *Budget Paper No.5: 2013-14 Statement of Finances* (2013), p.5

⁸⁷ Department of Treasury and Finance, *2013-14 Financial Report* (2014), p.10

⁸⁸ Victorian Auditor-General's Office, *Auditor-General's Report on the Annual Financial Report of the State of Victoria, 2013-14* (2014), p.17

⁸⁹ Department of Treasury and Finance, *2013-14 Financial Report* (2014), p.9

⁹⁰ Department of Treasury and Finance, *2013-14 Financial Report* (2014), p.78; Department of Treasury and Finance, *Budget Paper No.5: 2013-14 Statement of Finances* (2013), p.25

This was primarily due to an increase in specific purpose grants for road and rail investments including East West Link and Regional Rail Link, and higher than expected goods and services tax revenue.⁹¹

Commonwealth grants increased by \$3.2 billion, or 14.8 per cent, over the previous year to reach \$25.0 billion in 2013-14. This increase was mainly driven by an increase of grants for specific purposes of \$2.8 billion.⁹²

Further to this, the Victorian Auditor-General explained that:

The state is substantially reliant on Commonwealth Government contributions, which accounted for 41.5 per cent of total revenue in 2013-14. Approximately 46 per cent, or \$11.5 billion, of Commonwealth Government contributions relate to the state's share of the GST pool, the remainder relates to grants for specific purposes such as the National Health Reform, East West Link and Regional Rail Link. The state does not have direct control over the level of specific purpose contributions it receives each year from the Commonwealth Government.⁹³

The Department of Health and Human Services also indicated that the increase in its grants revenue by \$1.1 billion between 2012-13 and 2013-14,⁹⁴ as well as the higher-than-expected outcome for this component, was driven by Commonwealth decisions to health services in Victoria. The Department indicated that the annual increase was mainly driven by:

- Full year operation of the National Health Funding Pool for 2013-14 compared to part-year operation (nine months) in 2012-13. Under the National Health Reform arrangements, all Commonwealth contributions are received as grant income whereas the previous funding arrangement recognised this contribution through output appropriation.
- Year on year increase in Commonwealth funding under the National Health Funding Agreement related to changes in National Efficient Price and Activity.⁹⁵

FINDING 16: Commonwealth grants to the State increased by 14.8 per cent between 2012-13 and 2013-14 to reach \$25.0 billion, primarily driven by additional grants related to public transport infrastructure and health programs.

2.5 Financial outcomes compared to targets

The former Government adopted five overarching long-term financial management objectives and four financial measures to define its medium-term fiscal strategy in the 2013-14 Budget.

⁹¹ Department of Treasury and Finance, *2013-14 Financial Report* (2014), p.140

⁹² *ibid.*, p.78

⁹³ Victorian Auditor-General's Office, *Auditor-General's Report on the Annual Financial Report of the State of Victoria, 2013-14* (2014), p.24

⁹⁴ Figures are for the former Department of Health only.

⁹⁵ Department of Health and Human Services, *Response to the Committee's 2013-14 and 2014-15 Financial and Performance Outcomes General Questionnaire*, received 19 November 2015, p.47

The Committee enquired about the achievements and progress towards these targets to the Department of Treasury and Finance.

Table 2.6 shows the former Government's long-term financial objectives in the 2013-14 Budget.

Table 2.6 Former Government's long-term financial management objectives, 2013-14 Budget

Managing responsibly	Victoria's state finances will be managed responsibly to enhance the well-being of Victorians.
Looking after the future	The endowment of public sector wealth bequeathed by the current generation of Victorians to the next will be no less than the current generation inherited from the previous generation.
Managing the unexpected	The State's financial position will be robust enough to absorb and recover from unanticipated events, and to absorb the volatility inherent in revenues and expenses.
Improving services	Victoria's public services will improve over time through enhanced efficiency and through a growing capacity of the Victorian economy to fund those services.
Maximising community benefit	Public sector resources will be allocated to those activities which generate maximum community benefit.

Source: Department of Treasury and Finance, *Budget Paper No.2: 2013-14 Strategy and Outlook* (2013), p.7

The Department of Treasury and Finance indicated that the former Government's long-term financial management objectives cannot be effectively assessed using a narrow selection of metrics. The Department indicated that:

The Government's long-term financial management objectives are provided in annual budget papers in accordance with the Financial Management Act 1994 (FMA). These objectives are a set of principles that guide the development of State budgets and financial estimates.

Long-term financial management objectives incorporate a wide range of qualitative and quantitative assessments, and cannot be effectively assessed using a narrow selection of metrics. However, the Government does outline the key financial measures and targets it considers important in assessing responsible financial management as part of annual budget papers and budget updates.

The previous Government also considered maintaining the State's triple-A credit rating as a key financial objective. Victoria held a triple-A credit rating, stable outlook, from both major rating agencies for all of 2013-14 and 2014-15.⁹⁶

Table 2.7 shows the Department of Treasury and Finance's response in relation to the former Government's medium-term fiscal strategy objectives in the 2013-14 Budget.

⁹⁶ Department of Treasury and Finance, *Response to the Committee's 2013-14 and 2014-15 Financial and Performance Outcomes General Questionnaire*, received 19 November 2015, p.41

Table 2.7 Former Government's medium-term-fiscal strategy objectives, 2013-14 Budget

Goal	2013-14 result	What the results indicate
Infrastructure investment of 1.3 per cent of GSP (calculated as a rolling five-year average)	1.69 per cent	These results indicate that Victoria clearly exceeded the previous Government's infrastructure investment target for 2013-14 and 2014-15.
General government net debt reduced as a percentage of GSP over the decade to 2022	6.0 per cent of GSP	This goal is designed to measure the comparative levels, and underlying trajectory of net debt over a 10-year period. Annual net debt outcomes will vary around an underlying trend, and are of limited value when assessing progress against a longer-term measure.
Fully fund the unfunded superannuation liability by 2035	41.4 per cent for the former State Superannuation Fund	The results show the funding ratio for State's share of the State Superannuation Fund (which has now been rolled into the Emergency Services and State Super fund). The Government continually monitors achievement against the goal and remains on track to meet the target date in 2035.
A net operating surplus of at least \$100 million and consistent with the infrastructure and debt parameters	\$1.98 billion	These results indicate that Victoria clearly exceeded the previous Government's infrastructure investment target for 2013-14 and 2014-15.

Sources: Department of Treasury and Finance, *Budget Paper No.2: 2013-14 Strategy and Outlook* (2013), p.8; Department of Treasury and Finance, *Response to the Committee's 2013-14 and 2014-15 Financial and Performance Outcomes General Questionnaire*, received 19 November 2015, p.40

The Committee notes that only two out of the four medium-term fiscal strategy objectives (infrastructure investment as a percentage of GSP and net operating surplus) can be assessed. The remaining two are unable to be assessed due to the absence of specific parameters.

Overall however, there is difficulty in assessing the former government's long term financial management objectives and medium term fiscal strategy as both these sets of objectives are based on trends over time, and are unsuitable to be measured against specific parameters.

3

Overall financial outcomes for 2014-15

3.1 Introduction

This chapter compares the budget estimates against actual results for 2014-15, addressing:

- the components of revenue that flowed to the general government sector, and whether this was as anticipated
- purchases made by the general government sector in output funding, and how this may have differed from expectations
- the revenue and dividend results for the year, including what was available for the general government sector for investment in assets and what was on asset investment, and in what areas
- the overall effect on net debt for 2014-15 in the general government sector
- the results for the other government business enterprises — the public financial corporations (PFC) and public non-financial corporations (PFNC) sectors.

As in the previous chapter, variances between actual outcomes and those expected in the 2014-15 Budget papers will be identified. In addition to the various budget papers and updates that are used as data sources, information regarding the 2014-15 Budget provided by government departments, in form of presentations and statements made before the Committee at the financial and performance outcomes hearings are used where appropriate to fully explain and evaluate the 2014-15 Budget and finances.

3.2 General government sector finances in 2014-15

As discussed in Section 2.2, the general government sector is made up of bodies that do not charge users directly for goods and services they provide. This mostly includes departments, but also includes other agencies such as fire brigades, TAFE institutions and public hospitals.

This section sets out the broad results for the sector, showing major categories only. It will mention variances, but only to refer the reader to Chapter 4 where they will be discussed in more detail.

Table 3.1 Budget estimates and actual results, general government sector, 2014-15

	2014-15 Budget	2014-15 actual	Variance	
	(\$ million)	(\$ million)	(\$ million)	(per cent)
Revenue	52,901.9	53,772.0	870.1	1.6
Output expenses	51,575.1	52,558.0 ^(a)	982.9	1.9
Cash resources				
Operating surplus	1,326.7	1,214.0 ^(a)	-112.7	-8.5
Depreciation and similar	2,512.8	2,605.1	92.3	3.7
Asset sales	384.9	397.7	12.8	3.3
Total cash available	4,224.4	4,216.8	-7.6	-0.2
Cash uses				
Annual asset investment	5,989.2	5,251.8	-737.4	-12.3
Effect on borrowing				
Increase in net debt	1,853.0	1,152.8	-700.2	-37.8

(a) The Auditor-General has expressed the opinion that expenses ought to have been increased to \$54,058.0 million to reflect an obligation to repay the \$1.5 billion received for the discontinued *East West Link* project. This would have resulted in an operating deficit of \$286.0 million (Victorian Auditor-General's Office, *Auditor-General's Report on the Annual Financial Report of the State of Victoria, 2014-15* (2015), p.7).

Source: Committee calculations based on Department of Treasury and Finance, *Budget Paper No.5: 2014-15 Statement of Finances* (2014), pp.5, 7-9; calculations based on Department of Treasury and Finance, *2014-15 Financial Report* (2015), pp.26-8

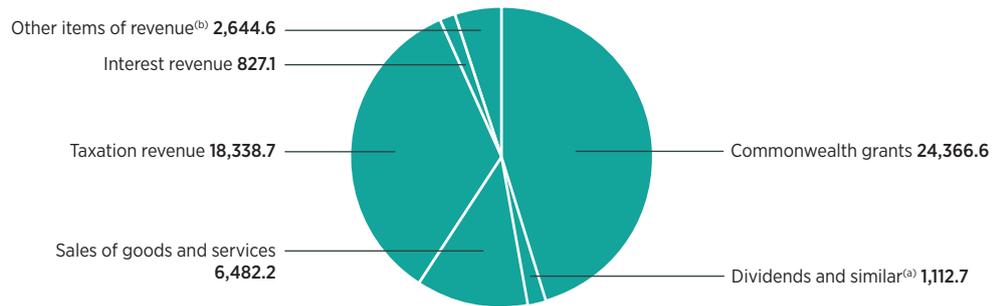
3.2.1 Revenue

Total revenue for the general government sector for 2014-15 was \$53.8 billion (see Table 3.1). This was an increase over the previous year of \$1.4 billion (2.7 per cent).⁹⁷ This was also \$870.1 million (1.6 per cent) higher than had been anticipated in the 2014-15 budget papers.⁹⁸

Figure 3.1 shows the major components of general government sector revenue in 2014-15.

⁹⁷ Department of Treasury and Finance, *2014-15 Financial Report* (2015), p.26

⁹⁸ Department of Treasury and Finance, *Budget Paper No.5: 2014-15 Statement of Finances* (2014), p.5

Figure 3.1 Components of general government sector revenue, 2014-15, (\$ million)

- (a) Included in the budget papers as 'Dividends and income tax equivalent and rate equivalent revenue'.
- (b) 'Other items of revenue' includes: 'other contributions and grants'; 'fair value of assets received free of charge or for nominal consideration'; 'fines'; 'royalties'; 'donations and gifts'; 'other non-property rental'; and 'other miscellaneous revenue'.

Source: Department of Treasury and Finance, *2014-15 Financial Report* (2015), pp.26, 68

Variances from budget estimates for these components of revenue are shown in Figure 3.2 below.

Figure 3.2 Variances between budget estimate and actual results for major components of general government sector revenue, 2014-15

- (a) Included in the budget papers as 'Dividends and income tax equivalent and rate equivalent revenue'.
- (b) 'Other items of revenue' includes: 'other contributions and grants'; 'fair value of assets received free of charge or for nominal consideration'; 'fines'; 'royalties'; 'donations and gifts'; 'other non-property rental'; and 'other miscellaneous revenue'.

Source: Committee calculations based on Department of Treasury and Finance, *Budget Paper No.5: 2014-15 Statement of Finances* (2014), pp.5, 24; Department of Treasury and Finance, *2014-15 Financial Report* (2015), pp.26, 68

Figure 3.2 shows that three components provided more revenue than was estimated at the time of the budget, while grants from the Commonwealth Government provided less.

Grants from the Commonwealth

Grants from the Commonwealth Government (excluding 'other contributions and grants' which are included under 'other revenue') for 2014-15 totalled \$24.4 billion, a \$645.8 million (2.6 per cent) decrease on the previous year.⁹⁹ This was \$348.2 million (1.4 per cent) less than anticipated. Of the grants from the Commonwealth Government, GST provided \$12.0 billion, \$202.2 million more than anticipated, and other specific-purpose grants were worth \$12.3 billion, \$550.4 million less than expected.

Mr David Martine, Secretary of the Department of Treasury and Finance, explained the varying nature of Commonwealth grants revenue to the State, driven mostly by year-to-year changes occurring with GST revenue at the national level at the financial and performance outcomes hearings:

The other one on the revenue side that can be quite variable is, of course, the GST. That is where what we receive here in Victoria is dependent on, in a sense, what happens nationally and also what happens in other states. So as their economies grow at a slower rate and their own revenue falls, that can impact on us here in Victoria in potentially a material sort of way. So our relativity, which is in a sense our share per capita, sits at about 0.89, so we are not quite getting our population share. As the other states' economies vary, their claim on the pool will change, and as they potentially get more, we potentially get less.

The other key driver on the GST, of course, is what happens with consumption spending. That drives kind of the size of the pie that we all fight over to get cut up. At the moment national consumption is probably growing a little bit below trend nationally. We are not too bad here in Victoria, but of course it is really driven by what is happening nationally.¹⁰⁰

Taxation

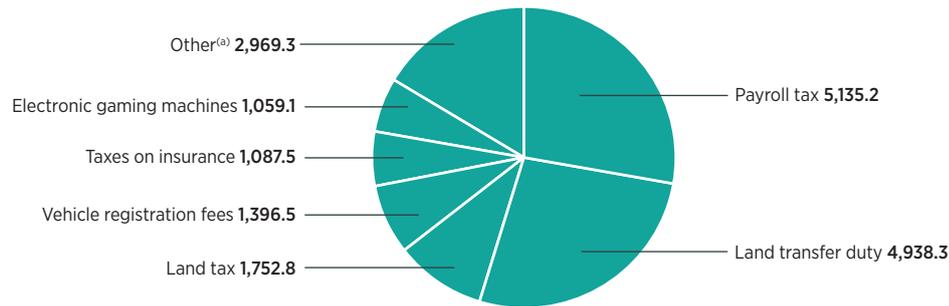
Taxation revenue is the most important own-source income for the State. During 2014-15, the State's taxes provided \$18.3 billion, an increase of \$1.4 billion (8.5 per cent) on 2013-14.¹⁰¹ This was also \$271.2 million (1.5 per cent) higher than had been estimated at the time of the 2014-15 Budget.¹⁰²

⁹⁹ Department of Treasury and Finance, *2014-15 Financial Report* (2015), pp.26, 68

¹⁰⁰ Mr David Martine, Secretary, Department of Treasury and Finance, *2014-15 Financial and Performance Outcomes Transcript of Evidence*, 16 February 2016, p.5

¹⁰¹ Department of Treasury and Finance, *2014-15 Financial Report* (2015), p.26

¹⁰² Department of Treasury and Finance, *Budget Paper No.5: 2014-15 Statement of Finances* (2014), p.5; Department of Treasury and Finance, *2014-15 Financial Report* (2015), p.26

Figure 3.3 Victorian taxation revenue, 2014-15, (\$ million)

(a) 'Other' includes: duty on vehicle registrations and transfers; fire services property levy; public lotteries; casino revenue; metropolitan improvement levy; growth areas infrastructure contribution; levies on statutory corporations; congestion levy; financial accommodation levy; racing and other gambling taxes; liquor licence fees; other taxes and other property duties.

Source: Department of Treasury and Finance, *2014-15 Financial Report* (2015), p.66

This was mostly a result of higher-than-anticipated receipts of land transfer duty (\$497.7 million higher than forecast) but mitigated by lower-than-expected land tax (\$150.8 million less than forecast). The land tax revenue shortfall was 'driven mostly by fewer assessments from the State Revenue Office than expected'.¹⁰³

The Secretary of the Department of Treasury and Finance, Mr David Martine, explained the difficulty in forecasting amounts of revenue for the two major state tax bases, payroll tax and stamp duty, at the recent outcomes hearings:

Our biggest tax bases: we have got two that contribute most—or not most—but the largest two tax bases are payroll tax and land transfer duty. Payroll tax grows—or we are forecasting as part of the budget update—at about 5 per cent. The long-run average—well, the average for the last five years is at 4.8. It is a reasonably stable tax base. The other big one is land transfer duty, or stamp duty on property transactions. That accounts for 5.4 billion of that. That one in particular is very hard to forecast. Just as an example, in 13–14 land transfer duty grew by 27 per cent; in 11–12 it fell by 15 per cent.¹⁰⁴

In terms of payroll tax revenue, Mr Martine further explained:

... payroll tax that we raise in the state: for 15–16 in the budget update, forecasting about 5.4 billion, growing at about 5 per cent. The average for the last five years has been 4.8 per cent. So it is a reasonably stable tax base. It is obviously affected by a number of factors. Levels of employment is important, but likewise composition of employment is important as well. Essentially what impacts on payroll tax is average hours worked, so the composition between full time and part time can be a factor and also the sorts of jobs that are created. There is a threshold on payroll tax of \$550 000, so for example, if we observe growth in employment coming from very small businesses that are sitting below the threshold, then obviously we will not see that applying to the payroll tax estimates. So the composition of employment is quite important.¹⁰⁵

¹⁰³ Department of Treasury and Finance, *2014-15 Financial Report* (2015), p.116

¹⁰⁴ Mr David Martine, Secretary, Department of Treasury and Finance, *2014-15 Financial and Performance Outcomes Transcript of Evidence*, 16 February 2016, pp.4-5

¹⁰⁵ *ibid.*, pp.5-6

Dividends

Dividends and similar income provides a small proportion of total revenue for the general government sector. However, dividends from entities in other sectors are determined through a process of negotiation between the Government and the entity, as well as a consideration of the Government's budget position.¹⁰⁶ This means that dividends are an important revenue component. Dividends and similar income for 2014-15 was \$1.1 billion, an increase of \$666.8 million (149.5 per cent) on the previous year.¹⁰⁷ This was also \$528.0 million (90.3 per cent) higher than estimated in the 2014-15 Budget.¹⁰⁸ Higher-than-expected dividends from both the public financial corporations (PFC) and public non-financial corporations (PNFC) sectors contributed to this variation. In addition, higher-than-expected income tax equivalent revenue was received from the PFC sector.

Other items

Other items of revenue include a range of income sources, including fines, donations (such as to bushfire appeals), revenue from commercial activities carried out by departments, goods received by the Government free of charge and other contributions and grants. For 2014-15, this totalled \$2.5 billion, an increase of \$191.6 million (8.3 per cent) on 2013-14.¹⁰⁹ This was \$434.6 million (21.0 per cent) more than was expected in the 2014-15 Budget,¹¹⁰ due mostly to 'higher commercial activity from a variety of sources' and resources received free of charge.¹¹¹ Within this category, the increase was mainly driven by 'fair value of assets received of charge or for nominal consideration' (\$116.0 million more than originally budgeted) and 'other miscellaneous revenue' (\$378.0 million more than originally budgeted). It was also offset by fines being \$70.1 million less than expected.

FINDING 17: Total revenue for the general government sector for 2014-15 was \$53.8 billion. This was \$870.1 million (1.6 per cent) higher than had been anticipated in the 2014-15 budget papers. Taxation revenue and dividends and similar income provided more than had been anticipated, but grants from the Commonwealth provided less than expected.

¹⁰⁶ Department of Treasury and Finance, *Corporate Planning and Performance Reporting Requirements - Government Business Enterprises* (2009), p.13

¹⁰⁷ Department of Treasury and Finance, *2014-15 Financial Report* (2015), p.26

¹⁰⁸ Department of Treasury and Finance, *Budget Paper No.5: 2014-15 Statement of Finances* (2014), p.5; Department of Treasury and Finance, *2014-15 Financial Report* (2015), p.26

¹⁰⁹ Department of Treasury and Finance, *2014-15 Financial Report* (2015), pp.26, 68

¹¹⁰ Department of Treasury and Finance, *Budget Paper No.5: 2014-15 Statement of Finances* (2014), pp.5, 24; Department of Treasury and Finance, *2014-15 Financial Report* (2015), pp.26, 68

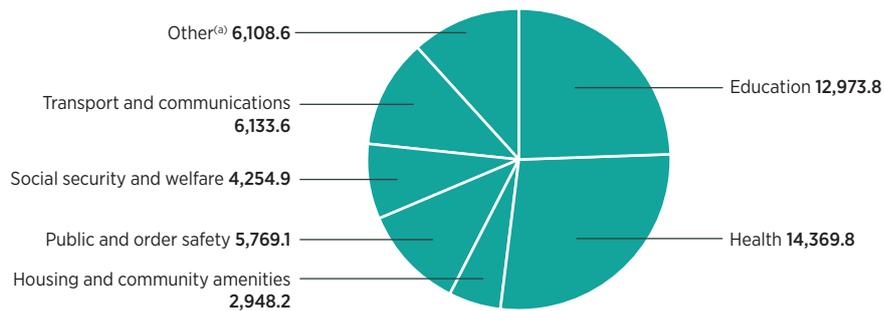
¹¹¹ Department of Treasury and Finance, *2014-15 Financial Report* (2015), p.116

3.2.2 Expenses

Total expenses from transactions for 2014-15 were \$52.6 billion (see Table 3.1), \$2.2 billion (4.3 per cent) higher than for 2013-14.¹¹² This was \$982.9 million (1.9 per cent) higher than had been anticipated at the time of the 2014-15 Budget.¹¹³

These expenses are shown in Figure 3.4 disaggregated by major government purpose classification. Detailed figures are shown in Appendix A3.2.

Figure 3.4 Output expenditure by major government purpose classification, 2014-15, (\$ million)



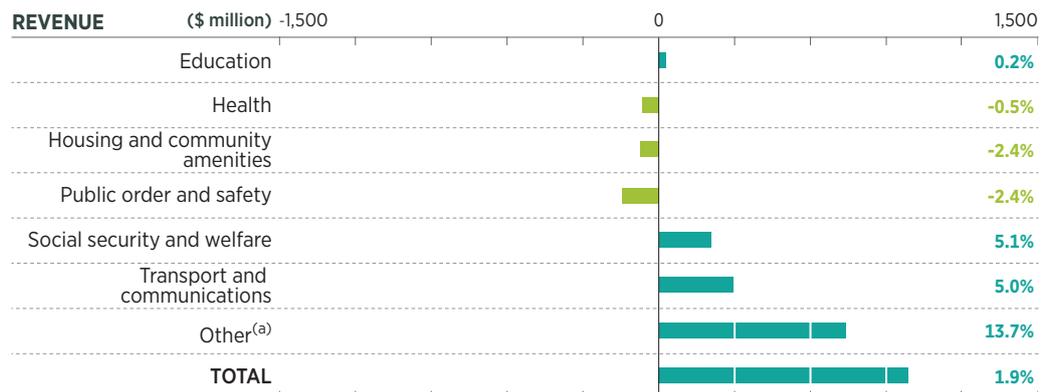
(a) Includes: 'General public services'; 'Recreation and culture'; 'Fuel and energy'; 'Agriculture, forestry, fishing and hunting'; 'Other economic affairs'; and 'Other purposes'.

Source: Department of Treasury and Finance, *2014-15 Financial Report* (2015), p.75

Figure 3.4 shows that the majority of expenditure in the general government sector was in the education and health sectors.

Figure 3.5 shows variances against expected levels of expenditure by category.

Figure 3.5 Variances between budget estimate and actual results for major government purpose classification components of output expenditure by major, 2014-15



(a) Includes: 'General public services'; 'Recreation and culture'; 'Fuel and energy'; 'Agriculture, forestry, fishing and hunting'; 'Other economic affairs'; and 'Other purposes'.

Source: Committee calculations based on Department of Treasury and Finance, *Budget Paper No.5: 2014-15 Statement of Finances* (2014), p.30; Department of Treasury and Finance, *2014-15 Financial Report* (2015), p.75

¹¹² *ibid.*, p.26

¹¹³ Department of Treasury and Finance, *Budget Paper No.5: 2014-15 Statement of Finances* (2014), p.5; Department of Treasury and Finance, *2014-15 Financial Report* (2015), p.26

The Committee approached the Department of Treasury and Finance for explanations of the significant variations seen in these categories. The Department informed the Committee that:

- expenditure related to transport and communications was higher than anticipated due to ‘the reclassification of costs from capital expenditure to operating expenditure, additional funding from the Commonwealth Government to deliver projects, and carryover of unused appropriation to the 2014-15 financial year’¹¹⁴
- expenditure related to social security and welfare was primarily ‘due to additional expenditure to strengthen responses to family violence and additional demand in placement and support services for children and young people in care’
- other expenditure was higher than expected primarily as a result of higher-than-expected expenditure on general public services, which ‘reflects the costs to the State from the finalisation of the agreement with the East West Link consortium’ (the 2015-16 budget papers and the *2014-15 Financial Report* disclose costs of finalising the agreement with the East West Link consortium as \$81 million in fees and \$339 million for the bid process, design and pre-construction¹¹⁵)
- lower-than-expected expenditure on public order and safety was due to ‘lower fire protection services than anticipated due to lower bushfire related incidents in 2014-15’.¹¹⁶

In addition, a number of changes were made between the *2014 Victorian Pre-Election Budget Update* and the *2014-15 Victorian Budget Update*, a period which also included the 2014 State election and the subsequent change of Government.

In a previous report, the Committee found that budget and actual figures for this government purpose classification (GPC) were not directly comparable.¹¹⁷ Currently, the Annual Financial Report does not report or explain variances between budget and actual expenses at this level of disaggregation. However, the Department of Treasury and Finance have advised the Committee that ‘the method for calculating GPC data now in operation is significantly more accurate than the previous estimation method’.¹¹⁸

114 \$68.4 million was transferred from capital to operating expenditure for the Department of Economic Development, Jobs, Transport and Resources, and the former Department of Transport, Planning and Local Infrastructure, relating to a number of projects (Department of Treasury and Finance, *Response to the Committee’s 2013-14 and 2014-15 Financial and Performance Outcomes – Entity-Specific Questionnaire*, received 27 January 2016, p.20).

115 Department of Treasury and Finance, *Budget Paper No.2: 2015-16 Strategy and Outlook* (2015), p.47; Department of Treasury and Finance, *2014-15 Financial Report* (2015), p.4

116 Department of Treasury and Finance, *Response to the Committee’s 2013-14 and 2014-15 Financial and Performance Outcomes General Questionnaire*, received 19 November 2015, pp.31-2

117 Public Accounts and Estimates Committee, *Report on the 2012-13 Financial and Performance Outcomes* (2014), p.84

118 Response to question on notice from Mr David Martine, Secretary, Department of Treasury and Finance, to Chair, Victorian Parliament Public Accounts and Estimates Committee, received 11 March 2016, p.1

Further:

Since the 2014-15 Budget, enhanced and more consistent processes between publications, driven by the availability of more granular data, has helped ensure that the GPC [government purpose classification] disclosures are more comparable.¹¹⁹

The Committee notes that for 2014-15, explanations for a number of variations by GPC relate to reclassifications between purposes. The Committee understands that these reclassifications are single events.

The Committee therefore anticipates that a comparison of budget and actual expenditure by GPC will be possible for 2015-16. The Committee considers that such a comparison, including explanations of significant variances between budget and actual results, would be a significant enhancement to the usefulness of this data.

FINDING 18: For 2014-15, total expenses for the general government sector were \$52.6 billion, \$982.9 million (1.9 per cent) higher than anticipated. This was primarily due to additional funding from the Commonwealth for transport projects, responses to family violence, and the cessation of the *East-West Link* project.

FINDING 19: The majority of expenditure in the general government sector was on education and health. The Department of Treasury and Finance has refined its methodology for allocating expense figures by government purpose classification to provide greater comparability between budget and actual information.

RECOMMENDATION 4: Future Annual Financial Reports for the State include discussion of significant variances between budget estimates and actual results for operating expenditure by government purpose classification.

The Committee notes that Section 30 of the *Financial Management Act 1994* enables ministers, with the consent of the Treasurer, to substitute between operating and capital expenditure.¹²⁰ These substitutions will have no effect on the total appropriation for the department, but will affect the department's net result from transactions. At the amalgamated level, these substitutions will have no effect on the State's finances, but will affect its net operating surplus.

For example, a change in classification of an operating expense to a capital expense will decrease total operating expenses. This, in turn, will either increase a net operating surplus or decrease a net operating deficit. However, the Committee understands that because the reclassified expense is included further down in the financial statements, there is no overall effect on the financial outcome for the sector.

¹¹⁹ Department of Treasury and Finance, *Response to the Committee's 2013-14 and 2014-15 Financial and Performance Outcomes General Questionnaire*, received 19 November 2015, p.29

¹²⁰ *Financial Management Act 1994* s.30; Department of Treasury and Finance, BFMG – 19: Appropriations (2007), pp.21-2

Amalgamated transfers are required to be reported in departmental annual reports.¹²¹ However, while departments may include Section 30 transfers as explanations for variances, explanations of individual transactions are not required.

The Committee understands that the definition of whether expenditure is classified as capital or output is defined by the Australian Accounting Standards Board (AASB).¹²² Therefore, classification of costs would not be expected to change during the course of the year. When they do, the Committee considers that stakeholders would benefit from additional explanations of such changes.

FINDING 20: Section 30 transfers provide departments the ability to substitute between operating and capital expenditure. This will have no effect on the total appropriation for departments, but will affect departments' net result from transactions. Through amalgamation, while no effect is seen on the State's finances, these transfers will affect the State's net operating surplus.

RECOMMENDATION 5: Transfers greater than \$10.0 million by departments between capital and operating expenditure should be explained in annual reports, including:

- (a) why the expenditure had been classified as it had been at the time of the budget
- (b) why that had changed during the year
- (c) the effect of the change on the department's finances including its net result from transactions.

Changes in expenditure by government purpose classification at the time of the budget update

At the time of the *2014-15 Victorian Budget Update*, a number of changes were made to anticipated expenses by GPC. These changes adjusted estimates that had been made at the time of the *2014 Victorian Pre-Election Budget Update*. The November 2014 State election was held between these dates. The Committee considers that the communication role of the budget papers would be enhanced with additional discussion of changes in anticipated expenses that result from changes in government.

Expenses for the *2014 Victorian Pre-Election Budget Update* and the *2014-15 Victorian Budget Update* are disaggregated by GPC in Appendix A3.2. This shows that anticipated expenses increased for 2014-15 by \$142.6 million.

The *2014-15 Victorian Budget Update* notes that the increase in expenditure since the *2014 Pre-Election Budget Update* was a result of:

¹²¹ Department of Treasury and Finance, *FRD 13: Disclosure of Parliamentary Appropriations* (2003), p.2

¹²² For example, Australian Accounting Standards Board, *AASB 116, Property, Plant and Equipment* (2014), s.7, p.14

- new initiatives released that affected expenditure over the remainder of 2014-15¹²³
- increases in Commonwealth grants received that affected expenditure through ‘tied’ grants¹²⁴
- ‘administrative variations’, which include those that result from changes in interest and bond rates, demand for Government services (including an increase in demand for the *First Home Owner Grants* program,¹²⁵) and program schedules.¹²⁶

Overall, these changes were the causes of the increases in expected expenditure in the areas of ‘education’, ‘housing and community amenities’ and ‘general public services’, and the decrease under ‘other purposes’.

The Department of Treasury and Finance have advised the Committee that there was no release of contingency for new policies at the time of the budget update.¹²⁷

FINDING 21: Following the 2014 State election, the *2014-15 Victorian Budget Update* anticipated increased expenditure in the areas of ‘general public services’, ‘education’ and ‘housing and community amenities’ and lower expenditure in ‘other purposes’. These changes were a result of new initiatives by the incoming Government, changes in expenditure related to tied Commonwealth grants and administrative changes including demand for Government programs.

RECOMMENDATION 6: In years where there is a change in Government, the budget papers (including budget updates) include additional discussion on changes in expenditure that are a result of the change in Government.

Expenditure on commissioned public private partnership projects

Public private partnerships (PPPs) are usually asset investment projects that are funded and delivered by the private sector on behalf of the State. After their construction has finished, the provider is paid for access to the assets, either directly from the users (such as for tollway projects), from the State (as ‘availability’ payments), or a combination of both. For the purposes of the State finances, these payments are classified as annual expenditure rather than asset investment.

The Committee approached departments for amounts spent on PPP projects as part of normal operating expenditure, both as part of their own accounts and as administered items (that is, amounts that are passed through departments with no alteration from the department). The amounts are summarised in Table 3.2.

¹²³ Department of Treasury and Finance, *2014-15 Victorian Budget Update* (2014), Appendix A

¹²⁴ *ibid.*, p.22

¹²⁵ *ibid.*

¹²⁶ *ibid.*, p.20

¹²⁷ Department of Treasury and Finance, *Response to the Committee’s 2015-16 Budget Estimates General Questionnaire*, received 12 June 2015, p.43

Table 3.2 Expenditure on operating public private partnership projects, departments and administered entities, 2014-15

Department ^(a)	Expenditure through departmental operations (\$ million)	Expenditure through administered items (\$ million)
Economic Development, Jobs, Transport and Resources	116.9	63.6
Environment, Land, Water and Planning	18.1	1,077.1
Health and Human Services	116.3	0.0
Justice and Regulation	177.4	0.0
Education and Training	24.2	0.0
Transport, Planning and Local Infrastructure	93.4	0.0
Court Services Victoria	31.9	0.0
Total	578.2	1,140.7

(a) Departments that reported no expenditure have been excluded from the table.

Source: Departmental responses to the Committee's 2013-14 and 2014-15 Financial and Performance Outcomes General Questionnaire, Question 6

Table 3.2 shows that operating PPP projects in Victoria added \$1.7 billion to total expenditure for the State. This amount is not disclosed as a separate figure in the *2014-15 Financial Report*, instead contributing to a number of expenditure items, including interest expense and 'other operating expenses'.

The former Committee recommended to the previous Government that this expenditure be brought together in an additional table in the budget papers.¹²⁸ The Government did not support this recommendation, noting that:

DTF undertakes to investigate options to improve data presentation and coordination in the annual financial report. ... Victoria's current level of disclosure is already above and beyond that disclosed by other jurisdictions.¹²⁹

The Committee considers that including PPP expenditure as a 'key fiscal aggregate' item in the consolidated comprehensive operating statement in future Annual Financial Reports would be a significant improvement to data presentation. This would provide an example of best practice in transparency and accountability to other Australian jurisdictions.

Further discussion of PPPs in terms of the departmental annual reporting requirements can be found in Chapter 5 of this report.

FINDING 22: Operating public private partnership projects in Victoria added \$1.7 billion to total expenditure for the State. This amount is not disclosed as a separate figure in the *2014-15 Financial Report*.

¹²⁸ Public Accounts and Estimates Committee, *Report on the 2012-13 Budget Estimates - Part Two* (2012), Recommendation 40, p.138

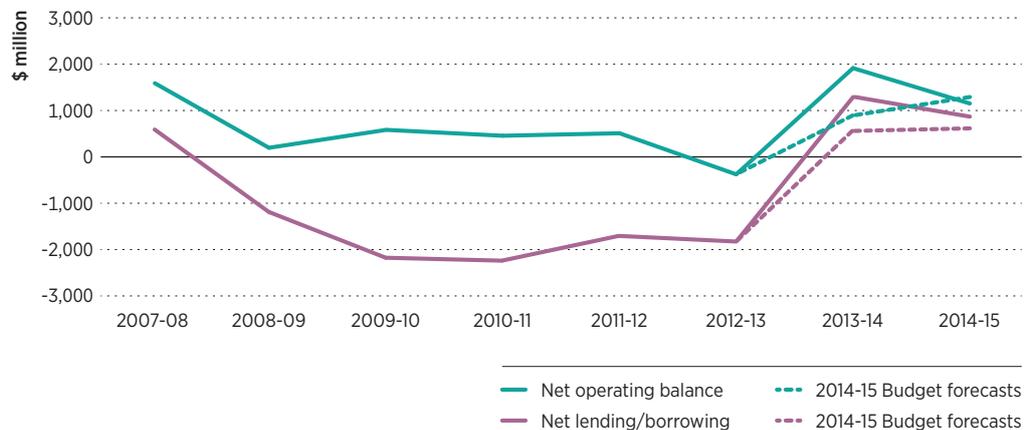
¹²⁹ Victorian Government, *Government Responses to the Recommendations of Public Accounts and Estimates Committee's 111th Report to the Parliament - Report on the 2012-13 Budget Estimates - Part Two*, tabled 12 March 2013, p.19

RECOMMENDATION 7: The Department of Treasury and Finance disclose expenditure on operating public private partnership projects as a fiscal aggregate in the consolidated comprehensive operating statement in Annual Financial Reports.

3.2.3 Operating results

The previous sections discussed the differences in revenue and expenses from expectations. For 2014-15, the operating result, the excess of revenue over expenses, was reported in the *2014-15 Financial Report* as \$1.2 billion,¹³⁰ which was \$765.8 million (38.7 per cent) less than the previous year. While revenue was higher than had been originally anticipated, expenses were higher by a larger amount. As a result, the operating surplus for the general government sector was \$112.7 million (8.5 per cent) less than had been originally expected.¹³¹

Figure 3.6 Operating surplus/deficit and net lending/borrowing, general government sector, 2007-08 to 2014-15



Note: Figures for 2012-13 were adjusted for changes in AASB 119, which changed the way defined benefits superannuation expenses are presented. Actuarial gains are now no longer included in the State's operating surplus.

Source: Department of Treasury and Finance, *General Government Consolidated Comprehensive Operating Statement* (2015). Available at <www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Aggregate-financial-statements>, viewed 5 January 2016

The Victorian Auditor-General has expressed a different opinion on the net operating surplus.

Figure 3.6 also shows net lending/borrowing for the general government sector. The Committee considers this to be a more comprehensive indicator of the State's financial position. This is because it shows the effect on changes in net debt resulting from operating revenue and expenses, as well as the Government's plans for direct asset investment and any PPP projects to be commissioned in the year. However, investments through other sectors are not included in the net lending/borrowing indicator.

¹³⁰ Department of Treasury and Finance, *2014-15 Financial Report* (2015), p.26

¹³¹ Department of Treasury and Finance, *Budget Paper No.5: 2014-15 Statement of Finances* (2014), p.5

Net lending/borrowing for 2014-15 was \$921.7 million, a decrease of \$432.2 million (31.9 per cent) from 2013-14.¹³² This was \$561.3 million (155.7 per cent) higher than anticipated in the 2014-15 Budget, mainly due to lower-than-expected levels of asset investment during the year (see Section 3.2.5).¹³³ No PPP projects were commissioned during 2014-15. This has been a factor in the slower increase in net debt, which is also affected by investment transactions in other sectors (see Section 3.2.6) and changes in valuations of investment funds.

FINDING 23: The *2014-15 Financial Report* states that the net operating surplus for the general government sector for 2014-15 was \$1.2 billion, \$765.8 million (38.7 per cent) less than for 2013-14. This was \$112.7 million (8.5 per cent) less than had been anticipated in the 2014-15 budget papers. The Victorian Auditor-General has expressed a different opinion on the net operating surplus.

FINDING 24: Net lending/borrowing for 2014-15 was \$921.7 million, \$432.2 million less than 2013-14. This was \$561.3 million higher than had been anticipated, due to lower-than-expected levels of asset investment.

Impact of reporting of *East West Link* project on operating surplus/deficit

During 2013-14, the Commonwealth Government paid \$1.5 billion to the State Government as a capital grant for the construction of the *East West Link* (EWL) project.¹³⁴ Following the change of government, this project was discontinued. The Victorian Auditor-General gave the opinion that the Government should have recognised a \$1.5 billion expense related to the obligation to repay the Commonwealth, as per Australian Accounting Standards. The \$1.5 billion grant remained counted as a Commonwealth grant under revenue for the general government sector in the Victorian Budget throughout 2014-15.

The cancellation of the EWL project, and a formal request from the Commonwealth Government for repayment of the funds, pursuant to the memorandum of understanding, and the related Commonwealth legislation, means that at 30 June 2015 the state had an obligation to repay the money under AASB 1004. Importantly, the Commonwealth Government also has the ability to recover this funding by reducing future funding for other Victorian projects. The correct accounting treatment is to recognise an expense and a liability for \$1.5 billion at that time.

By not recording the \$1.5 billion expense and associated provision as a liability, the SoV and the GGS net result from transactions is overstated, and other provisions in the balance sheet are understated. This means that the net result from transactions for the GGS would change from a surplus of \$1 214.0 million to a deficit of \$286.0 million. The state's key financial measure of achieving a net surplus from transactions for the GGS of at least \$100 million has therefore not been achieved.

¹³² Department of Treasury and Finance, *2014-15 Financial Report* (2015), p.26

¹³³ Department of Treasury and Finance, *Budget Paper No.5: 2014-15 Statement of Finances* (2014), p.6

¹³⁴ Department of Treasury and Finance, *2013-14 Financial Report* (2014), p.140; Victorian Auditor-General's Office, *Auditor General's Report on the Annual Financial Report of the State of Victoria, 2014-15* (2015), p.6

This matter also resulted in a qualified audit opinion being issued on the financial statements for the year ending 30 June 2015 for the Department of Treasury & Finance (DTF).¹³⁵

Figure 3.7 represents the operating surplus/deficit and net lending/borrowing position for Victoria over the period 2012-13 to 2014-15, had the Government recorded the Commonwealth payment of \$1.5 billion as a liability.

Figure 3.7 Net result from transactions from the financial year, general government sector, 2011 to 2015



Source: Victorian Auditor-General's Office, *Auditor-General's Report on the Annual Financial Report of the State of Victoria, 2014-15* (2015), p.15

The treatment of the \$1.5 billion *East West Link* grant from the Commonwealth, the subsequent cancellation of the project and the impact of this on the State's finances for 2014-15 were further discussed at the financial and performance outcomes hearings. According to Department of Treasury and Finance Secretary Mr David Martine:

... the Victorian government made a decision not to proceed with the project and at that point in time there was no longer an agreement with the commonwealth. To help form our view we obtained some independent legal and accounting advice on the matter, and I, my CFO and my external audit committee then satisfied ourselves that, because in a sense there is no longer an agreement with the commonwealth, there is no requirement to book an expense and a liability to return the funds. The commonwealth may take different action. They may seek to recover that money in a different way. They have made no decision on that. But the view we took in finalising our accounts was that in the absence of an actual agreement, which is now no longer valid because the Victorian government has walked away, there is therefore no liability and expense that needs to be recorded.

Obviously the acting Auditor-General had a different view—that happens from time to time—but the qualification is certainly in the DTF accounts and, because the annual financial report is in a sense the sum of all of the departments' accounts, that qualification then translates up to the whole-of-government accounts.¹³⁶

¹³⁵ Victorian Auditor-General's Office, *Auditor General's Report on the Annual Financial Report of the State of Victoria, 2014-15* (2015) p.x

¹³⁶ Mr David Martine, Secretary, Department of Treasury and Finance, 2014-15 Financial and Performance Outcomes Transcript of Evidence, 16 February 2016, p.19

FINDING 25: Recognition of a \$1.5 billion expense for repayment of the Commonwealth Government's grant for the *East-West Link* project would have resulted in a net operating deficit of \$286.0 million.

3.2.4 Cash available from operations

While the operating surplus is an important source of funds for asset investment, Table 3.1 also shows other sources of cash.

Non-cash expenses add to total expenses reported under the accrual accounting system. However, depreciation and other allowances are not associated with actual cash transactions. The result is that this cash remains available for asset investment.¹³⁷

Existing assets that are owned by the State can be sold to the private sector or other jurisdictions, providing cash that can also be used for asset creation.

Table 3.1 shows that total cash available for investment from these three sources for 2014-15 was \$4.2 billion. This was close to the amount forecast at the time of the Budget.

Removing the \$1.5 billion *East West Link* payment would have reduced the cash available from operations to \$2.7 billion.

FINDING 26: Cash generated from operations that became available for investment for 2014-15 was \$4.2 billion, which included a net operating surplus of \$1.2 billion. This was close to the amount forecast at the time of the 2014-15 Budget. Recognition of a \$1.5 billion expense for repayment of the Commonwealth Government's grant for the *East-West Link* project would have reduced cash available from operations to \$2.7 billion.

3.2.5 Asset investment

Asset investment (including infrastructure investment) may be made for the State in three ways (see also Section 2.2.1 of this report)

Firstly, the Government may invest directly in assets, for example, by a department designing and constructing a new public road. This is known in the budget papers as 'purchases of non-financial assets'.

Secondly, the Government may invest through other sectors. An example of this is when the former Department of Transport invested in Victorian Rail Track (VicTrack), which in turn invested the funds in its *Regional Rail Link* project. This type of transaction is known in the budget papers as a 'cash flow from investments in financial assets for policy purposes'.

¹³⁷ Non-cash expenses include the depreciation allowance or changes in the calculated values of funds over time.

These first two types of investment both require cash to be spent by the Government as the assets are purchased or created. This annual asset investment is known in the budget papers as ‘expenditure on approved projects’.¹³⁸

Finally, the private sector may make investments on behalf of the Government in public private partnerships (PPPs). Generally, no cash input is required from the general government sector for the construction of PPPs.

These three investment sectors will now be discussed in greater detail.

Annual asset investment

Annual asset investment for 2014-15 was \$5.3 billion.¹³⁹ This was \$223.7 million (4.1 per cent) less than for 2013-14, and \$737.4 million (12.3 per cent) less than the amount anticipated in the 2014-15 budget papers.¹⁴⁰

Direct investment by the general government sector for 2014-15 was \$4.4 billion, which is \$918.7 million less than forecast in the 2014-15 budget papers.¹⁴¹

As part of its inquiry, the Committee sought details of asset expenditure by GPC. The response from the Department of Treasury and Finance indicates that the primary areas of under-expenditure on assets are: public order and safety; education; and transport and communications. In contrast, the area of housing and community amenities received more asset expenditure than had been anticipated.¹⁴² A more detailed discussion on asset investment appears in Chapter 4.

The Committee also approached departments for information about actual expenditure and revisions to completion dates for a selection of individual projects. The results are summarised in Appendix A3.3, with departmental responses available on the Committee’s website (www.parliament.vic.gov.au/paec). This shows that every department apart from the Department of Premier and Cabinet, which had one investment project, spent less than anticipated on investment projects. At the same time, completion dates for projects were pushed into the future. Asset investment projects for 2014-15 are discussed in greater detail in Chapter 4.

Figure 3.8 shows the effect of the Government’s direct investment (net of sales) in assets. This shows the ratio of asset creation to asset depletion. Ratios above 1.0 indicate that assets are being replaced at a faster rate than they are being depleted.

¹³⁸ Department of Treasury and Finance, *2014-15 Financial Report* (2015), p.9

¹³⁹ *ibid.*, p.28

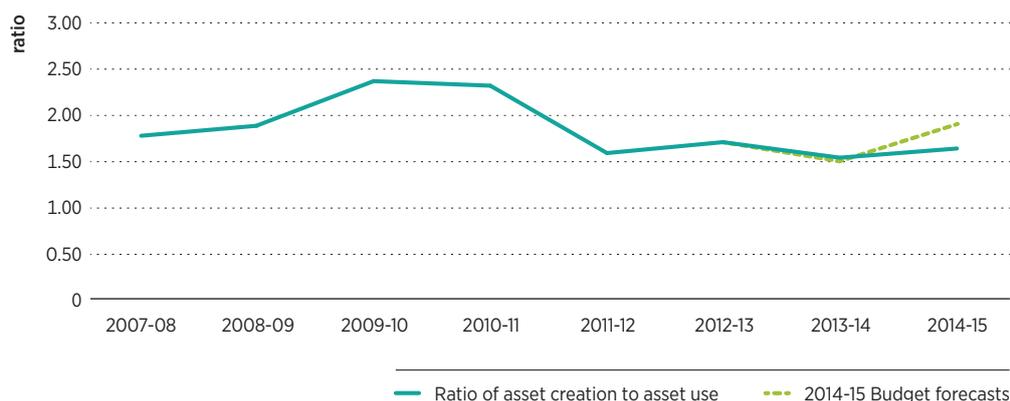
¹⁴⁰ Calculations based on Department of Treasury and Finance, *Budget Paper No.5: 2014-15 Statement of Finances* (2014), p.8; Department of Treasury and Finance, *2014-15 Financial Report* (2015), p.28

¹⁴¹ Department of Treasury and Finance, *Budget Paper No.5: 2014-15 Statement of Finances* (2014), p.8; Department of Treasury and Finance, *2014-15 Financial Report* (2015), p.28

¹⁴² Department of Treasury and Finance, *Response to the Committee’s 2013-14 and 2014-15 Financial and Performance Outcomes General Questionnaire*, received 19 November 2015, p.16

The figure indicates that the rate of replacement has been maintained at a level of slightly more than 1.5 for the past four years. The Committee notes that the higher ratios in the past were largely a result of Commonwealth stimulus funding following the global financial crisis (GFC), and therefore higher than trend levels. This suggests that on balance, more assets are being created for the general government sector than are being depleted.

Figure 3.8 Ratio of net investment in non-financial assets to depreciation, general government sector, 2007-08 to 2014-15



Source: Committee calculations based on Department of Treasury and Finance, *General Government Consolidated Comprehensive Operating Statement* (2015). Available at <www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Aggregate-financial-statements>, viewed 5 January 2016; Department of Treasury and Finance, *General Government Consolidated Cash Flow Statement* (2015). Available at <www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Aggregate-financial-statements>, viewed 5 January 2016

While a ratio of net investment greater than 1.0 has been maintained over recent years, the overall level of annual asset investment has been less than anticipated in five of the last six years, by an average of \$755.1 million (See Appendix A3.1).¹⁴³

Investment through other sectors, the second component of annual asset investment, was \$858.1 million, \$181.3 million more than expected. This was comprised of \$1.2 billion of cash outflows,¹⁴⁴ including an unbudgeted payment of \$652.3 million related to debt repayments for the Port of Melbourne¹⁴⁵ and mitigated by cash inflows from proceeds from the sale of the Rural Finance Corporation (RFC).¹⁴⁶

Real annual asset investment¹⁴⁷ per Victorian in 2014-15 was \$816.3 per head. Figure 3.9 shows that this has followed a gradual three-year downward trend. The peak seen in 2010-11 was associated with one-off payments from the Commonwealth.

¹⁴³ Committee calculations based on Department of Treasury and Finance, *General Government Consolidated Cash Flow Statement* (2015). Available at <www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Aggregate-financial-statements>, viewed 5 January 2016

¹⁴⁴ Department of Treasury and Finance, *2014-15 Financial Report* (2015), p.28; Department of Treasury and Finance, *Budget Paper No.5: 2014-15 Statement of Finances* (2014), p.8

¹⁴⁵ Department of Treasury and Finance, *Response to the Committee's 2013-14 and 2014-15 Financial and Performance Outcomes General Questionnaire*, received 19 November 2015, p.13

¹⁴⁶ Department of Treasury and Finance, *2014-15 Financial Report* (2015), p.121

¹⁴⁷ Net purchases of non-financial assets plus net cash flows from investments in financial assets for policy purposes.

Figure 3.9 Real annual asset investment^(a) per Victorian, 2007-08 to 2014-15

(a) Annual asset investment is net of asset sales and includes net cash flows from investments in financial assets for policy purposes. Inflation is corrected for using the implicit GSP deflator.

Source: Committee calculations based on: Department of Treasury and Finance, *General Government Consolidated Cash Flow Statement* (2015). Available at <www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Aggregate-financial-statements>, viewed 5 January 2016; Department of Treasury and Finance, *Macroeconomic Indicators* (2015). Available at <www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Macroeconomic-indicators>, viewed 12 January 2016

Figure 3.9 also shows that real annual asset investment per Victorian was less than had been anticipated in the 2014-15 budget papers. This was mainly a result of direct asset investment being less than anticipated, and mitigated by investment through other sectors being higher than anticipated.

FINDING 27: Annual asset investment for 2014-15 was \$5.3 billion, which was \$737.4 million less than the amount anticipated in the 2014-15 budget papers. Under expenditure in direct asset investment projects, associated with project extensions was a principal factor in this, as well as the sale of the Rural Finance Corporation. This was mitigated by an unbudgeted \$652.3 million payment related to debt repayment for the Port of Melbourne.

FINDING 28: Real annual asset investment per Victorian was \$816.3 per head in 2014-15, and has followed a gradual downward trend since a peak in 2010-11.

Public private partnership infrastructure investment

PPPs do not consume cash during construction, as this is paid for by the private sector on behalf of the State. However, as part of the budget papers, the Government has published estimates of amounts invested each year by the private sector on behalf of the State. This is known in the budget papers as 'PPP infrastructure investment'.¹⁴⁸

The 2014-15 Budget estimated that PPP infrastructure investment would be \$1,854.0 million.¹⁴⁹ However, the outcome for this item is not reported in the *2014-15 Financial Report*. It should be noted that this investment in construction is distinct from costs of operating PPPs that have been commissioned, as described in Section 3.2.2.

¹⁴⁸ Department of Treasury and Finance, *Budget Paper No.4: 2014-15 State Capital Program* (2014), p.15

¹⁴⁹ *ibid.*

The Committee considers that for transparency and accountability, it is important for stakeholders to know the outcomes of estimates in budget papers. It is equally important for stakeholders to receive explanations as to why variances from initial estimates have occurred. The figure for PPP infrastructure investment is an estimate (made prior to the start of the year) of the amount the private sector is to invest on behalf of the public sector. If an actual figure, or updated estimate, of the value of asset investment carried out by the private sector is included in the Annual Financial Report, then differences can be explained and understood by Parliament and the community.

FINDING 29: Public private partnership infrastructure investment for 2014-15 was predicted to be \$1.9 billion. However, this does not represent a cash cost to the Government, as it represents expenditure made by the private sector on behalf of the State. No actual result for this figure is reported.

RECOMMENDATION 8: Future Annual Financial Reports include an actual result or an updated estimate of the value of asset investment carried out by the private sector on public private partnership projects during the year. Significant variations from this figure and the initial estimate of public private partnership infrastructure investment should be explained.

3.2.6 Changes in net debt

As mentioned above, Government investments (either direct or through other sectors) consume cash as the assets are built or purchased. This requirement for cash has a direct effect on net debt as funds required for investment that are not available from operations must be borrowed. Alternatively, cash generated that is not required for investment may be used to reduce debt. As noted in Section 3.2.5, the amount of cash required for asset investment in 2014-15 was \$737.4 million lower than anticipated.

Payments for PPP projects are not made by the Government during construction, but over the life of the operating phase of the project. Government finances are structured to reflect the future liability for these payments. A liability, which is a component of debt, is recognised to equate to the sum of the Government's future payments over the life of the project.¹⁵⁰ This increase in debt occurs on the commissioning of the project, which is at the point at which construction is complete and service delivery begins.

No new PPPs were commissioned during 2014-15. Consequently, there was no effect on net debt from this source.¹⁵¹

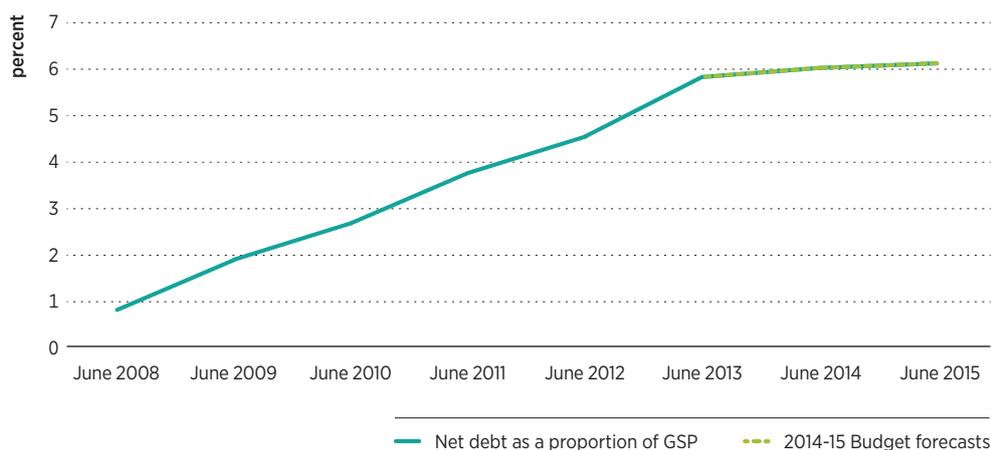
¹⁵⁰ This is 'discounted' to account for interest accruing to the debt over time.

¹⁵¹ Acquisitions expected under finance leases and similar arrangements during 2014-15 were mainly the Melbourne buses contract (Department of Treasury and Finance, *Budget Paper No.2: 2014-15 Strategy and Outlook* (2014), p.62) and totalled \$98.5 million (Department of Treasury and Finance, *2014-15 Financial Report* (2015), p.113).

As a result, net debt rose from \$21.2 billion at June 2014 to \$22.3 billion at June 2015.¹⁵² This rise of \$1,152.8 million was \$700.2 million (37.8 per cent) less than had been predicted (see Table 3.1).

Figure 3.10 shows the pattern of net debt expressed as a proportion of GSP since 2008. The figure shows that the upward trend evident over the whole of the time period has slowed in the last two years.

Figure 3.10 Net debt as a proportion of gross state product, general government sector, 2008 to 2015



Source: Committee calculations based on Department of Treasury and Finance, *Macroeconomic Indicators* (2015). Available at <www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Macroeconomic-indicators>, viewed 12 January 2016; Department of Treasury and Finance, *General Government Consolidated Balance Sheet* (2015). Available at <www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Aggregate-financial-statements>, viewed 5 January 2016

FINDING 30: Cash required for annual asset investment was \$737.4 million lower than anticipated. No new public private partnerships were commissioned during 2014-15. As a result, net debt increased by \$700.2 million less than anticipated. The increasing trend of net debt as a proportion of gross state product has slowed since June 2013.

3.3 Other sectors in 2014-15

3.3.1 Public non-financial corporations sector

The public non-financial corporation sector (PNFC) sector is made up of Government-owned entities that charge customers to recover the cost of the goods and services they provide. Table 3.3 gives an overview of results for the PNFC sector for 2014-15.

152 Department of Treasury and Finance, *2014-15 Financial Report* (2015), p.27

Table 3.3 Budget estimates and actual results, public non-financial corporations sector, 2014-15

	2014-15 Budget	2014-15 actual	Variance	
	(\$ million)	(\$ million)	(\$ million)	(per cent)
Revenue	9,501.2	9,484.9	-16.3	-0.2
Output expenses	9,777.7	9,646.8	-130.9	-1.3
Operating deficit	276.4	161.9	-114.5	-41.4
Asset investment	3,249.8	2,014.9	-1,234.9	-38.0
Dividends paid	69.1	256.0	186.9	270.5
Increase (decrease) in net debt	1,251.7	-530.3	-1,782.0	-142.4

Source: Committee calculations based on Department of Treasury and Finance, *Budget Paper No.5: 2014-15 Statement of Finances* (2014), pp.43, 45-7; Department of Treasury and Finance, *2014-15 Financial Report* (2015), pp.58, 60, 62, 67

Table 3.3 shows that revenue for 2014-15 was close to its anticipated level. Lower-than-expected revenue from grants and dividends received by the sector was balanced by an increase in other sources.¹⁵³ Output expenses for the year were less than had been forecast,¹⁵⁴ with the effect that the operating deficit for the sector was not as large as had been anticipated.

Figure 3.11 shows the historic trend for operating results for the sector over time. Continuous operating deficits since 2010-11 have challenged PNFC entities to fund their operations and provide capital for asset replacement.

FINDING 31: The operating deficit for the public non-financial corporations sector for 2014-15 was \$161.9 million, less than the \$276.4 million deficit forecast in the 2014-15 budget papers. The public non-financial corporations sector has had operating deficits since 2010-11.

¹⁵³ Department of Treasury and Finance, *Budget Paper No.5: 2014-15 Statement of Finances* (2014), p.43; Department of Treasury and Finance, *2014-15 Financial Report* (2015), p.62

¹⁵⁴ The largest variance being in the largest expenditure category 'other operating expenses'. Department of Treasury and Finance, *2014-15 Financial Report* (2015), p.58; Department of Treasury and Finance, *Budget Paper No.5: 2014-15 Statement of Finances* (2014), p.43

Figure 3.11 Net operating surplus/deficit, public non-financial corporations sector, 2007-08 to 2014-15

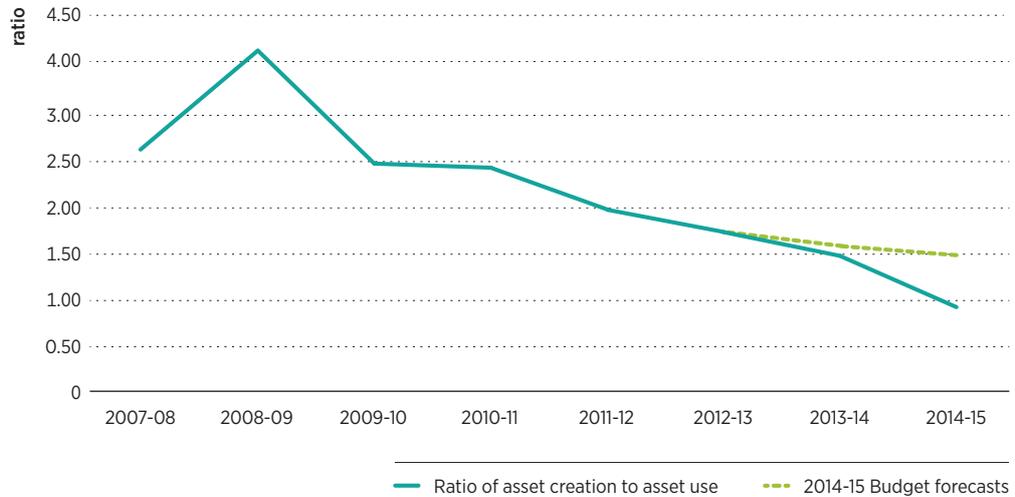


Sources: Department of Treasury and Finance, *Budget Paper No.5: 2014-15 Statement of Finances* (2014), p.43; Department of Treasury and Finance, Annual Financial Reports 2008-09 to 2014-15

Asset investment in the PNFC sector was lower than had been forecast in the 2014-15 Budget. As part of its inquiry, the Committee received information on a selection of projects carried out by the PNFC sector. The results are summarised in Appendix A3.3 and more detailed information on individual projects can be found under the relevant departments' questionnaire responses on the Committee's website (www.parliament.vic.gov.au/paec). Reflecting a similar trend for the general government sector, expenditure on projects in the PNFC sector was less than had been anticipated in the 2014-15 budget papers, and expected completion dates for projects were extended into the future.

The effect of the lower-than-expected asset expenditure on the asset replacement ratio is shown in Figure 3.12 below. This shows the ratio of assets procured to assets consumed by the sector. A ratio above 1.0 demonstrates that overall level of assets is being built up. The figure shows assets have been replaced at a slowing rate over recent years (the peak in 2008-09 was due to increased expenditure on the desalination plant project). Results for 2014-15 shows this ratio falling to 1.0, indicating only enough assets were procured to replace assets consumed during the year.

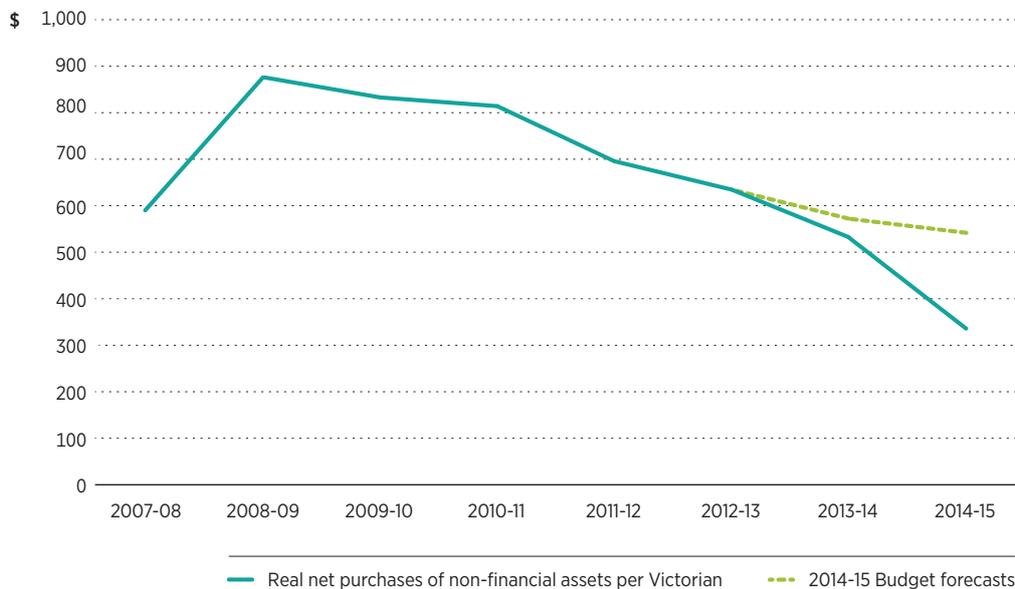
Figure 3.12 Asset replacement ratio, public non-financial corporations sector, 2007-08 to 2014-15



Source: Committee calculations based on Department of Treasury and Finance, *Budget Paper No.5: 2014-15 Statement of Finances* (2014), pp.43, 46; Department of Treasury and Finance, Annual Financial Reports 2008-09 to 2014-15

Figure 3.13 below shows real asset investment in the PNFC sector per Victorian. As for the asset replacement ratio figure, this shows a significant downward trend, with \$338.8 per Victorian being invested in the sector in 2014-15. This trend has been noted in reports by the former Committee, as well as the Auditor-General.¹⁵⁵

Figure 3.13 Real asset investment per Victorian, public non-financial corporations sector, 2007-08 to 2014-15



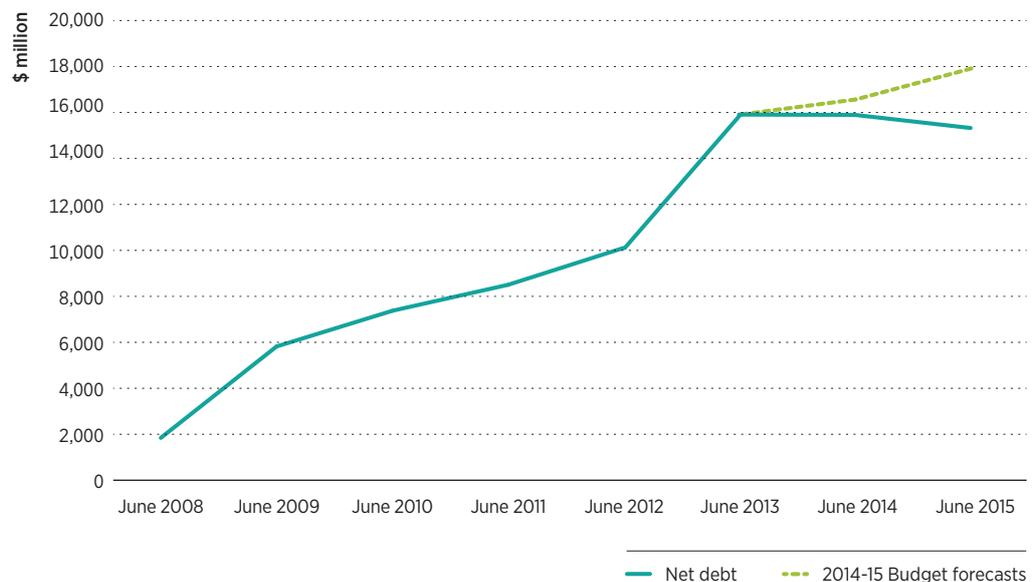
Source: Committee calculations based on Department of Treasury and Finance, Annual Financial Reports, 2007-08 to 2014-15; Department of Treasury and Finance, *Macroeconomic Indicators* (2015). Available at <www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Macroeconomic-indicators>, viewed 12 January 2016

155 See Victorian Auditor-General's Office, *Auditor General's Report on the Annual Financial Report of the State of Victoria, 2014-15* (2015) p.24

FINDING 32: The public non-financial corporations sector has been building up assets at a slower rate over time. In 2014-15, asset creation was only enough to replace assets that were consumed during the year. Real asset investment was \$338.8 per Victorian. This continues a significant downward trend evident since 2008-09.

Figure 3.14 shows that the lower-than-expected asset expenditure, assisted by the lower-than-expected operating deficit, led to net debt for the sector falling to \$14.2 billion.¹⁵⁶ The 2014-15 budget papers had anticipated that net debt would rise to \$16.6 billion.¹⁵⁷ This reverses a trend of rising net debt for the sector since 2008.

Figure 3.14 Public non-financial corporations net debt, 2008 to 2015



Sources: Department of Treasury and Finance, *Budget Paper No.5: 2014-15 Statement of Finances* (2014), p.45; Department of Treasury and Finance, Annual Financial Reports 2008-09 to 2014-15

Dividend payments

Dividend payments from the PNFC sector to the general government sector for 2014-15 were \$256.0 million.¹⁵⁸ This was \$186.9 million (270.5 per cent) higher than anticipated in the 2014-15 budget papers.¹⁵⁹ Dividend payments are not included in expenses from operations, and therefore do not affect the level of the sector's deficit. However, as an alternative to paying dividends is to reduce debt, the level of dividends paid will affect net debt. More detail about dividends paid is included in Chapter 4.

¹⁵⁶ Department of Treasury and Finance, *2014-15 Financial Report* (2015), p.60

¹⁵⁷ Department of Treasury and Finance, *Budget Paper No.5: 2014-15 Statement of Finances* (2014), p.45

¹⁵⁸ Department of Treasury and Finance, *2014-15 Financial Report* (2015), p.67

¹⁵⁹ Department of Treasury and Finance, *Budget Paper No.5: 2014-15 Statement of Finances* (2014), p.23

FINDING 33: A lower-than-expected operating deficit and less-than-expected asset expenditure resulted in net debt for the public non-financial corporations sector falling to \$14.2 billion rather than rising to \$16.6 billion as had been forecast. Dividend payments to the general government sector were \$256.0 million, which was higher than anticipated in the 2014-15 budget papers. These payments did not affect the level of the sector's deficit, but did affect the level of net debt.

3.3.2 Public financial corporations sector

The public financial corporations (PFC) sector is made up of Government-owned finance entities, such as Treasury Corporation of Victoria (TCV) and the Transport Accident Commission (TAC). Like entities in the PNFC sector, these charge customers to recover the cost of the goods and services they provide.

Table 3.4 gives an overview of results for the PFC sector for 2014-15.

Table 3.4 Budget estimates and actual results, public financial corporations sector, 2014-15

	2014-15 Budget	2014-15 actual	Variance	
	(\$ million)	(\$ million)	(\$ million)	(per cent)
Net result	615.2	429.5	-185.7	-30.2
Dividends paid	344.9	566.2	221.3	64.2

Sources: Department of Treasury and Finance, *Budget Paper No.5: 2014-15 Statement of Finances* (2014), pp.60, 63, 67; Department of Treasury and Finance, *2014-15 Financial Report* (2015), pp.59, 67

For the PFC sector, the net result gives a clearer picture than the operating result. This is because the performance of the sector is dependent on performances in financial markets as much as operational results.

Transactions related to returns on investments led to a net result of \$429.5 million, which was \$185.7 million (30.2 per cent) less than forecast. Figure 3.15 shows the historic trends for this item.

Figure 3.15 Net result, public financial corporations sector, 2007-08 to 2014-15

Source: Department of Treasury and Finance, Annual Financial Reports 2008-09 to 2014-15

Like the PNFC sector, entities in this sector pay dividends to the general government sector. Figure 3.16 shows dividends paid since 2007-08.

Figure 3.16 Dividends paid, public financial corporations sector, 2007-08 to 2014-15

Source: Department of Treasury and Finance, Annual Financial Reports 2008-09 to 2014-15

Dividends paid by the PFC sector were \$566.2 million in 2014-15.¹⁶⁰ This was \$221.3 million higher than forecast.¹⁶¹ Figure 3.16 shows that this was a significant increase over 2013-14, and a return to the rising trend evident since 2009-10.

Further detail about dividends paid is included in Chapter 4.

¹⁶⁰ Department of Treasury and Finance, *2014-15 Financial Report* (2015), p.67

¹⁶¹ Department of Treasury and Finance, *Budget Paper No.5: 2014-15 Statement of Finances* (2014), p.23; Department of Treasury and Finance, *2014-15 Financial Report* (2015), p.67

FINDING 34: The net result for the public financial corporations sector was \$429.5 million, which was \$185.7 million less than forecast. The sector paid \$566.2 million to the general government sector in dividends for 2014-15, \$221.3 million higher than forecast.

3.4 Transfers between sectors during 2014-15

The aggregate of the three sectors discussed in this chapter forms the public sector as a whole. Activities undertaken by these sectors include dealing with entities across the other sectors. Thus operating funds flow between the three sectors. (See also Section 2.2.4 of this report).

3.4.1 Results of transfers between sectors – results for the public sector as a whole

The aggregate of activities in the three sectors, after transfers between the sectors discussed above have been taken into account, shows the performance of the public sector as a whole (referred to in the budget papers as the State of Victoria).

This section discusses the three indicators the Committee uses to indicate financial sustainability:

- net operating balance
- net lending/borrowing
- net debt as a proportion of GSP.

Net operating balance and net lending/borrowing

Net operating balance is the difference between operating revenue and expenses, and does not factor in asset investment or equity changes such as the sale of Government-owned entities. The net operating deficit for 2014-15 for the public sector as a whole was \$610.7 million, a decrease of \$1.4 billion from 2013-14.¹⁶² This was \$603.8 million less than had been anticipated in the 2014-15 Budget.¹⁶³

The Department of Treasury and Finance has reported that this was mainly due to:

... the early unexpected receipt of Commonwealth grants revenue in 2013-14¹⁶⁴

¹⁶² *ibid.*, p.59

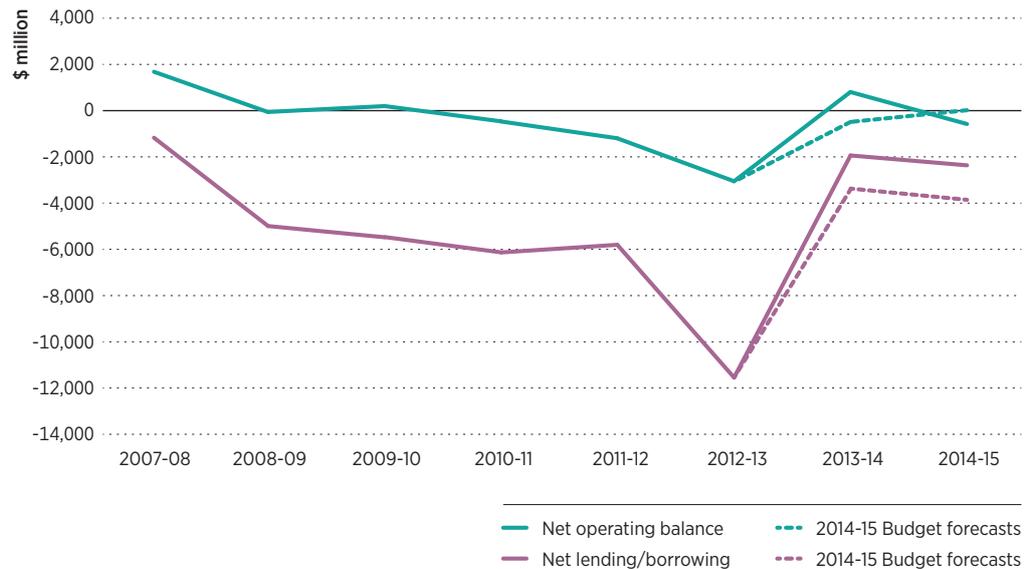
¹⁶³ Department of Treasury and Finance, *Budget Paper No.5: 2014-15 Statement of Finances* (2014), p.68

¹⁶⁴ Department of Treasury and Finance, *2014-15 Financial Report* (2015), p.13

The net lending/borrowing indicator, which takes into account costs of direct investment (see Section 3.2.3), as well as movements in a range of other items such as superannuation and employee benefits, was a deficit of \$2.4 billion for 2014-15.¹⁶⁵ This was a \$431.6 million deficit increase on the previous year, but \$1.5 billion smaller than anticipated.¹⁶⁶

These are shown in Figure 3.17.

Figure 3.17 Operating surplus/deficit and net lending/borrowing, public sector as a whole, 2007-08 to 2014-15



Note: Figures for 2012-13 were adjusted for changes in AASB 119, which altered the way defined benefits superannuation expenses are presented. Actuarial gains are now no longer included in the State's operating surplus.

Sources: Department of Treasury and Finance, *Budget Paper No.5: 2014-15 Statement of Finances* (2014), p.68; Department of Treasury and Finance, *Whole of State Consolidated Comprehensive Operating Statement* (2015). Available at <www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Aggregate-financial-statements>, viewed 5 January 2016

Net debt as a proportion of gross state product

Net debt for the public sector as a whole decreased by \$535.5 million over 2014-15, reaching \$13.0 billion (3.6 per cent of GSP) at June 2015.¹⁶⁷ This was \$3.2 billion less than anticipated in the 2014-15 budget papers, partially as a result of the lower-than-anticipated asset investment in the general government sector (see Section 3.2.6).¹⁶⁸

¹⁶⁵ *ibid.*, p.26

¹⁶⁶ Department of Treasury and Finance, *Budget Paper No.5: 2014-15 Statement of Finances* (2014), p.68

¹⁶⁷ Calculations based on Department of Treasury and Finance, *2014-15 Financial Report* (2015), p.27; Department of Treasury and Finance, *Macroeconomic Indicators* (2015). Available at <www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Macroeconomic-indicators>, viewed 12 January 2016

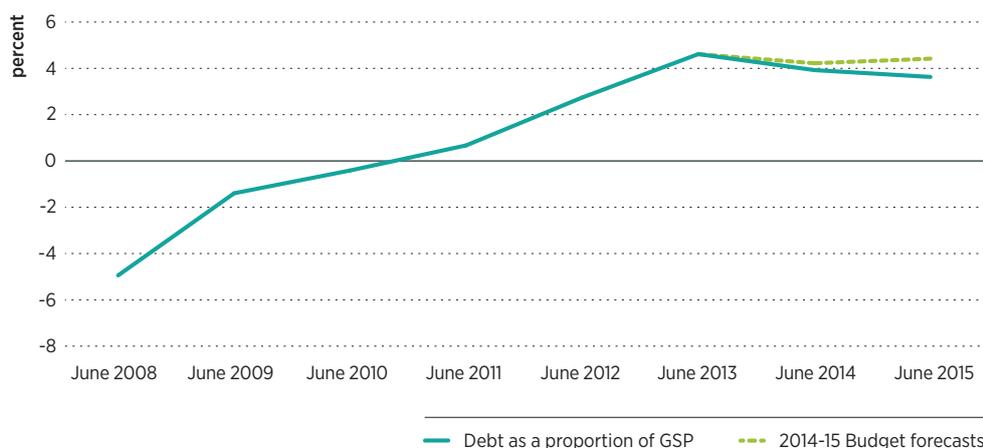
¹⁶⁸ Department of Treasury and Finance, *Budget Paper No.5: 2014-15 Statement of Finances* (2014), p.69

In addition to this, net debt was decreased through the sale of the Rural Financial Corporation (RFC), which is not included in the net lending/borrowing indicator. The Department of Treasury and Finance have advised the Committee that:

Proceeds from the sale of RFC's loan book on 1 July 2014 resulted in a significant inflow in 2014-15, which was not budgeted for in the 2014-15 Budget.¹⁶⁹

The Committee notes that the bulk of this cash inflow was received by the PNFC sector and not the general government sector.

Figure 3.18 Net debt as a proportion of gross state product, public sector as a whole, 2008 to 2015



Source: Committee calculations based on Department of Treasury and Finance, *Budget Paper No.5: 2014-15 Statement of Finances* (2014), p.69; Department of Treasury and Finance, *Macroeconomic Indicators* (2015). Available at <www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Macroeconomic-indicators>, viewed 12 January 2016; Department of Treasury and Finance, *Whole of State Consolidated Balance Sheet* (2015). Available at <www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Aggregate-financial-statements>, viewed 5 January 2016

At the financial and performance outcomes hearings, the Secretary of the Department of Treasury and Finance, Mr David Martine, noted that Victoria's net debt as a proportion of GSP compares favourably with other Australian jurisdictions, the Organisation for Economic Co-operation and Development (OECD) average and various other countries:

...we [Victoria] are significantly less than the OECD average—[currently] 6 per cent falling to 4.4 per cent [over the forward estimates period 2018-19] in terms of the size of our economy is low.

...

the commonwealth debt as a proportion of GDP is going to peak at sort of around perhaps 18 or 19 per cent. We do see some countries—you mentioned Japan, the US—the UK, most countries are actually even higher than we are nationally at sort of 18 to 19 per cent, so I am very confident to say here in Victoria we are significantly less than the OECD average. Hence we maintain that AAA credit rating from both jurisdictions—sorry, both rating agencies—and we are only one of two jurisdictions

¹⁶⁹ Department of Treasury and Finance, *Response to the Committee's 2013-14 and 2014-15 Financial and Performance Outcomes General Questionnaire*, received 19 November 2015, p.14

here in Australia that actually have AAA credit ratings from both Standard & Poor's and Moody's, and New South Wales is the other one. Although, just to talk up Victoria for a minute, we are the only state that has maintained both of those AAA credit ratings since the GFC, which I think is an important one as well.¹⁷⁰

FINDING 35: The net operating balance for the public sector as a whole was a deficit of \$610.7 million for 2014-15. Net lending/borrowing takes additional costs of direct investment and other movements into account, and was a deficit of \$2.4 billion. Net borrowing for the State fell to 3.6 per cent of gross state product, assisted by lower-than-anticipated asset expenditure for the year and the sale of the Rural Finance Corporation.

170 Mr David Martine, Secretary, Department of Treasury and Finance, 2014-15 Financial and Performance Outcomes Transcript of Evidence, 16 February 2016, p.9

4 Major factors influencing the outcomes in 2014-15

4.1 Introduction

This chapter focuses on the outcomes achieved by the public sector in 2014-15 as a result of the economic conditions in Victoria and both State and Commonwealth Government decisions. While the analysis is mainly focused on the general government sector, additional commentary in relation to the public non-financial corporations (PNFC) sector and the public financial corporations (PFC) sector is provided where relevant.

Given the change of government as result of the election in November 2014, the chapter will distinguish, where the evidence allows, between outcomes achieved as a result of decisions made by the former and the current Government.

4.2 Economic conditions that influenced outcomes in 2014-15

The following discussion of Victorian economic conditions for 2014-15 is informed by:

- the projections made regarding the Victorian economy for 2014-15 by the Department of Treasury and Finance in the budget papers
- the actual economic conditions experienced by Victoria over 2014-15 presented in the *2014-15 Financial Report* published by the Department of Treasury and Finance
- responses provided by departments and other public entities to the Committee's general and specific questionnaires
- presentations and statements provided by witnesses from the departments at the 2014-15 financial and performance outcomes hearings.

4.2.1 Outcomes for the main economic indicators for Victoria, 2014-15

The *2014-15 Financial Report* states that the Victorian economy 'grew steadily in 2014-15 as the national economy transitioned from the previous impetus provided by the mining investment boom, and local activity benefited from a lower exchange rate'.¹⁷¹

171 Department of Treasury and Finance, *2014-15 Financial Report* (2015), p.1

Table 4.1 lists the estimates and actual results for the main economic variables influencing Victoria's finances in 2014-15. These variables are routinely used by the Department of Treasury and Finance in its annual budget estimates and subsequent financial year updates to make economic forecasts for the State. They are also used in the Department's economic models to estimate the impact of broader economic shifts on State revenue, and thus the overall Victorian budget position.

Table 4.1 Key economic projections estimates and actual results, 2014-15

Economic variable	Initial budget estimate (per cent)	Actual result (per cent)	Variance (per cent)
Real gross state product growth ^(a)	2.50	2.50	0.0
Employment growth	1.25	2.1	0.85
Unemployment rate	6.25	6.4	0.15
Consumer price index growth	2.25	1.4	-0.85
Wage price index growth	3.25	2.7	-0.55
Population growth	1.8	n/a	n/a
Interest rates ^(b)	2.50	2.36	-0.14
Household consumption growth	2.9	2.4	-0.5
Property prices growth ^(b)	4.2	n/a	n/a
Property transaction volume growth ^(b)	1.8	n/a	n/a
Enterprise bargaining agreement increases ^(c)	1.9	4.6	2.7
Exchange rate	\$A1 = US\$ 0.89	\$A1 = US\$ 0.83	-6.7%

(a) Released by the Australian Bureau of Statistics on 20 November 2015.

(b) As defined for the sensitivity analysis in Budget Paper No.2.

(c) The Department of Treasury and Finance has used the actual results for 'Employee expenses' as a proxy for enterprise bargaining agreement increases.

Source: Department of Treasury and Finance, *Response to the Committee's 2013-14 and 2014-15 Financial and Performance Outcomes General Questionnaire*, received 19 November 2015, pp.42-44

The table shows that only the gross state product (GSP) growth figure for 2014-15 was the same as the estimate. Indicators for both employment growth, the unemployment rate and enterprise bargaining agreements were greater than the forecast growth figures, while the actual results for the remaining economic indicators for 2014-15 were below the initial estimates.

Gross state product

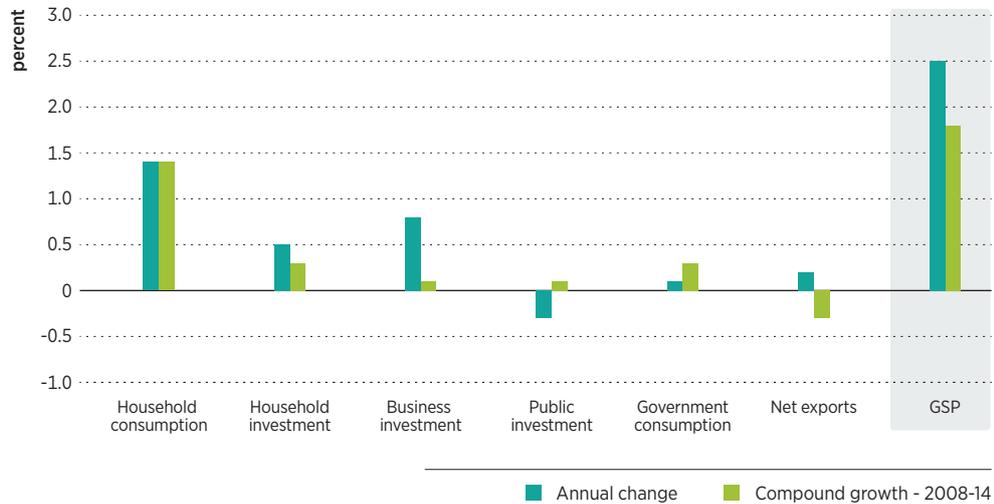
Victoria's real GSP was \$355.6 billion in 2014-15 and grew by 2.5 per cent between 2013-14 and 2014-15.¹⁷² This growth rate was equivalent to the estimate in the 2014-15 Budget.¹⁷³ Further information provided by the Department of Economic Development, Jobs, Transport and Resources at the financial and performance

172 Department of Treasury and Finance, *Macroeconomic Indicators* (2016). Available at <www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Macroeconomic-indicators>, viewed 24 March 2016

173 Department of Treasury and Finance, *Budget Paper No.2: 2014-15 Strategy and Outlook* (2014), p.13

outcomes hearings indicates that Victorian GSP growth was mainly driven by household consumption, followed by private sector business investment.

Figure 4.1 Components of Victorian GSP growth, 2014-15

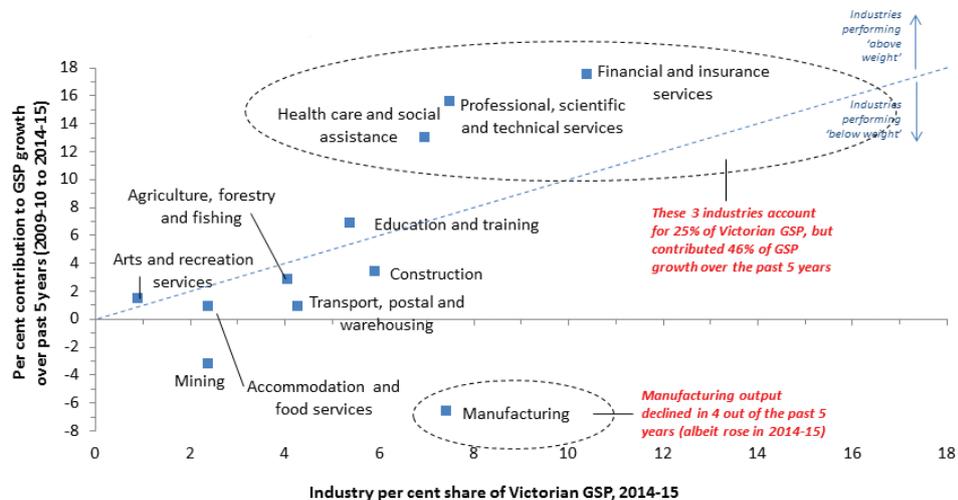


Source: Presentation made by the Department of Economic Development, Jobs, Transport and Resources, 2014-15 Financial and Performance Outcomes hearings, 17 February 2016. Available at <www.parliament.vic.gov.au/paec/article/2917>, viewed 27 April 2016

The Department of Economic Development, Jobs, Transport and Resources also provided additional information regarding the composition of GSP by industry, demonstrating the structural changes in the Victorian economy.

Figure 4.2 demonstrates high-growth industries in the professional, finance and health services sectors increasingly contribute more to the economy and account for a greater amount of GSP growth, while traditional industries such as manufacturing and, to a lesser extent, mining are declining in terms of their proportion of GSP.

Figure 4.2 Contribution to GSP growth by Industry, Victoria, 2014-15



Source: Presentation made by the Department of Economic Development, Jobs, Transport and Resources, 2014-15 Financial and Performance Outcomes hearings, 17 February 2016. Available at <www.parliament.vic.gov.au/paec/article/2917>, viewed 27 April 2016

State final demand

State final demand is another broad measure of the demand for goods and services in the economy, but differs slightly from GSP as it excludes estimates for international and interstate trade.¹⁷⁴ State final demand grew by 2.7 per cent in 2014-15.¹⁷⁵ According to the *2014-15 Financial Report* ‘this [state final demand] growth was underpinned by improved household consumption, dwelling construction and business investment. It reflected the low interest rate environment, as well as rising property and stock prices through much of the year’.¹⁷⁶

Despite stating there was ‘improved household consumption’ in the *2014-15 Financial Report*, when the Department of Treasury and Finance provided further information to the Committee in November 2015, it indicated that household consumption was lower than expected, with an annual growth rate of 2.4 per cent compared to the initial budget estimate of 2.9 per cent.¹⁷⁷ The Department explained that ‘global economic uncertainty and equity market volatility translated to weak consumer sentiment and slower-than-expected growth in consumption’.¹⁷⁸

4.2.2 Labour market outcomes

In relation to the labour market, Victorian employment rose by 2.1 per cent, which is 0.85 per cent higher than expected in comparison to the budget estimate of 1.25 per cent.¹⁷⁹ Similarly, the unemployment rate of 6.4 per cent in 2014-15 was 0.15 per cent higher than the original budget estimate of 6.25 per cent.

Regarding the employment levels, the *2014-15 Financial Report* states that the employment rate rise of 2.1 per cent in Victoria for 2014-15 was ‘above the national average of 1.2 per cent, recording the strongest outcome since 2010-11’,¹⁸⁰ while the unemployment rate in 2014-15 ‘was consistent with the national trend’.¹⁸¹ In its response to the Committee’s questionnaire, the Department of Treasury and Finance explained that ‘employment growth largely reflects an increase in part-time employment, while full-time employment was largely unchanged’.¹⁸²

174 Australian Bureau of Statistics, *Spotlight on National Accounts 2009*, cat. no. 5202.0. Available at <www.abs.gov.au/ausstats/abs@.nsf/ProductsbyReleaseDate/FB006D6F7FFDBAC7CA25789B0012C0AD?OpenDocument>, viewed 15 March 2016

175 Department of Treasury and Finance, *2014-15 Financial Report* (2015), p.1

176 *ibid.*

177 Department of Treasury and Finance, *Response to the Committee’s 2013-14 and 2014-15 Financial and Performance Outcomes General Questionnaire*, received 19 November 2015, p.45

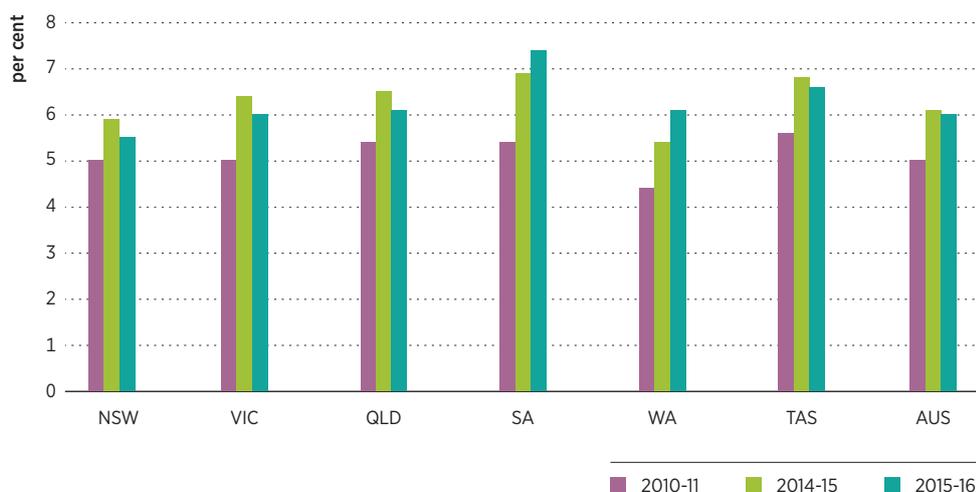
178 *ibid.*

179 Department of Treasury and Finance, *Budget Paper No.2: Strategy and Outlook* (2014), p.13

180 Department of Treasury and Finance, *2014-15 Financial Report* (2015), p.1

181 *ibid.*

182 Department of Treasury and Finance, *Response to the Committee’s 2013-14 and 2014-15 Financial and Performance Outcomes General Questionnaire*, received 19 November 2015, p.45

Figure 4.3 Unemployment rates by state, 2010-11, 2014-15 and 2015-16^(a)

(a) Year to date.

Source: Calculations based on Australian Bureau of Statistics, *Labour Force, Australia, Detailed, Electronic Delivery*, cat. no. 6291.0.55.001. Available at <www.abs.gov.au/AUSSTATS/abs@nsf/DetailsPage/6291.0.55.001Feb2016>, viewed 19 April 2016

Volatility in the labour force survey undertaken by the Australian Bureau of Statistics (ABS) and used in the Department of Treasury and Finance budget forecasts has been the subject of public discussion over the past year. At the financial and performance outcomes hearings, the Committee took the opportunity to ask the Department of Treasury and Finance representatives about the ABS formulation and calculation of labour force indicators.

In regard to the ABS Labour Force survey on which the key labour force statistics are based, Mr David Martine, Secretary of the Department of Treasury and Finance explained:

... essentially there is a rolling survey ... and each month a cohort drops out and a new cohort is added. You have this sort of rolling survey. Sometimes you get a month where particular characteristics of the cohort that drops out of the survey and the cohort that is added to the survey may lead to some strange numbers.

... I will just give as an example, the unemployment rate here in Victoria in September 2015 was 6.3 per cent, then in October it came in at 5.6 per cent—that is a very, very significant reduction—and then in November we jumped back up to 6.1. So we do at time see a bit of volatility. We have had discussions with the Australian Bureau of Statistics on this very point, particularly through the heads of Treasury meeting, which is chaired by the secretary of the commonwealth Treasury and has my counterparts from around the country. We have had some lengthy discussions and we have had some presentations by the head of the ABS. They themselves are doing quite a bit of work to try and come up with some more robust employment numbers, because it is very important, particularly in designing policy, to ensure that you have got the right sort of data.¹⁸³

¹⁸³ Mr David Martine, Secretary, Department of Treasury and Finance, 2014-15 Financial and Performance Outcomes Transcript of Evidence, 16 February 2016, p.6

Wages price growth and inflation

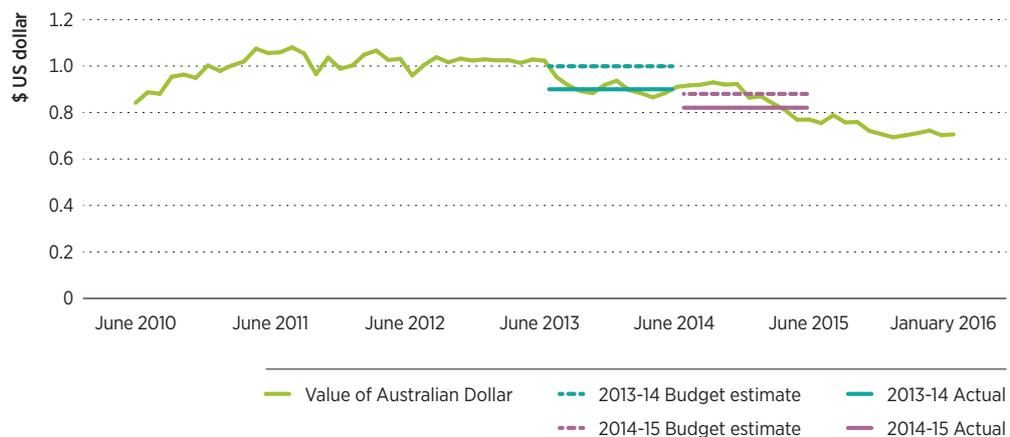
The wages price index growth for 2014-15 was 2.7 per cent. This is lower than the budget estimate of 3.25 per cent.¹⁸⁴ According to the Department of Treasury and Finance, ‘continued international and domestic uncertainty about economic growth, along with excess capacity in the labour market has continued to delay the return to trend wages growth’.¹⁸⁵

Inflation increased by 1.4 per cent in 2014-15, which is substantially lower than the initial budget estimate of 2.25 per cent.¹⁸⁶ The Department of Treasury and Finance explained that ‘the lower than expected inflation reflects lower fuel prices, and the absorption by retailers (due to competitive pressures within the economy) of exchange rate costs as the AUD weakened’.¹⁸⁷

Exchange rate

The exchange rate itself was underestimated by 6.7 per cent (see Table 4.1). The Department of Treasury and Finance has noted that it ‘does not forecast exchange rates, but leaves the exchange rate constant at the time forecasts are finalised pre-Budget’.¹⁸⁸

Figure 4.4 Australian dollar/US dollar exchange rate, 2010 to 2016

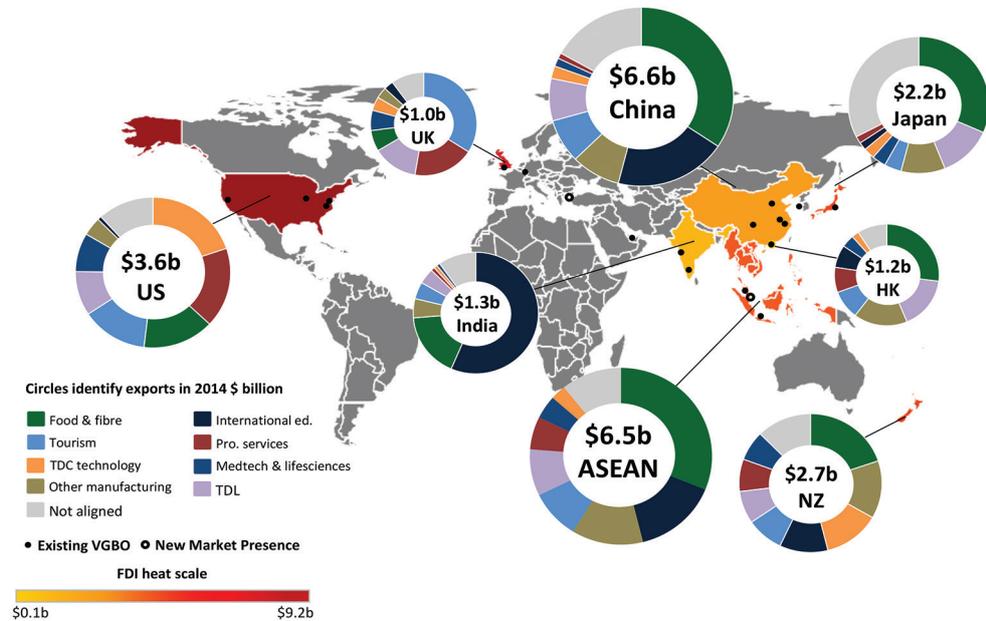


Source: Reserve Bank of Australia, Exchange Rates (2016). Available at <www.rba.gov.au/statistics/historical-data.html#exchange-rates>, viewed 19 March 2016

¹⁸⁴ Department of Treasury and Finance, *Budget Paper No.2: 2014-15 Strategy and Outlook* (2014), p.13
¹⁸⁵ Department of Treasury and Finance, *Response to the Committee’s 2013-14 and 2014-15 Financial and Performance Outcomes General Questionnaire*, received 19 November 2015, p.45
¹⁸⁶ Department of Treasury and Finance, *Budget Paper No.2: 2014-15 Strategy and Outlook* (2014), p.13
¹⁸⁷ Department of Treasury and Finance, *Response to the Committee’s 2013-14 and 2014-15 Financial and Performance Outcomes General Questionnaire*, received 19 November 2015, p.45
¹⁸⁸ Department of Treasury and Finance, *Response to the Committee’s 2013-14 and 2014-15 Financial and Performance Outcomes General Questionnaire*, received 19 November 2015, p.46

The 2014-15 *Financial Report* indicates that the continuing decline in the exchange rate provided ‘relief’ to Victorian exporters and import-competing industries.¹⁸⁹ The Department of Economic Development, Jobs, Transport and Resources provided further detail of the key export markets and items for Victoria over 2014-15.

Figure 4.5 Victorian exports by region and item, 2014



Source: Presentation made by the Department of Economic Development, Jobs, Transport and Resources, 2014-15 Financial and Performance Outcomes hearings, 17 February 2016. Available at <www.parliament.vic.gov.au/paec/article/2917>, viewed 27 April 2016

FINDING 36: The Victorian economy grew by 2.5 per cent in real terms between 2013-14 and 2014-15, meeting the economic growth expectations set out in the 2014-15 Budget. The actual economic environment in Victoria over 2014-15, in comparison to the 2014-15 initial estimates was characterised by the following:

- higher-than-expected employment growth, primarily driven by an increase in part-time employment, while full-time employment remained unchanged
- higher-than-expected unemployment rate, which is consistent with the national trend
- lower-than-expected inflation, mainly driven by lower fuel prices and a lower exchange rate
- lower-than-expected wages prices index growth due to international and domestic economic uncertainty, along with excess capacity in the labour market.

189 Department of Treasury and Finance, 2014-15 *Financial Report* (2015), p.1

4.2.3 Impact of economic variables on revenue, expenses and net debt

As part of this inquiry, the Committee sought further details on the impact of variances between the budget estimates and actuals of the main economic variables on the main budget items.

General government sector

Table 4.2 shows the impact of variances between the budget estimates and actuals of the main economic variables for the general government sector in 2014-15.

Higher-than-expected employment growth increased the general government sector's revenue by \$66.0 million and decreased expenses by \$1.7 million and net debt by \$67.7 million.

Lower-than-expected inflation in 2014-15 decreased revenue for the general government sector by \$259.1 million, while increasing expenses by \$55.0 million and decreasing net debt by \$204.7 million.

In relation to wage price index, a lower-than-expected growth rate in 2014-15 decreased the sector's revenue by \$46.4 million, expenses by \$3.3 million and, consequently, increased net debt by \$43.1 million.

As discussed in Section 2.3, the Department of Treasury and Finance indicated that the sensitivity of the unemployment rate, household consumption and the exchange rate to the general government sector's main budget items is not modelled. The Committee have made a recommendation in this regard (see Recommendation 1).

Table 4.2 Impact of variances between budget estimates and actual results of the main economic variables on the main budget items, general government sector, 2014-15

Economic variable	Variance between budget estimate and actual result	Impact on revenue	Impact on expenses	Impact on net debt
	(per cent)	(\$ million)	(\$ million)	(\$ million)
Real gross state product growth	0.0	0.0	0.0	0.0
Employment growth	0.85	66.0	-1.7	67.7
Unemployment rate	< ±0.5 percentage points	-	-	-
Consumer price index growth	-0.85	-259.1	55.0	-204.7
Wage price index growth	-0.55	-46.4	-3.3	-43.1
Population growth	na	-	-	-
Interest rates	< ±0.5 percentage points	-	-	-
Household consumption growth	-0.5	Not modelled	Not modelled	Not modelled
Property prices growth	n/a	n/a	n/a	n/a
Property transaction volume growth	n/a	n/a	n/a	n/a
Enterprise bargaining agreement increases ^(a)	2.7	n/a	n/a	n/a
Exchange rate	-6.7	Not modelled	Not modelled	Not modelled

(a) The Department of Treasury and Finance has used the actual results for 'Employee expenses' as a proxy for enterprise bargaining agreement increases.

Source: Department of Treasury and Finance, *Response to the Committee's 2013-14 and 2014-15 Financial and Performance Outcomes General Questionnaire*, received 19 November 2015, pp.48-9

Enterprise bargaining agreements

The Department of Treasury and Finance provides an estimate of the impact of enterprise bargaining agreement (EBA) increases on the general government sector's expenses and net debt, explaining in the sensitivity analysis of the budget papers:

All government enterprise agreements are assumed to be unchanged over the projection period, but these pose a substantial risk to Victoria's budget position. An across the board increase in wages arising from an enterprise agreement, which exceeds the wages policy guideline rate, increases the general government sector's employee entitlement expenses.

Increased employee entitlements also increase the value of the superannuation liability and flow through to a greater superannuation expense in the out years. These impacts result in a decline in the net result from transactions and cumulatively higher net debt over the budget and forward estimates.¹⁹⁰

190 Department of Treasury and Finance, *Budget Paper No.2: 2014-15 Strategy and Outlook* (2014), p.87

EBAs were estimated to increase by 1.9 per cent for 2014-15. The Department of Treasury and Finance reported to the Committee that the actual increase was 4.6 per cent, although this figure is based on the variance of total employee expenses between the 2014-15 budget estimate and actual result, rather than the proportion of wage increases incurred solely through new EBAs finalised over 2014-15.

Further information provided by the Department of Treasury and Finance on EBAs indicates 36 were approved in 2013-14 covering 17,559 full-time equivalent (FTE) workers, or 7.5 per cent of the Victorian workforce. A total of 35 were approved in 2014-15 covering 9,087 FTE workers (4.1 per cent of the Victorian workforce).¹⁹¹

The Department of Treasury and Finance advised the Committee that employee expenses are comprised of:

- increases in the quantity of services delivered
- the price of those services, determined by EBAs finalised in previous years as well as the year in question
- changes in the composition of the workforce
- the rate of progression in the workforce.¹⁹²

The Department of Treasury and Finance further explained that it 'does not currently collate the information required to accurately identify these various impacts on growth in employee expenses'.¹⁹³

However, in explaining the growth in employee expenses the department noted 'that given the low proportion of the workforce which achieved new EBAs in 2013-14 and 2014-15, it is likely that growth in employee expenses is primarily driven by either increases in the quantity of services or increases in prices secured in EBAs finalised in earlier years, or a combination of both.'¹⁹⁴

The Department of Health and Human Services was asked about the impact of growth in employee benefits at the financial and performance outcomes hearings, and was able to provide the Committee with the following response:

... of this growth in employee benefits, 2.34 per cent was due to growth in Full Time Equivalent staffing, which is directly related to service growth in funded activities. The balance was due to a 0.25 percent increase in the superannuation guarantee levy, the impact of enterprise bargaining agreements and productivity improvements.¹⁹⁵

¹⁹¹ Response to questions on notice from Mr David Martine, Secretary, Department of Treasury and Finance, to Chair, Public Accounts and Estimates Committee, received 11 March 2016, pp.5-7

¹⁹² *ibid.*, p.5

¹⁹³ *ibid.*

¹⁹⁴ *ibid.*

¹⁹⁵ Response to questions on notice from Ms Kym Peake, Secretary, Department of Health and Human Services, to Chair, Public Accounts and Estimates Committee, received 21 March 2016, p.5

The Committee notes that much of the information required to estimate employee expenses is currently available such as the number of public sector employees, their job level, FTE status and the price of EBAs finalised prior to the budget year.

FINDING 37: The Department of Treasury and Finance does not currently collate information required to accurately identify the impact of growth in employee expenses and wage increases incurred through new enterprise bargaining agreements finalised throughout a financial year and the impact of this on the budget.

RECOMMENDATION 9: The Department of Treasury and Finance incorporate existing information on workforce numbers, job levels and existing enterprise bargaining agreements to estimate the impact of increases from newly finalised enterprise bargaining agreements and employee expenses on superannuation liabilities, transactions and net debt via the sensitivity analysis in the budget papers.

Government departments and agencies

The Committee sought further details on the influence of the economic environment on departments and agencies.

In their responses to the Committee's questionnaire, only the Department of Justice and Regulation and the Victorian WorkCover Authority (WorkSafe Victoria) quantified the impact of variances to economic variable estimates on their 2014-15 financial outcomes.

The Department of Justice and Regulation indicated that its return on financial investments was \$4.8 million higher than expected in the 2014-15 Budget. As it did in 2013-14, the Department indicated that 'in response to the low interest rate environment, the department changed the investment profile to be more diversified than predominantly interest only'.¹⁹⁶

The Victorian WorkCover Authority (WorkSafe Victoria) indicated the following economic events had an impact on its 2014-15 financial outcomes:

- Net investment return of 11.8 per cent was achieved in 14-15 as a result of favourable conditions experienced in the investment markets
- The higher than budget investment return had a favourable impact on WorkSafe's operating results and its investment portfolio at 30.6.15
- Outstanding claims liabilities were reassessed to be higher based on the June 2015 actuarial valuation, i.e. discount rate of 3.26 per cent
- The higher than projected discount rate had an unfavourable impact on WorkSafe's operating results and its outstanding claims liabilities at 30.6.15.¹⁹⁷

¹⁹⁶ Department of Justice and Regulation, *Response to the Committee's 2013-14 and 2014-15 Financial and Performance Outcomes General Questionnaire*, received 6 November 2015, p.57

¹⁹⁷ Victorian WorkCover Authority (WorkSafe Victoria), *Response to the Committee's 2013-14 and 2014-15 Financial and Performance Outcomes General Questionnaire*, received 19 November 2015, p.21

Public non-financial corporations sector and public financial corporations sector

As seen in Section 2.3, the Department of Treasury and Finance indicated that it does not collect information on the impact of variances of key economic variables on public financial and non-financial corporations.¹⁹⁸ The Committee has made a recommendation in this regard (see further discussion in Section 2.3 and Recommendation 2).

4.3 Post-budget government decisions prior to the election

4.3.1 Initiatives taken prior to the 2014 election

The *2014 Victorian Pre-Election Budget Update* was released in November 2014, updating 2014-15 Budget information, and containing Government policy decisions endorsed by Cabinet before the issue of election writs on 4 November 2014. These included:

- the *Ending Violence Against Women and Children* initiative
- the *Government Response to the Betrayal of Trust* report
- the *Government Strategy to Address Ice Use*
- the *Jobs in the 21st Century – International Engagement* initiative
- the *Strengthening Victoria's Social Cohesion* initiative.¹⁹⁹

In addition to these initiatives, the then Department of Transport, Planning and Local Infrastructure was allocated a total estimated investment (TEI) sum of \$627.4 million for an extensive program of mainly road-related transport initiatives.²⁰⁰

Government-wide output initiatives outlined in the *2014 Victorian Pre-Election Budget Update* totalled \$41.7 million for 2014-15 and \$175.1 million over the forward estimates period.²⁰¹ Other output initiatives included \$66.5 million for 2014-15 and \$221.4 million over the forward estimates for the former Department of Education and Early Childhood Development, \$30.0 million for 2014-15 and \$56.3 million for the forward estimates for the former Department of Human Services and \$1.8 million for 2014-15 and \$25.4 million across the forward estimates for the former Department of Health.²⁰²

198 Department of Treasury and Finance, *Response to the Committee's 2013-14 and 2014-15 Financial and Performance Outcomes General Questionnaire*, received 19 November 2015, pp.49-52

199 Department of Treasury and Finance, *2014 Victorian Pre-Election Budget Update* (2014), Appendix A

200 *ibid.*, p.101

201 *ibid.*, p.79

202 *ibid.*, pp.89,93,95

The budget position at the time of the 2014 Victorian Pre-Election Budget Update

The 2014 Victorian Pre-Election Budget Update included a downward revision of the operating result for 2014-15 from the initial Budget forecast of \$1.3 billion to \$1.1 billion, due to ‘the prepayment in 2013-14 by the Commonwealth of \$1.0 billion of its total contribution of the East West Link-Western Section and \$500 million being deferred from 2017-18 to 2018-19’.²⁰³

The expected revenue from taxation for 2014-15 was revised downward by \$196.4 million at the time of the 2014 Victorian Pre-Election Budget Update.²⁰⁴ This was due to a number of factors including:

- a payroll tax revenue revision as a result of a reduction in the rate from 4.9 to 4.85 per cent
- land tax revenue revised down by \$152.7 million, from \$1.9 billion to \$1.8 billion
- land transfer duty revised down by \$18.6 million to \$4.4 billion in 2014-15, although it was expected to increase over the forward estimates due to the property market rebounding
- gambling taxes revised down by \$6.1 million to \$1.8 billion, reflecting the change in tax rates on electronic gaming machines announced in the 2013-14 Victorian Budget Update
- the revenue on insurance taxes revised upwards by \$18.9 million to \$1.1 billion, although the growth in 2014-15 was considered subdued as it reflected lower premiums due to increased competition
- a \$28.2 million downward revision to motor vehicle taxes revenue to \$2.1 billion, ‘reflecting changes to registration fees and stamp duties’.²⁰⁵

Net debt was revised from the initial 2014-15 estimate of 6.2 per cent of GSP to 5.9 per cent.²⁰⁶

Total dividend, income tax equivalent and interest revenue increased by \$649.0 million in 2014-15 over 2013-14 ‘due to a stronger than expected result for the Victorian WorkCover Authority during 2013-14, and interim dividends from the public financial corporations (PFC) sector being paid in 2014-15 instead of 2013-14’.²⁰⁷

FINDING 38: A \$152.7 million lower estimate in land tax revenue for 2014-15 was anticipated in the 2014 Victorian Pre-Election Budget Update released in November 2014.

203 *ibid.*, p.10

204 *ibid.*, p.42

205 *ibid.* pp.12-42

206 *ibid.*, p.10

207 *ibid.*, p.12

FINDING 39: Increases in dividends paid by the public financial corporations and public non-financial corporations sectors to the general government sector over the original 2014-15 Budget estimate were included in the *2014 Victorian Pre-Election Budget Update* in November 2014.

4.4 Change of government and subsequent government decisions

The Victorian state election was held on 29 November 2014, resulting in a change of government. Cabinet ministers were sworn in on 3 December 2014.

In December 2014 the new Government released a budget update, announcing a series of new policy initiatives. The largest of these were:

- \$166.4 million for the commencement of transport infrastructure priorities for 2014-15, including various level crossing removal projects, the Melbourne Metro rail and West Gate Distributor projects²⁰⁸
- \$20.0 million in 2014-15 for Community Service Obligation funding for TAFEs, known as the TAFE Rescue Fund²⁰⁹
- \$45.4 million between 2015-16 and 2017-18 assigned for the operation of the new Youth Justice Centre in Malmsbury.²¹⁰

Other initiatives included:

- \$40.0 million in 2014-15 and 2015-16 to establish the Family Violence Royal Commission. Upon allocating this funding, the Government said it would defer funding the former Government allocated to the family violence initiatives the previous year, pending the outcomes of the Royal Commission
- \$10.0 million from 2014-15 to 2017-18 to establish Infrastructure Victoria, the new body created to plan and coordinate significant Victorian infrastructure and investment projects
- \$1.5 million in 2014-15 to reopen the Hazelwood Mine Fire Inquiry, examining the reported increase of deaths in the Latrobe Valley after the fire.²¹¹

4.4.1 Mid-year results for 2014-15

The *2014-15 Mid-Year Financial Report* was published in March 2015, and characterised the Victorian Budget position in the following terms:

For the six months to 31 December 2014, the general government sector recorded a positive net result from transactions of \$486.2 million and remains on track to achieve a net operating surplus consistent with the estimates presented in the

²⁰⁸ Department of Treasury and Finance, *2014-15 Victorian Budget Update*, p.124

²⁰⁹ *ibid.*, p.121

²¹⁰ *ibid.*, p.122

²¹¹ *ibid.*, p.123

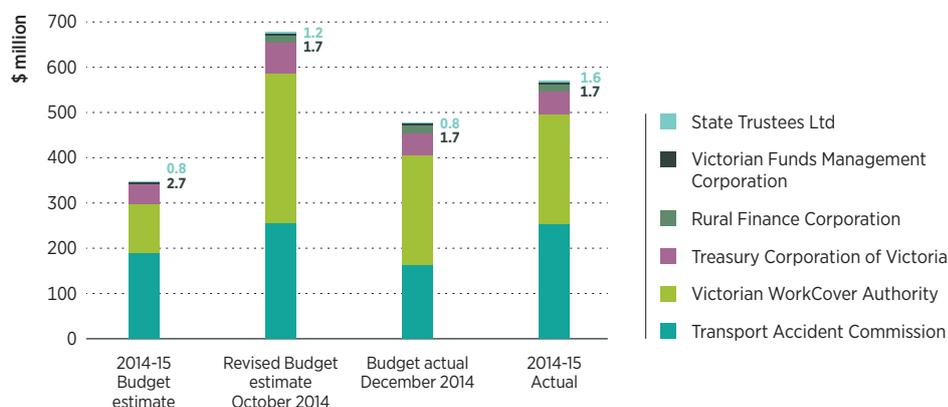
2014-15 Budget Update. The movement in the result compared to the same time last year largely reflects higher revenues, mainly due to higher taxation revenue from payroll tax and land transfer duties, and revenue from grants. The net result for the State after including other economic flows mainly relating to asset and revaluation movements driven by financial market volatility was a deficit of \$1.7 billion.²¹²

Payment of dividends over 2014-15

Considerable revisions were made in 2014-15 for dividends paid from the PFC and PNFC sectors to the general government sector. As discussed in Chapter 3, dividends and similar income for 2014-15 were \$1.1 billion, an increase of \$666.8 million (149.5 per cent) on the previous year.²¹³ This was also \$528.0 million (90.3 per cent) higher than estimated in the 2014-15 Budget.²¹⁴

The *2014 Victorian Pre-Election Budget Update* shows upward revisions to expected dividends for the Transport Accident Commission (TAC), which was revised upwards by \$65.5 million from the originally budgeted \$189 million, to \$254.5 million and the Victorian WorkCover Authority (WorkSafe Victoria), where the original budget figure of \$109.8 million was revised upwards by \$222.5 million to \$332.3 million. The increase in the anticipated WorkCover Authority dividends was due to 'a stronger than expected result for the Victorian WorkCover Authority during 2013-14'.²¹⁵ Upon the change of government in November 2014, a change in policy was made regarding dividends paid by WorkSafe Victoria. As a result, no further dividends from the authority were paid to the general government sector for the remainder of 2014-15.²¹⁶

Figure 4.6 Budget estimates and actual dividends for Public Financial Corporations 2014-15



Notes: Figures on the graph represent estimates and dividends that were under \$3.0 million. The data for this figure is also contained in Appendix A4.1 in a table format.

Sources: Department of Treasury and Finance, *2014-15 Financial Report* (2015), p.67; Department of Treasury and Finance, *2014-15 Mid-Year Financial Report*, (2015), p.35; Department of Treasury and Finance, *2014-15 Victorian Budget Update* (2014), p.53

²¹² Department of Treasury and Finance, *2014-15 Mid-Year Financial Report*, p.2

²¹³ Department of Treasury and Finance, *2014-15 Financial Report* (2015), p.26

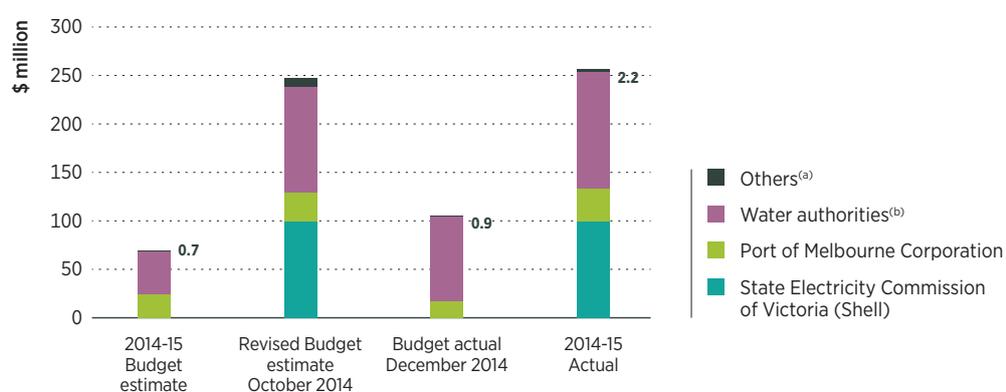
²¹⁴ Department of Treasury and Finance, *Budget Paper No.5: 2014-15 Statement of Finances* (2014), p.5; Department of Treasury and Finance, *2014-15 Financial Report* (2015), p.26

²¹⁵ Department of Treasury and Finance, *2014 Victorian Pre-Election Budget Update* (2014) p.12

²¹⁶ Department of Treasury and Finance, *2014-15 Financial Report* (2015), p.67

Revisions to the dividends paid by the PNFC sector were increased from the original budget estimate of \$69.1 million to \$247.6 million, or an increase of 258.3 per cent. The *2014-15 Mid-Year Financial Report*, published in March 2015 and detailing spending made up to December 2014, showed that the four metropolitan water authorities had by that time exceeded their original budget dividend estimate by 99.0 per cent, paying \$43.5 million more in dividends than the original \$44.2 million 2014-15 budget estimate. Figure 4.7 demonstrates that most of the dividends for the PNFC sector were paid in the second half of 2014-15, and were mostly comprised of a \$100.0 million payment from the State Electricity Commission.

Figure 4.7 Budget estimates and actual dividends for Public Non-Financial Corporations 2014-15



- (a) 'Other' includes: Urban Renewal Authority Victoria (Places Victoria), Victorian Regional Channels Authority and Other PNFCs.
- (b) Water authorities include: South East Water Corporation; Melbourne Water Corporation; City West Water Corporation; Yarra Valley Water Corporation.

Notes: Figures on the graph represent estimates and dividends that were under \$3.0 million. The data for this figure is also contained in Appendix A4.2 in a table format.

Sources: Department of Treasury and Finance, *2014-15 Financial Report* (2015), p.67; Department of Treasury and Finance, *2014-15 Mid-Year Financial Report*, (2015), p.35; Department of Treasury and Finance, *2014-15 Victorian Budget Update* (2014), p.53

FINDING 40: Expected dividend payments from the public financial corporations and public non-financial corporations sectors to the general government sector increased from \$414.0 million in the 2014-15 Budget to \$921.8 million, or 122.6 per cent, at the time of the *2014 Victorian Pre-Election Budget Update* released in November 2014.

FINDING 41: By December 2014, \$580.5 million had been paid by the public financial corporations and public non-financial corporations sectors, \$166.5 million or 40.2 per cent more than the originally budgeted figure for the whole of the financial year.

FINDING 42: Overall payments for 2014-15 from the public financial corporations and public non-financial corporations sectors were \$822.3 million. This was less than the revised budget estimate figure of \$921.8 million announced in November 2014, but \$408.3 million or 98.3 per cent greater than the original figure initially estimated in the 2014-15 Budget.

4.5 Reprioritisation of government spending

Reprioritisation of output funding may occur at any time but are particularly relevant for 2014-15 as a change of government occurred mid-way through the financial year.

Currently when funding changes are made to output initiatives, budget papers released at the start of the financial year detail the effects of reprioritisations and adjustments to existing output resources.²¹⁷ However, budget updates that are published later in the financial year do not. Therefore, in 2014-15 the reprioritisations and deferrals made against the *2014 Victorian Pre-Election Budget Update* by the new Government were not outlined in the two remaining budget updates for 2014-15. This means the impact of any policy changes an incoming government may make cannot be seen on the overall budget position for the remainder of the financial year.

FINDING 43: The impact of reprioritisations made by the new Government in 2014-15 could not be examined as the Department of Treasury and Finance currently does not outline these in budget updates.

RECOMMENDATION 10: Budget updates compiled by the Department of Treasury and Finance include an analysis of reprioritisations and adjustments that are made post-budget, in line with the current reporting methods used for reprioritisations that form part of Budget Paper No.2.

The status of funded output initiatives that are no longer priorities for an incoming Government was examined by the Committee at the financial and performance outcomes hearings. The situation was described in the following terms by Mr Richard Bolt, the Secretary of Department of Economic Development, Jobs, Transport and Resources:

... in general if of course a project has already been contracted, that will lead us to a particular line of advice in general that the contract should be honoured. That would generally be the advice given. In the case where that is not so, governments ultimately have to make decisions based upon their priorities and commitments. We provide advice on the costed benefits of the particular projects, and the political decision is then made. I really cannot say more than that, but in general, yes, we would give advice on the merits or otherwise of continuing with particular projects inherited over a change of government.

But by and large, an election commitment, this government has come to office with a very strong emphasis on implementing precisely what it put to the voters, and so while we might provide that advice, in general the predisposition is to proceed as promised.²¹⁸

²¹⁷ See Table 4.4, Department of Treasury and Finance, *Budget Paper No.2 Service Delivery* (2014), p.61

²¹⁸ Mr Richard Bolt, Secretary, Department of Economic Development, Jobs, Transport and Resources, Financial and Performance Outcomes Transcript of Evidence, 17 February 2016, p.6

4.6 Impact of machinery-of-government changes

Machinery-of-government (MOG) changes were announced on 4 December 2014 and took effect on 1 January 2015. These changes included the creation of new portfolios such as the Special Minister of State and the Minister for the Prevention of Family Violence, and the reduction of the numbers of departments from nine to seven, as well as the reallocation of functions between various departments.

The impact of the MOG changes were examined in the Committee's inquiry into the 2015-16 budget estimates, as well as becoming the subject of a separate parliamentary inquiry by the Legislative Council's Legal and Social Issues Committee (LSIC) during 2015. LSIC released their interim report in December 2015.²¹⁹

The purpose of making MOG changes is explained in the Government submission to the LSIC Inquiry:

MOG changes are a common practice following a change of Government.

It is Government's prerogative to arrange government functions in a manner that it considers will assist it to deliver its priorities.

At a high-level, the recent MOG changes were designed to make changes to portfolios and to position Departments for delivering on the Government's priorities with respect to improving social service delivery, driving Victoria's economic development, managing Victoria's built and natural environments and increasing the accountability and transparency of government.

The Government's objective in consolidating departments from nine to seven was to position Departments to collaborate on cross-portfolio policy matters, share ideas, form a coherent view on issues of strategic importance, and engage with those affected by policy outcomes.²²⁰

Cost of machinery-of-government changes

In comparing the reporting the cost of MOG changes made by the departments to the two Committees, the LSIC inquiry found a number of departments had reported different figures.²²¹ Departments were once again asked about the direct costs of the MOG changes in the Committee's general questionnaire in November 2015. In certain cases this resulted in different cost figures being reported once more. A table of the costs across the three reporting periods can be found in the Appendix A4.4.

In terms of MOG changes, the Committee's *Report on the 2015-16 Budget Estimates* recommended that:

²¹⁹ Public Accounts and Estimates Committee, *Report on the 2015-16 Budget Estimates* (2015), pp.140-3, Legal and Social Issues Committee, *Inquiry into Machinery of Government Changes - Interim Report* (2015), p.22

²²⁰ *ibid.*, p.22

²²¹ *ibid.*, p.8

The Department of Treasury and Finance update the Model Report to require all departments to report any costs and benefits in a year as a result of machinery of government changes in their annual reports. The updated report should include guidance so that the data in annual reports are provided on a consistent basis across all departments.²²²

When asked about updating the Model Report in line with the Committee's previous recommendation at the financial and performance outcomes hearings, the Department of Treasury and Finance replied:

The issues that have been raised in terms of reporting machinery of government changes, particularly on an annual basis, are matters that ultimately need to be decided by government.

The Department's view of the purpose of the Report of Operations section of the Model Report is to provide appropriate management commentary and analysis for users to assess the performance and effectiveness of the relevant reporting entity relative to the entity's objectives and targets. The proposal to include costs and benefits from machinery of government (MOG) changes would be challenging as many of the costs and benefits are qualitative and difficult to measure consistently across departments.

In addition, compared to the overall total departmental expense number (2014-15) of \$61 billion, MOG direct expenses of around \$3 million is comparatively low. Also, as financial benefits may not be measurable or occur in future years it would give an uneven view of the cost benefit analysis that is the primary objective of the intended disclosure.²²³

The subsequent LSIC interim report recommended a clear MOG changes reporting framework, possibly based on the Whitehall system, where expenditure is reported by each department according to accommodation, HR systems integration, information technology investment, information technology integration, differential pay settlement, and productivity.²²⁴

Overall, LSIC's *Inquiry into Machinery-of-Government Changes – Interim Report* found:

- explanations for cost differences made by the departments are not set against any consistent, established or agreed criteria²²⁵
- the inconsistent reporting structures apparent in the current system results in a lack of transparency and accountability, and the system would benefit from a clear reporting framework applied uniformly across the departments²²⁶

222 Parliament of Victoria, Public Accounts and Estimates Committee, *Report on 2015-16 Budget Estimates* (2015), p.142

223 Department of Treasury and Finance, *PAEC 2014-15 Financial and Performance Outcomes Inquiry Hearings Questions on Notice*, p.1

224 Legal and Social Issues Committee, *Inquiry into Machinery of Government Changes – Interim Report* (2015), p.11

225 *ibid.*, p.8

226 *ibid.*, p.10

- while there was no reporting on staff costs as a result of the MOG changes, the Committee believed the costs in staff time were a ‘substantial cost (or opportunity cost)’ and recommended this to be incorporated into MOG reporting in the future.²²⁷

The Committee reiterates the recommendation regarding the reporting of MOG changes made in its previous budget estimates report, as well as endorsing the recommendations of LSIC calling for greater and more consistent departmental reporting.

Impact of machinery-of-government changes on departments and their staff

Two departments that experienced extensive restructuring as a result of the MOG changes — the Department of Health and Human Services and the Department of Economic Development, Jobs, Transport and Resources — noted in the Committee’s General Questionnaire that their larger departmental size would ultimately result in cost efficiencies and better service delivery.²²⁸ The Department of Health and Human Services noted that such ‘... benefits will be seen in the 2015-16 financial year’.²²⁹ Mr Richard Bolt, the Secretary of the Department of Economic Development, Jobs, Transport and Resources, further noted:

... the benefits of having industry and transport in the same department we are doing through close work between Mr Hanney’s [Economic Development, Employment and Innovation] and Dr Miles’s [Transport] portfolios. We are looking to leverage the maximum industry capability benefit out of a long-term rolling stock spend as well so that we actually get certain functions and, if you like, intrastate export opportunities developed in Victoria.²³⁰

At the financial and performance outcomes hearings, the impact of the MOG changes on staff in terms of organisational restructuring was discussed by Mr Richard Bolt, the Secretary of Department of Economic Development, Jobs, Transport and Resources:

... my reflections are that there are always downsides for some people in a reorganisation. There is a period of uncertainty when people are wondering what exactly will be announced, and there is then for some a period of further uncertainty if the roles that are specified in the new organisation are so different from their own that there is nobody placed in those roles, and in those cases I think something like 20 to 30 per cent of roles, but the number now escapes me, we did put to internal competition because they were too different to anything previously to simply appoint somebody in there, bearing in mind the merit principle.

²²⁷ *ibid.*, p.11

²²⁸ Department of Economic Development, Jobs, Transport and Resources, *Response to the Committee’s 2013-14 and 2014-15 Financial and Performance Outcomes General Questionnaire*, received 13 November 2015, p.89

²²⁹ Department of Health and Human Services, *Response to the Committee’s 2013-14 and 2014-15 Financial and Performance Outcomes General Questionnaire*, received 13 November 2015, p.76

²³⁰ Mr Richard Bolt, Secretary, Department of Economic Development, Jobs, Transport and Resources, *Financial and Performance Outcomes Transcript of Evidence*, 17 February 2016, p.18

What quickly I think transpires is that the internal competition creates opportunity. I would not want to sugar-coat the experience for some staff, but for many they were either confirmed in roles and able to compete for new ones, which is a double bonus, or they missed out on roles but were highly suitable to the department and were able to either confirm a particular career trajectory or indeed take up a new opportunity. For a small number there is ultimately no match, and we need to work very carefully, case by case, with all of those to see what future lies ahead for them, and we are going through that process now.

Overall these can be handled well if they are handled with sympathy and if they are handled with clear strategic purpose and people can see that there is a logic there—it is not some arbitrary reorganisation; it is not driven by alliances as distinct from the merit of the people applying. So I am reasonably positive—in fact I am quite positive—about the way we have implemented these, and I think the department will be the stronger for it.²³¹

FINDING 44: Machinery-of-government changes announced in 2014-15 have resulted in departmental restructuring that has led to some staff redeployments and/or redundancies.

4.7 Commonwealth decisions

As discussed in Section 3.2.1, grants from the Commonwealth Government totalled \$24.4 billion, or 45.0 per cent of the 2014-15 general government sector total revenue.

While goods and services tax (GST) provided \$202.2 million more than anticipated in 2014-15, combined special purpose grants provided \$550.4 million less than expected.²³² Section 3.2.1 contained a discussion about the nature of GST revenue on the Victorian budget position and the difficulty in forecasting this accurately.

Commonwealth funding is reported in the budget under the line items of ‘general purpose grants’ (i.e GST payments). ‘Specific-purpose grants’ and ‘other specific-purpose grants’ relate to grants allocated for an intended policy outcome area such as a health or education-related program initiative. The Annual Financial Report does not provide a detailed breakdown of funding received through ‘specific-purpose grants’, although the budget papers released at the start of the financial year do. This means it is difficult to compare the initial budget estimates for this form of Commonwealth funding against the actual outcomes.

A general explanation of the variance between the budgeted and actual figures for ‘specific-purpose grants’ is provided in Note 32 of the *2014-15 Financial Report*, but the information does not allow a full reconciliation of budget estimates against the actual grants received.²³³

²³¹ *ibid.*, p.10

²³² Department of Treasury and Finance, *2014-15 Financial Report* (2015), pp.22, 68

²³³ *ibid.*, pp.116-7

FINDING 45: It is currently not possible to compare funding anticipated through Commonwealth ‘specific-purpose grants’ listed in the budget papers against what Victoria actually receives as the Department of Treasury and Finance does not detail ‘specific-purpose grants’ funding in the Annual Financial Report.

RECOMMENDATION 11: To assist Parliament in its analysis of how movements in ‘specific-purpose grants’ contribute to the overall budget result, the Department of Treasury and Finance should include a breakdown of the major variances in ‘specific-purpose grants’ in the Annual Financial Report in the same way as they appear in the budget papers.

Other information regarding expected and received forms of Commonwealth funding for 2014-15 was provided to the Committee through its General Questionnaire completed by the departments, and the Department of Treasury and Finance response to the Committee’s Entity-Specific Questionnaire.

The Department of Treasury and Finance response to the Committee’s Entity-Specific Questionnaire indicates Victoria received \$3.5 billion in specific-purpose grants for on-passing in 2014-15, \$352.4 million more than the originally budgeted figure of \$3.1 billion.²³⁴ In terms of grants for specific purposes, Victoria received \$8.9 billion, \$902.8 million less than the originally budgeted \$9.8 billion.²³⁵ A break-down of the grants for specific purposes by sector provided by the Department of Treasury and Finance indicate the greatest shortfalls occurred in relation to infrastructure funding. Specifically these were:

- \$600 million less than originally anticipated was received due to the cancellation of the *East West Link* Project²³⁶
- *The National Partnership: Regional Rail Link* program received \$143.5 million against an originally budgeted \$535.0 million as a result of ‘bringing forward grants from 2014-15 into 2013-14, and project savings’²³⁷
- *The National Partnership: Nation Building – AusLink (Road and Rail)* received \$230.3 million of the originally budgeted \$382.6 million, ‘mainly due to the Commonwealth grant payments for the *Princes Highway West - Winchelsea to Colac* and *Western Highway - Duplication from Ballarat to Stawell*, now expected to be received in future years’.²³⁸

A full break-down of the budget and actual amounts Victoria received in ‘specific-purpose grants’ from the Commonwealth for 2014-15 can be found in Appendix A4.3.

²³⁴ Department of Treasury and Finance, *Response to the Committee’s 2013-14 and 2014-15 Financial and Performance Outcomes Entity-Specific Questionnaire*, received 27 January 2016, p.5

²³⁵ *ibid.*, p.7

²³⁶ *ibid.*, p.6

²³⁷ *ibid.*

²³⁸ Department of Treasury and Finance, *Response to the Committee’s 2013-14 and 2014-15 Financial and Performance Outcomes Entity-Specific Questionnaire*, received 27 January 2016, p.6

Through responses to the general questionnaire the Committee learned that the Department of Education and Training and the Department of Health and Human Services received grants from the Commonwealth during 2014-15 which had not been anticipated in the State budget. The Department of Education and Training received \$74.6 million less than initially budgeted in 2013-14 but \$47.5 million more in 2014-15, while the Department of Health and Human Services experienced a combined shortfall of \$62 million over 2013-14 and 2014-15 as a result of the cessation of the National Partnerships Agreement (mostly comprised of \$49.6 million in deferred funding for the National Partnership Agreement on Adult Public Dental Health).²³⁹

The funding Victoria receives as part of the National Partnership Agreement is of interest to the Committee and is currently the subject of another Committee inquiry.

4.8 Asset investment outcomes

For the general government sector, the total direct investment in assets for 2014-15 was \$4.4 billion.

Significant spending occurred on:

- *Tram Procurement and Supporting Infrastructure* - \$199.4 million
- *Western Highway Duplication - Ballarat to Stawell* - \$126.7 million
- *Metropolitan Rail Infrastructure Renewal Program* - \$121.8 million.²⁴⁰

Nine out of the top ten largest spending general government sector projects for 2014-15 were related to transport infrastructure. The largest spending project outside of transport infrastructure was the Box Hill Hospital redevelopment (\$55.0 million).²⁴¹

Explanation of variances

The largest upward variance was the *Targeted Road Restoration Project*, that incurred expenditure of \$60.6 million, \$30.6 million greater than budgeted. The Department of Economic Development, Jobs, Transport and Resources explained that the 'variance was due to the consolidation of the arterial road restoration and targeted road restoration projects'.²⁴²

²³⁹ Department of Health and Human Services, *Response to the Committee's 2013-14 and 2014-15 Financial and Performance Outcomes General Questionnaire*, p.77; Department of Education and Training, *Response to the Committee's 2013-14 and 2014-15 Financial and Performance Outcomes General Questionnaire*, p.44

²⁴⁰ Department of Economic Development, Jobs, Transport and Resources, *Response to the Committee's 2013-14 and 2014-15 Financial and Performance Outcomes General Questionnaire*, received 13 November 2015, pp.23-31

²⁴¹ Department of Health and Human Services, *Response to the Committee's 2013-14 and 2014-15 Financial and Performance Outcomes General Questionnaire*, received 13 November 2015, p.14

²⁴² Department of Economic Development, Jobs, Transport and Resources, *Response to the Committee's 2013-14 and 2014-15 Financial and Performance Outcomes General Questionnaire*, received 13 November 2015, p.27

The largest downward variance was the *Port Capacity Expansion Project*. This project had \$326.9 million budgeted for 2014-15 and had incurred expenditure of \$263.1 million in 2014-15, \$63.8 million under the budgeted figure. The Port of Melbourne Authority explained that the ‘The lower than budgeted expenditure was primarily due to the re-allocation of risk allowance and rescheduling of construction works to future periods’.²⁴³

Reasons provided for the expenditure delays across other Department of Economic Development, Jobs, Transport and Resources projects included changes to ‘work scope’ and unspecified ‘project delays’. Construction and physical infrastructure projects were also often delayed due to essential preparatory work taking longer than expected. This may include:

- initial design and refinement of design
- obtaining relevant planning permits
- later than expected delivery of documentation such as cultural heritage management plans and environmental assessments required prior to commencement of construction.²⁴⁴

Some illustration of the nature of delays likely to be encountered on major infrastructure projects, in this case environmental assessments for road projects, was provided by Mr John Merritt, Chief Executive Officer of VicRoads, at the recent outcomes hearings:

... there are a wide range of environmental values on this corridor [the Buangor bypass] ... I do think that we have learnt a lot as a road builder ... We have put an enormous amount of work into challenging the way that we look at the context in which these roads go ... I do feel by any measure our work with the communities around those [road projects] is infinitely better than it was ... We have taken whatever time we think is appropriate to go through with the community and do everything we can to save every single tree that we can. As I said, we have literally with these community members walked this enormous route tree by tree, saying, ‘What can we do to preserve every one of them?’ ...²⁴⁵

The Department of Health and Human Services advised the Committee that a number of projects were delayed due to not receiving Commonwealth funding in time, or were partnerships with the private sector that also resulted in project delays.²⁴⁶

FINDING 46: Asset investment projects are often delayed due to preparatory work including obtaining the relevant planning documentation and undertaking community consultation.

²⁴³ Port of Melbourne Commission, *Response to the Committee’s 2013-14 and 2014-15 Financial and Performance Outcomes General Questionnaire*, received 13 November 2015, p.4

²⁴⁴ Department of Economic Development, Jobs, Transport and Resources, *Response to the Committee’s 2013-14 and 2014-15 Financial and Performance Outcomes General Questionnaire*, received 13 November 2015, pp.23-44

²⁴⁵ Mr John Merritt, CEO, VicRoads, Department of Economic Development, Jobs, Transport and Resources, *Financial and Performance Outcomes Transcript of Evidence*, 17 February 2016, p.34

²⁴⁶ Department of Health and Human Services, *Response to the Committee’s 2013-14 and 2014-15 Financial and Performance Outcomes General Questionnaire*, received 13 November 2015, pp.14-32

RECOMMENDATION 12: The Department of Treasury and Finance work with other departments to improve the estimation of completion dates for asset investment projects.

Information technology projects

Two information technology asset initiatives projects connected to state revenue collection were delayed in 2014-15. These were the *Infringement Management and Enforcement System* (IMES) and the *Better Revenue Management System*.

The IMES project is aimed at updating the fines revenue collection system, while the *Better Revenue Management System* related to land tax collection. Expected revenue from fines was \$70 million under budget for 2014-15 and \$50 million for 2013-14, while land tax revenue was \$150.8 million under budget for 2014-15.²⁴⁷

FINDING 47: Revenue for fines and land tax was \$220.8 million less than originally anticipated for 2014-15.

The IMES was a \$43.0 million TEI program that was first announced in 2008-09.²⁴⁸ In 2014-15 the Department of Justice and Regulation reported a recashflow of \$9.3 million from the project back to the Department, explaining in the Committee's general questionnaire:

The contracted supplier could not deliver the asset. The State and the original supplier agreed (through a legal deed of settlement) to terminate the contract. As part of the settlement the supplier refunded \$9.3 million ... Currently, the Department of Justice and Regulation is finalising the system specifications in order to issue a new Request for Tender to develop the Infringement Management and Enforcement Services – enhancement/equipment (statewide) asset.

In addition to the IMES, the completion date for the Department of Treasury and Finance-assigned *Better Revenue Management System* project has been extended from 2015-16 to the final quarter of 2018-19. The 2013-14 budget papers described the project as a land tax compliance initiative, stating:

Funding is provided to enable the State Revenue Office to hire and train additional staff to undertake further compliance work on Land Tax Principal Place of Residence exemptions. To support this work, computer based solutions will be developed to assist in the investigation process and the timely issue of assessments.²⁴⁹

The variance in land tax revenue in 2014-15 was 'driven mostly by fewer assessments from the State Revenue Office than expected'.²⁵⁰ It is not clear whether this project delay has impacted on the budget estimates forecasts for land tax revenue made by the Department of Treasury and Finance.

²⁴⁷ Department of Treasury and Finance, *2014-15 Financial Report* (2015), p.66

²⁴⁸ Department of Treasury and Finance, *Budget Information Paper 1: 2008-09 Public Sector Asset Investment Program*, (2008), p.55

²⁴⁹ Department of Treasury and Finance, *Budget Information Paper 3: Service Delivery, 2013-14* (2013), p.59

²⁵⁰ Department of Treasury and Finance, *2014-15 Financial Report* (2015), p.116

FINDING 48: Revenue from land tax in 2014-15 was \$150.8 million less than originally anticipated, driven by fewer assessments made by the State Revenue Office.

As the number of Land Tax assessments made by the State Revenue Office will impact on the revenue received, and given the overall importance of land tax as a revenue source for the Victorian budget (worth \$1.8 billion in 2014-15, or 9.6 per cent of taxation revenue), the Committee considers it appropriate for the Department of Treasury and Finance and the State Revenue Office to set targets monitoring and quantifying the number of land tax assessments as part of their annual performance measures.

RECOMMENDATION 13: The number of land tax assessments made by the State Revenue Office becomes a quantity performance measure for the Department of Treasury and Finance.

The delay and cost of information technology asset investment projects has been noted previously by the Committee, as well as other oversight agencies.²⁵¹

Mr Ryan Phillips from the Department of Premier and Cabinet explained a new approach the Government was taking in relation to information technology projects, beginning with a shared services review undertaken within the Department of Premier and Cabinet, at the financial and performance outcomes hearings:

As a result of that review, the government will be seeking to address a number of the issues ... so rather than procuring new systems, where possible the first thing government departments and agencies will need to do is to look to see whether there are existing solutions that are owned by other parts of the sector that they can then move to procure services from the other government agency. That helps manage the risk of needing to buy a new system and also minimises the cost for government. Also, if there is no such system currently in existence, it will then be a matter of going to market for a new system. However, rather than each department going to procure their own new bespoke system, the desire will be to find something as off-the-shelf as possible and that multiple agencies and departments will join together to effectively become a new shared service, again minimising the risk and cost.

The government has also prioritised looking for purchasing services rather than new systems, investigating opportunities to procure services from the cloud, which helps deal with issues such as system obsolescence. This new model is being rolled out as we speak, so we are starting to see the real operational implications of moving in this direction, and I think in a year's time we will be able to tell the committee in detail about how the new approach is going.²⁵²

²⁵¹ Parliament of Victoria, *Public Accounts and Estimates Committee Report on the 2012-3 Financial and Performance Outcomes* (2014) pp.94-5, Victorian Ombudsman, *Own Motion Investigation into Unenforced Warrants*, Available at <www.ombudsman.vic.gov.au/Publications/Parliamentary-Reports/Own-motion-investigation-into-unenforced-warrants>, viewed 1 March 2016

²⁵² Mr Ryan Phillips, Acting Deputy Secretary, Department of Premier and Cabinet, Financial and Performance Outcomes Transcript of Evidence, 18 February 2016, p.5

5 Review of department performance measures and annual reports for 2014-15

5.1 Introduction

Annual reports and performance measures are important components of the accountability cycle. They provide opportunities for departments to demonstrate to Parliament and the community the extent to which they have carried out tasks set for them by the Government.

Annual reports include explanations of variances from performance measures targets that were set at the start of the year. The Committee notes that variances from targets are normal and common. Reasons for variances may include changes in government policy or external influences including the economy, the environment, natural events and disasters, or changes in the Commonwealth Government policies.

Part of this chapter is an ongoing exercise by the Committee to assess whether departments are, in their annual reports, taking up recent changes to guidance provided by the Department of Treasury and Finance.

The former Committee made recommendations that were aimed at improving guidance for annual reports. This chapter includes the current Committee's assessment of the implementation of these recommendations.

5.2 Performance Measures

The former Committee's *Review of the Performance Measurement and Reporting System* was published in March 2014. The report examined the nature of public sector performance measurement and reporting, assessing the effectiveness of the four types of performance measure used by Victorian Government departments: quantity, quality, timeliness and cost measures. The report also gave examples of best practice use of such measures by the departments.

The following section examines results of performance measures for 2014-15. However, as departments may not have had the opportunity to fully implement recommendations that have been supported by the Government, recommendations will not be made in this section. Further to this, central agencies have indicated the large scale machinery-of-government (MOG) changes occurring during 2014-15 had delayed the development of performance measures across the departments.

Nevertheless, performance measures and reporting remains of interest to the Committee and the Committee members took the opportunity to examine this issue more fully in the financial and performance outcomes hearings held with departmental secretaries, deputy secretaries and other senior executive staff.

5.2.1 Discussion of performance measures at the financial and performance outcomes hearings

The financial and performance outcomes hearings afforded the opportunity for senior departmental officers to comment on the existing performance measurement system. The central agencies, the Department of Treasury and Finance and the Department of Premier and Cabinet, both affirmed their commitment to sound, informative and transparent performance measures and noted the leadership role they provide to the other departments on this matter. Melissa Skilbeck, Deputy Secretary from the Department of Treasury and Finance noted:

... we are, starting with our own department, focused on improving the performance measures generally in substance as opposed to explaining the ones that we have currently. Like so many useful policy reforms, it is a balancing act between the amount of change one generates and the consistency of information that this committee and the Parliament receives, so we do need to balance that. The other key balancing act is the accountability needs to be with the department for whom the performance relates and the ministers and not something we impose, so it needs to be a conversation, but with some clear parameters around what is a good measure and what is not.

I particularly support the comment the secretary made about some of the artificiality around having a quantitative measure rather than a qualitative one when the nature of the work can only really be observed qualitatively. So we are well and truly in that process discussing with departments. We have had some delays in that work with some of the machinery-of-government, the natural consequences of accounting for reconfiguration of outputs and departments and therefore the measures related to the outputs, so our energy now is being spent more directly on improving those performance measures, and in some cases that may mean fewer of them than more.²⁵³

Andrew Campbell, Acting Executive Director of People, Culture and Operations in the Department of Premier and Cabinet further commented:

The one thing that should be noted is that DPC has been doing work to rationalise or find performance measures that are challenging, make sense and pick up on the feedback from stakeholders. That is arising from reviews, as you know, from VAGO about improving the types of measures and their coherency for people such as you to be clear about what has been achieved. I understand you have had other discussions with other departments, and the thing I would want to mention is that DPC has done a lot of work in trying to strengthen its measures and continues to do that, so what you are seeing today in terms of outputs reflects both the MOG changes but also work that we are doing to improve our measuring of performance

...

253 Ms Melissa Skilbeck, Deputy Secretary, Department of Treasury and Finance, *2014-15 Financial and Performance Outcomes Transcript of Evidence*, 16 February 2016, p.29

It is up to individual secretaries to progress their work, but obviously as a central agency we have an interest in making sure we are doing the best that we can in terms of good governance and appropriate performance measurement.²⁵⁴

In the course of the financial and performance outcomes hearings, departments were asked to comment on performance measures, both in a general sense and together with questions regarding the clarity, meaningfulness and robustness of some of their existing measures.

For example, the Committee inquired about the performance measure ‘Client satisfaction with advice provided’ for the Office of Disability, which had returned results of 100 per cent for each of the past six years. The Department of Health and Human Services advised the Committee that the measure had been intended to reflect the delivery of two specific time-limited programs, which have now concluded. Since this time:

... the measure has reported 100 per cent client satisfaction as no complaints have been received about the performance of the Office of Disability from external stakeholders.²⁵⁵

The Department also advised the Committee that it is reviewing this measure.

The Secretary of the Department of Treasury and Finance, Mr David Martine, noted that in their current examination of departmental performance measures, they had become aware of issues regarding efficacy and validity:

Certainly in looking through those there are a number, particularly some of the quantitative measures, that to me actually do not make a lot of sense, and the ones that we are actually looking to remove relate to things such as the quantity of briefs we prepare. We have traditionally set targets that we will prepare 300 briefs for the Treasurer of the day, and some years we might be 280 and some years we might be 350. To me, it begs the question: is it good to be below 300 or is it good to be above 300?

...

Sometimes a quantitative measure may lead to misinformation or even a perverse outcome. Maybe we wrote 350 briefs because our first briefs were so poor that the Treasurer of the day could not understand them and we had to follow it up— who knows? It is a good indicator on workload, but it does not really provide useful information on performance. We have been having a look at our own ... I suspect we are kind of the tip of the iceberg in terms of the performance measures across government in some quite important areas of spending to help track what is actually being delivered in those. I kind of struggle with some of my own, and we are doing a bit of work on that.²⁵⁶

²⁵⁴ Mr Andrew Campbell, Acting Executive Director, People, Culture and Operations, Department of Premier and Cabinet, *2014-15 Financial and Performance Outcomes Transcript of Evidence*, 18 February 2016, p.26

²⁵⁵ Department of Health and Human Services, 2014-15 Financial and Performance Outcomes hearings, response to questions on notice, received 21 March 2016, p.9

²⁵⁶ Mr David Martine, Secretary, Department of Treasury and Finance, *2014-15 Financial and Performance Outcomes Transcript of Evidence*, 16 February 2016, p.29

5.2.2 Results for performance measures

An assessment of the implementation of a number of recommendations from the previous Committee's report is made in Section 5.4 of this Chapter.

Table 5.1 shows the proportion of results that are more than 5 per cent below target, close to target and more than 5 per cent above target. The table demonstrates that, across all departments, results for 59.2 per cent of performance measures reported were within 5 per cent of their targets.

Table 5.1 Performance measures significantly under, close to and significantly over targets, 2014-15

Department	Measures	Proportion of measures ^(a)		
		Significantly ^(b) below target	Within 5 per cent of target	Significantly ^(b) above target
Court Services Victoria	24	8.3	33.3	58.3
Economic Development, Jobs, Transport and Resources	309	16.5	56.0	27.5
Environment, Land, Water and Planning	104	15.4	58.7	26.0
Education and Training	86	9.3	68.6	22.1
Health and Human Services	286	17.8	57.0	25.2
Justice and Regulation	112	10.7	64.3	25.0
Premier and Cabinet	134	19.4	55.2	25.4
Treasury and Finance	89	11.2	74.2	14.6
Parliament	42	9.5	61.9	28.6
All departments	1,186	15.2	59.2	25.6

(a) Measures include both non-cost measures and output cost measures.

(b) More than 5 per cent.

Source: Departmental annual reports, 2009-10 to 2014-15

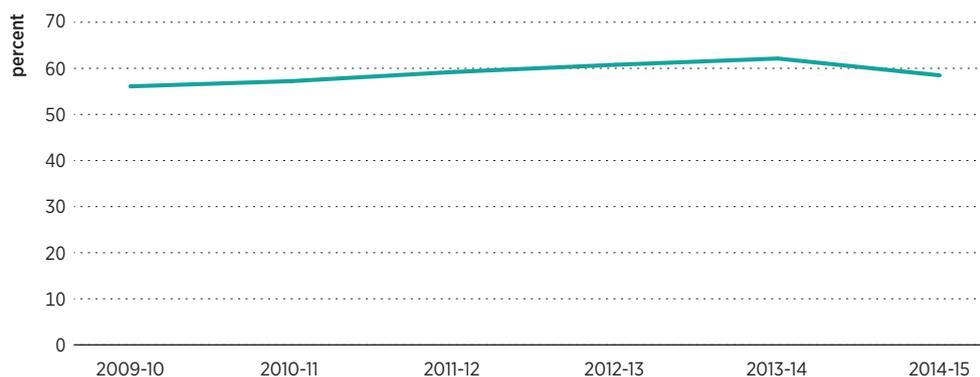
The Department of Treasury and Finance had the highest proportion of results close to targets, with 74.2 per cent of results within 5 per cent of targets. Court Services Victoria had the lowest accuracy, with one-third of results within 5 per cent of targets.

Table 5.1 also shows that the results are not symmetrical. For measures that varied from their targets, the majority of measures had results that were above target. For the majority of performance measures, a higher result corresponds to a greater achievement or a better outcome for the State. However, because this is not always the case (for example, for measures relating to costs or delays), it is not possible to say that a significant bias towards overachievement is a positive or negative for the State.

FINDING 49: Results for 59.2 per cent of performance measures for 2014-15 were within 5 per cent of their targets. The Department of Treasury and Finance had the highest proportion of results close to targets. Court Services Victoria had the lowest proportion of results close to targets.

Figure 5.1 shows accuracy of results over the past six years. The data is included in Appendix A5.2.

Figure 5.1 Proportion of performance measures close to targets, 2009-10 to 2014-15^(a)



(a) Within 5 per cent.

Source: Departmental annual reports, 2009-10 to 2014-15

Figure 5.1 shows that between 2009-10 and 2013-14, there was a trend for a greater proportion of results to come close to their targets. For 2013-14, 62.7 per cent of results were within 5 per cent of their targets. This increase in accuracy may have been due to a number of factors, including better management within the departments with more focus on the targets, or better target setting at budget time.

However, this trend has been reversed in 2014-15. In this year, the proportion of performance measures within 5 per cent of their targets fell to 59.2 per cent. This may not simply be a case of declining standards or outcomes on the part of the departments. The Department of Justice and Regulation, for example, noted that for one particular measure ('Proportion of eligible prisoners in employment'):

Historically the target was the national average, and then we would aim for that target, but in Victoria our performance against that has been above that target for the last three years, so the method for setting the target was changed due to that—so it has actually changed so that we can improve on those outcomes. The 2015-16 target has been increased, so we are no longer going to use the national average but are asking, 'What does our performance mean?', and then you set your target a bit higher than that so that it drives performance and drives people's focus on education and the like.²⁵⁷

²⁵⁷ Ms Jan Shuard, Commissioner, Corrections Victoria, Department of Justice and Regulation, *2014-15 Financial and Performance Outcomes Transcript of Evidence*, 17 February 2016, p.21

The Committee considers this to be an ideal practice of how performance measures should be constantly monitored and changed accordingly within departments.

In examining performance measures that varied from targets, the Committee found that certain performance measures consistently vary from targets. Appendix A5.3 shows a number of measures that have varied from target by more than 5 per cent for at least the last five years and, with the exception of Court Services Victoria where measures were created in 2012-13, all current departments are represented in this list. These measures contribute significantly to the numbers summarised in Table 5.1. The Committee considers that creating more appropriate targets for these measures would assist in addressing the more general issue of variation from targets. Further to this the Committee considers that performance measures that habitually vary from targets may be an indication that the department should re-evaluate the targets for its measures, as per the Department of Justice and Regulation example given above.

FINDING 50: In 2014-15, the proportion of results within 5 per cent of target fell to 59.2 per cent, after having increased in each of the previous four years. A number of measures have varied by more than 5 per cent for at least five years. The Committee has recommended in a previous report that targets for such measures should be re-evaluated.

5.3 Compliance of annual reports with guidance

Guidance for annual reports for government departments and Court Services Victoria is provided by a range of financial reporting directions (FRDs) and the Model Report provided by the Department of Treasury and Finance. The Model Report is intended to illustrate all current guidance, including updated FRDs, and is updated annually by the Department of Treasury and Finance.

5.3.1 Guidance assessed

For the purposes of this report, the Committee selected five annual reporting requirements as directed to the departments and Court Services Victoria by the recently updated *2014-15 Model Report for Victorian Government Departments*. These are:

- budget portfolio outcomes sections
- standard disclosures in annual reports
- disclosures related to public private partnership projects
- disclosures related to machinery-of-government changes
- the disclosure index.

The first four subjects are covered by new editions of FRD 8C²⁵⁸ and FRD 22F,²⁵⁹ and illustrated in the *2014-15 Model Report for Victorian Government Departments*.²⁶⁰

Guidance for the disclosure index is provided by FRD 10²⁶¹ (also as illustrated in the *2014-15 Model Report for Victorian Government Departments*). This was selected due to the usefulness of the disclosure index in annual reports.

The extent to which all departments and Court Services Victoria complied with the requirements can be found in Appendices A5.4 to A5.8.

5.3.2 Budget portfolio outcomes

Departments are required to report a number of items, comparing actual achievements against what the Government required at the time of the budget. This allows readers to understand how actual results differed from estimates originally made in the budget papers.

The Committee selected a number of requirements for the budget portfolio outcomes section of annual reports which are either newly-introduced or which have been commented on in previous Committee reports.

Guidance material instructs departments and Court Services Victoria to:

Report in their annual report in the Report of Operations section ... departmental objectives and objective indicators as published in the Budget Papers for the relevant period and report on their progress towards achievement of these objectives.²⁶²

In addition to this, the Model Report requires that departments report objectives and indicators along with the outputs that are linked to the objectives. *The 2014-15 Model Report for Victorian Government Departments* provides an example table for this.²⁶³

Further to this, the *2014-15 Model Report for Victorian Government Departments* also indicates that:

Departments should communicate the performance story for each departmental objective based on the indicator information over time (minimum four years). Given departmental indicators were only introduced in the 2013-14 BP3, the reporting requirement on progress is currently illustrated for two years only.²⁶⁴

²⁵⁸ Department of Treasury and Finance, *FRD 8C: Consistency of Budget and Departmental Reporting* (2015)

²⁵⁹ Department of Treasury and Finance, *FRD 22F: Standard Disclosures in the Report of Operations* (2015)

²⁶⁰ Department of Treasury and Finance, *2014-15 Model Report for Victorian Government Departments for Victorian Government Departments* (2015)

²⁶¹ Department of Treasury and Finance, *FRD 10: Disclosure Index* (2005)

²⁶² Department of Treasury and Finance, *FRD 8C: Consistency of Budget and Departmental Reporting* (2015), p.1

²⁶³ Department of Treasury and Finance, *2014-15 Model Report for Victorian Government Departments for Victorian Government Departments* (2015), p.15

²⁶⁴ *ibid.*, p.16

With reference to the financial statements presented in the budget portfolio outcomes section, departments are required to calculate and explain 'variances between the actual amounts presented in the financial statements and the corresponding original budget amounts'.²⁶⁵

Lastly, the Victorian Auditor-General does not examine the budget portfolio outcomes section of departmental annual reports. As there could be a number of entities and bodies falling under each department (for example, VicTrack, VicRoads, Level Crossing Removal Authority), the financial statements of each of these bodies will be examined for auditing purposes by the Auditor-General separately. The purpose of the budget portfolio outcomes section is therefore to enable comparison of departmental budgets published at the start of a financial year against the actual budget outcomes once the financial year is over. The Model Report requires departments to note this and provides sample text to this effect.²⁶⁶

The Committee examined annual reports for 2014-15 for these requirements. The results are summarised in Appendix A5.4. Overall results were satisfactory, although no department adhered exactly to all guidance documents examined.

The Committee notes that the majority of indicators that are provided by departments to demonstrate progress towards objectives have been published in annual reports.²⁶⁷ The Department of Premier and Cabinet did not include quantitative or metric data for its objective indicators. The Committee also notes that the majority of the Department's indicators do not lend themselves to quantification (for example 'Department of Premier and Cabinet leads policy development on key priority issues').²⁶⁸

The Committee is disappointed to note that only one entity, Court Services Victoria, has presented two years' data for all its indicators. The guidance noted above requires four consecutive years of indicator information, but allowed this to be reduced to two because the departmental indicators were only introduced in 2013-14.²⁶⁹ The provision of a single year of indicator data is not able to demonstrate progress towards departmental objectives, which is the purpose of this section in annual reports.

In relation to a previous Committee recommendation, the Department of Treasury and Finance commented that:

²⁶⁵ *ibid.*, p.339

²⁶⁶ *ibid.*, p.23

²⁶⁷ The Department of Education and Training omitted one indicator, 'Certificate III or above course completions', and presented one set of data for two indicators, 'VET participation by learners facing barriers' and 'VET participation by unemployed learners' (Department of Treasury and Finance, *Budget Paper No.3: 2014-15 Service Delivery* (2014), p.84)

²⁶⁸ Department of Premier and Cabinet, *Annual Report 2014-15* (2015), p.19

²⁶⁹ Department of Treasury and Finance, *2014-15 Model Report for Victorian Government Departments for Victorian Government Departments* (2015), p.16

The Department of Treasury and Finance will continue to work with departments to ensure that in future budget papers objective indicators are clearly quantifiable or measurable.²⁷⁰

Four departments included figures quoted from the original budget papers when calculating variances. However, other departments altered original budget estimates in the budget portfolio outcomes section, such as the Department of Health and Human Services adjusting 'receipts from government' from \$10.1 billion to \$9.7 billion.²⁷¹ Most of these alterations are related to the MOG changes that occurred after the 2014 election.

MOG changes can cause large alterations to departments. However, in their presence, smaller variations which are more related to the performance of the department can be overwhelmed by the purely administrative changes. The Committee considers that the budget portfolio outcomes section could be enhanced with the inclusion of budget figures which are adjusted for MOG changes as well as the original figures. Calculation of variations to the adjusted budget figures would enable the identification and discussion of these performance-related variations while retaining a transparent link to the original budget.

The Committee also notes a number of mathematical errors in percentage variances calculations scattered throughout the budget portfolio outcomes section. This includes instances where an item has a budget of zero and a non-zero actual. The Department of Environment, Land, Water and Planning, for example, presented this instance as a '0%' variance, while the Department of Health and Human Services presented this as a '100%' variance.²⁷²

The Committee considers that 'n/a' or '-', as used by other departments, would be more appropriate.²⁷³ Further to this, the Committee considers that improved quality control procedures in the proof-reading stages of the annual report production process would reduce such errors.

Finally, the Committee notes that the Department of Environment, Land, Water and Planning did not include within the notes that the budget portfolio outcomes are not part of the audited accounts, as required in the guidance set in the Model Report.²⁷⁴

²⁷⁰ Victorian Government, *Government Responses to the Recommendations of Public Accounts and Estimates Committee's 116th Report to Parliament - Report on the 2013-14 Budget Estimates - Part Two*, tabled 16 April 2014, p.9

²⁷¹ Department of Health and Human Services, *Annual Report 2014-15* (2015), p.67

²⁷² Department of Environment, Land, Water and Planning, *Annual Report 2015* (2015), p.240; Department of Health and Human Services, *Annual Report 2014-15* (2015), p.65

²⁷³ Department of Economic Development, Jobs, Transport and Resources, *Annual Report 2014-15* (2015), Vol.2, p.51; Department of Treasury and Finance, *Annual Report 2014-15* (2015), p.27; Department of Justice and Regulation, *Annual Report 2014-15* (2015), p.145

²⁷⁴ Department of Treasury and Finance, *2014-15 Model Report for Victorian Government Departments for Victorian Government Departments* (2015), p.23

FINDING 51: While requirements for the budget portfolio outcomes section of departmental annual reports are generally being followed, no department adhered to all requirements the Committee examined. Some deficiencies exist in the provision of objective indicators data and calculation of variances.

FINDING 52: Machinery-of-government changes can cause large alterations to departments. Some departments adjusted original budget figures in the budget portfolio outcomes sections of annual reports.

RECOMMENDATION 14: The Department of Treasury and Finance ensure that all departments provide data for departmental objective indicators in their annual reports, as required in the Model Report.

RECOMMENDATION 15: The Department of Treasury and Finance amend the Model Report to require departments to include budgets adjusted for machinery-of-government changes as part of budget portfolio outcomes sections in annual reports, and discuss variations from adjusted figures.

5.3.3 Standard disclosures

Principal guidance for the standard disclosures reporting requirement is given in FRD 22F, and was updated for 2014-15. The Committee examined two aspects of this new guidance; government advertising expenditure and key initiatives and projects.

Government advertising expenditure

FRD 22F contains updated guidance relating to the disclosure of government advertising expenditure.²⁷⁵ This is further described in the *2014-15 Model Report for Victorian Government Departments*, which gives an example table showing required information.²⁷⁶

All departments complied with this new guidance, including one nil report (see Appendix A5.5). The Committee notes, however, that some departments did not provide totals for the components of expenditure, as set out in the Model Report example. Nil reporting is discussed further in Section 5.4.

FINDING 53: All departments and Courts Services Victoria have complied with new guidance on government advertising expenditure.

²⁷⁵ Department of Treasury and Finance, *FRD 22F: Standard Disclosures in the Report of Operations* (2015), p.4

²⁷⁶ Department of Treasury and Finance, *2014-15 Model Report for Victorian Government Departments for Victorian Government Departments* (2015), p.47

Key initiatives and projects

The Committee considers that the ability to compare intentions and targets that were set at the start of the financial year with actual achievements reported at the end of the year and the provision of an explanation for the variance is a crucial element of accountability for departments. This is the foundation of the Committee's financial and performance outcomes inquiries.

Departmental planning documents set out the intentions and targets for the planning horizon. They also communicate to stakeholders the varying levels of importance that departments place on the range of initiatives and projects in the planning document.

FRD 22F contains the requirement for disclosures of key initiatives and projects, including changes and expectations for the future.²⁷⁷ This is further illustrated in the *2014-15 Model Report for Victorian Government Departments*, which specifies a section in the report of operations (with an entry in the disclosure index) entitled 'initiatives and key achievements' where:

- the key initiatives and projects refer to those that are identified in the strategic plan or the equivalent
- the discussion includes the outcomes achieved for the initiatives and projects (that is, the effect the initiatives and projects had, rather than simply that the action was carried out)
- material changes made to the key initiatives and projects are set out, including changes to timeline, scope and costs.²⁷⁸

Every annual report discussed initiatives and projects for the year, with most reports containing separate sections on initiatives and key achievements. In addition, some discussions included outcomes or intended outcomes in terms of effects on the community, and changes made to projects during the year (see Appendix A5.5).

However, the guidance for planning documents states that 'publication of the corporate plan is optional'.²⁷⁹ Currently no department has corporate and/or strategic planning documents publicly available for comparison with annual reports (see Appendix A5.3).

When planning documents are not publicly available, the Committee is not able to evaluate actual achievements against what was originally planned. Furthermore, without an understanding of the department's priorities, stakeholders are unable to evaluate the relative importance of what was achieved.

²⁷⁷ Department of Treasury and Finance, *FRD 22F: Standard Disclosures in the Report of Operations* (2015), p.2

²⁷⁸ Department of Treasury and Finance, *2014-15 Model Report for Victorian Government Departments for Victorian Government Departments* (2015), p.17

²⁷⁹ Department of Treasury and Finance, *Guide to Corporate and Long-term Planning* (2014), p.7

The Committee considers that the accountability cycle is truly satisfied by a clear description of intentions at the start of a given year together with an account of the outcomes provided by the end of a year.

The description at the start of the year would include projects and initiatives from the planning documents that are important to the departmental objectives. This would inform stakeholders which the important initiatives are, and what outcomes are expected over the year. This would still allow departments to decide whether or not to publish the more detailed plans.

The annual report would continue to include achievements for all initiatives and projects. However, it would also specify which initiatives and projects in the discussion were considered important in the planning documents, and where stakeholders are able to find the original descriptions of the plans.

FINDING 54: Public sector entities are required to discuss results of key initiatives and projects that are identified in their planning documents. However, such documents are not required to be made public. Stakeholders are unable to compare what was achieved against plans, or whether what was achieved was considered significant in terms of the department achieving its objectives.

RECOMMENDATION 16: The Department of Treasury and Finance alter the corporate planning guidance for government entities to require initiatives that are identified in planning documents as important to the department's objectives during the financial year be made public at the start of that financial year.

RECOMMENDATION 17: The Department of Treasury and Finance alter its guidance for the 'initiatives and key achievements' section of annual reports to require reporting entities to specify which initiatives discussed were identified in planning documents as important to the department's objectives, and where the department described the initiative prior to the start of the year.

5.3.4 Public private partnership related disclosures

While expenditure related to public private partnership (PPPs) is understood by the Committee to be significant in terms of both commissioned and uncommissioned PPP projects, there are currently no financial reporting directions dedicated to providing guidance on PPP reporting in annual reports.²⁸⁰

The former Committee made recommendations concerning the disclosure of output or asset expenditure related to PPPs in 2013.²⁸¹

²⁸⁰ Department of Treasury and Finance, *Financial Reporting Directions and Guidance* (2016). Available at <www.dtf.vic.gov.au/Publications/Government-Financial-Management-publications/Financial-Reporting-Policy/Financial-reporting-directions-and-guidance>, viewed 1 February 2016

²⁸¹ Public Accounts and Estimates Committee, *Report on the 2011-12 Financial and Performance Outcomes* (2013), Recommendations 12 and 13, pp.70-1

As a result of these recommendations, the Department of Treasury and Finance made changes to its Model Report for 2014-15. These changes require that departments specify amounts related to PPP arrangements for the following expenditures/items:

- components of expenses from transactions²⁸²
- property plant and equipment assets²⁸³
- borrowings amounts.²⁸⁴

The Committee examined 2014-15 annual reports for departments and Court Services Victoria to assess their adherence to these aspects of the *2014-15 Model Report for Victorian Government Departments*.

The Committee is pleased to note that Department of Environment, Land, Water and Planning referenced PPP-related transactions for expenses, assets and borrowings for its two disclosed PPP projects.

However, the Department of Economic Development, Jobs, Transport and Resources and the Department of Health and Human Services did not reference PPP-related expenses, assets or borrowings, despite being responsible for PPPs. The annual reports do not specify whether this is due to there being no transactions, assets or borrowings related to the PPP projects, or whether the reports omitted the relevant sections. The Committee has previously recommended the use of explicit nil reports to remove such ambiguity.²⁸⁵ This is further discussed in Section 5.4 of this chapter.

A list of departments that disclosed a variety of financial elements related to PPP projects can be found in Appendix A5.6. Because departments are currently not required to explicitly disclose nil reports, it is not clear whether the non-disclosure of expenses, assets or borrowings is a result of no transactions occurring over the 2014-15 financial year to report, or for other reasons.

FINDING 55: The *2014-15 Model Report for Victorian Government Departments* requires departments to disclose expenses, assets or borrowings related to public private partnerships arrangements. The Committee's examination found a range of compliance with these requirements.

RECOMMENDATION 18: As part of its regular examination of public sector reporting, the Victorian Auditor-General examine whether public sector entities are correctly following guidance from the Department of Treasury and Finance, including guidance in the Model Report, related to public private partnership projects.

²⁸² Department of Treasury and Finance, *2014-15 Model Report for Victorian Government Departments* (2015), p.157

²⁸³ *ibid.*, p.189

²⁸⁴ *ibid.*, p.218

²⁸⁵ Public Accounts and Estimates Committee, *Review of the Performance Measurement and Reporting System* (2014), Recommendation 49, p.113

RECOMMENDATION 19: To consolidate guidance for public sector entities on disclosures relating to public private partnership projects, the Department of Treasury and Finance release a financial reporting directions and guidance document that encompasses all relevant requirements, including those currently in the Model Report.

5.3.5 Machinery-of-government change disclosures

As part of its *2014-15 Model Report for Victorian Government Departments*, the Department of Treasury and Finance has issued guidance for reporting departmental rearrangements following the recent MOG changes.²⁸⁶ This included requirements for departments that both relinquished and accepted responsibilities for both objectives and outputs as a result of MOG changes.

The majority of departments clearly disclosed objectives and outputs that had been received or transferred in sections entitled ‘changes to the department’s output structure’ or similar.

Two departments, the Department of Environment, Land, Water and Planning and the Department of Premier and Cabinet, noted the outputs for objectives transferred to other departments.²⁸⁷ However, these departments did not specifically disclose the objectives transferred out in their respective annual reports (see Appendix A5.7). The three relevant objectives transferred out of the Department of Environment, Land, Water and Planning and the Department of Premier and Cabinet were noted as received by the Department of Economic Development, Jobs, Transport and Resources.²⁸⁸

FINDING 56: All departments that received objectives or outputs from other departments as a result of machinery-of-government changes disclosed these as required. Two departments did not disclose the transfer of objectives to other departments as required.

5.3.6 Disclosure index

The disclosure index is one of the most useful sections of the annual reports, allowing users to quickly find important information over a set of reports that are structured in a variety of ways. An example of the disclosure index is provided below.

²⁸⁶ Department of Treasury and Finance, *2014-15 Model Report for Victorian Government Departments for Victorian Government Departments* (2015), pp.14-15

²⁸⁷ Department of Environment, Land, Water and Planning, *Annual Report 2015* (2015), pp.129-30; Department of Premier and Cabinet, *2014-15 Annual Report* (2015), pp.21-2, 59

²⁸⁸ Department of Economic Development, Jobs, Transport and Resources, *Annual Report 2014-15* (2015), Vol.2, p.4

Figure 5.2 Excerpt from the disclosure index provided by Court Services Victoria in its 2014-15 Annual Report

DISCLOSURE INDEX		
Court Services Victoria's Annual Report is prepared in accordance with all relevant Victorian legislation and pronouncements. This index has been prepared to facilitate identification of CSV's compliance with statutory disclosures requirements.		
Legislation	Requirement	Page
Ministerial Directions		
REPORT OF OPERATIONS		
Charter and purpose		
FRD 22F	Manner of establishment and the relevant ministers	10
FRD 22F	Purpose, functions, powers and duties	9
FRD 8C	Objectives, indicators and outputs	32
FRD 22F	Initiatives and key achievements	33-34
FRD 22F	Nature and range of services provided	24-31
Management and structure		
FRD 22F	Organisational structure	12-13
Financial and other information		
FRD 8C, SD 4.2(k)	Performance against output performance measures	35-36
FRD 8C	Budget portfolio outcomes	37
FRD 10	Disclosure index	52-53
FRD 12A	Disclosure of major contracts	46
FRD 15B	Executive Officer disclosures	41-42
FRD 22F	Employment and conduct principles	42
FRD 22F	Occupational health and safety policy	42-43
FRD 22F	Summary of the financial results for the year	37
FRD 22F	Significant changes in financial position during the year	38
FRD 22F	Major changes or factors affecting performance	38
FRD 22F	Subsequent events	38
FINANCIAL REPORT		
FRD 22F	Application and operation of <i>Freedom of Information Act 1982</i> (Vic)	46-47
FRD 22F	Compliance with building and maintenance provisions of <i>Building Act 1993</i> (Vic)	47
FRD 22F	Statement on National Competition Policy	47
FRD 22F	Application and operation of the <i>Protected Disclosure Act 2012</i> (Vic)	48
FRD 22F	Application and operation of the <i>Carers Recognition Act 2012</i> (Vic)	48
FRD 22F	Details of consultancies over \$10,000	44-45
FRD 22F	Details of consultancies under \$10,000	46
FRD 22F	Statement of availability of other information	50
FRD 24C	Reporting of office-based environmental impacts	49
FRD 25B	Victorian Industry Participation Policy disclosures	44
FRD 29A	Workforce data disclosures	39-40
SD 4.5.5	Risk management attestation	50
SD 4.2(g)	Specific information requirements	2-53
SD 4.2(j)	Sign-off requirements	2

Source: Court Services Victoria, *Annual Report 2014-15* (2015), p.52

Following an examination of the way in which departments currently follow the guidance for disclosure index reporting, the Committee has uncovered a number of issues. The following section discusses these issues in detail.

Currency of the Model Report

As noted earlier in this chapter, the Model Report is an essential piece of guidance material for departments, and a new edition is produced each year by the Department of Treasury and Finance. The *2014-15 Model Report for Victorian Government Departments* includes guidance regarding what should be included in departmental disclosure indexes.

The *2014-15 Model Report for Victorian Government Departments* guidance on disclosure indexes includes an ‘attestation for compliance with the Ministerial Standing Direction 4.5.5.1 - Insurance’.²⁸⁹ This requires departments to confirm that the department complies with the ministerial direction on insurance.

However, the Committee notes another source of guidance departments use in their financial reporting, *Standing Directions of the Minister for Finance under the Financial Management Act 1994*, had the corresponding subsection 4.5.5.1 on insurance removed when it was updated most recently in May 2015.

This ambiguity has led to departments reporting in a number of different ways, with the Departments of Education and Training; Environment, Land, Water and Planning; Health and Human Services and Premier and Cabinet providing references to two separate attestations, while the Departments of Economic Development, Jobs, Transport and Resources; Treasury and Finance and Court Services Victoria provide only one. The Committee notes that the Department of Justice and Regulation provided two separate references to the same attestation.

FINDING 57: The *2014-15 Model Report for Victorian Government Departments* does not take into account changes to the risk management framework and processes in the most recent version of the *Standing Directions of the Minister for Finance under the Financial Management Act 1994*.

RECOMMENDATION 20: Future versions of the Model Report are adjusted to take into account changes to the risk management framework and processes in the *Standing Directions of the Minister for Finance under the Financial Management Act 1994*.

References in annual reports

The Model Report specifies the set of references that are to be included in the disclosure index in annual reports.

However, because the activities of departments and other entities vary so widely, not all public sector financial statements are structured in the same way. This is particularly so for the set of notes to the financial statements. For example, the *2014-15 Model Report for Victorian Government Departments* requires a reference to ‘inventories’ in annual reports.²⁹⁰ For the Department of Environment, Land, Water and Planning, inventories of firefighting equipment and agricultural stocks are necessary.²⁹¹ For Court Services Victoria, however, inventories are not included as a separate item in the balance sheet or subsequent notes.²⁹²

For references to ‘inventories’, departments that do not provide notes on inventories have developed a range of solutions. The Department of Education and Training and Court Services Victoria insert an entry in the disclosure index

²⁸⁹ Department of Treasury and Finance, *2014-15 Model Report for Victorian Government Departments for Victorian Government Departments* (2015), p.66

²⁹⁰ *ibid.*, p.70

²⁹¹ Department of Environment, Land, Water and Planning, *2015 Annual Report* (2015), p.165

²⁹² Court Services Victoria, *Annual Report 2014-15* (2015), p.59

with 'n/a' as the page reference (see discussion on nil reports in Section 5.4.1).²⁹³ The Department of Premier and Cabinet refers readers to the accountancy policy commentary in the financial statements. The Department of Treasury and Finance refers readers to its balance sheet, and Department of Health and Human Services refers readers to notes for 'non-financial physical assets classified as held for sale' and 'property, plant and equipment'.²⁹⁴

Similar varying approaches across the departments have been taken for other references, including 'investment properties', 'foreign currency', 'subsequent events' and 'transfers through contributed capital' (see Appendix A5.8).

The Committee considers it appropriate that the Model Report has a prescribed list of references, and that these all be included in disclosure indexes. Where the reference is not relevant to a particular department, the Committee considers that inserting 'n/a' is appropriate, as this indicates to the reader that the reference has not been omitted in error.

'Government advertising expenditure' is a newly required section in the *2014-15 Model Report for Victorian Government Departments*.²⁹⁵ The Committee notes that the Department of Premier and Cabinet has included a reference to this section in its disclosure index.²⁹⁶ The Committee considers that this enhances the usefulness of the disclosure index, and that other departments should include similar references.

FINDING 58: The *2014-15 Model Report for Victorian Government Departments* includes a list of required references for the disclosure index, taking into account that not all departments require sections in their financial statements across all entries. Departments have developed a range of solutions to situations where guidance is not comprehensive.

RECOMMENDATION 21: The Department of Treasury and Finance review guidance for the disclosure index in the Model Report, including:

- (a) requiring all the prescribed entries in the disclosure index to be included, but allowing entities to use 'n/a' as page references if appropriate
- (b) the list of prescribed entries in the disclosure index
- (c) whether references in the disclosure index are to refer to sections disclosing data or sections discussing policy.

²⁹³ Department of Education and Training, *Annual Report 2014-15* (2015), p.167; Court Services Victoria, *Annual Report 2014-15* (2015), p.53

²⁹⁴ Department of Premier and Cabinet, *2014-15 Annual Report* (2015), p.103; Department of Treasury and Finance *Annual Report 2014-15* (2015), p.134; Department of Health and Human Services, *Annual Report 2014-15* (2015), p.135

²⁹⁵ Department of Treasury and Finance, *2014-15 Model Report for Victorian Government Departments for Victorian Government Departments* (2015), p.47

²⁹⁶ Department of Premier and Cabinet, *2014-15 Annual Report* (2015), p.103

5.4 Assessment of implementation of recommendations from a previous Committee report

The former Committee's *Review of the Performance Measurement and Reporting System* was a part of its inquiry into the 2012-13 Financial and Performance Outcomes. This report included 13 recommendations that related to the Department of Treasury and Finance's Model Report. The Government responded to these recommendations on 18 September 2014.

Of the 13 recommendations in the Committee's report, eight were supported by the Government, two recommendations were supported 'in principle', one recommendation was 'under review' and two were not supported.²⁹⁷

A list of the 13 recommendations made by the Committee, together with the government responses can be found in Appendix A5.9. Of the 11 recommendations that were supported, supported in principle or under review, the Committee considers that eight have been fully implemented. The Committee appreciates this work by the Government and its departments.

The Committee also considers that two recommendations have been partly implemented.

Finally, the Committee considers that one recommendation has yet to be implemented. The Government has advised the Committee that implementation of this last recommendation is in progress.

These three recommendations are discussed in the following sections.

FINDING 59: The former Committee's *Review of the Performance Measurement and Reporting System* contained 11 recommendations that were supported, supported in principle or under review. Eight have been fully implemented and two have been partly implemented. One recommendation is yet to be implemented.

5.4.1 Partly implemented recommendations

The Committee considers that two recommendations that were supported by the Government have been partly implemented. These recommendations concerned reporting on departmental objectives and 'nil' reports.

Reporting on departmental objective indicators

In assessing departmental annual reports for 2012-13, the former Committee considered that the report from the former Department of Education and Early Childhood Development was particularly informative. The Committee recommended that:

²⁹⁷ Victorian Government, *Government Responses to the Recommendations of Public Accounts and Estimates Committee's 118th Report to the Parliament - Review of the Performance Measurement and Reporting System*, tabled 18 September 2014

In updating the Model Report to detail reporting on departmental objective indicators, the Department of Treasury and Finance use the Department of Education and Early Childhood Development's *2012-13 Annual Report* as a model.²⁹⁸

Specific aspects that the Committee considered to be better practice included:

- quantifying departmental objective indicators
- providing five years of actual data for each indicator
- providing sources, commentary and areas for future improvement.

The *2014-15 Model Report for Victorian Government Departments* was duly updated to reflect these changes, providing departments more guidance on the reporting of departmental objectives, indicators and outputs.²⁹⁹ However, the guidance requires 'relevant trend information' for departmental objective indicators, noting that 'the ability to quantify and provide data series may not be possible or relevant'.³⁰⁰

The *2014-15 Model Report for Victorian Government Departments* does not refer the reader to the former Department of Education and Early Childhood Development's *2012-13 Annual Report* or incorporate the aspects considered to be good practice by the Committee into the guidance documents, particularly the use of five years of actual data and providing sources, commentary and areas for future improvement. For this reason, the Committee considers the recommendation to be partly implemented.

FINDING 60: The former Committee recommended that the requirement for data, history and commentary be incorporated into future Model Reports for reporting on departmental objective indicators. The Model Report was amended, but does not require quantification of departmental objective indicators in all cases.

Nil reports

In examining annual reports for 2012-13, the Committee considered that in some instances, there could be confusion when comments are not made in annual reports. In such instances, it was not clear whether no relevant activity had taken place, or that relevant activity had taken place but was not required to be reported by the department. An example of nil reporting is given in the excerpt below from the Department of Health and Human Services' *2014-15 Annual Report* on Note 29 'Subsequent events'.

²⁹⁸ Public Accounts and Estimates Committee, *Review of the Performance Measurement and Reporting System* (2014), Recommendation 15, p.33

²⁹⁹ Department of Treasury and Finance, *2014-15 Model Report for Victorian Government Departments for Victorian Government Departments* (2015), pp.15-16

³⁰⁰ *ibid.*

Figure 5.3 Excerpt from Department of Health and Human Services' *2014-15 Annual Report* featuring an example of nil reporting.

Notes to and forming part of the financial statements 30 June 2015

Note 28. Trust account balances (continued)

(b) Third party funds under management

Third party funds under management are funds held in trust for certain clients. They are not used for government purposes and therefore not included in the department's financial statements.

In February 2009, the Minister for Finance approved the establishment of the 2009 Victorian Bushfire Appeal Trust Account in the Public Account, as part of the Trust Fund, pursuant to section 19(1) of the *Financial Management Act 1994*.

The purpose of the trust account is the receipt of donations and other contributions, and their disbursement for assistance to individuals and communities in towns, suburbs and rural areas affected by the 2009 Victorian bushfires. Contributions include funds provided by the Victorian, Commonwealth and other jurisdictions, as well as the general public, for the above purpose.

Pursuant to section 21 of the *Financial Management Act 1994*, monies from the 2009 Victorian Bushfire Appeal Trust Account have been invested as allowed under the *Trustee Act 1958*. Interest earned is credited to the trust account.

	2015 \$M
2009 Victorian Bushfire Appeal Trust account	
Cash at bank	5.9
Receivable	0.1
Total funds under management	6.0
Balance of funds brought forward 1 January 2015	10.6
Interest earned	0.3
Total funds available	10.9
Payments to individuals and communities	4.9
Total payments	4.9
Balance carried forward	6.0

Note 29. Subsequent events

There are no subsequent events to report for the 2014–15 financial year.

Source: Department of Health and Human Services, *Annual Report 2014-15* (2015), p.232

The Committee therefore recommended that:

The Department of Treasury and Finance require all departments and agencies to include 'nil reports' when their activities do not trigger the disclosure requirements of relevant Financial Reporting Directions or the Model Report.³⁰¹

The Government supported this recommendation, commenting that:

The *2014-15 Model Report for Victorian Government Departments* will require entities to explicitly state 'nil reports' when their activities or circumstances do not trigger the specified disclosure requirements and thresholds of relevant Financial Reporting Directions.³⁰²

However, the Committee notes that the updated *2014-15 Model Report for Victorian Government Departments* discusses explicit nil reports only in the section related to government advertising expenditure. A number of other sections in the Model Report are marked 'omit if not applicable'.³⁰³

³⁰¹ Public Accounts and Estimates Committee, *Review of the Performance Measurement and Reporting System* (2014), Recommendation 49, p.113

³⁰² Victorian Government, *Government Responses to the Recommendations of Public Accounts and Estimates Committee's 118th Report to the Parliament - Review of the Performance Measurement and Reporting System*, tabled 18 September 2014, p.19

³⁰³ For example, Department of Treasury and Finance, *2014-15 Model Report for Victorian Government Departments for Victorian Government Departments* (2015), p.126

The recommendation made by the former Committee was intended for all sections of annual reports. Therefore the Committee considers this recommendation to be partly implemented.

The Committee considers that omission of sections that are not applicable can lead to ambiguity. Readers may be uncertain whether there are no transactions to report or whether there are transactions but the department is not required to report them.

The Committee has identified a number of examples of this uncertainty. These include:

- the Department of Education and Training's *2014-15 Annual Report* has no section on inventories, which is included in the *2014-15 Model Report for Victorian Government Departments* as a note to the financial statements³⁰⁴
- the Department of Environment, Land, Water and Planning included no reference to, or disclosure of investment properties in the financial statements, as required in the *2014-15 Model Report for Victorian Government Departments*³⁰⁵
- the Department of Premier and Cabinet included no disclosure of how foreign currency transactions are accounted for, as specified in the *2014-15 Model Report for Victorian Government Departments*.³⁰⁶

The Committee notes that a number of departments have managed this ambiguity by including disclosures that are required in the disclosure index with 'n/a' as the page reference.³⁰⁷ However, it is unclear if no transactions have occurred or that the transactions that did occur are below the required threshold for reporting.

The Committee considers that this ambiguity would be removed by requiring departments to include all sections in annual reports, including nil reports as necessary.

FINDING 61: The former Committee recommended that nil reports be included in annual reports when activities did not trigger the disclosure requirements of relevant financial reporting directions or the Model Report. This has been implemented only in the context of government advertising expenditure, rather than for all sections of annual reports.

³⁰⁴ Department of Treasury and Finance, *2014-15 Model Report for Victorian Government Departments for Victorian Government Departments* (2015), p.188

³⁰⁵ *ibid.*, p.209

³⁰⁶ *ibid.*, p.129

³⁰⁷ For example, Department of Education and Training, *2014-15 Annual Report* (2015), p.167

RECOMMENDATION 22: The Department of Treasury and Finance require departments and agencies to include all sections from the Model Report in their annual reports. Rather than allowing departments to omit sections that are not applicable, the Model Report require nil reports when departmental activities do not trigger the disclosure requirements of relevant financial reporting directions or the Model Report.

5.4.2 Recommendation not yet implemented

One recommendation from the former Committee's *Review of the Performance Measurement and Reporting System* has not yet been implemented.

At the time of the review, the *2013-14 Model Report for Victorian Government Departments* required departments to provide information about their capital investment projects.³⁰⁸ The *2013-14 Model Report for Victorian Government Departments* achieved this by referring readers to the most recent version of the budget papers.

The former Committee noted that the then Department of Environment and Primary Industries provided additional information on capital projects that had been completed during the year.³⁰⁹ The current Committee notes that the new Department of Environment, Land, Water and Planning has continued this practice in its *2014-15 Annual Report*.³¹⁰ The former Committee considered this to be outstanding disclosure and best practice, and recommended that the Department of Treasury and Finance amend the guidance to departments for annual reporting using this as a model.³¹¹

The former Government supported this in principle, and committed to 'give consideration to ways to improve the *2014-15 Model Report for Victorian Government Departments*'.³¹² While the *2014-15 Model Report for Victorian Government Departments* did not change materially,³¹³ the Department of Treasury and Finance has advised the Committee that implementation is in progress and that:

A draft illustration has been prepared for inclusion in the Model Report. Consultation has been completed and the disclosure requirements are being finalised for submission to the Minister for Finance for approval.³¹⁴

³⁰⁸ Department of Treasury and Finance, *2013-14 Model Report for Victorian Government Departments* (2014), p.22

³⁰⁹ Department of Environment and Primary Industries, *2013 Annual Report* (2013), p.190; Department of Environment and Primary Industries, *2013-14 Annual Report* (2014), p.176

³¹⁰ Department of Environment, Land, Water and Planning, *Annual Report 2015* (2015), p.246

³¹¹ Public Accounts and Estimates Committee, *Review of the Performance Measurement and Reporting System* (2014), Recommendation 51, p.115

³¹² Victorian Government, *Government Responses to the Recommendations of Public Accounts and Estimates Committee's 118th Report to Parliament - Review of the Performance Measurement and Reporting System*, tabled 18 September 2014, p.19

³¹³ Department of Treasury and Finance, *2014-15 Model Report for Victorian Government Departments for Victorian Government Departments* (2015), p.27

³¹⁴ Department of Treasury and Finance, *Response to the Committee's 2013-14 and 2014-15 Financial and Performance Outcomes General Questionnaire*, received 19 November 2015, p.56

The Committee looks forward to confirming that this recommendation has been implemented for the 2015-16 Model Report.

FINDING 62: The Committee's recommendation on additional disclosure of information about completed capital projects has not yet been implemented. The Government has advised the Committee that implementation of this recommendation is in progress.

6 The Government's responses to the former Committee's *Report on the 2012-13 Financial and Performance Outcomes*

6.1 Introduction

The former Committee made ten recommendations in its *Report on the 2012-13 Financial and Performance Outcomes*, which was tabled on 7 May 2014. The new Government responded to these recommendations on 25 June 2015.

This chapter examines the Government's response to the former Committee's recommendations (Section 6.2) and determines how many recommendations have been implemented to date (Section 6.3).

This chapter also looks at the current status of the *Guidelines for Submissions and Responses to Inquiries* (Section 6.4).

The Government responded favourably to seven of these recommendations (70 per cent), which included 'support' and 'support in principle', while three recommendations (30 per cent) were not supported.

As part of the current inquiry, the Committee sought further details on the progress on the implementation of these seven recommendations.

Detailed responses by the Government to the former Committee's recommendations can be found on the Committee's website (www.parliament.vic.gov.au/paec). These responses include actions taken at the time of the response and intended actions to implement or not implement each recommendation.

The Committee intends to consider the responses and implementation of recommendations in its current inquiry as part of the anticipated report on the 2015-16 financial and performance outcomes.

The former Committee also tabled a report on the *Review of the Performance Measurement and Reporting System* in March 2014. The previous government responded to this report in September 2014.³¹⁵ Recommendations relating to the Model Report are assessed in Section 5.4 of this report. However, as discussed in Section 5.2, the Committee is aware that there has not yet been sufficient time

315 Victorian Government, *Government Responses to the Recommendations of Public Accounts and Estimates Committee's 118th Report to Parliament – Review of the Performance Measurement and Reporting System*, tabled 18 September 2014

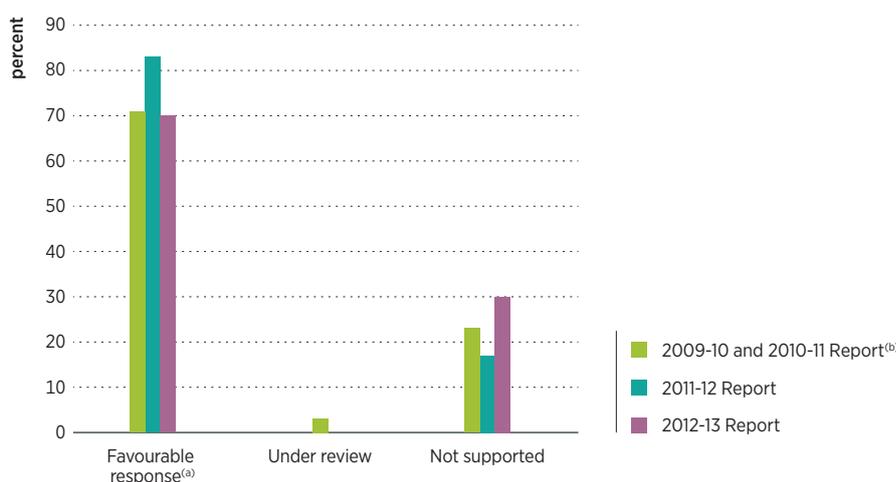
to fully implement the remaining recommendations. The assessment of the implementation of these recommendations will also form part of the Committee's report on the 2015-16 financial and performance outcomes.

6.2 Responses to recommendations from the Report on the 2012-13 Financial and Performance Outcomes

The former Committee made ten recommendations in its *Report on the 2012-13 Financial and Performance Outcomes*. Of these, seven recommendations were either 'supported' or 'supported in principle' by the Government. Three were not supported.³¹⁶

Figure 6.1 compares the level of support to the responses made by the Committee in the past three reports on the State's financial and performance outcomes.

Figure 6.1 Government responses to the former Committee's recommendations made in financial and performance outcomes reports, 2009-10 to 2012-13



(a) Includes 'support', 'support in principle' and 'support in part'.

(b) Two recommendations are not included as they referred to processes already implemented by the Government that the Committee was unaware of at the time of the report.

Sources: Victorian Government, *Government Responses to the Recommendations of Public Accounts and Estimates Committee's 119th Report to Parliament – Report on the 2012-13 Financial and Performance Outcomes*, tabled 25 June 2015; Victorian Government, *Government Responses to the Recommendations of Public Accounts and Estimates Committee's 109th Report to the Parliament – Report on the 2009-10 and 2010-11 Financial and Performance Outcomes*, tabled 19 October 2012; D. Pearson, Victorian Auditor-General, correspondence received by the Committee, 1 June 2012; and Victorian Government, *Government Responses to the Recommendations of Public Accounts and Estimates Committee's 115th Report to the Parliament – Report on the 2011-12 Financial and Performance Outcomes*, tabled 8 May 2013

As seen in Figure 6.1, the level of support by the Government for recommendations regarding the financial and performance outcomes inquiries has remained steady over the past three years.

³¹⁶ Victorian Government, *Government Responses to the Recommendations of Public Accounts and Estimates Committee's 119th Report to Parliament – Report on the 2012-13 Financial and Performance Outcomes*, tabled 25 June 2015

The extent to which the recommendations that received a favourable response from the Government in the *Report on the 2012-13 Financial and Performance Outcomes* have been implemented is discussed in Section 6.3.

FINDING 63: The former Committee made ten recommendations in its *Report on the 2012-13 Financial and Performance Outcomes*. The Government supported seven of these recommendations (70 per cent).

6.3 Implementation of recommendations

The Committee assessed the implementation of the seven recommendations from the former Committee's *Report on the 2012-13 Financial and Performance Outcomes* that were either supported or supported in principle by the Government. The Committee has found that:

- one has been implemented
- two have not yet been implemented
- two have been partly implemented
- two are not yet able to be assessed.

Of the seven recommendations that were supported, six were addressed to the Department of Treasury and Finance and one to the former Department of Education and Early Childhood Development.

6.3.1 Implemented recommendations

Table 6.1 shows the recommendation that the Committee considers have been implemented.

Table 6.1 Recommendations from the *Report on the 2012-13 Financial and Performance Outcomes* considered to be implemented

Recommendation	Government response	Action taken to date and commitment to further action
6. The Department of Treasury and Finance explore avenues to bring about greater comparability between budget and actual asset investment by government purpose classification published in annual budget papers and the Annual Financial Report.	Support	The Department has indicated that: <i>'DTF has revised the methodology for capturing budget estimates to allow for more accurate disclosure of government purpose classification information in estimates publications. From the 2014-15 financial year, these data sets will provide greater comparability between budget and actual information.'</i>

Source: Department of Treasury and Finance, *Response to the Committee's 2013-14 and 2014-15 Financial and Performance Outcomes General Questionnaire*, received 19 November 2015, p.59

The Committee acknowledges that the Department of Treasury and Finance has reviewed its methodology for calculating budget estimates and actual results for government purpose classification for 2014-15.

The use of the general purpose classification was discussed at the financial and performance outcomes hearings. Ms Melissa Skilbeck, Deputy Secretary of the Department of Treasury and Finance explained that:

... the general purpose classification system is driven by the ABS, and its purpose is to allow comparisons across states of particular types of expenditure. Like anything that is nationally consistent, it involves a whole lot of rounding and adjustments, so it does not map exactly from the outputs the way in which Victoria describes its own expenditure to the ABS versions.

The general public services category is the most general, as described in the title, so all the other specific categories are easier to map. The general public services category becomes the rest. We had significant inconsistencies between years in these classifications, 13–14 in particular, and subsequently we have done a lot of work to ensure that we are mapping consistently year on year from our outputs to the ABS classification. It has been an issue across a number of jurisdictions. But they do vary significantly because of the particular descriptions used for each of those classifications that the ABS settles in order to enable that comparison across states. So it has limited value when it has that sort of variation, which is why we have done a lot of work to try to make sure it is vastly less going forward.³¹⁷

The Committee will continue to monitor the use of the government purpose classification in future reports.

6.3.2 Recommendations not yet implemented

Table 6.2 below shows the recommendations that the Committee considers are yet to be implemented.

Regarding Recommendation 5, the Department advised the Committee that it had implemented the Committee's recommendation, citing a number of places in Budget Paper No.4 where this was evident. However, the Committee notes that the format of Budget Paper No.4 for 2015-16 has not changed from the 2013-14 version, when the recommendation was made.

³¹⁷ Ms Melissa Skilbeck, Deputy Secretary, Budget and Financial Management, Inquiry into the 2013-14 and 2014-15 Financial and Performance Outcomes Transcript of Evidence, 16 February 2016, p.8

Table 6.2 Recommendations from the Report on the 2012-13 Financial and Performance Outcomes considered yet to be implemented

Recommendation	Government response	Action taken to date and commitment to further action
2. That the Department of Education and Early Childhood Development review its costing methodology for its Higher Education and Skills output to more accurately forecast related student demand.	Support	<p>The Department indicated it has not implemented the recommendation. It explained that:</p> <p><i>'The Government is currently undertaking a review of VET funding, with a focus on VET funding models and settings intended to manage expenditure within the existing budget. The Government will consider the review's recommendations and any alternative reform directions before the start of the 2016 training year.</i></p> <p><i>In the 2014-15 State Budget, the Government allocated additional funding to meet the demand for training.'</i></p>
5. To improve understanding of planned investment in departmental minor asset projects, and align disclosures with the public non-financial corporations sector, the Department of Treasury and Finance should also include within the budget papers the aggregate total estimated investment for such projects.	Support in principle	<p>The Department's response to the Committee's questionnaire was that the action specified in the recommendation had been implemented, and that 'since 2013-14 Budget, Budget Paper 4 has included, for each department, the value of aggregate capital expenditure on minor asset projects not individually disclosed in the budget paper'. As evidence, the Department provided a series of examples from 2015-16 Budget Paper No.4. However, for all of these examples, the TEI for 'other capital expenditure' was given as 'n/a' in Budget Paper No.4, unchanged from Budget Paper No.4 for 2013-14.</p> <p>The Department further explained that:</p> <p><i>'Since the 2013-14 Budget, Budget Paper 4 (BP4) Chapter 2 has included estimates of aggregate capital expenditure on minor capital projects and capital purchases to be made in the budget year for each department ('Other capital expenditure'). The estimates of 'Other capital expenditure' include all capital expenditure in the budget year other than expenditure on capital projects listed separately in BP4. Prior to the 2013-14 Budget this figure had not been included in the budget papers.</i></p> <p><i>This aggregate figure includes all minor capital purchases (e.g. ICT replacement) and smaller infrastructure projects whose TEI is under the individual project disclosure threshold. The 'Other capital expenditure' is reported for the budget year to enable BP4 to be reconciled to Budget Paper 5, which only discloses departmental level cash flow statements for the budget year.'</i></p> <p>The Committee will reassess the implementation of this recommendation in future budget papers.</p>

Sources: Department of Education and Training, *Response to the Committee's 2013-14 and 2014-15 Financial and Performance Outcomes General Questionnaire*, received 18 November 2015, pp.49-50; Department of Treasury and Finance, *Response to the Committee's 2013-14 and 2014-15 Financial and Performance Outcomes General Questionnaire*, received 19 November 2015, pp.56-9; Victorian Government, *Government Responses to the Recommendations of Public Accounts and Estimates Committee's 119th Report to Parliament – Report on the 2012-13 Financial and Performance Outcomes*, tabled 25 June 2015, pp.2-3

6.3.3 Recommendations that are partly implemented

Table 6.3 shows the recommendations that the Committee considers partly implemented.

The Committee notes that in both of these cases, the Government response indicated a level of support for the recommendation. However, the department tasked with implementation has indicated a different intention.

When the Government indicates support (including support in principle) for a Committee recommendation, but the appropriate department does not intend to implement the recommendation, the Committee will notify the Minister for Finance of any such occurrence.

FINDING 64: Departments having responsibility for implementing recommendations supported by the Government may hold a different view on the recommendation to the Government. In these cases, the department's view may prevail.

6.3.4 Recommendations not yet able to be assessed

Table 6.4 shows the recommendations that the former Committee considers cannot yet be assessed in terms of implementation.

FINDING 65: Of the seven recommendations made by the former Committee in the *Report on the 2012-13 Financial and Performance Outcomes* that were supported by the Government, one recommendation has been implemented, two recommendations have not yet been implemented to date, two have been partly implemented and two recommendations are not yet able to be assessed.

Table 6.3 Recommendations from the Report on the 2012-13 Financial and Performance Outcomes considered to be partly implemented

Recommendation	Government response	Action taken to date and commitment to further action
3. The Department of Treasury and Finance provide a further disaggregation of 'other operating expenses' for the public non-financial corporations sector in the Annual Financial Report and in the budget papers to the same level as is disclosed for the general government sector.	Support in principle	<p>In the Government response to the Committee's recommendations, the Department initially indicated that 'it will provide a disaggregation of "other operating" expenses for the PNFC sector as part of future online budget data sets, via the DTF website, rather than in the budget papers'.</p> <p>In its response to the Committee's questionnaire as part of the current inquiry, the Department indicated it has not implemented the recommendation and explained that:</p> <p><i>'The Annual Financial Report discloses dis-aggregated information for the General Government sector and for the State of Victoria in the notes to the accounts but does not provide this break-up for the public non-financial corporations sector. Providing further disaggregated information for only one particular item of expenditure would be inconsistent with presentation format of the entire publication. DTF can provide this detail separately if requested'.</i></p>
4. The Department of Treasury and Finance provide a further disaggregation of 'other operating expenses' for the public financial corporations sector in the Annual Financial Report and in the budget papers to the same level as is disclosed for the general government sector.	Support in principle	<p>In the Government response to the Committee's recommendations, the Government initially indicated that the Department of Treasury and Finance 'will provide a disaggregation of other operating expenses' for the PFC sector as part of future online budget data sets, via the DTF website, rather than in the budget papers'.</p> <p>In its response to the Committee's questionnaire as part of the current inquiry, the Department indicated it has not implemented the recommendation and explained that:</p> <p><i>'The Annual Financial Report discloses disaggregated information for the general government sector and for the State of Victoria in the notes to the accounts but does not provide this break-up for the public financial corporations sector. Providing further disaggregated information for only one particular item of expenditure would be inconsistent with presentation format of the entire publication. DTF can provide this detail separately if requested'.</i></p>

Sources: Department of Education and Training, *Response to the Committee's 2013-14 and 2014-15 Financial and Performance Outcomes General Questionnaire*, received 18 November 2015, pp.49-50; Department of Treasury and Finance, *Response to the Committee's 2013-14 and 2014-15 Financial and Performance Outcomes General Questionnaire*, received 19 November 2015, pp.56-9; Victorian Government, *Government Responses to the Recommendations of Public Accounts and Estimates Committee's 119th Report to Parliament – Report on the 2012-13 Financial and Performance Outcomes*, tabled 25 June 2015, pp.2-3

Table 6.4 Recommendations from the Report on the 2012-13 Financial and Performance Outcomes that are not yet able to be assessed

Recommendation	Government response	Action taken to date and commitment to further action
<p>1. The Department of Treasury and Finance investigate ways of changing the guidance for entities other than departments to enable the Parliament and other stakeholders to compare the actual revenue for those entities against the original forecasts that were set for the year.</p>	<p>Support in principle</p>	<p>The Department indicated that it has implemented the recommendation. However it has also indicated that there is no public evidence to support its implementation.</p> <p>The Department explained that:</p> <p><i>'To change the guidance material for entities would expose a number of entities to commercial risk or disadvantage. DTF will continue to enhance the sectoral variance narrative to improve transparency around key variances between actual results and original estimates'.</i></p>
<p>10. Government responses supporting the Committee's recommendations that cite proposed review action include, to the extent possible, specific details of the planned reviews and their associated timelines. This approach would assist the Parliament's consideration of the responses.</p>	<p>Support</p>	<p>The Department of Treasury and Finance has indicated that:</p> <p><i>'The Government supports in principle including, to the extent possible, specific details of planned reviews and associated timelines of proposed review action'.</i></p> <p><i>'Information will be made publicly available when the Government is next required to respond to Committee recommendations and where the Government responses cite proposed review action.'</i></p> <p>The Committee will assess the implementation of this recommendation in future Government responses.</p>

Source: Department of Treasury and Finance, *Response to the Committee's 2013-14 and 2014-15 Financial and Performance Outcomes General Questionnaire*, received 19 November 2015, p.60

6.4 The review of the *Guidelines for Submissions and Responses to Inquiries*

The Department of Premier and Cabinet issued the *Guidelines for Submissions and Responses to Inquiries* in 2002. According to this document, the guidelines were 'designed to aid officials who are considering preparing a submission or response to a parliamentary inquiry or other statutory or non-statutory inquiry'.³¹⁸

In March 2013, the previous Government indicated that it would:

... consider providing more detailed guidance regarding responding to Parliamentary Committee recommendations in the 2013 review of the *Guidelines for Submissions and Responses to Inquiries*.³¹⁹

In April 2014, in response to a Committee recommendation concerning an unrelated matter, the previous Government reiterated that the Department of Premier and Cabinet will consider the matter:

... as part of its review of guidelines for responding to inquiries.³²⁰

In May 2014, the Department of Premier and Cabinet indicated the review was in progress and was expected to be completed in late 2014.³²¹ During the 57th and 58th Parliaments, the Committee made a further 17 recommendations in relation to these guidelines.

The Committee notes that the updated Guidelines have not yet been published on the Department of Premier and Cabinet's website. The Committee sought further details regarding the date on which the Department expects the Guidelines to be released. The Department indicated that:

Following the State Election in November 2014, the Department of Premier and Cabinet (DPC) has undertaken a review of the *Guidelines for Submissions and Responses to Inquiries*. Consultations within the Victorian Public Service on revised guidelines are scheduled for early 2016.

...

Revised guidelines are expected to be released in 2016.³²²

³¹⁸ Department of Premier and Cabinet, *Guidelines for Submissions and Responses to Inquiries* (2002), p.6

³¹⁹ Victorian Government, *Government Responses to the Recommendations of Public Accounts and Estimates Committee's 111th Report to Parliament – Report on the 2012–13 Budget Estimates – Part Two*, tabled 12 March 2013, pp.24–5

³²⁰ Victorian Government, *Government Responses to the Recommendations of Public Accounts and Estimates Committee's 116th Report to Parliament – Report on the 2013–14 Budget Estimates – Part Two*, tabled 16 April 2014, pp.13–14

³²¹ Department of Premier and Cabinet, *Response to the Committee's 2014–15 Budget Estimates General Questionnaire*, received 7 May 2014, p.23.

³²² Department of Premier and Cabinet, *Response to the Committee's 2013–14 and 2014–15 Financial and Performance Outcomes Entity-Specific Questionnaire*, received 14 January 2016, p.2

In the financial and performance outcomes hearing, Mr Andrew Campbell, Acting Executive Director, People, Culture and Operations for the Department of Premier and Cabinet, advised the Committee that this work:

... has not stopped. These dedicated officers are getting on with the task of pushing that through.³²³

Responding on notice, the Department of Premier and Cabinet later confirmed that:

The review of the department's *Guidelines for Submissions and Responses to Inquiries* is still in progress. The Government is considering the recommendations of the previous Public Accounts and Estimates Committee in this review, which is expected to be completed in 2016. The revised guidelines are expected to be released in 2016.³²⁴

While the Committee is unaware of why the review has been delayed, it is heartened to learn of the department's intention to release the guidelines this year, and looks forward to the document's imminent release.

FINDING 66: The Department of Premier and Cabinet expects the revised version of the *Guidelines for Submissions and Responses to Inquiries* to be released in 2016. The current version dates from 2002.

³²³ Mr Andrew Campbell, Acting Executive Director, People, Culture and Operations, Department of Premier and Cabinet, *2013-14 and 2014-15 Financial and Performance Outcomes Transcript of Evidence*, 18 February 2016, p.28

³²⁴ Department of Premier and Cabinet, 2013-14 and 2014-15 financial and performance outcomes hearings, response to questions on notice, received 21 March 2016, p.6

Appendix 2

Overall financial outcomes for 2013-14

A2.1 Key components of the 2013-14 financial outcomes for the general government sector, comparison to 2012-13^(a)

	2012-13 ^(b)	2013-14 ^(c)	Change	
	actual	actual	(\$ million)	(per cent)
	(\$ million)	(\$ million)		
Revenue				
State-sourced revenue	26,828.6	27,352.2	523.6	2.0
Commonwealth Government grants	21,784.3	25,012.5	3,228.2	14.8
Total revenue	48,612.9	52,364.7	3,751.8	7.7
Expenses				
Output expenses	48,929.4	50,384.9	1,455.5	3.0
Cash resources				
Operating surplus	-316.6	1,979.8	2,296.4	-725.3
Depreciation and similar	2,008.9	1,962.7	-46.2	-2.3
Asset sales	248.0	270.9	22.9	9.2
Investment through other sectors (net)	-1,316.8	-1,478.3 ^(d)	-161.5	12.3
Total cash resources	623.5	2,735.1	2,111.6	338.7
Asset investment				
Annual asset investment ^(e)	5,450.0	5,475.6	25.6	0.5
Repayment of borrowings				
Increase in net debt	4,585.2	1,352.5	-3,232.7 ^(f)	-70.5 ^(f)

(a) 2013-14 figures are as restated in the 2014-15 Financial Report following a change in accounting standards. Values for 2012-13 have not been restated following this change. Therefore, comparison between figures may have limited value.

(b) As restated in the 2013-14 Financial Report.

(c) As restated in the 2014-15 Financial Report.

(d) Negative amount indicates that more cash flowed from the general government sector to other sectors to fund asset investment than was received from those sectors.

(e) Includes purchase of non-financial assets and investment through other sectors (net).

(f) Negative amount indicates that the increase in net debt was less than had been anticipated.

Source: Committee calculations based on Department of Treasury and Finance, 2014-15 Financial Report (2015), pp.26-8, 68; Department of Treasury and Finance, 2013-14 Financial Report (2014), p.31-3, 78; Department of Treasury and Finance, 2012-13 Financial Report (2013), p.27

A2.2 Key components of the 2013-14 financial outcomes for the general government sector, comparison to the 2013-14 budget estimates

	2013-14 Budget	2013-14 Actuals	Variance	
	(\$ million)	(\$ million)	(\$ million)	(per cent)
Revenue				
State-sourced revenue	27,147.7	27,352.2	204.5	0.8
Commonwealth Government grants	23,179.8	25,012.5	1,832.7	7.9
Total revenue	50,327.5	52,364.7	2,037.2	4.0
Expenses				
Output expenses	50,103.0	50,384.9	281.9	0.6
Cash resources				
Operating surplus	224.5	1,979.8	1,755.3	781.9
Depreciation and similar	2,507.1	1,962.7	-544.4	-21.7
Asset sales	420.2	270.9	-149.3	-35.5
Investment through other sectors (net)	-1,377.3	-1,478.3 ^(a)	-101.1	7.3
Total cash resources	1,774.5	2,735.1	960.6	54.1
Asset investment				
Annual asset investment	6,246.2	5,475.6	-770.6	-12.3
Repayment of borrowings				
Increase in net debt	3,142.7 ^(b)	1,352.5	-1,790.2 ^(c)	-57.0

(a) Negative amount indicates that more cash flowed from the general government sector to other sectors to fund asset investment than was received from those sectors.

(b) Anticipated increase in net debt over previous year's revised estimate.

(c) Negative amount indicates that net debt increased.

Source: Committee calculations based on Department of Treasury and Finance, *2014-15 Financial Report* (2015), pp.26-8, 68; Department of Treasury and Finance, *Budget Paper No.5: 2013-14 Statement of Finances* (2013), pp.5, 7, 8, 25

A2.3 Amounts going from the general government sector to the public non-financial corporations sector, 2013-14

Line item	2013-14 actual (\$ million)
Interest expense	0.0
Dividends	0.0
Grants and other transfers	2,576.9
Other operating expenses – purchase of supplies and consumables	1.7
Other operating expenses – purchase of services	0.0
Total expenses from transactions	2,799.6

Source: Department of Treasury and Finance, *Response to the Committee's 2013-14 and 2014-15 Financial and Performance Outcomes – Entity-Specific Questionnaire*, received 27 January 2016, pp.15-16

A2.4 Amounts going from the public non-financial corporations sector to the general government sector, 2013-14

Line item	2013-14 actual (\$ million)
Taxation revenue	115.3
Interest revenue	486.5
Dividends	83.9
Income tax equivalent and local government rate equivalent revenue	182.6
Grants	25.1
Sales of goods and services – inter-sector capital assets charge	1,524.4
Sales of goods and services – provision of services	110.9
Total revenue from transactions	2,330.1

Source: Department of Treasury and Finance, *Response to the Committee's 2013-14 and 2014-15 Financial and Performance Outcomes – Entity-Specific Questionnaire*, received 27 January 2016, pp.15-16

A2.5 Amounts going from the general government sector to the public financial corporations sector, 2013-14

Line item	2013-14 actual (\$ million)
Interest expense	1,289.5
Dividends	0.0
Grants and other transfers	4.6
Other operating expenses – purchase of supplies and consumables	2.4
Other operating expenses – purchase of services	0.0
Total expenses from transactions	1,309.9

Source: Department of Treasury and Finance, *Response to the Committee's 2013-14 and 2014-15 Financial and Performance Outcomes – Entity-Specific Questionnaire*, received 27 January 2016, pp.15-16

A2.6 Amounts going from the public financial corporations sector to the general government sector, 2013-14

Line item	2013-14 actual (\$ million)
Taxation revenue	0.0
Interest revenue	92.5
Dividends	136.0
Income tax equivalent and local government rate equivalent revenue	22.2
Grants	106.6
Sales of goods and services – inter-sector capital assets charge	0.0
Sales of goods and services – provision of services	151.3
Total revenue from transactions	355.4

Source: Department of Treasury and Finance, *Response to the Committee's 2013-14 and 2014-15 Financial and Performance Outcomes – Entity-Specific Questionnaire*, received 27 January 2016, pp.15-16

A2.7 Estimated impact of the 2013-14 Budget Update initiatives

Initiative	2013-14 (\$ million)	2014-15 (\$ million)	2015-16 (\$ million)	2016-17 (\$ million)
Revenue initiatives				
<i>Expanding the Congestion Levy Area</i>	0.0	27.3	28.0	28.7
<i>Hotel and Club Electronic Gaming Machine Tax</i>	17.7	81.1	87.4	100.8
<i>Casino Electronic Gaming Machine Levy</i>	13.9	56.8	56.8	56.8
<i>Public Transport Fare Changes</i>	5.7	21.1	46.4	61.2

Initiative	2013-14 (\$ million)	2014-15 (\$ million)	2015-16 (\$ million)	2016-17 (\$ million)
<i>Regulatory Cost Recovery</i>	0.0	0.0	16.0	16.0
<i>Restore the Real Value of a Fee Unit</i>	0.0	17.0	17.0	17.0
Total impact on revenue	37.3	203.3	251.6	280.4
Efficiency measures				
<i>Energy Technology Innovation Strategy - Return of Surplus Funds</i>	10.0	10.0	10.0	10.0
<i>Regulatory Efficiency</i>	0.0 ^(a)	0.0	14.0	14.0
Total efficiency measures	10.0	10.0	24.0	24.0
Output initiatives				
<i>Peter Doherty Institute</i>	1.4	1.4	1.4	1.4
<i>Prison Capacity Expansion</i>	12.3	58.8	83.2	85.2
<i>Police Information Technology Refresh</i>	26.8	0.0	0.0	0.0
<i>Sports Integrity Intelligence Unit</i>	1.0	1.0	0.0	0.0
<i>Summer Fire Information and Education Strategy</i>	3.5	0.0	0.0	0.0
<i>Arts Centre Financial Sustainability</i>	1.0	0.0	0.0	0.0
<i>Automotive New Markets Program</i>	0.0	1.0	1.0	0.0
<i>Economic Diversity Fund</i>	2.0	3.5	3.5	0.0
<i>Victorian Government ICT Strategy</i>	8.3	4.2	0.0	0.0
<i>ANZAC Day</i>	0.3	0.3	0.0	0.0
<i>Implementation of Taxi Reform</i>	7.4	6.6	5.5	3.4
<i>Highbett Gas Works Site</i>	13.0	0.0	0.0	0.0
Total output initiatives	77.0	76.8	94.6	90.0
Asset Initiatives				
<i>Mildura Hospital</i>	37.7	0.0	0.0	0.0
<i>Police Information Technology Refresh</i>	25.9	0.0	0.0	0.0
<i>Prison Capacity Expansion</i>	49.5	36.6	0.0	0.0
<i>Ravenhall Prison Expansion</i>	tba	tba	tba	tba
<i>Sneydes Road Freeway Interchange</i>	7.6	19.9	12.4	0.0
<i>Implementation of Taxi Reform</i>	3.0	1.7	0.0	0.0
Total asset initiatives	123.7	58.2	12.4	0.0
Total impact on expenditure	190.7	125.0	83.0	66.0

(a) Regulators were expected to be reviewed in 2013-14 to improve their efficiency and performance, therefore no efficiency gain was expected in 2013-14.

Source: Department of Treasury and Finance, *2013-14 Victorian Budget Update* (2013), Appendix A

A2.8 Department of Treasury and Finance response to the Committee's questionnaire in relation to variances between the estimates and actuals for the main economic variables, 2013-14

Economic variable	Initial 2013-14 budget estimate ^(b)	Actual 2013-14 result ^(b)	Variance	Explanation for variances equal to or greater than ± 0.5 percentage points
Real gross state product growth	2.25	1.7	-0.55	GSP growth was weaker than expected, largely due to slower household consumption and business investment, in the face of the uncertainty created by a deterioration in the international outlook.
Employment growth	1.5	0.6	-0.9	Consistent with slower growth in GSP, employment growth was less than expected.
Unemployment rate	5.5	6.2	0.7	Consistent with slower growth in GSP together with higher population growth, the unemployment rate was higher than forecast.
Consumer price index growth	2.5	2.8	0.3	Variance < ± 0.5 percentage points.
Wage price index growth	3.5	2.7	-0.8	Consistent with a weaker than expected labour market, wages growth was also weaker.
Population growth	1.7	1.9	0.2	Variance < ± 0.5 percentage points.
Interest rates ^(a)	2.88	2.53	-0.35	DTF does not independently forecast interest rates, but uses the latest available median of forecasts surveyed by Bloomberg for the upcoming Budget year. The actual weighted average cash rate for the 2013-14 year was 2.53 per cent.
Household consumption growth	2.8	2.0	-0.8	Sluggishness in overall economic activity, and uncertainty attributed to the international outlook and weak employment and wages growth, suppressed growth in consumption.
Property prices growth ^(a)	5.8	8.2	2.4	Property market was stronger than forecast.
Property transaction volume growth ^(a)	3.2	13.6	10.3	Property market was stronger than forecast.

Economic variable	Initial 2013-14 budget estimate ^(a)	Actual 2013-14 result ^(b)	Variance	Explanation for variances equal to or greater than ±0.5 percentage points
Enterprise bargaining agreement increases ^(a)	2.3%	1.3%	-1.0	The base for 'enterprise bargaining agreement increases' for the sensitivity analysis in Budget Paper No. 2 is 'employee expenses'. While EBA changes contribute to growth in employee expenses, it may also be driven by changes in the number of employees and other factors impacting the price of labour (such as changes in the composition of the workforce and progression rates). The 1 ppt variation between the actual growth in employee expenses in 2013-14 versus expectation at the time of the 2013-14 Budget reflects stronger growth in 2012-13 than originally expected. Actual employee expenses of \$18.0 billion in 2013-14 was in line with the original budget expectation of \$17.9 billion.
Exchange rate	\$A1 = US\$1.01	\$A1 = \$US0.91	-9.9%	DTF does not forecast exchange rates, but leaves the exchange rate constant at the time forecasts are finalised pre-Budget. The AUD weakened as commodity prices fell during 2013-14.

(a) As defined for the sensitivity analysis in Budget Paper No.2.

(b) All units are percentages apart from the exchange rate.

Source: Department of Treasury and Finance, *Response to the Committee's 2013-14 and 2014-15 Financial and Performance Outcomes General Questionnaire*, received 19 November 2015, pp.43-4

Appendix 3

Overall financial outcomes for 2014-15

A3.1 Budget and actual annual asset investment, 2009-10 to 2014-15

	Budget (\$ million)	Actual (\$ million)	Variance (\$ million)
2009-10			
Direct investment	5,228.6	4,661.2	-567.4
Investment through other sectors	1,954.8	1,236.6	-718.2
Annual asset investment	7,183.4	5,897.8	-1,285.6
2010-11			
Direct investment	4,435.0	4,886.3	451.4
Investment through other sectors	2,179.4	1,937.5	-241.9
Annual asset investment	6,614.4	6,823.8	209.5
2011-12			
Direct investment	4,119.1	3,564.9	-554.2
Investment through other sectors	2,326.7	1,831.1	-495.7
Annual asset investment	6,445.8	5,396.0	-1,049.8
2012-13			
Direct investment	3,529.6	4,133.2	603.6
Investment through other sectors	2,817.2	1,316.8	-1,500.4
Annual asset investment	6,346.8	5,450.0	-896.8
2013-14			
Direct investment	4,868.9	3,997.3	-871.6
Investment through other sectors	1,377.3	1,478.3	101.0
Annual asset investment	6,246.2	5,475.6	-770.6
2014-15			
Direct investment	5,312.4	4,393.7	-918.7
Investment through other sectors	676.8	858.1	181.3
Annual asset investment	5,989.3	5,251.8	-737.4
Average: all years			
Direct investment	-	-	-309.5
Investment through other sectors	-	-	-445.6
Annual asset investment	-	-	-755.1

Source: Department of Treasury and Finance, *General Government Consolidated Cash Flow Statement* (2015). Available at <dtf.vic.gov.au/Publications/Victoria-Economy-publications/Aggregate-financial-statements>, viewed 5 January 2016

A3.2 Expected, revised and actual expenses by major government purpose classification, general government sector, 2014-15

Government purpose classification	Budget	Revised (Pre-Election Budget Update)	Revised (Budget Update)	Actual	Variance (actual to original budget)	
	(\$ million)	(\$ million)	(\$ million)	(\$ million)	(\$ million)	(per cent)
Education	12,943.6	13,198.4	13,216.9	12,973.8	30.2	0.2
Health	14,437.1	14,515.5	14,515.5	14,369.8	-67.3	-0.5
Housing and community amenities	3,022.2	3,012.9	3,045.9	2,948.2	-74.0	-2.4
Public order and safety	5,913.2	6,037.5	6,037.4	5,769.1	-144.1	-2.4
Social security and welfare	4,048.6	4,129.3	4,129.3	4,254.9	206.3	5.1
Transport and communications	5,839.9	5,914.4	5,914.4	6,133.6	293.7	5.0
Other ^(a)	5,370.7	5,111.2	5,202.2	6,108.6	737.9	13.7
Total	51,575.3	51,919.1	52,061.7	52,558.0	982.7	1.9

(a) Includes: 'General public services'; 'Recreation and culture'; 'Fuel and energy'; 'Agriculture, forestry, fishing and hunting'; 'Other economic affairs'; and 'Other purposes'.

Sources: Department of Treasury and Finance, *Budget Paper No.5: 2014-15 Statement of Finances* (2014), p.30; Department of Treasury and Finance, *2014 Pre-Election Budget Update* (2014), p.51; Department of Treasury and Finance, *2014-15 Victorian Budget Update* (2014), p.60; Department of Treasury and Finance, *2014-15 Financial Report* (2015), p.75

A3.3 Investment projects,^(d) summary of estimated and actual expenditure during 2014-15 and changes to expected completion date during the year

Department	Estimated expenditure (\$ million)	Actual expenditure (\$ million)	Variance (\$ million)	Variance (per cent)	Average delay ^(a) (months)
Economic Development, Jobs, Transport and Resources	688.8	549.7	-139.1	-20.2	4.6
Environment, Land, Water and Planning	13.3	7.1	-6.2	-46.6	0.0
Health and Human Services	494.9	372.7	-122.3	-24.7	4.1
Justice and Regulation ^(b)	297.4	150.2	-147.2	-49.5	4.7
Premier and Cabinet	3.3	3.3	0.0	0.0	0.0
Education and Training	58.9	40.1	-18.8	-31.9	1.2
Treasury and Finance	2.5	2.3	-0.2	-8.0	0.0
Court Services Victoria	12.3	6.3	-6.0	-48.8	1.5
Total general government sector	1,571.4	1,131.7	-439.7	-28.0	4.0
PNFC entities ^(c)	1,112.5	918.1	-194.4	-17.5	4.3

- (a) Difference between the expected completion date of the project reported in the 2014-15 budget papers and that reported in the 2015-16 budget papers.
- (b) Projects for the Department of Justice and Regulation include four undertaken by the Country Fire Authority which is included in the general government sector.
- (c) PNFC entities include: Goulburn Murray Rural Water Corporation, Gippsland and Southern Rural Water Corporation, Director of Housing and VicTrack.
- (d) Projects included are those that appeared as ongoing projects in both the 2014-15 and 2015-16 budget papers and had a total estimated investment of \$10 million or greater.
- Sources: Departmental responses to the Committee's 2013-14 and 2014-15 Financial and Performance Outcomes General Questionnaire

Appendix 4

Major factors influencing the outcomes in 2014-15

A4.1 Budget estimates and actual results for dividends, public financial corporations sector, 2014-15

A4

	2014-15 Budget estimate (\$ million)	2014-15 revised Budget estimate (\$ million)	Budget actual at December 2014 (\$ million)	2014-15 actual (\$ million)
Transport Accident Commission	189.0	254.5	162.5	253.2
Victorian WorkCover Authority	109.8	332.3	241.7	241.7
Treasury Corporation of Victoria	42.6	67.0	50.6	50.6
Rural Finance Corporation	-	17.5	17.5	17.5
Victorian Funds Management Corporation	2.7	1.7	1.7	1.7
State Trustees Ltd	0.8	1.2	0.8	1.6
Total	344.9	674.2	474.8	566.3

Sources: Department of Treasury and Finance, *2014-15 Financial Report* (2015), p.67; Department of Treasury and Finance, *2014-15 Mid-Year Financial Report*, (2015), p.35; Department of Treasury and Finance, *2014-15 Victorian Budget Update* (2014), p.53

A4.2 Budget estimates and actual results for dividends, public non-financial corporations sector, 2014-15

	2014-15 Budget estimate (\$ million)	2014-15 revised Budget estimate (\$ million)	Budget actual at December 2014 (\$ million)	2014-15 actual (\$ million)
State Electricity Commission of Victoria (Shell)	-	100.0	-	100.0
South East Water Corporation	16.0	49.3	35.6	52.0
Melbourne Water Corporation	16.7	21.5	21.5	21.5
Port of Melbourne Corporation	24.2	28.9	17.1	33.0
City West Water Corporation	6.3	16.0	11.4	15.6
Yarra Valley Water Corporation	5.2	21.8	19.2	31.7
Urban Renewal Authority Victoria (Places Victoria)	-	9.1	-	-
Victorian Regional Channels Authority	0.7	0.6	-	-
Others	-	0.5	0.9	2.2
Total	69.1	247.6	105.7	256.0

Sources: Department of Treasury and Finance, *2014-15 Financial Report* (2015), p.67; Department of Treasury and Finance, *2014-15 Mid-Year Financial Report* (2015), p.35; Department of Treasury and Finance, *2014-15 Victorian Budget Update* (2014), p.53

A4.3 Budget estimates and actual results for specific-purpose grants from the Commonwealth, 2014-15

	2014-15 Budget (\$ million)	2014-15 actual (\$ million)	Variance (\$ million)
Specific-purpose grants for on-passing			
Financial assistance grants to local government (operating)	417.2	593.1	175.9
Identified local roads grants to local government	153.2	218.4	65.2
National Education Agreement: support for school services	n/a	n/a	n/a
Students First – A fairer funding agreement for schools: support for school services	2,569.8	2,684.2	114.4
Total	3,140.1	3,492.5	352.4
Grants for specific purposes			
Health	4,407.0	4,491.2	84.2
Education	1,750.5	1,829.8	79.3
Community services	445.8	372.3	-75.5
Environment	309.1	294.1	-15.0
Infrastructure			
National Partnership: Regional Rail Link	535.0	143.5	-391.5
National Partnership: Nation Building – AusLink (Road and Rail)	382.6	230.3	-152.3
East West Link – Eastern Section	600.0	0.0	-600.0
Other infrastructure grants ^(a)	69.3	21.0	-48.3
Total Infrastructure	1,586.9	394.8	1,192.1
Affordable housing	326.0	362.8	36.8
Contingent/Other	967.6	1067.6	100.1
Total	9,792.8	8,890.0	-902.8

(a) Calculated by elimination.

Sources: Department of Treasury and Finance, *Budget Paper No.5: 2014-15 Statement of Finances* (2014), pp.168-78; Department of Treasury and Finance, *Response to the Committee's 2013-14 and 2014-15 Financial and Performance Outcomes – Entity-Specific Questionnaire*, received 27 January 2016, pp.5-7

A4.4 Direct costs associated with Machinery-of-government changes

Department	Total direct costs reported to PAEC in June (11 to 26) 2015	Total direct costs reported to LSIC on 21 July 2015 (for 30 Nov 2014 to 31 May 2015)	Total direct costs for 2014-2015 reported to PAEC in November (6-19) 2015
	\$	\$	\$
Economic Development, Jobs, Transport and Resources	Estimate of 1.5 to 2.0 million	1,302,507	1,338,000
Education and Training	n/a	10,200	0
Environment, Land, Water and Planning	70,000	770,568	771,000
Health and Human Services	150,000	618,000	610,000
Justice and Regulation	0	0	0
Premier and Cabinet	Reported 'costs involved in implementing changes are absorbed within existing budgets'	341,430	343,000
Treasury and Finance	Reported no costs incurred	23,000	23,000
Total	-	3,065,705	3,085,000

Sources: Public Accounts and Estimates Committee, *Report on the 2015-16 Budget Estimates* (2015), pp.140-3; Legal and Social Issues Committee, *Inquiry into Machinery of Government Changes - Interim Report* (2015); Departmental responses to the Committee's 2013-14 and 2014-15 Financial and Performance Outcomes General Questionnaire.

Appendix 5

Review of departmental performance measures and annual reports for 2014-15

A5.1 Performance measures from the 2014-15 budget papers and annual reports

A5

Department	Measures included in the 2014-15 budget papers		Measures included in the 2014-15 annual reports	
	Non-cost measures	Cost measures	Non-cost measures	Cost measures
Economic Development, Jobs Transport and Resources	-	-	283	26
Education and Early Childhood Development	79	7	-	-
Environment, Land, Water and Planning	-	-	95	9
Environment and Primary Industries	102	9	-	-
Education and Training	-	-	79	7
Health and Human Services	-	-	252	34
Human Services	84	10	-	-
Justice and Regulation	-	-	101	11
Health	164	24	-	-
Justice	117	15	-	-
Premier and Cabinet	103	12	114	20
State Development, Business and Innovation	60	8	-	-
Treasury and Finance	91	10	80	9
Transport, Planning and Local Infrastructure	198	15	-	-
Courts	23	1	23	1
Parliament	36	6	36	6
Total	1,057	117	1,063	123

Sources: Department of Treasury and Finance, *Budget Paper No.3: 2014-15 Service Delivery* (2014), Chapter 2; Departmental annual reports, 2014-15

A5.2 Proportion of all performance measures significantly under and over targets, 2009-10 to 2014-15

Year	Performance measures significantly ^(a) below targets	Performance measures close to targets	Performance measures significantly ^(a) above targets
2009-10	15.0	56.9	28.1
2010-11	15.5	58.0	26.4
2011-12	15.9	59.9	24.2
2012-13	13.7	61.4	24.9
2013-14	13.5	62.7	23.8
2014-15	15.2	59.2	25.6

(a) More than 5 per cent

Sources: Departmental annual reports, 2009-10 to 2014-15

A5.3 Performance measures with consistent significant^(a) variances between targets and actual results, 2009-10 to 2014-15

Output	Measure	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
DEPARTMENT OF ECONOMIC DEVELOPMENT, JOBS, TRANSPORT AND RESOURCES^(b)							
Agriculture	Value of external (non-state) funding contribution to research projects that support productive agriculture	43.7	43.0	27.2	10.6	15.3	25.0
Arts portfolio agencies	Community engagement: members and friends of agencies	47.5	15.0	16.7	19.9	15.8	15.6
Arts portfolio agencies	Visitors satisfied with visit: Melbourne Recital Centre	^(c)	8.9	8.9	5.6	6.7	6.5
Investment attraction, facilitation and major projects	Jobs derived from investment facilitated	61.9	22.8	29.0	11.5	48.3	39.1
Investment attraction, facilitation and major projects	New investments facilitated	32.1	74.4	44.5	54.3	30.2	16.0
Road network improvements	Congestion projects completed	32.1	600.0	300.0	133.3	150.0	100.0
Small business assistance	Client satisfaction with Victorian Small Business Commissioner mediation service	17.5	16.0	16.3	17.9	17.0	18.8
Trade and export facilitation	Value of exports facilitated and imports replaced	79.7	170.6	117.3	55.1	27.3	5.5

Output	Measure	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
DEPARTMENT OF ENVIRONMENT, LAND, WATER AND PLANNING^(b)							
Environmental Programs	Native vegetation credit trading agreements (which produce potential offsets to clearing of native vegetation) signed through the BushBroker program	22.2	20.0	6.0	25.0	8.3	68.3
Fire and Emergency Management	Personnel with accreditation in a fire and emergency management role	24.7	37.9	23.7	26.9	10.2	23.4
Land Victoria	Planning certificates issued	25.7	5.7	8.6	20.0	42.9	11.0
Management of Forests, Parks and Public Land	Visitors to Zoos Victoria at Melbourne, Werribee and Healesville	38.5	7.7	12.5	8.1	7.4	17.4
Statutory Activities and Environment Protection	Increase in EPA notices issued for illegal dumping of waste	^(c)	1,986.7	360.0	47.8	128.9	115.0
DEPARTMENT OF EDUCATION AND TRAINING^(b)							
Early Childhood Development	Maternal and child health clients with children aged 0-1 year receiving enhanced maternal and child health services	61.0	77.0	41.0	69.0	50.0	50.0
School Education-Primary	Statewide computer to student ratio: primary	74.8	21.5	38.9	55.4	45.4	61.3
School Education-Secondary	Number of school students enrolled in Victorian Certificate of Applied Learning	26.2	7.1	19.2	7.1	9.3	8.2
School Education-Secondary	Number of school students participating in accredited vocational programs	21.6	10.4	14.7	17.7	15.0	6.7
School Education-Secondary	Number of School students satisfactorily completing at least one Victorian Certificate of Applied Learning certificate	43.4	22.2	31.4	12.2	10.4	9.6
School Education-Secondary	Statewide computer to student ratio: secondary	100.8	58.7	129.4	94.2	44.2	9.6

Output	Measure	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
DEPARTMENT OF HEALTH AND HUMAN SERVICES^(b)							
Admitted Services	Major trauma patients transferred to a major trauma service	14.7	20.0	11.7	14.7	14.0	23.1
Admitted Services	Semi-urgent (Category 2) elective surgery patients admitted within 90 days	-8.8	-6.3	-10.0	-12.0	-13.8	-5.3
Ambulance Emergency Services	Proportion of emergency (Code 1) incidents responded to within 15 minutes - statewide	-5.1	-9.3	-12.0	-14.1	-13.3	-12.6
Child Protection and Family Services	Children and young people who were the subject of an investigation which led to a decision not to substantiate, who were subsequently the subject of a substantiation within three months of case closure	-47.6	-54.2	-66.0	-64.0	-40.0	-52.0
Child Protection and Family Services	Number of Child FIRST assessments and interventions	47.8	9.0	7.9	9.2	23.0	21.5
Child Protection and Family Services	Organisations that have successfully completed a quality review (specialist support and placement services)	5.3	5.3	5.3	5.3	5.3	5.3
Clinical Care	Emergency patients admitted to a mental health bed within eight hours	-8.8	-12.5	-13.8	-13.8	-12.5	-11.3
Drug Treatment and Rehabilitation	Average working days between screening of client and commencement of community-based drug treatment	-61.7	-73.3	-66.7	-69.0	-66.7	-90.0
Drug Treatment and Rehabilitation	Commenced courses of treatment: community-based drug treatment services	31.6	30.3	23.8	36.0	9.9	124.3
Drug Treatment and Rehabilitation	Successful courses of treatment (episodes of care): community-based drug treatment services	38.8	43.8	28.2	50.0	22.0	103.8
Drug Treatment and Rehabilitation	Trained alcohol and drug workers	-21.2	-9.4	-21.2	-21.2	-21.2	-20.0
Emergency Services	Time on hospital bypass	-36.7	-36.7	-43.3	-33.3	-40.0	-26.7

Output	Measure	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
HACC Primary Health, Community Care and Support	Eligible population receiving Home and Community Care services	12.7	8.7	9.7	10.3	10.7	7.7
Non-Admitted Services	Subacute ambulatory care occasions of service	17.8	11.8	10.0	7.4	8.2	13.4
Public Health Development, Research and Support	Total output cost	11.2	38.4	17.1	101.8	61.1	29.7
DEPARTMENT OF JUSTICE AND REGULATION^(b)							
Community-based offender supervision	Total output cost	-9.4	-10.6	-21.6	-7.2	-11.0	-16.8
Infringements and orders management	Total output cost	-22.2	-20.4	-22.9	-15.5	-16.1	-13.7
DEPARTMENT OF PREMIER AND CABINET^(b)							
Business environment policy advice	Advice on adequacy of final regulatory impact statements, business impact assessments and regulatory change measurements prepared by departments	-12.7	-69.0	-60.0	-13.3	-20.0	-28.6
Ombudsman services	Recommendations accepted by agencies upon completion of investigations	21.3	20.0	8.8	23.8	7.5	6.7
Public Record Office Victoria	Access: agency website visitation	(c)	41	22.7	29.9	25.3	13.9
Public Record Office Victoria	Access: users/ attendances at all agencies	22.8	20.5	11.1	18.7	23.3	43.8
Public Record Office Victoria	PROV: records transferred	(c)	89.5	115.4	110.3	159.1	34.8
Small business assistance	Number of business interactions with services provided by Business Victoria Online	57.3	44.5	39.0	48.7	60.0	145.5
DEPARTMENT OF TREASURY AND FINANCE^(b)							
Economic Regulatory Services	Registration and accreditation decisions/approvals in relation to the Victorian Energy Efficiency Target Scheme	185.7	75	109.8	290.2	135.5	85.9
Land and Infrastructure Investment Management	Develop and implement policies, procedures and training to govern and build capability to deliver infrastructure investment	6.7	157.0	131.7	75.0	100.0	53.3

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Output	Measure	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
PARLIAMENT^(b)							
Parliamentary Investigatory Committees	Reports tabled per annum	53.6	153.3	60.0	39.3	7.1	27.3
Procedural Support, Documentation Preparation and Provision of Information for Assembly	Documents tabled within time guidelines	11.1	10.9	11.1	11.1	11.1	11.1
Provision of Information and Resources to Parliament	Maintain and secure the parliamentary precinct and have it available for legislative program	(c)	5.3	5.3	5.3	5.3	5.3

(a) Greater than 5 per cent in either direction

(b) Departments' responsibility for measures are as reported in annual reports for 2014-15.

(c) Measure not reported for this year.

Source: Departmental annual reports, 2009-10 to 2014-15

A5.4 Budget portfolio outcomes (FRD 8C and Model Report)

Department	Reports objectives and indicators as published in 2014-15 BP3 (FRD 8C \$5.1 (a))	Indicates progress towards objectives (FRD 8C \$5.1 (a)) using two years' objective indicator data (Model Report p.16)	Provides table linking outputs with each objective (Model Report p.15)	Calculates variances against original budget target (Model Report p.339)	Calculates percentage variances correctly ^(a)	Notes that the budget portfolio outcomes is not part of the audited accounts (Model Report p.23)
Economic Development, Jobs, Transport and Resources	Yes (v.2 pp.6-7)	Most (missing two years' data for three objectives v.2 pp.8-17)	Yes (v.2 pp.6-7)	Yes (DSDBI)	Mostly (some mathematical errors with signs. Note the use of '>100' rather than larger variances)	Yes
Education and Training	Most (pp.9, 121-6. One objective renamed; some BP3 indicators missing from annual report)	Most (some have partial or no data) pp.12-16	Yes (p.9. Note non-unique links)	No (elements of the cash flow statement have been altered)	Mostly (one mathematical error)	Yes
Environment, Land, Water and Planning	Yes (pp.48-70)	Some (some indicators not quantified pp.63, 69)	Yes (p.47. Different format, but outputs are linked to objectives)	Yes	Mostly (a couple of problems with decimal places, and a habit of calculating a budget of zero with a non-zero actual as a '0%' variance)	No
Health and Human Services	Yes (pp.10-23)	Most (some data items missing pp.15, 20)	No (but outputs are linked to objectives in discussion)	No (elements of some statements are same as DOH)	Mostly (some mathematical errors)	Yes
Justice and Regulation	Yes (p.12)	Most (One uses proxy data; one has only one year)	Yes (p.12)	Yes	Mostly (one mathematical error)	Yes
Premier and Cabinet	Yes (pp.19-20)	No (no data provided for indicators)	No (but outputs are linked to objectives in discussion)	No (elements of the cash flow statement have been altered)	Yes	Yes
Treasury and Finance	Yes (pp.11-12)	Some (most not quantified)	Yes (p.12)	No (elements of some statements same)	Mostly (one mathematical error)	Yes
Courts Services Victoria	Yes (p.32)	Yes (although both show '>100%' for both years)	Yes (p.32)	Yes (pp.18-21)	No percentages calculated (one mathematical error in absolute variance)	Yes

(a) The Model report does not require percentage calculations.

Source: Departmental annual reports, 2014-15

A5.5 Standard disclosures (FRD 22F)

Department	Does the Department disclose government advertising expenditure (Model Report p.47) or nil report?	Report on initiatives and key achievements (Model Report p.17)	
		Does the Department have a section named 'initiatives and key achievements'?	Does the Department have a planning document, including initiatives and projects? Does the annual report discuss outcomes against these initiatives and projects?
Economic Development, Jobs, Transport and Resources	Yes (v.2 pp.74-5) does not provide total expenditure as in Model Report	Yes (v.1 pp.6-7) In disclosure index.	No planning document available for DEDJTR for 2014-15, with three sections merging into one. Annual report discusses the Department's actions but little discussion on the outcomes (e.g. the effects on the community) of these actions.
Education and Training	Yes (pp.52-3)	Yes (pp.7-8) In disclosure index.	'Strategic Intent' document ¹ does not list initiative or projects. Annual report discloses amounts spent and discusses intentions but does not discuss outcomes achieved.
Environment, Land, Water and Planning	Yes (p.78) does not provide total expenditure as in Model Report	Yes (p.3) In disclosure index.	No 2014-15 corporate plan for DEPI was published. Annual report discusses the Department's actions but contains little discussion on the outcomes (e.g. the effects on the community) of these actions. An appendix discusses capital projects, including changes made during the year.
Health and Human Services	Yes (p.102)	No section in report of operations or disclosure index.	No planning document available for DHHS for 2014-15. Annual report refers in a number of places to achievements for the year.
Justice and Regulation	Yes (pp.179-80) does not provide total expenditure as in Model Report	No section in report of operations or disclosure index.	Corporate Plan for DJR not publicly available, although this is intended. Departmental actions and achievements are distributed through the report of operations but not summarised in a separate section, as required in the Model Report.
Premier and Cabinet	Yes (p.150)	No section in report of operations named 'initiatives and key achievements'. Disclosure index refers to secretary's comments.	DPC has a range of strategic planning documents but only for internal use. Departmental actions and achievements are included in the secretary's comments rather than a separate section, as required in the Model Report.
Treasury and Finance	Yes (p.127) does not provide total expenditure as in Model Report	No section named 'initiatives and key achievements' in report of operations. Disclosure index refers to discussion on progress towards achieving department's objectives and indicators.	No planning document is available on the departmental website. Departmental actions and achievements are distributed through the sections on departmental objectives and not summarised in a separate section, as required in the Model Report.
Courts Services Victoria	Nil report (p.46)	Yes (pp.33-4) In disclosure index.	The CSV notes that its Corporate Plan will not be made publicly available. The section in the Annual Report 2014-15 includes actions and their benefits for CSV, but does not note the wider outcomes (benefits for the community).

Sources: 2014-15 annual reports.

A5.6 Public private partnership-related disclosures (Model Report)

Department	Departments reference PPP expenses in expenses from transactions note as in Model Report p.157	Departments reference PPP-related assets in property, plant and equipment note as in Model Report p.189	Departments reference PPP-related finance lease liabilities in borrowings note in Model Report p.218	PPPs listed in leases (or other) section
Economic Development, Jobs, Transport and Resources	No (pp.66-7)	No (pp.74-91)	No (v.1 p.96)	<ul style="list-style-type: none"> Royal Melbourne Showgrounds^(a) Biosciences Research Centre^(a) (v.1 pp.100-1)
Education and Training	No (pp.118-9)	No (pp.124-34)	Yes (p.136)	<ul style="list-style-type: none"> Partnerships Victoria in Schools (p.148)
Environment, Land, Water and Planning	Yes (p.157)	Yes (p.168)	Yes (p.182)	<ul style="list-style-type: none"> Royal Melbourne Showgrounds^(b) Biosciences Research Centre^(b) (p.186)
Health and Human Services	No (pp.182-4)	No (p.189)	No (p.198-9)	<ul style="list-style-type: none"> Casey Hospital Royal Women's Hospital Royal Children's Hospital Victorian Comprehensive Cancer Centre (not yet commissioned) Bendigo Hospital (not yet commissioned) (p.166)
Justice and Regulation	No (pp.90-1)	No (pp.101-3)	Yes (p.109)	<ul style="list-style-type: none"> Marrngoneet Correctional Centre Metropolitan Remand Centre Fulham Correctional Centre Port Phillip Prison (p.113)
Premier and Cabinet	n/a (p.65)	n/a (pp.67-72)	n/a (p.75)	<ul style="list-style-type: none"> None specified
Treasury and Finance	n/a (p.62)	n/a (p.65)	n/a (p.73)	<ul style="list-style-type: none"> None specified
Courts Services Victoria	Yes (p.83)	No (pp.88-92)	Yes (p.95)	<ul style="list-style-type: none"> County Court (p.99)

(a) Subsequent to 1 January 2015

(b) Prior to 1 January 2015

Sources: 2014-15 annual reports

A5.7 Machinery-of-government changes (Model Report pp.13-15)

Department	Discloses objectives received from other departments	Discloses outputs received from other departments	Discloses objectives transferred to other departments (including partial transfers)	Discloses outputs transferred to other departments (including partial transfers)
Economic Development, Jobs, Transport and Resources	Yes (v.2 pp.4-5)	Yes (v.2 pp.4-5)	Yes (v.2 p.5)	Yes (v.2 p.5)
Education and Training	n/a (no objectives received) (p.7)	n/a (no outputs received) (p.7)	n/a (no objectives relinquished) (p.7)	n/a (no outputs relinquished) (p.7)
Environment, Land, Water and Planning	Yes (p.47)	Yes (p.48)	No <ul style="list-style-type: none"> A note to the financial statements (pp.129-30) discloses outputs from the Sustainably Managed Fish and Forest Resources and Create Productive and Competitive Agricultural Industries objectives were transferred to DEDJTR but does not disclose the transfer of the objectives themselves. 	Yes (p.48)
Health and Human Services	n/a (no objectives received) (p.8)	Yes (p.8)	n/a (no objectives relinquished) (p.8)	Yes (p.8)
Justice and Regulation	n/a (no objectives received)	n/a (no outputs received)	Yes (p.13)	Yes (p.13)
Premier and Cabinet	n/a	Yes (pp.21-2)	No <ul style="list-style-type: none"> The annual report (pp.21-2, 59) discloses that outputs from the Developing and Promoting a Thriving Victorian Arts and Cultural Sector objective were transferred to DEDJTR but does not disclose the transfer of the objective. 	Yes (pp.21-2, 59)
Treasury and Finance	n/a (no objectives received)	n/a (no outputs received)	Yes (p.11)	Yes (p.11)
Courts Services Victoria	n/a (no objectives received) (p.32)	n/a (no outputs received) (p.32)	n/a (no objectives relinquished) (p.32)	n/a (no outputs relinquished) (p.32)

Sources: 2014-15 annual report

A5.8 Disclosure index (FRD 10)

Department	Includes correct page numbers in disclosure index	Includes all sections from the 2014-15 Model Report for Victorian Government Departments
Economic Development, Jobs, Transport and Resources	Five errors in page numbers.	No (missing 'Ministerial Standing Direction 4.5.5.1 compliance attestation'; 'Investment Properties')
Education and Training	Indexes only first page of ranges. Two 'n/a' entries ('nil reports'); one error in page numbers.	Yes
Environment, Land, Water and Planning	Five errors in page numbers. Indexes only first page of ranges.	No (missing 'Investment properties')
Health and Human Services	Two errors in page numbers.	No (renamed references; combined a number of references into groups; missing 'Initiatives and key achievements'; incorrect reference to FRD 22F - should be FRD 8C)
Justice and Regulation	One error in page numbers. Indexes only first page of ranges. 'Employment and conduct principles' referenced employment numbers, not principles.	No (renamed references or combined a number of references into groups; missing 'Initiatives and key achievements', 'Subsequent events', 'Foreign Currency', 'Investment Properties', 'Investments in Subsidiaries, Joint Ventures and Associates in Separate Financial Statements'; a number of incorrect or out of date references to names of guidance documents; incorrect reference to FRD 22D - should be FRD 8C)
Premier and Cabinet	No errors in page numbers.	Yes (extra section on Government advertising expenditure)
Treasury and Finance	46 errors in page numbers. Five 'n/a' entries ('nil reports').	No (missing 'Ministerial Standing Direction 4.5.5.1 compliance attestation'; 'Transfers through Contributed Capital')
Courts Services Victoria	No errors in page numbers.	No (missing 'Ministerial Standing Direction 4.5.5.1 compliance attestation')

Sources: 2014-15 annual reports

A5.9 Implementation of recommendations relating to the Model Report from the Committee's Review of the Performance Measurement and Reporting System

Recommendation		Government response	Implementation status
Number	Text		
15	In updating the Model Report to detail reporting on departmental objective indicators, the Department of Treasury and Finance use the Department of Education and Early Childhood Development's 2012-13 Annual Report as a model.	Support	Partly implemented
19	The Department of Treasury and Finance amend the Model Report to recommend that departments, when reporting on their performance measures, adopt a system similar to that implemented by Victoria Police, which indicates whether: <ul style="list-style-type: none"> (a) the target was achieved or exceeded in a desirable way; (b) the actual result varied from the target in an undesirable direction but by less than 5 per cent; or (c) the actual result varied from the target in an undesirable direction by more than 5 per cent. 	Under review	Implemented
28	The Department of Treasury and Finance update the Model Report to explicitly require departments to provide explanations where: <ul style="list-style-type: none"> (a) a performance measure has a target of greater than or less than a specific number; and (b) the actual result varies from that specific number by 5 per cent or more. 	Not support	-
29	The Department of Treasury and Finance update the Model Report to require departments to provide explanations for any variances between the target and actual result when the target is 100 per cent.	Not support	-
36	The Model Report be updated to require explanations for variances between targets and actual results to indicate whether the causes of the variances are internal or external factors, as is required for explanations in the budget papers.	Support	Implemented
37	The Department of Justice, in future annual reports, ensure that explanations are provided for all variances from targets of 5 per cent or more, as required by the Model Report.	Support	Implemented
38	The Department of Treasury and Finance specify in the Model Report that the 5 per cent variation threshold for requiring an explanation is not the same as a 5 percentage point variation.	Support	Implemented

Recommendation		Government response	Implementation status
Number	Text		
39	The Department of Treasury and Finance update the Model Report to explicitly note that explanations are required for positive outcomes as well as negative outcomes.	Support	Implemented
47	The Department of Treasury and Finance include a model set of budget portfolio outcomes statements in future Model Reports.	Support in principle	Implemented
48	The Department of Treasury and Finance work with departments to ensure that they are aware of and understand the requirements for budget portfolio outcomes.	Support	Implemented
49	The Department of Treasury and Finance require all departments and agencies to include 'nil reports' when their activities do not trigger the disclosure requirements of relevant Financial Reporting Directions or the Model Report.	Support	Partly implemented
50	The Department of Treasury and Finance update the 2012-13 Model Report to reflect the disclosure of advertising expenditure required by FRD 22D.	Support	Implemented
51	The Department of Treasury and Finance update the Model Report to require additional disclosure about completed capital projects, using the Department of Environment and Primary Industries' 2012-13 Annual Report as a model.	Support in principle	Not yet implemented

Source: Public Accounts and Estimates Committee

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