



PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

FIFTY FOURTH REPORT TO THE PARLIAMENT

REPORT ON THE 2003–2004 BUDGET ESTIMATES

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PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE MEMBERSHIP - 55TH PARLIAMENT

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PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

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DUTIES OF THE COMMITTEE

The Public Accounts and Estimates Committee is a joint parliamentary committee constituted under the *Parliamentary Committees Act 1968*, as amended.

As a result of recent amendments to the Act the Committee now comprises nine Members of Parliament drawn from both Houses of Parliament and all political parties.

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

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

The Committee also has a consultative role in determining the objectives of performance audits and identifying any particular issues that need to be addressed during these audits.

GLOSSARY

Accrual accounting	Recognition of revenue, expenses, assets, liabilities and equity when a transaction occurs, irrespective of the timing of the related cash flow.
Accrual output-based budgeting	The Government, as purchaser, decides which outputs it will purchase from Departments at specified levels of quantity, quality and price. As owner, the Government decides the investment required in Departments in order to enable them to maintain their capacity to meet output delivery targets. The total amount of appropriation authorised by Parliament is determined on an accrual basis to meet the cost of the outputs required by the Government to achieve its desired outcomes.
Additions to the net asset base	An appropriation which provides authority to increase the net capital base of a Department's statement of financial position.
Administered items	Those resources which a Department administers on behalf of the State, and which it cannot exercise direct control.
Annual appropriation	The appropriations to Departments and the Parliament contained in the <i>Appropriation Act</i> and <i>Appropriation (Parliament) Act</i> . These appropriations lapse at the end of each financial year.
Annual report	Comprises of a report of operations, and the financial report.

Annotated receipts	Under the provisions of the <i>Financial Management Act 1994</i> and the annual <i>Appropriation Act</i> , the authority limit for certain departmental appropriation items can be increased by an amount equal to specified departmental receipts under the terms and conditions agreed between the responsible Minister and the Treasurer. These receipts are known as annotated receipts.
Assets	Service potential or future economic benefits controlled by an entity (eg. a Department) as a result of past transactions or other past events. Assets may be physical (eg. plant, equipment or buildings) or non-physical (eg. financial investments).
Budget sector	The term Budget sector is identical to the General Government sector in the 2003-04 Victorian Budget Papers.
Capital asset charge	A charge generally on the written down value of non-current, physical assets controlled by agencies within the budget sector. The cost is designed to reflect the full cost of service provision and to encourage the management of surplus or under-performing assets.
Capitalisation	Recognising the value of an item as an asset rather than as an expense.
Central agencies	The Department of Treasury and Finance, and the Department of Premier and Cabinet.

Commonwealth grants	<p>Includes general revenue from the Commonwealth Government for the purpose of aiding in the financing of the current operations of the recipient; in addition to monies received for specific purposes (when the Commonwealth wishes to have some involvement in the direction of the expenditure).</p> <p>Grants are also received for on-passing to third parties eg. to non-government schools, where the State has no discretion as to their allocation.</p>
Commonwealth - State Housing Agreement	A bilateral agreement between the Commonwealth and State Governments for the provision of public housing and other forms of assistance.
Consolidated Fund	The Government's primary account that receives all consolidated revenue and from which payments appropriated by Parliament for Government purposes are made. The Consolidated Fund together with the Trust Fund, form the Public Account.
Consolidated Fund revenues	Defined as Crown revenues available to be appropriated by the Parliament and required to be paid into the Consolidated Fund.
Depreciation	The allocation of the cost of an asset over the years of its useful life.
Employee benefits	Entitlements which employees accumulate as a result of the rendering of their services to an employer up to the reporting date. They include wages and salaries, annual leave, sick leave, long service leave, superannuation benefits, and other post-employment benefits.

Ex-ante reporting	Reporting intended outcomes, objectives, strategies, priorities, performance measures and targets, and budgets in corporate plans and budget papers, prior to the period of activity.
Ex-post reporting	Reporting achievements against intended outcomes, objectives, strategies, priorities, performance measures and targets as stated in the corporate plan and budget papers, and actual costs, after the completion of the period of activity.
Financial assistance grants	Grants made by the Commonwealth to State and Territory governments for expenditure by the latter according to their own priorities. Financial assistance grants are sometimes referred to as general revenue or general purpose grants.
Financial report	Consists of a set of financial statements, which comprise of a statement of financial performance, a statement of financial position and a statement of cash flows, for a given financial year.
Franchising	The sale to an external party (usually on the basis of a competitive bidding process) of the right to distribute particular goods or services to a particular market for a defined period. Franchising is often seen as a way of introducing competition into an industry that may otherwise be seen as a monopoly.
General Government sector	The part of government that provides public services for the collective consumption of the community. Government departments are the major agencies within this sector.

General purpose payments	Grants made by the Commonwealth Government to State Governments to be passed to third parties, such as non-government schools.
Goods and services tax (GST) grant	GST revenue collected by the Commonwealth and distributed to the States and Territories on the basis of horizontal fiscal equalisation principles.
GST transitional payments	As part of the Commonwealth's agreement with the States and Territories that their budgetary position will be no worse under national tax reform, the Commonwealth provides GST transitional payments to the States and Territories. These are paid in the form of grants and an interest free loan. The loan is recognised as Commonwealth grants received in the statement of financial performance.
Government business enterprise	Publicly-owned entity providing goods or services on commercial terms with the objective of recovering its costs of production and, in most cases, of providing some financial return to its owner.
Gross State Product	The total market value of goods and services produced in a State after deducting the cost of goods and services used in the production process, but before deducting the consumption of fixed capital.
Integrated Management Cycle	The Integrated Management Cycle comprises specific processes and events which taken together, form a continuous cycle of planning, resource allocation, service delivery and accountability.

Liabilities	Liabilities comprise future payments that an entity is currently obliged to make to other entities as a result of past transactions or other past events. Liabilities are thus a broader concept than debt. They also include obligations which do not have a predetermined repayment schedule, and those which do not require payments of interest – such as unfunded liabilities of superannuation funds, liabilities for employee benefits and trade creditors.
Machinery of government changes	Changes to Departmental structure and functions to align with a ministerial portfolio restructure announced by government.
Materiality	The concept of establishing the importance of the information in accordance with Australian Accounting Standard AAS 5. In general, an item of information is material if its omission, non-disclosure or misstatement from the financial statements would adversely affect a user's decisions about the allocation of scarce resources.
Non-budget sector	Public sector entities, mainly business enterprises.
Non-current assets	All assets other than current assets. They are usually held for use rather than exchange and provide an economic benefit for periods greater than one year.
Non-current liabilities	All liabilities other than current liabilities. They are usually obligations that do not require payment within one year of the reporting date.
Net assets	The residual interest in the assets of an entity after deduction of its liabilities (the net worth).

Ordinary activities	Activities that are undertaken by an entity as part of its business or to meet its objectives.
Outcomes	The Government's desired or intended effects on the community as a result of the funding of outputs. Outcomes establish both the rationale and foundation for the budget.
Output-based management	The process of planning for, and providing, products or services on behalf of Government, in return for the allocation of budgeted resources. Under output-based management, the Government sets its strategic priorities or intended outcomes, and then commissions Departments to deliver outputs that the Department determines will best achieve these outcomes.
Output costing	The process of determining on a full accrual basis all direct and indirect costs of producing an output in a period.
Output group	For purposes of budgeting and reporting, a grouping of individual outputs that contribute to a common outcome.
Outputs	Measurable direct results of activities provided to external consumers, such as products or services.
Payments on behalf of the State	An appropriation which provides authority to a Department to on-pass payments of the State over which the Department has no direct control with respect to the quantity of outputs delivered.
Performance measures	Quantity, quality and timeliness indicators used to describe how many, how well, when, or how frequently government funded outputs will be delivered.

Performance targets	Intended output delivery levels expressed in terms of each of the performance measures. Targets are used as a benchmark to assess performance in delivered budgeted outputs.
Public Account	Comprises the Consolidated Fund and the Trust Fund.
Public authority dividend	A payment made by government business enterprises to the Victorian Government under the provisions of the <i>State Owned Enterprises Act</i> 1992 or other industry specific legislation. Conceptually, public authority dividends are intended to represent a return to the Government on its investment in those enterprises. The Treasurer determines the amount and timing of the payments after consultation with the relevant Minister and Board of each enterprise.
Public sector	Comprises general government sector entities, non-financial public corporations and public financial corporations that have government ownership and control.
Public Sector Comparator	The Public Sector Comparator estimates the hypothetical risk-adjusted cost if a project were to be financed, owned and implemented by government.
Revenue certification	The formal acceptance by the Minister for Finance of departmental claims for appropriation revenue, based upon the provision of agreed outputs in terms of quantity, quality, timeliness and cost.
Sale of goods and services	This represents revenue earned from the sale of goods or provision of services to external parties in the current period, whether received or receivable.

Special appropriation	A standing authority that remains in force until amended or repealed by Parliament, for specific once-off or ongoing payments which need to be made independently of the Government's annual budget priorities.
Specific purpose grants	Grants made by the Commonwealth to State and Territory governments subject to terms and conditions specified by the Commonwealth, generally to ensure that Commonwealth policy objectives (or national objectives agreed between the Commonwealth and the States) are met.
State Administration Unit	An account established within the Consolidated Fund to meet the accounting and accountability needs associated with the operation of the accrual-based output management arrangements. These include the recording of the Treasurer's application of appropriations and the departmental draw-down of these funds from the Consolidated Fund.
Statement of cash flows	A statement that provides information on the cash inflows and outflows as they relate to operating, investing and financing activities of an entity.
Statement of financial position	A statement that provides information on the entity's assets and liabilities, and also reflects the net worth for the reporting period.
Statement of financial performance	A statement providing information for the reporting period on the revenue and expenses, and the surplus or deficit, of an entity.

Supplies and services	This encompasses the day-to-day running costs incurred in the normal operations of government entities, but specifically excluding the cost of employee benefits, superannuation, depreciation, amortisation, interest and other finance costs, grants and transfer payments, and other expenses.
Treasurer's Advance	An appropriation to the Treasurer, included in the annual <i>Appropriation Act</i> , to meet urgent expenditure claims that were unforeseen at the time of the Budget.
Trust Fund	The Trust Fund is established to account for the receipt and disbursement of moneys not forming part of the Consolidated Fund and therefore not subject to parliamentary appropriation. The Trust Fund comprises various trust specific purpose accounts established under separate legislation or at the discretion of the Minister for Finance under the <i>Financial Management Act 1994</i> . The Trust Fund together with the Consolidated Fund, form the Public Account.
Unfunded liabilities	Liabilities that are accruing but for which no explicit provision has been made for payment.
Unfunded superannuation liabilities	The present value of future benefits, determined by actuarial assessment, that superannuation scheme's members have accrued during past service which are not covered by fund assets. Unfunded superannuation liabilities arise when superannuation costs are not contributed as the members' benefits accrue.

CHAIR'S INTRODUCTION

The Public Accounts and Estimates Committee, on behalf of the Victorian Parliament, reviews the budget estimates in the non-sitting weeks after the budget is tabled by the Treasurer in May. Traditionally, the Committee reports on its review late in the spring session of Parliament, but this year we have responded to the Auditor-General's suggestion to report earlier.

With intense effort by all contributors, this Inquiry has been undertaken in record time. From the first estimates hearing with the Premier to the presentation of this report has taken four months. During this time the Committee has taken evidence from 107 witnesses and reviewed thousands of pages of transcripts and supplementary evidence received from Ministers and Departments. I acknowledge that the Committee could not have met the demanding deadline without the extensive co-operation of Ministers and departmental officers and we are grateful for their assistance.

The review of the budget estimates is about accountability: accountability of public administration to Government; and accountability of Government to the Parliament and the Victorian community. It is about the need for public administration and the Government to be answerable for how it intends to meet - and how it has met - its responsibilities in the exercise of the authorities it holds in trust. The Committee's review of the budget estimates assists the Government in fulfilling its duty to be publicly accountable for revenue and expenditure. From this perspective, the Budget Papers, together with the additional information provided by Departments and Agencies, provide a system of accounting for public funds and are an important link in the chain of financial accountability.

The Committee is now reporting on the outcomes of its wide ranging review. This report contains 81 recommendations, many of which are intended to further improve the presentation of information in the Budget Papers to ensure that these documents continue to enhance accountability and disclose relevant information. The Committee has stressed the need to strengthen the linkages between strategic plans, the Budget Papers, the performance monitoring regime and annual reporting.

I thank my colleagues on the Committee for the amount of constructive time and effort spent on the review of the budget estimates and the draft report.

I also wish to acknowledge the secretariat of the Public Accounts and Estimates Committee for the high quality of its assistance and support throughout the Inquiry and, in particular, the outstanding contribution made by Ms Michele Cornwell, Mr Steven Vlahos and Mr Trevor Wood. I thank the staff for their hard work, professionalism and dedication.

I commend our report for your consideration.



Hon. Christine Campbell, MP
Chair

EXECUTIVE SUMMARY

Chapter 1: Introduction

The estimates process involves the Government forecasting its revenue, setting out its spending priorities, and seeking approval from the Victorian Parliament for the expenditure proposals it is making for the next fiscal year.

The annual budget for 2003-04 is \$26,354 million expenditure and \$26,598 million revenue covering hundreds of revenue and expenditure programs. Budgeting for these programs, from initial planning to final approval, takes anywhere from seven to ten months.

The role of the Victorian Parliament is to scrutinise the Government's expenditure proposals included in the budget estimates and approve the Government's Appropriation Bills. The detailed review of the budget estimates has been delegated by the Parliament to this Committee, which undertakes this task via a two phased process involving a review of the budget estimates (undertaken during May and June) and a review of the budget outcomes (undertaken in November).

The Public Accounts and Estimates Committee's analysis of the budget estimates aims to:

- facilitate a greater understanding of the budget estimates;
- provide information on the strategic overview of the budget;
- assist the Parliament and the community of Victoria to assess the achievement of the planned budget outcomes against actual performance;
- constructively contribute to the improvement of the information contained in the Budget Papers;
- enable more effective monitoring of the performance of Departments and Agencies; and
- make recommendations to improve accountability and transparency.

The budget estimates for 2003-04 were subjected to 58 hours of scrutiny by the Committee at public hearings held with the Premier, each Minister and the Presiding Officers of the Parliament during the period May to June 2003.

While it is impossible for the Committee to produce a comprehensive report on the budget estimates for each Department in time for the commencement of the debate on the Appropriation Bills, as has been recently recommended by the Auditor-General, this year represents the first time that the Committee's program of public hearings has been completed within such a short timeframe, with the Committee's report being tabled several months earlier than has occurred previously.

This report is based on an analysis of the 2003-04 budget estimates and information contained in a range of documents including the Budget Papers, Departments' responses to the Committee's estimates questionnaire, reports of the Auditor-General, annual reports and other public documents, evidence given at the estimates hearings, and written material received from Ministers during June to September 2003.

The Committee has confined its comments to a comparison of the 2003-04 budget estimates with the revised budget estimates for 2002-03.

Chapter 2: Review of the Budget Papers

The Government's 2003-04 budget strategy and financial objectives were modified from the previous budget to reflect its 2002 election policy statement *Delivering Financial Responsibility*. The broad strategic priority remains to provide a sound and stable basis from which growth can be promoted across the whole State.

A new objective – implementing the Government's election commitments – was included as one of the budget's short-term financial objectives. Delivering world-class infrastructure to maximise economic, social and environmental benefits was included as a long-term financial objective.

The 2002-03 Budget Papers initially forecast an operating surplus of \$522 million. This estimate was subsequently revised down to \$160 million. The downgrading of the surplus was largely attributed to a

sizeable increase in the superannuation expense due to lower than expected investment returns and the effect of the drought and bushfires.

The Committee observed that total expenditure in 2002-03 exceeded the initial 2002-03 budget by \$1,544 million. This is predominantly due to the large increases in superannuation expenses as a result of weak global equity markets and revisions to the value of unfunded superannuation liability. Operating expenses in 2002-03 were also inflated by a number of one-off cost pressures related to the drought, bushfires, asset write-offs and growth in employee benefits and supplies and services. In 2002-03, additional revenue mainly from stamp duty, fines and Commonwealth grants, went a long way towards covering this additional expenditure. Expenditure should continue to be closely monitored.

Although the surplus was substantially less than anticipated, the Government's objective of maintaining an operating surplus of at least \$100 million each financial year is likely to be achieved in 2002-03. The State's triple-A long-term currency rating was re-affirmed in May 2003.

The surplus in 2003-04 is forecast to be \$245 million and average \$391 million in the following three years. The achievement of surpluses is particularly important because they represent an important source of funding for the infrastructure investment program.

At the release of the 2003-04 budget, Victorian economic growth for 2002-03 was estimated to be 2.75 per cent. This was lower than the 3.5 per cent growth forecast in the 2002-03 budget. Economic growth for 2003-04 is forecast to rebound to 3.75 per cent, underpinned by a recovery of the agricultural sector following the drought and a gradual improvement in global conditions.

The Committee noted that the budget projections were sensitive to a number of economic and financial risks and contingent liabilities. The potential impact of expenditure risks on the overall budget position is mitigated by the inclusion of a demand contingency of \$488 million in the budget estimates.

The 2003-04 budget provides for additional spending of \$846 million on output initiatives in 2003-04. This is partly offset by administrative savings of \$141 million and funding from existing forward estimates contingencies set aside for service delivery demand growth of \$154 million. New infrastructure projects have been allocated

\$348 million in 2003-04, with total expenditure of \$1,244 million on these projects over the four years to 2006-07.

The Committee noted that the 2003-04 budget included revenue initiatives that will add \$85 million to total revenue in 2003-04, rising to an additional \$182 million in 2006-07. Most of the additional revenue will result from increasing base motor vehicle registration fees and future annual indexation of these fees. The removal of an existing payroll tax exemption for apprentices and trainees and ongoing indexation of fees and fines set by regulation will also result in additional revenues.

The net equity of the Budget Sector is projected to increase by \$913 million in 2003-04. Contributing to the increase in equity are asset revaluations of \$1.2 billion and the projected budget surplus of \$245 million.

The Committee noted that the forecast increase in total liabilities of \$720 million in 2003-04 was largely due to a further \$498 million increase in the State's unfunded superannuation liabilities and a \$203 million rise in employee entitlements such as long service leave. The unfunded superannuation liability is expected to increase from \$13.6 billion in 2002-03 to peak at \$15.8 billion in 2010, before gradually declining until it is extinguished in 2035.

State Government net debt is projected to increase from \$2.3 billion in 2003-04 to reach \$3.2 billion in 2006-07. As a share of Gross State Product, net debt is expected to increase marginally from 1.1 per cent in 2003-04 to 1.4 per cent in 2006-07.

Increasing debt levels largely reflect the drawdown on the Growing Victoria Infrastructure Reserve, which is being used to fund infrastructure investment of approximately \$653 million in 2003-04, \$56.9 million in 2004-05 and \$4.5 million in 2005-06. No funds are expected to remain in the Reserve at the end of 2006-07.

The Committee notes that investment in infrastructure assets is projected to result in a \$1.7 billion increase in the State's assets in 2003-04. The anticipated increase in total assets mainly reflects major infrastructure projects to be undertaken in the areas of transport, health, education and justice. A number of these projects will be implemented under the Partnerships Victoria policy involving private sector investment in public infrastructure.

Chapter 3: Parliamentary Departments

The Parliamentary Departments' 2003-04 budget allocation is \$92.7 million, representing a 17.8 per cent (\$14 million) increase compared to the 2002-03 budget.

The increase has been necessary due to increases in employee related expenses, additional costs incurred for the rollout of Parlynet - the Parliament's information technology system - appointment of three new parliamentary investigatory committees, upgrading security, relocating and refurbishing Members' electorate offices.

The key issues affecting the budget estimates for the Parliamentary Departments in 2003-03 concern information technology and communications-related projects including upgrading the Speaker's rulings database; improving the intranet; automating human resources and financial systems; providing online research services, including an electronic news service; and upgrading the operation of personal computers and associated networks. A number of other initiatives have also been listed in the budget estimates.

The Committee was pleased to note that in response to last year's recommendations Parliamentary Departments are: improving the online staff training system; taking steps to improve the timeliness of their business planning cycle; and working to finalise tenancy arrangements at 157 Spring Street.

The Committee noted that Parliamentary Departments exercise considerable discretion over whether staff vacancies should be advertised, resulting in only 56 per cent of jobs advertised externally in 2002-03, 14 per cent advertised internally and 30 per cent not advertised at all.

The Committee was advised that although a 10 year lease for premises at 157 Spring Street had been entered into in 2001-02 at a cost of \$5.7 million over 10 years, the 4th floor of the building remained vacant as a tenant had not been determined.

The cost of rolling out Parlynet 2 increased from \$2.3 million to an estimated \$4 million with a final cost of the project of up to \$7.4 million, as estimated by the Auditor-General. Several issues are yet to be resolved with the system and stages 3 and 4 remain unfunded. The cost of the

project to date of \$4 million has exceeded by \$1.7 million the fixed price contract for stage 2 of \$2.3 million, which was not re-negotiated.

Chapter 4: Department of Education and Training

The Department of Education and Training's 2003-04 budget allocation is \$6,258.4 million, representing a 2.1 per cent (\$130.6 million) increase compared to the 2002-03 revised budget.

The increase includes \$81.5 million for a reform and demand strategy, which responds to the increase in enrolments and other rises in the general costs of providing education, and will allow the Department to maintain the current level of services across all outputs.

The remaining increase is a result of a number of factors including the flow through effects of initiatives approved in prior budgets, the provision of supplementary funding to support the costs of enterprise bargaining outcomes, and funding for 2003-04 output and asset investment initiatives.

The key challenges facing the Department in 2003-04 are:

- boosting the participation levels and outcomes across all parts of the education system;
- improving the performance of groups who have traditionally suffered educational disadvantages;
- improving the quality and flexibility of the workforce in all areas of education and training;
- improving the accountability frameworks that have been put in place to ensure the community's expectations are being met, at a state wide and at a local level;
- providing resources to provide better facilities in schools; and
- developing the teaching profession.

A number of initiatives have been articulated and funded in response to these challenges.

The Department is required to achieve savings of \$31 million which it has said it will achieve through general efficiencies in administration. The Department will undergo a restructure during 2003-04 to improve efficiency.

The Committee was advised that the Department had, as part of teacher workforce planning, developed annual teacher supply and demand reports. The Committee noted that although the reports contained long range forecasts, these forecasts did not identify specific disciplines and locations in order to address emerging demands.

The Government's target of reducing the average class size in years Prep to year 2 (to 21 students) has been achieved in government schools. Last year the Committee was advised that some schools do not have the physical capacity on their sites to allow smaller classes. The Committee also understands that some schools choose to have larger classes for curriculum reasons. In some schools Prep to year 2 classes have more than 30 students. These are more likely to be in metropolitan, rather than regional areas.

During the estimates hearing the Committee discussed numeracy and literacy results that were collected in 2000 and found that while Victorian students were at or above the national benchmark average for years 3 and 5 in literacy and numeracy, Victoria's results for the 15 year olds were below the Australian benchmark. The Government responded in 2002-03 by providing \$42 million over 5 years for literacy intervention programs and \$35 million over 4 years for numeracy coordinators. Compulsory year 7 numeracy and literacy testing, which was previously voluntary, also occurred for the first time in August 2003.

The Committee acknowledged the progress made in attempting to improve literacy and numeracy standards. However, the compulsory testing of year 7 students in 2003 for literacy and numeracy will determine the effectiveness of the various programs recently implemented.

The Department is introducing a completion bonus scheme to encourage apprentices and trainees to complete their tuition, at which time employers become eligible for a bonus. The Committee is keen for the Department to develop targets for, and measure, the number of completions to ensure the Government is able to assess the success of this

program, including determining whether it is impacting on apprenticeship numbers.

In the tertiary sector, the Committee expressed its concern about corporate governance issues following an Auditor-General's report on the finances and governance arrangements for RMIT University. The Minister advised that a number of changes had since been made that aimed to strengthen corporate governance arrangements at universities, including a requirement for them to provide greater disclosure in annual reports and in their financial statements, including the performance of all associated and commercial ventures either locally based or overseas. The Committee was also pleased to learn that the Auditor-General now has the legislative authority to audit internationally based entities that are controlled by Victorian universities. The responsibility for oversight of governance arrangements should now form part of the responsibilities of the Department.

Chapter 5: Department of Human Services

The Department of Human Services' budget allocation in 2003-04 is \$9,057.9 million, representing a \$331.9 million or 3.8 per cent increase from its 2002-03 revised budget allocation. The Committee noted that the Department's output group structure has changed substantially since 2002-03 with an increase in output groups from eleven to fifteen.

In 2003-04, the Department is required to achieve general efficiencies in administration of \$36.4 million (\$145.6 million over four years), and \$5 million (\$32.3 million over four years) in specific savings initiatives. The Committee was advised that general efficiencies in administration, although not yet identified, were being sought across a range of expenditure areas that will not impact upon service delivery.

The Department continues to experience specific shortages of expertise in key areas such as information technology, care, child protection as well as a range of allied health and medical areas particularly within rural and regional locations. In an effort to address this issue, the Department has developed a range of initiatives to attract, recruit and retain appropriately qualified staff.

The Committee noted that there is disagreement between the States and the Commonwealth Government concerning the nature and impact of the

new Australian Healthcare Agreement. Specifically, the Minister indicated to the Committee that the new agreement may result in a significant shortfall in growth funding for Victoria of up to \$350 million over the next five years, while the Commonwealth asserts that its offer of \$42 billion represents a \$10.2 billion or 17 per cent increase, over and above the rate of inflation, from the previous agreement (a \$2.4 billion increase for Victoria up from \$7.7 billion to \$10.1 billion under the new agreement).

When coupled with the observed decline in Medicare bulk-billing rates, the Minister stated that this will have the effect of placing substantial pressure on the Victorian Government to meet the increasing demand for health services.

The Hospital Demand Management Strategy remains the principal focus of growth funding for the Department in 2003-04, receiving an additional \$116 million (\$464 million over four years) to address the upward trend in demand for Victorian public hospital emergency services, which has grown by approximately 7.6 per cent, on average, over the last five years. The Committee noted that growth in demand is substantially higher amongst category 4 and 5 patients (i.e. patients which in most instances can be treated by a GP) at approximately 9 per cent overall, rising up to 30 per cent in areas where there is an acute shortage of GPs, or where there has been a greater decline in the availability of bulk-billing services.

The Committee was advised that the Hospital Demand Management Strategy has been effective in reducing the rate of ambulance bypasses by approximately 86 per cent between the March 2001 and March 2003 quarters; has reduced waiting lists for elective surgery by around 6,000 persons; and improved waiting times for patients requiring residential care. Additional funding in 2003-04 will be used to accommodate an extra 35,000 emergency patients, as well as for initiatives to divert patients from emergency departments and acute beds to more appropriate forms of care. A major concern to the Government is the shortage of approximately 5,500 residential aged care beds which is largely a Commonwealth Government responsibility.

The Committee noted the Auditor-General's February 2003 Report on Public Sector Agencies, which pointed to several cost escalations surrounding the redevelopment of the Austin and repatriation Medical Centre resulting in a \$61.3 million increase in associated costs. While the

Government initially expected the project to cost approximately \$315 million and be completed by April 2005, the Minister advised that the Government has subsequently endorsed a revised project cost of \$376.3 million. The Auditor-General observed that the final completion date is now estimated to be March 2006.

The Committee noted that the financial viability of some Victorian public hospitals remains a concern due to rising costs, growth in hospital demand and funding pressures related to the Australian Healthcare Agreement. In an effort to strengthen their financial sustainability, the Government has allocated \$32 million in 2003-04 to assist hospitals with rising costs and enhance their financial position.

The 2003-04 budget provides \$18.5 million (\$138.5 million over four years) to improve information technology systems across the health sector, which were often outmoded and lacked the capacity to interface with other systems.

Waiting times for restorative dental care and dentures have increased significantly in certain parts of Victoria, with waiting periods of up to four years. In the 2003-04 budget, \$21 million over four years was provided to improve public dental services. The Committee noted that the significant growth in waiting times occurred since the Federal Government's 1997 decision to discontinue funding for the Commonwealth Dental Health Program and reflects the ongoing disagreement between the Government and the Commonwealth on the issue of which jurisdiction has responsibility to fund dental health care. The Committee is concerned at the protracted nature of the debate between the States and the Commonwealth on this issue and that a resolution on this matter appears unlikely in the near future.

Consistent with the State Disability Plan launched by the Government in September 2002, the 2003-04 budget contains a range of initiatives in support of the Government's efforts to reorient the disability support system towards a more sustainable mix of formal and informal services in order to respond to the rising growth in service need and demand. The length of the service needs register, which is a waiting list for people with disabilities needing urgent attention, remains a serious concern. As noted by the Committee in its previous report on the 2002-03 budget estimates, it is apparent that the Service Needs Register is continuing to grow

despite the increase in recent years in places available to people classified as in need of immediate attention.

The Committee was informed that a significant proportion of WorkCover claims within the Department has been due to occupational health and safety issues related to the working conditions of disability workers. In an effort to address these issues, the Department has implemented a range of measures including a review of community residential units (CRU's) and associated client transfer practices and the development of an injury reduction strategy in high-risk CRU's.

The new five-year Commonwealth-State-Territory Disability Agreement (CSTDA) will provide approximately \$640 million in funding to Victoria over the next five years, representing an almost 50 per cent increase in comparison to the previous agreement. Most of this funding will be directed to purposes set out within the terms of the agreement, which are consistent with the priorities of the State Disability Plan.

The 2003-04 budget provides additional funds of \$44 million over four years to improve child protection services and the level of support provided to foster, kinship and permanent carers. These initiatives reflect the Government's priority of rebalancing the service system through greater investment in early intervention and prevention programs. The Minister expects that these changes will result in a reduction in the level of re-notifications of suspected child abuse.

There has been a significant improvement in the pre-school participation rate amongst eligible four year old children as evidenced by the 97.2 per cent participation rate in 2003. The 2003-04 budget provides an additional \$22 million for a range of pre-school related initiatives, including establishing new pre-schools in growth suburbs.

The Minister for Aged Care informed the Committee that the Government believes that the Victorian aged care system is substantially under-funded by the Commonwealth, placing significant additional pressure on Victoria as it attempts to address resulting systemic shortages in residential aged care beds.

In response to the Commonwealth's review of pricing arrangements in residential aged care, the Department has prepared a detailed submission to the Commonwealth highlighting what the Government considers to be

funding inequities and challenges for Victoria under the current framework.

According to statistics provided to the Committee by the Minister for Housing, Commonwealth funding to Victoria for housing assistance has declined in real terms over the past ten years by approximately \$90 million, a reduction that is further compounded by the Federal Government's decision to remove compensation to the States for the impact of the GST on costs for housing assistance. The Committee noted that the new Commonwealth-State Housing Agreement, which commences in 2003-04, allows for the indexation of funding to Victoria. According to the Minister, it does not provide any additional funding for housing assistance or any measures to compensate for the impact of the GST, resulting in an estimated loss to Victoria of \$75 million over the life of the new agreement.

Chapter 6: Department of Infrastructure

The Department's budget allocation for 2003-04 was \$2,567 million, a decrease of \$133.5 million in comparison with the 2002-03 revised budget allocation. The observed decline in funding reflects the impact of machinery of government changes, the completion of funded programs, as well as changes to accounting classifications and treatments.

In 2003-04, the Department is required to achieve general efficiencies in administration of \$13.3 million (\$53.2 million over four years); as well as \$3 million (\$14 million over four years) in savings from the VicRoads workforce strategy (\$10 million over three years) and also from the rationalisation of external contractors (\$4 million over four years).

At the estimates hearing, the Minister for Transport informed the Committee that the Government's decision to toll the Mitcham-Frankston freeway was due to the emergence of external pressures on the State's Budget as a result of the deterioration of overseas equity markets, the withdrawal of the private transport operator National Express from Victoria, and the budgetary impacts of the recent bushfires and drought.

Approximately \$100 million has already been spent on associated works with the freeway. While no decision has yet been made as to whether the road affected by these works will form part of the proposed tollway, the Committee believes that if it does, the operator should provide some

form of compensation to the Government for any financial benefit derived by the operator as a result.

The Committee noted that when the Government decided to toll the Mitcham-Frankston Freeway the Commonwealth reversed its decision to provide \$445 million, effectively reducing Victoria's share of national road funding from 17.6 per cent to 14.6 per cent.

Additionally, the Minister advised that ongoing uncertainty surrounding the allocation of Commonwealth funding for the Pakenham Bypass and Calder Highway has resulted in delays, rising project costs and uncertainty surrounding project completion.

In December 2002, the Government announced a reform package to restructure the public transport franchises and to ensure services continued to operate without disruption over the next 12 months. Subsequent to the announcement, National Express withdrew from Victorian rail operations in late December 2002. The Government then commenced discussions with remaining franchisees to renegotiate existing franchise contracts to achieve its objective of one metropolitan train and one metropolitan tram company.

The Committee noted that the Government is implementing a range of initiatives to improve safety on public transport. While the Committee supports these initiatives, it will be important for the Government to actively maintain, monitor and periodically review the effectiveness of implemented measures.

The Committee sought information from the Minister on the performance of the automated ticketing system since the settlement of the long-running dispute with OneLink Transit Systems Pty Ltd, the consortium responsible for managing the metropolitan automated fare collection system. The Minister indicated to the Committee that initiatives introduced to address the service and performance issues identified by the Miller Group in 2001 report have resulted in significant improvements in the availability and performance of ticket-issuing equipment. The Committee is encouraged by these improvements, however, considers that there should be more disclosure in the Department's annual report on the performance standards for the automated ticketing system and OneLink's effectiveness in achieving those standards.

The Minister informed the Committee of the effectiveness of the Government's five year road safety strategy, *arrive alive!*, which aims to reduce deaths and injuries on Victoria's roads by 20 per cent by 2007. Information on the status of the Accident Blackspot Program, which aims to treat and upgrade targeted local roads to improve their safety, was also outlined by the Minister.

The Committee noted that the Government's road safety initiatives, particularly increased enforcement activities by Victoria Police, appear to have contributed to an almost steady decline in the metropolitan Melbourne road toll since early 2002, which fell by approximately 25 per cent since the previous calendar year. Furthermore, these statistics show that the upward trend in country fatalities evident between September 2001 and September 2002 appears to have stabilised, with some evidence that it may be beginning to decline in the most recent period.

The Minister also outlined data gathered from a preliminary study examining the effectiveness of the Accident Blackspot Program, which suggests that the number of casualty crashes at 109 treated sites examined by the Monash University Accident Research Centre have declined by approximately 17.5 per cent.

The Auditor-General's May 2003 Report on Public Sector Agencies, stated that the latest cost estimate for the Federation Square project was \$473.3 million and that the project had an estimated funding shortfall of \$14 million. In a response to the Auditor-General's report, these figures were disputed by the Secretary of the Department of Infrastructure who advised that the total project budget was \$423.6 million and that a budget gap of \$6.3 million currently existed. The Minister informed the Committee that the final cost of the project would not be known until final invoices had been received and paid and that Federation Square Management Pty Ltd had been advised that it will need to identify ways of meeting its future cash requirements for ongoing management of the square.

In 2002-03, Major Projects Victoria oversaw \$113 million in construction activity and facilitated more than \$11 billion worth of major projects. The Minister provided an update to the Committee on the status of the latest costs and timelines for all projects being managed by Major Projects Victoria. The Committee noted that many projects have experienced unavoidable delays and/ or cost escalations, however, some of these

issues have arisen as a consequence of poor initial estimations. The Committee believes that based on these experiences, there are significant opportunities for Major Projects Victoria and Departments to improve future project design and management practices.

In relation to the Information and Communications Technology (ICT) portfolio, the Committee noted that expenditure for the Telecommunications Purchasing and Management Strategy (TPAMS), which will enable the Government to negotiate the best value for money from its telecommunications providers, was under budget in 2002-03 by \$16.2 million. The Committee was concerned that this delay in capital expenditure may have impacted on that project's timelines. However, the Minister advised that this situation had been incorporated into project planning and will not affect the overall budget and timeframe for the project. The Committee intends to monitor the progress of this project, and believes that this will be better facilitated through the disclosure of more detailed project milestones and analysis of progress on the TPAMS website and in the Budget Papers.

The Committee sought information from the Minister on which companies made up the 115 ICT investment recruitment projects facilitated by Multimedia Victoria in 2002-03. While the Minister provided limited information on a selection of companies that comprise the measure, the Committee was disappointed that detailed information was unavailable due to commercial-in-confidence reasons.

The funding and administrative arrangements surrounding the Office of the Chief Information Officer were provided to the Committee. The Committee noted that funding for the Office has been appropriated through the Department of Premier and Cabinet (\$33 million over four years) with the Chief Information Officer to report directly to the Minister for Information and Communication Technology. The performance measures for the new Office will be developed once it is established and its priorities agreed for 2003-04.

In the Energy Industries portfolio, the Committee noted that promoting greater retail competition in the electricity and gas markets following the introduction of full retail contestability remains a key challenge for the Government. The Minister advised that 'churn' rates (i.e. the rate at which customers switch between suppliers) in the retail electricity and gas markets remain substantially below levels which would indicate a

mature market. The Committee noted that while the Government has introduced measures to increase competitive pressures, they may not be effective in encouraging greater retail competition and reducing the structural cost disadvantage faced by rural customers. Accordingly, the Committee believes that the Essential Services Commission should, in the next 12 months, undertake a review of the effectiveness of competition in the electricity and gas sectors.

With respect to electricity generation, the Committee noted that it is likely that Victoria would require new base load generators within the next 10 years. The Minister advised that the Government does not intend to construct government-owned power stations and is relying on market outcomes in wholesale and retail electricity markets to provide appropriate signals to the private owners of power stations that new base load investment is required.

Chapter 7: Department of Innovation, Industry and Regional Development

The Department of Innovation, Industry and Regional Development's budget allocation in 2003-04 is \$379.8 million representing an increase of \$37.7 million as compared to the 2002-03 revised budget of \$342.1 million. Meaningful comparison with the Department's prior year budget is difficult to make due to the number of changes that have occurred since the 2002-03 budget.

In 2003-04, the Department is required to achieve general efficiencies in administration of \$2.7 million (\$10.8 million over four years), and \$3.4 million (\$13.6 million over four years) in specific savings initiatives. A review of administrative and support services across the Department is being undertaken to rationalise operations and improve service delivery and productivity.

The Department has been affected by recent machinery of government changes, the appointment of new Ministers, and, over the past three years, has had to continually adjust to changes in its responsibilities and outputs. The Department currently operates under a matrix management model, which strives to maximise the expertise of its staff, encourage knowledge transfer, and promote invention and flexibility. The model adopted by the Department is complex.

The Committee was advised that the structure of the Department is different from other government departments in that some of the major outputs involve all or many of the eight Ministers who have portfolios served by the Department. These arrangements create difficulty in defining ministerial budget responsibilities and accountability structures.

The Government's contribution to the national synchrotron facility has increased from \$100 million to \$157.2 million (as at January 2003), with the balance of the final cost of the facility to be sourced from other governments, universities and research organisations. To date, firm financial commitments from these other parties have not been secured.

The Government has allocated a further \$180 million in the 2003-04 budget to the Regional Infrastructure Development Fund bringing the total Government commitment to this fund to \$360 million. Included in this commitment is an intention to provide natural gas reticulation to up to four country towns at a cost of \$70 million.

The Committee observed that there is a potential for an overlap of functions undertaken by the Victorian Small Business Commissioner as compared to similar functions undertaken by the Victorian Civil and Administrative Tribunal and the Australian Competition and Consumer Commission. There is a need to clearly define the respective roles and responsibilities of these bodies.

The Australian Bureau of Statistics recorded a fall in the number of persons employed in manufacturing in Victoria from 343,000 persons in 2000 to 325,000 persons in February 2003. The Department was unable to advise the Committee as to the level of jobs lost in particular sectors of the manufacturing industry, especially in relation to the large textile, clothing, footwear and leather sector which was seen to be at risk of job losses.

The Committee was advised that the Government has taken an active role in encouraging community banking in regional and rural communities where financial services offered by the large banks have been withdrawn.

In an effort to boost tourism in Victoria, which has suffered a downturn, the Government has sponsored the Australian Tourism Exchange in 2003 and 2004. The Government is also providing funding for tourism

infrastructure through the Community Support Fund and the Rural Infrastructure Development Fund.

The Government intends to implement a comprehensive industrial relations strategy designed to ensure that the 2006 Commonwealth Games' building and construction program is completed on time and on budget and all services required are delivered. The cost of this industrial relations strategy was not separately identified within the Department.

Chapter 8: Department of Justice

The Department of Justice's budget allocation for 2003-04 was \$2,177.2 million, representing an increase of \$73.4 million as compared to the 2002-03 revised budget of \$2,103.8 million. The major reasons for the increase in the 2003-04 budget relate to the first installment of the Government's commitment to an extra 600 police over 4 years, increased traffic fines activity, the expansion of prison facilities and the increased focus on road safety.

The estimated revenue from ordinary activities of the Department increases by around 3.1 per cent in 2003-04 to \$2,191.7 million, mainly due to an additional appropriation becoming necessary to fund an increase of \$31 million in employee entitlements arising from the recruitment of additional police. Administered revenue collections on behalf of the Government are also projected to increase substantially from \$1,314 million in 2002-03 to \$2,216 million in 2003-04. The increases can largely be attributed to increases in fine collections of around \$100 million in conjunction with the transfer of the Office of Gambling Regulation, which collects revenue from gambling and lottery activities, to the Department of Justice in December 2002.

Some of the major issues that will impact on the budget estimates and the Department in 2003-04 include:

- ongoing enhancement of the Court infrastructure, including \$18 million for the construction of Moorabbin Magistrates Court;
- additional funding of \$14 million to legal aid over 4 years, including an increase in professional fees for legal aid lawyers;

- the creation of a Domestic Violence Court as a division of the Magistrates' Court of Victoria;
- the provision of \$125.8 million over four years to recruit an additional 600 police;
- the enhancement of Victoria's counter-terrorism capacity; and
- the signing of a \$140 million contract to install a mobile data system in Victoria's police and ambulance vehicles.

The Committee observed that the Department experiences considerable difficulty and expense in collecting a hard core percentage of outstanding traffic infringement notices and court fines, partly evidenced by a provision for doubtful debts of \$303 million. New, innovative measures were seen by the Committee as being required to reduce the costs associated with pursuing overdue fines and reduce the number of fines written off each year.

Revenue from police fines, predominantly traffic fines, is expected to increase by 30.9 per cent in 2003-04 to \$427.5 million, an increase of \$101 million more than the anticipated revenue from this source in 2002-03. The Committee accepts that the strong traffic penalty system currently in force is a very important component of the Government's road safety strategy.

A range of actions has occurred since the major bushfires in January 2003, including the publication by the Emergency Services Commissioner of an interim report to the Government on factors contributing to the bushfires. The Committee considered there was a need for a nationally co-ordinated and co-operative approach between the Commonwealth Government, States and Territories to enhancing aerial support for fire-fighting. There was also a need for the recommendations arising from the 2002-03 State Bushfire Inquiry to be implemented before the 2003-04 bushfire season.

Over the next four years, Victoria Police will receive substantial additional resources, including an extra 600 police, new computer technology which will enable the development of customised crime detection strategies and enhancements to forensic testing facilities. The Committee recognised the considerable benefits likely to flow from the development by Victoria Police of a Five-Year Strategic Plan accompanied by a revised output structure and improved performance

measures. The Committee also observed that provisional crime statistics for 2002-03 reflected a 6.8 per cent drop in the incidence of recorded crime. Nevertheless the Committee considered there was further scope for Victoria Police to demonstrate to the Parliament and the public the extent to which the additional resources assisted Victoria Police in fulfilling its mission and objectives.

In 2003-04 a new output Diversion and Community Support Programs with a budget of \$397.6 million was established focusing mainly on the diversion of low risk criminal offenders away from custodial sentences into counselling education programs. The Committee considered the performance of the programs in achieving their aims needed to be better evaluated, along with research as to why Victoria's prison population is increasing particularly in respect of women prisoners.

The Government has entered into a \$140 million contract to implement a Mobile Data Network in all police and metropolitan ambulance emergency vehicles. The benefits to be gained from this network in terms of emergency responsiveness and immediate access to critical information in the field are considerable. An opportunity exists to use the management information generated from the system to develop performance information, measures and targets from which the efficiency and effectiveness of Victoria Police and the Metropolitan Ambulance Service in responding to emergencies and calls for assistance can be measured.

The Minister for Corrections advised the Committee that the construction of correctional facilities at Ravenhall and Lara would commence in 2003-04 and be delivered under the Partnerships Victoria framework at an expected combined capital cost of approximately \$140 million. Under the arrangement, the Government would operate the facilities and retain responsibility for the delivery of core services, with the private sector carrying the financial, design, construction and building maintenance responsibilities and risks.

The Committee was informed that released prisoners returning to the Victorian prison system were 20 per cent more likely to report alcohol and drug issues upon re-entry. The Committee suggested that the existing prisoner rehabilitation programs take into account the factors that influence this situation.

The Committee raised concerns over the high volume of complaints against builders received by Building Advice and Conciliation Victoria since commencing operations in July 2002. The Committee encouraged the Department to undertake an analysis of the nature of complaints, the appropriateness of current builder registration standards and the need for continuous professional development for builders.

The Department recently announced the establishment of the position of Advocate for Responsible Gambling. The Advocate will chair the Government's Problem Gambling Roundtable and report and make recommendations to the Minister for Gaming on the effectiveness of any aspect of gambling regulation aimed at promoting responsible gambling. The Committee suggested that a future review may be required to ensure that adequate resources had been allocated to the Advocate's secretariat.

In its examination of the implementation of recent gaming and gambling reforms, the Committee observed that overall gaming expenditure within the community had fallen by around 12 per cent since the smoking bans took effect in September 2002 and that this decline had affected the financial viability of some gaming venues. The Committee noted that the Department was working with Clubs Victoria and venues on strategic issues to assist clubs, such as tourism and venue management.

The Gambling Research Panel currently has 16 projects under way at a cost of around \$1.6 million. Funding for the Panel's research is derived from gambling revenue channelled through the Community Support Fund. Delays in finalising research plans and the absence of performance measures from the Panel's annual report or research plan made it difficult to assess the performance of the Panel or the effectiveness of the research that it had commissioned.

The Committee noted the potential threats of Internet-based betting exchange wagering platforms for the future viability of the Australian racing industry, consumer protection of punters and for Government revenue from wagering. The Department is communicating with other jurisdictions in Australia to address this problem.

Chapter 9: Department of Premier and Cabinet

The Department of Premier and Cabinet's budget allocation in 2003-04 is \$392.7 million, representing a \$7.1 million or 1.8 per cent decrease from its 2002-03 revised budget allocation.

In 2003-04, the Department is required to achieve general efficiencies in administration of \$1.2 million (\$4.8 million over four years), and \$2 million (\$8 million over four years) in specific savings initiatives.

The National Gallery of Victoria is expected to open in late 2003, as compared to the previous completion date of July 2003. The project is expected to cost \$153 million, around \$17 million more than the original estimate. The additional cost will be financed with a further contribution from the Government of \$4 million, with the balance to be raised by the National Gallery of Victoria Board.

Visitor numbers for the Museum of Victoria during 2002-03 were 190,000 below target. Numbers for the Australian Centre for the Moving Image at Federation Square were down by 200,000. Actions taken by the Department to boost numbers at all Arts institutions, including reducing entry fees, have since been very successful in increasing visitor numbers.

The Committee observed that the Ombudsman's Office did not receive any additional funding in 2003-04 despite an increasing volume and complexity of complaints in conjunction with being assigned the responsibility for an oversight of whistleblower protection legislation.

Substantial changes are to occur in the public sector workforce from 2003-04, with the introduction of a new career structure and a new budget system that will devolve responsibility to Departments for wage adjustments and career progression. Staff numbers are to be contained, with the exception of 600 extra police, 450 extra teachers, 250 extra primary school welfare officers and 900 extra nurses and health officers.

The Committee observed that over the past five years, there has been a rising incidence in WorkCover claims for stress within the Victorian public administration and community services sectors. The incidence of stress leave needs to be addressed at a time when the Government is seeking further productivity improvements and cost savings in Government Departments.

Chapter 10: Department of Primary Industries

The Department of Primary Industries' budget allocation for 2003-04 was \$297.3 million, which represents an increase of around \$14.7 million or 5.2 per cent from the revised 2002-03 budget, excluding one-off funding in 2002-03 for drought assistance (\$83.2 million) and the red fire ant eradication program (\$5.4 million).

The Department was established in December 2002 following the transfer of the agriculture; fisheries; and minerals and petroleum functions from the former Department of Natural Resources and Environment.

The Committee noted that funding for the fisheries and minerals and petroleum output groups was largely unchanged. The increase in funding for the Department was largely due to new initiatives in the agriculture output group – including developing new and innovative research and development projects, and strengthening the State's capacity to respond to prevent and respond to biosecurity threats to agriculture.

The Department expected to achieve annual savings of \$3.2 million (1.1 per cent of total budget) in 2003-04 and the following three years without extensive job losses through more efficient delivery of research and development.

The Minister for Agriculture has highlighted biosecurity of agriculture as a key challenge for the Department in 2003-04, with several initiatives included in the budget to enhance the State's capacity to respond to the increasing threat of exotic animal pests and diseases.

Key initiatives and issues affecting the Department's budget estimates in 2003-04 included:

- a package of measures totalling \$24.1 million over four years aimed at strengthening the State's capacity to prevent and respond to biosecurity of agriculture threats;
- funding to develop aquaculture in Victoria (of \$2 million over four years) to promote training and provide industry development assistance to integrated aquaculture and farming operations;
- rebuilding local communities and industries following the largest bushfires experienced in Victoria since 1939; and

- improving fisheries protection through a range of measures costing \$1.1 million over four years including expanding a 24 hour / 7 day telephone reporting hotline.

The Committee was advised that Victoria's response to a national simulation exercise of a foot and mouth disease outbreak conducted in September 2002 ('Exercise Minotaur') was quick and effective, but highlighted a number of areas for improvement in biosecurity. These areas are being addressed in the 2003-04 budget and include the appointment of additional staff to enable establishment of disease control centres, undertake compliance auditing within the industry and assist in the early recognition and response to exotic animal diseases.

The Department is currently involved in a number of capital projects. The most significant, in terms of the Government's direct contribution (\$101 million over three years) is the redevelopment of the Melbourne Showgrounds as part of a joint venture with the Royal Agricultural Society. The Committee was advised that despite delays with finalising showgrounds redevelopment proposals – intended to be carried out as a Partnerships Victoria project – the Department anticipated that the core facilities required to stage the show would commence after the September 2004 Show and be completed as scheduled by September 2006.

The Committee noted that a key issue for the fisheries portfolio is to protect the State's fish and aquatic resources from over exploitation. The Department undertakes a range of compliance activities to reduce illegal fishing, including targeted operations in conjunction with other law enforcement Agencies and expansion of the 24 hour telephone hotline to report suspected illegal fishing activities. However, the effectiveness of its compliance activities in both the commercial and recreational fisheries has not been measured.

Key issues examined in the minerals and petroleum portfolio included the need for better co-operation between the State and Commonwealth Governments to develop sustainable resource projects in Victoria and efforts by the Department to develop a sustainability strategy to address environmental issues relating to the mining and extractive sectors.

Chapter 11: Department of Sustainability and Environment

The Department of Sustainability and Environment was established in December 2002 following the transfer of the water, forestry, greenhouse, land and environmental planning functions from the former Department of Natural Resources and Environment. At the same time, the Department also assumed responsibility for the heritage, building, strategic and statutory planning functions from the Department of Infrastructure.

The Department's budget allocation for 2003-04 was \$901 million, representing a reduction of \$45.8 million as compared to the revised 2002-03 budget of \$946.8 million. However, the 2002-03 budget was inflated on account of one off expenditure due to the bushfires and settlement of the Seal Rocks litigation.

Some of the key tasks that will impact on the budget estimates for the Department in 2003-04 include:

- implementing recommendations from the Victorian Water Trust's advisory council to undertake projects valued at \$53 million over the next four years relating to major river restoration works, upgrading irrigation assets and infrastructure, and upgrades of pipelines and water supplies and sewerage works;
- the need for funding of \$13.9 million over four years to reduce forest activities in Victoria's Otway region and create a single national park extending from Cape Otway to Anglesea; and
- implementing initiatives aimed at reducing weed problems on private and public land. Funding of \$10 million over four years has been allocated to private land managers to work with local councils, catchment management authorities and other community groups to prevent and intervene in weed growth. Weed and pest control programs on public land, including national parks and State forests, will receive \$14 million over four years.

The Department has forecast ongoing annual administrative savings of around \$17.9 million commencing in 2003-04. Around \$14 million in savings is expected to result from minimising duplication in grant programs and refocusing existing resources. It is anticipated the

remaining \$3.9 million will be recovered from general administrative efficiencies.

The Committee was advised that the Department would have 2,826 equivalent full-time staff at 30 June 2004. The Department indicated that it generally can recruit staff to meet operational needs, but that there are ongoing difficulties in attracting staff in specialised areas such as science, forestry, information technology and financial management.

In 2002-03, the State experienced its worst bushfire season since 1939. During the year the Department spent \$132.2 million on fire operations and \$17.6 million on fire prevention and planning activities. The Government is taking action to implement recommendations including to increase fuel reduction burns, made by the Commissioner for Emergency Services in an interim report on the Victorian bushfires.

The Committee noted that \$1 million was allocated to establish a Commissioner for Environmental Sustainability in 2003-04. The Commissioner will be responsible for preparing a report every five years on the state of the environment in Victoria and exercising an oversight over public sector agency environmental programs and reports.

High levels of building activity and regulatory uncertainty over planning and development applications have placed considerable pressures on local governments and other planning authorities. The 2003-04 budget allocated additional funds to local governments, the Victorian Civil and Administrative Appeals Tribunal and land information programs administered by the Department to help alleviate these pressures.

The Committee noted that the Department is overseeing several reviews of planning processes and guidelines in 2003-04 that may contribute to further improvements in the planning system.

Chapter 12: Department of Treasury and Finance

The Department of Treasury and Finance's budget allocation in 2003-04 was \$178.4 million, a decrease of \$11.3 million as compared to the 2002-03 revised budget of \$189.7 million. The major reason for the decrease was the transfer of the Regulation of Gambling and Gaming Policy Advice outputs to the Department of Justice following machinery of government changes in December 2002.

Administered revenue is expected to decrease by around \$1,160 million to \$18,591 million. Reasons for the decrease include a reduction in public authority dividends of \$312 million, reduced collections from stamp duty of \$279 million along with the impact of transferring the responsibility for the collection of gaming revenue to the Department of Justice.

The Department anticipates a deficit on administered revenue and expenditure of \$451.2 million in 2003-04, largely attributed to a further increase in superannuation expenses adding to the unfunded superannuation liability of the State.

The key tasks to be undertaken within the Department in 2003-04 include:

- implementing improved infrastructure project management and governance frameworks to more effectively manage project costs and delivery risks across the Victorian Public Sector;
- driving national issues such as Commonwealth-State relations, utilities regulation and insurance policy;
- ensuring taxation compliance for duty on high value land transfers by closing loopholes that were enabling avoidance of stamp duty;
- progressing the introduction of electronic commerce for procurement across all Departments;
- establishing the Essential Services Commission as the economic regulator of the water industry;
- resolving a range of issues involving public liability insurance, builders warranty insurance, professional indemnity and insurance against acts of terror; and
- ensuring the Government's resource management framework supports the achievement of 'Growing Victoria Together' outcomes, including the development of 'triple bottom line' reporting.

Staffing numbers are projected to increase marginally from 944 in 2002-03 to 975 in 2003-04, mainly on account of \$1.8 million being provided to the State Revenue Office to employ specialist staff to investigate stamp duty avoidance.

The payment of dividends by Government Business Enterprises is projected to decline by \$305 million from an estimated \$578 million in 2002-03 to \$273 million in 2003-04. The decline in dividends could be attributed to the dissolution of Gascor Pty Ltd and the cessation of dividends, lower dividend distributions from the water authorities and the completion of a series of special dividend payments by the Transport Accident Commission directed towards the Accident Blackspot Program.

The proposed new departmental funding system to be introduced by the Government in 2004-05 needs to take into account cost increases, particularly salary and wage increases, over which Departments ultimately have no control. For example, although the Government intends to restrict wage increases to 3 per cent, the Australian Industrial Relations Commission will ultimately arbitrate on wage increases if industrial agreements cannot be reached between the Government and its workforce.

In view of poor investment returns and certain other factors, the Government needs to review its strategy of eliminating the unfunded superannuation liability by 2035.

The Government is preparing for the adoption of International Accounting standards which are to be applied to all public sector financial reports after 1 January 2005. The Government is also undertaking a range of initiatives designed to introduce triple bottom line reporting in the public sector.

The Victorian Management and Reporting Framework relies extensively on the development of performance measures that link desired Government policy outcomes with departmental outputs and targets. The Committee found that there were considerable disparities as to the quality of performance information provided by the various Departments and that the Auditor-General had reported an absence of any Directions from the Minister for Finance requiring public sector Agencies to include their objectives and related performance measures in their annual reports.

The Committee considered it would be useful if consolidated information on all Government accommodation costs was included in the Budget Papers. Inclusion of such information would highlight the cost of leasing accommodation as compared to the costs associated with Government owned accommodation.

The Committee noted that, although the Victorian Work Cover scheme was intended to be fully funded by 2006, the funding ratio had declined from 87 per cent in June 2002 to 83 per cent in December 2002, largely due to poor investment returns. Given this situation, the Committee considered that unless the Authority's financial position improved the objective of self funding will be difficult to achieve.

Chapter 13: Department for Victorian Communities

The Department for Victorian Communities, which was created in December 2002, received a budget allocation of \$358.6 million in 2003-04. Of this amount funding of approximately \$159 million was provided for costs associated with the 2006 Commonwealth Games.

In 2003-04 the Department is required to achieve general efficiencies in administration of \$1.2 million (\$4.8 million over four years). The Department is also to achieve savings of \$6.1 million in 2003-04 (\$42 million over four years) from refocusing and retargeting Victoria's employment, training and vocational education programs. The refocusing of these programs is intended to better integrate various program components for maximising positive outcomes for young and unemployed Victorians under a new 'Jobs for Victoria' policy.

The Budget Papers did not provide any details as to the specific source and nature of the potential savings of \$42 million to be derived from the restructuring of the programs. Accordingly, the Committee expressed concern about the potential impact of the reductions on the Department's capacity to deliver future employment services and maintain existing services levels for its clients.

In recognition of the problems faced by some Municipal Councils in renewing ageing assets, the Department is undertaking a range of initiatives designed to assist the asset management capability of the local government sector.

The Minister advised the Committee that Victoria has been successful in attracting 12 major events to Victoria up to 2007. Events are only hosted where there is a net economic benefit to the State.

The 2006 Commonwealth Games budget is currently \$1.1 billion, with a capped Government contribution of \$474 million for operating expenses

and \$223 million for asset initiatives, leaving around \$403 million to be generated from revenue. The Department is responsible for the preparation of annual financial reports detailing the progressive expenditure and revenue for the Games. The Committee identified a need for the Department to develop performance measures for Commonwealth Games outputs, including key project milestones in view of the Government's financial commitment of \$697 million.

The Department is confident that all Commonwealth Games infrastructure projects will be completed in time for the Games. The Committee noted that there have been delays in the commencement and progress of projects, which could impact on costs.

Funds allocated from the Community Support Fund have increased from \$70 million in 1996-97 to around \$188 million in 2003-04. Of the 2003-04 allocation, approximately \$78 million related to Government election commitments. Smoking bans in gaming venues resulted in a drop in revenue for the Fund of 20 per cent or \$20 million in 2002-03.

The Department intends to develop a strategic grants framework to simplify the grants process, with a view to improving community access to the large range grants that are available from the various programs. The Committee strongly supports the initiative, which will need to be progressively monitored as to its effectiveness.

In line with the Government's commitment to providing opportunities for Victoria's youth, existing youth programs previously delivered under four separate outputs have been consolidated into a single output with funding of \$12 million in 2003-04. This is a positive initiative, but will require the development of appropriate performance measures to determine the effectiveness and efficiency of the programs.

Victoria's performance in attracting skilled and business migrants as compared to other States has been relatively poor. In order to improve its performance, the Department has received \$6 million in funding over four years in an attempt to attract skilled migrants to regional centres experiencing shortfalls in certain skills required in commerce and industry.

The Victorian Multicultural Commission's Community Grants Program received an additional \$1.2 million in funding over four years in the 2003-04 budget. The Committee noted that the program did not have

performance measures from which the success of the program could be evaluated.

A major priority for the Office of Women's Policy in 2003-04 is to finalise its work, family and community strategy which was first announced in late 2002 and for which funding of \$2 million over four years has been provided in 2003-04. The Committee was concerned about the delays in finalising the strategy and the absence of attention to developing appropriate performance measures.

The Government is yet to finalise a strategy for the ongoing operation of the Queen Victoria Women's Centre, which the Committee identified in its 2000-01 Budget Estimates Report as being in financial difficulty.

The Government has developed an Indigenous Community Capacity Building Program in an effort to develop better links between Victorian indigenous community organisations and Victorian Government Agencies. The Committee supports this effort, but considers that an effective monitoring and evaluation framework also needs to be developed to determine whether the desired Government outcomes for the program are being met. A similar framework should also be developed to measure the success or otherwise of the Victorian Indigenous Family Violence Strategy. A taskforce is to report to the Minister for Aboriginal Affairs on this issue later in 2003.

Chapter 14: Auditor-General's performance audit report on parliamentary control and management of appropriations

In April 2003, the Auditor-General tabled the performance audit report Parliamentary Control and Management of Appropriations in Parliament. The Auditor-General's report aimed to provide Parliament with an opportunity to re-assess how well it is placed to exercise effective control over public finances and to hold the Executive Government to account for performance outcomes. The Auditor-General identified ways of strengthening the effectiveness of parliamentary control and the management of appropriations. The report also contained recommendations to improve the existing scrutiny and accountability arrangements, so as to enhance the transparency of the Government's operations and to facilitate Parliament's monitoring of public spending.

The Committee agrees with the Auditor-General on the need to re-examine the balance between the Parliament's ability to scrutinise and approve the spending of public money and the Executive Government's discretion to manage and fund resources to meet emerging demands and developments. At a later date, the Committee intends to report to the Parliament in detail on the reforms suggested by the Auditor-General.

Chapter 15: PAEC interim response to the Auditor-General's Report on Performance Management and Reporting – Progress Report and a Case Study

In April 2003, the Auditor-General reported to Parliament on the progress made by the Government and its Agencies in the development of the Performance Measurement and Reporting Framework. According to the Report, the framework is still incomplete because the development of performance indicators linking the resource allocation process to departmental objectives and to Government outcomes has yet to be finalised. The delay in completing the framework also means that the Auditor-General is some way from being in a position to audit the key performance indicators of Agencies under a mandate that has been given to him since December 1999.

The Auditor-General has noted a number of major deficiencies within the framework that has been developed to date. Those deficiencies are mainly concerned with the coverage of the framework, the linkages between the different elements and also the quality of the performance information produced by the Government and its Agencies. The Auditor-General has made a number of recommendations regarding the different elements of the framework and also the respective roles of the central Agencies, Departments and non-departmental Agencies in assisting the finalisation of this priority reform project.

In the past, the Committee has expressed concerns about the slowness in the development of the framework. The gaps that exist within the current framework, in the Committee's view, have hindered accountability for the performance of Departments in the delivery of service outputs and the desired outcomes. Agencies need assistance from the Department of Treasury and Finance in implementing the Performance Management and Reporting Framework. The Committee is concerned that the

Department of Treasury and Finance is not currently engaged in any form of active monitoring of the progress made by Agencies in implementing the framework.

At a later date, the Committee intends to report on this matter, in greater detail,

Chapter 16: Review of Annual Reports of Departments and Agencies

The annual reports of the Departments and Agencies are the key communication medium by which they discharge their accountability obligations to the Parliament, the Government and the community. In Victoria the annual reporting legislation requires all Agencies to present to Parliament each year an annual report containing both operational and financial information on their activities and the results achieved.

Openness and transparency in reporting has now assumed even more importance as a result of the greater responsibilities that have been devolved to Agencies over recent years. In the Committee's view, credible reporting on performance is not only a key component of corporate governance but it also has a number of other clear benefits as it can:

- enhance accountability and trust in Government;
- provide information to promote improved services and better parliamentary scrutiny; and
- create an incentive for Agencies to actively manage for the results they have set out to achieve according to their corporate and business plans and the budget estimates.

To encourage better reporting, during the course of the 2003-04 Budget Estimates Inquiry, the Committee undertook a detailed examination of the 2001-02 annual reports of the nine Departments. In addition, the review also covered the 2001-02 reports of Victoria Police, the Environment Protection Authority and the five Parliamentary Departments.

Generally Departments and Agencies have made some improvement in reporting on their performance in annual reports but the Committee is disappointed at the rate of progress.

A number of major factors have contributed to the current state of annual reporting. Those factors include inadequacies of the legislative framework and the Performance Measurement and Reporting Framework; good performance reporting principles not clearly understood or applied by Agencies; lack of strong incentives for good performance reporting and few sanctions for poor reporting within the current system.

The Committee's review has identified a number of common deficiencies in the performance information produced by Departments and Agencies. The key problems that have been found include:

- lack of focus on accountability for performance outcomes and too much emphasis on providing details in relation to initiatives, projects and activities undertaken during the year;
- poor quality of the performance information on the delivery of outputs and, in particular, the achievement of departmental objectives and Government outcomes;
- completed initiatives and projects not reported against those planned for the current year; and
- Agencies not giving a balanced presentation of the results of operations emphasising mainly the 'good news' with few references to failures, setbacks and problems encountered during the year.

RECOMMENDATIONS

The Committee recommends that:

Chapter 3: Parliamentary Departments

Recommendation 1:

As part of the 2003-04 review of general planning processes, the Parliamentary Departments give consideration to changing the timing of their business planning cycle.

page 114

Recommendation 2:

All vacant positions, beyond a six month period, with the Parliamentary Departments be advertised externally.

page 117

Recommendation 3:

The Parliamentary Departments, and in particular the Joint Services Department:

- (a) ensure that appropriate officers receive training in project management; and**
- (b) develop project management guidelines and financial systems that will enable the Parliamentary Departments to manage, track progress and cost major projects.**

page 123

Chapter 4: Department of Education and Training

Recommendation 4:

The Department of Education and Training reconcile ministerial responsibilities to departmental outputs and divisional structure to ensure that responsibilities are well defined and publicly understood.

page 131

Recommendation 5:

The Department of Education and Training give consideration to developing a detailed model to anticipate the particular disciplines and locations of teacher shortages and an audit of teacher supply and demand be undertaken.

page 137

Recommendation 6:

The Department of Education and Training:

- (a) clarify the definitions of ‘new’, ‘replacement’, ‘modernisation’ and ‘maintenance’ in relation to schools and publish the definitions in future Budget Papers;**
- (b) clearly distinguish, and report separately, funding allocated to the different categories of ‘new’, ‘replacement’, ‘modernisation’ and ‘maintenance’ for schools;**
- (c) monitor capital spending on new and established schools and report publicly on the progress made with implementing projects; and**
- (d) track and analyse the impact of capital spending on future maintenance requirements in educational institutions.**

page 142

Recommendation 7:

The Department of Education and Training:

- (a) develop measurements and benchmarks for class size data that separately identify trends in regional and metropolitan areas; and**
- (b) consider collecting and publishing data on the number of prep to year 2 (and other reporting categories) teachers alongside class sizes.**

page 146

Recommendation 8:

The Department of Education and Training continue to monitor and support numeracy and literacy programs to determine their effectiveness in maintaining and improving current standards.

page 148

Recommendation 9:

To enable an assessment of the outcomes of the completion bonus program, the Department of Education and Training establish baseline information and targets that identify current and anticipated apprentice and trainee completion rates.

page 150

Recommendation 10:

The Department of Education and Training:

- (a) ensure all Victorian tertiary institutions are aware of the concerns raised by the Auditor-General and recommendations made by the 'Review of University Governance of Victorian Universities'; and**
- (b) in conjunction with the Auditor-General continue to promote and insist on good governance through follow-up reviews and audits.**

page 153

Chapter 5: Department of Human Services

Recommendation 11:

The Department of Human Services monitor the funding requirements of relevant primary health care agencies to ensure that they are adequately resourced to accommodate the increased demand for services that are diverted from the acute health system.

page 173

Recommendation 12:

The Department of Human Services, as a result of the experience gained from the redevelopment of the Austin and Repatriation Medical Centre and other similar capital projects, as well as insights gained from the whole of government Gateway initiative, review and refine its practices in relation to the development and management of capital works projects, in order to minimise future project delays and cost escalations. page 175

Recommendation 13:

The Department of Human Services and the Department of Treasury and Finance undertake a review of the effectiveness of existing funding arrangements for hospitals, taking into account the Auditor-General's recommendations, and implement strategies that will improve both the short and long term financial viability of public hospitals. page 177

Recommendation 14:

The Department of Human Services ensure that:

- (a) appropriate governance arrangements are established for the Government's health ICT project with sector wide representation to ensure that implementation proceeds in an efficient and co-ordinated manner; and
- (b) appropriate performance measures and targets are established, which enable effective monitoring of project costs, timelines and implementation outcomes.

page 178

Recommendation 15:

The Department of Human Services monitor and review the effectiveness of the new mental health initiatives through the development of appropriate performance measures and targets, and that these health initiatives provide an accurate indication of their impact on demand and client outcomes.

page 180

Recommendation 16:

- (a) The Government have urgent discussions with the Commonwealth Government in relation to funding for public dental care; and**
- (b) the Department of Human Services develop an action plan aimed at reducing the substantial waiting lists for restorative dental care and for the provision of dentures.**

page 182

Recommendation 17:

The Department of Human Services ensure that the strategies being developed to meet increasing demands for disability services do not affect the wellbeing of people with disabilities in urgent need of appropriate care.

page 189

Recommendation 18:

The Department of Human Services closely monitor the effectiveness of the initiatives implemented to address the occupational health and safety concerns of disability workers and report on these matters in the Department's annual report.

page 190

Recommendation 19:

The Department of Human Services undertake a study to examine the effectiveness of the Take-Two program on easing pressure on kinship and permanent care placements.

page 194

Recommendation 20:

The Department of Human Services:

- (a) undertake research to explore potential options and develop innovative strategies to reduce the current shortfall in residential aged care beds, including the number of people awaiting such beds in public hospitals;**
- (b) continue its negotiations with the Commonwealth Government regarding the issue of pricing arrangements in an effort to address the ongoing inequity in funding for aged care services in Victoria.**

page 205

Recommendation 21:

The Victorian Government, in conjunction with other States and Territories, make representations to the Commonwealth Government on the need for an agreement on a capital program to ensure the current public housing stock can be expanded and upgraded to keep pace with current and future community needs and demands.

page 209

Recommendation 22:

To improve the level of transparency associated with variations in capital funding, including those attributable to changes in accounting arrangements, the Department of Treasury and Finance provide additional information in future Budget Papers to explain the variations.

page 210

Recommendation 23:

The Office of Housing:

- (a) undertake a review of the effectiveness of initiatives aimed at reducing rental arrears and maintenance bills and implement corrective action; and**
- (b) ensure that tenants in arrears are provided with an opportunity to seek guidance and advice from financial planners.**

page 212

Chapter 6: Department of Infrastructure

Recommendation 24:

Where substantial financial adjustments occur, such as a major reclassification of operating expenditure to capital expenditure, the Budget Papers include detailed information on the reasons for the adjustment.

page 223

Recommendation 25:

The Department of Infrastructure seek urgent discussions with the Commonwealth Government in relation to achieving a more timely and equitable distribution of national road funding for Victoria.

page 236

Recommendation 26:

The Department of Infrastructure, in conjunction with public transport operators, develop and implement an evaluation strategy that will permit the ongoing review of the effectiveness of public safety measures.

page 240

Recommendation 27:

The Department of Infrastructure ensure its annual report contains information on:

- (a) the performance standards for the effective operation of the automated ticketing system;**
- (b) the performance of OneLink in achieving those standards; and**
- (c) bonuses or penalties incurred by OneLink.**

page 241

Recommendation 28:

The Department of Infrastructure establish relevant performance measures and targets that reflect the expected benefits of the road safety initiatives around schools and in regional Victoria.

page 245

Recommendation 29:

Major Projects Victoria develop best practice models and guidelines for managing large and complex public projects.

page 252

Recommendation 30:

Major Projects Victoria work closely with the Departments that are receiving capital funding for projects to assist them with scoping future projects and providing more accurate budget and time estimates.

page 253

Recommendation 31:

The roles of all Government agencies involved in the investment attraction and retention programs for information and communication technologies be better defined, and the alignment of ministerial accountability with responsibility be strengthened.

page 264

Recommendation 32:

The Essential Services Commission undertake a review, within the next year, of the effectiveness of competition in the electricity and gas sectors.

page 271

Recommendation 33:

The Department of Infrastructure closely monitor the effectiveness of current and proposed market mechanisms to ensure Victoria's future electricity requirements are met.

page 272

Chapter 7: Department of Innovation, Industry and Regional Development

Recommendation 34:

The Department of Innovation, Industry and Regional Development take immediate steps to resolve its complex framework of ministerial responsibilities and issue a statement that clearly aligns ministerial responsibilities with accountability for budget and departmental activities and resource issues.

page 280

Recommendation 35:

Government contracts published on the web include a summary of the key performance indicators contained in the contracts.

page 289

Recommendation 36:

The Department of Innovation, Industry and Regional Development:

- (a) continue to actively negotiate with, and seek support from, the Commonwealth Government, other States and interested parties to ensure:**
 - (i) the synchrotron will meet the needs of their research communities;**
 - (ii) the synchrotron beam lines are fully subscribed; and**
 - (iii) investors and users are prepared to cover operating costs.**
- (b) in the absence of such commitments, the Department should disclose in the Budget Papers the potential financial risk this poses to the project.**

page 292

Recommendation 37:

The Small Business Commissioner develop relationships with the Victorian Civil and Administrative Tribunal and the Australian Competition and Consumer Commission and, at an early stage, clearly define the Commissioner's roles and responsibilities in relation to these larger established bodies.

page 300

Recommendation 38:

To facilitate the monitoring and review of the Government's achievements in relation to the financial services industry, the Department of Innovation, Industry and Regional Development develop performance measures and targets that are specific to the financial services industry and portfolio, and integrated with the strategic plan for the financial services industry.

page 307

Recommendation 39:

The Department of Innovation, Industry and Regional Development:

- (a) review financial services in regional and country Victoria; and**
- (b) noting the success of the community banking project grants scheme, give consideration to extending the initiative to metropolitan areas.**

page 309

Recommendation 40:

Industrial Relations Victoria develop a system for costing and recording work that relates specifically for the Commonwealth Games.

page 316

Chapter 8: Department of Justice

Recommendation 41:

The Department of Justice:

- (a) delete the average prison design daily capacity utilisation rate as a performance measure for the Prisoner Supervision and Support output group; and**
- (b) develop and report in the Budget Papers on the number of beds available and capacity utilisation for the different types of prison accommodation including permanent, flexible and temporary facilities.**

page 323

Recommendation 42:

To assist with reducing the level of fines written off each year, prompt action be taken by the Department of Justice to introduce new measures to increase fine collections prior to Court action.

page 337

Recommendation 43:

The Victorian Government discuss with the Commonwealth Government, other States and Territory Governments the need for a nationally co-ordinated and co-operative approach to enhance aerial support for fire fighting.

page 343

Recommendation 44:

The Government provide immediate funding to implement the recommendations arising from the 2002-03 State Bushfire Inquiry in time for the 2003-04 bushfire season.

page 343

Recommendation 45:

The Department of Justice provide more detailed information to the Parliament and the public on the effectiveness of Victoria Police in fulfilling its mission and objectives.

page 349

Recommendation 46:

The Department of Justice:

- (a) evaluate the success of the diversion and community support programs and report to the Parliament on the outcomes of the various strategies that have been developed; and**
- (b) undertake research on the underlying reasons the prison population is increasing, particularly with women, and the results of this research be channelled into the development of relevant social policies and existing diversion programs.**

page 351

Recommendation 47:

The Department of Justice develop mechanisms to capture the data produced by the Mobile Data Network in order to develop performance information and targets from which the efficiency and effectiveness of Victoria Police and the Metropolitan Ambulance Service in responding to emergencies and calls for assistance.

page 353

Recommendation 48:

After the contracts for the Ravenhall and Lara institutions have been signed, the Department of Justice publicly release details of:

- (a) the public service comparators; and**
- (b) the contracts including the level and type of risks transferred to the contractor and the financial arrangements.**

page 357

Recommendation 49:

The Department of Justice:

- (a) regularly evaluate the effectiveness of the substance abuse and domestic violence rehabilitation programs provided for offenders in institutions and in the community (after release) to ensure resources are focused on those areas where attention is most needed; and**
- (b) develop performance measures that are designed to reduce the risk of re-offence.**

page 359

Recommendation 50:

The Building Commission and Building Advice and Conciliation Victoria:

- (a) work together to assess the appropriateness of existing builder entry and registration standards in conjunction with the development of a continuous professional development program for builders;**
- (b) undertake an analysis of the more common complaints received and develop strategies to address these areas of concern; and**
- (c) encourage builders to reach acceptable standards within a reasonable time frame through avenues such as additional training and satisfying an independent review of their operations. Alternatively, action be taken to remove substandard operators from the building industry.**

page 364

Recommendation 51:

The Department of Justice, in consultation with the Advocate for Responsible Gambling, develop appropriate performance information that will enable an assessment of the effectiveness of the Advocate's Office in discharging its responsibilities.

page 366

Recommendation 52:

The Gambling Research Panel and the Department of Justice ensure that:

- (a) appropriate performance measures and targets are established, which enable effective monitoring of the Panel's project costs, timelines and implementation outcomes; and**
- (b) performance information is reported in the Gambling Research Panel's annual report.**

page 370

Chapter 9: Department of Premier and Cabinet

Recommendation 53:

Where machinery of government changes result in the transfer of responsibilities to other Departments, all comparative performance information should, where possible, be reported in the one place in the Budget Papers, against the full cost of those achievements.

page 376

Recommendation 54:

The Department of Premier and Cabinet develop a way of tracking or allocating resources, including staff resources, across outputs to improve the accuracy of budget estimates and to facilitate analysis of the costs associated with outputs.

page 381

Recommendation 55:

To assist with scoping future projects and providing more accurate budget and time estimates, Arts Victoria, and where appropriate in conjunction with the Office of Major Projects, review all relevant capital projects, including those recently completed, and identify deficiencies in original budget or time estimations.

page 384

Recommendation 56:

The Department of Premier and Cabinet closely monitor the operations of the Ombudsman's Office to determine whether, in the absence of an increase in funding for 2003-04, the Ombudsman is able to function effectively and discharge all his statutory responsibilities.

page 388

Recommendation 57:

As part of the review and update of the Growing Victoria Together strategy, to be undertaken in 2003-04, the Government:

- (a) clearly define the strategy's purpose and role;
- (b) advance work being done to define progress measures and determine benchmarks; and
- (c) frame links between outputs and outcomes.

page 389

Recommendation 58:

The Victorian WorkCover Authority:

- (a) review the effectiveness of the strategies to address the incidence of stress in the public sector workforce; and**
- (b) report on this matter in its annual report.**

page 393

Chapter 10: Department of Primary Industries

Recommendation 59:

The Department of Primary Industries in determining its current and future research activities consider a range of flexible strategies to retain and attract specialist staff for key research programs.

page 405

Recommendation 60:

The Department of Primary Industries develop performance measures that would enable an assessment of the effectiveness of its compliance activities in the different categories of fisheries and report this information in the Budget Papers and the Department's annual report.

page 411

Recommendation 61:

The Department of Primary Industries in developing a state wide sustainability strategy for the mining and extractive sectors, ensure:

- (a) the targets are clear, understandable and reasonable;**
- (b) the targets and actions are clearly linked to goals and objectives; and**
- (c) performance reporting is relevant, meaningful and transparent.**

page 414

Chapter 11: Department of Sustainability and Environment

Recommendation 62:

The Department of Sustainability and Environment:

- (a) develop a performance monitoring and evaluation framework for the Victorian Water Trust to assess the outcomes of the Trust's activities; and**
- (b) report the performance information in the Budget Papers and the Department's annual report.**

page 432

Recommendation 63:

The Department of Sustainability and Environment review arrangements relating to the effectiveness of each water retailer's activities to promote community and industry awareness about water conservation and recycling.

page 433

Recommendation 64:

Following the implementation of the recommendations arising from the review of planning processes, the Department of Sustainability and Environment develop performance information that will enable the effectiveness of the new measures to be determined and report this information in the Department's annual report.

page 438

Chapter 12: Department of Treasury and Finance

Recommendation 65:

The Department of Treasury and Finance build on the work undertaken to date to improve its performance measures and develop further performance information of a qualitative nature to provide more detailed information on whether Government outcomes were achieved.

page 442

Recommendation 66:

Summary information and rates of return on capital received and projected in the form of dividends from the respective government business enterprises be included in the Budget Papers.

page 453

Recommendation 67:

In implementing the new departmental funding arrangements, the Government ensure that full recognition is given to cost increases, especially salaries and wages, over which Departments have no control and provide adequate contingency funding in future budgets for such purposes.

page 455

Recommendation 68:

After the investment returns achieved by the State Superannuation Fund for 2002-03 are published, the Government review its strategy for achieving the 2035 full funding target.

page 461

Recommendation 69:

The Minister for Finance:

- (a) issue to public sector agencies a Direction on the level and nature of performance measurement required to complement the Government's Performance Management and Reporting Framework; and**
- (b) ensure consistency of performance information is included in the Budget Papers and the annual reports of Departments.**

page 464

Recommendation 70:

To enable Parliament to evaluate the total cost of rental accommodation, as compared with the capital costs involved in owning accommodation, consolidated information on all Government accommodation costs within the budget sector be included in the Budget Papers, along with relevant performance measures and targets.

page 467

Recommendation 71:

The Department of Treasury and Finance, in conjunction with WorkSafe and the Victorian WorkCover Authority, develop further strategies aimed at making employers more aware of their responsibilities for providing a safe workplace for their employees, in conjunction with communicating to employees the need to observe safe work practices.

page 474

Chapter 13: Department for Victorian Communities

Recommendation 72:

The Department for Victorian Communities:

- (a) ensure the evaluation of the Community Building Demonstration Projects and the Community Capacity Building Initiative assess the effectiveness of individual projects and activities; and**
- (b) ensure the outcome indicators for the evaluation reflect the dimensions of community strengthening that specific projects target.**

page 486

Recommendation 73:

The Department for Victorian Communities:

- (a) develop relevant performance measures and targets that reflect:**
 - (i) the status of the implementation of key components of the strategic grants framework;**
 - (ii) the level of awareness among potential grant applicants of the availability of the new service; and**
 - (iii) the extent to which grant applicants use the new service.**
- (b) report on this performance information in the Budget Papers and the Department's annual report.**

page 489

Recommendation 74:

- (a) The Department for Victorian Communities' savings initiatives, as outlined in future Budget Papers, be accompanied by explanatory notes that clearly describe the composition of savings to be achieved in terms of their source(s), nature and associated amounts.**
- (b) The Department for Victorian Communities assess the impact of efficiency savings on its capacity to deliver employment services and maintain existing service levels, including the impact on client access to services.**

page 496

Recommendation 75:

The Office for Youth develop an appropriate evaluation strategy for FReeZACentral and the Advance youth development program, incorporating relevant effectiveness and efficiency indicators for both programs.

page 499

Recommendation 76:

The Victorian Multicultural Commission develop an evaluation strategy incorporating relevant and appropriate key performance indicators and targets to assess the effectiveness and efficiency of the Commission's Community Grants Program in achieving the Government's desired outcomes.

page 502

Recommendation 77:

- (a) The Office of Women's Policy develop relevant and appropriate performance measures and targets relating to the timely finalisation and effective implementation of the Work, Family, Community Life Strategy; and
- (b) the annual report of the Department for Victorian Communities provide detailed information on the progress against these performance measures and targets.

page 505

Recommendation 78:

The Government develop a comprehensive strategy for the ongoing operation of the Queen Victoria Women's Centre, based on the findings of the Ministerial Advisory Committee.

page 506

Recommendation 79:

- (a) The Government establish formal reporting protocols for the Women's Safety Strategy to ensure key performance targets are established and regularly compared to actual performance;
- (b) the annual report of the Department for Victorian Communities contain detailed information on the progress of the Women's Safety Strategy's implementation against the performance measures and targets; and
- (c) the Office for Women's Policy include the strategy's performance measures and targets under relevant outputs in future Budget Papers.

page 508

Recommendation 80:

Aboriginal Affairs Victoria develop a comprehensive monitoring and evaluation framework for the Indigenous Community Capacity Building Program. The framework should include relevant key performance indicators and targets that adequately reflect the effectiveness and efficiency of each of the program's four key components.

page 508

Recommendation 81:

The Department for Victorian Communities develop performance measures for the Commonwealth Games output that:

- (a) reflect key issues and activities that are the subject of progress reports (rather than focusing on only the production of the reports);**
- (b) relate directly to key project milestones, such as timeliness and cost; and**
- (c) have targets that are disclosed in the Budget Papers.**

page 511

Chapter 1: Introduction

1.1 What is the estimates process

The estimates process involves the Government forecasting its revenue, setting out its spending priorities, and seeking approval from the Victorian Parliament for the expenditure proposals it is making for the next fiscal year.

As in many jurisdictions, the estimates process in Victoria is lengthy and complex, involving many people in the allocation of large sums of money to various government programs and services. The annual budget for 2003-04 is \$26,354 million expenditure¹ and \$26,598 million revenue² covering hundreds of revenue and expenditure programs. Budgeting for these programs, from initial planning to final approval, takes anywhere from seven to ten months. The process is complicated because it is expected to accommodate a large number and variety of needs and interests – economic, political and social – and, like all budgeting systems, it is about dealing with the future.

There are many people involved in the preparation of the budget estimates including Members of Cabinet and the Expenditure Review Committee, public officials working in the general government sector (Departments and Agencies) and the non-budget sector (mainly business enterprises). The role of the Victorian Parliament is to scrutinise the Government's expenditure proposals included in the budget estimates and approve the Government's Appropriation Bills. The detailed review of the budget estimates has been delegated by the Parliament to this Committee.

The Committee undertakes this task through a two phased process which involves a review of the budget estimates (undertaken during May and June) and a review of the budget outcomes (undertaken in November).

Exhibit 1.1 outlines the integrated management cycle and the Committee's involvement.

¹ Budget Paper No.2, 2003-04 Budget Statement, p.164

² *ibid.*, p.447

1.2 Objectives of the Committee's review of the budget estimates

The Budget Papers are a set of very important financial planning, management and accountability statements, which are used or referred to by many people and organisations from both inside and outside Government, as well as from within the State and elsewhere. Members of the public, investors, lenders and many business, government and community groups rely on these documents for information and decision making. These documents help the Parliament to hold Government accountable for the allocation and management of public funds.

In submitting this report, the Public Accounts and Estimates Committee does not intend to replicate the information contained in the 2003-04 Budget Papers, rather the Committee's analysis of the budget estimates aims to:

- facilitate a greater understanding of the budget estimates;
- provide information on the strategic overview of the budget;
- assist the Parliament and the community of Victoria to assess the achievement of the planned budget outcomes against actual performance;
- constructively contribute to the improvement of the information contained in the Budget Papers;
- enable more effective monitoring of the performance of Departments and Agencies; and
- make recommendations to improve accountability and transparency.

1.3 Process followed by the Committee

On 2 April 2003, the Committee circulated a questionnaire (see Appendix 2) to every Department, including the Parliamentary Departments, requesting additional information to that likely to be contained in the 2003-04 Budget Papers. The Committee's budget estimates questionnaire concentrated on obtaining information on:

- the strategic issues that have influenced the development of each Department's estimates;
- which Minister is responsible for each departmental output group;
- the internal/external reviews, including pricing reviews, of departmental output groups undertaken in 2002-03;
- projects funded from The Growing Victoria Infrastructure Reserve;
- the management and implementation of the Government's Partnerships Victoria policy;
- departmental funding held by the State Administration Unit;
- the policies and strategies adopted to ensure departmental practices are environmentally sustainable;
- departmental asset investment projects; and
- the profile of departmental staff.

The budget estimates for 2003-04 were subjected to 58³ hours of scrutiny by the Committee at public hearings held with the Premier, each Minister and the Presiding Officers of the Parliament during the period May to June 2003 (see Appendix 3).

The Auditor-General, in a recent report, suggested that to enhance parliamentary oversight over government spending and accountability, the conduct and finalisation of Parliament's scrutiny and reporting of budget estimates and outcomes be undertaken earlier so that Members of Parliament have access to the Committee's report as part of the budgetary deliberations.³ It is impossible for the Committee to produce a comprehensive report on the budget estimates for each Department within the two week turn around time that generally occurs between the tabling of the Government's budget and the commencement of the debate on the annual Appropriation Bills. In order for the Committee to meet that deadline it could only produce a cursory report which would have very limited value. However, the Committee has agreed to complete the review of the estimates process in a more timely manner and this is the

³ Victorian Auditor-General's Office, *Report on Parliamentary control and management of appropriations*, April 2003, p.44

first time that the Committee's program of public hearings has been completed within such a short time frame. In addition, the Committee's report on the review of the budget estimates is being tabled several months earlier than has occurred in the past.

This report is based on an analysis of the 2003-04 budget estimates and information contained in a range of documents including:

- the Budget Papers;
- Departments' responses to the Committee's budget estimates questionnaire;
- Auditor-General's performance audit reports;
- annual reports and other public documents produced by Departments and Agencies;
- the Auditor-General's reports on public sector agencies;⁴
- evidence given at the estimates hearings; and
- supplementary material received from Ministers during June to September 2003 in response to the Committee's follow-up questions.

The Committee has confined its comments to a comparison of the 2003-04 budget estimates with the revised budget estimates for 2002-03.

This report also includes the Committee's preliminary views on two very significant reports that the Auditor-General recently tabled:

- parliamentary control and management of appropriations;⁵ and
- performance management and reporting – progress report and a case study.⁶

⁴ Victorian Auditor-General's Office, *Report on Public Sector Agencies – Results of special reviews and financial statement audits for agencies with balance dates other than 30 June 2002*, June 2003 and *Report on Public Sector Agencies – Results of special reviews*, May 2003

⁵ Victorian Auditor-General's Office, *Report on parliamentary control and management of appropriations*, April 2003

⁶ Victorian Auditor-General's Office, *Report on performance management and reporting – progress report and a case study*, April 2003

Both reports deal with issues which are at the core of the collective responsibilities of this Committee and the Auditor-General and are important because Parliament is responsible for exercising control over public finances and for ensuring there is adequate accountability. The review of the annual parliamentary appropriations begins with the tabling of the Budget Papers and involves this Committee's examination of the Government's budget estimates and performance information. It is therefore an ideal opportunity for the Committee to review these reports and to highlight to the Parliament some key areas that the Committee intends to report on at a later date.

Public accountability for performance outcomes is essential to the efficient and effective operation of government agencies in the Victorian Public Sector. The annual reports of these agencies are the key communication medium by which they discharge their accountability obligations to the Parliament, the Government and the community. In Victoria, the annual reporting legislation requires all agencies to present to the Parliament each year an annual report containing both operational and financial information on their activities and the results achieved. This report also contains a review of the annual reports for 2001-02 for all Departments, the Parliamentary Departments, Victoria Police and the Environment Protection Authority.

1.4 Acknowledgements

The Committee is grateful for the assistance of all Ministers and departmental staff at the estimates hearings and in providing responses to the Committee's follow-up questions. The Committee also thanks the Hansard staff for the speedy provision of the transcripts of evidence from the estimates hearings which greatly assisted the Committee.

Chapter 2: Budget Overview

Key findings of the Committee:

- 2.1 The estimated operating surplus for 2002-03 of \$160 million represents a significant reduction of \$362 million from the original projection of \$522 million estimated for the 2002-03 budget. This reduction reflects a range of factors including poor investment returns leading to large increases in superannuation expenses, global uncertainty, impacts arising from the drought and bushfires as well as the demise of a public transport operator.
- 2.2 The initial expenditure estimate of \$26,304 million for 2002-03 is expected to be exceeded by \$1,544 million. This is predominately due to the large increases in superannuation expenses as a result of weak global equity markets and revisions to the value of unfunded superannuation liability. Operating expenses in 2002-03 were also inflated by a number of one off cost pressures related to the drought, bushfires, asset write-offs and growth in employee benefits and supplies and services. In 2002-03, additional revenue mainly from stamp duty, fines and commonwealth grants, went a long way towards covering this additional expenditure. Expenditure should continue to be closely monitored.
- 2.3 Budget Sector net assets decreased by \$480 million from the revised estimate of \$22.9 billion in the updated 2002-03 budget to \$22.4 billion at 30 June 2003. This is largely due to a \$320 million decline in financial assets (excluding cash) and a \$300 million increase in unfunded superannuation liabilities. Net assets are projected to increase by \$913.1 million in 2003-04 mainly due to asset revaluations and the magnitude of the expected surplus.

- 2.4 Total Budget Sector liabilities are expected to increase by \$719.5 million in 2003-04 to approximately \$22.8 billion largely due to a further increase of \$497.5 million in unfunded superannuation liabilities and an increase of approximately \$203 million in employee benefits.
- 2.5 In 2003-04, the net debt of the State is projected to be \$2.3 billion (1.1 per cent of Gross State Product), substantially lower than the 1998-99 level of \$4.9 billion (3.3 per cent of gross State product). Between 2003-04 and 2006-07, net debt is expected to increase each year to approximately \$3.2 billion (1.4 per cent of gross State product) reflecting the drawdown on the Growing Victoria Infrastructure Reserve to fund infrastructure projects.
- 2.6 The State's share of the unfunded superannuation liability is expected to increase from \$13.6 billion at 30 June 2003 to \$15.7 billion by June 2007, reflecting the rising average age of the public sector workforce covered by defined benefit schemes, the anticipated impact of salary and wage increases and declining investment returns.

2.1 Basis for preparation of the 2003-04 budget estimates

According to the Budget Papers, the Government's broad strategic priority remains to provide a 'sound and stable financial basis from which growth can be promoted across the whole State'.⁷ Consistent with this priority, the Government's financial objectives have been modified in 2003-04 to reflect its election policy statement *Delivering Financial Responsibility*.⁸ The impact of the change is that whereas in 2002-03 the objective was to 'provide capital works to enhance social and economic infrastructure throughout Victoria', the objective is now to 'deliver world class infrastructure to maximise economic, social and environmental benefits'. In line with this new objective, the Government intends to

⁷ Budget Paper No.2, 2003-04 Budget Statement, p.10

⁸ *ibid.*

increase infrastructure assets by 10.7 per cent in real terms over the four years to June 2007.⁹

The Government's financial objectives for 2003-04 are outlined at Exhibit 2.1:¹⁰

Exhibit 2.1:

**Financial objectives of the
Victorian Government in 2003-04**

Long-term financial objectives:

- maintain a substantial budget operating surplus;
- deliver world-class infrastructure to maximise economic, social and environmental benefits;
- provide improved service delivery to all Victorians;
- provide a fair and efficient tax system that is competitive with other States; and
- maintain state government net financial liabilities at prudent levels.

Short-term financial objectives:

- maintain operating surplus of at least \$100 million in each year;
- implement strategic infrastructure projects, including those funded from the Growing Victoria infrastructure reserve;
- implement 2002 election commitments;
- implement reforms to Victoria's business taxation system; and
- maintain a triple-A credit rating.

2.2 Budget strategy and priorities

As referred to in the previous paragraph, the Government is committed to maintaining substantial budget operating surpluses of at least \$100 million in each financial year. The Government expects an operating surplus of \$245 million in 2003-04.¹¹ By comparison with 2002-03 the initial budget projection was for a surplus of \$522 million as compared with a final estimated result of \$160 million, primarily due to the large increase in the superannuation expense of \$1,089 million above the initial 2002-03 budget estimate of \$1,713 million due to lower than expected investment returns from the State Superannuation Fund.¹²

⁹ *ibid.*, p.16

¹⁰ *ibid.*, p.10

¹¹ *ibid.*, p.11

¹² *ibid.*, p.265

In projecting the \$245 million surplus in 2003-04, the Government has recognised the continued uncertainties in the world economy which could impact on the surplus and has allowed for a buffer to ensure that in the event of a downturn in activities, the financial objective of an operating surplus of at least \$100 million will still be achieved. The achievement of surpluses is particularly important to the Government as operating surpluses represent an important source of funding for the Government's capital investment program.

The Government has directed that a new departmental funding system is to be developed and implemented from the 2004-05 budget year. Departments will be provided with a fixed budget inclusive of a price escalation factor for the outputs required by the Government and will be required to manage within this budget without access to contingency funding unless strong circumstances exist. Funding will be inclusive of wage agreements negotiated under Enterprise Bargaining Agreements. Departments will be expected to fund emerging or unanticipated costs through internal reprioritisation, productivity improvements, and for use of new technology.

The need for the Government to firmly control expenditure through mechanisms such as the above is illustrated by the fact that revenue estimates for 2003-04 amounted to \$26,598 million, representing a 0.05 per cent increase on the estimated collections of \$26,464 million for 2002-03.¹³ These projections assume an expected moderation in revenue growth from major sources such as property transactions, reductions in payroll taxes and dividends from government business enterprises. Obviously any reductions in economic activity beyond the assumed economic growth of 3.75 per cent in 2003-04 will impact on the revenue projections.¹⁴

Any decline in revenue will increase the Government's focus on restraining expenditure in order to produce a budget surplus. The 2003-04 budget provides for total expenditure of \$26,354 million representing a 0.2 per cent increase on the estimated expenditure for 2002-03 of \$26,304 million.¹⁵ The minimal increase in expenditure can be largely attributed to the implementation of new policy initiatives contained in the 2003-04 budget in conjunction with wage increases and

¹³ *ibid.*, p.32

¹⁴ *ibid.*, p.46

¹⁵ *ibid.*, p.32

price inflation. This additional expenditure was offset by an estimated reduction in the superannuation expense of \$852 million to \$1,951 million, after an abnormally high expense in 2002-03 of \$2,802 million.¹⁶

The original 2002-03 budget provided for total expenses of \$24,760 million, whereas the estimated final expenditure for 2002-03, as recorded in the 2003-04 budget papers was \$26,304 million, an increase of \$1,544 million.¹⁷ The final figures for 2002-03 were not available as the Financial Report for Victoria had not been finalised and was subject to audit by the Auditor-General. The major increases in expenses as compared to the initial budget related to superannuation expenses of \$1,089 million, reflecting both lower than expected investment returns on superannuation fund assets in 2002-03 due to weak global equity markets, as well as revisions to the value of unfunded superannuation liability.¹⁸

The Committee noted that policy decisions taken since the 2002-03 Budget have also affected operating expenses in 2002-03.¹⁹ These policy decisions, which occurred during the period between the 2002-03 Budget and the *2002-03 Budget Update*, accounted for additional operating expenses of \$181 million including the drought assistance provided to farmers of \$85 million.²⁰ The Committee also observed that total operating expenses were inflated by a number of one off cost pressures, including:²¹

- net additional funding of around \$130 million provided to meet fire suppression expenses and assist with fire recovery;
- costs of around \$44 million associated with settlement of the Seal Rocks dispute; and
- asset write-offs of around \$75 million, mainly relating to the wind-up of Latrobe Regional Hospital Pty Ltd.

The growth of operating expenses in 2002-03 was also influenced by higher than expected Commonwealth specific purpose payments of

¹⁶ *ibid.*, pp.32–33

¹⁷ *Ibid.*, p.271

¹⁸ *Ibid.*

¹⁹ *Ibid.*, p272

²⁰ *Ibid.*

²¹ *Ibid.*

\$213 million, primarily related to assistance of government schools (\$28 million) and non-government schools (\$135 million), and increased hospital expenses funded by higher third party revenue sources of \$70 million.²²

In terms of revenue the initial budget estimate for 2002-03 was \$25,282 million as compared to the revised budget figure for 2002-03 of \$26,464 million, representing additional revenue received of \$1,182 million.²³ Major categories of additional revenue were taxation, which includes payroll tax and stamp duty (\$543 million), investment income including public authority dividends (\$169 million), grants from Commonwealth Government (\$205 million) and other revenue such as regulatory fees and fines, fair value of assets received free of charge, gains/losses on disposal of physical assets, capital asset charge revenues and other miscellaneous revenue (\$293 million).²⁴

The Committee notes that the initial budget surplus for 2002-03 was \$521.8 million, which was subsequently revised downward to \$160 million.²⁵ The decline in the projected surplus of \$362 million over this period mainly reflects the adverse impact of weak equity market performance on superannuation expenses, as well as increased costs associated with bushfire and drought response and relief activities. These increases were partly offset by stronger than expected revenue growth, particularly taxation revenue.²⁶ This factor emphasises strongly the extent to which expenditure must be firmly controlled. The Committee also observes that expenditure on areas such as employee benefits and supplies and services should be able to be more accurately projected.

The generation of surpluses is critical to the size of the Government's capital investment program, which is projected at \$2,594 million in 2003-04, increasing to \$2,628 million in 2004-05.²⁷ The funding of the investment in infrastructure of \$2,594 million in 2003-04 relies on the generation of a surplus of \$245 million, application of the cash equivalent of depreciation provisions of \$1,025 million, and application of the cash equivalent of non-cash, accrued expenses involving employee benefits and the increase in the unfunded superannuation liability, with a

²² Ibid.

²³ Ibid.

²⁴ Ibid.

²⁵ Ibid., p.265

²⁶ Ibid.

²⁷ Ibid., p.12

combined net value of \$698 million.²⁸ There is also a further drawdown from the *Growing Victoria Infrastructure Reserve* of \$653 million.

With respect to the drawdown of \$653 million from the *Growing Victoria Infrastructure Reserve* which was initially established from previous surpluses, this will mean that the Reserve will have only \$57 million remaining which will be applied towards capital investments in 2004-05.²⁹

In the absence of substantial operating surpluses and the availability of funds from the *Growing Victoria Infrastructure Reserve*, future funding of capital infrastructure projects will result in an increase in net Government debt over the forward estimates period.³⁰

The Committee notes that the 2003-04 budget contains a contingency provision of \$488 million,³¹ designed to supplement expenses which may arise during the year and which could not reasonably be calculated at the time of the budget. This provision strengthens the Government's financial position. Nevertheless, the Committee notes that the Government will need to exercise strong control over expenditure, particularly in respect of wages growth, for which an allowance of 3 per cent has been provided for.

As referred to previously, as part of its short term financial objectives, the Government is committed to maintaining a triple-A credit rating, which is the highest credit rating available. This rating was reaffirmed by Moody's Investors Service in May 2003. The rating was influenced by Victoria's low debt levels, strong financial performance, a solid trend of surpluses which had been used in part to reduce debt and Victoria's diverse economic base. Moody's noted however, that there was a 'potential for slowing revenues and expenditure pressures likely to require greater spending restraint.'³²

²⁸ *ibid.*

²⁹ *ibid.*

³⁰ *ibid.*

³¹ Budget Paper No.3, 2003-04 Budget Estimates, p.9

³² Treasurer's response, received 18 June 2003, to the Committee's follow-up questions

2.3 Growth and service delivery priorities

The Government's vision for Victoria expressed in the *Growing Victoria Together* policy statement released in November 2001, remains that by 2010 Victoria will be a State where:

- innovation leads to thriving industries generating high quality jobs;
- protecting the environment is built into everything the Government does;
- there are caring safe communities in which opportunities are fairly shared; and
- all Victorians have access to the highest quality health and education services throughout their lives.

In the 2003-04 budget the Government is continuing to focus on the priority areas of health, education and community safety. There has also been substantial investment in infrastructure, particularly in transport linkages and the rebuilding of education facilities and public hospitals. The Treasurer advised that education remained the Government's top priority in 2003-04, with the recruitment of additional teachers in conjunction with building and upgrading schools.³³ Ongoing emphasis will also be placed on further improvements in Victoria's health system and the more sustainable use of Victoria's water, forest and energy resources. Further improvements in community safety will occur, with a focus on emergency services, counter terrorism, building new police stations and recruiting extra police.³⁴

The 2003-04 budget provides funding for the commencement of new infrastructure projects with a total estimated investment of \$1,244 million over the forward estimates period to 2007, of which \$348 million will be applied in 2003-04.³⁵

The 2003-04 Budget provided funding for new output initiatives in 2003-04 of \$846 million, or \$3,844 million over 4 years.³⁶ However, the cost of these initiatives will be offset by government-wide savings and

³³ 2003-04 Victorian Budget Overview, p.3

³⁴ *ibid.*, pp.6-7

³⁵ Budget Paper No.2, 2003-04 Budget Statement, p.29

³⁶ *ibid.*, p.28

reductions in contingency funding totalling \$1,331 million in aggregate, leaving a net cost of these initiatives of \$2,513 million over the forward estimates period.

Examples of new service delivery and capital initiatives commencing in 2003-04 include:³⁷

- \$121 million for the construction of the Pakenham Bypass;
- \$28 million to upgrade outer-metropolitan arterial roads;
- \$24 million on improving Melbourne's rail system;
- \$30 million on developing Victoria's ports;
- \$41 million to support Victoria's tourism industry;
- \$57 million additional investment in the synchrotron;
- \$121 million in research and development grants;
- \$789 million over four years to boost teacher numbers, provide additional student welfare officers, assist non-government schools in greatest need along with various other initiatives to improve education and training;
- \$464 million to deliver the first stage of the Hospital Demand Management Strategy to provide an extra 900 nurses and treat an extra 35,000 patient admissions per annum;
- \$139 million to upgrade information systems across public hospitals and agencies;
- \$88 million to implement the Children First strategy;
- \$89 million towards improving access to affordable housing;
- \$75 million additional funding for disability services;
- \$67 million for new radiotherapy facilities, biomedical equipment and infrastructure upgrades in public hospitals;

³⁷ 2002-04 Victorian Budget Overview, pp.5-7

- \$261 million over four years to enhance crime prevention and community safety, including recruiting an extra 600 police officers and 219 fire fighters, implementation of the handgun buyback program and enhancing the State's counter-terrorism responsiveness;
- \$66 million to replace or build new police facilities;
- \$316 million over four years to strengthen communities, including assisting disadvantaged persons to gain work, boost community arts and cultural programs, and improve sporting facilities in regional communities and under-resourced suburbs; and
- \$56 million towards asset initiatives associated with the preparation for the 2006 Melbourne Commonwealth Games.

2.4 2003-04 forecast operating surplus

The 2002-03 operating surplus was originally projected to be \$522 million. However, due to a range of factors, notably poor investment returns resulting in a large increase in superannuation expenses, global uncertainty, drought and bushfires and the demise of a public transport operator requiring the Government to assume control of a major part of the transport system, the operating surplus for 2002-03 was subsequently revised down to \$160 million.³⁸ Many of the above factors, notably the need for the Government to reassume control of a major part of the public transport system, could not have reasonably been foreseen at the time of preparing the budget for 2002-03.

Due to the above factors and a range of other issues, projected economic growth for 2002-03 was recorded at 2.75 per cent as compared to the original projection of 3.5 per cent.³⁹ The Government anticipates that economic growth will further improve in 2003-04 to 3.75 per cent on account of easing rural conditions and a global recovery. On this basis an operating surplus of \$245 million is projected for 2003-04, with surpluses averaging \$391 million over the following three years.⁴⁰

³⁸ Budget Paper No.2, 2003-04 Budget Statement, p.265

³⁹ Budget Paper No.2, 2003-04 Budget Statement, p.46; Budget Paper No.2, 2002-03 Budget Statement, p.55

⁴⁰ Budget Paper No.2, 2003-04 Budget Statement, p.32

In formulating the surplus projection for 2003-04, the Government anticipates that revenue growth will be in the vicinity of \$135 million, representing a 0.5 per cent increase on the total revenue received during 2002-03 of \$26,464 million.⁴¹ During 2002-03 operating revenue increased by \$1,182 million over the budget estimate primarily due to the stronger than expected Victorian property market. However, revenue from this source is unlikely to be sustained in 2003-04 as property market activity is projected to moderate, along with a slowing down of consumer spending and export activity in Victoria. The Committee notes that although the Government anticipates that gambling taxes are expected to grow by \$102 million in 2003-04, expected figures for the 2002-03 financial year confirmed that gaming expenditure fell by 8.9 per cent during that year, which was the first ever reduction in turnover on poker machines since their introduction in 1991.⁴²

On the expenditure side, total expenses are projected to increase by a very moderate 0.2 per cent or \$50 million. New output initiatives totalling \$550 million are to be implemented in 2003-04, but the cost of these initiatives will be offset by the anticipated reduction in expenses of \$882 million, primarily attributed to the reduction of the superannuation expense by \$852 million, by comparison with the previous year.

The Auditor-General has provided an opinion on the estimated financial statements for 2003-04 to the effect that the statements had been prepared on the basis of the economic assumptions stated in the notes to the statements and that the methodologies used to determine those assumptions were reasonable. The Committee is not aware of any major events occurring since the date of the Auditor-General's opinion (1 May 2003) that would materially impact on the projected operating result.

2.5 Economic outlook and risks

At the time of the release of the Budget Papers, the Committee noted that due to the influence of the drought, weak global economy, reduced Victorian exports and more robust import growth, Victoria's projected economic growth rate for 2002-03 was expected to decline from the revised estimate of 3.25 per cent to 2.75 per cent.⁴³ However, for 2003-04

⁴¹ *ibid.*, p.34

⁴² Minister for Gaming, media release, 8 August 2003

⁴³ Budget Paper No.2, 2003-04 Budget Statement, p.46, 50

growth is forecast to rebound to 3.75 per cent assuming the ending of the drought and gradual improvement in global economic conditions. The following key factors have had an impact on the short term economic outlook:⁴⁴

- domestic demand was again expected to make a strong contribution to Victoria's economic growth in 2002-03, however, the decline in consumer spending evident during the second half of 2002 indicates that business investment is increasingly becoming a more significant driver of demand growth. Contrary to previous expectations, housing construction remains robust in Victoria and nationally, however, forward indicators suggest that the cycle has peaked, with a decline in dwelling investment anticipated in 2003-04 and some evidence that recent gains in Melbourne house prices have begun to moderate;
- the overall outlook for exports is subdued with pockets of strength in some commodities offset by weaknesses in many rural goods largely due to the influence of the drought. In 2002, the value of Victorian exports was \$21.1 billion, 7.3 per cent lower than the previous year. While exports to New Zealand and China rose during 2002, the largest fall in exports was to the Middle East, with exports to the United States also down on the previous year. These results partly reflect the impact of the recent conflict in Iraq, severe acute respiratory syndrome (SARS), the adverse effect on local agriculture due to the drought and the generally weak global economy. Based on evidence from the April 2003 Consensus Economic Survey, world economic growth is expected to improve from 1.8 per cent in 2002 to 2.1 per cent in 2003, rising to 3 per cent by the following year. In 2003-04, export growth is expected to recover assuming a return to normal seasonal conditions and continued global economic recovery;
- although some caution should be exercised in interpreting latest employment figures due to methodological changes introduced by the ABS, the available data nevertheless shows that the Victorian labour market improved during 2002-03 growing by 1.3 per cent in the March 2003 quarter, with year to date employment in the 2002-03 year estimated (at the time of publication of the Budget

⁴⁴ *ibid.*, pp.45-60

Papers) to be approximately 2.5 per cent higher than the previous year. Employment growth is now expected to be minimal in the early part of the 2003-04 financial year, reducing Victoria's forecasted average employment growth rate for 2003-04 from 1.5 per cent to 1.0 per cent. The unemployment rate is expected to remain unchanged at 5.75 per cent, where it is currently well below the national average;

- Victoria's performance in the area of business investment continues to outperform the national average. Victoria has attracted an average 27 per cent of national business investment over the past two years, a record high, which is above its population and economic share. There is an expectation for continued growth in business investment, particularly given the extent of non-residential and engineering construction work that is to be done in Victoria. Public sector investment has also increased and will remain at relatively high levels over the next few years; and
- Victoria's population, as at September 2002, was 4,888,234 persons, representing an increase of 66,779 persons or 1.4 per cent since the previous year. This growth is above the national increase of 1.3 per cent, and well above the State's long term average of 1 per cent. The largest contribution to population growth is from net overseas migration and natural increase. However, net interstate migration of over 5,500 persons per annum over the past 3 years has also played a significant role in Victoria's population growth in recent years and is regarded as an indicator of Victoria's improving economy.⁴⁵ Continuation of a positive inflow of interstate migration of at least 2,000 persons per annum will continue to provide a small boost to population and economic growth over the forward estimates period.⁴⁶

As part of its budget strategy, the Government undertakes a risk analysis to identify potential future risks to the Victorian economic outlook, along with any factors that could offset such risks. The following are among the potential risks identified in the 2003-04 budget:⁴⁷

⁴⁵ *ibid.*, p.58

⁴⁶ *ibid.*, p.60

⁴⁷ *ibid.*, pp.137-62

- there has been increased volatility in financial markets as a result of international uncertainty generated by military action against Iraq. Oil prices fluctuated widely prior to the conflict, exceeding \$US35 before declining to below \$US30 a barrel. Further disruption to current low world oil supplies could result in upward pressure on oil prices creating inflationary pressures reducing demand for Victorian exports. There is some evidence, however, that risks to world oil supplies are receding;
- East Asia (outside Japan) accounts for over one-third of Victorian merchandise exports. The recent outbreak of SARS has raised concerns about the growth prospects of many East Asian economies. With international tourism activity affected in these countries, the likely severity and duration of the economic impact of SARS (including its impact on Victorian exports) at present remains unclear;
- the impact of the drought and recent bushfires has also affected the performance of Victorian exports. While these pressures have begun to ease, the rebuilding of stock and livestock will take some time resulting in agricultural exports exerting a downward pressure on general exports;
- the budget assumes some easing from the gains in interstate migration from the current level of approximately 5,000 persons per annum to around 2,000 persons per annum. However, if recent rates of interstate migration remain steady population and economic growth could be slightly higher than forecast, whereas a decline in Victoria's population growth rate could impact on medium-term economic projections;
- although leading indicators of construction activity exhibit early signs of slowing in the sector, anticipated government investments associated with the Commonwealth Games could result in stronger than expected construction activity in the near future; and
- sensitivity to consumer prices is a risk, in that a 1 per cent rise in the level of consumer prices is expected to reduce the operating surplus by \$23 million in 2003-04 reflecting an increase in unfunded superannuation liability flowing from the impact that a higher CPI has on the present value of deferred pensions and benefits.

In formulating the budget, the Government allows a contingency provision for expenditure risks that may be realised over the estimates period. The contingency provision includes a general allowance for:⁴⁸

- the impact of planned award wage increases, consistent with government policy, on departmental operating costs;
- growth in Victoria's population, and from it, derived demand for government services; and
- other expenditure risks, for example legal proceedings and disputes, which are unforeseen or not able to be quantified at the time of construction of the budget estimates.

The potential impact of expenditure risks on the overall budget position are mitigated by the inclusion of an operating contingency provision in the budget estimates. Furthermore, the budget estimates also include an unallocated capital provision to provide capacity for future asset investment funding requirements if necessary. While the forward estimates assume that capital cost pressures are managed with no budget impact, variations in actual costs for individual asset investment projects are always likely with a capital program the size of that funded by the Government. Accordingly, management of cost pressures can occur in one of three principal ways:⁴⁹

- re-scoping a project to fit within funding parameters (subject to government approval);
- the reallocation of resourcing within departments' global capital budgets; and
- funding from the unallocated capital funding set aside in the forward estimates (subject to government approval).

After analysis of the economic issues outlined in the 2003-04 Budget Papers and the Auditor-General's review of the estimated financial statements and notes, the Committee considers that the methodology used and assumptions made on the basis of existing information available to the Government appear sound.

⁴⁸ *ibid.*, p.145

⁴⁹ *ibid.*, p.146

2.6 2003-04 budget initiatives

Exhibit 2.2 shows the total amount of new output and asset funding by Department for 2003-04. The new initiatives aim to deliver improved services and promote growth across the whole of Victoria by progressing the delivery of the Government's election commitments as outlined in *Labor's Financial Statement 2002*.

Exhibit 2.2:

New Output and Asset Funding

Departments receiving funding for new budget initiatives in 2003-04	Output Initiatives (\$ million)	Asset initiatives (\$ million)
Education and Training	145.7	64.8
Human Services	394.7	87.4
Infrastructure	51.6	82.2
Innovation, Industry and Regional Development	33.5	0.0
Justice	45.3	19.6
Premier and Cabinet	33.4	10.3
Primary Industries	2.2	0.0
Sustainability and Environment	31.7	18.5
Treasury and Finance	1.8	0.0
Victorian Communities	73.5	16.2
Parliament	3.5	0.0
Government-wide	28.8	48.9
Total 2003-04 Budget new funding	845.7	347.9
<i>Less:</i>		
<i>Demand contingency</i>	154.2	n/a
<i>Government-wide and departmental savings</i>	141.3	n/a
Total	550.2	347.9

Note: n/a Not applicable

Source: Budget Paper No.2, 2003-04 Budget Statement, tables 2.2 and 2.3, pp.28–9

As shown in Exhibit 2.2 above, the 2003-04 budget provides additional funds for new output initiatives of approximately \$846 million. This is partly offset by a range of departmental specific and government-wide initiatives to achieve savings of \$141 million in 2003-04, predominantly through administrative efficiencies. After allowing for these savings and accounting for \$154.2 million in funding put aside for service delivery growth in previous years, the net budget impact of new output initiatives in 2003-04 is approximately \$550 million.⁵⁰

⁵⁰ *ibid.*, p.26

Additionally, Exhibit 2.2 shows that the 2003-04 budget provides \$348 million in funding for new infrastructure projects, which have a total estimated investment (TEI) of \$1,244 million (including \$180 million announced in the 2002-03 Budget Update). The Committee noted that this incorporates funding for *Labor's Financial Statement 2002* election commitments with a TEI of \$540 million.⁵¹

The 2003-04 budget also contains revenue initiatives that include the continued implementation of tax cuts announced in the Government's *Building Tomorrow's Businesses Today* statement released in April 2002. These initiatives, which include a reduction in the payroll tax rate from 5.35 per cent to 5.25 per cent, also aim to assist families, land tax payers and the disabled by:

- providing a payroll tax exemption for paid maternity and adoption leave;
- extending the payment period for land tax liabilities from 8 to 15 weeks for lump sum payments, and from 12 to 26 weeks for instalment payments; and
- providing a full exemption from motor vehicle stamp duty for vehicles that transport incapacitated persons in wheelchairs and reducing the stamp duty where a vehicle is modified to enable a disabled person to operate the vehicle.

In addition to these initiatives, the 2003-04 budget contains measures designed to boost State revenue from progressive increases to fees and fines that have remained stagnant for the last ten years, as well as from removing the payroll tax exemption for wages paid to trainees and apprentices.⁵²

A brief overview of each of these measures is provided as follows:⁵³

- to maintain equity within the tax system, partial catch-up increases will apply in 2003-04 to fees and fines that have not increased for some time, where the increase in all cases will be less than the level of inflation since they last increased. To smooth out future increases in fees and fines, the Government will be introducing a policy of

⁵¹ *ibid.*, p.28

⁵² *ibid.*, p.30

⁵³ *ibid.*

annual indexation of all fees and fines set by regulation commencing in 2003-04; and

- the payroll tax exemption for wages paid to trainees and apprentices will be removed as part of the Government's retargeting of Victoria's employment, training and vocational education programs. The exemption will be replaced with a new completion bonus scheme, which will pay a bonus to employers when trainees and apprentices complete their qualifications.⁵⁴

The Committee noted that these measures are expected to generate additional revenue for the State of approximately \$85 million in 2003-04, increasing to \$182 million by 2006-07.⁵⁵

2.7 Budget sector statement of financial position

Exhibit 2.3 presents details of the State's expected financial position for the Budget Sector for the year ended 30 June 2003. The statement of financial position discloses a decrease in net assets of \$480 million – from \$22.9 billion in the updated 2002-03 budget to \$22.4 billion at 30 June 2003. The Committee acknowledges that the audited final results will change the financial position.

The decrease in net assets between the updated 2002-03 budget and the revised 2002-03 results can largely be attributed to a \$320 million decline in financial assets (excluding cash) and a \$300 million increase in unfunded superannuation liabilities.

The projected increase in net assets of \$913.1 million in 2003-04 is largely due to around \$1.2 billion of expected asset revaluations and a projected surplus of \$244.5 million.⁵⁶

Outstanding insurance claims were separately recognised as a liability for the first time in the 2003-04 Budget Papers. In 2001-02 the value of outstanding claims was \$116.9 million. The value is anticipated to increase by \$122.8 million in 2003-04 to \$239.7 million, after which it is

⁵⁴ Transitional arrangements will apply to approved courses and group training schemes, which will remain eligible for the exemption until 31 December 2003

⁵⁵ Budget Paper No.2, 2003-04 Budget Statement, p.30

⁵⁶ *ibid.*, p.164

expected to increase annually by an average of 6.5 per cent to reach \$289.7 million in 2006-07.⁵⁷

Exhibit 2.3:**Budget Sector Statement of Financial Position**

	2002-03 Budget	2002-03 Revised Budget	2003-04 Budget
	(\$ million)	(\$ million)	(\$ million)
Current assets			
Cash	1,699.6	1,724.1	1,779.7
Other financial assets	1,177.9	1,163.4	1,182.8
Receivables	1,161.7	1,220.3	1,263.2
Prepayments	41.4	43.0	42.7
Inventories	159.8	129.5	129.5
Other assets	-0.5	0.0	0.0
Total current assets	4,239.9	4,280.3	4,397.9
Non-current assets			
Other financial assets	2,137.7	1,832.3	1,168.6
Receivables	331.6	359.5	370.9
Inventories	155.6	38.7	38.7
Property, plant and equipment	24,517.4	24,362.3	25,439.1
Roads and earthworks	13,209.9	13,452.4	14,452.2
Other assets	3,064.1	3,121.5	3,212.0
Total non-current assets	43,416.3	43,166.7	44,681.5
TOTAL ASSETS	47,656.2	47,447.0	49,079.4
Current liabilities			
Payables	1,571.1	1,553.8	1,563.9
Interest-bearing liabilities	125.1	91.0	74.0
Employee benefits	873.5	807.6	860.3
Superannuation	1,518.9	534.1	176.8
Outstanding insurance claims	11.9	11.2	10.3
Other liabilities	356.7	384.5	376.5
Total current liabilities	4,457.2	3,382.2	3,061.8
Non-current liabilities			
Payables	-5.0	122.0	121.9
Interest-bearing liabilities	6,230.2	6,017.6	6,042.3
Employee benefits	1,869.9	1,916.8	2,067.4
Superannuation	11,819.1	13,104.8	13,959.6
Outstanding insurance claims	97.6	217.9	229.4
Other liabilities	301.6	280.2	278.4
Total non-current liabilities	20,313.4	21,659.3	22,699.0
TOTAL LIABILITIES	24,770.6	25,041.5	25,760.8
NET ASSETS	22,885.6	22,405.5	23,318.6

Source: Budget Paper No.2, 2003-04 Budget Statement, table c7, p.275-6; and table 9.2, p.165

⁵⁷ *ibid.*, p.165

2.7.1 *Budget sector liabilities*

The Budget Papers disclose that total liabilities were estimated to be \$25,041.4 million at 30 June 2003, or around \$271 million higher than the updated budget estimate of \$24,770.4 million for 2002-03.⁵⁸ The increase was largely attributed to a rise in unfunded superannuation liabilities and outstanding insurance claims, partly offset by reductions in interest bearing liabilities.

In 2003-04, total liabilities are expected to increase by a further \$719.5 million to \$25,760.9 million, largely reflecting:⁵⁹

- further increases in superannuation liabilities of around \$497.5 million; and
- a rise in employee benefits, such as long service leave and accrued annual leave, of around \$203 million.

The Committee notes that budget sector net financial liabilities (excluding the *Growing Victoria Infrastructure Reserve*) decreased from \$16.3 billion at June 1999 to \$15.1 billion at June 2001.⁶⁰ After this, net financial liabilities (excluding the *Growing Victoria Infrastructure Reserve*) will increase annually by an average of 3.8 per cent to reach \$18.9 billion at June 2007.

As a percentage of Gross State Product, however, net financial liabilities (excluding the *Growing Victoria Infrastructure Reserve*) are forecast to decline from 8.3 per cent at June 2003 to 8 per cent by June 2007.⁶¹

2.7.2 *Debt management*

The term 'net debt' is defined as the net amount owed after liquid financial assets are deducted from gross borrowings. The basis for this definition is that financial assets would be available to redeem debt in any period of financial difficulty.

Budget sector net debt (excluding the *Growing Victoria Infrastructure Reserve*) is projected to fall from \$4.9 billion (or 3.3 per cent of Gross State

⁵⁸ *ibid.*, p.275

⁵⁹ *ibid.*, p.165

⁶⁰ *ibid.*, p.121

⁶¹ *ibid.*

Product) in 1998-99 to a low of \$2.3 billion (1.1 per cent of Gross State Product) in 2003-04. Thereafter, net debt is projected to increase each year and reach \$3.2 billion (1.4 per cent of Gross State Product) in 2006-07.⁶²

Increasing debt levels after 2003-04 largely reflect the drawdown on the *Growing Victoria Infrastructure Reserve* to fund several infrastructure projects including rail links to regional centres (\$573.3 million); the modernisation and upgrade of school facilities (\$110 million); innovation and education projects in regional Victoria (\$50 million); and an information, communications and technology strategy for health care (\$30 million). The *Growing Victorian Infrastructure Reserve's* balance of \$1.4 billion in 2001-02 is estimated to fall to \$0.7 billion in 2002-03, then to \$0.1 billion in 2003-04 before being fully expended by June 2007.⁶³

Despite increasing debt levels from 2003-04, borrowing costs are projected to decrease marginally, from \$496.9 million in 2002-03 to \$480.0 million in 2006-07, largely reflecting lower financing costs applying to maturing debt and new borrowings.⁶⁴

2.7.3 *Unfunded superannuation liabilities*

The most significant liability on the statement of financial position is the unfunded superannuation liability which was initially projected at \$13.3 billion at 30 June 2003, but increased to \$13.6 billion due to lower than expected investment returns.⁶⁵ This liability represents the present value of future benefits payable by the State that members have already accrued that are not covered by superannuation fund assets.

Based on estimates from the Department of Treasury and Finance, the unfunded superannuation liability is expected to grow to \$15.7 billion by June 2007, representing an average annual growth rate of 3.2 per cent.⁶⁶ The growth is mainly due to the increasing average age of the public sector workforce covered by defined benefit schemes, coupled with the declining investment returns on superannuation fund assets (particularly in equities) and the impact of general salary and wages increases on future pensions payable.

⁶² *ibid.*, p.118

⁶³ *ibid.*, p.123 and p.264

⁶⁴ *ibid.*, p.32 and p.266

⁶⁵ *ibid.*, p.119

⁶⁶ *ibid.*, p.120

Under the funding framework adopted by the Government, the level of unfunded superannuation liabilities is projected to peak at \$15.8 billion in 2010, then decline until 2035 when it will be extinguished.⁶⁷

2.7.4 Budget sector assets

The Budget Papers disclose that the value of the estimated assets under the control of the Government is expected to increase from the estimated \$47.4 billion at 30 June 2003 to \$49.1 billion in 2003-04.⁶⁸ The anticipated increase in total assets is a reflection mainly of major infrastructure projects to be undertaken in the transport, health, education and justice sectors.

Some infrastructure projects will be implemented under the *Partnerships Victoria* policy which is responsible for the provision of public infrastructure and related ancillary services through public-private partnerships and the integration of private sector investment in public infrastructure.

In 2002-03, two projects that were earmarked as potential *Partnerships Victoria* projects – a hospital car park at Box Hill and the roll-out of fibre optic cable to regional fast rail destinations – did not satisfy the value for money tests and will instead be delivered through traditional procurement processes.⁶⁹ Private sector investment in public infrastructure is currently the subject of an Inquiry by the Public Accounts and Estimates Committee.

⁶⁷ *ibid.*

⁶⁸ *ibid.*, p.165

⁶⁹ *ibid.*, p.115

Chapter 3: Parliamentary Departments

Key findings of the Committee:

- 3.1 The 2003–04 budget for the Parliamentary Departments is \$92.7 million. This represents a significant increase compared with the 2002–03 budget. The increase is largely due to employee related expenses, termination payments, the costs of Parlynet 2 and the appointment of three new parliamentary committees.
- 3.2 During 2002–03, the cost of rolling out Parlynet 2 increased from \$2.3 million to an estimated \$4 million. Funding for Parlynet 3 and 4 has not been approved, pending resolution of issues relating to Parlynet 2 that the Auditor-General is reviewing.
- 3.3 Occupancy of level 4 at 157 Spring Street has not been finalised.

3.1 Response to recommendations in the 2002–03 Budget Estimates Report

The Speaker advised that the Parliamentary Departments had reviewed the key findings from the Committee's report on the 2002–03 budget estimates and although the Parliamentary Departments have yet to formally respond to the recommendations, the following action has been taken:⁷⁰

Recommendation 14.1: the Parliamentary Departments are working on defining staff training needs and improving the availability and accessibility of the online training system put in place in 2001–02. Feedback on the training system was requested through the staff survey. The survey results indicated that there is further scope to improve the training system;

Recommendation 14.2: business plans were not available as at 30 June 2003, but the Parliamentary Departments are taking steps to improve the timeliness of their business planning cycle; and

⁷⁰ Mrs J. Maddigan, Speaker of the Legislative Assembly, transcript of evidence, 24 June 2003, p.585

Recommendation 14.3: issues in relation to third floor tenancy at 157 Spring Street have been resolved, but the fourth floor tenancy is still under discussion.

3.2 Overview of Parliamentary Departments

The Parliament is supported by five Parliamentary Departments. Each Department is treated as an output for the purposes of the Budget Papers. The Departments collectively articulated five objectives:⁷¹

- to provide quality advice, support and information services to the Members and other clients;
- to develop and retain highly skilled and motivated people;
- to improve information management and parliamentary operations through innovative and practical technology based solutions;
- to ensure the optimal use of their physical resources; and
- to manage the Departments effectively and efficiently.

Parliamentary investigatory committees are also identified as an output in the Parliament's Budget.

Finally, the Auditor-General's Office is included in the Appropriation (Parliament 2003/2004) Bill and appears as an output in the 2003–04 Budget Papers. The Auditor-General's budget matters are independent of the Parliamentary Departments and dealt with by the Public Accounts and Estimates Committee in a separate process, so the budget estimates for the Auditor-General's Office are not discussed in this report.

3.2.1 *Key challenge for the Parliamentary Departments in 2003–04*

The Parliamentary Departments indicated information technology as a key challenge in 2003–04.⁷²

Key information technology and communications related projects to be undertaken in 2003–04 include: upgrading the Speaker's rulings database;

⁷¹ Budget Paper No.3, 2003–04 Budget Estimates, p.420

⁷² *ibid.*, p.422

improving the intranet; automating human resources and financial systems; providing online research services, including an electronic news service; and upgrading the operation of personal computers and associated networks.

3.2.2 Performance measures

The Parliamentary Departments reviewed their performance measures in 2001–02 and introduced new performance measures in 2002–03. No new performance measures were introduced for 2003–04.⁷³ In the view of the Departments the current measures of business activities over which they have control are adequate.

The Committee is pleased that the performance measurement structure remained stable for the past two years because this consistency will enable a direct comparison with data from the prior years. The Committee suggests that the Parliamentary Departments should regularly review the performance measures to assess their ongoing adequacy.

3.3 Parliamentary Departments' management framework

The President and Speaker oversee the operations of the five departments that comprise the parliamentary administration:

- Department of the Legislative Council;
- Department of the Legislative Assembly;
- Department of Parliamentary Debates (Hansard);
- Department of the Parliamentary Library; and
- Joint Services Department.

The President is responsible for the Department of the Legislative Council, acts as Chair of the Library Committee and oversees the activities of the Department of Parliamentary Debates (Hansard) and the Department of the Parliamentary Library. The Speaker is responsible for

⁷³ Parliamentary Departments' response to the Committee's 2003–04 Budget Estimates Questionnaire, p.3

the Department of the Legislative Assembly, acts as Chair of the House Committee, and oversees the activities of the Joint Services Department.

The Parliamentary Investigatory Committees are attached to either the Assembly or the Council for administrative purposes. The 55th Parliament of Victoria has 11 joint investigatory committees.

3.4 Budget summary

The budget for the Parliamentary Departments in 2003–04 is \$92.7 million. This level of funding is comparable with the revised 2002–03 budget (up 2.2 per cent, or \$2 million) but significantly higher than the original 2002–03 budget (up 17.8 per cent, or \$14 million).

Ninety per cent of the additional \$12 million consumed in 2002–03 was used by the Legislative Council (\$6.8 million) and the Legislative Assembly (\$4 million), predominately for employee related expenses.

The increase in employee related expenses was a result of:⁷⁴

- increased superannuation costs for Members of Parliament;
- increased salary awarded to Members, in line with the federal award;
- increased salary awarded to electorate officers, in line with the federal award; and
- increased salary costs for parliamentary officers, in line with the enterprise bargaining agreement.

In 2002–03, the Parliamentary Departments also made termination payments at a higher level than in previous years, because the employment of a large number of electorate officers was terminated as a result of the November 2002 election and the number of staff employed in the party pool was reduced. The cost of termination payments in 2002–03 was \$921,506.⁷⁵

The Parliamentary Departments also incurred additional costs for the rollout of Parlynet (as discussed in section 3.6.2(a) Parlynet).

⁷⁴ *ibid.*, p.10

⁷⁵ Parliamentary Departments' response, received 17 July 2003, to the Committee's follow-up questions, p.9

Exhibit 3.1 summarises the 2003–04 budget for the outputs of the Parliamentary Departments.

Exhibit 3.1:

Parliamentary Departments Output Costs

	Column 1	Column 2	Column 3	Column 3-2
Parliamentary Department (or output)	2002-03 Budget^(a)	2002-03 Revised	2003-04 Budget	Variation^(b)
	(\$ million)	(\$ million)	(\$ million)	(%)
Legislative Council	9.6	13.6	13.1	–3.7
Legislative Assembly	20.2	27.0	26.6	–1.5
Parliamentary Library	2.0	2.4	2.4	0.0
Parliamentary Debates (Hansard)	2.4	2.5	2.5	0.0
Joint Services	40.6	41.1	42.8	4.1
Parliamentary investigatory committees	3.9	4.1	5.3	29.3
Total	78.7	90.7	92.7	2.2

Notes: (a) 2002-03 budget incorporates changes to output structure and organisational restructuring and therefore may differ from figures published in the 2002-03 budget

(b) A negative variance indicates that the 2003–04 budget has decreased compared with the 2002–03 revised budget

Source: Budget Paper No.3, 2003–04 Budget Estimates, table 2.11.1, p.423

The 2003–04 budget has increased by \$2 million from the 2002–03 revised budget. The most significant percentage increase is in funding for parliamentary investigatory committees: their funding has increased by 29.3 per cent, or \$1.2 million. This increase can be attributed to the appointment of the following three committees:

- Education and Training Committee;
- Outer Suburban/Interface Services and Development Committee; and
- Rural and Regional Services and Development Committee.

Funding for the Joint Services Department has increased by \$1.7 million, a relatively small percentage rise of 4.1 per cent. The additional funds will be used in 2003–04 to upgrade security and relocate and refurbish Members' electorate offices.⁷⁶

Exhibit 3.2 shows the Statement of Financial Performance for the Parliamentary Departments.

⁷⁶ Parliamentary Departments' response to the Committee's 2003–04 Budget Estimates Questionnaire, p.3

Exhibit 3.2:

Parliamentary Departments
Statement of Financial Performance^{(a)(b)}

	Column 1	Column 2	Column 3	Column 4	Column 4-3
	2002–03 Budget^(a)	2002–03 Adjusted^(c)	2002–03 Revised	2003–04 Budget	Variation
	(\$ million)	(\$ million)	(\$ million)	(\$ million)	(%)
Controlled items					
Operating revenue	78.7	78.7	90.7	92.7	2.2
Operating expenses	78.7	78.7	90.7	92.7	2.2
Net Result	0.0	0.0	0.0	0.0	0.0

Notes: (a) Excludes the Auditor-General's funding

(b) Excludes an administered statement because the Parliamentary Departments do not administer revenue or expenses on behalf of the State

(c) Adjusted for machinery of government changes for the period 1 January 2003 to 30 June 2003

Source: Budget Paper No.3, 2003–04 Budget Estimates, table 2.11.2, p.441

The Committee was advised that the Parliament's budget lacks a nexus between strategic issues and funding for the Parliamentary Departments' outputs, and that the Departments (and the committees) are allocated new monies on an 'historical basis', which bears a limited relationship to the services performed or client expectations in the contemporary environment.⁷⁷ The Presiding Officers advised that they will review the planning processes to better focus on strategic issues rather than individual Department issues in 2003–04. The Committee suggests that the Parliamentary Departments should also take this opportunity to review the timing of their business planning cycle.

Recommendation 1:

As part of the 2003-04 review of general planning processes, the Parliamentary Departments give consideration to changing the timing of their business planning cycle.

⁷⁷ *ibid.*, p.2

3.5 Human resource issues

3.5.1 *Parliamentary workforce*

The Parliamentary Departments are expecting an increase in the level of committee staffing, given that three new committees have been formed. This staffing increase has been matched by an increase in funding. Additional electorate officers (administered through the Joint Services Department) will be employed in 2003–04. Apart from these two changes, staff levels are expected to remain static (refer Exhibit 3.3).

Exhibit 3.3:

Parliamentary Departments Equivalent Full Time Staff^(a)

Parliamentary Departments	June 2003 (estimate)			June 2004 (estimate)		
	Permanent	Fixed Term	Total	Permanent	Fixed Term	Total
Legislative Council	17.0	1.0	18.0	17.0	1.0	18.0
Legislative Assembly	31.9	3.0	34.9	31.9	3.0	34.9
Parliamentary Library	24.0	2.0	26.0	24.0	2.0	26.0
Parliamentary Debates (Hansard)	23.8 ^(b)	1.0	24.8	23.8 ^(b)	1.0	24.8
Joint Services	280.0 ^(c)	8.0	288.0	283.0 ^(d)	8.0	291.0
Parliamentary investigatory committees	4.6	28.8	32.4	4.6	36.8	41.4
Total	381.3	43.8	425.1	384.3	51.8	436.1

Notes: (a) Includes permanent, temporary and fixed term staff, Member are not included

(b) Includes 4.8 equivalent full time sessional staff

(c) Includes 228.3 electorate officers

(d) Includes 231 electorate officers

Source: Parliamentary Departments' response to the Committee's 2003–04 Budget Estimates Questionnaire, p.7

3.5.2 *Staffing issues*

The Committee was advised that the salary offered by the Parliamentary Departments in some cases is not sufficient to attract staff with the skill sets and experience that the positions require.⁷⁸ The Committee was concerned by this comment and asked what the Parliamentary Departments are doing to address this issue.

⁷⁸ *ibid.*, p.8

The Committee was advised that the Parliamentary Departments use a variety of strategies: for example, when staff are employed, the Departments often agree to fund attendance at courses that improve staff skills, assist staff to further their tertiary education and agree to individual programs of self development. In many cases, the challenge of working in the parliamentary environment is an attraction, and the Departments acknowledge that some staff use their employment with the Parliamentary Departments as a stepping stone to gain expertise before moving to other positions.

The Committee is concerned that these strategies fail to fully support the Parliamentary Departments objective to develop and retain highly skilled and motivated people. The Committee recognises the Departments' effort in developing staff, but believes the Departments could place more value on their staff investment by adopting strategies to retain and motivate staff once they are trained and have attained a high level of skills. Alternatively, the Parliamentary Departments need to accept the transitory nature of some of its staff and re-evaluate its objective.

(a) Hansard

The President advised that most of the staff difficulties in terms of recruitment and retention, have been in the Hansard area. Over the past 10 years, the available pool of skilled Hansard reporters diminished; in recent years, this loss has placed enormous pressures on the Hansard reporting and rostering system and the Hansard reporters.

To alleviate some of the problems, the Department of Parliamentary Debates introduced a digital sound system for use in the Parliament and with the Committees. The sound system means reporters can transcribe from tapes, which effectively expands the pool of suitable applicants from which Hansard reporters can be recruited. Specific Hansard reporting skills remain important, but the digital system allows greater flexibility in the recruitment of reporters.

Hansard reporters have expressed concern about their hours and remuneration. They are required to work irregular and unsociable hours to fit Parliament's sitting times. The President explained that the most recent enterprise bargaining agreement introduced the opportunity for the Department of Parliamentary Debates to engage sessional reporters,

who are employed for a minimum of 30 hours in a sitting week.⁷⁹ The Committee was interested in the remuneration policy for sessional reporters. In response, the Committee was advised that most Hansard staff are employed on a sessional basis and paid a rate per 'turn'.⁸⁰

The Parliamentary Departments advised that pay rates have a degree of flexibility to recognise the different levels of expertise and commitment of staff.

To compensate sessional staff for not having annual leave, sick leave, compassionate leave or study leave, and for working unsociable hours, the pay rate for sessional staff on 10-minute turns is 125 per cent of the hourly rate paid to permanent reporters.

(b) Recruitment

The Committee was also interested in the Parliamentary Departments' policy on advertising for staff. Of the 64 jobs advertised during the period 1 July 2002 to 30 June 2003, 14 per cent were advertised only internally and 30 per cent were not advertised at all.⁸¹ Only half (56 per cent) of the jobs available were advertised externally. The Presiding Officers advised that 'the decision on vacancy advertising is a management decision. When a position is advertised internally it is because the management of the relevant Department believes there are sufficient people within the Parliamentary Departments to provide a large enough selection pool from which to select a quality candidate'.⁸²

As it is important that the Parliamentary Departments are supported and assisted by staff with a high level of expertise, it is suggested that all vacant positions beyond a six month period should be advertised externally.

Recommendation 2:

All vacant positions, beyond a six month period, with the Parliamentary Departments be advertised externally.

⁷⁹ Ms M. Gould, President of the Legislative Council, transcript of evidence 24 June 2003, p.590

⁸⁰ *ibid.*

⁸¹ Parliamentary Departments' response, received 17 July 2003, to the Committee's follow-up questions, p.3

⁸² *ibid.*

3.6 Parliamentary Departments

The Parliamentary Departments operate in an environment in which the sitting patterns of the Parliament are unpredictable and the Members seek ongoing improvement in the facilities that they rely on to service electorates. The provision of administrative and support services to Parliament is thus a complex and challenging management task.⁸³

3.6.1 2003–04 outlook for the Parliamentary Departments

The key strategic issues for the Parliamentary Departments as a whole are:

- security, for which improvements are planned through the lease of security equipment and the employment of contract personnel. The Government approved \$1 million to upgrade security;
- the three new committees that have been appointed. Parliamentary Departments are working to ensure the committees have staff and office accommodation so they can commence operating as soon as practicable;
- the redistribution of the Members' electorate boundaries for the 55th Parliament, which led the Parliamentary Departments to request and receive funding to relocate 12 Members;
- the relocation and refurbishment of the Members' electorate offices. The Parliamentary Departments have an ongoing responsibility to provide Members with an electorate office furnished to a suitable standard within budgetary constraints. In the 2003–04 budget, the Parliamentary Departments identified offices that needed to be relocated and those that needed refurbishment during the next two financial years. The Committee was informed that there are difficulties in planning any further ahead because relocations and refurbishments depend on lease renewals and price negotiation; and
- the 150th anniversary of democratic government in Victoria. Parliamentary Departments will establish an office to plan the celebrations of 150 years of democratic government in Victoria,

⁸³ Budget Paper No.3, 2003–04 Budget Estimates, p.419

which will be conducted between November 2005 and November 2006.

The Parliamentary Departments received additional revenue to fund the costs of these initiatives.⁸⁴

3.6.2 *Key issues impacting on the Parliamentary Departments*

The Parliamentary Departments' response to the Committee's 2003–04 budget estimates questionnaire and the estimates hearing with the Presiding Officers identified several issues that will have an impact on the Departments and the budget estimates for 2003–04.

(a) *Parlynet*

The dominant issues for the Parliamentary Departments in 2003–04 are reviewing the management of the Parlynet project, improving the performance of Parlynet and resolving continuing issues with the Parliament's information technology systems. Given its serious concerns about the performance of Parlynet, the Parliamentary Departments are investigating and discussing these issues with the contractor. The Auditor-General has also been asked to review the upgrades of the information technology systems managed by the Joint Services Department.

Of the four stages of the Parlynet implementation, only stages 1 and 2 have been undertaken; stages 3 and 4 have not been funded because issues with the stage 2 implementation are yet to be resolved. The Parliamentary Departments intend to resolve these issues and will approach Department of Treasury and Finance during 2003–04 to gain funding approval for completion of the project.

In August 2002, the Parliamentary Departments signed a fixed price contract for \$2.3 million⁸⁵ for the upgrade and rollout of Parlynet 2, which was 'completed' by 31 December 2002.⁸⁶ During the implementation period, nine variations were made to the contract. Each variation incurred additional costs that the Parliamentary Departments have met. The Director of Infrastructure Services estimated the cost at 30 June 2003

⁸⁴ Budget Paper No.3, 2003–04 Budget Estimates, p.440

⁸⁵ The successful tenderer was CSM

⁸⁶ Mr G. Spurr, Director of Infrastructure Services, Joint Services Department, transcript of evidence, 24 June 2003, p.601

to be around \$4 million, excluding operating costs.⁸⁷ The Committee was also advised that the Auditor-General had costed the total project at around \$7.4 million.

The Committee sought an explanation about the process that had been followed that had allowed additional project funding to be drawn down beyond the agreed contract price. The Speaker was unable to provide any detailed information and indicated that the process had been difficult to reconstruct. The Speaker reiterated that this difficulty was part of the reason for engaging the Auditor-General and that the Parliamentary Departments hoped for guidance on how to better manage the delivery of future major projects.⁸⁸

Overall, the Speaker identified two main problem areas. First, the planning phase was too short, which meant there was no opportunity for pilot tests. Second, management of the process had been taken 'off line', so decisions on the project were being made by officers who were not fully familiar with the project.⁸⁹

In hindsight, the Speaker and the Director of Infrastructure Services considered that the project should have been delayed. Despite the election on 30 November 2002, the rollout continued because the contract had significant financial penalties for the Parliamentary Departments if the project were to be delayed.⁹⁰

The Committee also sought information on the source of funding for the additional expenditure incurred in connection with the Parlynet project. In response, the Committee was advised that \$1.349 million had been sourced from depreciation equivalents not yet spent and that approximately \$1.1 million was from prior year retained earnings.⁹¹

The Committee is concerned that contract specifications were inadequate, resulting in nine contract variations, the project was not costed accurately and the project costs were not managed or tracked during the implementation phase. Poor project management during the 54th Parliament, when the project was initiated and stage 1 implemented,

⁸⁷ *ibid.*, pp.586, 595

⁸⁸ Mrs J. Madigan, Speaker of the Legislative Assembly, transcript of evidence, 24 June 2003, p.587

⁸⁹ *ibid.*, p.587

⁹⁰ Mr G. Spurr, Director of Infrastructure Services, Joint Services Department, transcript of evidence, 24 June 2003, p.601

⁹¹ Mr H. Barr, Manager of Finance, Joint Services Department, transcript of evidence, 24 June 2003, p.589

meant that the project was not halted when it became evident that the project was incurring additional costs significantly beyond the agreed price and that the original specifications were deficient in that they did not meet the needs of Parliament's clients. The Committee is also concerned that the contract was not renegotiated and that the Parliamentary Departments might not have enforced terms in the contract that could have saved the Departments money.

The Committee looks forward to the Auditor-General's review and recommendations, and trusts that issues surrounding Parlynet 2 will be resolved quickly. It encourages the Parliamentary Departments to learn from this experience and to implement project management guidelines and financial systems that will help avoid a repeat of the difficulties encountered with this project.

(b) 157 Spring Street

In 2001–02, the Speaker of the Legislative Assembly advised that a 10 year lease agreement for 157 Spring Street had been secured through the Department of Treasury and Finance. The rationale for leasing additional office space was to provide additional office space for Members of Parliament in the parliamentary annexe by relocating staff to the new premises.⁹²

The Committee was advised in June 2003 that the refurbishment of office accommodation at 157 Spring Street was partly completed. While most floors in the building were being used (as meeting rooms, for storage, for the temporary location of the successful tenderer for Parlynet 2, by the Joint Services Department and, have been identified for use by two of the new parliamentary committees), the occupant of the fourth floor is yet to be determined.⁹³

Capital expenditure on the refurbishment of 157 Spring Street in 2002–03 was estimated at \$600,000. The Committee has now received advice that the refurbishment will be completed during 2003–04 at an expected cost of \$1.2 million.⁹⁴ These costs are in line with original cost estimates, but the project timeline has been considerably extended.

⁹² Parliamentary Departments' response, received 17 July 2003, to the Committee's follow-up questions, p.6

⁹³ Parliamentary Departments' response to the Committee's 2003–04 Budget Estimates Questionnaire, p.2

⁹⁴ *ibid.*

When the Committee inquired as to how current expenditure, both capital and recurrent, was tracking against the business plan for the premises, the Director of Corporate Services advised that the Department had not done a comparison against original plans to determine whether planned savings had accrued.⁹⁵ Later, the Committee learnt that the Joint Services Department had never had a business plan for leasing the premises.⁹⁶ At the outset, the 10-year lease of 157 Spring Street represented a total cost of \$5.7 million (\$1.6 million, plus 10 by \$400,000), so the Committee is concerned that the Department did not prepare a business plan for such a significant commitment.

The Speaker indicated that the premises had provided a financial benefit to the Parliamentary Departments because the cost of housing the two parliamentary committees at 157 Spring Street was lower than that of alternatives.⁹⁷ This assessment was based on estimated costs of locating the committees at other commercial premises in the central business district.⁹⁸

However, the Committee considers that the current lease arrangement does not reflect a benefit or saving. The expense of servicing the lease agreement while floors are unoccupied represents a cost to the Parliamentary Departments.

The Committee recognises that this matter is ongoing and that efforts are being made to address issues of occupancy of 157 Spring Street. It hopes, however, that the Joint Services Department will review project and financial management guidelines to ensure in the future better management information is available for key projects, and to achieve a more detailed understanding of projects costs and benefits, both tangible and intangible.

⁹⁵ Mr S. Aird, Director Corporate Services, Joint Services Department, transcript of evidence, 24 June 2003, p.607

⁹⁶ Parliamentary Departments' response, received 17 July 2003, to the Committee's follow-up questions, p.6

⁹⁷ Mrs J. Maddigan, Speaker of the Legislative Assembly, transcript of evidence, 24 June 2003, p.607

⁹⁸ Parliamentary Departments' response, received 17 July 2003, to the Committee's follow-up questions, p.6

Recommendation 3:

The Parliamentary Departments, and in particular the Joint Services Department:

- (a) ensure that appropriate officers receive training in project management; and**
- (b) develop project management guidelines and financial systems that will enable the Parliamentary Departments to manage, track progress and cost major projects.**

(c) *Electorate office budgets*

The Committee is aware of the decision made by the Presiding Officers that part of the wage increase recently awarded to Victoria's electorate officers will have to be met from savings in other areas of the budget for the Parliamentary Departments.

It is the current intention that savings will be made by reducing funds available to Members of Parliament from their electorate budgets.

Chapter 4: Department of Education and Training

Key findings of the Committee:

- 4.1 The Department of Education and Training uses independent data, where possible, to ensure its performance information is accurate and impartial.
- 4.2 The Department of Education and Training undertakes a long range forecast of teacher supply and demand but does not link this forecast to specific disciplines or locations.
- 4.3 Fifty-five per cent (\$81.5 million) of the \$148.2 million budget allocation for education and training output initiatives in 2003-04 is accounted for by the Reform and Demand Strategy which provides funding to maintain the current level of services across all outputs.
- 4.4 Class sizes for prep to year 2 have been reduced to an average of 21 students in government schools. At the schools' discretion, there are still some classes with more than 30 students in them. These are more likely to be in metropolitan, rather than regional, areas.
- 4.5 In 2000, Victorian students were at or above the national benchmark average for years 3 and 5 in both literacy and numeracy. However, Victoria was statistically one of the lower performing States in relation to middle years (i.e. 15 year olds) mathematical and scientific literacy; where it performed below the Australian benchmark. Compulsory year 7 numeracy and literacy testing occurred for the first time in August 2003.
- 4.6 A completion bonus scheme has been introduced to improve apprentice and traineeship completions but no performance targets have been developed to assess the program.

4.7 Changes have been made to strengthen governance arrangements at universities, including a requirement to provide greater disclosure in their annual reports and financial statements. In addition, the Auditor-General now has legislative authority to audit internationally based entities controlled by Victorian universities.

Departmental review

4.1 Departmental overview

The Department of Education and Training supports the portfolios of Education and Training; and Education Services. The Department's objectives for 2003-04 are largely unchanged from 2002-03. The only difference is the deletion of the objective of providing a whole of government lead in youth affairs. This responsibility has now been transferred to the Department for Victorian Communities.⁹⁹

The Government has identified five objectives to guide the work of the Department's three output groups and two ministerial portfolios. All the objectives are aligned with five of the 'Growing Victoria Together' outcomes:

- valuing and investing in lifelong education;
- growing and linking all of Victoria;
- more jobs and thriving, innovative industries across Victoria;
- building cohesive communities; and
- reducing inequalities and promoting rights, and respecting diversity.¹⁰⁰

The Department also provides support to nine statutory bodies and several higher education institutions (including 14 TAFE institutions and five TAFE divisions within universities).¹⁰¹

⁹⁹ Budget Paper No.3, 2003-04 Budget Estimates, p.18

¹⁰⁰ Budget Paper No.2, 2003-04 Budget Statement, pp.1-7

¹⁰¹ Budget Paper No.3, 2003-04 Budget Estimates, p.18

4.1.1 Key challenges for the Department in 2003-04

The Minister for Education and Training has highlighted four challenges for education in Victoria:

- boosting the participation levels and outcomes across all parts of the education system;
- improving the performance of groups who have traditionally suffered educational disadvantages;
- improving the quality and flexibility of the workforce in all areas of education and training; and
- improving the accountability frameworks that have been put in place to ensure the community's expectations are being met, at a state wide and local level.¹⁰²

The Minister explained that these challenges have to be met in a climate of reduced tertiary education places, rising costs and competition within the educational sectors, and continuing problems with teacher supply and demand.

The Minister for Education Services advised that the key challenges for her areas of responsibility include:

- providing resources to provide better facilities in schools; and
- developing the teaching profession.¹⁰³

4.1.2 Performance measures

The Committee was informed that the Department undertakes quality control procedures and uses independent data, where possible, to ensure its performance information is accurate and impartial.¹⁰⁴ The Department also undertakes reviews of its suite of performance measures and in 2003-04 this resulted in forty new performance measures being introduced and fourteen discontinued. Changes to, or completion of, some programs resulted in the discontinuation of five performance

¹⁰² Hon L. Kosky, MP, Minister for Education and Training, transcript of evidence, 16 May 2003, p.163

¹⁰³ Hon J. Allan, MP, Minister for Education Services, transcript of evidence, 16 May 2003, p.201

¹⁰⁴ Department of Education and Training, response to the Committee's 2003-04 Budget Estimates Questionnaire, pp.6-11

measures, six were discontinued because they were considered misleading or the data source was found to be unreliable, and another three discontinued measures were replaced by new measures.¹⁰⁵

The Committee was interested to learn that the new measures draw on national benchmark measurements and also include four measures of years 5-9 students' opinions on various aspects of their schooling.

The Department utilises a large suite of performance measures that are focused on the outcomes of its activities. The Department uses national benchmarks where they are available and strongly supports systems that provide nationally comparable performance information.¹⁰⁶

The Committee is pleased that the Department has adopted a more rigorous approach to developing its performance measures and data, but notes that continued changes to performance measurements impacts on the ability of readers of the Budget Papers to assess longer term trends in the performance of the Department.

4.1.3 *Impact of machinery of government changes*

As previously mentioned, responsibility for whole of government policies for young people was transferred to the Department for Victorian Communities effective from 1 January 2003. In the 2003-04 Budget Papers, the Department has reported the Youth output cost for the first half of 2002-03 (refer Exhibit 4.1 below), but does not report performance for the same period. Full year performance measures have been reported in the section of the Budget Papers relating to the Department for Victorian Communities together with half year costs (i.e. January to June 2003).

The Committee believes it is important for output performance to be reported against the costs of achievements. The Committee also recognises that is not always possible or practical to split performance measures, for example, where information is only gathered annually as at a certain date.

¹⁰⁵ ibid.

¹⁰⁶ ibid., p.11

4.2 Output management framework

The Minister for Education and Training and the Minister for Education Services have joint responsibility for the three output groups: Policy, Strategy and Information Services; School Education; and Training and Tertiary Education. These output groups cover fourteen outputs. Portfolio responsibilities are not neatly aligned with all of the outputs.

Exhibit 4.1:

Department of Education and Training Ministerial Responsibilities

Output	Responsible Minister	
	Education and Training	Education Services
<i>School Education</i>		
Primary Education	✓	✓
Junior Secondary Education	✓	✓
Senior Secondary Education	✓	✓
Non-Government School Education	✓	
Student Welfare and Support		✓
Students with Disabilities and Impairments		✓
Education Maintenance Allowance	✓	✓
Student Transport		✓
<i>Tertiary Education and Training</i>		
TAFE Places	✓	✓
Adult and Community Education Places	✓	✓
Higher Education	✓	
<i>Policy, Strategy and Information Services</i>		
Policy, Strategy and Executive Services	✓	✓
International Education	✓	
Public Information and Promotion	✓	✓

Source: Department of Education and Training, response to Committee's 2003-04 Budget Estimates Questionnaire, p.1

The Ministers share responsibility for eight outputs. In addition to the shared responsibilities, the Minister for Education and Training has specific responsibility for three outputs: Non-Government School Education; Higher Education; and International Education as well as having responsibility for overseeing the following statutory education bodies:

- Victorian Curriculum and Assessment Authority;
- Victorian Schools Innovation Commission;

- Victorian Qualifications Authority;
- Adult, Community and Further Education Board;
- Victorian Learning and Employment Skills Commission;
- Registered Schools Board; and
- Victorian Institute of Teaching.¹⁰⁷

The Minister for Education Services has specific responsibility for the remaining three outputs: Student Welfare and Support; Students with Disabilities and Impairments and Student Transport, as well as responsibility for overseeing the Merit Protection Boards.

Within the shared outputs, the Minister for Education Services' responsibilities relate to:

- teacher workforce supply and demand including recruitment and retention strategies;
- implementation of agreed capital programs (including buildings, equipment and ICT);
- school councils (but not school educational policies and funding issues); asset maintenance and security including emergency management;
- health and safety (including asbestos);
- student welfare (includes disability strategies);
- student transport and other services for students at risk; and
- Merit Protection Boards (under s64 & s65 of the Teaching Service Act).¹⁰⁸

The Minister for Education and Training's responsibilities relate to:

¹⁰⁷ Department of Education and Training, organisational chart: <http://www.det.vic.gov.au/det/pdfs/DE&TOrgCharts.pdf> and Office of Hon L. Kosky, MP, Minister for Education and Training, correspondence received 8 September 2003

¹⁰⁸ Department of Education and Training, response to the Committee's 2003-04 Budget Estimates Questionnaire, p.1

- policy development, regulation and management of the Victorian government school system;
- curriculum delivery for the years prep to 10, the Victorian certificate of Education (years 11 and 12) and the Victorian Certificate of Applied Learning;
- improving the quality of student learning and school management, including specialist services;
- financial support for, and regulation of, non-government schools; and
- training and tertiary education services.

The Committee encountered some difficulty in understanding the different responsibilities of the two Ministers. For example, during the estimates hearings, who had responsibility for identifying the need for specialist teachers in secondary schools and responsibility for reporting on the 2002-03 recruitment program was unclear from the evidence.

The Minister for Education Services commented during the hearings that 'with the changing portfolios after the election, there was a change in portfolio responsibilities as well'.¹⁰⁹

The Committee believes that it is essential when machinery of government changes occur in a Department that any associated ministerial responsibilities are clearly identified and made transparent. This is particularly important where ministerial responsibilities are defined on a basis that is different to the division and output framework of the Department.

Recommendation 4:

The Department of Education and Training reconcile ministerial responsibilities to departmental outputs and divisional structure to ensure that responsibilities are well defined and publicly understood.

¹⁰⁹ Hon J. Allan, MP, Minister for Education Services, transcript of evidence, 16 May 2003 p.204

4.3 Budget summary

The Department's budget allocation for 2003-04 is \$6,258.4 million, an increase of \$130.6 million (or 2.1 per cent) from the revised 2002-03 budget.

This increase in funding is in line with the Government's commitment to make education and training its 'number one priority'.¹¹⁰ Increases have been made to the output groups of School Education - \$117.6 million, and Training and Tertiary Education - \$19.3 million. The Policy, Strategy and Information Services output group received a decrease in funding of \$1.1 million, from the revised budget for 2002-03.

Exhibit 4.2:

Department of Education and Training Output Costs

	Column 1	Column 2	Column 3	Column 3-2
Output Group	2002-03 Budget ^(a) (\$ million)	2002-03 Revised (\$ million)	2003-04 Budget (\$ million)	Variation ^(b) (%)
School Education	4,824.3	5,085.4	5,203.0	2.3
Training and Tertiary Education	992.2	1,000.3	1,019.6	1.9
Youth	5.1	5.2	Transferred to DVC	n/a
Policy, Strategy and Information Services	33.6	36.9	35.8	-3.0
Total	5,855.2	6,127.8	6,258.4	2.1

Notes: (a) Incorporates changes to the output structure and organisational restructuring and therefore may differ from figures published in the 2002-03 budget.

(b) A negative variance indicates that the 2003-04 Budget has decreased compared with the 2002-03 revised budget.

Source: Budget Paper No.3, 2003-04 Budget Estimates, Table 2.1.1, p.26

While more funds have been allocated to recruit teachers and welfare officers and to improve school disability services, a large proportion of the increase in funding relates to the Reform and Demand Strategy which has been allocated \$81.5 million or 55 per cent of the total allocation for education and training output initiatives.¹¹¹

The Minister for Education and Training explained that this strategy was 'basically about sorting out the budget base – every few years there are stressors on the education system ... they include enrolment growth, copyright and legal

¹¹⁰ Hon L. Kosky, MP, Minister for Education and Training, transcript of evidence, 16 May 2003, p.163

¹¹¹ Budget Paper No.2, 2003-04 Budget Statement, pp.204 and 206

licences, and leases and re-evaluation of the Department's asset base.'¹¹² Specifically the Minister for Education and Training pointed out that student enrolments have increased from 794,554 students in 1999, to 814,493 students in 2002.¹¹³ Other changes include increases in insurance costs and rising general costs in line with the consumer price index.¹¹⁴

The Minister for Education and Training acknowledged that the \$81.5 million was required to maintain the quality of education and training services and preserve the current level of services across all education and training outputs.

4.3.1 Financial analysis

The Department advised that the increase in operating revenue is due in part to the flow through effects of initiatives approved in prior budgets and the provision of supplementary funding to support the costs of enterprise bargaining outcomes, and also for the new funding initiatives and strategies announced for 2003-04.¹¹⁵

Exhibit 4.3:

Department of Education and Training Statement of Financial Performance

	Column 1	Column 2	Column 3	Column 4	Column 4-3
	2002-03 Budget	2002-03 Adjusted^(a)	2002-03 Revised	2003-04 Budget	Variation
	(\$ million)	(\$ million)	(\$ million)	(\$ million)	(%)
Controlled Items					
Operating revenue	6,383.6	6,378.9	6,587.8	6,741.9	2.3
Operating expenses	6,179.0	6,174.3	6,445.8	6,590.4	2.2
Net Result	204.6	204.6	142.0	151.5	6.7
Administered Items					
Administered revenue	1,395.1	1,395.1	1,574.0	1,641.0	17.6
Administered expenses	1,406.3	1,406.3	1,573.9	1,640.9	16.7
Surplus/Deficit^(b)	-11.2	-11.2	0.1	0.1	101.0

Notes: (a) Includes the 2002-03 budget adjusted for machinery of government changes for the period 1 January 2003 to 30 June 2003

(b) Negative numbers indicate a deficit

Source: Budget Paper No.3, 2003-04 Budget Estimates, table 2.1.2, p.48 and table 2.1.5, p.51

¹¹² Hon L. Kosky, MP, Minister for Education and Training, transcript of evidence, 16 May 2003, p.164

¹¹³ *ibid.*, pp.165-7

¹¹⁴ *ibid.*

¹¹⁵ Budget Paper No.3, 2003-04 Budget Estimates, p.46

The increase in expenses is similarly due to operational costs and new initiatives. It is also due in part to increases in assets and depreciation charges resulting from strong property growth.¹¹⁶

Administered revenues and expenses relate predominantly to Commonwealth grants (1,627.6 million or 99 per cent) for government and non-government schools.¹¹⁷ The increase in administered revenue from the 2002-03 budget estimate to the 2003-04 budget estimate of \$245.9 million is largely attributable to increased grants to government and non-government schools from the Commonwealth.¹¹⁸ The Department advised that the increase in Commonwealth grants funding related to indexation and enrolment growth.¹¹⁹

The Commonwealth Minister for Education, Science and Training stated in a press release that Commonwealth funding for Victorian government schools and students in 2003-04 will total some \$544.2 million, a \$31.4 million or 6.1 per cent increase from 2002-03.¹²⁰

Other administered revenue has increased by \$11.1 million since the 2002-03 budget estimates, as a result of accounting adjustments. These adjustments effectively offset the deficit result reported in previous years.¹²¹

In 2003-04 administered revenues and expenses nearly balance to give a net result for administered items of \$100,000 (previously an \$11.3 million deficit).

4.3.2 Government savings

In 2003-04 the Department of Education and Training will be required to achieve savings of \$31 million from general efficiencies in administration.¹²²

The Budget Papers list two savings initiatives:

¹¹⁶ *ibid.*, p.46

¹¹⁷ Budget Paper No.3, 2003-04 Budget Estimates, p.51

¹¹⁸ *ibid.*, p.47

¹¹⁹ Department of Education and Training, response to the Committee's 2003-04 Budget Estimates Questionnaire p.15

¹²⁰ Dr B. Nelson, Commonwealth Minister for Education, Science and Training, media release, 13 May 2003

¹²¹ Department of Education and Training, response to the Committee's 2003-04 Budget Estimates Questionnaire p.15; and Budget Paper No.3, 2003-04 Budget Estimates, p.47

¹²² Budget Paper No.2, 2003-04 Budget Statement, Appendix A, p.204 and 206

- general efficiencies in administration (\$31 million in 2003-04 and each year for the next four years);¹²³ and
- phasing out of the private sector skills development program (\$600,000 in 2004-05, \$4.4 million in 2005-06 and \$5.8 million in 2006-07).¹²⁴

4.4 Human resource issues

4.4.1 Portfolio workforce

The Department is one of the biggest employers in Victoria with more than 50,000 people employed as principals, assistant principals, teachers, and support staff in more than 1,600 government schools.

Exhibit 4.4:

Department of Education and Training Equivalent Full Time Staff

Output Group	June 2002 Actual	June 2003 Estimate	June 2004 Estimate
<i>EFT Ongoing staff</i>			
School Education	38,674	39,573	39,646
Training and Tertiary Education	203	209	209
Policy, Strategy & Information Services	227	228	228
Total	39,104	40,010^(a)	40,083^(a)
<i>EFT fixed term staff</i>			
School Education	9,903	10,116	10,143
Training and Tertiary Education	24	25	25
Policy, Strategy & Information Services	27	25	25
Total	9,954	10,166^(a)	10,193^(a)
EFT total for all staff	49,058	50,176^(a)	50,276^(a)

Notes: (a) Staff contributing to Youth Affairs output group not included (output transferred to the Department for Victorian Communities as a result of the machinery of government changes which came into effect on 1 January 2003)

Source: Department of Education and Training, response to the Committee's 2003-04 Budget Estimates Questionnaire, p.12

School teaching staff numbers are expected to rise. Initiatives announced in 2003-04 include recruiting an additional 450 secondary school teachers (over four years) and funding for 256 primary-school welfare officer positions (also over four years).

¹²³ *ibid.*, table A3, p.204

The Minister for Education and Training indicated during the estimates hearing that departmental staff levels were expected to remain constant in 2003-04. Subsequently the Minister for Education and Training indicated that between 100 and 300 departmental positions will be lost as part of a restructure of the Department's Melbourne based headquarters. In a press release the Minister stated, 'a review of head office operations has revealed areas of overlap, duplication and inefficiencies, and excessive growth in the central bureaucracy that needs to be addressed'.¹²⁵ Since June 2000, the number of staff in the Head Office has increased by about 300 people to almost 1,500. The Secretary of the Department of Education and Training had advised that there was capacity for substantial operational efficiency within the Melbourne headquarters, and the Minister believes there is a need for reductions, through a combination of attrition, re-deployment and packages.¹²⁶

4.4.2 Staffing issues

The Department advised that it 'has experienced some shortages in teaching subject areas of mathematics, science (particularly physics), physical education and languages other than English (Italian, Indonesian, Japanese and French). These shortages tend to be more significant in rural locations.'¹²⁷ In an attempt to resolve these recruitment shortfalls, the Department has developed the following strategies:

- the Teacher Scholarship Program supports high quality students to qualify and teach in Victorian government schools. A target of 220 scholarships has been established and the 2003 program will give preference to students in hard to fill subject areas;¹²⁸
- the recruitment online database enables teachers to register their personal details online and provides schools with the capacity to search the database for staff that meet its curriculum needs. This system is particularly useful for finding potential applicants for hard to fill subject areas;¹²⁹ and

¹²⁵ Minister for Education and Training, media release, *Kosky Announces Department Restructure*, 13 August 2003

¹²⁶ *ibid.*

¹²⁷ Department of Education and Training, response to the Committee's 2003-04 Budget Estimates Questionnaire, p.12

¹²⁸ *ibid.*

¹²⁹ *ibid.*

- the Department has a long standing retraining program for languages other than English.¹³⁰

The Committee is aware of the Victorian Auditor-General's recent review of teacher workforce planning which found that there was scope for the Department to improve its focus on teacher shortages and that 'initiatives such as the Teaching Scholarship Scheme, designed to ensure an appropriate supply of government school teachers, have had only marginal impact and there have been limited initiatives to address subject areas of teacher shortage and schools with staffing difficulties'.¹³¹

The Committee raised these issues at the estimates hearing and was advised that there is now an annual teacher supply and demand report for Victoria.¹³² This report provides a long range forecast anticipating teacher supply and demand (based on population statistics and models) but does not link forecasts to disciplines or locations. The Committee was told the Department analysed teacher supply and demand issues in relation to specialist teachers through an annual census of teacher recruitment.¹³³

The Committee welcomes the strategies that have been, and are being, introduced to address the problem but remains concerned that the Department is unable to anticipate the particular disciplines and locations in which there are teacher shortages and is also concerned that currently shortages are addressed in retrospect rather than in anticipation.

Recommendation 5:

The Department of Education and Training give consideration to developing a detailed model to anticipate the particular disciplines and locations of teacher shortages and an audit of teacher supply and demand be undertaken.

¹³⁰ *ibid.*

¹³¹ Victorian Auditor-General's Office, *Report on Teacher Workforce Planning*, 21 November 2001, part 1 executive summary, para. 1.9

¹³² Teacher Supply and Demand Reference Group, *Report on Teacher Supply and Demand*, November 2002

¹³³ Minister for Education Services' response, received 22 July 2003, to the Committee's follow-up questions

Portfolio review

4.5 Analysis of the Education Services and Education and Training portfolio budget

The output budgets for the Education Services and Education and Training portfolios are presented together. As portfolio responsibilities do not align with output groups it is difficult to present distinct budgets for each portfolio. Portfolio issues are discussed separately in sections 4.6 and 4.7.

The 2003-04 budget allocates more than 60 per cent of the total funding to primary and junior secondary education. This is similar to previous years.

Exhibit 4.5:

Department of Education and Training Output Costs

Output Group	Outputs under the responsibility of the Minister for Education Services and the Minister for Education and Training	2003-04 Output Cost (\$ million)
School Education	Primary Education*	2,270.2
	Junior Secondary Education*	1,429.4
	Senior Secondary Education*	727.7
	Non-government School Education^	313.5
	Student Welfare and Support#	78.1
	Services to Students with Disabilities#	287.9
	Education Maintenance Allowance*	35.0
	Student Transport#	61.2
Training and Tertiary Education	Training and Further Education Places*	984.2
	Adult and Community Education Places and Community Support*	33.9
	Higher Education^	1.5
Policy Strategy and Information Services	Policy, Strategy and Executive Services*	21.8
	International Education^	6.9
	Public Information and Promotion*	7.1
Total		6,258.4

Notes: * The Ministers share responsibility for these outputs

^ Responsibility of Minister for Education and Training

Responsibility of Minister for Education Services

Source: Budget Paper No.3, 2003-04 Budget Estimates, pp.27-44; and Department of Education and Training, response to the Committee's Budget Estimates Questionnaire, p.1

4.6 Education Services portfolio

4.6.1 2003-04 outlook for the portfolio

During 2003-04, the Education Services portfolio will concentrate on improving student welfare and upgrading learning environments. Some of the major initiatives planned for 2003-04 include:

- \$82 million over four years for recruiting an additional 450 secondary school teachers (\$4 million in 2003-04);¹³⁴
- \$49.5 million over four years in funding for 256 primary school welfare officer positions (\$4.2 million in 2003-04);¹³⁵
- \$96 million over the next four years for the disabilities and impairments program (\$31.5 million in 2003-04);¹³⁶ and
- \$137.1 million over the next two years for asset investment initiatives, including upgrading of TAFE equipment and the implementation of a building program at 58 Victorian primary and secondary schools (\$64.8 million in 2003-04).¹³⁷

4.6.2 Key issues impacting on the portfolio

The Department's response to the Committee's 2003-04 budget estimates questionnaire and the estimates hearing identified several issues that will impact on the portfolio and the budget estimates for 2003-04.

(a) School maintenance, new and replacement schools

The Department of Education and Training's asset investment initiatives have been allocated a budget of \$137.1 million over the next two years.¹³⁸ The focus of the program is upgrading learning environments. A significant portion (65 per cent) of the funding will be directed to the

¹³⁴ Hon L. Kosky, MP, Minister for Education and Training; Hon J. Allan, MP, Minister for Education Services, *2003-04 Budget – Excellence for All*, May 2003; and Budget Paper No.2, 2003-04 Budget Statement, Appendix A, pp.204-6

¹³⁵ *ibid.*

¹³⁶ *ibid.*

¹³⁷ Budget Paper No.2, 2003-04 Budget Statement, Appendix A, p.207

¹³⁸ *ibid.*

modernisation of schools (\$51.8 million) and building of new schools (\$38.1 million). The balance of funds will be used as follows:¹³⁹

- \$12.1 million for reinstatement of facilities at fire affected schools;
- \$5.1 million to replace facilities at schools where the current level of facilities has been outgrown or are in inappropriate locations;
- \$5.5 million for continuing development of the Maryborough/Gippsland school precinct;
- \$12 million to replace and upgrade obsolete equipment at TAFE institutions;
- \$500,000 for joint developments with local government and other education sectors to build school facilities to be used by the community;
- \$2 million for project planning; and
- \$10 million to establish specialist facilities in secondary schools.

The funding definitions relating to capital works (i.e. new, replacement and modernisation) overlap each other and the Committee is of the opinion that the Budget Papers are confusing in relation to this matter.

The Minister for Education Services advised the Committee that eight schools have been approved for funding from the new schools program and thirty eight schools¹⁴⁰ have been approved to be modernised.¹⁴¹

Another related issue is the funding allocation for the maintenance of schools. The annual maintenance budget for schools is \$34 million of which \$27 million is provided directly to schools through their global budget. The balance is provided as supplementary funding for unexpected work (for example to repair damage caused by vandalism) and is split into funds managed by the regions (\$2 million) and funds managed by the facilities division of the Department.¹⁴² To access funds schools must request a transfer to their official school account.

¹³⁹ Hon L. Kosky, MP, Minister for Education and Training; Hon J. Allan, MP, Minister for Education Services, *2003-04 Budget – Excellence for All*, May 2003

¹⁴⁰ Comprising 28 primary schools, 9 secondary schools and 1 special school, Hon J. Allan, MP, Minister for Education Services, transcript of evidence, 16 May 2003, p.201

¹⁴¹ Minister for Education Services' response, received 22 July 2003, to the Committee's follow-up questions

¹⁴² Hon J. Allan, MP, Minister for Education Services, transcript of evidence, 16 May 2003, p.203

The Committee raised its concern that the process for requesting a transfer of funds may not allow timely access to funding in urgent situations. The Committee was assured by the Minister for Education Services that there is sufficient flexibility in the process for maintenance approval and funds transfer, to allow immediate authorisation to effect emergency repairs.¹⁴³

The Committee was advised that the physical resources management system audit (PRMS), which is undertaken every three years, is used to prioritise maintenance funding on a scale of zero to five. The Auditor-General also reviewed maintenance of Victorian schools during 2003.¹⁴⁴

The Minister advised, and the Auditor-General's report confirms, that all 'priority zeros' (which are the most urgent maintenance needs) identified through the most recent PRMS audit, which was completed in February 2001, had been funded.¹⁴⁵

The Minister for Education Services also advised the Committee that the large investment made in capital works over the last three years and the investment that is planned for forward years should reduce the cost of future maintenance by \$150,000 for every \$1 million spent on capital.¹⁴⁶

Nevertheless, the Auditor-General found that a funding shortfall of at least \$120 million exists in respect of maintenance of school facilities, including relocatable classrooms, and that this funding shortfall may have resulted in delays in addressing outstanding¹⁴⁷ maintenance works.¹⁴⁸ The Auditor-General indicated that 'delays in addressing outstanding maintenance works are likely to reduce the useful life of school facilities and could expose the State to increased maintenance costs in the longer term'.¹⁴⁹

The Auditor-General noted that there was a need for the Department of Education and Training to review the base recurrent funding level

¹⁴³ Minister for Education Services' response, received 22 July 2003, to the Committee's follow-up questions

¹⁴⁴ Victorian Auditor-General's Office, Special Review, *Maintenance of Victorian School Facilities*, June 2003

¹⁴⁵ This comment is also supported by the Auditor-General, Special Review, *Maintenance of Victorian School Facilities*, June 2003, para. 3.15

¹⁴⁶ Hon J. Allan, MP, Minister for Education Services, transcript of evidence, 16 May 2003, p.203

¹⁴⁷ That is, PRMS category 1 maintenance requirements which needed to be undertaken by February 2001, and PRMS category 2 maintenance requirements which needed to be undertaken by February 2002.

¹⁴⁸ Victorian Auditor-General's Office, Special Review, *Maintenance of Victorian School Facilities*, June 2003 para. 3.16

¹⁴⁹ *ibid.*, para. 3.18

required by schools to eliminate the backlog and fully fund annual maintenance requirements.

Maintaining school facilities is very important. School facilities need to be maintained to ensure children have good and safe learning environments. Regular maintenance also reduces costs, for both future maintenance and capital expenditure, in the longer term. The Committee recognises that a large proportion of funding is provided collectively for the maintenance, replacement and building of new, or new facilities for, schools. The Committee believes that the Department should make it clearer in the Budget Papers how much funding is allocated to maintaining, as opposed to replacing or building a new school.

The Committee would also like to see the Department track the impact of capital works on future maintenance requirements to ensure that adequate ongoing maintenance is available and accessible to schools for both planned and unplanned maintenance.

Recommendation 6:

The Department of Education and Training:

- (a) clarify the definitions of 'new', 'replacement', 'modernisation' and 'maintenance' in relation to schools and publish the definitions in future Budget Papers;**
- (b) clearly distinguish, and report separately, funding allocated to the different categories of 'new', 'replacement', 'modernisation' and 'maintenance' for schools;**
- (c) monitor capital spending on new and established schools and report publicly on the progress made with implementing projects; and**
- (d) track and analyse the impact of capital spending on future maintenance requirements in educational institutions.**

(b) Teacher specialisation

In 2003-04 the Government will appoint an additional 450 secondary school teachers over four years to develop areas of specialisation. By employing specialised teachers, schools will be able to identify and respond to the interests and needs of their student communities. The tri-annual audit of teacher recruitment already highlights a need for more maths, IT and language teachers. The Department is reviewing how it will allocate specialist teachers and which specialist areas will be targeted. The Minister for Education and Training told the Committee that part of the innovation for excellence work that is currently being undertaken in schools has already started to 'identify those areas where schools want to excel and get specialised staff'.¹⁵⁰

The concept behind increasing specialisation was explained by the Minister for Education and Training who said 'we are looking at what we can do to benefit students by getting broader access to specialist areas'¹⁵¹ including getting schools to co-operate a little better. Teacher specialisation will be complemented by capital works programs dedicated to improving or building specialist facilities for music, design, arts, science and technology.

4.7 Education and Training portfolio**4.7.1 2003-04 outlook for the portfolio**

During 2003-04, the Department will concentrate on the development of a framework to improve the performance of government schools. Education and Training will continue their commitment to maintaining reduced prep to year 2 class sizes and will promote additional support for literacy and numeracy.

Some of the major initiatives planned for 2003-04 include:

- \$413.9 million over four years for the Reform and Demand strategy which provides funding to meet additional demand pressures. The funding also provides for an integrated approach of improved targeting of resources, better reporting and accountability arrangements and an improved workforce strategy that focuses on

¹⁵⁰ Hon L. Kosky, MP, Minister for Education and Training, transcript of evidence, 16 May 2003, p.180

¹⁵¹ *ibid.*

quality and excellence to meet educational outcomes.¹⁵² (\$81.5 million in 2003-04 as discussed previously in this Chapter at 4.3 Budget summary)

- \$6.2 million over four years for the establishment of three Centres of Excellence in Languages in secondary schools and five additional School of Languages centres in regional Victoria¹⁵³ (\$800,000 in 2003-04);
- \$62 million over four years for supplementary funding for needy non-government schools¹⁵⁴ (\$11 million in 2003-04); and
- \$51.4 million over four years in funding for a completion bonus to encourage employers to increase the number of apprentices and trainees who complete their qualifications¹⁵⁵ (\$6.4 million in 2003-04).

4.7.2 Key issues impacting on the portfolio

The Department's response to the Committee's questionnaire and the estimates hearing identified several issues that will impact on the portfolio and the budget estimates for 2003-04.

(a) Class sizes

The Committee was advised that significant progress had been made in reducing primary class sizes in government schools, with the focus in particular on the prep to year 2 class sizes. The Minister for Education and Training advised that the Government had succeeded in reducing the average class size from 24.3 in 1999 to 21 in 2003.¹⁵⁶ These measurements are based on information collected during the February 2003 school census where each Government school providing primary education (1,272 schools) supplied details of the number and grade level of the students in each class. The Committee was later advised that there

¹⁵² Budget Paper No.2, 2003-04 Budget Statement, Appendix A, p.206

¹⁵³ Hon L. Kosky, MP, Minister for Education and Training and Hon J. Allan, MP, Minister for Education Services, *2003-04 Budget – Excellence for All*, May 2003; and Budget Paper No.2, 2003-04 Budget Statement, Appendix A, pp.204-206

¹⁵⁴ *ibid.*

¹⁵⁵ *ibid.*

¹⁵⁶ Hon L. Kosky, MP, Minister for Education and Training, transcript of evidence, 16 May 2003, p.165

was a large range of class sizes, from as few as five to as many as thirty-three pupils in a class.¹⁵⁷

The Committee welcomes the reduction in average class size but is concerned that there are still some schools with classes for prep to year 2 that have over thirty pupils. According to the Department, in general, schools in non-metropolitan regions have smaller classes than those in metropolitan regions due to the smaller schools (both physically and in terms of enrolments) that exist in non-metropolitan areas.¹⁵⁸

The Committee understands that schools deviate from the average for a number of reasons including curriculum decisions, and physical restrictions such as not having enough classrooms or enough space to put in extra classrooms. The Minister for Education and Training pointed out that 'the [measurement for] average class size does not identify the teacher-student ratio'.¹⁵⁹ Possibly, larger classes might be acceptable if extra teachers are available to assist the students. The Committee sought information about teacher-student ratios and was informed that the ratio for Prep to year 2 is not known as the data used to calculate this information is collected on a whole of school level and cannot be broken down by year groups.¹⁶⁰

The Committee believes it would be beneficial to analyse class size data by region to determine whether or not a reduction in class sizes is being achieved at the same percentage rate across Victoria, or if there are some areas where class sizes are maintained at the same level, or are increasing. The Committee also believes it would be useful to be able to compare class sizes with the actual teacher-student ratio for prep to year 2, and other reporting categories for which average class size measurements are reported. This information could then be used to channel efforts and resources to those areas where there are greater identified needs.

¹⁵⁷ Minister for Education and Training's response, received 21 July 2003, to the Committee's follow-up questions

¹⁵⁸ *ibid.*

¹⁵⁹ Hon L. Kosky, MP, Minister for Education and Training, transcript of evidence, 16 May 2003, p.165

¹⁶⁰ Minister for Education and Training's response, received 21 July 2003, to the Committee's follow-up questions. The teacher-student ratio is calculated as the total number of teachers in a school (including principals) involved in the delivery of education by the total number of students

Recommendation 7:

The Department of Education and Training:

- (a) develop measurements and benchmarks for class size data that separately identify trends in regional and metropolitan areas; and**
- (b) consider collecting and publishing data on the number of prep to year 2 (and other reporting categories) teachers alongside class sizes.**

(b) Literacy and numeracy standards in schools

Improving the standards of literacy and numeracy is listed as an objective of the Department in 2003-04 and the Government has given a commitment to 'provide additional support for literacy and numeracy to ensure a solid base for learning outcomes for students throughout their schooling'.¹⁶¹

At the estimates hearing, the Committee was interested to learn more about the funding arrangements and the achievements of the early-years literacy and numeracy programs.

In August 2003 there was, for the first time in Victoria, compulsory testing of numeracy and literacy for students in year 7. Previously testing had been voluntary. The Committee welcomes this focus on literacy and numeracy for secondary students.

The Committee understands that in 2000, Victorian students were at or above the national benchmark average for years 3 and 5 in both reading and numeracy.¹⁶² Results for literacy and numeracy for 15 year olds are not as good as those for the early-years. Whereas Victoria was statistically one of the better performing states in relation to early-years numeracy and literacy, Victoria was statistically one of the lower performing States in relation to secondary students' (i.e. 15 year olds)

¹⁶¹ Budget Paper No.3, 2003-04 Budget Estimates, p.23

¹⁶² Steering Committee for the Review of Commonwealth / State Service Provision, *Report on Government Services*, Volume 1, tables 3.5, 3.6, 3.7 and 3.8, para. 3.21–3.26

mathematical and scientific literacy, where it performed below the Australian benchmark.¹⁶³

The Committee looks forward to reviewing these statistics when the data from the compulsory testing becomes available.

The Auditor-General noted in the rationale for his review into the efficiency and effectiveness of the literacy program in Victorian Schools that the proportion of students failing to meet the standards of literacy required for effective participation in modern society is estimated to be up to 30 per cent.¹⁶⁴ As identified by the Auditor-General the levels of literacy in the population are key determinants of educational and employment success.¹⁶⁵

Significant investment has occurred over the past four years in early literacy programs designed to ensure that all students reach expected standards in reading and writing. But there has not been the same level of funding provided for numeracy programs. For example, the 2002-03 budget provided \$42.3 million over five years for literacy intervention programs, but only \$34.6 million over four years for early-years numeracy co-ordinators.¹⁶⁶

The Minister for Education and Training advised the Committee that literacy 'probably does have the stronger area of need ... because it underpins all learning' and was therefore more of a priority.¹⁶⁷

The Committee believes that numeracy and literacy are equally important skills and encourages the Government to maintain programs and funding in both areas to ensure Victoria is at or above the national benchmark average in numeracy and literacy in the early-years, and that results for secondary students improve.

¹⁶³ *ibid.*, para. 3.26

¹⁶⁴ Victorian Auditor-General's Office, *Audit in Progress. Literacy Standards in Schools*, synopsis, www.audit.vic.gov.au

¹⁶⁵ *ibid.*

¹⁶⁶ Budget Paper No.2, 2002-03 Budget Statement, pp.171-2

¹⁶⁷ Hon L. Kosky, MP, Minister for Education and Training, transcript of evidence, 16 May 2003, p.174

Recommendation 8:

The Department of Education and Training continue to monitor and support numeracy and literacy programs to determine their effectiveness in maintaining and improving current standards.

(c) Apprentices and trainees

At 30 June 2003 there were 30,544 employers of apprentices and trainees in Victoria. Of these, 6,428 have three or more apprentices in training. These employers employ 63.9 per cent of all apprentices and trainees, Group Training Companies (GTCs) employ 13.6 per cent and GTCs have played a very important role in connecting small to medium enterprises and rural businesses with apprentices and trainees.¹⁶⁸ National studies indicate that completion rates for apprenticeships are in the range 70 to 77 per cent with traineeships around 55 per cent. In some areas completion rates for trainees are as low as 45 per cent.¹⁶⁹

The Government is introducing a completion bonus program (from July 2003) which it believes will improve apprentice and trainee completion rates. This scheme will be funded from the phase out of the private sector skills development program¹⁷⁰ which will occur gradually over four years enabling existing commitments to be met.

The completions bonus program will be phased in as the private sector skills development program is phased out in order to take into account apprentices and trainees who are part way through their training. Employers of these apprentices and trainees will have benefited from payroll tax exemptions, so completion bonus amounts will be reduced accordingly. The Committee was informed that the phase in arrangements are still being finalised.¹⁷¹

¹⁶⁸ *ibid.*, p.170

¹⁶⁹ Minister for Education and Training's response, received 21 July 2003, to the Committee's follow-up questions

¹⁷⁰ This program was introduced as an initiative in 2000 to assist businesses to employ apprentices and trainees in areas where there were identified skill shortages.

¹⁷¹ Minister for Education and Training's response, received 21 July 2003, to the Committee's follow-up questions

The Committee notes that the phase out of the private sector skills development program is listed as a savings initiative.¹⁷² This means that while the phase out of this program will be used to fund the replacement completions bonus scheme, its phase out is also expected to achieve \$10.8 million over three years.¹⁷³ The completions bonus program is a more targeted scheme and some savings can be expected because of that. Nevertheless, the expected savings indicate a renewed emphasis on outcomes. The Committee believes the new scheme will need to be closely monitored to ensure that the savings objective does not adversely impact on the numbers of people taking up and completing apprenticeships.

The Government has estimated budget impacts from the scheme in terms of the numbers of apprentices and trainees likely to attract the completion bonus (or an equivalent outcome payment for GTCs). Completions are expected to rise from an average of approximately 55 per cent to 70 per cent by 2006-07.¹⁷⁴ However the Department advised that there are no actual target numbers for completions under the new arrangements and that data is not held on completion rates for trainees and apprentices.¹⁷⁵ So while the Department has budgeted for increases in completions,¹⁷⁶ it is not measuring the improvement, or decline, in the percentage rate of apprentice and traineeship completions.

Payroll tax exemptions for apprenticeships and traineeships will no longer be available under the completions bonus program. The Committee was advised that the Group Training Companies have raised concerns about the removal of payroll tax exemptions.¹⁷⁷ The Minister for Education and Training indicated that a package of measures would be introduced to address concerns including:

- obtaining 'employment agent' status for GTCs which would allow them to collect payroll tax from eligible host employers of GTC apprentices and trainees;

¹⁷² Budget Paper No.2, 2003-04 Budget Statement, p.206

¹⁷³ *ibid.*, p.204

¹⁷⁴ Hon L. Kosky, MP, Minister for Education and Training, transcript of evidence, 16 May 2003, p.172

¹⁷⁵ Minister for Education and Training's response, received 21 July 2003, to the Committee's follow-up questions

¹⁷⁶ Hon L. Kosky, MP, Minister for Education and Training, transcript of evidence, 16 May 2003, pp.177-8

¹⁷⁷ *ibid.*, pp.171-3

- a completion payment to GTCs equivalent to that contained in the completions bonus scheme; and
- a one off transitional funding to meet set-up costs for employment agent status and to offset any initial cash flow problems.

The Department also advised that the Commissioner for Taxation has ruled that GTCs will not be subject to payroll tax for wages paid to apprentices and trainees for training days, annual and sick leave, and 'downtime' days, where the cost of these are factored into the GTC's charge to the host employer.¹⁷⁸

The Committee welcomes these efforts to improve the number of apprentices and trainees completing their programs but is concerned that there are no specific actual target numbers for completions under the new arrangements, and that data is not currently held on completion rates for trainees and apprentices.¹⁷⁹ The Committee believes that as the Department expects one of the outcomes of this project to be improved completion rates for apprentices and trainees it should make an effort to measure that outcome.

Recommendation 9:

To enable an assessment of the outcomes of the completion bonus program, the Department of Education and Training establish baseline information and targets that identify current and anticipated apprentice and trainee completion rates.

(d) *RMIT University and governance in tertiary institutions*

The Victorian Government is responsible for overseeing Victoria's nine universities, the Commonwealth Government administers funding for these tertiary institutions.

The Minister for Education and Training advised the Committee that the Auditor-General was asked to investigate the failures of RMIT University's academic management system in May 2002. The Auditor-

¹⁷⁸ Minister for Education and Training's response, received 21 July 2003, to the Committee's follow-up questions

¹⁷⁹ *ibid.*

General reported his findings confidentially to the Minister in an interim report in June 2002. The final report was tabled in February 2003, by which time RMIT University had responded to the interim recommendations by instituting improved project governance and management arrangements and had undertaken immediate remedial action.¹⁸⁰

As further concerns arose in relation to RMIT University's finances, the Auditor-General was again asked to conduct an urgent review, this time focusing on RMIT University's financial position and budgetary outlook.¹⁸¹ During May 2003 a draft report was provided to the Minister who advised that 'the detailed analysis provided by the Auditor-General reveals that during 2001 and 2002 there were a number of serious defects in RMIT University's financial planning and governance arrangements'.¹⁸²

The Minister for Education and Training indicated that RMIT University management has accepted most of the recommendations made by the Auditor-General and is taking appropriate steps to address the matters raised in the report.¹⁸³ One of the most important responses has been the appointment of a new chief financial officer.

The Committee was pleased to learn that the Minister for Education and Training has asked RMIT University to keep her informed of its situation and expects the financial problems to be resolved by the end of 2004.¹⁸⁴

Given the issues that have arisen at RMIT University, the Committee raised with the Minister for Education and Training its concern about some financial and governance arrangements that apply more broadly across the whole tertiary education sector.

The Minister for Education and Training indicated that she also 'had concerns about some of the governance issues at a whole range of universities, particularly in relation to commercial activities of universities and the reporting of those'.¹⁸⁵ The Minister initiated a review

¹⁸⁰ Victorian Auditor-General's Office, *Report on Public Sector Agencies*, February 2003, pp.58-88

¹⁸¹ Victorian Auditor-General's Office, *Report of the Auditor-General on RMIT's Finances*, 4 June 2003

¹⁸² Minister for Education and Training's response, received 21 July 2003, to the Committee's follow-up questions

¹⁸³ *ibid.*

¹⁸⁴ Minister for Education and Training's response, received 21 July 2003, to the Committee's follow-up questions

¹⁸⁵ Hon L. Kosky, MP, Minister for Education and Training, transcript of evidence, 16 May 2003, p.174

of university governance last year in response to the Auditor-General's report on the *Operations of University Subsidiary Entities and Joint Ventures* and identified a number of governance issues that needed attention.¹⁸⁶ The Minister advised the Committee that a number of changes in relation to governance had occurred since then and that the Review of University Governance of Victorian Universities had made a number of recommendations that addressed concerns raised by the Auditor-General.¹⁸⁷

The Committee was told that universities, in their financial statements:¹⁸⁸

- now have to report on the performance of not only their domestic provision of services, but also any associated and commercial ventures; and
- are also required to include a risk management statement in relation to associated and commercial ventures, as well as the publicly funded activities.

Legislation has also been passed that gives the Auditor-General authority to audit companies that are controlled by Victorian universities but are established overseas.

The Committee believes good governance of tertiary institutions is very important and looks forward to a concerted and continued effort from the Department of Education and Training and Victorian tertiary institutions to improve governance structures and increase accountability through better alignment of responsibility with authority and more transparent reporting in their annual reports.

¹⁸⁶ Victorian Auditor-General's Office, *Report on Public Sector Agencies*, June 2002, pp.55-6

¹⁸⁷ Hon L. Kosky, MP, Minister for Education and Training, transcript of evidence, 16 May 2003, p.175

¹⁸⁸ *ibid.*

Recommendation 10:

The Department of Education and Training:

- (a) ensure all Victorian tertiary institutions are aware of the concerns raised by the Auditor-General and recommendations made by the Review of University Governance of Victorian Universities; and**
- (b) in conjunction with the Auditor-General continue to promote and insist on good governance through follow-up reviews and audits.**

Chapter 5: Department of Human Services

Key findings of the Committee:

- 5.1 Concerns remain that the new Australian Health Care Agreement may result in a significant shortfall in growth funding for Victoria of up to \$350 million over the next five years. Funding of this order will place considerable pressure on the Victorian Government to meet the increasing demand for services.
- 5.2 As a result of the continuing decline in Medicare bulk-billing the demand for public hospital emergency services is increasing.
- 5.3 The Hospital Demand Management Strategy has been effective in reducing the incidence of ambulance bypasses and waiting lists for elective surgery. It has also improved the proportion of emergency patients admitted to hospitals within 12 hours and reduced waiting times for patients requiring residential aged care.
- 5.4 There have been delays and a \$61.3 million increase in costs associated with the redevelopment of the Austin and Repatriation Medical Centre. The cost of completing the project is now estimated at \$376.3 million.
- 5.5 The financial viability of some Victorian public hospitals continues to be a concern.
- 5.6 Waiting times for restorative dental care have significantly increased since the 1997 decision of the Commonwealth Government to discontinue funding for the public dental program.
- 5.7 The Department of Human Services continues to experience difficulties in recruiting staff in key areas such as information technology, child protection, and health and community care.
- 5.8 The demand for disability services in Victoria is increasing significantly.

- 5.9 A significant number of WorkCover claims within the Department of Human Services are related to the working conditions of disability workers.
- 5.10 \$16 million has been allocated over four years to increase payments to foster carers that will, on average, raise the proportionate cost of care covered by the Government from 50 to 70 per cent.
- 5.11 The aged care system in Victoria remains significantly under-funded by the Commonwealth Government.
- 5.12 Over the past ten years Commonwealth Government funding for housing assistance to Victoria has declined by approximately \$90 million. Under the new Commonwealth-State Housing Agreement, Victoria will lose approximately a further \$75 million over the next five years.
- 5.13 Bad debts written off by the Office of Housing increased significantly from \$3.2 million in 2000-01 to \$6.1 million in 2001-02. The estimates for 2002-03 provide for approximately \$5.3 million. In view of these trends the Office of Housing needs to review the effectiveness of its debt management procedures.

Departmental review

5.1 Departmental overview

The Department of Human Services supports the Ministerial portfolios of Health, Community Services, Aged Care and Housing. Its mission is to enhance and protect the health and wellbeing of all Victorians, in particular vulnerable groups and those most in need. Almost three-quarters (72 per cent) of the Department's budget is spent on services provided by external agencies, under funding and service agreements with the Department. These agencies include metropolitan and rural hospital services, public nursing homes, local government, community health centres, ambulance services and non-government organisations that provide, in the main, welfare services. Services provided directly by

the Department include public rental housing, disability services, child protection and juvenile justice services.

5.1.1 Key challenges for the Department in 2003-04

The Committee was advised that the following key challenges and strategic issues have influenced the development of the Department's estimates for 2003-04:¹⁸⁹

Managing demand for service, particularly:

- meeting increased demand for services; and
- meeting the increased complexity of client needs;

Improving service viability and productivity, particularly:

- utilising progress in technology and knowledge processes;
- ensuring financial sustainability of services;
- developing a flexible and skilled workforce across Victoria; and
- modernising ageing infrastructure.

Acting earlier and more effectively, particularly by:

- shifting the service focus toward prevention and early intervention;
- improving social cohesion and participation in family life;
- alleviating pressures on families and young people;
- addressing changing patterns in health and wellbeing; and
- delivering services that are appropriate for the client and the client's location.

The Department advised the Committee that detailed information about how it will address these challenges is included in the 2003-04 Department of Human Services Plan, which was being finalised at the time of preparing this report.¹⁹⁰

¹⁸⁹ Department of Human Services response to the Committee's 2003-04 Budget Estimates Questionnaire, p.20
¹⁹⁰ *ibid.*

5.1.2 Performance measures

The Department advised that its Performance Measurement Framework underpins its overall approach to performance reporting and incorporates the internal and external requirements of *Growing Victoria Together*, Expenditure Review Committee of Cabinet, Auditor-General as well as the Public Accounts and Estimates Committee. The Department advised that it undertakes an annual review of the framework to ensure it aligns with internal and external priorities and commitments.¹⁹¹

The Committee reviewed the Department's performance information for 2003-04 and noted that a significant proportion of the performance measures are process oriented and related to activities. The Committee believes that greater emphasis should be given to the development of performance measures that reflect the achievement of broader government outcomes.

5.2 Output management framework

Exhibit 5.1 shows the Department's 2003-04 output management framework.

As shown in Exhibit 5.1 the Department's budget allocation for 2003-04 was \$9,057.9 million, representing a \$331.9 million or 3.8 per cent increase on the 2002-03 revised budget allocation.

The Committee noted that the 11 output groups reported in 2002-03 have been expanded to 15 for the 2003-04 budget estimates.

Changes to the output group structure reflect:¹⁹²

- the splitting of the former Public Health and Drug Services output group into two output groups in recognition of their distinct roles and to align the output structure with management responsibilities; and
- the elevation of the previously four outputs in the Community Care output group into four separate output groups in order to provide more meaningful performance measures and more accountable and meaningful data.

¹⁹¹ *ibid.*, p.33

¹⁹² *ibid.*, pp.4-5

Exhibit 5.1:

Department of Human Services
Output Costs

	Column 1	Column 2	Column 3	Column 3-2
Output Group	2002-03 Budget^(a) (\$ million)	2002-03 Revised (\$ million)	2003-04 Budget (\$ million)	Variation^(e) (%)
Acute Health Services	4,467.3	4,649.3	4,857.1	4.5
Ambulance Services	248.9	282.1	287.8	2.0
Mental Health	588.5	605.2	616.4	1.9
Aged and Home Care	679.4	683.1	717.4	5.0
Primary Health	148.3	156.4	152.7	-2.4
Dental Health	84.0	86.9	88.8	2.2
Public Health	188.3	213.3	190.9 ^(b)	-10.5
Drugs Services	65.1	76.2	98.6 ^(c)	29.4
Disability Services	766.5	813.0	844.4	3.9
Child Protection and Placement	254.1	258.9	269.8	4.2
Juvenile Justice Services	66.2	69.0	66.1	-4.2
Early Childhood Services	167.7	167.8	184.6	10.0
Family and Community Support	88.2	91.7	91.3	-0.4
Concessions to Pensioners and Beneficiaries	284.7	273.3	285.7	4.5
Housing Assistance	440.7	299.8	306.3 ^(d)	2.2
Total	8,537.9	8,726.0	9,057.9	3.8

- Note:
- (a) Incorporates changes to output structure and organisational restructuring and therefore may differ from figures published in the 2002-03 Budget
 - (b) Reduction between 2002-03 revised and 2003-04 budget reflects machinery of government transfer of Biomedical Research to the Department of Innovation, Industry and Regional Development from 1 July 2003
 - (c) The 2003-04 budget includes funding for the Victorian Drugs Strategy from the Community Support fund (CSF). CSF funds for drugs programs in prior years were included under the Department of Premier and Cabinet
 - (d) The 2002-03 revised and 2003-04 budget include a change in the accounting treatment of the Government's contribution to the Housing Asset Program. In accordance with UIG38, and as reflected in the audited Estimated Financial Statements and Appropriation Acts, the Government's contribution is now reported as contributed capital rather than output funding
 - (e) A negative variance indicates that the 2003-04 budget has decreased compared with the 2002-03 revised budget

Source: Budget Paper No.3, 2003-04 Budget Estimates, table 2.2.1, p.60

5.3 Budget summary

Exhibit 5.2 contains information about the Department's statement of financial performance.

Exhibit 5.2:

**Department of Human Services
Statement of Financial Performance**

	Column 1	Column 2	Column 3	Column 4	Column 4-3
	2002-03 Budget	2002-03 Adjusted^(a)	2002-03 Revised	2003-04 Budget	Variation^(b)
	(\$ million)	(\$ million)	(\$ million)	(\$ million)	(%)
Controlled Items					
Operating revenue	8,926.0	8,926.4	9,198.7	9,495.8	3.2
Operating expenses	8,905.5	8,905.5	9,163.4	9,502.5	3.7
Net Result^(c)	20.5	20.5	35.3	-6.7	-119.0
Administered Items					
Administered revenue	2,756.6	2,756.6	2,854.8	2,881.2	0.9
Administered expenses	2,756.6	2,756.6	2,854.8	2,881.2	0.9
Surplus/Deficit	0.0	0.0	0.0	0.0	0.0

- Note: (a) Includes the 2002-03 budget adjusted for machinery of government changes for the period 1 January 2003 to 30 June 2003.
- (b) A negative variance indicates that the 2003-04 budget has decreased compared with the 2002-03 revised budget
- (c) A negative dollar value indicates a deficit

Source: Budget Paper No.3, 2003-04 Budget Estimates, table 2.2.2, p.106 and table 2.2.5, p.109

The Committee's analysis of the 2003-04 budget estimates compared with the 2002-03 revised budget shows that variations for operating revenue and operating expenses are moderate with a \$297.1 million (3.2 per cent) increase and \$339.1 million (3.7 per cent) increase respectively.

Revenue from ordinary activities is projected to increase from an estimated \$9,198.7 million in 2002-03 to \$9,495.8 million in 2003-04, an increase of \$297.1 million. The major reasons for this increase includes growth in appropriation revenue as a result of:¹⁹³

- an allocation of \$198.5 million to fund the *Labor's Financial Statement 2002 - The Second Term of a Bracks Labor Government* commitments including \$116 million for hospital demand management and \$68.6 million in support of the non-government sector; and
- decisions arising from the Australian Industrial Relations Commission (AIRC) and enterprise bargaining agreements negotiated during 2002-03 across a range of DHS outputs, particularly for medical staff and hospital support staff.

¹⁹³ Budget Paper No.3, 2003-04 Budget Estimates, p.104

Other revenue increases relate to:

- new Commonwealth funding arrangements for pharmaceuticals supplied to patients on discharge from hospitals; and
- the recognition given in 2002-03 to assets received free of charge as a result of the transfer of the Latrobe Regional Hospital to the State.

Expenditure from ordinary activities is projected to increase by \$339.1 million in 2003-04 compared with the 2002-03 revised budget. This increase reflects the impact of implementing new budget initiatives and the increased cost of providing services, particularly in relation to employee entitlements as a result of AIRC decisions and enterprise bargaining outcomes that mainly relate to hospital staff. The increased expenditure on employee entitlements also reflects additional third party funded activity reported by health sector agencies.¹⁹⁴

The 2002-03 revised budget and the 2003-04 budget estimates include a change in the accounting treatment for the Government's contribution to the housing asset program. The capital grants are no longer reported in the Statement of Financial Performance and are now treated as contributions to other sectors by the State in its capacity as owner.

In 2003-04, the Department anticipates a deficit of \$6.7 million, compared with the surplus of \$35.3 million estimated for 2002-03.

This decrease is the result of a number of factors including:

- \$9.2 million of revenue earned in prior years to be used to complete projects and services;
- \$5.05 million reclassified as a result of changes to the accounting treatment of the Department's asset sales program and resources given or received free of charge;
- the recognition of \$16.2 million in additional medical insurance claims liabilities incurred but not yet reported; and
- \$23.75 million of hospital revenue used for asset purposes.

¹⁹⁴ Department of Human Services, response to the Committee's 2003-04 Budget Estimates Questionnaire, p.51

5.3.1 Write-off of bad debts

The Department advised the Committee that the estimated value of bad debts to be written off in 2002-03 is \$9 million. These debts relate to Ambulance Services and, in particular, to uninsured individuals being unable to pay the user fees for emergency ambulance use. The Committee was informed that transport service debts were eventually written off after normal attempts at recovery were undertaken, including the use of debt recovery agencies after 60 days.¹⁹⁵

In an effort to address this issue, the Department intends to initiate a limited trial for the recovery of unpaid accounts by complaint summons but does not anticipate that this will have a significant impact on current revenue.

5.3.2 Government savings

Budget Paper No. 2 indicates that the Department needs to achieve general efficiencies in administration of \$36.4 million in 2003-04 (\$145.6 million over four years), and \$5 million in 2003-04 (\$32.3 million over four years) in specific savings initiatives.¹⁹⁶

The Committee was advised by the Minister for Health that general efficiencies in administration, although not yet specifically identified, were being sought across a range of expenditure areas within the Department that will not impact on service delivery.¹⁹⁷ In relation to specific savings initiatives, the Committee noted that these will include:¹⁹⁸

- \$1.2 million in 2003-04 (\$4.8 million over four years) from the establishment of high yield investment accounts to pool the funds of 70 small hospitals;
- \$1.4 million in 2003-04 (\$7.1 million over four years) from the reduction of Disability Services Head Office overheads through the rationalisation of a range of non-direct care grants and the

¹⁹⁵ *ibid.*, pp.52-3

¹⁹⁶ Budget Paper No.2, 2003-04 Budget Statement, p.210

¹⁹⁷ Hon B. Pike, MP, Minister for Health's response, received 16 July 2003, to the Committee's follow-up questions, p.7

¹⁹⁸ Budget Paper No.2, 2003-04 Budget Statement, pp.210, 216-7

restoration of the accommodation support fee over the next two years to a level that represents 21 per cent of a disability pension;

- \$1.4 million in 2003-04 (\$10.4 million over four years) from the discontinuation of a number of supplementary subsidies for childcare services as a result of the Commonwealth taking full responsibility for childcare in 1997. This initiative retains the occasional childcare component;
- \$2 million in 2004-05 (\$6 million over three years) from the wider adoption of call centre technology that will result in the more efficient utilisation of telephone information, counselling and referral services funded by the Department; and
- \$1 million in 2003-04 (\$4 million over four years) from the rationalisation of non-recurrent grant funding to agencies undertaking service development activities in metropolitan and rural health, disability services, and community care.

5.4 Human resources issues

5.4.1 *Portfolio workforce*

At the time of preparing this report, the Department advised that due to the complexity of internal administrative arrangements it was unable to provide staffing details by output group.¹⁹⁹

As shown in Exhibit 5.3, the Department estimated that, after incorporating external agencies, it will have 70,681 equivalent full time staff (EFT) at 30 June 2003, compared with an actual staffing level of 68,867 at 30 June 2002.

Exhibit 5.3 also shows that in 2002-03 there has been an estimated increase of 1,814 EFT staff (approximately 2.6 per cent) since 2001-02. The Committee was pleased to note that a significant proportion of this staffing (1,272 EFT staff) related to an increase in the number of medical and nursing staff in public hospitals and aged care facilities.

The remainder was largely due to an increase of 236 ambulance staff as a result of the establishment of new services and implementation of an

¹⁹⁹ Department of Human Services, response to the Committee's 2003-04 Budget Estimates Questionnaire, p.42

enterprise bargaining agreement as well as an increase in departmental staff (excluding external agencies) of 254 EFT.²⁰⁰

Exhibit 5.3:

Department of Human Services Equivalent Full Time Staff

	30 June 2002 EFT (Actual)	30 June 2003 EFT (Estimate)
Departmental Staff	8,466	8,720
Public Hospitals and Aged Care Centres:		
<i>External Agencies</i>		
Doctors	4,850	5,000
Nursing	25,071	25,700
Medical Support	9,839	10,000
Section 97 Staff	260	240
Other	15,748	16,100
Sub-total – Public Hospitals and Aged Care Centres	55,768	57,040
Community Health Program	945	964
HACC Agencies, BTS, Palliative Care, etc	1,591	1,591
Ambulance Services	1,887	2,123
Victorian Institute of Forensic Mental Health	210	243
Total Staffing	68,867	70,681

Source: Department of Human Services, response to the Committee's 2003-04 Budget Estimates Questionnaire, p.42

The Department informed the Committee that, in line with Government policy, the number of fixed term employees as a percentage of total employment had been successfully reduced to below its agreed target of less than or equal to 18 per cent, to 16.3 per cent as at April 2003. The Department expects this number to reduce further after June 2003 as some short term, fixed term work is completed within the funding year.²⁰¹

5.4.2 Key staffing issues

The Department indicated that it continued to experience shortages of expertise in some key areas such as information technology professionals, care workers, child protection staff as well as a range of allied health and medical professionals particularly within rural and regional locations.²⁰² Strategies adopted by the Department to address these issues include.²⁰³

²⁰⁰ *ibid.*

²⁰¹ *ibid.*, p.43

²⁰² *ibid.*, pp. 43-4

²⁰³ *ibid.*

- development of a recruitment and induction project to address issues associated with the attraction and retention of care workers;
- initiatives to facilitate the recruitment of medical and allied health professionals and nurses particularly within rural and regional locations of Victoria; and
- retention initiatives in the form of on-going training for medical, allied health and nursing professionals focusing on continuing professional development, and undergraduate, postgraduate and vocational and prevocational training.

Portfolio review

5.5 Health portfolio

The Minister for Health has responsibility for seven output groups within the Department. Exhibit 5.4 provides details of the output groups and their budget estimates. These output groups account for approximately \$6,292.3 million or 69.5 per cent of the Department's budget for 2003-04.

5.5.1 *2003-04 outlook for the portfolio*

Key priorities for the Health portfolio in 2003-04 include:²⁰⁴

- implementing the Hospital Demand Management Strategy;
- addressing the rising cost pressures in public hospitals;
- addressing the demand pressures for services such as ambulance and dental health services;
- improving public health outcomes through an emphasis on prevention, detection and early intervention activities, including the development of strategies to reduce the impact of diabetes and obesity; and
- recruiting and retaining health professionals, particularly in rural areas.

²⁰⁴ Budget Paper No.3, 2003-04 Budget Estimates, p.57-8

Exhibit 5.4:

**Health Portfolio
Output Costs**

Output Group	Outputs under the responsibility of the Minister for Health	2003-04 Output Cost (\$ million)
Acute Health Services	Admitted Services	3,486.4
	Non-Admitted Services	500.9
	Emergency Services	201.6
	Sub-Acute Care Services	455.2
	Acute Training and Development	171.7
	Blood Service	41.3
Ambulance Services	Ambulance Emergency Services	251.1
	Ambulance Non-Emergency Services	31.9
	Ambulance Services Training and Development	2.0
	Basic Life Support	2.8
Mental Health	Clinical Inpatient Care	259.5
	Clinical Community Care	268.1
	Psychiatric Disability Support Services	57.6
	Mental Health Service System Capacity Development	31.2
Primary Health	Community Health Care	119.2
	School Nursing	13.1
	Primary Health Service System Development and Resourcing	20.4
Dental Health	Dental Services	76.6
	Dental Service System Development and Resourcing	12.2
Public Health	Communicable Disease Prevention and Control	86.7
	Non-Communicable Disease Prevention and Control	42.1
	Public Health Training	2.7
	Research and Ethics	17.6
	Health and Social Development	29.8
	Environmental Health and Safety	5.2
	Food Safety	3.0
	Koori Health and Multicultural Policy	3.8
Drug Services	Drug Prevention and Control	8.3
	Drug Treatment and Rehabilitation	75.6
	Drug Service System Development and Resourcing	14.7
Total		6,292.3

Source: Budget Paper No. 3, 2003-04 Budget Estimates, p.61-84

The 2003-04 budget also includes new capital funding for initiatives that will focus on the redevelopment, expansion and upgrade of rural health, radiotherapy services, medical equipment, youth mental health services and infrastructure initiatives for survivors of torture.

5.5.2 *Analysis of the portfolio budget*

The Committee's analysis of the 2003-04 budget allocation for the Health portfolio indicates a \$222.9 million or 3.7 per cent increase compared with the 2002-03 revised budget allocation. Some of the major initiatives for 2003-04 include:²⁰⁵

- \$9 million in 2003-04 (\$63 million over four years) for continued implementation of the Government's mental health strategy. Funding will be directed towards the expansion and improvement of mental health services including increased acute mental health beds, alternative forms of residential care and supported accommodation, and early intervention programs;
- \$6 million in 2003-04 (\$30 million over four years) for the upgrade and establishment of new ambulance services in metropolitan and rural Victoria;
- \$5 million in 2003-04 (\$20 million over four years) to reduce elective surgery waiting lists in rural and regional hospitals;
- \$2.5 million in 2003-04 (\$21 million over four years) to expand service provision in public dental health agencies across Victoria with a particular focus on vulnerable groups in the community and oral health in pre-schools;
- \$1.5 million in 2003-04 (\$10.5 million over four years) for the expansion of breast screening services to increase the number of women being screened by 96,000 over the next four years;
- \$32 million will be provided in 2003-04 to improve the financial sustainability of public hospitals; and
- \$83 million in 2003-04 (i.e. representing a \$279.4 million total estimated investment (TEI)) is provided for asset investment initiatives, including new biomedical equipment (\$22 million TEI), the Health Information and Communication Technology (ICT) strategy which will enhance ICT across the Victorian public health system (\$138.5 million TEI), upgrades to health service infrastructure (\$16 million TEI), new radiotherapy facilities for the

²⁰⁵ Budget Paper No.2, 2003-04 Budget Statement, pp.209-19

Monash Medical Centre (\$19 million TEI) and upgrades to the emergency department including expansion of facilities at the Werribee Mercy Hospital (\$10 million TEI).

5.5.3 *Key issues impacting on the portfolio*

The Department's response to the Committee's questionnaire and the estimates hearing with the Minister for Health identified the following key issues that will impact on the portfolio and the budget estimates for 2003-04:

(a) *Australian Health Care Agreement Funding and changes to Medicare*

The Australian Health Care Agreement is a major source of funding for Victoria's health system. The Minister advised the Committee that the new agreement is likely to result in a significant shortfall in growth funding for Victoria of up to \$350 million over the next five years.²⁰⁶

Over the life of the last agreement, the Commonwealth provided 28 per cent in growth funding to the States made up of three key components:²⁰⁷

- indexation which adjusts funding in line with rising costs;
- a 'utilisation' factor, which recognises that more people utilise the health system as a result of advances in technology including the availability of new procedures and services; and
- recognition of population growth and an ageing population.

The Minister advised the Committee that while the previous agreement provided 28 per cent in growth funding for the States, the current offer from the Commonwealth is expected to translate into a 17 per cent growth rate.²⁰⁸ This decrease is mainly due to proposed changes in the 'utilisation' factor of the growth formula which is set to decrease from 2.1 per cent in the previous agreement to 1.7 per cent under the new agreement.

²⁰⁶ Hon B. Pike, MP, Minister for Health, transcript of evidence 15 May 2003, p.102

²⁰⁷ *ibid.*

²⁰⁸ *ibid.*

The Minister indicated that this is likely to result in an overall shortfall of \$1 billion in growth funds for the States in real terms (up to \$350 million for Victoria over the next five years), which will place substantial additional pressure on the Victorian Government to meet the increasing demand for services.²⁰⁹

The Committee is aware that there is disagreement between the States and the Commonwealth Government concerning the nature and impact of the new Australian Health Care Agreement. Specifically, while the States argue that the new agreement will result in a shortfall of \$1 billion over the next five years, the Commonwealth points out that the offer of \$42 billion represents a \$10.2 billion or 17 per cent increase, over and above the rate of inflation, from the previous agreement. According to the Commonwealth, the new offer translates into a \$2.4 billion increase for Victoria up from the \$7.7 billion provided under the previous agreement to \$10.1 billion (assuming the Government matches the Commonwealth's funding growth).²¹⁰

According to the Minister, the major source of the demand pressure on Victorian public hospitals is the significant decline in bulk-billing rates from historical peak levels of around 80 per cent, to present levels which are currently below 70 per cent.²¹¹ While the Commonwealth argues that there is no evidence available to support States' claims that there is a relationship between GP services and pressures on emergency departments²¹², the Minister indicated there is a direct correlation between the observed decline in bulk-billing rates and the substantial increase in presentations to hospital emergency departments of category 4 and 5 patients (i.e. primary care type patients which in most instances can be treated by a GP) over recent years.²¹³

The Minister indicated that the tighter targeting of Medicare to concession card-holders will have a significant adverse impact on low-income families, most of whom are unable to afford private health insurance and which, in many instances, will be forced to avoid doctors who charge co-payments and seek free services elsewhere such as at public hospitals. The Minister advised the Committee that these issues

²⁰⁹ *ibid.*, pp.100-2

²¹⁰ Senator Hon Kay Patterson, Minister for Health and Ageing, media release, 31 July 2003

²¹¹ Hon B. Pike, MP, Minister for Health, transcript of evidence 15 May 2003, pp.103

²¹² Senator Hon Kay Patterson, Minister for Health and Ageing, media release, 20 February 2003

²¹³ Hon B. Pike, MP, Minister for Health, transcript of evidence 15 May 2003, p.103

will present significant challenges for the Victorian health system in future years, which highlights the importance of an effective and strategic response to the increased pressures faced by public hospitals and which represents the major focus of the Government's Hospital Demand Management Strategy.²¹⁴

(b) Victorian Public Hospital Demand Strategy

The Committee was advised by the Minister that the implementation of the Victorian Hospital Demand Management Strategy continues to be a key priority in the 2003-04 Budget.²¹⁵

Consistent with trends observed in previous years, the Minister advised that there is continuing pressure on the Victorian health system due to population growth and an ageing population, advances in technology which lead to increases in utilisation of health services, and external influences such as funding arrangements with the Commonwealth.

In Victoria, the cumulative effect of these influences has resulted in the need to expand capacity in order to accommodate approximately 35,000 additional patients each year to maintain existing access levels and quality standards. The Minister advised that although Victoria is committed to treating these additional patients, its capacity to do so is often influenced by factors beyond its immediate control. These factors include:²¹⁶

- a deficiency in Commonwealth funding that has resulted in a shortage of approximately 5,500 residential aged care beds placing additional pressure on the public hospital system;
- an inadequate number of trainee nursing places in Victoria, which affects the system's capacity to meet increasing demand (approximately 3,000 prospective trainees who were eligible for places last year, could not find places for division 1 nursing in Victoria);
- the expected decline of up to \$350 million in funding to Victoria over the next five years under the new Australian Health Care Agreement; and

²¹⁴ *ibid.*, p.101

²¹⁵ *ibid.*

²¹⁶ *ibid.*, pp.100-3

- the continuing decline in Medicare bulk-billing which is linked with increasing demand in hospital emergency departments.

The Minister advised that as a result of these factors, demand for Victorian public hospital emergency services over the last 5 years has increased, on average, by approximately 7.6 per cent. The Committee was interested to learn that this growth is substantially higher amongst category 4 and 5 patients at approximately 9 per cent overall, rising up to 30 per cent in specific areas where there is a particular shortage of GP's, or where there has been a much greater decline in the availability of bulk-billing services. The Minister informed the Committee that the Victorian Public Hospital Demand Management Strategy aims to address the ongoing growth in hospital emergency admissions as well as demand for elective surgery services.²¹⁷

The Hospital Demand Management Strategy has three major components which include:²¹⁸

- increasing hospital capacity to accommodate rising demand at emergency departments;
- the diversion of patients to more appropriate care settings thereby alleviating the pressure on acute care beds; and
- the Hospital Admissions Risk Program (HARP), which seeks to prevent unnecessary readmissions amongst individuals who are at risk of hospitalisation on a regular basis.

The Minister advised the Committee that since the commencement of the Hospital Demand Management Strategy in 2001-02, there have been substantial decreases in the number of ambulance bypasses and patients waiting for elective surgery.²¹⁹

With the exception of the winter period of 2002-03, where there was higher than expected levels of respiratory illness, the overall trend in ambulance bypasses continued downwards from a peak of 580 instances in the September 2002 quarter, to 113 instances in the March quarter 2003

²¹⁷ *ibid.*, pp.101, 106-7

²¹⁸ *ibid.*, p.100

²¹⁹ *ibid.*

representing an overall decrease of 86 per cent since the March 2001 quarter of 822 instances.²²⁰

Similar results are occurring in relation to the number of patients waiting for elective surgery. The numbers declined from a high of over 44,000 in 2001 to approximately 37,600 elective surgery patients in January 2003. Other observed improvements include a 5 per cent increase in the proportion of emergency patients admitted within 12 hours and a reduction in the waiting time for patients requiring residential care down from an average of 50 bed days to 40 bed days. The Minister attributes improvements in these important measures to the success of the Hospital Demand Management Strategy in reducing demand pressures on Victorian public hospitals.²²¹

The Government has allocated a further \$116 million in 2003-04 for the Hospital Demand Management Strategy. This funding will be directed towards increasing the capacity of hospitals to accommodate an additional 35,000 emergency patients. The strategy also contains initiatives to divert patients from emergency departments and acute beds to more appropriate forms of care. It is also designed to prevent unnecessary admissions through targeted disease management and increased primary care in the community.²²²

The Committee is aware of the considerable pressures on the health system and acknowledges that appropriate substitution and diversion strategies, as well as relevant proven models of care under HARP, will be critical factors in managing future growth in demand. The Committee believes it will be important to monitor the impact of the diversion and substitution strategies on other health and care agencies to ensure they are adequately resourced to meet future demand for services.

²²⁰ Minister for Health, presentation made at the estimates hearing, 15 May 2003

²²¹ Hon B. Pike, MP, Minister for Health, transcript of evidence, 15 May 2003, p.100

²²² Department of Human Services, 2003-04 Victorian Budget Fact Sheet, *Additional Funding for Victoria's Hospitals*

Recommendation 11:

The Department of Human Services monitor the funding requirements of relevant primary health care agencies to ensure that they are adequately resourced to accommodate the increased demand for services that are diverted from the acute health system.

(c) *Redevelopment of the Austin and Repatriation Medical Centre*

The Minister advised the Committee that the redevelopment of the Austin and Repatriation Medical Centre is the single largest hospital redevelopment project in Australia and represents one of the most significant projects undertaken by the Government.²²³

The Auditor-General's February 2003 *Report on Public Sector Agencies*²²⁴ indicated that when the redevelopment plans were initially approved in-principle by the Government in July 2000, it was expected that the project would cost approximately \$315 million to complete and be finalised by April 2005. The Auditor-General also found that there have been several cost escalations surrounding the project, resulting in a revised total estimated investment of \$376.3 million with a further potential cost of \$21.4 million in deferred refurbishment works. The Auditor-General noted that the revised final completion date for the project is now March 2006.²²⁵

The Auditor-General's February 2003 report found that delays surrounding the project were primarily due to a combination of factors including industrial relations issues, delays in the selection of contractors, the discovery of asbestos during demolition works and delays in the design program due to a need to identify cost savings and revise the initial schematic design. The Auditor-General found that increases in the overall cost of the project were also due to:²²⁶

- a three month delay in the anticipated initiation of the project costing approximately \$4.6 million;

²²³ Hon B. Pike, MP, Minister for Health, transcript of evidence, 15 May 2003, p.103

²²⁴ Victorian Auditor-General's Office, *Report on Public Sector Agencies*, February 2003, pp.103-4

²²⁵ *ibid.*, p.105

²²⁶ *ibid.*, p.103

- changes in employment conditions for construction industry workers resulting in a 15 per cent wage increase over three years and the phasing-in of a 36-hour working week (approximately \$6.1 million);
- abnormal escalation in market construction costs due to stronger demand in the construction industry and greater margin to cover the risk related to incomplete design documentation at the time the Total Construction Cost was agreed (approximately \$35 million);
- design requirements relating to the desired scope and functionality of the Mercy Hospital for Women (approximately \$6.7 million) as well as a change in scope to accommodate additional retail and cafeteria space (approximately \$1.7 million); and
- the allocation of project management costs to the project of \$5 million.

During the estimates hearing, the Minister confirmed that the Government has endorsed a revised project cost of \$376.3 million to complete the project.²²⁷ The Committee was subsequently advised by the Department that this reflects the revised Government contribution of \$352.6 million, non-government funding of \$22.9 million and departmental internal funding of \$0.8 million.²²⁸ Of the \$21.4 million identified by the Auditor-General as deferred refurbishment works, the Minister advised that only \$9.6 million in works would be deferred, whereas the remaining \$11.8 million were considered works that were beyond the scope of the original project.²²⁹

The Minister advised that while the Department continuously evaluates the scope of the project and considers all requests for additional works to be funded, the Government considers that the resources currently allocated to the project would meet the necessary requirements.²³⁰

Although the Committee recognises that often there are a range of complex issues which impact on the progress of major projects such as the redevelopment of the A&RMC, it is nevertheless concerned at both

²²⁷ Hon B. Pike, MP, Minister for Health, transcript of evidence, 15 May 2003, p.103

²²⁸ Department of Human Services, information supplied 3 September 2003, in response to the Committee's follow-up questions

²²⁹ Hon B. Pike, MP, Minister for Health, transcript of evidence 15 May 2003, p.103

²³⁰ *ibid.*, p.104

the extent of project delays and cost escalations surrounding the implementation of the project. The Committee understands that the 'Gateway' project, to be implemented by the Department of Treasury and Finance, will aim to address these issues and improve the management of capital works on a whole-of government basis.²³¹ Furthermore, the Committee also notes that while the Government has endorsed a revised project cost of \$376.3 million, there is no reference in either Budget Papers No.2 or No.3 to the allocation of additional capital funds for the project. The Committee was advised that details surrounding the revised budget for the project are to be published in the 2003-04 Budget Information Paper No.1 sometime in September 2003.

Recommendation 12:

The Department of Human Services, as a result of the experience gained from the redevelopment of the Austin and Repatriation Medical Centre and other similar capital projects, as well as insights gained from the whole of government Gateway initiative, review and refine its practices in relation to the development and management of capital works projects, in order to minimise future project delays and cost escalations.

(d) *Financial viability of public hospitals*

During the estimates hearing, the Minister acknowledged that a varying number of hospitals, from year to year, experience financial difficulties driven partly by rising costs and growth in hospital demand, as well as funding pressures exerted by arrangements under the Australian Health Care Agreement. The Minister advised that, each year, the Department works with such hospitals in order to assist them to trade out of and deal with those particular circumstances.²³²

The Minister informed the Committee that \$32 million has been allocated in the 2003-04 budget, based on work conducted by the Department's

²³¹ Treasurer's response, received 18 June 2003, response to the Committee's follow-up questions, Attachment 2

²³² Hon B. Pike, MP, Minister for Health, transcript of evidence, 15 May 2003, p.106

financial management review unit, to assist hospitals with rising costs and strengthen their financial sustainability.²³³

The Committee supports the Government's actions to assist individual hospitals experiencing financial difficulty. However, the Committee is concerned at the ongoing nature of financial difficulties being experienced by public hospitals and the potential adverse impact this may have on their service delivery capacity as well as patient quality of care.

The Auditor-General's *Report on Public Sector Agencies* examined the financial viability of public hospitals based on a review of results for the 2001-02 financial year.²³⁴

The Auditor-General's analysis showed that 9 hospitals in 2001-02 exhibited financial difficulty based on the criteria used by the Audit Office. While the Committee is aware that the Department disagrees with the methodology employed by the Auditor-General in reviewing the financial viability of public hospitals, it noted that the Department's response to the Auditor-General's Report showed that, based upon its own analysis, 14 hospitals were in deficit during 2001-02.

The Committee supports and reaffirms the Auditor-General's conclusion that 'it remains critical that the key issues affecting the likely financial performance of hospitals are identified as early as possible and strategies implemented, before they threaten the financial position of the hospital, impinge on quality of care provided to patients and translate into reduced service capacity'.²³⁵

²³³ *ibid.*

²³⁴ Victorian Auditor-General's Office, *Report on Public Sector Agencies*, February 2003, p.111

²³⁵ *ibid.*, p.118

Recommendation 13:

The Department of Human Services and the Department of Treasury and Finance undertake a review of the effectiveness of existing funding arrangements for hospitals, taking into account the Auditor-General's recommendations, and implement strategies that will improve both the short and long term financial viability of public hospitals.

(e) *Health Information and Communication Technology Strategy*

The Minister advised the Committee that the 2003-04 Budget provides \$18.5 million (\$138.5 million over four years) for the Health Information and Communication Technology (ICT) Strategy which will streamline and improve the interoperability of information technology systems across the health sector. The Committee was informed the strategy involves replacing aged and obsolete products with proven systems based on accepted interoperability standards covering hospital administration systems and clinical and electronic prescribing systems, which will promote linkages across the health system.²³⁶

The Minister advised the Committee many health services have outmoded, stand-alone information technology systems that lack the capacity to link with and communicate with other systems across the sector, and in some cases do not link or communicate with related systems within the same service. This situation creates significant problems for clients and agency staff including the unnecessary duplication of administrative activities, delays and frustrations for clients who need to re-supply personal and medical histories particularly when accessing multiple services, as well as the compounded effect of errors or problems of legibility associated with paper based systems as clients access different services within the broader health system.²³⁷

The strategy, whilst not replacing core systems within every public hospital, will provide a framework whereby all the different components of the health system will have the capacity to communicate electronically

²³⁶ Hon B. Pike, MP, Minister for Health, transcript of evidence, 15 May 2003, pp.111-2

²³⁷ *ibid.*

and share relevant client data within the context of privacy legislation.²³⁸ The Minister advised that the strategy will cover hospitals, community health centres, and dental health and mental health services across Victoria.

The Committee welcomes the implementation of the Government's Health ICT strategy. Given the scope of the project, it will be important that appropriate governance arrangements and monitoring mechanisms are in place to ensure that implementation proceeds in a co-ordinated and effective manner.

Recommendation 14:

The Department of Human Services ensure that:

- (a) appropriate governance arrangements are established for the Government's health ICT project with sector-wide representation to ensure that implementation proceeds in an efficient and co-ordinated manner; and**
- (b) appropriate performance measures and targets are established, which enable effective monitoring of project costs, timelines and implementation outcomes.**

(f) *Mental health initiatives*

Building on the foundation work undertaken by the previous Government through the development of the Mental Health Strategy, *New Directions for Mental Health Services – The Next Five Years*, the Minister advised the Committee that the Government has allocated a further \$63 million over the next four years, for the implementation of key priorities.²³⁹

The Minister indicated that the additional funds would be used across a range of areas to expand the accessibility of mental health services.²⁴⁰

²³⁸ *ibid.*

²³⁹ *ibid.*, pp.101, 119

²⁴⁰ *ibid.*

Specific initiatives include:²⁴¹

- adult and aged clinical services will be expanded in 2003-04 to strengthen the critical pressure points in the mental health system;
- additional intensive home based outreach support services for up to 50 homeless people with a serious mental illness to divert them from intensive clinical or residential services in the future;
- new aged disability support models will be piloted to improve the capacity to respond to the needs of people aged 65 years and over;
- age-specific clinical interventions during an emerging psychotic disorder to reduce the impact of that disorder and potential loss of life will be introduced;
- prevention programs for children and young people at risk of conduct disorder, including clinical services for those with established conduct disorder will be introduced;
- four additional dual diagnosis positions that will assist young people with serious mental illness and co-existing substance abuse problems; and
- establishing mental health consultation and liaison services for new mothers experiencing mental health problems in metropolitan hospitals providing obstetric care.

In addition, \$7 million in capital funds has been allocated to Mental Health Services for Kids and Youth (MHSKY), for stage 2 of its redevelopment which will facilitate the establishment of community based services for young people.²⁴²

The Committee welcomes these initiatives. However, it will be important to monitor the effectiveness of these initiatives for their impact on demand for services and outcomes achieved for clients.

²⁴¹ Department of Human Services, 2003-04 Victorian Budget Fact Sheet, *Expansion of Mental Health Services*

²⁴² Hon B. Pike, MP, Minister for Health, transcript of evidence, 15 May 2003, pp.119-20

Recommendation 15:

The Department of Human Services monitor and review the effectiveness of the new mental health initiatives through the development of appropriate performance measures and targets, and that these health initiatives provide an accurate indication of their impact on demand and client outcomes.

(g) Victoria's dental health waiting lists

The Committee has expressed concern in previous reports on the Budget Estimates that waiting times for restorative dental care and dentures have increased significantly in certain parts of Victoria in recent years. The Committee noted that a media article, dated April 2003, highlighted that waiting times for dental care had reached approximately 49 months in Warnambool and Portland, 36 months in Ballarat, 41 months in Eltham and 36 months in Footscray.²⁴³

It was therefore with some interest that the Committee learnt from the 2003-04 Budget Papers that the expected outcome for restorative dental care in 2002-03 across Victoria was a waiting time of 24 months in comparison with a target of 22 months. Similarly, the Committee also noted that the expected outcome for dentures in 2002-03 was 28 months in comparison with a target of 24 months. The Committee sought clarification about these matters at the estimates hearing. The Minister acknowledged that demand for public dental health services remains high and that waiting times have continued to grow as a result of the decision by the Commonwealth Government to discontinue funding for the public dental program.²⁴⁴ The Committee understands that the Commonwealth Dental Health Program ceased in 1997. Since then, there has been considerable ongoing debate between the States and the Commonwealth in relation to the exact nature of Commonwealth/State responsibilities for the funding of dental health initiatives.

The Minister pointed out that while waiting lists have continued to grow, the rate of growth has steadied partly due to the additional \$34.9 million

²⁴³ Noble, T. 'Public dental waiting lists leap more than 50%', *The Age newspaper*, 26 April, 2003, p.5

²⁴⁴ Hon B. Pike, MP, Minister for Health, transcript of evidence, 15 May 2003, p.122

in funding which the Victorian Government had invested in the public dental service between 1999 and 2003.²⁴⁵

The Minister informed the Committee that in the 2003-04 budget, the Government has allocated \$21 million over 4 years to improve public dental services in Victoria.²⁴⁶ The Committee noted that key initiatives to be funded in 2003-04 include:²⁴⁷

- \$400,000 in funding for the training of additional dental therapists;
- \$700,000 for additional dental chairs in Wyndham, Omeo and PANCH Health Service;
- \$300,000 for promoting oral health in schools;
- \$400,000 for a workforce initiative to determine if an expanded role for dental auxiliaries will be cost effective and assist in overcoming workforce shortages; and
- \$700,000 to increase funding to the Victorian Denture Scheme to maintain parity with Commonwealth rates and ensure continued access for public dental clients.

While the Committee acknowledges the initiatives undertaken by the Government, it does not appear that they will have a major impact on substantially reducing current waiting lists. Furthermore, the Committee is concerned at the protracted nature of the debate between the States and the Commonwealth on this issue and that a resolution on this matter appears unlikely in the near future.

Accordingly, the Committee reiterates its 2001-02 recommendation that:

²⁴⁵ *ibid.*

²⁴⁶ *ibid.*, p.101

²⁴⁷ Department of Human Services, 2003-04 Victorian Budget Fact Sheet, *Expansion of Public Dental Services*

Recommendation 16:

- (a) The Government have urgent discussions with the Commonwealth Government in relation to funding for public dental care; and**
- (b) The Department of Human Services develop an action plan aimed at reducing the substantial waiting lists for restorative dental care and for the provision of dentures.**

5.6 Community Services portfolio

The Minister for Community Services has sole responsibility for six output groups within the Department. Exhibit 5.5 provides details of these output groups and indicates that the output groups account for approximately \$1,741.9 million or 19.2 per cent of the Department's 2003-04 budget of \$9,057.9 million.

Exhibit 5.5:

**Community Services Portfolio
Output Costs**

Output Group	Outputs under the responsibility of the Minister for Community Services	2003-04 Output Cost (\$ million)
Disability Services	Intake Assessment	15.9
	Planning and Co-ordination	23.8
	Primary Support	79.3
	Community Participation and Inclusion	159.8
	Individual Support	94.8
	Shared Supported Accommodation	359.5
	Specialist Services	13.7
	Congregate Care	82.0
	Quality	10.3
	Information and Advocacy Services	5.3
Child Protection and Placement	Statutory Child Protection Services	111.0
	Child Protection Specialists Services	27.3
	Placement and Support Services	131.5
Juvenile Justice Services	Juvenile Justice Custodial Services	47.3
	Juvenile Justice Community Based Services	18.8
Early Childhood Services	Maternal and Child Health Services	25.0
	Pre-school and Child Care Services	117.8
	Early Childhood Intervention Services	41.8
Family and Community Support	Support Services for Families	49.2
	Community Support Services	26.8
	Personal Support Services	15.3
Concessions to Pensioners and Beneficiaries	Energy Concessions	89.7
	Water and Sewerage Concessions	67.6
	Municipal Rates Concessions	54.7
	Trustee Services	6.7
	(Funding for rural and metropolitan transport concessions transferred to the Department of Infrastructure)	67.0
Total		1,741.9

Source: Budget Paper No.3, 2003-04 Budget Estimates, pp.85–99

5.6.1 2003-04 outlook for the portfolio

The Committee was advised that some of the key priorities for the Community Services portfolio in 2003-04 include:²⁴⁸

²⁴⁸ Budget Paper No.3, 2003-04 Budget Estimates, p.57

- addressing underlying and emerging demand pressures in disability services;
- strengthening the relationship with funded agencies through a partnership approach to the provision and development of services;
- developing a Youth Homelessness Action Plan, and expanding homelessness services for families and young people;
- redeveloping ageing and outdated buildings and facilities to meet community expectations including progression of works related to the Kew Residential Services redevelopment; and
- improving the delivery of children's services.

5.6.2 *Analysis of the portfolio budget*

The Committee's analysis of the 2003-04 Budget Papers shows that the funding allocation for the Community Services portfolio has increased by \$68.2 million or 4.1 per cent compared with the 2002-03 revised budget allocation. Some of the key initiatives to be funded in 2003-04 include:²⁴⁹

- expanding the HomeFirst program to improve the quality of life for people with a disability (\$4.8 million in 2003-04);
- the Kew Residential Services redevelopment including the relocation of 60 residents;
- planning the future needs of disability services (\$3.35 million in 2003-04);
- increasing foster care payments (\$4 million in 2003-04); and
- additional funding (\$1.5 million in 2003-04) for Early Childhood Intervention Services assisting children with autism, speech impediments and behavioural problems.

5.6.3 *Key issues impacting on the portfolio*

The Department's response to the Committee's questionnaire and the estimates hearing with the Minister for Community Services identified

²⁴⁹ Budget Paper No.2, 2003-04 Budget Statement, pp.209-19

the following key issues that will have an impact on the portfolio and the budget estimates for 2003-04:

(a) *Disability Services*

(i) *Re-orienting the Disability Support System*

The Minister informed the Committee that funding provided in the 2003-04 budget will focus on re-orienting the disability support system towards a more sustainable mix of formal and informal services in accordance with the State Disability Plan launched by the Government in September 2002.²⁵⁰ The Minister indicated that the State Disability Plan established a long term vision for disability support services in Victoria and that these goals will guide the work of the Department over the next decade.²⁵¹

Responding to the rising growth in service need and demand, represents the major challenge for the Government in terms of the future design and provision of disability services. The Minister advised that this was primarily due to the ageing of the Australian population, pointing to a rapid growth in the number of people in Australia with a severe and profound disability, which more than doubled in the seventeen-year period between 1981 and 1998.²⁵² The Minister advised that this growth has resulted in an upward trend in demand for services in Victoria, a situation which is further exacerbated by the fact that carers, who are also ageing, are unable to continue with the same level of care.²⁵³

The Minister advised that other factors contributing to the observed growth in service needs include the cohort effect,²⁵⁴ which indicated that young people who access services early in their life are more likely to remain in need of services right throughout their life.²⁵⁵ A further factor impacting on the demand for services is the complexity of client needs. Service providers have suggested that clients are seeking assistance with more complex needs and challenging behaviours that result in increased requirements for support.

²⁵⁰ Hon S. Garbutt, MP, Minister for Community Services, transcript of evidence, 29 May 2003, p.381

²⁵¹ *ibid.*

²⁵² *ibid.*, p.382

²⁵³ *ibid.*

²⁵⁴ *ibid.*

²⁵⁵ *ibid.*

The Minister advised that the 2003-04 Budget provides funding for a range of initiatives that will centre on moving towards more flexible, individualised support services as well as on greater investment in early intervention strategies.²⁵⁶

These initiatives include:²⁵⁷

- \$4.8 million in 2003-04 for the expansion of the HomeFirst program. Take up of the HomeFirst package is expected to create additional capacity for shared supported accommodation for those individuals with disabilities more appropriate to institutional care. The Committee was advised that 100 individuals will receive housing and living support in 2003-04, increasing to 200 in 2004-05;²⁵⁸
- \$3.4 million in 2003-04 to facilitate better planning for the future provision of disability services through improved co-ordination, case management and early intervention and prevention strategies that will lead to better targeted responses to meet client needs;
- a further \$1 million will be provided in 2003-04 to the Making a Difference Program to provide an extra 200 families with flexible, intensive in-home support and respite services that will improve opportunities for early intervention and prevention strategies;
- additional funds of \$1.5 million in 2003-04 will be provided for the Introducing Older Years and Carer Support Program to provide individual support assistance to an extra 300 ageing carers of people with a disability and help people continue living in the community;
- \$200,000 will be allocated for demonstration projects leading to the expansion of the RuralAccess Program to metropolitan Melbourne that will create a co-ordinated, area based approach to targeting people with a disability; and
- an additional \$2 million will be allocated in 2003-04 for the progression of the Kew Residential Services redevelopment works, including the relocation of an additional 60 residents to community

²⁵⁶ *ibid.*

²⁵⁷ *ibid.*, pp.382-3

²⁵⁸ *ibid.*

residential units, which aims to reduce inequalities in health and wellbeing and generally improve the quality of life of residents through better integration into the broader community.

The Minister also advised that in response to workforce shortages and demand for skilled disability workers, an issue noted by the Committee in previous years, the Government had introduced traineeships in 2002 which, to date, have resulted in 920 unqualified disability development support officers enrolled in the traineeship program to achieve the minimum Certificate IV in Disability Work. The Committee is pleased that this will increase the proportion of staff qualified to certificate IV level from 61 per cent to 79 per cent.²⁵⁹

The Committee noted that these initiatives are designed to enable the Government to deliver a more sustainable mix of services within the context of the growing demand pressures outlined above, by shifting the focus away from institutional care towards more flexible, tailored services such as HomeFirst that will permit individuals currently residing in supported accommodation, to move to more flexible in-home support options if they so desire.²⁶⁰ The Minister indicated that this approach will result in better targeting of services to individuals with support needs, by ensuring that access to shared supported accommodation services (in community residential units) is maximised for those individuals for which this type of care is most appropriate.²⁶¹

The Committee sought information from the Minister on the current status of the Service Needs Register for persons seeking shared supported accommodation and access to HomeFirst services. Exhibit 5.6, compares statistics provided by the Minister relating to individuals whose service needs have been classified as 'urgent' (as at 31 December 2002), to the same statistics provided to the Committee at the previous 2002-03 estimates hearing.

²⁵⁹ Minister for Community Services' response, received 21 July 2003, to the Committee's follow-up questions, p.10

²⁶⁰ Hon S. Garbutt, MP, Minister for Community Services, transcript of evidence, 29 May 2003, p.383

²⁶¹ *ibid.*

Exhibit 5.6:

**Requests for Assistance Recorded on the Service Needs Register
that have been Classified as Urgent (i.e. Immediate Attention is Required)
as at 31 December 2002**

Service Type	Apr 2002^(a)	Dec 2002^(b)
Shared Supported Accommodation	997	1,068
HomeFirst	666	767

Source: (a) Hon. B. Pike, MP, (former) Minister for Community Services' response, received 22 August 2002, to the Committee's follow-up questions, p.1

(b) Hon. S. Garbutt, MP, Minister for Community Services' response, received 21 July 2003, to the Committee's follow-up questions, p.10

Exhibit 5.6 shows that since April 2002, there has been a net increase of 71 persons in urgent need of Shared Supported Accommodation Services as well as an increase of 101 persons waiting for HomeFirst services classified as urgent. As noted by the Committee in its previous report on the 2002-03 Budget Estimates, it is apparent that the waiting list on the Service Needs Register is continuing to become longer despite the increase in places in recent years available to persons classified as in need of immediate attention.

The Committee welcomes the Government's efforts to implement innovative, flexible and individualised strategies to expand support services for people with a disability and their families. It is also encouraged by the actions undertaken by the Department to improve the quality of training and enhance the skill base of its disability workforce. However, the Committee is concerned that the unmet demand for services continues to rise despite ongoing budget increases for Victorian Disability Services. The Committee was advised that future growth in waiting lists is considered difficult to predict due to a range of complex interacting factors such as the emerging incidence of intellectual disability, progress in medical technology and population ageing, including the ageing of the carer population.

Accordingly, the Committee reiterates its 2002-03 recommendation that:

Recommendation 17:

The Department of Human Services ensure that the strategies being developed to meet increasing demands for disability services do not affect the wellbeing of persons with a disability in urgent need of appropriate care.

(ii) *Occupational Health and Safety Issues for Disability Workers*

The Committee was informed that a significant proportion of WorkCover claims within the Department have been due to occupational health and safety issues related to the working conditions of disability workers. Specifically, manual handling and occupational assault have been identified by the Victorian WorkCover Authority as the most pressing concerns for disability workers.²⁶²

The Minister advised that the Government has acknowledged the concerns raised by the Authority and the Department has implemented a number of measures to address these issues. Key initiatives implemented by the Department include:²⁶³

- implementation of the major injury management project Safer Staff, Better Services, which has been designed to improve the practices and performance in occupational health and safety across the Department;
- a review of community residential units (CRUs) and the implementation of safer client transfer practices in high risk units and in training centres; and
- the development of an injury reduction strategy in high risk CRUs that informs staff how to prevent, handle and manage situations which lead to assault of staff by clients with complex behaviours.

The Committee welcomes the Department's actions to address these issues. The Committee considers it critical that the Department closely monitor and evaluate the implementation of its initiatives to ensure that

²⁶² *ibid.*, pp.386-7

²⁶³ *ibid.*

the strategies have maximum impact and that the incidence of occupational health and safety issues is minimised.

Recommendation 18:

The Department of Human Services closely monitor the effectiveness of the initiatives implemented to address the occupational health and safety concerns of disability workers and report on these matters in the Department's annual report.

(iii) Commonwealth-State-Territory Disability Agreement (CSTDA)

The Commonwealth-State-Territory Disability Agreement (CSTDA) represents a major source of funding for Victoria's disability support system. The Minister advised that negotiations for the new agreement have been completed and that it was progressing through its final formal stages of ratification with the Commonwealth Government.²⁶⁴

The Committee was informed that on final ratification of the agreement by the Commonwealth, the new five year CSTDA will provide approximately \$640 million in funding over five years, representing almost a 50 per cent increase in comparison to the previous agreement.²⁶⁵

Other key features of the agreement include an extra \$8.6 million to Victoria in growth funding over five years as well as an increase in the indexation applied to amounts provided by the Commonwealth for compulsory employer superannuation contributions, up from 1.6 per cent in the previous agreement to an average of 2.3 per cent under the new agreement. The Department advised that the bulk of the funding provided by the Commonwealth Government will be directed to purposes set out within the terms of the agreement, which according to the Minister, was consistent with the vision and priorities of the State Disability Plan.²⁶⁶

²⁶⁴ *ibid.*, p.388

²⁶⁵ *ibid.*

²⁶⁶ *ibid.*

(b) Community care services

The broader category of community care services encompasses the four key output groups of Family and Community Support Services, Early Childhood Services, Child Protection and Placement Services as well as Juvenile Justice Services. The Committee noted that the overall 2003-04 budget allocation of \$611.8 million across these output groups represents a \$35.6 million, or 6.2 per cent, increase compared with 2002-03. The Minister highlighted Early Childhood Services and Child Protection and Placement Services as two areas which have received significant growth in funding since 2002-03, increasing by 10 per cent and 6.2 per cent respectively.²⁶⁷

(i) Child protection and placement

The 2003-04 Budget provides additional funds of \$44 million over four years to improve child protection services and the level of support provided to foster, kinship and permanent carers. The Minister advised the Committee that the Government's initiatives reflect its priority to rebalance the service system by investing more heavily in prevention and early intervention in order to protect the wellbeing of children and improve associated family support services.²⁶⁸

The Committee noted that a key component of the Government's early intervention and prevention strategy revolves around the Family Support Innovation Projects initiative, which aims to divert a significant number of families, who are referred to child protection services, into community based services. Building on the \$3.8 million provided in 2002-03 for eight projects, the Department advised that the 2003-04 budget provides a further \$1.3 million for the establishment of four additional projects, two of which are focused on indigenous families in Darebin and La Trobe, locations identified by high notification rates.²⁶⁹

A key feature of these projects is the long term nature of support provided to families with complex needs, experiencing multiple re-notifications and possessing long term issues, which may be inadequately addressed currently because individual notifications are investigated as single occurrences and short term support is put in place.

²⁶⁷ *ibid.*, p.393

²⁶⁸ *ibid.*, p.394

²⁶⁹ Department of Human Services' response, received 3 September 2003, to the Committee's follow-up questions

Accordingly, as a result of the collaborative effort between local government, welfare agencies and police, the Minister expects that implementation of these projects will result in a reduction in the level of re-notifications amongst affected families due to the availability of additional preventative support services.²⁷⁰

The Department advised that the eight projects funded in 2002-03 were established in Ballarat, Central Goldfields, East Gippsland, Frankston, Geelong and Shepparton, with two indigenous projects in East Gippsland and Greater Shepparton. According to the Department, some of the projects have already shown promising early signs of reducing the number of notifications in their local areas, with preliminary evidence based on six project sites indicating that notifications have declined by approximately 7 per cent overall in the first half of 2003.²⁷¹

The Minister advised the Committee that one of the major challenges facing foster carers is the rising number of children with very complex needs and challenging behaviours as a consequence of suffering severe abuse and neglect. The Minister acknowledged that the complexity of issues surrounding such children often makes it difficult for the ordinary foster family to deal with. In an effort to address this issue, the Government will implement a \$20 million four year program known as *Take-Two*, that will deliver, in partnership with the Austin Child Adolescent and Mental Health Service, Berry Street Victoria, La Trobe University and Victorian Child Psychiatry Training Department, training and professional education services to the welfare sector.²⁷²

The project will also establish 36 positions across the State encompassing a variety of specialists resulting in a multidisciplinary approach that will assist approximately 700 children per year. The emphasis will be on providing intensive support to affected children that will aim to address the underlying issues and problem behaviours such as instability in relationships, alcohol and drug abuse, dropping out of school and placement breakdowns.²⁷³ The Minister advised that insights from research to be undertaken as part of the project will inform the development of future policy initiatives by the Department as well as

²⁷⁰ Hon S. Garbutt, MP, Minister for Community Services, transcript of evidence, 29 May 2003, p.396

²⁷¹ Department of Human Services' response, received 3 September 2003, to the Committee's follow-up questions

²⁷² Hon S. Garbutt, MP, Minister for Community Services, transcript of evidence, 29 May 2003, p.398

²⁷³ *ibid.*

future training and education programs for relevant welfare sector staff.²⁷⁴

The Committee welcomes the Government's efforts to strengthen early intervention and prevention programs. However, it will be important for the Department to closely monitor and evaluate the effectiveness and impact of these initiatives on meeting legislative requirements, as well as re-notification rates to child protection services.

Kinship, foster and permanent care represent the preferred placement options for children removed from parental care. The lack of availability of these options can result in the placing of children in alternative care settings which may not be suited to their particular needs. The Committee, through its follow up inquiry into the Auditor-General's 1996 Report, *Protecting Victoria's Children – The Role of the Department of Human Services*, observed that:²⁷⁵

- non-government organisations consider foster placements as the most therapeutic environment that abused children will be offered in the current child protection system; and
- that the Department should consider expanding the service as a preventative early intervention measure.

In view of the Committee's long term interest in these matters, we were pleased that the 2003-04 budget provides for an additional 200 kinship and permanent care placements throughout Victoria,²⁷⁶ as well as an additional \$16 million over four years to increase payments to foster carers that will, on average, raise the proportionate cost of caring covered by the Government from 50 to 70 per cent.²⁷⁷

The Committee welcomes the Government's commitments to expand the number of kinship and permanent care placements and also to increase the level of financial support provided to carers. The Committee expects that these initiatives, including the *Take-Two* program, will have a positive impact on strengthening the broader home based care system and assist with reducing the incidence of placement breakdowns.

²⁷⁴ *ibid.*

²⁷⁵ Public Accounts and Estimates Committee, *Report on the Review of the Auditor-General's Special Report No. 43 – Protecting Victoria's Children: The Role of the Department of Human Services*, p.13

²⁷⁶ Hon S. Garbutt, MP, Minister for Community Services, transcript of evidence, 29 May 2003, pp.393-4

²⁷⁷ *ibid.*, p.402

However, as stated earlier, the Committee believes that it will be important for the Department to closely monitor and evaluate the effectiveness of implemented initiatives so as to adequately examine and review their impact.

Recommendation 19:

The Department of Human Services undertake a study to examine the effectiveness of Take-Two program on easing pressure on existing kinship and permanent care placements.

(ii) Deaths of Children Under Protection

The Department has a publicly accountable child death inquiry process which reviews the deaths of children and young people known to the child protection and juvenile justice systems. The Inquiry process aims to gather knowledge about child deaths that can be used to improve services. The Victorian Child Death Review Committee (VCDRC) was established as a Ministerial Advisory Committee in 1995 to provide an additional layer of accountability concerning the deaths of children and young people associated with the child protection system. The VCDRC provides a multi-disciplinary focus on child deaths to identify ways in which preventative and early intervention practices can improve the health and welfare of children and families at risk. It also provides advice and comment on practice issues or themes that may emerge from the child death inquiry process.²⁷⁸

The Committee was concerned to learn from the 2003 VCDRC annual report that between January and December 2002, there were 32 deaths of children and young people known to child protection services. Of the children who died:²⁷⁹

- more than a third (41 per cent) were infants under six months old;
- 16 per cent were between the ages of 6 months and 2 years;
- 19 per cent were between the ages of 2 and 5 years;

²⁷⁸ VCDRC, *Annual Report of Inquiries into Child Deaths: Child Protection 2003*, p.3

²⁷⁹ *ibid.*, pp.14-5

- 6 per cent between the ages of 5 and 12 years; and
- a further 19 per cent between the ages of 13 and 18 years.

The overall number of deaths in 2002 is more than double the figure observed in the previous year (12 deaths), as well as the highest on record since 1996. Moreover, the observed proportion of infant deaths in 2002 (i.e. 41 per cent), was higher than the cumulative rate of infant deaths from 1996-2002, which was 31 per cent.²⁸⁰

The Child Death Inquiry Unit categorises the cause of death on the basis of information known to the Child Protection Service, such as client files, autopsy reports, forensic reports and coronial findings. The Committee noted that information on the categories of death provided by the VCDRC were indicative only as the figures may alter subject to the provision of additional information.

The categories of death were:

- not known (34 per cent);
- accidental (22 per cent);
- SIDS (22 per cent);
- acquired illness (16 per cent);
- non-accidental trauma (3 per cent); and
- drug/substance related (3 per cent).

The Committee noted that the VCDRC found that no aspect of practice or service design could be causally linked to a child's death, however, the Child Death Inquiry reports reflected a child protection system that was challenged by a high volume of notifications regarding children whose families have increasingly complex needs.

During the Committee's recent Inquiry into child protection, it undertook a review of the VCDRC's 1999, 2000 and 2001 annual reports and found that they lacked sufficient detail to permit an adequate understanding of the factors contributing to the deaths of children who were connected with protective services. While the Committee is pleased to note that

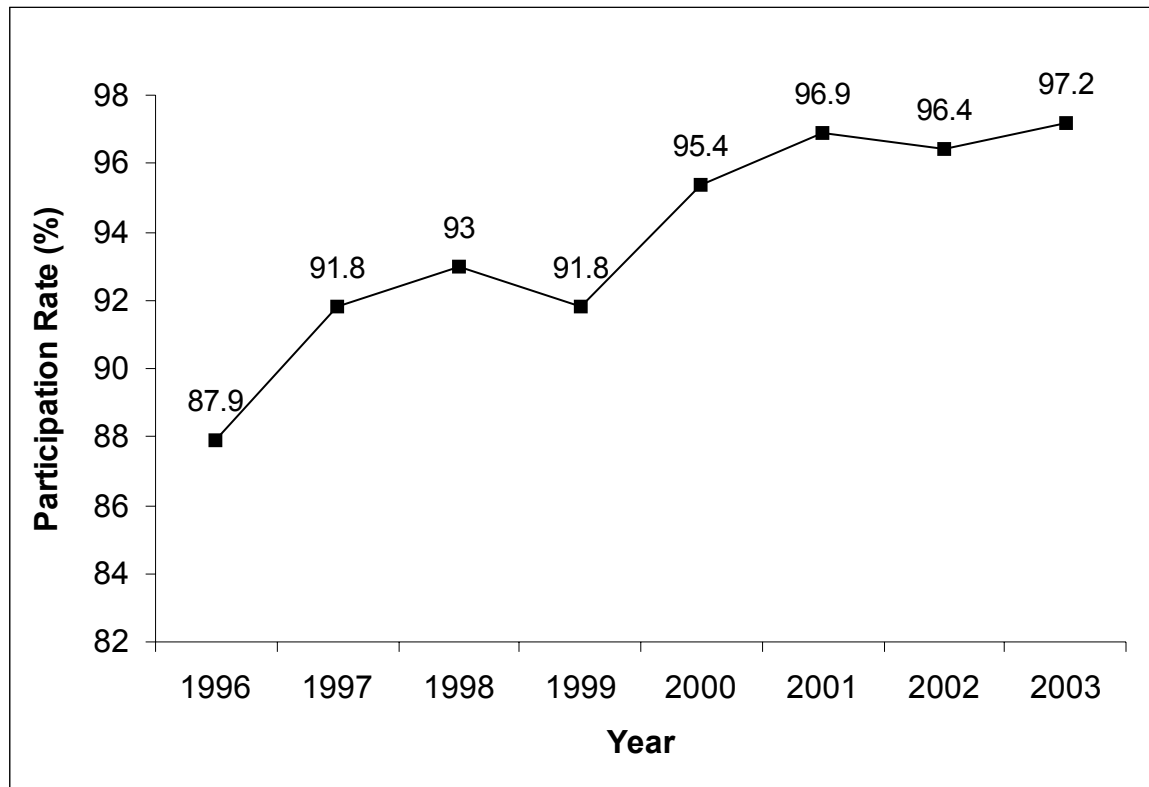
²⁸⁰ *ibid.*, p.xiii

there have been substantial improvements in the quality and detail of information provided in the VCDRC's annual report, it is also very concerned at the sharp increase in child deaths during 2002.

The Committee considers the Government's budget priorities which focus on early intervention, and prevention as well as on strengthening family and community support services, as appropriate measures. The Committee trusts that these initiatives will have a positive impact on minimising the number of deaths of children and young adults known to the child protection system. The Committee will monitor developments and will review the effectiveness of the Government's new initiatives in this area at the next estimates hearings.

(iii) *Pre-schools*

The Committee noted that there has been a significant improvement in the pre-school participation rate amongst eligible four year old children over the last seven years. As shown in Exhibit 5.7, the pre-school participation rate has increased by almost 10 per cent since 1996 from a low of 87.9 per cent to 97.2 per cent in 2003.

Exhibit 5.7:**Percentage of all Four Year Old Children Enrolled in pre-schools, Victoria
1996-2003**

Source: Presentation by the Minister for Community Services at the estimates hearing on 29 May 2003

The Minister informed the Committee that the improvement in the participation rate has resulted from the approximately \$97 million which the Government had invested in pre-schools. A major initiative has been to ease the financial burden on pre-school parents through providing additional support for the pre-school subsidy. Specific actions implemented include an overall increase in the subsidy for all children of \$65 per child, rising to \$150 for low-income families who have the lowest levels of participation. Another major initiative being implemented includes the provision of a 20 per cent salary increase to pre-school teachers aimed at retaining and attracting quality pre-school teachers and addressing the impact of funding cuts noted by the Committee in previous years. The Committee observed that the 2003-04 budget provides additional funding for a number of new pre-school related initiatives including:²⁸¹

²⁸¹ Department of Human Services, 2003-04 Victorian Budget Fact Sheet, *Budget Highlights for Children First Initiatives*, and *Pre-school Services in Victoria*.

- \$5 million in 2003-04 for the provision of computers and information technology in pre-schools;
- \$8 million over three years to establish new pre-schools in growth suburbs with an emphasis on linking them with extended childcare;
- \$8 million over three years for grants to integrate pre-school and childcare resources into a single network of programs and specialist services such as speech therapy, nutritional advice and psychological therapy;
- \$250,000 in 2003-04 for the group employment model, which is designed to improve the management and infrastructure of the pre-school program and reduce the workload and responsibilities of volunteer management committees;
- \$250,000 in 2003-04 for enhanced advisory support which aims to improve the quality of programs provided to pre-school children; and
- \$500,000 in 2003-04 for professional development and training initiatives to increase the knowledge, skills and capacity of pre-school staff.

The Committee believes that pre-school education provides an important foundation for the development of children and acknowledges the Government's achievement in substantially increasing the pre-school participation rate. The Committee also supports the Government's new initiatives which should improve the Victorian pre-school system.

(iv) *Best Start*

Best Start is a prevention and early intervention project that aims to improve the health, development, learning and wellbeing of all Victorian children from pregnancy through transition to school (usually taken to be eight years of age). Best Start supports communities, parents and service providers to improve universal early years services so that they are more responsive to local need.²⁸²

²⁸² Department of Human Services, *Best Start Program Overview*, 2002, p.1

The Committee noted that Best Start, which is a whole of government initiative, is based on the principles of reducing disadvantage (from any cause) and enhancing the life chances of all children. Best Start aims to achieve this by strengthening the universal, preventative system through the development of collaborative partnerships between Departments, the three tiers of government, parents and local communities to encourage innovation in the development of early childhood support services.²⁸³

The Minister informed the Committee that the improvement in the preschool participation rate is illustrated in Exhibit 5.7 above. The Committee noted that Best Start is being implemented through eleven demonstration projects throughout Victoria.

5.7 Aged Care portfolio

5.7.1 2003-04 outlook for the portfolio

Funding initiatives for aged care in the 2003-04 Budget, aim to improve the quality of care for older people in rural and metropolitan areas. The Aged Care output group's budget of \$717.4 million represents an increase of \$34.3 million or 5 per cent compared with the 2002-03 revised budget allocation.

Major initiatives to be undertaken by the Department of Human Services in 2003-04 include:²⁸⁴

- \$12 million (\$69 million over 4 years) in 2003-04 to expand the Home and Community Care Program;
- \$4.5 million (\$25.5 million over 3 years) in 2003-04 has been allocated to continue the Government's program of upgrading residential aged care facilities across rural and regional Victoria;
- \$300,000 (\$2.1 million over 4 years) in 2003-04 has been provided to expand the range of sport, recreation and leisure activities available to senior Victorians; and
- \$2 million in 2003-04 has been allocated as part of the Hospital Demand Management Strategy for programs assisting older people

²⁸³ *ibid.*, p.2

²⁸⁴ Budget Paper No.2, 2003-04 Budget Statement, pp.209-19

to retain independence and remain living for longer within their own communities.

5.7.2 Analysis of the portfolio budget

The Minister for Aged Care has sole responsibility for the Aged and Home Care output group which accounts for \$717.4 million or 7.9 per cent of the total 2003-04 departmental budget of \$9,057.9 million. Exhibit 5.8 outlines the details of outputs within the output group, together with associated costs for 2003-04.

Exhibit 5.8:

Aged Care portfolio Output Costs

Output Group	Outputs under the responsibility of the Minister for Aged Care	2003-04 Output Cost (\$ million)
Aged and Home Care	Positive Ageing	4.2
	Aged Care Assessment	25.6
	Aged Support Services	57.0
	Aged Residential Care	250.6
	Aged Care Service System Development and Resourcing	7.0
	HACC Primary Health, Community Care and Support	352.6
	HACC Service System Development and Resourcing	20.4
Total		717.4

Source: Budget Paper No. 3, 2003-04 Budget Estimates, pp.70-2

5.7.3 Key issues impacting on the portfolio

(a) Commonwealth aged care funding

The Minister advised that structural inequities inherent in the Commonwealth funding formula for residential aged care, continues to be one of the most significant challenges facing the Government as it strives to deliver aged care services that meet the needs of senior Victorians.²⁸⁵

The Committee noted that while the Victorian population will grow by approximately 16 per cent by 2021, the growth rate amongst senior

²⁸⁵ Hon G. Jennings, MLC, Minister for Aged Care, transcript of evidence, 19 June 2003, pp.569-70

Victorians will far exceed that average resulting in the ageing of Victoria's population and a substantial increase in demand for aged care services. The Minister advised that by the year 2021:²⁸⁶

- the number of Victorians over the age of 65 years will increase by approximately 62 per cent; whereas
- the number of Victorians over the age of 85 years will increase by a significant 71 per cent.

To highlight the potential impact of population ageing on the demand for aged care services and the broader health care system, the Minister pointed out that people over the age of 65 years currently consume approximately 48 per cent of patient days in hospitals, 24 per cent of Medicare services and 40 per cent of pharmaceuticals across the nation.²⁸⁷ The Minister informed the Committee that the aged care system in Victoria remains substantially under-funded by the Commonwealth Government, placing significant additional funding pressure on Victoria as it attempts to address resulting systemic shortages.

To illustrate the current pressures inherent in the Victorian aged care system, the Minister drew the Committee's attention to the following issues:

- Victoria is currently 4,275 beds short of the Commonwealth's benchmark of 90 residential beds per thousand people aged over 70 years;²⁸⁸
- Victoria had the lowest number of operational Commonwealth aged care beds in 2002 per thousand persons aged 70 plus;²⁸⁹
- funding per capita for residential and community care in 2001-02 was \$2,745, or approximately \$362 below the national average of \$2,838;²⁹⁰ and
- Victoria received the second lowest amount of funding per capita for residential and community care (\$2,745), slightly ahead of the

²⁸⁶ *ibid.*

²⁸⁷ *ibid.*

²⁸⁸ *ibid.*

²⁸⁹ Productivity Commission, 2003, *Report on Government Services*, 12A Aged Services Attachment, Table 12A.10

²⁹⁰ *ibid.*, Table 12A.50 & Table 12A.52

Northern Territory (\$2,637) but lower than all other states including New South Wales (\$2,841) and Queensland (\$2,882).²⁹¹

The Minister informed the Committee that the shortfall in residential care places exerts additional pressure on hospitals and home and community care (HACC) services as a result of the need for additional HACC support in the community and greater demand for acute care beds. The Minister stated that during the period March 2001 to March 2003, the number of people in hospitals waiting for a residential aged care bed increased by approximately 23.5 per cent.²⁹²

The Minister advised the Committee that of the \$250 million in output funding administered by the Government for aged residential care, \$114.5 million comes from the Commonwealth, \$37.3 million comes from fees that are paid by residents, and the balance of \$98.8 million comes from the State Government. According to the Minister, Victoria's contribution is way beyond that of any other State in Australia in terms of ongoing commitment to residential aged care.²⁹³

Over the last five years, the Committee noted that the Commonwealth Government has allocated approximately 13,000 new aged care licences to Victoria, which carry a corresponding funding commitment representing a potential increase in places of 35 per cent over the same period.²⁹⁴ However, the Minister pointed out that the Commonwealth's issuing of licences, per se, is not analogous to the creation of new aged residential care places, and instead represents only an offer to fund a place assuming that an organisation has the capacity and capital funding necessary to convert the offer into an operational bed.

The Committee noted that each year the Federal Government announces the number of new aged care places to be made available in each State and Territory for the coming financial year. The majority of these places are allocated through the annual Aged Care Approvals Round (ACAR) and are advertised for allocation to organisations that can best demonstrate their ability to meet the aged care needs of the community.²⁹⁵ Furthermore, applicants for residential places are required to demonstrate, as evidence of suitable planning and location, that the

²⁹¹ *ibid.*

²⁹² Hon G Jennings, MLC, Minister for Aged Care, presentation made at the estimates hearing on 19 June 2003

²⁹³ Hon G. Jennings, MLC, Minister for Aged Care, transcript of evidence, 19 June 2003, p.571

²⁹⁴ *ibid.*

²⁹⁵ <http://www.ageing.health.gov.au/acar2003/regionplan/hbooka1.htm>

places will be made operational by the end of the two year period for provisional allocation under the *Aged Care Act 1997* (the Act).

The Minister stated that while the Commonwealth issues licences, it does not, however, provide sufficient capital funding nor has it an adequate strategy in place to facilitate the investment necessary to deliver those beds.²⁹⁶

In response to the rising pressure on public hospital beds, the Minister advised that the Government, through the Hospital Demand Management Strategy, allocated \$17.3 million in 2002-03 for interim care services, which has been successful in diverting patients waiting for aged residential care from acute care to interim care facilities.²⁹⁷

The Minister informed the Committee that the Commonwealth Government is currently undertaking a review of pricing arrangements in relation to residential aged care and that this could result in changes to existing price structures affecting funding provided to the States in future.²⁹⁸ The Department has prepared a detailed submission to the Commonwealth Government highlighting the funding inequities and challenges for Victoria under the current framework. Issues raised in the Department's submission point to a system that currently:²⁹⁹

- provides insufficient funds to support quality services and proper continuous quality improvement;
- does not support equity, particularly for financially disadvantaged people and those who live in rural and remote areas;
- has weaknesses in efficiency especially since funding is based on 'purchasing' individual bed-days rather than supporting the capacity of the system; and
- is not sustainable as the income generated through current funding arrangements is not sufficient for residential aged care providers to meet their recurrent and capital obligations.

²⁹⁶ Hon G. Jennings, MLC, Minister for Aged Care, transcript of evidence, 19 June 2003, p.575

²⁹⁷ Hon G Jennings, MLC, Minister for Aged Care's response, received 11 July 2003, to the Committee's follow-up questions

²⁹⁸ Hon G. Jennings, MLC, Minister for Aged Care, transcript of evidence, 19 June 2003, pp.570, 572

²⁹⁹ Department of Human Services, Aged Care Branch, Submission, dated April 2003, to the Commonwealth Review of Pricing Arrangements In Residential Aged Care, p.37

The Minister advised the Committee that a major issue with the Commonwealth Government's current pricing framework relates to the level of funding provided for high and low care residential beds. At present, of the 90 beds per thousand people aged 70 years and over that are funded by the Commonwealth, 40 of them are high care and 50 are low care. The Minister stated that this ratio of funding undermines the sustainability of the system as it is incompatible with both current and future community demand. The Minister indicated that the present system fails to recognise the growing need for high care places as a consequence of population ageing.³⁰⁰

The Committee noted that the 2003-04 budget provides an additional \$98.4 million in funding for both output and asset initiatives that aim to strengthen the Victorian aged care system. These initiatives include:³⁰¹

- \$12 million in 2003-04 (\$69 million over four years) to boost the level of new funds for HACC above that required to match anticipated commonwealth funds. Funding will be used to provide a range of home based community support services including home help, personal care and delivered meals;
- \$250,000 in 2003-04 (\$1.9 million over four years) to expand the range of sport, recreational and leisure activities available to senior Victorians and encourage greater participation in the community;
- \$2 million in 2003-04 from the Hospital Demand Management Strategy for programs assisting older people to retain independence and remain living for longer in their own communities; and
- \$4.5 million in capital funding in 2003-04 (\$25.5 million over three years) to continue redevelopment and upgrade works in relation to four residential aged care facilities across Victoria.

The Committee acknowledges the substantial challenges facing the aged care system in Victoria. The Committee welcomes the Government's budget initiatives that should assist with improving home based community support services for older members of the community.

³⁰⁰ Hon G. Jennings, MLC, Minister for Aged Care, transcript of evidence, 19 June 2003, p.570

³⁰¹ Budget Paper No.2, 2003-04 Budget Statement, pp.209-19

However, the Committee remains extremely concerned at the continuing shortfall in residential aged care beds within Victoria and awaits with interest the outcomes of the Commonwealth's review currently under way. The Committee encourages the Government to continue its discussions with the Commonwealth Government in an endeavour to improve the current level of funding provided for aged care services.

Recommendation 20:

The Department of Human Services:

- (a) undertake research to explore potential options and develop innovative strategies to reduce the current shortfall in residential aged care beds, including the number of people awaiting such beds in public hospitals; and**
- (b) continue its negotiations with the Commonwealth Government regarding the issue of pricing arrangements in an effort to address the ongoing inequity in funding for aged care services in Victoria.**

5.8 Housing portfolio

The Minister for Housing has sole responsibility for the Housing Assistance output group which accounts for \$306.3 million or 3.4 per cent of the Department's 2003-04 budget. Exhibit 5.9 details the portfolio's outputs and associated cost for 2003-04.

Exhibit 5.9:

Housing Portfolio Output Costs

Output Group	Outputs under the responsibility of the Minister for Housing	2003-04 Output Cost (\$ million)
Housing Assistance	Homelessness Assistance	102.8
	Long Term Housing Assistance	203.5
	Home Ownership and Renovation Assistance ^(a)	0
Total		306.3

Note: (a) Since 2002-03 this output has been provided by the Office of Housing

Source: Budget Paper No. 3, 2003-04 Budget Estimates, pp.100-102

5.8.1 *2003-04 outlook for the portfolio*

The Housing Assistance output group's budget for 2003-04 of \$306.3 million represents an increase of \$6.5 million or 2.2 per cent as compared with the 2002-03 revised budget allocation.

Major initiatives to be funded in 2003-04 include:³⁰²

- establishing partnerships with new housing providers to expand the supply of affordable housing (\$10 million in 2003-04);
- developing a Youth Homelessness Action Plan and expanding homelessness services for families and young people (\$2.2 million in 2003-04); and
- extending the Neighbourhood Renewal initiative (\$2.5 million in 2003-04) to build stronger communities in areas with high public housing concentration.

5.8.2 *Key issues impacting on the portfolio*

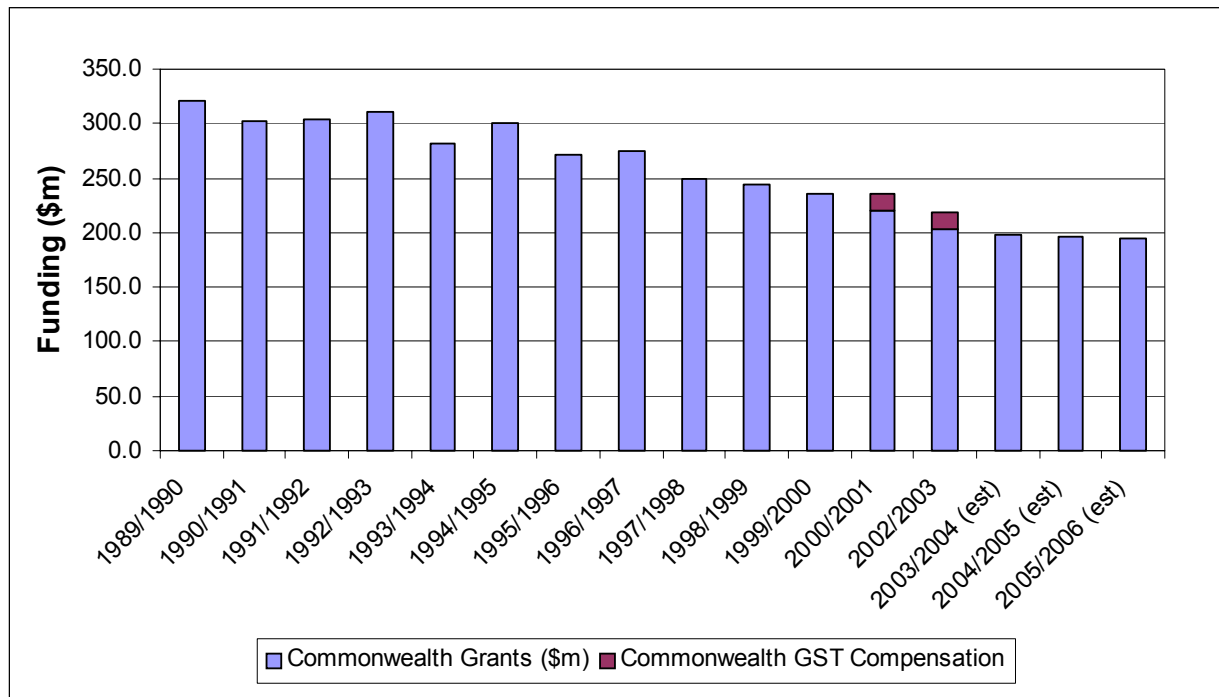
The Department's response to the Committee's questionnaire and the estimates hearing with the Minister for Housing identified the following key issues that will have an impact on the portfolio and the budget estimates for 2003-04.

(a) *Commonwealth-State Housing Agreement (CSHA)*

The Commonwealth-State Housing Agreement (CSHA) establishes the framework for the provision of housing assistance across Australia and consists of a multilateral component signed by all States and Territories and the Commonwealth, as well as a bilateral agreement between each State/Territory and the Commonwealth.

The Committee was advised that the steady decline in Commonwealth funding provided to Victoria under the agreement, has had a significant impact on the Housing portfolio. Exhibit 5.10 below, illustrates the progressive decline in Commonwealth funding for housing assistance and shows that over the last ten years, annual funding provided to Victoria has declined by approximately \$90 million.

³⁰² *ibid.*

Exhibit 5.10:**Commonwealth State Housing Agreement Funding 1989-2006**

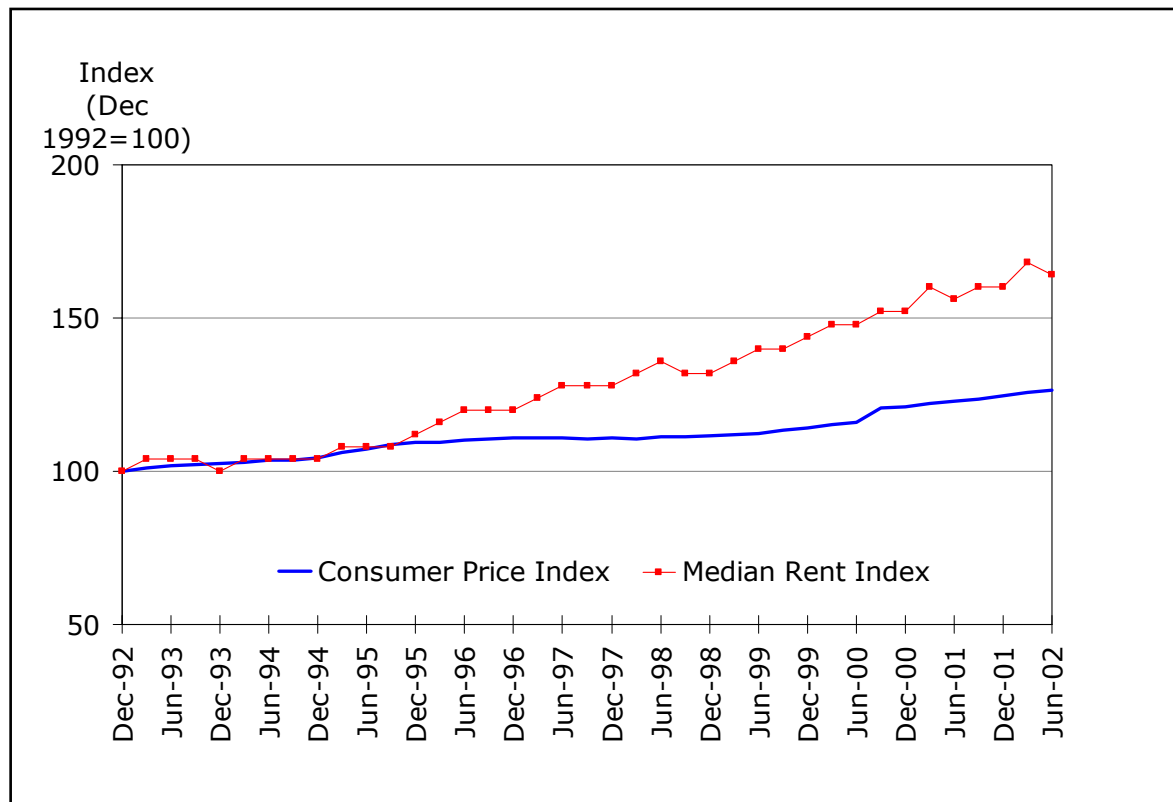
Source: Minister for Housing, presentation made at the estimates hearing, 23 May 2003

A further issue that will compound the overall decline in future years is the Commonwealth Government's decision to remove compensation to the States for GST costs associated with housing assistance, which as Exhibit 5.10 also shows, will further erode the Commonwealth's contribution.³⁰³

Rental assistance represents another important component of the Commonwealth Government's funding contribution to Victoria. The Minister advised that because it is linked to the consumer price index (CPI), the magnitude of payments to tenants in private rentals, as shown in Exhibit 5.11 below, has not kept pace with the substantial rise in rental prices that have occurred in Victoria over recent years. The Committee noted that this situation has exerted additional pressure on public housing due to substantial difficulties experienced by some people in accessing private rental accommodation.³⁰⁴

³⁰³ C. Broad, MLC, Minister for Housing, transcript of evidence, 23 May 2003, p.230

³⁰⁴ *ibid.*

Exhibit 5.11:**Cost Trends in Private Rental - Melbourne**

Source: Presentation made by the Minister for Housing at the estimates hearing on 23 May 2003.

The Minister informed the Committee that the current funding agreement expired in June 2003 and that negotiations with the Commonwealth and other jurisdictions for the new agreement have been completed. The Committee noted that key developments under the new agreement, scheduled to commence in 2003-04, include its extension to cover a longer five year period as well as a provision that allows for the indexation of funding. The Minister advised that while the inclusion of indexation is a positive development, the new agreement, however, does not provide any additional funding for housing assistance in Victoria or any measures to compensate for the impact of the GST. These factors mean that Victoria will lose approximately \$75 million over the life of the new agreement.³⁰⁵

The Committee welcomes the inclusion of an indexation component to the new Commonwealth-State Housing Agreement, however, it remains concerned about the continuing decline in Commonwealth housing assistance, and the implication this will have for meeting future community needs for rental assistance.

³⁰⁵ *ibid.*, pp.230, 234-35

Accordingly, the Committee reiterates its 2001-02 recommendation that:

Recommendation 21:

The Victorian Government, in conjunction with other States and Territories, make representations to the Commonwealth Government on the need for an agreement on a capital program to ensure the current public housing stock can be expanded and upgraded to keep pace with current and future community needs and demands.

(b) Changes to Housing portfolio funding

The Committee noted that the 2003-04 Budget Papers show a decline of \$134.4 million in funding for the Housing Assistance output group compared with the 2002-03 allocation of \$440.7 million. The Minister advised that while this suggests that there has been a significant decrease in the appropriation of funds for the Housing portfolio since the previous financial year, the actual decrease is \$46.5 million after taking into account changes in the accounting treatment of contributed capital introduced by the Department of Treasury and Finance in the 2003-04 Budget.³⁰⁶

The Minister advised that the presentation of housing appropriation funding was changed in 2002-03 to reflect the requirements of Accounting and Financial Reporting Bulletin No.39 Accounting for Contributed Capital. The Committee noted that while this change does not affect the amount of funds appropriated to housing, it does, however, impact on the relative levels of recurrent and capital funds reported in the profit and loss account and the balance sheet. Consequently, all State appropriated funds will now be treated as recurrent and Commonwealth funds will be split between recurrent and capital.³⁰⁷

The Committee was advised that the decline of \$46.5 million in housing appropriation funding, actually reflects a decrease of \$52.5 million in funding for contributed capital from \$140.9 million in 2002-03 to

³⁰⁶ *ibid.*, pp.231-232

³⁰⁷ C. Broad, MLC, Minister for Housing's response, received 14 July 2003, to the Committee's follow-up questions, p.1

\$88.4 million in 2003-04. The Committee noted that the major reasons for the decrease in contributed capital in 2003-04 were due to a decline of approximately \$18 million in Commonwealth funds as well as a reduction in State funding to the housing program of approximately \$35 million.³⁰⁸

The Committee also noted from its analysis of the Department's response to the budget estimates questionnaire, that capital expenditure by the Office of Housing will decline significantly from approximately \$402 million in 2002-03 to \$282 million in 2003-04. While the Committee was unable to reconcile this decrease with an explanation within the 2003-04 Budget Papers, the Minister advised that this occurred as a result of a change in policy by the Government, driven by recommendations from the Victorian Homelessness Strategy, that has shifted the emphasis from investing in short term and crisis accommodation to more investment in longer term accommodation.³⁰⁹

While the Committee accepts the rationale for changes in the accounting treatment of contributed capital, as well as the Government's policy decisions arising out of recommendations from the Victorian Homelessness Strategy, it is, however, very concerned that the 2003-04 Budget Papers do not provide a sufficiently transparent explanation of the factors influencing changes in the Housing Appropriation funding.

Recommendation 22:

To improve the level of transparency associated with variations in capital funding, including those attributable to changes in accounting arrangements, the Department of Treasury and Finance provide additional information in future budget papers to explain the variations.

(c) *Write-off of bad debts*

The Auditor-General's *Report on Public Sector Agencies*, February 2003, revealed that bad debts written off by the Office of Housing increased substantially from \$3.2 million in 2000-01 to \$6.1 million in 2001-02. The Auditor-General also noted that of the \$6.1 million of bad debts written

³⁰⁸ *ibid.*

³⁰⁹ C. Broad, MLC, Minister for Housing, transcript of evidence, 23 May 2003, p.238

off in 2001-02, \$4.2 million (\$1.8 million in 2000-01) related to the inability of the Office of Housing to locate former tenants with rental and maintenance debts outstanding – a significant increase over the preceding year.

The Department advised the Committee that in an effort to address this issue, the Office of Housing has responded by developing a range of measures aimed at reducing the level of rental arrears and maintenance debts. These initiatives include:³¹⁰

- requiring new tenants who receive income from Centrelink, and tenants who have previously defaulted on rental payments, to authorise direct debit rent deductions as a condition of offer for any future tenancy;
- establishing a team to provide additional support to regional offices struggling with the volume of complex cases relating to tenants in arrears;
- fast tracking of eviction procedures in cases of serious property damage;
- identifying tenants with large rental arrears who need financial counselling;
- establishing of regional panels to provide better support to households with complex needs who are at risk of falling into arrears;
- creating 14 specialist housing co-ordinators across Victoria to support and advise tenants who have complex needs; and
- visiting new tenants who have experienced recurring homelessness or who have serious support needs.

The Minister informed the Committee that the \$6.1 million of bad-debt write-offs in 2001-02 included \$300,000 in debt incurred by tenants of community managed housing. While the latter figure had yet to be estimated by the Department for 2002-03 at the time of preparation of this report, the Committee was advised that the remainder of the write-off for 2002-03 was expected to be approximately \$5.3 million and that the

³¹⁰ Victorian Auditor-General's Office, *Report on Public Sector Agencies*, February 2003, p.125

equivalent figure for 2001-02 (i.e. minus the debt incurred by tenants of community based housing) was \$5.8 million.³¹¹

In the absence of information relating to the level of bad debt write-offs amongst tenants of community managed housing, it remains unclear whether the Department's initiatives have been effective in reducing the overall level of bad debts. Nevertheless, based on the information supplied by the Minister, the Committee remains concerned that although there is some evidence of a marginal decline, which may be linked to the positive impact of the Department's initiatives including the use of financial planners for targeted tenants, the overall level of bad debt write-off's continues to remain high.

Accordingly, the Committee reiterates the Auditor-General's recommendation that:

Recommendation 23:

The Office of Housing:

- (a) undertake a review of the effectiveness of initiatives aimed at reducing rental arrears and maintenance bills and implement corrective action; and**
- (b) ensure that tenants in arrears are provided with an opportunity to seek guidance and advice from financial planners.**

³¹¹ Hon C Broad, MLC, Minister for Housing's response, received 14 July 2003, to the Committee's follow-up questions, p.3

Chapter 6: Department of Infrastructure

Key findings of the Committee:

- 6.1 The Department of Infrastructure's budget allocation for 2003–04 is \$2,567 million — a decrease of \$133.5 million (or 5 per cent) from the 2002–03 revised budget. This decline is largely due to the impacts of machinery of government changes and the completion of funded programs.
- 6.2 When the Government decided to toll the Mitcham-Frankston Freeway the Commonwealth reversed its decision to provide \$445 million, effectively reducing Victoria's share of national road funding from 17.6 per cent to 14.6 per cent.
- 6.3 Ongoing uncertainty surrounding the allocation of Commonwealth funding for the Pakenham Bypass and Calder Highway has resulted in delays, rising project costs and uncertainty surrounding project completion.
- 6.4 As part of structural reforms to the public transport system, the Government has commenced discussions with remaining public transport franchisees to renegotiate the existing franchise contracts with the aim of having one metropolitan tram company and one metropolitan train company.
- 6.5 Initiatives introduced to address service and performance issues with the automated ticketing system have resulted in significant improvements in the availability and performance of ticket-issuing equipment.
- 6.6 The Government's arrive alive! strategy, appears to have had a significant impact on the road toll in metropolitan Melbourne that has progressively declined since early 2002. Additionally, the upward trend previously evident in country Victoria has stabilised, with early indications suggesting that the trend may be beginning to decline.

- | | |
|-----|--|
| 6.7 | The Government is relying on market outcomes in wholesale and retail electricity markets to provide appropriate signals for ensuring secure and affordable future electricity supplies. |
| 6.8 | The Telecommunications Purchasing and Management Strategy budgeted capital expenditure in 2002-03 was underspent by \$16.2 million (almost 75 per cent of the allocation for that year). The \$16.2 million will be carried over to 2003-04. Despite this significant delay in capital expenditure, the project is expected to be completed on time. |

Departmental review

6.1 Departmental overview

The Department has the lead responsibility for the strategic planning and delivery of Victoria's essential energy, transport and information and communication technology infrastructure. It supports the four ministerial portfolios of Transport; Major Projects; Energy Industries; and Information and Communications Technology.

The Department's primary functions include:³¹²

- linking the transport system of road, rail, air and sea channels to promote economic and social development through increased mobility and access, and a more cost effective freight and logistics sector;
- promoting efficient and integrated transport services across different modes while managing road and freight traffic growth, to address the needs of the travelling public and industry;
- delivering the Government's major transport infrastructure investments;
- providing strategic policy advice, analysis and support to Government, stakeholders and communities in the areas of energy

³¹² Budget Paper No.3, 2003-04 Budget Estimates, p.111

policy, information and communications technology (ICT), and transport systems; and

- delivering other major projects on behalf of government Departments and agencies.

6.1.1 *Key challenges for the Department in 2003–04*

The key challenges and strategic issues that have influenced the development of the Department's estimates for 2003–04 derive from the Growing Victoria Together strategy. The Department advised that it contributes to all of the strategic issues identified in Growing Victoria Together, either directly or indirectly, and it makes a critical contribution to the following related strategic issues:³¹³

(a) *Growing and linking all of Victoria*

Actions to address this issue in 2003–04 include:

- continuing to implement the Government's Linking Victoria program;
- starting the implementation of \$171 million worth of initiatives under the Linking the Suburbs program and initiatives to improve public transport safety and reliability;
- addressing major issues to guarantee stability for the State's public transport franchises, as well as improving links between Melbourne and other parts of Victoria (including links to Victoria's commercial ports);
- developing a detailed developmental plan for the Dynon Rail Precinct and continuing to implement key directions identified in *The Next Wave of Port Reform* report;
- further investigating environmental, financial and technical aspects of deepening shipping channels into the port, and implementing the SmartFreight initiative to provide more efficient integrated information systems for Victoria's freight and logistics industry;

³¹³ Department of Infrastructure, response to the Committee's 2003–04 Budget Estimates Questionnaire, pp.14-21

- working with the Department of Innovation, Industry and Regional Development to extend the reticulation of natural gas; and
- continuing to implement major ICT initiatives and further developing the Government's framework for broadband.

(b) *Safe streets, homes and workplaces*

Actions to address this issue in 2003-04 include:

- continuing to implement the Government's *arrive alive!* road safety strategy;
- continuing to address accident blackspots on Victorian roads; and
- implementing and monitoring high level, preventative security measures against terrorist attacks.

(c) *Sound financial management*

Actions to address this issue in 2003-04 include:

- improving the Department's strategic and forward planning capabilities (including processes and resources) to deliver key infrastructure projects and services more effectively;
- implementing savings initiatives to improve general efficiencies in administration, workforce management and the use of contractors and internal resources;
- improving maintenance and investment practice for infrastructure assets; and
- working to stabilise, in financial terms, all the public transport franchises.

(d) *More jobs and thriving, innovative industries across Victoria*

Actions to address this issue in 2003-04 will include:

- starting to implement the Victorian Freight and Logistics Strategy to improve the performance of the State's freight and logistics sector;

- project managing the timely delivery of major projects; and
- continuing to implement key ICT strategies aimed at improving the ICT skills of Victorians and businesses, and attracting increased investment in the State's ICT sector.

(e) *Promoting sustainable development*

Actions to address this issue in 2003–04 include:

- developing policy measures to reduce greenhouse gas emissions;
- increasing the focus on triple bottom line objectives of social, environmental and economic outcomes; and
- identifying environmental priorities, activities and impacts as well as legislative and regulatory requirements.

(f) *Protecting the environment for future generations*

Actions to address this issue in 2003–04 include:

- continuing to upgrade access to, and the reliability of, Victoria's public transport network;
- increasing the State's principal bicycle network;
- developing policy measures to reduce greenhouse gas emissions from the energy sector; and
- continuing to reduce the Department's internal energy consumptions and improve waste management practices.

(g) *Government that listens and leads*

Actions to address this issue in 2003–04 include:

- continuing to improve eGovernment services and other ICT services to Victorian residents and businesses; and
- continuing to consult and communicate with key stakeholders during the development and delivery stages of projects and initiatives.

The Committee was advised that the following are further issues that will drive departmental activity in 2003–04.

(h) *Melbourne 2030*

The Department was instrumental in developing the Government's roadmap for growing Melbourne, *Melbourne 2030*, which was released in October 2002. While responsibility for implementing the strategy was transferred to the Department of Sustainability and Environment following machinery of government changes, the Department of Infrastructure advised that it will pursue several initiatives under the strategy in 2003–04, including:

- more sustainable development of the metropolitan road network, which involves prioritising on-road public transport services, improving key metropolitan freight routes and upgrading outer suburban arterial roads to accommodate traffic increases in growth areas; and
- the progression of work related to the Mitcham–Frankston Freeway, in addition to other improvements to the metropolitan arterial road network and cross town transit services, and the provision of local bus services in growth corridors.

(i) *Victorian freight and logistics strategy*

This strategy is due for release later in 2003 and will provide a blueprint for improving performance in the State's freight and logistics sector. The blueprint will include the steps to achieve the Government's objective of increasing rail share to and from Victorian ports by at least 30 per cent by 2010. Major initiatives to be undertaken in 2003–04 include:

- adding to Victoria's standard gauge rail network, particularly around Corio Quay, North Shore and Lascelles Wharf at the Port of Geelong;
- building a \$15 million overpass to separate port-related trains and trucks from local traffic in Portland;
- continuing to implement key directions identified in *The Next Wave of Port Reform* report;

- continuing to investigate the environmental, economic and technical issues of deepening the shipping channels into the Port of Melbourne;
- introducing the Government's new SmartFreight initiative, which will provide Victoria's freight and logistics industry with a common integrated information system; and
- progressing strategically important improvements in the metropolitan road network.

(j) Regional development

Activities in this area will involve the continued implementation of key infrastructure programs, including:

- progressing major public transport infrastructure and service upgrades;
- planning the Geelong Western Bypass;
- undertaking construction works associated with Grovedale Station;
- working with the Department of Innovation, Industry and Regional Development to expand the reticulated gas supply in regional Victoria; and
- administering the 12-month electricity network tariff scheme to address the structural cost disadvantage faced by rural domestic and small business electricity customers.

(k) Public safety

Key initiatives to be undertaken by the Department in 2003–04 to improve the safety of Victoria's public transport and road networks include:

- continuing to implement the *arrive alive!* road safety strategy;
- committing additional resources to monitor and enforce the highest possible safety standards on the State's public transport system;
- establishing a safety education program to encourage courteous behaviour among boat users; and

- implementing counterterrorism measures.

6.1.2 Performance measures

The Department's output groups underwent significant change as a result of machinery of government changes. Outputs previously listed in 2002-03 under the Balanced Planning and Environmental Systems output group and the Supporting Local Government output group have been transferred to the Department of Sustainability and Environment and the Department of Victorian Communities respectively. The former Strategic Land Use and Infrastructure Planning output group has been renamed Infrastructure Planning and Policy.

The Department advised that it is continually reviewing its performance measurement and benchmarking framework, in order to improve the monitoring of its performance against outputs and the achievement of government outcomes. Each of the Department's output groups contains collective measures that monitor performance across a wide area of delivery, such as whether all relevant projects were delivered on time and/or in accordance with prescribed quality standards, plans, budget and scope. The remaining measures (which form the majority) relate to individual services, programs and projects across each of the eight key output groups.³¹⁴

Given the output changes that resulted from the machinery of government changes, new performance measures have been introduced, mainly relating to the achievement within specific timeframes of output initiatives to be implemented in 2003-04. Similarly, several performance measures used for 2002-03 have been discontinued or amended, particularly where programs or projects have been finalised or where more relevant performance measures have been developed. The Department advised the Committee that it does not have unlimited access to, or control over, data collected by franchisees and other commercial entities, so the availability of timely and accurate data for performance measurement is limited.³¹⁵

The Committee noted that the Department has commissioned and/or supported several external reviews of its performance, including:³¹⁶

³¹⁴ *ibid.*, p.28

³¹⁵ *ibid.*

³¹⁶ *ibid.*, p.31

- a client satisfaction study for the Rural School Bus Safety Program, involving 100 Victorian schools. Results from this survey are being externally analysed;
- ongoing Austroads monitoring of the efficiency of vehicle registration and licensing activities, which shows that VicRoads leads other State road authorities in terms of efficiency measures calculated by key performance indicators;
- a preliminary evaluation by the Monash University Accident Research Centre of the \$240 million Statewide Blackspot Program, which shows that casualty crashes have reduced on average by approximately 17.5 per cent at treated sites and that the program has achieved an estimated benefit–cost ratio of 4.2;
- independently conducted market research surveys of both users and non-users of public transport, to assess whether public transport operators are delivering the type of quality service that customers expect. Results from these surveys are collated and reported as a satisfaction index in Budget Paper No.3 (pp. 135 and 141); and
- independent reviews of the performance of the automatic ticketing system, including a baseline study conducted in 2001 and a follow-up study in 2002. The 2001 study found that the performance of the ticket-issuing equipment fell far short of the requirements of the travelling public, mainly due to the effects of vandalism. As a result, initiatives were implemented to address the problems. In 2002, a follow-up study showed a significant improvement in the availability of ticket vending machines at train stations and on trams and buses.

The Committee is encouraged by the extensive range of internal and external performance information that the Department uses to evaluate its effectiveness and efficiency. However, it would be useful if the Department reported on more of its outcome-oriented external measures and related targets in the Budget Papers and/or annual report.

6.2 Budget summary

Exhibit 6.1:

Department of Infrastructure Output Costs

	Column 1	Column 2	Column 3	Column 3-2
Output Group	2002-03 Budget^(a)	2002-03 Revised^(b)	2003-04 Budget	Variation^(d)
	(\$ million)	(\$ million)	(\$ million)	(%)
Infrastructure Planning and Policy	9.4	13.8	13.5	-2.1
ICT and Multimedia	..	20.0	43.5	118.0
Ports and Intermodal Gateways	24.8	57.0	24.5	-57.0
Regional and Rural Transport Services	301.6	309.2	334.0	8.0
Regional and Rural Transport Infrastructure	394.8	356.0	324.1	9.0
Metropolitan Transport Services	1,106.1	1,176.9	1,128.1	-4.1
Metropolitan Transport Infrastructure and Public Development Projects ^(c)	410.5	434.7	436.9	1.0
Transport Safety and Accessibility	329.5	332.9	262.4	-21.2
Total	2,576.7	2,700.5	2,567.0	-5.0

- Notes:
- (a) Incorporates changes to output structure and organisational restructuring, and therefore differs from figures published in the 2002–03 budget
 - (b) The 2002–03 revised output costs differ from the total expenses from ordinary activities disclosed in table 2.3.2 (statement of financial performance) on p.160 of the 2003–04 budget estimates, due to changes to output structure and organisation restructuring
 - (c) This amount differs from the disclosure in the previous published budget due to revised accounting recognition of the concession fees associated with the Melbourne City Link
 - (d) A negative variance indicates that the 2003-04 budget has decreased compared with the 2002-03 revised budget

Source: Budget Paper no.3, 2003–04 Budget Estimates, table 2.3.1, p.123

As shown in Exhibit 6.1, the Department's budget allocation for 2003–04 is \$2,567 million – a decrease of \$133.5 million (or 5 per cent) from the revised budget allocation for 2002–03. The observed decline in funding reflects the impact of machinery of government changes, the completion of funded programs, and changes to accounting classifications and treatments.

Specifically, the Department advised that the 57 per cent reduction in funding for the Ports and Intermodal Gateways output group reflects the cessation of project funding for the Airport Transit Link, as well as changes in approved project cashflows.³¹⁷ Additionally, the 9 per cent reduction in funding for the Regional and Rural Transport Infrastructure

³¹⁷ *ibid.*, p.39

output group reflects the transfer of unfunded superannuation liability to the Department of Treasury and Finance and the reclassification of road construction expenditure from operating to capital expenditure. The Department did not provide to the Committee any detailed information concerning the reclassification of road construction.³¹⁸ Finally, the 21.2 per cent reduction in funding for the Transport Safety and Accessibility output group reflects the completion of the \$240 million Transport Accident Commission (TAC) funded component of the Accident Blackspot Program.³¹⁹

Recommendation 24:

Where substantial financial adjustments occur, such as a major reclassification of operating expenditure to capital expenditure, the Budget Papers include detailed information on the reasons for the adjustment.

6.2.1 Financial analysis

Exhibit 6.2:

Department of Infrastructure Statement of Financial Performance

	Column 1	Column 2	Column 3	Column 4	Column 4-3
	2002-03 Budget	2002-03 Adjusted^(a)	2002-03 Revised	2003-04 Budget	Variation^(b)
	(\$ million)	(\$ million)	(\$ million)	(\$ million)	(%)
Controlled Items					
Operating revenue	2,840.2	2,829.9	2,971.9	2,679.6	-9.8
Operating expenses	2,664.9	2,654.1	2,735.3	2,567.0	-6.2
Net Result	175.3	175.8	236.6	112.6	-52.4
Administered Items					
Administered revenue	1,679.3	1,512.9	1,593.3	1,404.9	-11.8
Administered expenses	1,665.8	1,499.4	1,564.9	1,373.9	-12.2
Surplus/Deficit	13.5	13.5	28.4	31.0	9.2

Note: (a) Includes the 2002–03 Budget adjusted for machinery of government changes for the period 1 January 2003 to 30 June 2003.

(b) A negative variance indicates that the 2003–04 budget has decreased compared with the 2002–03 revised budget

Sources: Budget Paper No.3, 2003–04 Budget Estimates, table 2.3.2, p.160, and table 2.3.5, p.163

³¹⁸ *ibid.*

³¹⁹ *ibid.*

The Committee's analysis of the Department's statement of financial performance indicates that 2003-04 revenue is expected to decline by approximately \$292.3 million compared with the 2002-03 revised budget. The Committee noted that this fall is mainly due to: a \$124.1 million decrease in Commonwealth Government revenue for roads, in line with approved cashflows for individual projects; the wind-up of the TAC funded component of the Accident Blackspot Program in 2002-03; and the impact of machinery of government changes, totalling \$22.2 million. The fall will be partly offset by the impact of funding for new output initiatives for 2003-04. These initiatives include additional bus services, public transport safety, the *arrive alive!* road safety program, school safety speed zones and new cycling paths. Revenue is also affected by changes in the cashflow of previously approved projects, predominantly, the regional fast rail.³²⁰

As shown in Exhibit 6.2, operating expenses are also projected to decline in 2003-04, down by approximately \$168 million compared with the revised 2002-03 result. This fall is mainly due to (1) a reduction in the purchase of supplies and services for the original Accident Blackspot Program, for which State funding ceased in June 2003, and (2) decreased employee benefits as a result of a \$38.9 million contribution to a superannuation adjustment, in line with the transfer of the unfunded superannuation liability for former VicRoads employees to the Department of Treasury and Finance.³²¹ The fall will be partly offset by funding for the abovementioned new initiatives in 2003-04, as well as by higher capital asset charges and depreciation expenses of \$66 million associated with increased projected asset values of new initiatives and previously committed projects.

Exhibit 6.2 indicates an expected operating surplus of \$112.6 million in 2003-04, which is a decrease of approximately \$124 million compared with the revised operating surplus of \$236.6 million observed in 2002-03. The higher than expected 2002-03 surplus reflects: a reclassification of expenditure from operating to capital expenditure for road construction; the recognition of a \$135 million payment by National Express (following its receivership) as revenue; and a higher than expected carryover from 2002-03 to 2003-04.

³²⁰ Budget Paper No.3, 2003-04 Budget Estimates, p.158

³²¹ *ibid.*

6.2.2 *Write-off of bad debts*

The Department advised the Committee that the value of bad debts to be written off in 2002–03 was estimated in the range \$75,000 to \$85,000. These debts predominantly relate to the unrecovered cost of VicRoads' equipment that was damaged during road accidents. The Committee was informed that VicRoads, in consultation with debt collectors, attempted in each case to recover the cost of repairs from the responsible driver, and exhausted all avenues for collection without success. Year-to date bad debt write-offs totalled \$72,234 at May 2003.

6.2.3 *Government savings*

Budget Paper No. 2 indicates that the Department needs to achieve general efficiencies in administration of \$13.3 million in 2003–04 (of \$53.2 million over four years), as well as \$3 million in savings (of \$14 million over four years) arising from the VicRoads workforce strategy (\$10 million over three years) and from the rationalisation of external contractors (\$4 million over four years).

6.3 Human resources issues

Exhibit 6.3:

Department of Infrastructure Equivalent Full Time Staff

Division	2002-03			2003-04 (Estimate)		
	Permanent	Fixed Term	Total	Permanent	Fixed Term	Total
Office of the Secretary	11	0	11	11	0	11
Public Transport	210	19	229	210	19	229
Infrastructure Projects	82	16	98	102	16	118
Strategic Planning	29	3	32	34	3	37
Corporate Resources	122	16	138	122	16	138
Freight, Logistics and Marine	69	14	83	83	14	97
Major Projects Victoria	28	0	28	24	0	24
Energy Policy	16	2	18	18	2	20
Multimedia Victoria	77	8	85	80	8	88
Total	644	78	722	684	78	762

Source: Department of Infrastructure, response to the Committee's 2003-04 Budget Estimates Questionnaire, p.33

Exhibit 6.3 shows that the Department expects to have 762 equivalent full time staff by 30 June 2004. This number represents an effective increase of

approximately 40 (or 5.5 per cent) on the 2002-03 estimate of 722 equivalent full time staff.

Exhibit 6.3 also shows that the overall growth in staff numbers is largely due to the increases of 20 equivalent full time staff in the Infrastructure Projects Division and 14 in the Freight, Logistics and Marine (formerly Ports and Marine) Division.

6.3.1 *Key staffing issues*

The Department advised that it continues to build its capacity, through both the recruitment and development of existing staff in the areas of commercial/financial management, information technology and data management/analysis, business analysis and research, public policy development, project management, and strategic and urban transport planning and analysis.³²² The Committee noted that the Department's performance assessment process links directly with professional development activities on an individual's performance improvement plan. Both the staff member and their manager identify training needs and ensure these needs are met when the individual's performance is assessed.

The Department offers staff a wide range of internal and external professional development programs, including study leave and financial assistance for taking out membership of relevant professional bodies. In 2002-03, the Department set aside \$1.3 million for staff development programs, with a similar amount budgeted for 2003-04.³²³

Portfolio review

6.4 *Transport portfolio*

The Minister for Transport has sole responsibility for 26 outputs within the Department. Exhibit 6.4 shows that these outputs account for approximately \$2,513.9 million (or 98 per cent) of the Department's 2003-04 budget.

³²² Department of Infrastructure, response to the Committee's 2003-04 Budget Estimates Questionnaire, p.34

³²³ *ibid.*, p.35

Exhibit 6.4:

**Transport portfolio
Output Costs**

Output Group	Outputs under the responsibility of the Minister for Transport	2003-04 Output Cost (\$ million)
Infrastructure Planning and Policy	Infrastructure strategies	1.0
	Travel management initiatives	3.7
	Port development strategies	2.0
Ports and Intermodal Gateways	Ports and intermodal freight	2.6
	Passenger interchange development	21.9
Regional and Rural Transport Services	Country/interstate rail services	133.9
	Country bus services	50.8
	School bus services	149.3
Regional and Rural Transport Infrastructure	Regional public transport passenger and freight development	40.0
	Regional road projects	144.1
	Regional road network maintenance	140.0
Metropolitan Transport Services	Metropolitan train services	546.9
	Metropolitan tram services	270.5
	Metropolitan bus service	310.7
Metropolitan Transport Infrastructure and Public Development	Metropolitan public transport development	18.4
	Major metropolitan road projects	100.7
	Metropolitan arterial road links	160.5
	Metropolitan road network maintenance	154.5
Transport Safety and Accessibility	Taxi, hire car and tow truck regulation	3.2
	Accessible transport initiatives	58.9
	Accident blackspots	7.0
	Traffic and road use management improvements	29.6
	Vehicle and driver regulation	94.2
	Road safety initiatives and regulation	49.3
	Public transport safety initiatives and regulation	8.6
	Marine safety initiatives and regulation	11.6
Total		2,513.9

Source: Budget Paper No.3, 2003–04 Budget Estimates, pp.124–156

6.4.1 2003–04 outlook for the portfolio

The key priorities for the portfolio in 2003–04 include:

- the continued installation of a fibre optic network along the Regional Fast Rail corridors and the upgrade of selected level and pedestrians crossings throughout the State, to improve the safety of the rail system;

- the establishment of a railway station and passenger rail services in the major growth suburb of Grovedale, Geelong, with works to be completed by the end of 2004;
- the implementation of the second stage of the SmartBus project, to develop a cross town network of premium bus routes;
- the implementation of TravelSMART pilot programs in homes, workplaces and schools throughout the State, to encourage people to choose sustainable travel alternatives such as cycling, walking or public transport and thus reduce their dependency on motor vehicles;
- improvements to road infrastructure in Melbourne's growth corridors to address urgently needed road duplication projects and other road upgrades, to improve safety and relieve traffic congestion;
- the implementation of new road and motorcycle safety initiatives under the Government's *arrive alive!* strategy, including the installation of school speed zones to provide schools with safer speed limits during busy traffic periods;
- the commencement of the construction of the Corio Independent Goods Line, which will provide standard gauge rail access to Corio Quay, North Shore and Lascelles Wharf at the Port of Geelong;
- the preparation of a detailed development plan for the Dynon Rail Precinct to integrate the Port of Melbourne with the Dynon rail terminals to create a single freight transport and logistics hub for the port precinct;
- the continuation of detailed assessment of the deepening of the Port of Melbourne's shipping channels, including the exhibition of an environmental effects statement by mid-2004; and
- the release of the Victorian Freight and Logistics Strategy in late 2003, which will provide a blueprint for improving performance in the State's freight and logistics sector.

6.4.2 *Analysis of the portfolio budget*

The Committee's analysis of the 2003–04 Budget Papers shows that funding for the Transport portfolio has declined by \$158.2 million (or 5.9 per cent) compared with the 2002–03 revised budget allocation. As stated earlier, this decline reflects:³²⁴

- the cessation of project funding for the Airport Transit Link, as well as changes in approved project cash flows;
- the transfer of unfunded superannuation liability to the Department of Treasury and Finance and the reclassification of road construction expenditure from operating to capital expenditure; and
- the completion of the \$240 million Accident Blackspot Program.

Major initiatives to be undertaken by the Department in 2003–04 include:

- \$37.5 million (of \$171 million over four years) for the Linking the Suburbs program, which includes a combination of output and capital funding for the following initiatives:
 - \$20 million (\$121.2 million over four years) for the construction of the 20-kilometre four lane Pakenham Bypass, which will divert the Princess Highway around Pakenham;
 - \$9 million (\$28 million over four years) for new road infrastructure, including the widening of the Moorooduc Highway (Frankston), Thompsons Road (Carrum Downs) and the Greensborough Highway and Plenty River Bridge (Greensborough);
 - \$5.5 million (\$13.7 million over four years) for the improvement of the frequency, travel times and standard of customer information on several existing bus services, the upgrade of the Warrigal Road 700 bus route to SmartBus standards, and metropolitan bus service upgrades in the outer metropolitan areas of Eltham, Research, Warrandyte, Endeavour Hills, Cranbourne and Epping/South Morang; and

³²⁴ *ibid.*, p.39

- \$3 million (\$8 million over three years) to construct new cycling paths in regional Victoria and metropolitan Melbourne;
- \$18.7 million (\$61.5 million over the next four years) to improve transport links for regional Victorians, consisting of:
 - \$4.1 million for planning, design and environmental assessment activities for the proposed Geelong Western Bypass;
 - \$10.2 million (\$47.4 million over four years) for the continuation of works related to the duplication of the Calder Highway between Kyneton and Faraday (following \$22.6 million allocated in 2002-03);
 - \$400,000 (\$5 million over four years) for the construction of the Pyalong Bypass to divert the Northern Highway around Pyalong; and
 - \$4 million (\$5 million over two years) for the construction of a railway station at Grovedale, Geelong, to provide the Surf Coast residents with direct access to rail services.
- \$6.8 million (\$30.2 million over the next four years) for initiatives to boost Victoria's freight industry, including \$5.5 million (\$27 million over four years, building on \$1.5 million allocated in 2002-03) to improve regional freight links – including the construction of an overpass at Cliff Street in Portland (to improve transport links to the Port of Portland) and the construction of a standard gauge independent goods line at the Port of Geelong – and thus reduce freight costs and increase rail freight share;
- \$300,000 (\$1.1 million over three years) for the preparation of a development plan for the Dynon Rail Precinct; and
- \$1 million (\$2.1 million over four years) for the Smart Freight Project, which will provide Victoria's freight and logistics industry with an integrated information system.
- \$17.3 million (\$34.6 million over two years) for initiatives related to the arrive alive! road safety strategy, including:
 - \$11.5 million for road safety infrastructure improvements in mainly regional Victoria, which will include the use of tactile

road edges, shoulder sealing and crash barriers, and the removal of roadside hazards in country Victoria, as well as a crash countermeasure program to better understand causes of crashes and implement mitigation strategies;

- \$5.8 million (\$23.1 million over two years) for the installation of reduced speed zones outside primary and secondary schools in Victoria.

6.4.3 *Key issues impacting on the portfolio*

The Department's response to the Committee's budget estimates questionnaire and estimates hearing identified the following key issues that will have an impact on the portfolio and the Budget estimates for 2003–04.

(a) *Major roads issues*

(i) *Mitcham–Frankston Freeway*

In May 2003, the Government called for expressions of interest from the private sector to deliver the Mitcham–Frankston Freeway with direct tolls by 2008, with the successful tenderer to be appointed during the first half of 2004.³²⁵ The expression-of-interest document specifies that the Mitcham–Frankston Freeway will comprise approximately 40 kilometres of road (including 1.5 kilometres of tunnel) joining the Eastern Freeway at Springvale Road, Donvale, to the Frankston Freeway at Seaford, and associated works. The project will be delivered in accordance with the State's *Partnerships Victoria* policy and is an amalgamation of two initiatives: the Scoresby Freeway and the Eastern Freeway extension. The Minister advised the Committee that the final price structure for tolls has not yet been determined because it will depend on the tender process, including negotiations with the successful tenderer.³²⁶

In August 2003, the Government announced that the design of the Mitcham–Frankston Freeway/Monash Freeway Interchange had been revised following extensive consultations with stakeholders.³²⁷ The revised interchange will now include additional ramps to the Monash

³²⁵ Department of Infrastructure, *Mitcham–Frankston Freeway, Invitation for Expression of Interest*, May 2003, p.15

³²⁶ Hon P. Batchelor, MP, Minister for Transport, transcript of evidence, 17 June 2003, p.489

³²⁷ Minister for Transport, media release, 14 August 2003

Freeway and retain local connections to the arterial road system in the Police Road/Jacksons Road area. It will also provide for the following key traffic movements:

- southbound traffic on the Mitcham–Frankston Freeway will be able to exit to the Monash Freeway to travel to the city; and
- outbound traffic on the Monash Freeway will be able to exit to the Mitcham–Frankston Freeway to travel north towards Ringwood.

The Committee noted that the Scoresby Freeway component of the project is to be built predominantly on land that has progressively been reserved for road purposes since 1962.³²⁸ In 2001, a separate tendering process commenced for the design, construction and maintenance of part of the Eastern Freeway extension (including twin tunnels under the Mullum Mullum Creek and associated works). Following significant project scope reviews, tenderers' final responses were received in June 2002. Based on these responses, the Government decided to abort the tender process and deliver the works as part of the broader Mitcham–Frankston Freeway project.³²⁹ The Minister advised that a level of compensation was paid to each of the initial tenderers. Although the Deed of Settlement between VicRoads and each tenderer includes provisions for confidentiality, the Minister indicated that the amount paid was less than \$2 million in each case.³³⁰

The Committee also sought information on the treatment of \$255 million in funding allocated in the 1999-2000 budget by the previous government for the Eastern Freeway extension to Ringwood.³³¹ The Minister advised the Committee that approximately \$100 million of that funding has been allocated for Eastern Freeway extension works (including overpasses for Mitcham Road, Park Road and Deep Creek Road) and for the partial construction of 1 kilometre of the extension east of Springvale Road to the west of Park Road, Mitcham. The Minister noted that the balance of the funds (approximately \$155 million) remain in the Better Roads Fund.³³²

³²⁸ Department of Infrastructure, *Mitcham-Frankston Freeway, Invitation for Expression of Interest*, May 2003, p.4

³²⁹ *ibid.*, p.15

³³⁰ Minister for Transport's response, received 23 July 2003, to the Committee's follow-up questions

³³¹ Hon P. Batchelor, MP, Minister for Transport, transcript of evidence, 17 June 2003, p.486

³³² *ibid.*, p.488

The Committee understands no decision has been made yet as to whether the work undertaken by VicRoads involving the one kilometre extension to the west of Park Road, Mitcham will form part of the proposed tollway. As the cost of these works was met by the Government, the Committee considers that if it forms part of the tollway the operator should provide some form of compensation to the Government for these works from which the operator will derive financial benefit.

The Committee also sought information on the factors contributing to the Government's decision (announced 14 April 2003) to develop the Mitcham–Frankston Freeway as a tollway. The Minister advised that the imposition of tolls was not part of the Government's original design, but external pressures on the State's Budget has meant that the additional \$1.4 billion of State funding required to build the freeway without tolls is unaffordable.

Specifically, these external pressures include:³³³

- the deterioration of overseas equity markets and the subsequent impact on the State's budget surplus;
- the withdrawal of the private transport operator National Express from Victoria, resulting in the need for an additional \$1 billion in Government funding over the next five years to keep the privatised public transport system from collapsing; and
- the budgetary impacts of the recent bushfires and ongoing drought.

The Minister informed the Committee that the Government, after considering these issues, decided that implementing tolls was the only financially responsible course of action available to fund a project with a total estimated investment of \$1.8 billion. The Government's objective is to reduce the pressure on the State budget in future years, given the impact of the above events.³³⁴

The Minister advised that the Government has allocated \$100 million to the Mitcham–Frankston Freeway project, including \$75 million under the 2003–04 State Budget to fund land acquisition and associated activities. While the total construction cost is estimated to be \$1.8 billion, the final cost will rest with the private sector and will depend on the outcome of a

³³³ *ibid.*, p.483

³³⁴ *ibid.*

competitive bidding process. Additionally, in 2003–04, the Government has provided \$15.8 million from the Better Roads Fund to fund the Southern and Eastern Integrated Transport Authority, which was established to manage the tender process and oversee the delivery of the project.³³⁵

The Committee noted that the Government, after making its decision, attempted to secure funding from the Commonwealth Government by submitting a proposal in line with the Commonwealth policy document *Auslink*, which sets out the Commonwealth Government's conditions for funding contributions to road projects that involve tolls.³³⁶

The Minister indicated that this project is similar in nature to the Western Sydney Orbital toll road project, which received \$356 million in Commonwealth funding.³³⁷ Further, the Victorian Government made a request to the Commonwealth Government to match Victoria's contribution of \$100 million and to direct the remaining \$345 million of its original commitment to other road projects in Victoria. The Minister informed the Committee that the Commonwealth Government has denied Victoria's request, effectively reducing the State's share of national road funding from 17.6 per cent to 14.6 per cent.³³⁸

(ii) *Commonwealth funding for major Victorian road projects*

The Minister indicated that ongoing uncertainty surrounding the allocation of Commonwealth funding for major Victorian road projects has resulted in significant delays, rising project costs and increased pressure on the State Government and local Victorian communities.³³⁹ The Committee noted that this funding issue predominantly affects the following three major Victorian road projects:

- the construction of the 20-kilometre four lane Pakenham Bypass, which will divert the Princess Highway around Pakenham;
- works related to the duplication of the Calder Highway between Kyneton and Faraday; and

³³⁵ Minister for Transport's response, received 23 July 2003, to the Committee's follow-up questions

³³⁶ Hon P. Batchelor, MP, Minister for Transport, transcript of evidence, 17 June 2003, p.494

³³⁷ Minister for Transport's response, received 23 July 2003, to the Committee's follow-up questions

³³⁸ *ibid.*

³³⁹ Hon P. Batchelor, MP, Minister for Transport, transcript of evidence, 17 June 2003, p.481, 484, 486

- the Geelong Western Bypass to be built around the west of Geelong's central business district, linking the Corio interchange with the Princess Highway at Waurin Ponds.

The Minister advised that the Commonwealth Government has yet to fully fund its 50 per cent share of the construction costs of the Pakenham Bypass and the Calder Highway, even though it has declared both projects to be Roads of National Importance. He advised that the funding delay has led to construction delays and uncertainty surrounding project completion.³⁴⁰ Moreover, the Commonwealth Government refuses to recognise the Geelong Western Bypass as a Road of National Importance and therefore will not fund 50 per cent of its construction costs, despite the significant potential benefits that the bypass will bring to Geelong residents, through reduced traffic congestion, and to the State and national economies - through more efficient access to tourist attractions, including domestic and international markets, via the ports of Melbourne and Geelong.³⁴¹

The Minister advised the Committee on the status of these three key projects as follows:

- while the Victorian Government has allocated its 50 per cent share (\$121 million) for the Pakenham Bypass, the Commonwealth Government has committed only \$100 million and, in 2000-01, deferred its funding for two years. The consequences have been uncertainty, project delays and increased costs due to subsequent increases in land prices;³⁴²
- the Commonwealth Government has yet to fund its 50 per cent share (\$70 million) of the Calder Highway upgrade between Kyneton and Faraday. While the Victorian Government has committed to spending as much of its \$70 million contribution as possible on sections that can be upgraded in isolation, works beyond that scope are expected to stop until the Commonwealth Government delivers its contribution;³⁴³ and
- the Victorian Government has allocated \$4.1 million in 2003-04 for the commencement of planning works for the Geelong Western Bypass. Meanwhile, it continues, in conjunction with the local

³⁴⁰ *ibid.*

³⁴¹ *ibid.*, p.484

³⁴² *ibid.*, p.481-482

³⁴³ *ibid.*, p.486

community, to lobby the Commonwealth Government to recognise the bypass as a Road of National Importance.³⁴⁴

The Committee is concerned that Victoria's share of national road funding (14.6 per cent) contrasts with the fact that Victoria represents approximately 25 per cent of the Australian population, undertakes approximately 28 per cent of the national freight task and produces about 26 per cent of the nation's economic activity.³⁴⁵

Recommendation 25:

The Department of Infrastructure seek urgent discussions with the Commonwealth Government in relation to achieving a more timely and equitable distribution of national road funding for Victoria.

(b) *Public transport issues*

(i) *Franchise operating agreements with private train and tram operators*

The Minister advised that despite significant improvements in operational performance and the delivery of network extensions and new rolling stock, the train and tram franchisees projected unsustainable financial losses in 2001. The Government negotiated with franchisees during 2002, to gain the right to terminate the franchise agreements early in return for additional financial support. Agreement was not reached with National Express, resulting in its withdrawal from Victorian rail operations in December 2002.³⁴⁶

The Committee noted that the Government receiver, KPMG, was appointed to the three franchises of National Express – M>Train, M>Tram and V/Line Passenger services – to protect the Government's interests and ensure the smooth continuation of services. To alleviate the financial pressure experienced by franchisees and to provide certainty to public transport operations, the Government announced a reform package in December 2002 to restructure the franchises and ensure public transport continued to operate without disruption over the next

³⁴⁴ *ibid.*, p.484

³⁴⁵ *ibid.*, p.482

³⁴⁶ Minister for Transport's response, received 23 July 2003, to the Committee's follow-up questions

12 months.³⁴⁷ Key elements of the Government's reform package included:

- the establishment of 12-month interim operating agreements with Connex and Yarra Trams, to guarantee services over the next 12 months while the franchises are restructured;
- the investment of an extra \$47 million in the Connex and Yarra Trams franchises over the duration of the interim operating agreements;
- the proposed reform of existing metropolitan franchises through the implementation of structural changes leading to one train business and one tram business; and
- the retention of V/Line passenger services in public ownership until the Government's improvements to the regional rail network are completed in 2005.

The Minister advised that the Government has commenced discussions with Yarra Trams and Connex to renegotiate the franchise contracts to achieve the Government's objective of one metropolitan train company and one metropolitan tram company. Further, the Minister indicated that a negotiated outcome offers the best chance of ensuring continued improved standards of service delivery and stability for customers and employees, and of removing what the Government considers to be flaws in the franchise contracts signed by the previous government.³⁴⁸ According to the Minister, 'the major problem with the contracts is the steep decline in the forward estimates, which contrasts with the likely breakeven point of franchisees'. The Committee noted that this gap equates to the Government contributing approximately \$1 billion over the next five years to ensure the continued operation of services.³⁴⁹

The Minister informed the Committee, that the Government has learned from the original franchise arrangements, particularly in terms of how to manage major projects. Specifically, for the major fast rail projects, a new agreement is due to commence in the latter half of 2003. It will ensure V/Line management assumes responsibility for managing the passenger interface before, during and after the disruption caused by regional fast

³⁴⁷ Minister for Transport, media release, 17 December 2002

³⁴⁸ Minister for Transport's response, received 23 July 2003, to the Committee's follow-up questions

³⁴⁹ *ibid.*

rail project works. In terms of the condition of the rail network, the Minister indicated that V/Line operates on rail networks managed by Freight Australia and M>Train, and that these arrangements also need reforming.³⁵⁰

The Minister indicated that as a result of the interim operating agreements, the additional payment for the first half of 2003-04 is approximately \$26 million. This may be reduced if patronage growth continues to improve as it has done in recent months. Additionally, the renegotiated franchises will also be fully funded at an additional cost to the Budget for the remaining half of 2003-04, although the Minister advised that the exact cost of the new franchises had yet to be negotiated at the time of the Committee writing this report.³⁵¹

The Committee supports the Government's initiatives in implementing structural reforms to metropolitan transport franchises, which will be important for the sustainable and effective ongoing operation of Victoria's vital public transport system. Accordingly, the Committee awaits the outcome of the negotiations under way between the Government and existing franchisees.

(ii) Public safety on public transport

The Committee noted that the Government is implementing initiatives to improve safety on public transport. The Minister indicated that a major component of these initiatives, aside from the redesign of the internal through visibility of rolling stock, will be the installation of distress buttons and communication devices with the driver.³⁵² Further, the Minister indicated that these improvements will apply to new trains coming onto the M>Train and Connex networks, as well as refurbished trains. Other safety improvement initiatives to be commenced or implemented in 2003-04 include:³⁵³

- \$6.6 million for the continued deck rehabilitation of the Flinders Street Concourse (Stage 1). The rehabilitation works will ensure the concourse's structural integrity to meet Australian Design Standards and enable more extensive use by operators and commuters;

³⁵⁰ *ibid.*

³⁵¹ *ibid.*

³⁵² Hon P. Batchelor, MP, Minister for Transport, transcript of evidence, 17 June 2003, p.488

³⁵³ Minister for Transport's response, received 23 July 2003, to the Committee's follow-up questions

- \$2 million (\$8.4 million over four years) for additional resources to undertake monitoring and enforcement activities and to assist rail operators in complying with regulatory standards, consistent with the national rail reform agenda;
- the introduction of 100 roving safety officers (57 with M>Train and 43 with Connex) and 100 roving conductors (55 with M>Tram and 45 with Yarra Trams), in partnership with the four metropolitan transport operators, and operate seven days a week;
- the Victoria Police Transport Safety Division's establishment of an undercover rapid response unit to address trouble spots across the network. The unit is highly mobile and can react quickly to any problem areas;
- the refurbishment or replacement of all trains, including the introduction of closed circuit televisions and duress buttons by March 2005. The majority of refurbished trains deployed across the network are already equipped with these features;
- all suburban railways stations are equipped with closed circuit televisions and duress buttons, and staff at premium stations along the line monitor all unstaffed stations. Passengers can use the red duress buttons to talk to a staff member and report any anti-social activities; and
- the establishment and operation of a working party to identify targeted and cost effective measures for improving the security of passengers using public transport.

The Committee strongly supports the Government's efforts to improve safety on public transport. The Government will need to actively maintain, monitor and periodically review the effectiveness of its safety measures, to ensure allocated public safety resources continue to deliver the desired effects.

Recommendation 26:

The Department of Infrastructure, in conjunction with public transport operators, develop and implement an evaluation strategy that will permit the ongoing review of the effectiveness of public safety measures.

(iii) OneLink and the performance of the automated ticketing system

The Committee sought information on the performance of the automated ticketing system since the settlement of the long running dispute between the Government and Onelink Transit Systems Pty Ltd, which is the consortium responsible for providing an automated fare collection system for the metropolitan public transport network.

The Minister advised that as a result of an independent audit by the Miller Group of Melbourne's public transport automated ticketing system, the Government negotiated a settlement with OneLink, resulting in changes to the initial contract and the establishment of an incentive scheme to address ticketing service and performance issues.³⁵⁴ The Miller Group's audit report (known as the Miller report) published in June 2001 indicated that only 72.8 per cent of ticket-issuing machines on stations were 'fully operational' and that the OneLink contract was 'complex, dense and prescriptive and mainly focuses on equipment standards and compliances, rather than service standards'. Further, the report concluded that 'public frustration with the ticketing system is understandable'.³⁵⁵

The Minister advised that the Government, after receiving the Miller report, implemented programs involving OneLink and the Revenue Clearing House to address service and performance issues. Downie Consulting audited the results of these initiatives. The Minister indicated that the audit report noted a significant improvement in the availability both of railway station ticket-issuing machines and of tram and bus ticket-issuing machines and validators.³⁵⁶ The Downie report indicated that the percentage of fully operational ticketing machines improved

³⁵⁴ Hon P. Batchelor, MP, Minister for Transport, transcript of evidence, 17 June 2003, p.489

³⁵⁵ Minister for Transport's response, received 23 July 2003, to the Committee's follow-up questions

³⁵⁶ *ibid.*

from 72.8 per cent (as identified by the Miller report in June 2001) to 92.1 per cent during the audit period of August–October 2002. Additionally, more recent surveys conducted during April–May 2003, showed that the availability of the same equipment had improved further to 96.6 per cent.³⁵⁷

The Minister advised that the Downie report also showed that the equipment hardening program (introduced to address the vandalism of ticket-issuing equipment) resulted in a 62 per cent reduction in reported vandalism incidences in 2002 compared with 2001, and that the trend is continuing downwards. Further, the Minister advised that the percentage of people unable to buy a ticket fell from 18.7 per cent (as reported by the Miller Group) in 2001 to 1.8 per cent in 2002, pointing to the success of implemented initiatives.³⁵⁸

The Committee is encouraged by the extent of improvements to the automated ticketing system for the metropolitan public transport network, and it commends the Government on the success of its implemented reform initiatives. However, as noted in the 2002–03 budget estimates report, the Committee believes that the Department should publish details on: (1) the performance standards for the automated ticketing system and (2) OneLink’s effectiveness in achieving those standards (including bonuses or penalties incurred by OneLink) in its annual report.

Accordingly, the Committee reiterates its 2002–03 recommendation.

Recommendation 27:

The Department of Infrastructure ensure its annual report contains information on:

- (a) the performance standards for the effective operation of the automated ticketing system;**
- (b) the performance of OneLink in achieving those standards; and**
- (c) bonuses or penalties incurred by OneLink.**

³⁵⁷ *ibid.*

³⁵⁸ *ibid.*

(c) *Road safety*

The Minister informed the Committee of the effectiveness of the Government's five year road safety strategy, arrive alive!, which aims to reduce deaths and injuries on Victoria's roads by 20 per cent by 2007. He also advised of the status of the Accident Blackspot Program, which aims to treat and upgrade targeted local roads to improve their safety.

The Minister advised that as a result of the Government's road safety initiatives, the road toll in metropolitan Melbourne has progressively declined and fell by approximately 25 per cent during the previous calendar year.³⁵⁹ Additionally, Exhibit 6.5 shows that the upward trend in country fatalities between September 2001 and September 2002 appears to have stabilised, and even began to decline in the most recent period.³⁶⁰

The Minister argued that a major contributor to the fall in the road toll is the heightened level of enforcement by Victoria Police for the arrive alive! strategy.³⁶¹ The Minister indicated evidence of a direct correlation between the decline in fatalities (particularly in metropolitan Melbourne) and the increased issue of traffic infringement notices, largely from mobile speed cameras (Exhibit 6.6).³⁶²

³⁵⁹ Hon P. Batchelor, MP, Minister for Transport, transcript of evidence, 17 June 2003, p.481

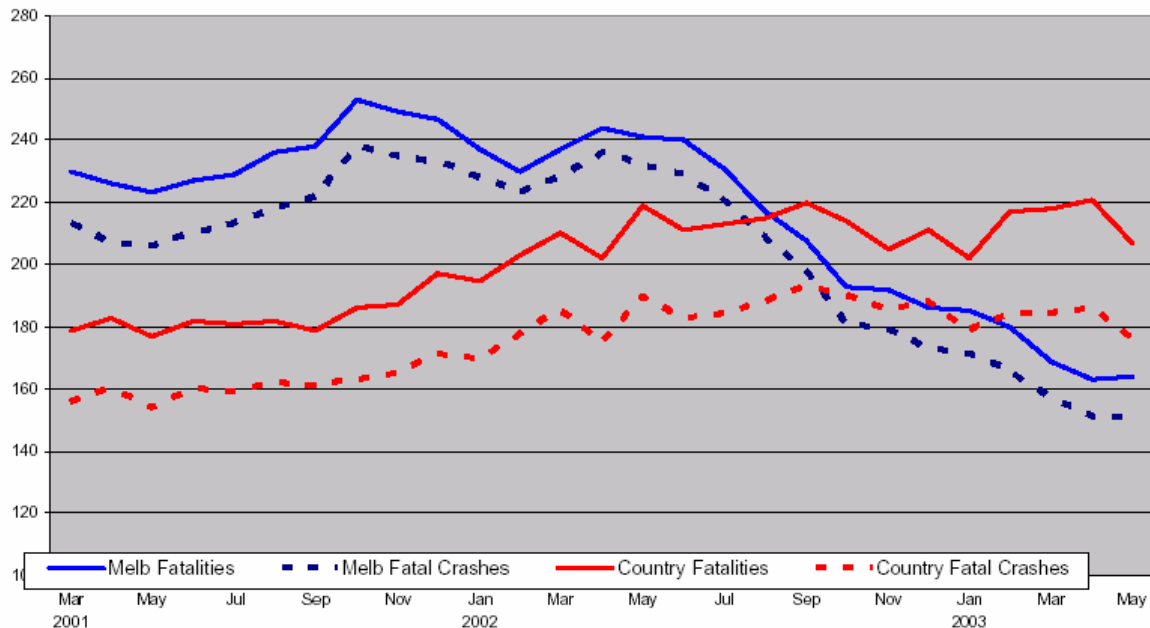
³⁶⁰ *ibid.*

³⁶¹ *ibid.*, pp.493-494

³⁶² *ibid.*

Exhibit 6.5:

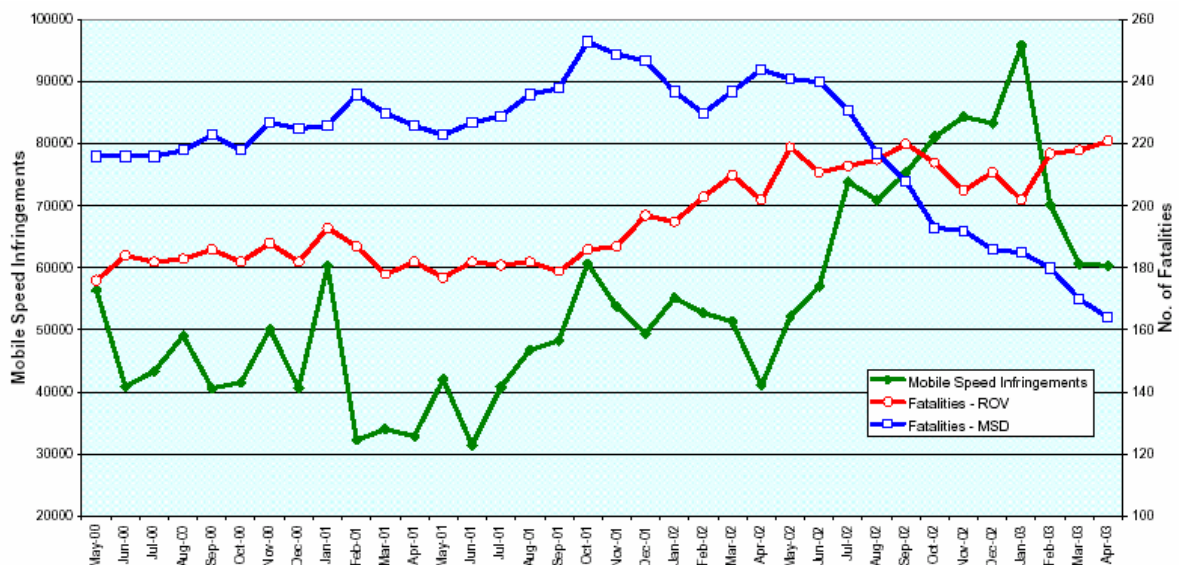
Melbourne versus country
Fatalities and fatal crashes, March 2001 to May 2003



Source: Hon. P. Batchelor, MP, Minister for Transport 2003, Transcript of evidence, 17 June 2003, appendix 1

Exhibit 6.6:

Mobile speed infringements and fatalities, May 2002 to April 2003



Source: Hon. P. Batchelor, MP, Minister for Transport 2003, Transcript of evidence, 17 June 2003, appendix 1

The Minister pointed out that the almost steady decline in metropolitan Melbourne fatalities since 2002 corresponds with the sharp increase in the

number of infringement notices issued during the same period. The continuing decline in fatalities in metropolitan Melbourne in 2003, despite a corresponding decrease in the number of infringement notices issued, suggests that the Government's road safety strategy has been successful at influencing driver behaviour through increased awareness of enforcement activities and thus greater compliance with signed speed limits. While Exhibit 6.6 shows that country fatalities rose during late 2001 and most of 2002, the Minister advised that emerging data appear to suggest that this trend is also beginning to reverse.³⁶³

The Committee also sought information on the effectiveness of the Government's Accident Blackspot Program, which was funded by a once-off \$240 million dividend from the Transport Accident Commission. The Minister advised that 1,112 sites have received funding, with an additional 17 projects to be funded from savings achieved during the project's duration.³⁶⁴

In discussing the program's effectiveness, the Minister referred to research by the Monash University Accident Research Centre, which undertook an initial evaluation of the project based on work that had been completed on 109 blackspot sites by 2001. According to the Minister, these preliminary results showed that casualty crashes at the above treated sites had been reduced by an average of approximately 17.5 per cent. Further, the results indicated that an overall benefit-cost ratio of 4.2 has been achieved as a result of the associated expenditure, suggesting the efficient achievement of a beneficial outcome.³⁶⁵

While the Minister acknowledged that a more comprehensive analysis of the results has yet to be performed, the available data suggest that the treatment of sites through the Accident Blackspot Program has potentially resulted in significant benefits for the Victorian community by reducing the number of crashes, serious injuries and fatalities and, therefore, reducing the associated costs to the community.³⁶⁶

The Committee noted that the 2003-04 budget provides a further \$35 million over four years for road safety initiatives as follows:³⁶⁷

³⁶³ *ibid.*

³⁶⁴ *ibid.*, p.495

³⁶⁵ *ibid.*

³⁶⁶ *ibid.*, p.496

³⁶⁷ Minister for Transport, media release, 6 May 2003

- a further \$23 million over two years for the arrive alive! strategy to introduce reduced speed limits outside every primary and secondary school across Victoria;
- \$10.7 million in 2003–04 (to be funded from an increase in motor registration fees) for road safety improvements in country Victoria where speed, fatigue, heavy vehicle operations and low levels of seat belt wearing remain ongoing problems;
- \$800,000 in 2003–04 for a Crash Counter Measure Program to better understand the cause of crashes and identify measures to reduce them;
- \$300,000 in 2003–04 for speed enforcement in regional Victoria; and
- \$200,000 for heavy vehicle safety enforcement.

The Committee welcomes the Government's initiatives to enhance road safety around schools and particularly on roads throughout regional Victoria, which continue to represent an area of concern. The Committee considers that the level of expenditure being allocated to these initiatives warrants the establishment of relevant performance measures and targets that enable the initiatives' effectiveness and efficiency to be adequately assessed.

Recommendation 28:

**The Department of Infrastructure
establish relevant performance measures
and targets that reflect the expected
benefits of the road safety initiatives
around schools and in regional Victoria.**

(d) *Freight Rail Access to Victorian Ports*

The Committee was advised by the Minister that as part of the *Growing Victoria Together* framework, the Government aims to increase the level of freight rail going into Victorian ports from the current level of approximately 17 per cent to 30 per cent by the year 2010.³⁶⁸

³⁶⁸ Hon P. Batchelor, MP, Minister for Transport, transcript of evidence, 17 June 2003, p. 497

The Committee noted that a program to improve rail access to Victoria's ports has commenced in recognition of the environmental and social benefits generated by the use of rail for freight, including the development of a more efficient freight and logistics chain.³⁶⁹ The Minister advised that several initiatives have been commenced or will be implemented by the Government in partnership with the private sector to achieve this objective. These include the following key projects:³⁷⁰

- the former Melbourne Port Corporation (now trading as the Port of Melbourne), in partnership with P&O Ports, recently opened rail access to P&O's new intermodal terminal at West Swanson Dock. P&O Ports has invested approximately 80 per cent towards the capital cost that included the reinstatement of rail. The former Melbourne Port Corporation has also commenced planning for the reinstatement of rail access to the Webb Dock precinct in the Port of Melbourne;
- in partnership with GrainCorp and the Australian Rail Track Corporation, the Government has completed the first stage of dual gauging works that enable standard gauge trains to access GrainCorp's Geelong grain terminal from the west. Since the project was completed in August 2002 involving a 45 per cent contribution from the private sector, 70,000 tonnes of grain has been delivered to the port on standard gauge trains that would have previously arrived by road or exported via alternative ports at additional cost to farmers;
- Midway Pty Ltd is constructing a new private siding that will provide direct rail access to its export woodchip facility that is expected to be completed by August 2003. The new siding will enable the use of rail to deliver approximately 180,000 tonnes of logs per annum from East Gippsland, Albury-Wodonga and other locations direct to the export facility. The Government has allocated \$180,000 from the Regional Infrastructure Development Fund to complete the conversion of the siding to dual gauge when the State constructs the Corio Independent Goods Line;
- the Government is presently negotiating partnerships with industry for standardisation and/or dual gauging of rail sidings

³⁶⁹ Minister for Transport's response, received 23 July 2003, to the Committee's follow-up questions

³⁷⁰ *ibid.*

that could be linked to the Corio Independent Goods Line such as those owned and operated by Midway and Pivot. The linkage of these facilities to the standard gauge network will extend the hinterland of the port and improve the range of import and export opportunities available to these businesses. The investment of \$13.5 million in the Corio Independent Goods Line announced in the 2003–04 budget is in addition to the \$5.1 million allocated in 2002–03 for the provision of dual gauge rail access to Lacelles Wharf; and

- investment in the Lascelles Wharf aims to facilitate a reduction in freight costs, increase the mode share of rail freight to and from the Port of Geelong, and stimulate the development of warehousing and other like infrastructure on 30 ha of vacant land within the confines of the Port of Geelong. A further \$2.46 million has been allocated from the Regional Infrastructure Development Fund for the connection of existing private sidings to the Corio Independent Goods Line with the private sector expected to contribute 19 per cent of the total capital cost.

The Minister stated that these projects are indicative of the Government's efforts to work with both stevedoring and freight interests to grow Victoria's rail share, and derive from a broader vision of a seamless logistics chain, where the freight task is viewed from the point of manufacture or growing, right through to the point of export as opposed to a disjointed and unintegrated task.³⁷¹ The Committee noted that successful implementation of these initiatives will be pivotal in achieving the Government's objective of 30 per cent rail share into Victorian ports by the year 2010.

6.5 Major Projects portfolio

The Minister for Major Projects has sole responsibility for the Major Public Construction and Land Development output within the Metropolitan Transport Infrastructure and Public Development Projects output group of the Department. As shown in Exhibit 6.7, this output accounts for approximately \$2.8 million or less than 1 per cent of the Department's 2003–04 budget of \$2,567 million.

³⁷¹ Hon P. Batchelor, MP, Minister for Transport, transcript of evidence, 17 June 2003, p.497

Exhibit 6.7:

**Major Projects Portfolio
Output Costs**

Output Group	Outputs under the responsibility of the Minister for Major Projects	2003-04 Output Cost (\$ million)
Metropolitan Transport Infrastructure and Public Development Projects	Major Public Construction and Land Development	2.8
Total		2.8

Source: Budget Paper No.3, 2003-04 Budget Estimates, pp.147-148

Major Projects Victoria (MPV), a division of the Department of Infrastructure, provides project development and management services to the Victorian Government. It is involved in large scale projects that sit outside programmed capital works (eg. roads, public housing, schools) and significantly contribute to the State's cultural and economic infrastructure.

MPV's role is to manage projects from concept to completion, ensuring that agreed financial, economic, environmental and social goals are met.

Projects currently handled by MPV include the redevelopment of arts and sports facilities such as the National Gallery of Victoria redevelopment and the Melbourne Sports and Aquatic Centre (Stage 2); land development and realisation projects at Beacon Cove and Mont Park; and innovative investment projects such as the Docklands Film and Television Studios.

6.5.1 2003-04 outlook for the portfolio

The key priorities of the Major Projects portfolio in 2003-04 include:³⁷²

- completion of the Dome Reading Room and McCoy Hall at the State Library as well as finalisation of redevelopment works associated with the National Gallery of Victoria including its opening to the public;
- further advancement of the Hazardous Waste Siting project including the commencement of work to find suitable sites for a long term solution;

³⁷² Budget Paper No.3, 2003-04 Budget Estimates, p.119

- establishment of a project team for the Australian Synchrotron development project as well as commencement of main building works;
- continuation of planning for the establishment of the Commonwealth Games Athlete's Village, following the appointment of a Development Consortium in 2002-03; and
- commencement of design work for the new MTC Theatre and Dame Elisabeth Murdoch Recital Hall performance facilities at Southbank.

These priorities are in addition to existing projects which the Department is currently engaged in including, the Spencer Street Station redevelopment, the Royal Melbourne Showgrounds redevelopment as well as the Austin and Repatriation Medical Centre redevelopment project.

6.5.2 *Analysis of the portfolio budget*

The Committee's analysis of the 2003-04 Budget Papers shows that funding allocated for the Major Projects portfolio has declined by \$300,000 or 9.7 per cent from the revised 2002-03 budget allocation. In 2003-04 MPV will employ 24 staff. Most of MPV's \$2.8 million budget would be absorbed in salary and on costs.

6.5.3 *Key issues impacting on the portfolio*

The Department's response to the Committee's estimates questionnaire and the hearing with the Minister for Major Projects identified the following key issues that will impact on the portfolio and the budget estimates for 2003-04.

(a) *Federation Square*

The Federation Square project was initially managed by the Office of Major Projects Victoria. Since November 2000, direct responsibility for overseeing all components of the project, including design and construction was assumed by Federation Square Management Pty Ltd (FSM) – a wholly-owned company of the State Government of Victoria.

FSM reports to the State Government Treasurer and Minister for Regional Development. The Minister for Major Projects has overseen the physical construction and delivery of the project.³⁷³

Progress on the development of the Square has been subject to annual audit reviews since June 2000. The most recent review was published in May 2003.³⁷⁴ In this review the Auditor-General stated that the latest cost estimate was \$473.3 million and that the project had an estimated funding shortfall of \$14 million. These figures were disputed in the response from the Secretary of the Department of Infrastructure who advised that the total project budget was \$423.6 million and that a budget gap of \$6.3 million currently existed.³⁷⁵

The Committee noted that the project had experienced some cash-flow difficulties early 2003 and that the Auditor-General reported in May 2003 that additional funds would be required from June 2003 in order to meet project commitments. The Minister advised the Committee that FSM has been told that it will need to identify ways of meeting its future cash requirements to meet bills and ongoing operational requirements, including servicing loans, and any large amounts that it might need to finalise the project. Potential income sources include additional sponsorship, advertising, rent and other commercial activities. The Minister for Major Projects also advised the Committee that '[as at 17 June 2003] all claims approved by the Federation Square Management Company [had] been paid by the State and there [were] no outstanding claims at this time'³⁷⁶.

The Minister informed the Committee that an acting chief operating officer had been appointed to facilitate the conclusion of the construction phase. The role of the chief operating officer will include undertaking a full review of FSM's financial position with regard to both operational and project management functions prior to any consideration of further funding (for example, to address the \$6.3 million budget gap) by the State.³⁷⁷

³⁷³ <http://www.federationsquare.com.au>

³⁷⁴ Victorian Auditor-General's Office, *Report on Public Sector Agencies*, May 2003, Status of the Federation Square Development, pp.61-69

³⁷⁵ *ibid.*, p.68

³⁷⁶ Hon P. Batchelor, MP, Minister for Major Projects, transcript of evidence, p.471

³⁷⁷ Victorian Auditor-General's Office, *Report on Public Sector Agencies*, May 2003, Status of the Federation Square Development, p.69

In relation to the final end cost of the project, the Minister advised that this would not be known until final invoices had been received and paid. The Minister also pointed out that the cost of the recently appointed chief operating officer also had to be factored in.

The Committee are aware that this project has encountered many difficulties and that the end result has been the subject of much public criticism - for example criticism of the financial and project management of the Square as well as criticism of the design and materials used³⁷⁸, and also some praise – for example the building has attracted large number of visitors since its official opening.

The Committee was keen to find out what lessons had been learned from the experience.

The Minister acknowledged that the large and complex projects involving the Austin and Mercy hospitals had benefited because of lessons learned from Federation Square. As a consequence, some of the new arrangements that have now been put in place for the Austin and Mercy Hospitals include:

- a set of managing contractual agreements that provide some certainty in outcome;
- agreeing a maximum construction price with builders, the price is within budget and a contractual arrangement has set a ceiling on the identified project scope;
- project contingency planning to deal with unforeseen circumstances and other risks; and
- making the project agreement performance based. The agreement includes incentives if the contractor keeps within the bounds of the contractual terms and rewards and penalties apply according to whether or not the contractors meet performance criteria.

The Committee believes MPV has the capacity to improve the State's large and complex management capabilities as a result of its involvement with Federation Square and looks forward to future projects benefiting from this experience.

³⁷⁸ R. Baker, *The Age* newspaper, 2 June 2003, *How Federation Square chiefs drew ire of Bracks*

Recommendation 29:

Major Projects Victoria develop best practice models and guidelines for managing large and complex public projects.

(b) Project Management

The Major Projects portfolio covers a wide range of strategic and complex property developments and economic infrastructure projects that warrant specialist management.³⁷⁹ Major Projects Victoria provides project management expertise for the construction of major State projects.

The 2003-04 budget for the Major Projects portfolio's output 'Major Public Construction and Land Development' is only \$2.8 million, yet Major Projects Victoria is responsible for managing billions of dollars worth of projects: in 2002-03 MPV turned over in excess of \$113 million in construction activity and more than \$11 billion worth of major projects are being facilitated by the MPV.³⁸⁰

In most cases the development or capital funding for projects is provided to and reported under a different portfolio or department. (For example funding for the National Gallery of Victoria redevelopment and the State Library of Victoria is appropriated to the Arts portfolio within the Department of Premier and Cabinet.³⁸¹

The Committee asked for an update of the cost and timelines for all major projects being overseen by MPV.

Exhibit 6.8, Summary of significant major projects, summarises information provided by the Minister both during the estimates hearing and afterwards in his response to questions on notice.

The Committee notes that many projects have experienced delays and, or cost escalations. In most instances these have been unforeseen and unavoidable, in other instances delays have occurred because of extended administrative procedure, for example extended contract negotiations, or changes in project scope. Some delays and cost escalations are a consequence of poor initial estimations.

³⁷⁹ Hon P. Batchelor, MP, Minister for Major Projects, transcript of evidence, p.470

³⁸⁰ *ibid.*

³⁸¹ *ibid.*

Where delays have occurred because of poor management, or inexpert handling of a situation, the Committee expects the Departments and Major Projects Victoria to analyse these experiences, learn and improve its management. Where initial estimates have been poor, the Committee similarly recommends a cycle of analysis learning and improvement.

Recommendation 30:

Major Projects Victoria work closely with the Departments that are receiving capital funding for projects to assist them with scoping future projects and providing more accurate budget and time estimates.

Exhibit 6.8:

Summary of significant major projects as at 30 June 2003ⁱ

<i>Project</i>	<i>Estimated completion date</i>		<i>Estimated cost (\$ millions)</i>		<i>Comments including reason for time delay and / or increase in costs if required</i>
	<i>initial</i>	<i>current</i>	<i>initial</i>	<i>current</i>	
Docklands	Not applicable	Not applicable	Not applicable	Not applicable	The Docklands redevelopment commenced in 1991 and is a comprehensive urban development project to be developed over 25 years. The Docklands Project has \$2.3 billion of development completed or in construction projected to reach \$8 billion by 2015. To facilitate the development of the Docklands area, the Authority has drawn down \$139 million from its \$185 million TCV loan facility. This is expected to be fully repaid over the life of the project. ⁱⁱ
Docklands Studios ⁱⁱⁱ (Film & Television)	Mid 2003	March 2004	40.0	40.0	Time delay due to contract negotiations and due diligence procedures in the lead up to developer appointment and achieving financial close. ^{iv}
Federation Square ^v	2001 (to coincide w. Centenary of Federation)	Base Building works completed May 2003. All tenancies completed October 2003. ^{vi}	110.0	429.8 ^{vii}	Delays and cost increases due to: ^{viii} <ul style="list-style-type: none"> - design issues; - addition of new gallery; - addition of car park; - closure / redevelopment of Batman Avenue; - adjustment to realign with Jolimont rail redevelopment and Exhibition street extension; - increased floor space for Cinemedia and SBS; and - contractual disputes, claims, poor tender outcomes and prolongation.
Melbourne Convention & Exhibition Centre	April 2003	Completed	2.0	2.0	Plenary Hall - Completed on budget
Melbourne Markets Redevelopment Project	Not yet determined	Project still in feasibility stage	Not yet determined	Project still in feasibility stage	Project still in feasibility stage
National Gallery of Victoria Redevelopment	End 2002	End 2003	96.38	100.53	Time delay due to project brief changes by the then new NGV Director – increase in exhibition and display areas; Additional \$4.15 million required to correct the effect of discovered latent conditions (defects in existing building fabric), and also to accommodate recent changes in regulatory and code requirements. ^{ix}
Spencer Street Station (cost to State only)	Mid 2005	Mid 2005	300.0	300.0	No changes to budget or timing.

Project	Estimated completion date		Estimated cost (\$ millions)		Comments including reason for time delay and / or increase in costs if required
	initial	current	initial	current	
Synchrotron ^x	March 2007	March 2007	157.0 (announced 3 rd quarter 2000)	206.0 (nominal dollars)	The revised total cost of the project is \$206 million (nominal) and is based on a rigorous costing exercise using the enhanced design and most recent synchrotron project experience. It includes: – increased contingency allowance – up from 10 to 15 per cent; – increased labour costs; – increased stocks of spares to enable trouble free commissioning in 2007; – CPI movements since 2000 ^{xi}
Urban and Regional Land Corporation (URLC) and Docklands authority (DA) merger	Not applicable	Not applicable	Not applicable	Not applicable	Costs related to the merger will be met within the existing operational budgets of URLC and DA. ^{xii}
Beacon Cove (Stage 2)	<i>Not provided</i>	<i>Not provided</i>	<i>Not provided</i>	<i>Not provided</i>	Planned to commence 2002, but has been delayed until further notice due to planning issues and the need for ongoing community consultation. ^{xiii}
Commonwealth Games Village ^{xiv}	<i>Not provided</i>	<i>Not provided</i>	<i>Not provided</i>	<i>Not provided</i>	On plan for delivery in time and within budget. ^{xv}
Austin & Repatriation Medical Centre redevelopment ^{xvi}	April 2005	March 2006	325.7	376	Abnormal market costs associated with price escalation. ^{xvii}
Hazardous Waste soil recycling facility , & long term containment facility	<i>Not provided</i>	<i>Not provided</i>	<i>Not provided</i>	<i>Not provided</i>	Decisions on locations for both sites to be made by September 2003. ^{xviii}
MSAC 2	50.0	51.2	NB	NB	Additional scope changes which have been approved through the planning process ^{xix} NB Additional information to be supplied by Minister for the Commonwealth Games.
Commonwealth Games upgrade of Jolimont station	<i>Not provided</i>	<i>Not provided</i>	<i>Not provided</i>	<i>Not provided</i>	Currently under development and has not gone over budget or over time. ^{xx}
Showground redevelopment ^{xxi}	For the 2006 Show	For the 2006 Show	<i>Not provided</i>	<i>Not provided</i>	On budget at this stage
State Library ^{xxii} (phases 1-3)	2001	2005-06	187	226.6	Dome reading room opened as of June 2003. Budget increases due to discovery of previously unidentified asbestos in building walls.
Yarra Arts precinct integration project	<i>Not provided</i>	<i>Not provided</i>	30	30	The total estimated investment in the merger is \$30 million. ^{xxiii} Project has not gone out to tender yet.

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- i Note that this is a selective (rather than complete) list of projects currently being managed by Major Projects Victoria.
 - ii Minister for Major Projects' response, received 9 July 2003, to the Committee's follow-up questions
 - iii also discussed in this report at 7.5.3(a) Docklands film and television studios, Innovation and Policy Portfolio, Department of Innovation, Industry and Regional Development
 - iv Minister for Major Projects' response, received 9 July 2003, to the Committee's follow-up questions
 - v Federation Square discussed as separate issue in this chapter at 6.5.3(a) Federation Square, Visitor numbers at Federation square are discussed in this report and 9.5.3(b) visitors at Victoria's cultural institutions, Department of Premier and Cabinet
 - vi Public areas formally opened October 2002
 - vii This figure has been provided by the Minister for Major Projects' response, received 9 July 2003, to the Committee's follow-up questions. It differs from the estimation of \$473.3 million made by the Auditor General 2003, *Report on Public Sector Agencies*, May, p.63
 - viii Minister for Major Projects' response, received 9 July 2003, to the Committee's follow-up questions
 - ix Minister for Major Projects' response, received 9 July 2003, to the Committee's follow-up questions
 - x also discussed in this report at 7.5.3(b) National synchrotron facility, Innovation Portfolio, Department of Innovation, Industry and Regional Development
 - xi Minister for Major Projects' response, received 9 July 2003, to the Committee's follow-up questions
 - xii Minister for Major Projects' response, received 9 July 2003, to the Committee's follow-up questions
 - xiii Hon. P. Batchelor, Minister for Major Projects, transcript of evidence, p.476
 - xiv also discussed in this report at 13.12.3(d) Commonwealth Games Athlete's Village, Commonwealth Games portfolio, Department for Victorian Communities
 - xv Hon. P. Batchelor, Minister for Major Projects, transcript of evidence, p.476
 - xvi also discussed in this report at 5.5.3(c) Redevelopment of the Austin and Repatriation Medical Centre, Health portfolio, Department of Human Services
 - xvii Hon. P. Batchelor, Minister for Major Projects, transcript of evidence, p.476
 - xviii Hon. P. Batchelor, Minister for Major Projects, transcript of evidence, p 474
 - xix Hon. P. Batchelor, Minister for Major Projects, transcript of evidence, p.474
 - xx Hon. P. Batchelor, Minister for Major Projects, transcript of evidence, p.477
 - xxi also discussed in this report at 10.5.2(b) Melbourne showgrounds redevelopment, Agriculture portfolio, Department of Primary Industries
 - xxii also discussed (briefly) in this report at 9.5.3(b) Visitor's at Victoria's cultural institutions, Department of Premier and Cabinet
 - xxiii Hon. P. Batchelor, Minister for Major Projects, transcript of evidence, p.477

6.6 Information and Communication Technology portfolio

The Minister for Information and Communication Technology (ICT) has sole responsibility for the ICT and Multimedia output group within the Department. The Committee noted that machinery of government changes in December 2002, resulted in the transfer of output responsibility from the Department of Innovation, Industry and Regional Development (DIIRD) to the Department of Infrastructure (DOI). Additionally, this event has also resulted in the consolidation of four outputs previously reported under DIIRD into the two outputs, ICT Industry and Community Development and eGovernment and ICT Policy. Exhibit 6.9 below, shows that, collectively, these outputs account for \$43.5 million or 1.7 per cent of the Department's 2003–04 budget.

Exhibit 6.9:

Information and Communication Technology Portfolio Output Costs

Output Group	Outputs under the responsibility of the Minister for Information and Communication Technology	2003-04 Output Cost (\$ million)
ICT and Multimedia	ICT Industry and Community Development	12.2
	eGovernment and ICT Policy	31.3
Total		43.5

Source: Budget Paper No.3, 2003–04 Budget Estimates, pp.128-130

6.6.1 2003–04 outlook for the portfolio

Some of the key priorities for the ICT portfolio in 2003–04 include:

- continued implementation of the Telecommunications Purchasing and Management Strategy (TPAMS) to provide a strategic framework for the procurement and management of telecommunications services across the whole of the Victorian Government;
- contributing to the establishment of the Chief Information Officer and Chief Technology Officer roles to provide leadership and management of ICT within Government;

- further development of the Government's broadband framework;
- continued implementation of the Regional Connections, Growing Tomorrow's Industries Today and Putting People at the Centre strategies; and
- facilitating ICT investment and ICT industry development.

6.6.2 Key issues impacting on the portfolio

The Department's response to the Committee's questionnaire and the estimates hearing with the Minister for Information and Communication Technology identified the following key issues that will impact on the portfolio and the budget estimates for 2003-04.

(a) Telecommunications Purchasing and Management Strategy

TPAMS is a very large project. In 2002-03 a commitment of \$70.6 million over four years was made in relation to the TPAMS project. In 2003-04 an expected \$49.3 million³⁸² will be expended in relation to this project. \$33.1 million has been budgeted for 2003-04 accounting for 76 percent of the total portfolio budget (\$43.5 million). An additional \$16.2 million has been carried forward from 2002-03 to be expended during 2003-04. On top of this the capital asset charge and depreciation expense will amount to \$13.1 million in 2003-04.

The Committee was interested in following up the status of the TPAM strategy. The Committee also sought an update of project expenditure.

The Minister advised that about \$178 million was spent by the Victorian Government on telecommunications each year and that this figure was increasing. The TPAMS will enable the Government to negotiate the best value for money from its telecommunications providers. TPAMS will achieve this through '*consolidating the Government's purchasing power; by buying in aggregate and taking out tranches across government.*'³⁸³

³⁸² This figure does not include capital asset charge and depreciation of \$13.1 million.

The \$49.3 million is made up of the following components:

\$25.8 million budgeted capital expenditure,

\$7.3 million budgeted output expenditure, and

\$16.2 million in capital which has been carried forward from 2002-03.

Minister for Information Communications and Technology, information supplied 18 July 2003, in response to Committee's follow-up questions

³⁸³ Hon M. Thomson, MLC, Minister for Information Communications and Technology, transcript of evidence, 29 May 2003, p.352

The Minister made it clear that the TPAMS project intended to encourage competition within the telecommunications industry and that *'the use of TPAMS as a competitive model [would] encourage some telecommunication infrastructure spend in regional Victoria'*.³⁸⁴

The Minister summarised the achievements of the project since it commenced eleven months ago:³⁸⁵

- established project plans and governance arrangements;
- transition management of existing telecommunications contracts;
- extensive industry consultation;
- engagement of design, legal and commercial partners and probity auditor;
- completion of design and risk management plans;
- head legal contracts and initial tender documents drafted; and
- negotiation of transition arrangements for the Statenet system and contracts.

The Committee noted that expenditure for the TPAMS project was under budget in 2002–03 by \$16.2 million. From a capital budget of \$21.9 million in 2002–03, only \$5.7 million (estimated) was used. The Minister has advised that the remaining \$16.2 million will be carried over to 2003–04.

The Committee was concerned that a delay in capital expenditure of \$16.2 million may have impacted on the project's timelines and/or quality. The Minister assured the Committee that *'any delays have now been factored into project planning and do not affect the overall budget or timeframe for the project'*³⁸⁶. The Minister advised that the funds carried over to 2003–04 would be used in that year in conjunction with the original budget for 2003–04. The total capital expenditure in 2003–04 is anticipated to be \$42 million.³⁸⁷

³⁸⁴ *ibid.*, p.352

³⁸⁵ *ibid.*, p.352

³⁸⁶ Minister for Information and Communication Technology's response, received 18 July 2003, to the Committee's follow-up questions

³⁸⁷ *ibid.*

Cost information provided by the Minister to the Committee in relation to TPAMS is summarised in Exhibit 6.10.

Exhibit 6.10:

TPAMS budget

Division	TEI ^(a)	Estimate Actual 2002-03	Budget 2003-04	Budget 2004-05	Budget 2006-07
	(\$ million)	(\$ million)	(\$ million)	(\$ million)	(\$ million)
Capital (2 years)	47.7	5.7	42.0	-	-
Output ^(b) (4 years)	22.9	1.0	7.3	7.3	7.3
Total	70.6	6.7	49.3	7.3	7.3
Capital asset charge and depreciation	n/a	4.2 ^(c)	13.1	12.1	11.2

Notes: (a) TEI as per Budget Paper No.2, 2002-03 Budget Statement, Appendix A, pp.192 and 195

(b) The Minister advised that the output price for TPAMS included the cost of the Rosetta project.

(c) Budgeted amount

Source: Hon. M. Thomson, Minister for Information and Communication Technology's response, received 18 July 2003, to the Committee's follow-up questions

The Committee will monitor the progress made with this significant and important project during 2003-04. To assist with monitoring the project the Committee was interested to know what specific performance indicators were included in the budget papers in relation to the TPAMS project.

The Minister advised that specific targets for the TPAMS project were available through the website.³⁸⁸ The Minister also told the Committee that TPAMS is reported in the budget through the following measures in the eGovernment and Information Communications and Technology policy output:³⁸⁹

- whole of government information communications and technology infrastructure services established and operated; and
- eGovernment telecommunications/data infrastructure projects underway or completed.

³⁸⁸ <http://www.mmv.vic.gov.au/TPAMS>

Hon M. Thomson, MLC, Minister for Information Communications and Technology, transcript of evidence, 29 May 2003, p.358

³⁸⁹ Minister for Information and Communication Technology's response, received 18 July 2003, to the Committee's follow-up questions

The Committee considers that these performance measures in the budget papers could be improved by specific reference to TPAMS. The Committee's review of the TPAMS website (including review of 'TPAMS on a Page' and the brochure 'Victorian Government Telecommunications – A better way together') indicated that the only information provided that could assist in monitoring of the project was a timetable setting out annual and part year project phases.³⁹⁰

At last year's estimates hearings, the Committee was told that the Department would ensure that the current quality of service was maintained and improved under TPAMS through:³⁹¹

- industry benchmarking;
- pre-qualification and comprehensive capability evaluation;
- technical and commercial risk management; and
- the inclusion of quality assurance monitoring and reporting systems into core specifications backed up by contract terms.

The Committee is pleased that these measures are now in place, but would be interested in the measures and benchmark data in order to evaluate TPAMS achievements.

The Committee believes monitoring of TPAMS could be better facilitated by disclosing more detailed project milestones and analysis of progress on the website and in the budget papers.

(b) ICT Investment in Victoria

Multimedia Victoria is the Agency responsible for implementing the Government's ICT policy. Multimedia Victoria is part of the Department of Infrastructure and works closely with other Government bodies and the Information Communications Technology (ICT) industry, community groups, education and training providers and the wider business community to deliver the Government's Connecting Victoria policy.

³⁹⁰ Review of website conducted as at 5 June 2003 and 20 August 2003

³⁹¹ Public Accounts and Estimates Committee, *Report on the 2002-03 Budget Estimates*, 52nd Report, p.357

Multimedia Victoria's core responsibilities include growing the ICT industry in Victoria and attracting new ICT investment to Victoria.³⁹² The Minister advised that '*Victoria had a very strong year in investment facilitation in the ICT sector*'.³⁹³ The Budget papers show that 115 investment recruitment projects (against a target of 110) were supported in 2003-04.

The Committee asked which companies made up the 115 projects and what funding had been invested in them. The Minister outlined details of some companies during the estimates hearing including:³⁹⁴

- Computershare is expected to bring around 1200 new jobs to an Abbotsford site;
- IBM Regional Software Solutions Centre at Ballarat: will create 300 new highly skilled jobs as well as providing work experience for ICT undergraduates in regional Victoria;
- Anite PS is expected to create 30 new jobs; and
- other companies that are investing or increasing their investments in Victoria include: Acclaim Entertainment, Bosch, Smartforce, Enfasis and Tata Consulting.

The Minister later advised that '*for commercial-in-confidence reasons it was not appropriate to disclose the 115 projects to which this measure refers*'. The total value of these projects is included in figures reported by the Department of Innovation, Industry and Regional Development³⁹⁵ and again are not disclosed individually for commercial-in-confidence reasons.³⁹⁶ The Committee is disappointed that this information is not available.

The Committee reiterates the recommendation made in its review of *Commercial in Confidence Material and the Public Interest*³⁹⁷ that, where information is withheld from a joint standing parliamentary committee established under the Parliamentary Committees Act, on confidentiality

³⁹² Multimedia Victoria website, www.mmv.vic.gov.au

³⁹³ Hon M. Thomson, MLC, Minister for Information Communications and Technology, transcript of evidence, 29 May 2003, p.358

³⁹⁴ *ibid.*

³⁹⁵ Budget Paper No.3, 2003-04 Budget Estimates, p.182

³⁹⁶ Minister for Information and Communication Technology's response, received 18 July 2003, to the Committee's follow-up questions

³⁹⁷ Public Accounts and Estimates Committee, 35th Report to the Parliament, March 2000

grounds, the reasoning behind the decision must be provided in writing by the relevant Minister to the committee.³⁹⁸

The Committee noted that the performance measure that related to ICT investment: 'investment recruitment projects'; was being discontinued and a new measure: 'investment projects under development'; was being introduced. Its target for 2003–04 is 25.³⁹⁹ Clearly this is a different measure. The Minister advised that the new measure was introduced to *'be consistent with the arrangements that are occurring in the Department of Innovation, Industry and Regional Development in investment attraction'*.⁴⁰⁰

The Minister said *'we (i.e. Multimedia Victoria through the Department of Infrastructure) will continue to do the work in relation to ICT investment attraction; it will be reported through the Department of Innovation, Industry and Regional Development output'*.⁴⁰¹

The Minister explained even though Multimedia Victoria had been moved from the Department of Innovation, Industry and Regional Development across to the Department of Infrastructure in accordance with machinery of government changes, it was trying to maintain consistency with the Department of Innovation, Industry and Regional Development's arrangements. The Minister also pointed out that she, along with other Ministers, is jointly responsible for meeting the performance measures for investment attraction and job creation.⁴⁰²

The Committee sought clarification of a number of issues in relation to ICT investment including:

- why the total value of the investment recruitment projects is reported under Department of Innovation, Industry and Regional Development rather than Department of Infrastructure;
- what the differences are between the output 'investment facilitation and attraction' which is delivered through the Department of Innovation, Industry and Regional Development and the output

³⁹⁸ Public Accounts and Estimates Committee, 35th Report to the Parliament, March 2000, *Commercial in Confidence Material and the Public Interest*, recommendation 5.9, p.79

³⁹⁹ Budget Paper No.3, 2003–04 Budget Estimates, p.129

⁴⁰⁰ Hon M. Thomson, MLC, Minister for Information Communications and Technology, transcript of evidence, 29 May 2003, p.359

⁴⁰¹ *ibid.*

⁴⁰² Minister for Information and Communication Technology's response, received 18 July 2003, to the Committee's follow-up questions, p.5

‘ICT investment and attraction’ which is delivered through Department of Infrastructure; and

- how the Department of Infrastructure and Department of Innovation, Industry and Regional Development performance targets⁴⁰³ were distinguished from one another.

The Committee believes it is very important in an output budgeting model for the Government and the Departments to provide information about the quality, quantity, cost, and time parameters of an output. Performance measures need to be linked closely to the output and provide meaningful, assessable information.

The Committee believes it would assist attracting ICT investments to Victoria if more detail were provided on MMV achievements.

The Committee understands that the involvement of Multimedia Victoria with the Department of Innovation, Industry and Regional Development as well as the Department of Infrastructure may have practical and important operational advantages.

Recommendation 31:

The roles of all Government agencies involved in the investment attraction and retention programs for information and communication technologies be better defined, and the alignment of ministerial accountability with responsibility be strengthened.

(c) Chief Information Officer and eGovernment

Funding for the Office of the Chief Information Officer has been appropriated through the Department of Premier and Cabinet: \$33 million over four years to establish the office (\$6.8 million in 2003–04, \$8.6 million in 2004–05, \$8.9 million in 2005–06 and \$9.1 million in

⁴⁰³ The output ‘investment facilitation and attraction’ which is delivered through the Department of Innovation, Industry and Regional Development has a 2003–04 performance target of 250 investment projects under development. Budget Paper No.3, 2003–04 Budget Estimates, p.182

The output ‘ICT Industry and Community Development’, which is delivered through the Department of Infrastructure has a performance target of 25 investment projects under development. Budget Paper No.3, 2003–04 Budget Estimates, p.129

2006-07). Although funding and the physical location of the office are matters of the Department of Premier and Cabinet, the Chief Information Officer will report to the Minister for Information Communications and Technology.

Victoria will be the first Australian state to appoint a government-wide Chief Information Officer (CIO).

The Chief Information Officer has no direct or immediate impact on the Information and Communications Technology portfolio's budget (because funding for the role is appropriated through the Department of Premier and Cabinet), but the role will have a significant impact on the whole of government ICT expense because it seeks to achieve efficiencies and economies of scale in eGovernment. The office is expected to 'drive ICT policy and strategy'.⁴⁰⁴

The Premier explained that the CIO will be responsible for overall eGovernment policy and internal government ICT policy and architecture and that 'because of the significant whole of government impacts of the new office, the CIO initially will be located at the Department of Premier and Cabinet – not ultimately, but initially, particularly in the development phases because of the whole of government requirements'.⁴⁰⁵ The CIO will nevertheless report to the Minister for Information and Communications Technology.⁴⁰⁶

The Committee was interested in learning more about the expected outcomes of the new role, including how the effectiveness and efficiency of the Office would be measured and reported. The Committee was also interested in how potential duplication with the policy role of Multimedia Victoria will be managed.

The Minister explained that the Chief Information Officer will drive implementation of the eGovernment policy *Putting People at the Centre* and pursue high value, strategically important ICT opportunities across Government. The role will be responsible for leading policy and strategy related to the use of ICT by government Departments.⁴⁰⁷

⁴⁰⁴ 2003–04 Victorian Budget Fact Sheet, Establishment of the Office of the Chief Information Officer

⁴⁰⁵ Hon S. Bracks, MP, Premier, transcript of evidence, 13 May 2003, p.11

⁴⁰⁶ Hon M. Thomson, Minister for ICT, media release, 6 May 2003, *Bracks Government Delivers on eGovernment vision*

⁴⁰⁷ Minister for Information and Communication Technology's response, received 18 July 2003, to the Committee's follow-up questions; also refer transcript of evidence, 29 May 2003, p.356-357

Multimedia Victoria will continue its existing role of policy responsibility for ICT industry development, e-business, ICT skills, community access and training, and telecommunications (including broadband).⁴⁰⁸ It will work with the Chief Information Officer to ensure policy directions within Government and across the ICT industry are consistent and translated effectively into practice.⁴⁰⁹

The Minister advised that the portfolio's key risk is containing the growing cost of ICT and ensuring expenditure is aligned with Government priorities and meets stakeholder expectations.⁴¹⁰ The Office of the Chief Information Officer has been created largely to manage that risk and capitalise on opportunities surrounding the risk.

The Committee notes that performance measures for the Office of the Chief Information Officer will be reported alongside its cost in the Department of Premier and Cabinet, section of Budget Paper No.3.⁴¹¹ The performance measures will be developed once the Office is established and its priorities for 2003-04 are agreed.

6.7 Energy Industries portfolio

Machinery of government changes resulted in the establishment of a separate Energy Industries portfolio. The Minister for Energy Industries has sole responsibility for the energy policy services output (formerly of the Department of Natural Resources and Environment) within the Infrastructure Planning and Policy output group of the Department. Exhibit 6.11 shows that this output accounts for \$6.8 million (or less than 1 per cent) of the Department's 2003-04 budget.

⁴⁰⁸ *ibid.*

⁴⁰⁹ *ibid.*

⁴¹⁰ *ibid.*

⁴¹¹ Budget Paper No.3, 2003-04 Budget Estimates, p.130

Exhibit 6.11:

**Energy Industries portfolio
Output costs 2003–04**

Output Group	Outputs under the responsibility of the Minister for Energy Industries	2003-04 Output Cost (\$ million)
Infrastructure Planning and Policy	Energy policy services	6.8
Total		6.8

Source: Budget Paper No.3, 2003–04 Budget Estimates, p.127

6.7.1 2003–04 outlook for the portfolio

The key priorities for the Energy Industries portfolio in 2003–04 include:

- developing the new energy retail markets so they deliver effective competition and consumer protection;
- monitoring electricity and gas prices for residential and small business customers, including establishing measures to address the gap between metropolitan and regional prices in the medium term;
- actively contributing to the Department of Innovation, Industry and Regional Development's funding contributions to extend the natural gas networks in regional Victoria;
- improving the functioning of wholesale energy markets by further developing and gaining agreement to proposed reforms of the national energy market;
- facilitating new generation capacity and demand management improvements to enhance the security of energy supplies; and
- developing policy measures to reduce greenhouse emissions from the policy sector, while maintaining and enhancing signals for investment in new supplies.

Further, the Government has allocated \$49 million under the Electricity Network Tariff Rebate Scheme (which replaces the Special Power Payment Scheme) to address the structural cost disadvantage faced by

rural domestic and small business electricity customers for the twelve month period commencing 1 April 2003.

6.7.2 *Key issues impacting on the portfolio*

The Department's response to the Committee's questionnaire and the estimates hearing with the Minister for Energy Industries identified the following key issues that will have an impact on the budget estimates and the portfolio for 2003-04.

(a) *Implementation of full retail contestability in electricity and gas*

Full retail contestability – the ability of all customers to switch between suppliers – was introduced in Victoria in January 2002 for electricity customers and in October 2002 for gas customers. Retail prices remain subject to Government oversight, and minimum retail standards remain regulated by the Essential Services Commission.

Since the introduction of full retail contestability, the Minister advised the Committee that the 'churn' rate – that is, the rate at which customers switch between suppliers – has been 8.4 per cent for electricity and 5.5 per cent for gas.⁴¹² The Minister informed the Committee that these rates were encouraging, but about half the level that indicated a mature market (considered to be around 15 per cent).⁴¹³

The Committee noted that the Energy and Water Ombudsman received around 950 inquiries relating to full retail contestability in 2002, with most of the cases (720) relating to customer transfer issues. In around 220 cases, the inquiries related to market conduct issues, such as pressure door-to-door sales techniques, telephone sales resulting in the transfer of customer supply rather than the expected information pack, and contracts not setting out actual prices (for example, contracts quoting only retail use figures, with little or no reference to network or regulated charges or metering costs).⁴¹⁴

The Committee noted an apparent high degree of correlation between the number of inquiries received by the Energy and Water Ombudsman and the number of small electricity customer transfers (Exhibit 6.12).

⁴¹² Hon T. Theophanous, MP, Minister for Energy Industries, record of transcript, 28 May 2003, p.340

⁴¹³ *ibid.*, p.342

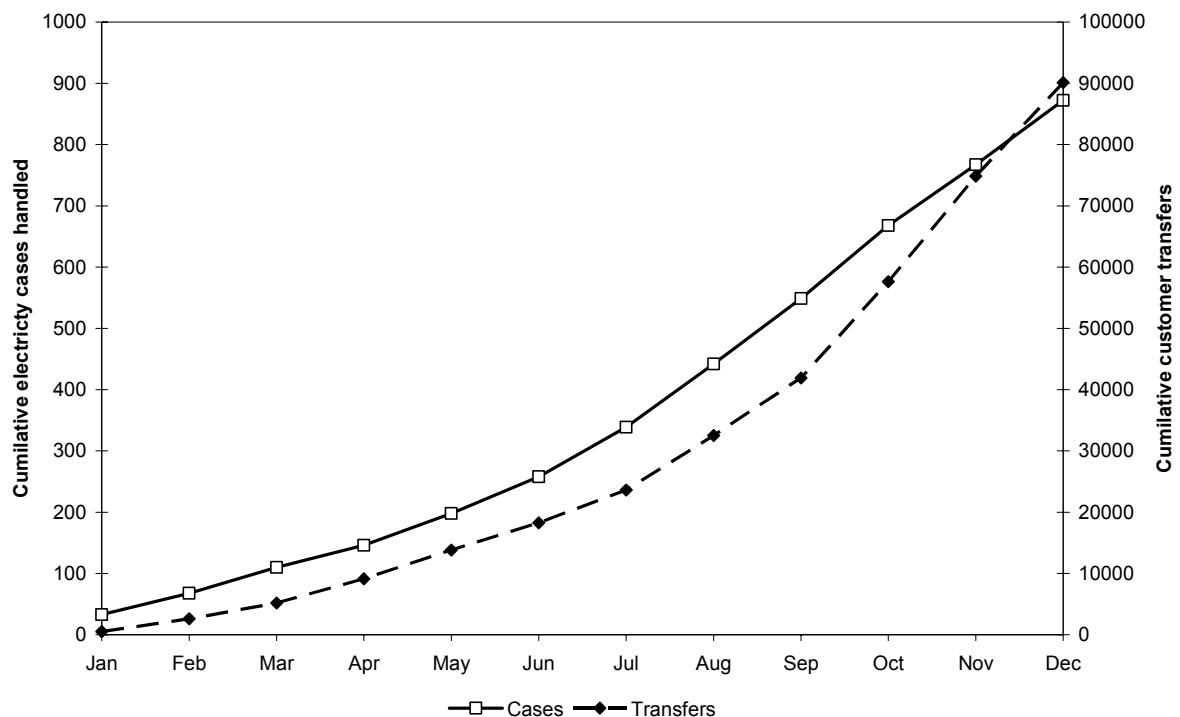
⁴¹⁴ Jo Benuti, General Manager Strategic Operations, Energy and Water Ombudsman (Victoria), *Growing the customer base: assessing the impact of full retail contestability for gas in Victoria*, p.2-6

However, the rate at which new inquiries are being made in relation to the number of customers transferring between suppliers has been declining.⁴¹⁵ This suggests some improvement in the quality of information provided to customers and in the transfer process between retailers.

The Minister advised the Committee that the Department had implemented several measures to protect consumers following the introduction of full retail contestability. These measures included: introducing the electricity network tariff rebate scheme to address the structural cost disadvantage faced by rural electricity customers; funding the Consumer Utilities Advocacy Centre (in the Consumer Affairs portfolio); and making price determinations to maintain reasonable standard prices for electricity and gas.⁴¹⁶

Exhibit 6.12:

Electricity full retail contestability cases handled by the Energy and Water Ombudsman (Victoria) and completed small customer transfers, 2002



Source: National Electricity Market Management Company Limited, MSATS Transfers for Vic 2002, <http://www.nemmco.com.au/data/retail/330-0227.pdf>; Energy and Water Ombudsman (Victoria), resolution, Issue No. 15, p.10

⁴¹⁵ *ibid.*, p.3

⁴¹⁶ Hon T. Theophanous, MP, Minister for Energy Industries, record of transcript, 28 May 2003, p.340

In relation to the electricity network tariff rebate scheme, the Committee noted that the \$57 million rebate (\$8 million in 2002-03) is a successor to the special power payment, which allocated \$118 million in the 2001-02 Budget to address the structural cost disadvantage faced by rural electricity consumers.

The lower cost of the rebate scheme compared with the cost of the special power payment is largely due to the limited price increases provided by the Government's electricity pricing decision in December 2002. The Committee understands that the electricity network tariff rebate scheme would limit average electricity bills by no more than inflation (3.1 per cent) for eligible customers.⁴¹⁷

The Committee noted that there is no provision beyond 2003-04 to fund the structural cost disadvantage faced by rural electricity customers. Ongoing funding will be influenced by the extent to which competitive pressures in the electricity industry limited price increases for metropolitan customers.

The Minister outlined initiatives that focus on increasing retail electricity competition, including:⁴¹⁸

- attracting more electricity and gas retailers to Victoria;
- developing a price comparison service to assist customers to assess the services of different suppliers; and
- installing interval (time-of-use) meters to allow retailers to develop tailored packages.

The Committee is concerned that these measures, while having the potential to increase competitive pressures, may not ensure effective retail competition. In a recent review of full retail competition for electricity in Victoria, the Essential Services Commission noted that the future trend in retailer numbers remains unclear over the longer term, given that a recent emphasis on customer numbers and access to scale and scope economies encourages consolidation and acquisition.⁴¹⁹

⁴¹⁷ Minister for Energy Industries' response, received 23 July 2003, to the Committee follow-up questions, p.1

⁴¹⁸ Hon T. Theophanous, MP, Minister for Energy Industries, record of transcript, 28 May 2003, p.340

⁴¹⁹ *Special Investigation: Review of the Effectiveness of Full Retail Competition for Electricity — Final Report*, Essential Services Commission, September 2002, p.3

The Committee noted comments contained in a report by the Essential Services Commission in September 2002 that a further review of the effectiveness of competition in the electricity and gas sectors would be more valuable if these markets had time to develop and if retailers and consumers had the opportunity to respond. Given, however, the importance of effective competition to the delivery of limited price increases to Victorian consumers, the Committee recommends that such a review should be carried out within the next 12 months.

Recommendation 32:

The Essential Services Commission undertake a review, within the next year, of the effectiveness of competition in the electricity and gas sectors.

(b) *Additional electricity generation capacity*

At the estimates hearings, the Minister advised that additional investment in electricity generation over the past three years had resulted in approximately 1,000 megawatts of new supplies. In addition, the completion of Basslink — a high voltage transmission link between Victoria and Tasmania — in late 2005 will provide an additional 600 megawatts of capacity during peak periods.⁴²⁰

The Minister acknowledged Victoria would require new base load generators in the next 10 years, depending on additional transmission line upgrades and the emergence of additional energy intensive industries.⁴²¹ The Minister informed the Committee that the Government did not intend to construct a Government owned power station; instead, the Government would ensure adequate electricity supplies by maintaining a sound investment climate and facilitating the effective operation of the electricity market to indicate when new base load investment would be required in the future.⁴²²

The Minister also outlined a range of measures that would encourage consumers to manage demand, including the rollout of interval meters

⁴²⁰ Minister for Energy Industries' response, received 23 July 2003, to the Committee follow-up questions, p.6

⁴²¹ Hon T. Theophanous, MP, Minister for Energy Industries, record of transcript, 28 May 2003, p.348

⁴²² Minister for Energy Industries' response, received 23 July 2003, to the Committee follow-up questions, p.6

and the development of guidelines for Government Departments to reduce demand when supplies are tight.⁴²³

Concerns over the efficient functioning of the National Electricity Market, along with proposals to establish a single multi-jurisdictional electricity regulator, highlight the uncertainties about the extent to which market signals will ensure privately financed and constructed base load power stations are available to meet growing demand.

The Committee welcomes Government initiatives that encourage sustainable energy consumption and increase certainty for participants in the electricity market, such as efforts to persuade the Commonwealth Government to retain and expand the mandatory renewable energy target to encourage investment in renewable energy sources such as wind energy.

Recommendation 33:

The Department of Infrastructure closely monitor the effectiveness of current and proposed market mechanisms to ensure Victoria's future electricity requirements are met.

⁴²³ *ibid.*

Chapter 7: Department of Innovation, Industry and Regional Development

Key findings of the Committee:

- 7.1 The complexity of the Department of Innovation, Industry and Regional Development's matrix management model, coupled with recent machinery of government changes and the Department's frequent changes in responsibilities and outputs for the past three years, have made year on year comparisons difficult.
- 7.2 The synchrotron project was originally to have cost the State \$100 million. The project has since been expanded and the Government's contribution is now \$157 million.
- 7.3 To be operational, the synchrotron requires investment and support from other parties. The Commonwealth and other State Governments and research and development institutions and companies have been identified as potential investors, but their interests need to be secured.
- 7.4 The Regional Infrastructure Development Fund has fully committed its first \$180 million to projects. The Government has committed a further \$180 million to the fund, bringing the total investment to \$360 million.
- 7.5 \$70 million of the Regional Infrastructure Development Fund will be used for natural gas connections in regional areas, over five years. In 2003–04, four, as yet unnamed, towns will benefit from this commitment.
- 7.6 The Small Business Commissioner will need to define the parameters of the role in relation to the established authorities of the Victorian Civil and Administrative Tribunal and the Australian Competition and Consumer Commission where there is potential for overlap.

- 7.7 From November 2000 to February 2003, Australian Bureau of Statistics figures show that the manufacturing industry suffered a decline of approximately five per cent in the number of people whom it employs. The textile, clothing, footwear and leather (TCFL) sector has been reported as a manufacturing sector at risk of job losses.
- 7.8 The Government is supporting regional communities to make decisions regarding their financial services requirements, including banking services.
- 7.9 The tourism industry is facing a challenging period as a result of damaging international and local events. Victoria will host the Australian Tourism Exchange in 2004 and 2005. The Government is also working with regional areas to upgrade tourism infrastructure and promote tourism within the State.

Departmental review

7.1 Departmental overview

Created in March 2002, the Department of Innovation, Industry and Regional Development is the Government's lead agency responsible for economic and regional development and the building of an innovative State. It supports a diverse range of portfolios and outputs that are connected through the common goals of driving innovation, stimulating economic growth and fostering regional development. The Department has identified five objectives that align with its output groups. The output groups are the responsibility of seven ministerial portfolios.

The Innovation and Policy output group integrates the strategic leadership responsibilities for economic development with the key areas of science, technology and innovation. It is designed to identify issues of key importance to the development of Victoria, and to develop strategies to address these issues.

The Business output group provides an integrated business development model to deliver information services and business development

programs to support industry development, manufacturing, financial services and small business growth. Key activities include:⁴²⁴

- attracting and facilitating new investment to the State and improving the capacity of Victorian industry to compete internationally;
- providing business improvement and export assistance services directed primarily at business in Victoria's manufacturing and trade services sectors and small and medium enterprises generally;
- increasing the capacity of local industries to compete, grow and employ; and
- developing online business services.

Regional Development is a new output group that was established in March 2003, reflecting the Government's decision to make regional and rural Victoria a high priority. Key activities undertaken within this output group include:⁴²⁵

- supporting and funding regional and rural community businesses and tourism infrastructure;
- facilitating the co-ordinated delivery of Government programs, services and resources;
- supporting regional community development; and
- increasing the capacity of rural and regional industries to compete, invest, grow and employ.

Regional Development Victoria, a new statutory authority established in March 2003, performs most of the activities within this output group.

The Tourism output group undertakes activities to increase visitation and economic yield from tourism.

The Industrial Relations output group aims to develop and implement an industrial relations policy and legislative climate that promotes job growth and enhances employment opportunities and assists with the

⁴²⁴ Budget Paper No.3, 2003-04 Budget Estimates, p.181

⁴²⁵ *ibid.*, p.185

development of co-operative relations between employers and employees and their representatives.

7.1.1 Key challenges for the Department in 2003–04

During the past three years, the Department has had many changes to its responsibilities and outputs. The impact of the most recent machinery of government changes, effective from December 2002, continues to challenge the Department.

The Department has identified the following challenges for 2003-04:⁴²⁶

- for the financial services industry, the challenge is to attract a critical mass of financial services companies that will improve and maintain the competitive positioning of Victoria's financial services sector in a global market;
- the manufacturing industry will need to create an innovative, strong manufacturing sector with highly paid highly skilled jobs – to do this the perception of manufacturing will need to change. The rising dollar and the impact of drought may adversely affect the export base at a time when Victoria is trying to significantly increase exports; and
- the tourism industry is facing one of the most challenging periods of its history with the number and scale of global and local events placing unprecedented pressure on the industry.⁴²⁷

7.1.2 Performance measures

The Department advised the Committee that it reviewed the quality standards of its output indicators during 2002–03. As a result of this review, the number of performance indicators was reduced and the Department introduced new and replacement performance measures to better reflect departmental objectives and desired outcomes. The review also resulted in an improvement in quality standards.

⁴²⁶ Department of Innovation, Industry and Regional Development, response to the Committee's 2003–04 Budget Estimates Questionnaire, p.12

⁴²⁷ The events affecting the tourism industry include 11 September 2001, the collapse of Ansett, the Bali bombing, the drought, recent bushfires, the SARS outbreak, the war in Iraq and, most recently, the bombing of the Marriot Hotel in Jakarta

Changes made to the performance measures for the Tourism output group in 2003–04, for example, include the replacement of three measures with improved wording or more accurate data and the discontinuation of six measures. Of those discontinued, three related to campaigns that were not considered of sufficient size to justify inclusion in the Budget Papers, and three were omitted because the Department wanted to reduce the number of ‘output’ as opposed to ‘outcome’ performance measures.

The streamlining and updating of existing performance measures were complemented by the introduction of new measures. The Department gained additional funding through the Cabinet Expenditure Review Committee Budget process for 2003–04, so the Business, Regional Development, Science, Technology and Innovation, and Tourism output groups attracted new performance indicators to reflect these funding commitments.

The previous Public Accounts and Estimates Committee made recommendations about the Department’s performance measures in its 2002–03 review of the Budget Estimates. In those recommendations, the Committee noted that disaggregation of some data would be useful: for example, services in regional and rural areas might be better assessed if data were disaggregated into regions. The Committee also noted that developing performance measures for some programs (for example, the export market) would be challenging given the number of factors that have an impact on some programs. The manufacturing industry, for example, is influenced by the value of the Australian dollar, the involvement of the private sector, Commonwealth and internal policy decisions and world demand trends. In this context, the Committee acknowledges the Department’s efforts in reviewing its performance measures; in particular, it notes the work done to develop an outcome monitoring framework for the Science, Technology and Innovation Division.⁴²⁸

The Committee continues to encourage the Department to review and improve its suite of performance measures and the quality of the data supporting the measures.

⁴²⁸ Department of Innovation, Industry and Regional Development, response to the Committee’s 2003–04 Budget Estimates Questionnaire, p.22

7.2 Output management framework

The Department supports seven ministerial portfolios:

- Innovation;
- State and Regional Development;
- Small Business;
- Manufacturing and Export;
- Financial Services Industry;
- Tourism; and
- Industrial Relations.

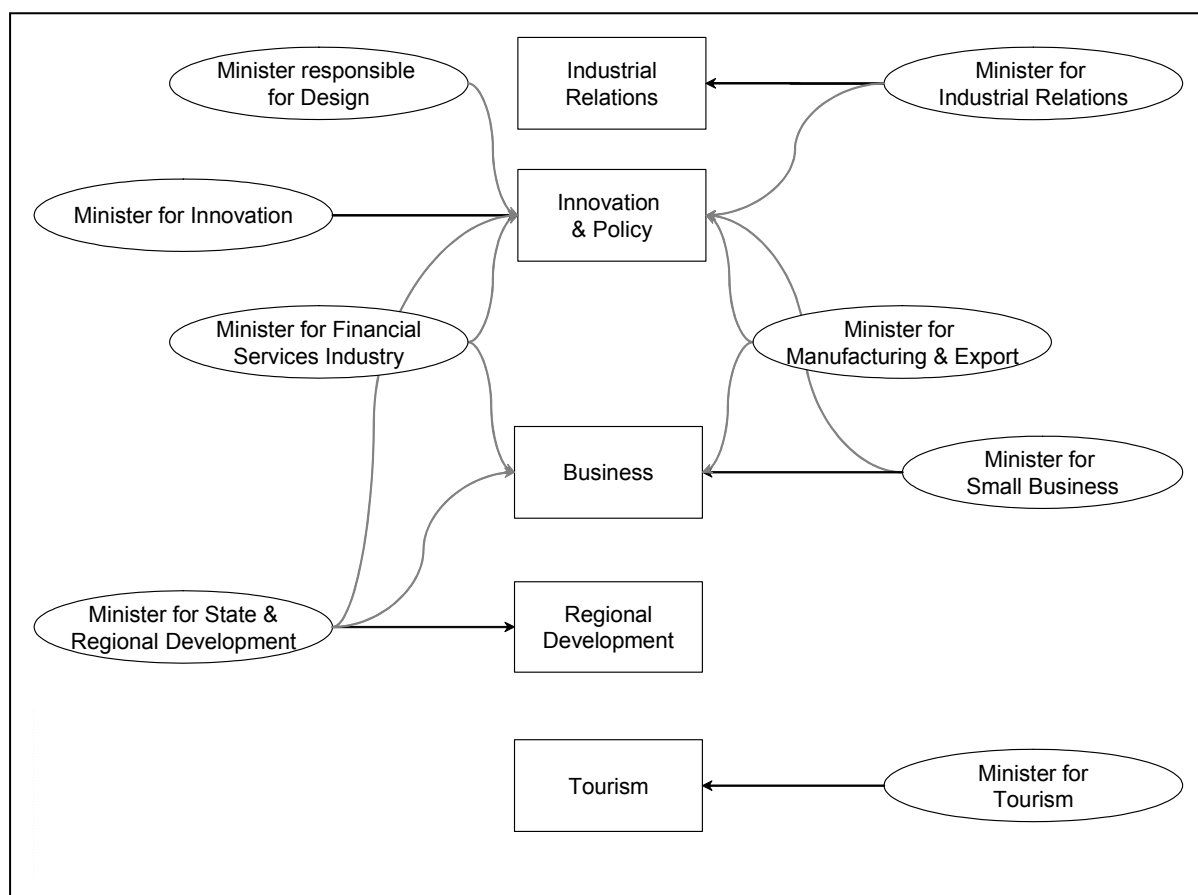
Ministerial portfolio responsibilities are not aligned with departmental output groups. Only the Minister for Tourism, who has sole responsibility for the Tourism output group, has a simple one-to-one relationship with an output group.

Exhibit 7.1 illustrates the complex relationships between Ministers and the departmental output groups.

The Department also provides administrative support to the Minister responsible for Design. Design is not a Government portfolio, but the Premier nominated a Minister to provide a lead role in the development of Victoria's design capabilities.

During the estimates hearings, the Committee found, in some circumstances, that the complex portfolio and output structure made it difficult for Ministers to separately identify their budgets and responsibilities.

Exhibit 7.1:

Ministerial portfolios and output group responsibility

Source: Department of Innovation, Industry and Regional Development, response to the Committee's 2003-04 Budget Estimates Questionnaire, p.1

7.2.1 **Matrix management**

The Department is a 'matrix-managed' Department.⁴²⁹ The Minister for Financial Services explained that:

*[The Department] is a little different to other departments ... a number of activities service all portfolio Ministers ... so the ascribing of money [and responsibilities] towards individual Ministers is not as clear cut as it might be in other Departments.*⁴³⁰

While the Committee appreciates the Department's efforts to maximise the expertise of its staff, encourage knowledge transfer and promote invention and flexibility through matrix management, it does not believe the model justifies any moderation of budget responsibility or

⁴²⁹ Minister for Financial Services' response, received 10 July 2003, to the Committee's follow-up questions

⁴³⁰ Hon T. Holding, MP, Minister for Financial Services Industry, transcript of evidence, 28 May 2003, p.309

accountability. On the contrary, the Committee considers that it is especially important for governance arrangements, budget responsibilities and accountability structures to be strong and transparent. There is an increased need in a matrix management system to track where and how people and funds are being used.

The Committee considers that the complexity of the Department's matrix management model, coupled with recent machinery of government changes, the appointment of additional Ministers and the many changes made to the Department's responsibilities and outputs for the past three years, makes it very difficult to understand the departmental corporate governance arrangements.

The Committee believes this must be addressed and a clear statement of responsibilities issued so the Department, the Parliament and the community are aware of which Minister is responsible for particular activities.

Recommendation 34:

The Department of Innovation, Industry and Regional Development take immediate steps to resolve its complex framework of ministerial responsibilities and issue a statement that clearly aligns ministerial responsibilities with accountability for budget and departmental activities and resource issues.

7.3 Budget summary

Exhibit 7.2 shows the Department's 2003–04 budget output summary. Compared with the revised 2002–03 budget, the Department's estimated budget has increased by 11 per cent, or \$37.7 million. Meaningful comparisons are difficult to make at this level, however, given the changes to the Department and its output groups since the 2002–03 budget. These changes are discussed below.

As a result of machinery of government changes in 2002–03, a number of outputs were transferred from and to the Department. All of these transfers had an impact on the output funding. The following

information and communication technology (ICT) outputs, and Multimedia Victoria, from the Department's Innovation and Policy output group, for example, were transferred to the Department of Infrastructure:

- ICT industry development and e-commerce;
- eGovernment and ICT policy;
- ICT community development; and
- eGovernment infrastructure.

While these transfers decreased funding for the output group, the decrease has been more than offset by the transfer to the Department of aspects of the Biomedical Research, Ethics and Safety output of the Department of Human Services and by funding increases for new initiatives arising from election commitments.

Exhibit 7.2:

Department of Innovation, Industry and Regional Development
Output Costs

	Column 1	Column 2	Column 3	Column 3-2
Output Group	2002-03 Budget^(a)	2002-03 Revised	2003-04 Budget	Variation^(d)
	(\$ million)	(\$ million)	(\$ million)	(%)
Innovation and Policy ^(b)	124.7	108.0	156.6	45.0
Business ^(c)	249.0	176.2	73.6	-58.2
Regional Development ^(c)			99.9	n/a
Industrial Relations	11.9	12.0	11.4	-5.0
Tourism	Transferred from DTSCG	23.8	38.3	60.9
Employment Programs	46.3	22.1	Transferred to DVC	n/a
Total	431.9	342.1	379.8	11.0

- Notes: (a) Incorporates changes to output structure and organisational restructuring, so may differ from figures published in the 2002–03 budget.
- (b) Variation between 2002–03 and 2003–04 budgets reflects the transfer of Multimedia Victoria to the Department of Infrastructure, which is offset by increased funding for acquired science, technology and innovation initiatives and election commitments.
- (c) Variation between 2002–03 and 2003–04 budgets reflects the transfer of Trade Measurement Victoria and Liquor Licensing to the Department of Justice and the transfer of budget to the newly established Regional Development Victoria.
- (d) a negative variance indicates the 2003-04 budget has decreased compared with the 2002-03 revised budget.

n/a Not applicable

Sources: Department of Innovation, Industry and Regional Development, response to the Committee's 2003-04 Budget Estimates Questionnaire, p.31; and Budget Paper No.3, 2003–04 Budget Estimates, Table 2.4.1, p.176

The decrease in funding for the Department's Business output group was due to two factors. First, the following outputs of the Business output group were transferred to the Department of Justice:

- trade measurement development and services; and
- effective management of the sale of liquor.

Second, the Department established a separate Regional Development output group for 2003–04 to deliver the requirements of the *Regional Development Victoria Act* 2002. Of the 2002–03 funding for the Business output group, \$68.5 million related directly to regional development activities. In 2003–04, this funding has been increased by \$31.4 million (to \$99.9 million), reflecting priorities for rural and regional Victoria and the challenges in addressing the impacts of bushfires and prolonged drought.

The following outputs were transferred to the Department from the Department of Tourism, Sport and the Commonwealth Games to form the Tourism output group for 2003–04:

- tourism marketing and events facilitation; and
- tourism industry and infrastructure development.

Accordingly, only a half-year budget is reported for 2002–03, whereas the 2003–04 budget is for a full year.

The Department no longer has an Employment Programs output group, which was transferred to the Department for Victorian Communities. The output group comprised the following outputs:

- policy and labour market advice;
- community employment programs;
- business employment programs; and
- migrant employment services.

7.3.1 Financial analysis

Compared with the 2002–03 revised budget, the Department is expecting in 2003–04 an increase in expenses relating to ordinary activities, but a decrease in revenue. The anticipated net result for operating an activity in 2003–04 is a deficit of \$64.5 million, which represents a movement of \$144 million from the expected 2002–03 result (a \$79.5 million surplus).

These results are largely due to re-phasing of expenditure for the Regional Infrastructure Development Fund, which recognises revenue of \$126 million in 2002–03 against expenditure in that year of only \$45 million. The resulting surplus is expected to be drawn down to meet expenditure in 2003–04 and 2004–05.⁴³¹ The Department explained that Regional Infrastructure Development Fund expenditure has lagged behind project approvals.⁴³² (More detailed discussion of the Regional Infrastructure Development Fund appears in this chapter at 7.6.3 (a))

⁴³¹ Budget Paper No.3, 2003–04 Budget Estimates, p.194

⁴³² Department of Innovation, Industry and Regional Development, response to the Committee's 2003–04 Budget Estimates Questionnaire, p.30

Exhibit 7.3:

Department of Innovation, Industry and Regional Development
Statement of Financial Performance^(a)

	Column 1	Column 2	Column 3	Column 4	Column 4-3
	2002-03 Budget	2002-03 Adjusted^(a)	2002-03 Revised	2003-04 Budget	Variation^(b)
	(\$ million)	(\$ million)	(\$ million)	(\$ million)	(%)
Controlled Items					
Operating revenue	431.9	407.0	421.6	315.3	-25.2
Operating expenses	431.9	407.0	342.1	379.8	11.0
Net Result^(c)	0.0	0.0	79.5	-64.5	-181.1
Administered Items					
Administered revenue	9.9	9.9	9.9	2.6	-73.7
Administered expenses	9.9	9.9	9.9	2.6	-73.7
Surplus/Deficit	0.0	0.0	0.0	0.0	0.0

Note: (a) Adjusted for machinery of government changes for the period 1 January 2003 to 30 June 2003.

(b) A negative variance indicates that the 2003-04 budget has decreased compared with the 2002-03 revised budget.

(c) A negative dollar value indicates a deficit

Source: Budget Paper No.3, 2003–04 Budget Estimates, table 2.4.2, p.196, and table 2.4.5, p.199

The machinery of government changes discussed above have also had an impact on the operating budget. Reductions in both administered revenue and expenses are due to the transfer of Major Projects Victoria to the Department of Infrastructure. A significant component of Major Projects Victoria's business is administered land sales, which accounted for \$6.8 million of the 2002–03 budget. Given the transfer, the associated administered revenue and expenses will not eventuate in 2003–04.

7.4 Human resource issues

The Department was unable to provide staffing information by output group; instead, it provided this information by division. The Department is anticipating a small decline in overall equivalent full time staff numbers for 2003–04. It reported that it has not experienced any difficulty in recruiting suitably qualified and experienced staff to any specific employment categories.

At the time of writing this report, the Committee noted that a departmental review was being undertaken and that a discussion paper, IIRD Future Direction: The Next Stage, had been circulated to all staff in the Department to seek input. The Committee is aware that some Departments are reducing staff to meet budget savings targets, but the

Department of Innovation Industry and Regional Development did not advise that it plans to achieve savings through this process.

Exhibit 7.4 outlines the staffing figures for the Department for 2003-04.

Exhibit 7.4:

**Department of Innovation, Industry and Regional Development
Equivalent Full Time Staff^(a)**

Division	June 2003 (estimate)			June 2004 (estimate)		
	Ongoing	Fixed term	Total	Ongoing	Fixed term	Total
Business	166.3	28.0	194.3	161.0	23.0	184
Regional Development Victoria	108.6	20.1	128.7	106.0	18.0	124
Corporate Services	102.2	9.0	111.2	86.0	9.0	95
Industrial Relations Victoria	45.0	9.4	54.4	49.0	5.0	54
Innovation and Policy	45.4	24.6	70	53.0	17.0	70
Innovation Economy Advisory Board	3.0	1.0	4	3.0	1.0	4
Office of the Secretary	1.0	2.0	3	1.0	2.0	3
Small Business Commissioner	6.0	1.0	7	10.0	1.0	11
Tourism Victoria	92.6	30.6	123.2	91.0	28.0	119
Total	570.1	125.7	695.8	560.0	104.0	664.0

Note: (a) Includes permanent and ongoing, temporary and fixed term staff.

Source: Department of Innovation, Industry and Regional Development, response to the Committee's 2003-04 Budget Estimates Questionnaire, pp.26-7

7.4.1 Government savings

The Department advised that it will deliver savings primarily through administrative efficiencies, including the re-deployment of staffing and reductions in discretionary operating expenditure. A review, of administrative and support services across the Department, is being undertaken to rationalise operations and improve service delivery and productivity. As in all areas across Government, the Department identified a 20 per cent reduction in advertising and promotions as one mechanism to reduce expenditure.⁴³³

⁴³³ Minister for Innovation's response, received 6 August 2003, to the Committee's follow-up questions

Portfolio review

7.5 Innovation portfolio

The Minister for Innovation has responsibility for two outputs – strategic policy and science, technology and innovation – within the Innovation and Policy output group. The Minister shares responsibility for the strategic policy output with all other Ministers except the Minister for Tourism.

7.5.1 *2003–04 outlook for the portfolio*

Funding of \$230 million over five years will be targeted to innovation projects across a number of Departments. The funding will target five strategic capabilities: ICT, biotechnology, new manufacturing technologies, design technologies and environment technologies.

During 2003–04, initiatives relating to the Innovation portfolio will include:

- updating the Biotechnology Strategic Development Plan to account for the development of the sector since June 2001;
- implementing the Science, Technology and Innovation Second Generation Initiative, as announced in the Government's Innovation Statement;
- commencing construction works for the synchrotron project early in 2003–04;
- commencing the VicStart program, which has been designed to address barriers to technology commercialisation; and
- developing the design capability of the Victorian economy.

7.5.2 *Analysis of the portfolio budget*

The total portfolio budget is \$156.6 million, of which the strategic policy output accounts for 2.8 per cent and the science, technology and innovation output accounts for 38.4 per cent. This budget represents an increase of \$48.6 million (or 45 per cent) on the 2002–03 revised budget. The increase is largely due to the synchrotron project.

Exhibit 7.5:

**Innovation Portfolio
Output Cost**

Output Group	Outputs under the responsibility of the Minister for Innovation	2003-04 Output Cost (\$ million)
Innovation and Policy ^(a)	Strategic policy	10.8
	Science, technology and innovation	145.8
Total		156.6

Notes (a) Responsibility for this output group is shared with all other Ministers responsible for departmental services, except the Minister for Tourism

Source: Budget Paper No.3, 2003–04 Budget Estimates, pp.177–80 and the Department of Innovation, Industry and Regional Development's response to the Committee's 2003–04 Budget Estimates Questionnaire, p.1

7.5.3 *Key issues impacting on the portfolio*

The Department's response to the Committee's questionnaire and the estimates hearing identified several issues that will impact on the portfolio and the budget estimates for 2003–04.

(a) *Docklands Film and Television Studio*

The Government has committed \$40 million to the Film and Television Studio complex, which includes:

- funds committed to purchase the core studio site from the Docklands Authority. Some of this land is to be on sold to the developer over the next few years for a commercial cluster development;
- funds committed via a \$31.5 million performance based loan towards the core studio development costs; and
- project administration costs already incurred (estimated at \$1.35 million to 30 June 2003).

Construction of the facility commenced in November 2002 and is due for completion in March 2004.⁴³⁴ The project will be funded through Government provision of seed capital in the form of a capital subsidy to a business enterprise that will deliver industry development benefits to the State.

⁴³⁴ Department of Innovation, Industry and Regional Development, response to the Committee's 2003–04 Budget Estimates Questionnaire, p.37

The project is being delivered under the Partnerships Victoria model, with the major risks of development and construction cost, scope creep and facility under use transferred to the successful tenderer. The risk of financial or performance failure by the private sector developer remains a risk to the State. The Committee was advised that the Government has implemented comprehensive risk mitigation strategies, including requiring the private sector to make a significant committed equity investment in the project, securing the State's investment in the land and buildings, and establishing an incentive framework for the private sector to maximise the development of the commercial land adjoining the studio.⁴³⁵

The Docklands Film and Television Studio was the subject of a special review by the Victorian Auditor-General. The audit findings were reported during February 2003.⁴³⁶ The Auditor-General found that the tender process complied with state requirements but could have been handled better in terms of timeliness and fairness to all tenderers. Since this review, the Government has been further criticised for not making available, in a complete or timely manner, information on key performance indicators under the contract with the successful tenderer.⁴³⁷

The Committee was interested in understanding and clarifying the issues surrounding this important project. Regarding criticisms of the tender process, the Minister for Innovation advised the Committee:

*... the process that was undertaken was fully consistent with the normal contractual and negotiation arrangements of the Government and fully consistent with the Partnerships Victoria guidelines ... [and] in every instance was consistent with the probity policy ... and was fully defensible.*⁴³⁸

Further, the Secretary of the Department considers that the process has resulted in benefits for the project and the State in terms of:⁴³⁹

- risk allocation;

⁴³⁵ *ibid.*, pp.37-8

⁴³⁶ Victorian Auditor-General's Office, *Report on Public Sector Agencies*, February 2003, pp.168-87

⁴³⁷ R. Baker, *The Age*, 21 July 2003, *Secrecy claim on Studio Bid*, and J. Ferguson, *Herald Sun*, 3 July 2003, *State of Secrecy*

⁴³⁸ Hon J. Brumby, MP, Minister for Innovation, transcript of evidence, 14 May 2003, p.42

⁴³⁹ Victorian Auditor-General's Office, *Report on Public Sector Agencies*, February 2003, p.187

- the protection of the delivery of State objectives and key performance indicators;
- project viability;
- certainty of compliance with statutory requirements (such as environmental and planning approvals); and
- the efficacy of the construction project.

Regarding the availability of information on key performance indicators, the Department's project manager advised that 'the KPIs are in the contracts and the contracts are available on the web'.⁴⁴⁰

A review of the website⁴⁴¹ confirms the availability of the contracts, but some information, considered to be commercial-in-confidence, has not been publicly released.

Recommendation 35:

Government contracts published on the web include a summary of the key performance indicators contained in the contracts.

(b) *National synchrotron facility*⁴⁴²

The national synchrotron facility is Victoria's largest investment in research and development infrastructure for the scientific community. The Minister for Innovation advised the Committee that the national synchrotron facility is the 'most important bit of scientific infrastructure for Australia since the Second World War'.⁴⁴³ The project was announced in June 2001 and recorded as a new initiative in the 2002–03 Budget Papers⁴⁴⁴ and was the subject of a special review by the Auditor-General in 2002.⁴⁴⁵

⁴⁴⁰ Mr. A. Skewes, Project Manager, Department of Innovation, Industry and Regional Development, transcript of evidence, 14 May 2003, p.47

⁴⁴¹ Contract documents available through www.tenders.vic.gov.au

⁴⁴² Information about the synchrotron – what it is and how it works, and explanations of the 'building' 'ring' and 'beamlines' – is available at www.synchrotron.vic.gov.au.

⁴⁴³ Hon J. Brumby, MP, Minister for Innovation, transcript of evidence, 14 May 2003, p.38

⁴⁴⁴ Budget Paper No. 2, 2002–03 Budget Statement, Appendix A, pp.195-7

⁴⁴⁵ Victorian Auditor-General's Office, *Report on Public Sector Entities*, June 2002, pp.155-67

The Committee was keen to review progress since last year. In response, the Minister for Innovation advised that the total State contribution to the \$206 million project is \$157.2 million. In January 2003, the Minister announced an increase of \$57.2 million on the original commitment of \$100 million,⁴⁴⁶ which is reflected in the 2003–04 budget.⁴⁴⁷ At the same time, increases were also made to the contingency provisions for the project, in line with the Auditor-General's comments on funding risks.⁴⁴⁸ The additional \$57 million of Victorian funding will come from the \$310 million that the Government committed to the Second Generation Science, Technology and Innovation Initiative announced in October 2002. The difference between the total cost and the State contribution (\$49 million) will be sourced from third parties such as other governments, universities and research institutions.

The increased investment by the Government means the synchrotron will be 'bigger, better and brighter', having twice the power of the original proposal, along with a much greater capacity for advanced analysis of complex compounds.⁴⁴⁹ The decision to build a bigger and better synchrotron will give Victorians and Australians access to a world class facility and help address the project's prime business risk: that is, that the technology will be superseded before the synchrotron is operational.

The Government contribution of \$157.2 million will be sufficient to build the building and the 'ring'.⁴⁵⁰ The successful tenderer for the construction of the building was announced in July 2003, when the Minister for Innovation confirmed that 'the Australian synchrotron, Victoria's biggest ever investment in R&D infrastructure, is on track to start working for Australian science and industry in 2007'.⁴⁵¹ The building is expected to be completed earlier, probably by the end of 2004.

The Government is confident that the additional funds, \$49 million, needed to build the 'beam lines', which are necessary to make the synchrotron fully operational, will be forthcoming as the project nears the beam line construction phase. The Minister indicated:

... we have had Professor Larkins at Melbourne University doing all the work on [identifying investors for the beam lines]. He has identified more

⁴⁴⁶ Budget Paper No. 2, 2002–03 Budget Statement, Appendix A, p.195

⁴⁴⁷ *ibid.*, p.231–232

⁴⁴⁸ Victorian Auditor-General's Office, *Report on Public Sector Entities*, June 2002, p.162

⁴⁴⁹ Hon J. Brumby, MP, Minister for Innovation, transcript of evidence, 14 May 2003, p.48

⁴⁵⁰ *ibid.*, p.48

⁴⁵¹ Hon J. Brumby, Minister for Innovation, Media Release, 23 July 2003

*than 200 potential investors ... already Melbourne University has committed to a beam line of its own [and] a number of other private sector organisations are interested ... Western Mining Corporation for example. We are fully confident that the number of beam lines will be oversubscribed.*⁴⁵²

The Committee was interested in the Commonwealth Government's role, given the departmental Secretary's comment that 'as the Australian synchrotron is a national project, the involvement of the Commonwealth ... will be sought'.⁴⁵³ The Minister for Innovation advised the Committee that:

*... we have never asked the federal government for funding for the building or the ring, but we believe it has a role in supporting its national scientific agencies ... who will be users of and in most cases investors in the synchrotron beam lines.*⁴⁵⁴

The Victorian Government will encourage the Commonwealth Government to provide supportive funding to its national scientific agencies and, in this way, be involved with the project. A national science case for beam-line funding by Commonwealth Agencies and other potential stakeholders is being prepared.

Given the significant investment in the synchrotron facility, the Committee recommends that:

⁴⁵² Hon J. Brumby, MP, Minister for Innovation, transcript of evidence, 14 May 2003, p.48

⁴⁵³ Victorian Auditor-General's Office, *Report on Public Sector Entities*, June 2002, p.167

⁴⁵⁴ Hon J. Brumby, MP, Minister for Innovation, transcript of evidence, 14 May 2003, p.48

Recommendation 36:

The Department of Innovation, Industry and Regional Development:

- (a) continue to actively negotiate with, and seek support from, the Commonwealth Government, other States and interested parties to ensure:**
 - (i) the synchrotron will meet the needs of their research communities;**
 - (ii) the synchrotron beam lines are fully subscribed; and**
 - (iii) investors and users are prepared to cover operating costs.**
- (b) in the absence of such commitment, the Department should disclose in the Budget Papers the potential financial risk this poses to the project.**

7.6 State and Regional Development portfolio

The Minister for State and Regional Development is responsible for delivering the Government's commitments to:

- deliver programs to enhance economic and infrastructure development, investment attraction, job creation and community development in regional and rural Victoria;
- attract and facilitate investment in businesses and industries;
- promote a stronger business climate in Victoria; and
- facilitate the formation, growth and global competitiveness of Victorian business.

The Minister also oversees Regional Development Victoria, which is a body dedicated to facilitating the co-ordinated delivery of Government

programs, services and resources in rural and regional Victoria. This organisation will work alongside local councils to put projects on the ground and create local jobs.⁴⁵⁵

7.6.1 2003–04 outlook for the portfolio

Departmental tasks that are specific to the responsibilities of the Minister for State and Regional Development during 2003–04 include:

- developing a strategic plan to establish Victoria as an international centre of design excellence;
- using Regional Development Victoria to :
 - (a) encourage infrastructure development in country Victoria, including the extension of natural gas to rural areas;
 - (b) oversee and administer monies paid out of the Regional Infrastructure Development Fund;
 - (c) work in partnership with all tiers of Government to improve planning and policy for country Victoria; and
 - (d) promote country Victoria as a great place to live, work, invest in and visit; and
- introducing legislation relating to the Victorian Industry Participation Policy. This policy is perceived as a means of encouraging increased local industry participation in major Government procurement contracts and projects, as it requires Government agencies to report to Parliament on their achievements in increasing local industry participation.

7.6.2 Analysis of the portfolio budget

The total budget for the outputs of the Regional Development output group is \$99.9 million, which accounts for 26.3 per cent of the total departmental budget. The portfolio also has some responsibility for the Business output group and the Innovation and Policy output group.

⁴⁵⁵ Budget Paper No. 3, 2003–04 Budget Estimates, p.170

The Department established a separate Regional Development output group for 2003–04 to deliver the requirements of the Regional Development Victoria Act.

Exhibit 7.6:

**State and Regional Development Portfolio
Output Cost**

Output Group	Outputs under the responsibility of the Minister for State and Regional Development	2003-04 Output Cost (\$ million)
Regional Development ^(a)	Regional Strategic Leadership	1.8
	Rural community development	2.9
	Regional infrastructure development	86.5
	Regional economic development	8.7
Total		99.9

Notes: (a) The Minister for State and Regional Development is solely responsible for the Regional Development output, but also shares responsibility for the Business output group and the Innovation and Policy output group.

Source: Budget Paper No. 3, 2003–04 Budget Estimates, pp.185–7 and Department of Innovation, Industry and Regional Development's response to the Committee's 2003–04 Budget Estimates Questionnaire, p.1

7.6.3 *Key issues impacting on the portfolio*

The Department's response to the Committee's budget questionnaire and the estimates hearing identified the following key issues that will have an impact on the portfolio and the budget estimates for 2003–04.

(a) *Regional Infrastructure Development Fund*

The Regional Infrastructure Development Fund (RIDF) provides capital works funds for infrastructure development projects in regional Victoria. The Minister advised that there had been strong competition for RIDF funding. Approved projects include stock passes, power infrastructure upgrades, tourism facilities, freight infrastructure and water projects. The 2000-01 State budget allocated \$180 million to the fund. At 30 June 2003, this money was fully committed.⁴⁵⁶

At the time of the Committee writing this report, 74 projects (with a total value of over \$300 million) had been announced, accounting for \$133 million (74 per cent) of the total funding allocated to the first three years of the Regional Infrastructure Development Fund. The remaining

⁴⁵⁶ Hon J. Brumby, Minister for State and Regional Development, Media Release, 1 July 2003

funding has been allocated to 11 projects, which will be publicly announced when all of the participating parties are ready. The Committee was advised that some of these projects are commercially sensitive so details can not be announced.

The 2003–04 budget allocated a further \$180 million to the Regional Infrastructure Development Fund, bringing the total State contribution to the fund to \$360 million.⁴⁵⁷

The target expenditure for the fund in 2002–03 was \$132.1 million, but only \$48.4 million (36.6 per cent of the target) was expected to be spent by 30 June 2003.⁴⁵⁸ The Auditor-General's review of the fund in May 2003 also found that the proportion of funds disbursed to grant recipients had been low and that:⁴⁵⁹

*... this was primarily due to the long term nature of many projects (the majority of funded projects have a construction phase of greater than one year) and that funds are only released progressively upon satisfactory achievement by recipients of milestones agreed with the Department. This latter factor reflects good practice.*⁴⁶⁰

The Minister acknowledged the Auditor-General's review of the fund, stating that it was very positive and that the Auditor-General had found 'that the administration of the [fund] was first rate and very sound, but some of the councils and groups to which funding had been awarded may not have been as expeditious as they could in actually spending the money'.⁴⁶¹ The Minister indicated that this delay was responsible for the 2002–03 target expenditure of \$132.1 million not being met. Consequently, funding for the Regional Infrastructure Development Fund has been re-phased.

The Committee understands the reasons given for the delays and the consequent need to re-phase expenditure. However, it is concerned by the changes to project timelines, given the amount of money involved and the level of community expectations. These changes, coupled with

⁴⁵⁷ *ibid.*

⁴⁵⁸ Budget Paper No. 3, 2003–04 Budget Estimates, p.187

⁴⁵⁹ Victorian Auditor-General's Office, *Report on Public Sector Agencies*, Regional Infrastructure Development Fund, May 2003, pp.19–31

⁴⁶⁰ Victorian Auditor-General's Office, *Report on Public Sector Agencies*, Regional Infrastructure Development Fund, May 2003, p.22, para. 2.49

⁴⁶¹ Hon J. Brumby, MP, Minister for Regional Development, transcript of evidence, 14 May 2003, p.39

only limited performance information, make it difficult to assess the progress of the funded projects.

The Committee notes that the Auditor-General concluded in his report on the Regional Infrastructure Development Fund that:

*The absence of any public information on the outcomes from the Government's investment is not satisfactory, particularly as a further \$180 million has been earmarked for infrastructure projects. Parliament should be kept informed of the actual achievements of the Fund relative to those expected. For this to be achieved, the department needs to promptly finalise its performance and reporting framework.*⁴⁶²

The Secretary of the Department replied that:

*As more projects are finalised in the coming months, the procedures put in place to monitor outcomes will provide the department with sufficient information to assess the effectiveness of the fund. As recommended by the Auditor-General, the department will continue to refine and improve its systems to ensure this information is captured and available to assess the achievements of the fund.*⁴⁶³

The Committee noted that the fund related performance measures disclosed in the 2003–04 Budget Papers are mainly process based and focus on inputs rather than outcomes. The Committee believes that these measures do not provide a good basis for monitoring the achievements of the fund. The Committee looks forward to the Government's response to the Auditor-General's recommendations relating to the fund.

(b) Natural gas connection for rural and regional areas

The Government will provide \$70 million of the new Regional Infrastructure Development Fund (that is, of the \$180 million announced in the 2003–04 Budget) for natural gas connections in regional areas. The Minister advised the Committee that 'as a best estimate', this funding should provide access to natural gas for 100,000 country Victorians.⁴⁶⁴

In 2003–04, the Government has set a target of four towns for the rollout of natural gas lines. The Committee understood that up to six towns had

⁴⁶² Victorian Auditor-General's Office, *Report on Public Sector Agencies*, May 2003, p.29, para. 2.74

⁴⁶³ Secretary, Department of Innovation, Industry and Regional Development, response to Victorian Auditor-General's Office, *Report on Public Sector Agencies*, May 2003, p.30

⁴⁶⁴ Hon J. Brumby, MP, Minister for Regional Development, transcript of evidence, 14 May 2003, p.41

been promised natural gas reticulation.⁴⁶⁵ Noting the performance target, the Committee inquired which towns were expected to make up the target of four. The Minister explained that 'which towns these will be will depend on a whole range of factors'.⁴⁶⁶ The Minister also explained that the promise of natural gas connections was a five year commitment.⁴⁶⁷

7.7 Small Business portfolio

7.7.1 2003–04 outlook for the portfolio

Departmental tasks in 2003–04 that are specific to the responsibilities of the Minister for Small Business include:

- continuing to establish the role of the Small Business Commissioner, who was appointed on 1 May 2003. The Commissioner will provide a central point for addressing retail tenancy disputes and small business concerns regarding unfair market practices by major competitors, landlords and government. The Commissioner will also monitor the flexibility of Government regulations;
- implementing the *Retail Leases Act 2003*, which becomes fully operational from 1 July 2003. The Act is intended to promote certainty, fairness and clarity in dealings between landlords and tenants; and
- implementing the StreetLife Program, which works with local communities to promote their economic and employment growth. It will encourage new growth opportunities for small business by promoting vibrant industry clusters and business networks throughout Government and industry co-operative development programs.

7.7.2 Analysis of the portfolio budget

The total budget for the outputs of the Small Business portfolio is \$10.1 million, which accounts for 2.7 per cent of the total departmental

⁴⁶⁵ Bairnsdale, Creswick, Barwon Heads, Woodend, Gisborne and Romsey.

⁴⁶⁶ Hon J. Brumby, MP, Minister for Regional Development, transcript of evidence, 14 May 2003, p.44

⁴⁶⁷ *ibid.*, p.45

budget. The portfolio consists of two outputs within the Business output group: regulation reform and small business support.

Funding for the portfolio has increased by \$3.3 million (or 48 per cent) in 2003–04. The increase can be largely attributed to \$1.9 million allocated to the Commissioner for Small Business and \$500,000 allocated to the StreetLife Program. Further, some carry-forward funding has been offset by departmental cost savings. Departmental cost savings of \$250,000 have been allocated to the small business support output. The Minister advised that these savings would be achieved through reprioritisation and corporate offsets.⁴⁶⁸

Exhibit 7.7:

Small Business Portfolio Output Cost

Output Group	Outputs under the responsibility of the Minister for Small Business	2003-04 Output Cost (\$ million)
Business ^(a)	Regulation reform	3.9
	Small business support	6.2
Total		10.1

Note: (a) Responsibility for this output group is shared with the Ministers for Financial Services Industry; Manufacturing and Export; and State and Regional Development.

Source: Budget Estimates, 2003–04 Budget Paper No. 3, pp.183–4 and Department of Innovation, Industry and Regional Development's response to the Committee's 2003-04 Budget Estimates Questionnaire, p.1

In addition to the funding provided for the outputs (as summarised in Exhibit 7.7), the Small Business portfolio has access to other areas across the Department and the Department has deliberately broken down its barriers and divisions to give greater access to programs that are run out of various parts of the Department.⁴⁶⁹ The Minister said that this arrangement was very important for small business because it crossed every area of support that the Department provided.⁴⁷⁰ The Department did not quantify the additional support in terms of a financial amount.

⁴⁶⁸ Hon M. Thomson, MLC, Minister for Small Business, transcript of evidence, 20 May 2003, p.378

⁴⁶⁹ *ibid.* p.367

⁴⁷⁰ *ibid.*

7.7.3 *Key issues impacting on the portfolio*

(a) *Small Business Commissioner*

The Small Business Commissioner has been allocated \$8 million over four years. The Commissioner's allocated funding in 2003–04 is \$1.9 million. The Commissioner's key areas of responsibility are retail tenancy issues, including resolving disputes, dealing with retail leases, monitoring unfair market practices and working in that arena under the *Fair Trading Act* 1999 with the draw-down provisions in s. 51AC of the *Trade Practices Act* 1974 (Cwlth).⁴⁷¹ The Commissioner will also monitor the regulation of small business, with an emphasis on flexibility to recognise the difficulties facing small businesses in complying with regulations, and help develop service charters to promote the way in which Government Departments work with small business. No other State has a position similar to Victoria's Small Business Commissioner, and the Government is proud to lead the way in supporting small business in this way.

The Minister was keen to highlight that the Commissioner's role is constructive and forward looking; rather than being a reviewer, the Commissioner is a collaborator and mediator.⁴⁷² The Commissioner will need to work closely with the Victorian Civil and Administrative Tribunal (VCAT) and the Australian Competition and Consumer Commission in some instances, and the Minister advised that the Commissioner has already met with these organisations to work out the relationship between the three bodies.⁴⁷³

The Committee supports the role of the Small Business Commissioner but is concerned by its possible duplication of and overlap with the roles of VCAT and the Australian Competition and Consumer Commission.

⁴⁷¹ *ibid.*

⁴⁷² *ibid.*p.373

⁴⁷³ *ibid.*p.374

Recommendation 37:

The Small Business Commissioner develop relationships with the Victorian Civil and Administrative Tribunal and the Australian Competition and Consumer Commission and, at an early stage, clearly define the Commissioner's roles and responsibilities in relation to these larger established bodies.

(b) *StreetLife Program*

The StreetLife Program provides funding, resources and facilitation to projects servicing Victorian commercial centres, small towns and suburban neighbourhood business centres. It brings businesses together to work co-operatively for joint outcomes, by supporting up to fifty per cent of the cost of a project manager or officer to co-ordinate an approved project.⁴⁷⁴ Funding allocated to the program in 2003–04 is \$500,000.

Organisations funded in the past include chambers of commerce, local government and business associations. All projects are offered two year funding, but the initiatives are delivered through one year contracts. A second year contract is negotiated at the end of the first year, based on performance and evaluation.

The Committee was interested to know how successful projects were selected for support under the StreetLife Program. The Minister advised that projects must meet selected criteria and that the Government generally does not further fund an area in which there has already been a StreetLife project. She explained that the 'whole idea is to build up enough momentum for [the areas] to continue on by themselves'.⁴⁷⁵ The Department works co-operatively with councils and chambers to ensure approved projects are successful, it relies heavily on the economic development areas of councils to assist in putting together applications from parts of their municipalities. Often, one project and one co-ordinator may work across a number of towns, helping to link businesses and communities.⁴⁷⁶

⁴⁷⁴ *ibid.*, p.371

⁴⁷⁵ *ibid.*

⁴⁷⁶ *ibid.*, pp.371-2

The Committee was advised that the initiatives for 2003–04 have yet to be determined for funding. Currently, 34 StreetLife projects are being implemented, including:⁴⁷⁷

- small business development seminars and training;
- community and business workshops;
- new business attraction and retail mix activities;
- e-commerce development;
- small business network creation and/or expansion;
- programs for industrial estates and commercial parks;
- business development initiatives for young people and women;
- industry and commercial clusters;
- tourism and small business-linked projects;
- mentoring and business coaching;
- micro and home based business projects; and
- townships and commercial centre business and marketing plans.

Past projects have ranged in funding from \$10,000 to \$60,000 over two years. Funding provided by the Government under the StreetLife Program is matched by the funded organisation and/or other partners.⁴⁷⁸

7.8 Manufacturing and Export portfolio

The major objectives of the Manufacturing and Exports portfolio, through the operations of the Office of Manufacturing, are to:

- position Victoria as a regional centre for manufacturing excellence;
- recruit new industry and investment; and
- assist manufacturing businesses to grow and export.

⁴⁷⁷ Hon M. Thomson's response, received 18 July 2003, to the Committee's follow-up questions

⁴⁷⁸ Minister for Small Business's response, received 18 July 2003, to the Committee's follow-up questions

7.8.1 *2003–04 outlook for the portfolio*

During 2003–04, the strategic priority for the Department is to position Victoria as a centre for business in the global innovation economy. A particular focus will be on the three themes of competitiveness, innovation and connectedness identified in the Government's Business Statement.

Key Government initiatives affecting the Manufacturing and Export portfolio are:⁴⁷⁹

- the Agenda for New Manufacturing (\$27 million over four years); and
- the Opening Doors Export Plan (\$1 million per year for three years, commencing 1 July 2004)

7.8.2 *Analysis of the portfolio budget*

The Manufacturing and Export portfolio's activities are contained within the Business output group (see Exhibit 7.8), but some of its strategic responsibilities and strategic planning activities are funded through the Innovation and Policy output group.

The Minister advised that the operating budget for the Office of Manufacturing in 2003–04 is \$2.6 million and that the office employed 33.4 equivalent full time staff (estimated) at 30 June 2003. However, many staff across the Department support the Office of Manufacturing and the manufacturing industry in general. These staff include those working on the following outputs: policy; science, technology and innovation; Victorian business centres; Regional Development Victoria; and small business and service industries.⁴⁸⁰

⁴⁷⁹ *ibid.*

⁴⁸⁰ Minister for Manufacturing and Export's response, received 10 July 2003, to the Committee's follow-up questions

Exhibit 7.8:

**Manufacturing and Export Portfolio
Output Cost**

Output Group	Outputs under the responsibility of the Minister for Manufacturing and Export and The Minister for Financial Services	2003-04 Output Cost (\$ million)
Business ^(a)	Investment facilitation and attraction	35.8
	Business development	27.7
Total		63.5

Note: (a) Responsibility for this output group is shared with the Ministers for Financial Services Industry; Manufacturing and Export; and State and Regional Development.

Source: Budget Paper No.3, 2003–04 Budget Estimates, pp.181–3 and the Department of Innovation, Industry and Regional Development's response to the Committee's 2003-04 Budget Estimates Questionnaire, p.1

Funding for the investment facilitation and attraction output and the business development output includes the operating budget of the Office of Manufacturing and the total funding levels of initiatives associated with export targets.⁴⁸¹ The Minister could not advise specifically the total budget, operating and program, for the Manufacturing and Export portfolio.

The Department again cited the matrix management system as the reason for the Minister's inability to identify his budget. By way of example, the Director of the Office of Manufacturing advised the Committee that the matrix management system means that some of the efforts within the Office of Manufacturing are directed towards other portfolio areas, such as a manufacturing project in a region that is the responsibility of Regional Development Victoria.⁴⁸²

The Committee notes that Business output group funding is shared among four portfolios and that Ministers could not specify each portfolio's portion of the Business output group. Earlier in this chapter, the Committee made a recommendation in relation to this concern (see Recommendation 34).

⁴⁸¹ *ibid.*

⁴⁸² Mr Rea, Director, Office of Manufacturing, Department of Innovation, Industry, and Regional Development, transcript of evidence, 28 May 2003, p.318

7.8.3 *Key issues impacting on the portfolio*

(a) *Textiles, clothing, footwear and leather industry*

The Minister advised that the textiles, clothing, footwear and leather (TCFL) industry is very important to Victoria. This industry accounts for 44 per cent of the national TCFL workforce and is responsible for producing about 50 per cent of the industry's value added material.⁴⁸³

The Committee was concerned by media reports suggesting that jobs in the TCFL sector are at risk. The Committee cited Australian Bureau of Statistics data that showed a fall in the number of people employed in manufacturing, from 343,000 in November 2000 to 325,000 people in February 2003, when the latest figures were available (a decline of 18,000 people). The Committee was interested to learn what proportion of these jobs was lost from the TCFL sector.

The Minister acknowledged that economic commentators, in particular, often characterise TCFL industry negatively and associate it with the 'old economy'. He observed, however, that the industry has undergone huge structural change in the past 20 or so years, and that the sector is shifting from being a commodity based manufacturer of low value items to being a producer of high value, innovative items, giving Victorians in the industry opportunities to enter export and niche markets.⁴⁸⁴ This development is perceived as a positive advance for the industry and the way forward.⁴⁸⁵

The Minister also acknowledged a change in the quantum and the nature of employment within the TCFL sector. He informed the Committee that Victoria's focus on the high value end of the sector meant that Victoria would not necessarily see the same quantum of jobs created from new investment as from commodity based manufacturing, but noted that it would not be cost competitive for Victoria to compete with China or India for the commodity based sector.⁴⁸⁶

In relation to specific figures, the Director of the Office of Manufacturing advised that the Department did not have information available that would allow it to identify specific areas within manufacturing where jobs

⁴⁸³ Hon T. Holding, MP, Minister for Manufacturing and Export, transcript of evidence, 28 May 2003, p.318

⁴⁸⁴ *ibid.*, p.319

⁴⁸⁵ *ibid.*

⁴⁸⁶ *ibid.*

had been lost.⁴⁸⁷ The Department was analysing the data at the time of the estimates hearing. At least some of the fall in employment is likely to be attributed to the food industry, which has suffered as a result of the drought.⁴⁸⁸

The Committee is concerned by the Australian Bureau of Statistics data and encourages the Department to investigate what the data mean for the important and substantial Victorian TCFL industry sector.

7.9 Financial Services Industry portfolio

The Minister for Financial Services Industry assumed responsibility for the Financial Services Industry portfolio when it was created in December 2002. The Ministry was created on the basis that the financial services sector is the third largest sector in the Victorian economy and employs 103,600 people (4.3 per cent of the State workforce).⁴⁸⁹ The Minister has joint responsibility for the Business output group and the Innovation and Policy output group.

7.9.1 2003–04 outlook for the portfolio

The 2003–04 Budget Papers and the Department's response to the Committee's 2003–04 budget estimates questionnaire did not refer to any specific initiatives for the financial services industry other than efforts to build on traditional areas of strength and niche markets.⁴⁹⁰

7.9.2 Analysis of the portfolio budget

The portfolio's activities are contained within the Business output group, but it also has strategic responsibilities and strategic planning activities that are funded under the Innovation and Policy output group. The funding for this portfolio cannot be identified in the output groups.

The Minister advised the Committee that the budget is spread across too many areas to determine which particular dollars relate specifically to financial services.⁴⁹¹ The Committee is concerned that the Minister cannot

⁴⁸⁷ Mr Rea, Director, Office of Manufacturing, Department of Innovation, Industry, and Regional Development, transcript of evidence, 28 May 2003, p.320

⁴⁸⁸ *ibid.*

⁴⁸⁹ Minister for Financial Services Industry, presentation made at the estimates hearing, 28 May 2003, (figures are as at November 2002)

⁴⁹⁰ Budget Paper No. 3, 2003-04 Budget Estimates, p.174

⁴⁹¹ Hon T. Holding, MP, Minister for Financial Services Industry, transcript of evidence, 28 May 2003, p.308

identify the funding level for those key activities that will underscore the portfolio's achievements in the next twelve months.

The Minister indicated that the Department is finalising a strategic audit for the financial services industry, which will generate a strategic plan. The Minister advised the Committee that this plan 'will enable us to judge our success in relation to revitalising our financial services industry and building on it'.⁴⁹² The Committee hopes that this plan will also bring about a clearer understanding of the resources and achievements of the portfolio.

7.9.3 *Key issues impacting on the portfolio*

(a) *Strategic audit report on the financial services industry*

The Committee has an ongoing interest in the program of strategic audits of industry. The Financial Services Industry Strategic Audit Report was published in June 2003. The Committee was interested in learning how this audit would inform medium term and longer term strategies for the industry. In response, the Department explained that the audit identified the key profiles and characteristics of the industry, as well as some opportunities and challenges facing the industry.

The audit report noted that Victoria, alongside New South Wales, enjoys a strong national and international position in the financial services market, pointing out that Victoria's role needs to remain complementary to, rather than in competition with, New South Wales to remain strong.⁴⁹³ Compared with Sydney, Victoria is perceived as a relatively lower cost services hub, with advantages in its proximity to important institutions such as the National Australia Bank and the ANZ Banking Corporation, whose headquarters are based in Melbourne.

The audit identified niche opportunities where it recommends Victoria focus its resources, including venture capital, funds management, superannuation, financial planning and insurance.⁴⁹⁴ The audit also emphasised the vital role of the Victorian Government in the growth and consolidation of the industry. The department expects to develop and

⁴⁹² *ibid.*, p.312

⁴⁹³ Strategic Audit of Victorian Industry, Financial Services Industry, p.31

⁴⁹⁴ *ibid.*, p.70

release a strategic plan later in 2003. The plan will be based on the findings of the strategic audit.⁴⁹⁵

The Committee is pleased that the audit has been completed and released, and awaits the Department's strategic plan for the industry. The Committee notes the absence of any specific financial services industry performance indicators for the Business output group in the 2003–04 Budget Papers. It considers that the Department, as it develops a strategic outlook, should also consider what performance information would be useful for the financial services industry.

Recommendation 38:

To facilitate the monitoring and review of the Government's achievements in relation to the financial services industry, the Department of Innovation, Industry and Regional Development develop performance measures and targets that are specific to the financial services industry and portfolio, and integrated with the strategic plan for the financial services industry.

(b) *Community banking project grants*

The Committee was concerned about the availability of financial services in regional and rural areas, and was interested to learn more about how the Government is assisting regional and rural areas in this matter. In response, the Minister explained that it is important for local communities to be able to choose the types of service that they should be able to access in their area, and that the Government's role is to facilitate the decision making process within the communities, rather than to financially support the provision of services.⁴⁹⁶

The Minister advised the Committee that the Government is committed to providing grants, on behalf of regional and rural communities, for the conduct of feasibility studies for community banking products.⁴⁹⁷ Support would be provided through the Living Regions, Living Suburbs

⁴⁹⁵ Hon T. Holding, MP, Minister for Financial Services Industry, transcript of evidence, 28 May 2003, p.307

⁴⁹⁶ *ibid.*, p.309

⁴⁹⁷ *ibid.* p.308

program's community banking project grants.⁴⁹⁸ This program is listed in the Budget Papers under the Regional Economic Development output, but is administered by the Minister for Financial Services under the matrix management model.

The Committee noted that the strategic audit of the financial services industry commented on regional service provision:

Consolidation and rationalisation of the Financial Services Industry has resulted in major changes in the way services are provided in regional areas.

*In the banking sector, retail networks have been downsized and centralised, 'super-branches' have been established in a more limited number of regional locations and new service options provided through Australia Post and other local businesses have been established.*⁴⁹⁹

The audit report found that regional stakeholders consider that regionally based financial services are vital to the economic health of the Victorian regional economy and that the Victorian Government should monitor the provision of regional financial services and, if required, establish a rationale for and means of supporting regionally based financial enterprises.⁵⁰⁰ The Minister also acknowledged that restoring banking services to regional communities would do much to boost activity, not only in the financial services industry but also in construction, manufacturing and so on.⁵⁰¹

The Committee is pleased that the Government is facilitating community involvement in decisions that directly affect the communities, and has acknowledged the challenging environment in which community banking is operating.⁵⁰² The Committee believes that the Government should consider following up on the audit recommendations⁵⁰³ and reviewing the provision of financial services to regional areas.

⁴⁹⁸ Budget Paper No.3, 2003–04 Budget Estimates, p.187

⁴⁹⁹ Strategic Audit of Victorian Industry, Financial Services Industry, p.47

⁵⁰⁰ *ibid.*, pp.47-8

⁵⁰¹ Hon T. Holding, MP, Minister for Financial Services Industry, transcript of evidence, 28 May 2003, p.308

⁵⁰² *ibid.*, p.310

⁵⁰³ Strategic Audit of Victorian Industry, Financial Services Industry, p.50

Recommendation 39:

The Department of Innovation, Industry and Regional Development:

- (a) review financial services in regional and country Victoria; and**
- (b) noting the success of the community banking project grants scheme, the Government give consideration to extending the initiative to metropolitan areas.**

7.10 Tourism portfolio

The major responsibilities of the Minister for Tourism are to:

- conduct marketing campaigns to increase visitation and yield, develop a tourism product that appeals to international and domestic visitors, and maximise marketing opportunities flowing from major events; and
- facilitate private sector tourism investment, provide leadership and direction in line with the Tourism Victoria Strategic Business Plan and the tourism development plan of each of Victoria's product regions, and attract new carriers and air services to Melbourne.

The Minister oversees Tourism Victoria, which is the State Government authority responsible for developing and marketing Victoria as a premium tourist destination for Australian and international travellers. Tourism Victoria is a statutory authority within the Department.

7.10.1 2003–04 outlook for the portfolio

During 2002–03, the Government continued to market Victoria as a domestic and international tourist destination. The Government provided \$2 million to stimulate tourism activity in those areas affected by the 2002–03 bushfires. Funding and program activities have also been directed towards drought affected areas. Further, the Government commenced a regional renewal project that is designed to stimulate

destination development by integrating industry development, infrastructure and marketing strategies.

In 2003–04, the tourism industry is working in one of the most challenging periods of its history, following the number and scale of local and global events of 2002–03 that are continuing to place unprecedented pressure on the industry. This situation is likely to influence short term and long term targets for the industry.

Government priorities in 2003–04 for Tourism Victoria are:⁵⁰⁴

- hosting the 2004 Australian Tourism Exchange;
- completing the zonal tourism development plans, including strategic destination development for regional Victoria;
- continuing the rollout of phase 7 of the Jigsaw marketing campaign;
- implementing the four year 2006 Commonwealth Games tourism marketing plan; and
- undertaking research into a new Plenary Hall for Victoria.

Specific output initiatives identified in the 2003–04 Budget Papers for tourism are as follows:⁵⁰⁵

- \$500,000 (of \$2 million over four years) for the Living Regions, Living Suburbs program to support regional tourism events;
- \$2.5 million (of \$10 million over four years) through the Community Support Fund to fund regional marketing campaigns;
- \$2.5 million (of \$10 million over four years) for international marketing;
- \$5 million (of \$15 million over three years) for the Government's major events strategy to help lift Victoria's profile in key tourism markets and strengthen the State's international competitiveness; and
- \$1.8 million (of \$3.6 million over two years) to stage the Australian Tourism Exchange.

⁵⁰⁴ Budget Paper No.3, 2003-04 Budget Estimates, pp.173-74

⁵⁰⁵ Budget Paper No.2, 2003-04 Budget Statement, pp.227-31

7.10.2 *Analysis of the portfolio budget*

The 2003–04 budget allocates \$38.3 million for this portfolio (10.1 per cent of the total departmental budget), which represents a decrease of \$100,000 (or 0.2 per cent) on the full year budgeted output cost of \$38.4 million in 2002–03.

Exhibit 7.9:

Tourism Portfolio Output Cost

Output Group	Outputs under the responsibility of the Minister for Tourism	2003-04 Output Cost (\$ million)
Tourism	Tourism marketing and event facilitation	35.0
	Tourism industry and infrastructure development	3.3
Total		38.3

Source: Budget Paper No.3, 2003–04 Budget Estimates, pp.190-2

The Minister was keen to emphasise to the Committee the whole of department strategic approach to tourism, reminding the Committee that the key function is to ‘encourage and support the contribution of tourism to Victoria’s economic and social development’.⁵⁰⁶ In this context, the Minister advised that funding for tourism initiatives, on top of the core budget, is sourced from the Regional Infrastructure Development Fund, the Community Support Fund and other areas of the Department.⁵⁰⁷

The Committee discusses the administration of the Regional Infrastructure Development Fund in this chapter at 7.6.3(a). The Community Support Fund is administered by the Department for Victorian Communities and discussed in this report at 13.5.2(b). Some initiatives funded by the two funds but administered under the Tourism portfolio are discussed below in this chapter.

7.10.3 *Key issues impacting on the portfolio*

(a) *Australian Tourism Exchange*

The Committee was interested to learn about the benefits to Melbourne and Victoria from hosting the Australian Tourism Exchange, for which funding of \$1.8 million has been allocated in 2003–04 (of \$3.6 million over

⁵⁰⁶ Hon J. Pandazopoulos, MP, Minister for Tourism, transcript of evidence, 30 May 2003, p.433

⁵⁰⁷ *ibid.*, p.436

two years). The funding is sourced from the Community Support Fund.⁵⁰⁸

The Australian Tourism Exchange is a forum for Australian tourism businesses to showcase their products, meet overseas contacts and negotiate deals.⁵⁰⁹ The Minister for Tourism advised that it is ‘the third biggest travel trade fair anywhere in the world’.⁵¹⁰ Record attendances of over 2,500 people are expected in Melbourne in each year of hosting the exchange (2003 and 2004).⁵¹¹

The expected economic benefit from the event itself is estimated at \$10 million for the week, but the most significant benefit goes beyond the event. The Australian Tourism Exchange will bring about 2.5 million international visitors to Australia, and Victoria anticipates improving its share of the action by hosting the event.

The Australian Tourism Exchange will provide an opportunity to showcase around 160 Victorian products at the front entrance of the exhibition centre in Melbourne, which is the area through which most people will walk. An extensive visitation program will encourage attendees to experience regional Victorian tourism products.

Tentative dates for the event in 2004 (20 May to 4 June) have been proposed, but details of the preliminary budget and program are still being developed.⁵¹²

(b) Tourism capital investment

The Minister believes upgraded infrastructure is one area in which regional Victoria can lift its tourism performance.⁵¹³ Tourism represents about 5.2 per cent of gross state product and has opportunities to grow.⁵¹⁴

One of Tourism Victoria’s key objectives is investment facilitation. Tourism Victoria therefore works closely with local councils to help them realise tourism potential in their area. One way in which Tourism

⁵⁰⁸ The Community Support Fund (CSF) is now administered by the Department of Victorian Communities, see 13.5.2 (b) Community Support Fund, Department for Victorian Communities. In 2003-04, an additional \$2.5 million of CSF funding (\$10 million over 4 years) is being used to fund phase 7 of the Jigsaw tourism advertising campaign.

⁵⁰⁹ Minister for Tourism’s response, received 10 July 2003, to the Committee’s follow-up questions

⁵¹⁰ Hon J. Pandazopoulos, MP, Minister for Tourism, transcript of evidence, 30 May 2003, p.442

⁵¹¹ *ibid.*

⁵¹² Minister for Tourism’s response, received 10 July 2003, to the Committee’s follow-up questions

⁵¹³ Hon J. Pandazopoulos, MP, Minister for Tourism, transcript of evidence, 30 May 2003, p.438

⁵¹⁴ *ibid.*, p.444

Victoria helps is by assisting with applications for the Community Support Fund, the Rural Infrastructure Development Fund and the Commonwealth Government's regional assistance program. About \$750 million was facilitated for tourism related infrastructure across the board (including private, public and partnership investment) in 2002.⁵¹⁵

Some of the tourism related achievements of the Rural Infrastructure Development Fund are the Flagstaff Hill Maritime Museum in Warrnambool, which now boasts a sound and light show, the Hop Mine at Sovereign Hill, the updating of the Hepburn Springs bathhouse, the regeneration of Sovereign Hill's Blood on the Southern Cross sound and light show, the Lake Mountain Day Visitor Centre and visitor facilities at Mount Baw Baw. Some of these attractions will form part of the visitation program of the Australian Tourism Exchange.⁵¹⁶

7.11 Industrial Relations portfolio

The work of the Industrial Relations portfolio is carried out by Industrial Relations Victoria, which is a division of the Department. Industrial Relations Victoria works with all stakeholders to build an industrial relations environment in Victoria that encourages, recognises and rewards co-operative workplace cultures, which are essential to attracting new business investment to the State.

Its major objectives are to:⁵¹⁷

- create a fair and harmonious industrial relations environment in Victoria;
- encourage, recognise and reward co-operative workplace cultures;
- promote partnership arrangements and progressive industrial relations practices; and
- attract new investment to Victoria

Industrial Relations Victoria referred the majority of its industrial powers to the Commonwealth Government. Consequently, the Commonwealth Government has principal responsibility for inspection, enforcement and Wageline advisory activities under the *Workplace Relations Act 1996* in

⁵¹⁵ *ibid.*

⁵¹⁶ *ibid.*, p.442

⁵¹⁷ www.iird.vic.gov.au, Industrial Relations

Victoria. The Federal Workplace Relations Act is the principal industrial law operating in Victoria.

7.11.1 2003–04 outlook for the portfolio

Industrial Relations Victoria is the operative body that administers funding for industrial relations matters.

In 2003–04, the Government's priority is to implement the legislative proposals developed during 2002–03, including:

- the Federal Awards [Uniform System] Bill, which will apply federal Award terms and conditions by common rule to all Victorian non-Award employees;
- the Outworkers Protection Bill, which will improve protection for outworkers in the clothing industry; and
- the Child Protection Bill, which will reform laws regulating the employment of children under the age of 15 years.

The 2002–04 budget allocated \$2.3 million (of \$7.1 million over four years) for the Government's industrial relations legislation agenda. A new initiative for a better work and family balance has been allocated \$2 million over four years.

7.11.2 Analysis of the portfolio budget

The 2003–04 budget has allocated \$11.4 million for the portfolio. The portfolio's output group consists of two outputs and accounts for 3 per cent of the total departmental budget.

Exhibit 7.10:

Industrial Relations Portfolio Output Cost

Output Group	Outputs under the responsibility of the Minister for Industrial Relations	2003-04 Output Cost (\$ million)
Industrial Relations	Industrial relations services	7.1
	Industrial relations policy	4.3
Total		11.4

Source: Budget Paper No.3, 2003–04 Budget Estimates, pp.188–9

The budget represents a slight decrease of 4.2 per cent on the 2002–03 budget. The Minister advised that the funding was sufficient to achieve the objectives of Industrial Relations Victoria.

The Minister also has shared responsibility for the strategic policy output of the Innovation and Policy output group. Funding for this aspect of the portfolio has not been identified within the Industrial Relations output group; instead, it is shown in Exhibit 7.5 as part of the Innovation portfolio.

7.11.3 *Key issues impacting on the portfolio*

(a) *Cultural change in the building and construction industry*

Industrial relations in Victoria is governed by federal legislation , which means the role of the Victorian Government in resolving industrial disputes is generally as facilitator and mediator. The Victorian Government also takes a proactive role in negotiating and influencing the direction of Commonwealth industrial relations legislation.

The Royal Commission into the Building Industry recognised a need for cultural change in the building sector.⁵¹⁸ This need is evident among the businesses and workers in the building sector who agree with the Minister for Industrial Relations that ‘there has to be a better way of conducting industrial relations in Victoria’.⁵¹⁹ The underlying philosophy of the Workplace Relations Act which legislates for strikes and lockouts as ways of managing industrial relations needs to change.⁵²⁰ To initiate change, Victoria must work with the Commonwealth Government, which administers the Act.⁵²¹

Victoria set up a Building Industry Consultative Council, which is a tripartite group comprised of stakeholders that are looking at long term strategic objectives for the industry. The Minister told the Committee the council will promote co-operation with other States. He expects this approach will help arrest the culture of strikes and lockouts.⁵²²

⁵¹⁸ Royal Commission into the Building and Construction Industry (Final Report), 24 February 2003

⁵¹⁹ Hon R. Hulls, MP, Minister for Industrial Relations, transcript of evidence, 30 May 2003, p.440

⁵²⁰ *ibid.*, p.440

⁵²¹ *ibid.*

⁵²² *ibid.*

(b) Industrial relations and the 2006 Commonwealth Games

The Victorian building industry is essential to the success of the Commonwealth Games. A number of building projects are under way to develop the infrastructure essential to the success of the Games.

In conjunction with the Office of the Commonwealth Games, the M2006 Organising Committee for the Commonwealth Games, and other relevant stakeholders, the Government (that is, Industrial Relations Victoria) developed and will implement a comprehensive industrial relations strategy for the 2006 Commonwealth Games.⁵²³ This includes the six month secondment of an advisor to the office of the Minister for the Commonwealth Games.

The industrial relations strategy aims to contribute to the achievement of on time and on budget objectives of the Commonwealth Games' building and construction program. Another objective of the strategy is the 'unimpeded delivery of all the requisite services to the Commonwealth Games event'.⁵²⁴

The Committee enquired about the cost of developing and implementing the strategy. The Minister advised that this project has not been separately costed because it is a core activity.⁵²⁵ The Committee is aware that the Department for Victorian Communities is developing whole of games financial statements for the Commonwealth Games (as discussed in this report at 13.12.3(a) Whole of Games reporting). It will be important that all Government Departments and agencies contribute to the collation of information for this report.

Recommendation 40:

Industrial Relations Victoria develop a system for costing and recording work that relates specifically to the Commonwealth Games.

The Committee believes that the work costing system could provide valuable management information beyond the scope of the Commonwealth Games and would be useful for analysing core activities, including work performed for specific disputes or on specific legislation.

⁵²³ *ibid.*, p.442

⁵²⁴ *ibid.*

⁵²⁵ *ibid.*, p.445

The Committee also emphasises the benefit of costing systems in developing budget estimates.

(c) *Industrial relations legislation in Victoria*

Approximately \$2.3 million has been allocated to the legislative agenda for industrial relations in 2003–04. The funding is broken down as follows:⁵²⁶

- \$1.607 million for the Federal Awards [Uniform System] Bill;
- \$440,000 for the Outworkers Protection Bill; and
- \$270,000 for the Child Protection Bill.

The Committee was interested in obtaining a better understanding of how these reforms would address the needs of Victorian workers.

In relation to the Federal Awards [Uniform System] Bill, the Minister advised that ‘it will do away with the previous two tiered system of employment in Victoria’.⁵²⁷ The Bill will ensure all workers, including schedule 1A workers,⁵²⁸ are covered by the federal award system, which has 20 allowable matters. Currently, outworkers under schedule 1A have only five allowable matters.

The Bill works in concert with the Outworkers Bill to provide more equitable terms and conditions for all workers. The Minister indicated that the Commonwealth Government had requested an amendment to the Federal Awards [Uniform Systems] Bill that could affect the effectiveness of the Outworkers Bill. The Department is continuing to negotiate with the Commonwealth Government on this matter.⁵²⁹

In relation to the Outworkers Bill, the Minister advised:⁵³⁰

We believe [this Bill] will provide outworkers with decent wages and conditions and, just as importantly, an effective means of enforcing those initiatives.

⁵²⁶ Minister for Industrial Relations’ response, received 24 July 2003, to the Committee’s follow-up questions

⁵²⁷ Mr R. Hulls, MP, Minister for Industrial Relations, transcript of evidence, 30 May 2003, p.443

⁵²⁸ In its 2002-03 Budget Estimates Report, the Committee commented on issues surrounding the pay and working conditions for schedule 1A workers in Victoria. The then Minister outlined the support that was being provided to these workers through IRV’s information services unit. (Hon J. Lenders, MLC, Minister for Industrial Relations, transcript of evidence, 23 May 2002, pp.122, 127-8)

⁵²⁹ Mr R. Hulls, MP, Minister for Industrial Relations, transcript of evidence, 30 May 2003, p.443

⁵³⁰ *ibid.*

The Minister explained that even when outworkers are entitled to decent terms and conditions, their employment arrangements, which may include a multitude of supply chain contracts, often make it difficult to ascertain the employer and therefore to determine who should pay the entitlements. The Bill will put in place a mechanism to provide entitlements from the parent employer or the principal contractor. Funding for the Outworker Protection Bill will provide three officers and an information campaign to help employers and outworkers understand their rights and obligations under the legislation.⁵³¹

In relation to the Child Protection Bill, the Minister said:⁵³²

[This bill] will help ensure that kids in Victoria who work are appropriately protected, and their work experience is both positive and beneficial. It will also eliminate child exploitation.

⁵³¹ *ibid.*

⁵³² *ibid.*

Chapter 8: Department of Justice

Key findings of the Committee:

- 8.1 The challenge for Victoria Police is to maintain police numbers within budget constraints and at the same time ensure that the workloads of public servants assisting police in the performance of their duties remain manageable.
- 8.2 The Committee commends the Department of Justice for its ongoing commitment to the professional development of its staff in the context of other pressures to reduce expenditure.
- 8.3 Action needs to be taken by the Department of Justice to introduce new measures to increase the collection of court and traffic fines outstanding and reduce the high level of fines written off as bad debts each year.
- 8.4 The Committee accepts that the strong traffic penalty enforcement system currently in force is a very important component of the Government's road safety strategy.
- 8.5 There is a need for a concerted effort by both State and Commonwealth Governments to have a co-operative and co-ordinated approach to minimising the future risk of major disasters such as the January 2003 bushfires, especially through aerial fire fighting strategies.
- 8.6 It is important that the Government provides immediate funding to implement the recommendations arising from the Interim Report of the 2002-03 State Bushfire Inquiry, in time for the 2003-04 bushfire season.

- 8.7 The Committee acknowledged that since the development of the Victoria Police Five Year Strategic Plan substantial improvements have occurred in the quality of performance information produced by Victoria Police in 2003. However, more detailed information remains necessary to inform the Parliament and the public on the effectiveness of Victoria Police in fulfilling its mission and objectives.
- 8.8 It will be necessary for the Department of Justice to evaluate and report to Parliament on the success of the range of prisoner diversion and support programs for which \$398 million was provided in the 2003-04 budget.
- 8.9 Research needs to be undertaken into the underlying reasons why the prison population, particularly women prisoners, is increasing. Research results need to be channelled into the development of relevant social policies and existing prisoner diversion programs.
- 8.10 There is a need for the Department of Justice to further evaluate the Victorian Prison Drug Strategy, particularly in relation to offenders returning to the prison system who had acquired alcohol and drug problems since their previous release.
- 8.11 The Committee welcomes the initiatives undertaken within the Racing portfolio to further enforce high standards of integrity designed to protect punters and the future of the racing industry.

Departmental review

8.1 Department overview

The Department of Justice provides services to six ministerial portfolios: Attorney-General; Police and Emergency Services; Corrections; Consumer Affairs; Racing and Gaming. The Department is responsible for:

- all Government activities concerned with the reform;

- administration and enforcement of the law in Victoria, including all police and prosecution functions;
- administration of the court system, provision of the prison system;
- administration of the various tribunals and programs established to protect citizen's rights including consumer affairs;
- provision of emergency services including ambulance;
- fire and the State Emergency Service; and
- the drafting of legislation and provision of legal advice to the Government.

Following machinery of government changes, the Department of Justice assumed responsibility for the regulation of gaming, racing, liquor licensing and trade measurement.

8.1.1 *Key challenges for the Department in 2003-04*

The Department faces a number of major challenges during 2003-04 including implementing strategies to reduce crime and reduce the incidence of re-offending by former prisoners. As part of the crime reduction strategies increasing use of information technology will occur to identify, analyse and target crime trends in areas of major concern.

Expansion of prison facilities will continue with a view to reducing overcrowding in the existing system and to provide prison environments more conducive to prison rehabilitation. From 1 July 2004 the Correctional Services Commissioner's Office and the Public Correctional Enterprise (CORE) which is a service agency delivering public prison services, will combine to form one entity to be known as Corrections Victoria. Private prison operators will become sub-contractors under the new system as distinct from the existing system which provides services in competition with State run prisons. A separate entity will be responsible for monitoring and evaluating all prison services provided in the State.

Ongoing strategies to improve road safety and reduce road fatalities will be implemented. Existing initiatives have resulted in a reduction in the

road toll and injury rate in metropolitan Melbourne but the country road toll continues to steadily increase will receive special attention.

The Department is also responsible for designing and implementing a range of counter-terrorism measures to strengthen the capacity of police and emergency services to deal with the consequences of any major terrorist incidents, including chemical, biological and radiological attack.

The Committee was informed of a significant increase in demand for departmental services. In view of these pressures, various demand strategies are being implemented, along with the careful scoping of implementation plans for policy initiatives in order that longer term viability is not unduly compromised. The Department advised that continuing expenditure constraints will limit its capability to maintain at an appropriate levels infrastructure and investment in information technology⁵³³. The Committee was concerned to learn that a reduction in funding for information technology will constrain further advancements in systems integration and co-ordination.

8.1.2 Performance measures

In 2002-03 the Department revised its output structure as a result of machinery of government changes. As a result of changes to outputs and the assuming of responsibility for outputs related to regulation of gaming, racing, liquor licensing and trade measurement transferred from other Departments, a range of new performance measures were introduced for 2003-04.

New performance measures introduced by Victoria Police were intended to increase accountability for outputs and better measure the levels of service provided by Victoria Police to the community⁵³⁴. Similarly, as a result of the Magistrates' court output review, the Court has developed a range of output performance indicators and workload measures that it considers will enhance the relevance of output performance information presented in the Budget Papers.

Overall, the Committee considered there was a significant improvement in the relevance of performance measures included in the Budget Papers for the Department of Justice in 2003-04.

⁵³³ Department of Justice, response to the Committee's 2003-04 Budget Estimates Questionnaire, p.12

⁵³⁴ Budget Paper No.3, 2003-04 Budget Estimates, p.209

During the Committee's hearings with the Minister for Corrections, the Minister advised the Committee that an output measure – average daily prison design capacity utilisation rate – is becoming increasingly irrelevant.⁵³⁵ The measure is based on the original design capacity of a prison and does not account for capacity increases made as a result of capital improvements.

The Committee noted that there are several options available to the Department to change prison capacity including the use of flexible relocatable facilities and temporary capacity from doubling up beds in some cells.⁵³⁶ The Minister advised the Committee that although doubling up beds in cells was sometimes an appropriate method of dealing with the issue of self harm, there were situations in the past where doubling up was used as a short term response to increase prison capacity rather than being instituted on correctional grounds.⁵³⁷

Recommendation 41:

The Department of Justice:

- (a) delete the average prison design daily capacity utilisation rate as a performance measure for the Prisoner Supervision and Support output group; and**
- (b) develop and report in the Budget Papers on the number of beds available and capacity utilisation for the different types of prison accommodation including permanent, flexible and temporary facilities.**

8.2 Output management framework

As shown in the following Exhibit, the Department's budget allocation for 2003-04 was \$2,177.2 million, representing an increase of \$73.4 million as compared to the 2002-03 revised budget of \$2,103.8 million. The revised budget incorporated the machinery of government changes

⁵³⁵ Hon A. Haermeyer, MP, Minister for Corrections, transcript of evidence, 23 May 2003, p.244

⁵³⁶ *ibid.*, p.246

⁵³⁷ *ibid.*

which occurred in December 2002. The major reasons for the increase in the 2003-04 budget relate to the Government's commitment to additional police, increased traffic fines activity, the expansion of prison facilities and the increased focus on road safety.⁵³⁸

Exhibit 8.1:

**Department of Justice
Output Costs**

	Column 1	Column 2	Column 3	Column 3-2
Output Group	2002-03 Budget^(a)	2002-03 Revised	2003-04 Budget	Variation^(b)
	(\$ million)	(\$ million)	(\$ million)	(%)
Public Safety Policy	11.5	11.5	9.7	-15.7
Emergency Prevention and Response	105.3	105.3	91.8	-12.8
Reducing the Crime Rate	553.0	558.3	572.9	2.6
Reducing the Road Toll and Incidence of Road Trauma	115.7	117.1	119.2	1.8
High Levels of Community Perceptions of Safety	433.6	437.2	466.2	6.6
High Levels of Customer Satisfaction	49.4	49.8	50.6	1.6
Legal Support for Government	68.3	67.8	43.5	-35.8
Dispensing Justice	284.1	282.2	286.6	1.6
Enforcing Court Orders	93.8	90.0	118.6	31.8
Enforcing Correctional Orders	312.7	311.0	328.6	5.7
Protecting Consumers	53.3	53.2	55.3	3.9
Regulating Gaming and Racing	10.2	10.0	23.7	137.0
Achieving Equal Opportunity	10.5	10.4	10.5	1.0
Total	2,101.4	2,103.8	2,177.2	3.5

Notes: (a) Incorporates changes to the output structure and organisational restructuring and therefore may differ from figures published in the 2002-03 budget

(b) A negative variance indicates that the 2003-04 budget has decreased compared with the 2002-03 revised budget

Source: Budget Paper No.3, 2003-04 Budget Estimates, table 2.5.1, p.210

The Committee was advised by the Department that:⁵³⁹

- the Public Safety Policy output group decreased by 15.7 per cent due to the inclusion in 2002-03 of one off funding of \$3 million from the Community Support Fund. Additional funding of \$1.6 million in 2003-04 was provided for projects to be undertaken by the Office of the Emergency Services Commissioner;

⁵³⁸ Department of Justice, response to the Committee's 2003-04 Budget Estimates Questionnaire, pp.33-4

⁵³⁹ *ibid.*

- funding for the Emergency Prevention and Response output group decreased by 12.8 per cent due to the inclusion in 2002-03 of \$20 million in emergency funding for fire suppression activities. In 2003-04 direct funding to the Country Fire Authority and the Metropolitan Fire and Emergency Services Board will increase by \$3.9 million and \$2.9 million respectively;
- the budgeted increase of 6.6 per cent or \$29 million for the High Levels of Community Perceptions of Safety output group reflects the Government's commitment to additional police;
- funding for the Legal Support for Government output group decreased by 35.8 per cent as the allocation for 2002-03 included around \$21.5 million for administering the November 2002 State Election;
- the increase in the Enforcing Correctional Orders output group of 5.7 per cent or \$17.6 million relates primarily to increases in depreciation and capital asset charges due to increasing capacity for permanent beds in prisons, as a result of the expansion of prison facilities under construction;
- the increase in the Enforcing Court Orders output group of 31.8 per cent or \$28.6 million can be directly attributed to the increased administrative costs associated with operating and maintaining additional traffic cameras and the resultant processing of additional court orders by Civil Compliance Victoria as a result of the increased fines. Additional funding has been provided to expand the Office of Asset Confiscation and implement the Major Crimes Reward Fund initiative in 2003-04; and
- the Regulating Gaming and Racing output increased by 137 per cent because the 2002-03 comparative figure reflected only 6 months of operation under the control of the Department of Justice.

8.3 Budget summary

The Statement of Financial Performance for the Department of Justice is shown in Exhibit 8.2.

The following reasons were provided by the Department for major variations in administered revenue and expenditure between the revised budget estimates for 2002-03 and the budget estimates for 2003-04:⁵⁴⁰

- the major reason for the increase in administered revenue in 2003-04 is the transfer of the Office of Gambling Regulation, which collects revenue from gambling and lottery activities, to the Department of Justice in December 2002;
- given that the Department became responsible for the collection of gaming taxes, the corresponding increase in administered expenses relates to the payment of these collections into the Consolidated Fund; and
- other increases in administered expenses are due to a change in the accounting treatment for Criminal Injuries Compensation Award payments resulting in an additional expense of \$37.1 million.
- the Department projects an increase in traffic camera and on-the-spot fines and has increased the provision for bad and doubtful debts by \$17.5 million in anticipation of being unable to collect a proportion of the additional fines revenue. In 2002-03 bad debts written off involving fines amounted to \$8.7 million, compared with \$12.8 million in 2001-02.

⁵⁴⁰ *ibid.*, p.29

Exhibit 8.2:

Department of Justice
Statement of Financial Performance

	Column 1	Column 2	Column 3	Column 4	Column 4-3
	2002–03 Budget	2002–03 Adjusted^(a)	2002–03 Revised	2003–04 Budget	Variation
	(\$ million)	(\$ million)	(\$ million)	(\$ million)	(%)
Controlled items					
Operating revenue	2,050.1	2,062.4	2,125.7	2,191.7	3.1
Operating expenses	2,040.6	2,051.6	2,106.8	2,177.6	3.4
Net Result	9.5	10.8	18.9	14.1	
Administered items					
Administered revenue	668.2	1,320.7	1,314.4	2,215.5	68.6
Administered expenses	602.1	1,254.6	1,265.8 ^(b)	2,180.7 ^(b)	72.3
Surplus/Deficit	66.1	66.1	48.6	34.8	

Notes: (a) Includes the 2002-03 budget adjusted for machinery or government changes for the period 1 January 2003 to 30 June 2003

(b) Includes payment of revenue collected into the Consolidated Fund, estimated at \$1,084.3 million in 2002-03 revised and \$2,004.8 million in 2003-04

Source: Budget Paper No 3, 2003-04 Budget Estimates, table 2.5.2, p.245 and table 2.5.5, p.248

As a result of these factors the projected surplus for 2003-04 is expected to fall by \$13.8 million in comparison with the anticipated surplus of \$48.6 million in 2002-03.

In relation to controlled items:

- grants revenue is projected to increase due to additional funding provided to Victoria Police as part of the Government's Victorian Drug Strategy program;⁵⁴¹
- an additional \$7.3 million in interest is expected to be earned on balances held in the Trust Fund;⁵⁴² and
- employee related expenses will increase by around \$31 million, mainly due to recruiting additional police officers.⁵⁴³

⁵⁴¹ *ibid.*, p.31

⁵⁴² *ibid.*, p.35

⁵⁴³ *ibid.*, p.28

8.4 Human resource issues

8.4.1 Victoria Police

The Department advised that at 30 June 2003 Victoria Police had an estimated 12,574 full time staff including police officers, recruits, police reservists, protective services officers and civilians.⁵⁴⁴ This number was 73 fewer than the projection of 12,647 at 30 June 2003 advised at the 2002-03 estimates hearing. The Department anticipates that staffing levels will increase to 12,868 effective full time staff by 30 June 2004, in line with the Government's commitment to increasing police numbers by 600 officers over 4 years.⁵⁴⁵ In 2003-04, \$12.5 million has been provided to recruit 150 extra police as a first instalment.

The Minister advised the Committee that, as at April 2003, a total of 231 recruits had graduated from the Police Academy in the 2002-03 year, compared with 660 recruits for the 2001-02 year.⁵⁴⁶

Exhibit 8.3 compares staff numbers for 2002-03, and projected numbers for 2003-04.

Exhibit 8.3:

Victoria Police
Estimated Equivalent Full Time Staff

	2002-03 (Actual)		2003-04 (Estimate)	
	Police	Public Servants	Police	Public Servants
Chief Commissioner's Office	70	60	70	60
Operations	8,505	770	8,656	770
Special Operations	1,576	432	1,572	400
Corporate Services	345	816	470	870
Total	10,496	2,078	10,768	2,100
GRAND TOTAL	12,574		12,868	

Source: Department of Justice, response to the Committee's 2003-04 Budget Estimates Questionnaire, p.24

The Department indicated that Victoria Police is not currently experiencing difficulties in recruiting staff.⁵⁴⁷ The Minister advised that

⁵⁴⁴ *ibid.*, p.24

⁵⁴⁵ *ibid.*

⁵⁴⁶ Minister for Emergency Services' response, received 23 July 2003, to the Committee's follow-up questions, p.4

⁵⁴⁷ Department of Justice, response to the Committee's 2003-04 Budget Estimates Questionnaire, p.25

the attrition rate within Victoria Police is slightly over 2 per cent per annum in comparison with attrition rates of nearly 10 per cent several years ago.⁵⁴⁸

The Minister advised the Committee that the Government had achieved its first term commitment of providing an additional 800 police officers in May 2002.⁵⁴⁹ A further commitment has been made for an additional 600 police officers within the Government's existing term, which will require additional funding of \$12.5 million in 2002-03 and a similar amount in 2003-04. As indicated in Exhibit 8.3, Victoria Police projects the recruitment of a further 272 police officers by June 2004, of which 151 recruits will be located in operations. The recruitment of 272 police officers reflects the commitment to an extra 150 police in 2003-04, with the balance of the recruitment to compensate for natural attrition within Victoria Police. Ultimately the Government intends to have a police force of 10,900 full time officers.⁵⁵⁰

The above table also indicates that there will be a marginal increase of 22 public servants up to 30 June 2004. Any substantial increase in police numbers creates a range of additional administrative tasks associated with supporting the police force.

The Committee acknowledges the efforts of the Government in increasing police numbers in order to reduce crime rates and cut the road toll. The challenge for the Department is to maintain police numbers within budget constraints and at the same time ensure that the workloads for public servants assisting police in the performance of their duties remain manageable.

8.4.2 Department of Justice

The Department advised the Committee that at 30 June 2003 it had an estimated 4,557 equivalent full time staff, excluding statutory appointments such as judges, magistrates and members of tribunals. This figure compares with 4,266 staff at 30 June 2002. The increase in staff between 2002 and 2003 is mainly attributed to the transfer of a number of

⁵⁴⁸ Hon A. Haermeyer, MP, Minister for Police and Emergency Services, transcript of evidence, 23 May 2003, p.257

⁵⁴⁹ *ibid.*

⁵⁵⁰ *ibid.*, p.262

outputs, including gaming and racing, to the Department as a result of the machinery of government changes in December 2002.

Detailed below is a comparison of estimated staff numbers at 30 June 2003 along with projected numbers for 2004:

Exhibit 8.4:

**Department of Justice
Estimated Equivalent Full Time Staff**

Output Group	2002-03 30 June 2003 (estimated)	2002-03 30 Jun 2004 (estimated)	Variation (in staff numbers)
Enforcing Correctional Orders	2,007	2,050	43
Legal Support for Government	170	171	1
Achieving Equal Opportunity	104	104	0
Protecting Consumers	361	361	0
Gaming and Racing	163	165	2
Dispensing Justice	1,274	1,277	3
Enforcing Court Orders	247	290	43
Public Safety	84	90	6
Emergency Prevention and Response	147	155	8
Total	4,557	4,663	106

Source: Department of Justice, response to the Committee's 2003-04 Budget Estimates Questionnaire, p.23

Reasons provided by the Department for the increase in staff numbers in particular output groups were:⁵⁵¹

- Enforcing Correctional Orders: additional staff numbers mainly relate to the recruitment of custodial officers as a response to increased prison capacity and number of prisoners, in conjunction with new or expanded prisoner and offender rehabilitation programs. In addition, the Department has recruited 47 indigenous community correctional officers;
- Enforcing Court Orders: growth in staff numbers can be attributed to the processing of extra fines and penalties arising from the Government's Road Safety Program and an increase in Asset Confiscation activities;

⁵⁵¹ Department of Justice, response to the Committee's 2003-04 Budget Estimates Questionnaire, p.23

- Emergency Prevention and Response: staff numbers in the Bureau of Emergency Services Telecommunications will increase in order to support major projects and other activities associated with the state wide Integrated Public Safety Communications Strategy; and
- Public Safety: additional staff will be required to conduct non-financial performance audits of the emergency communications facility and to address possible issues arising from the existing bushfire enquiry.

The Department is experiencing some difficulty in attracting and retaining skilled and experienced financial accounting staff, particularly those with experience working in government. While the Department has no difficulty in recruiting accounting graduates, it has difficulty in retaining experienced accounting staff because of the higher salaries offered in the private sector.⁵⁵²

The Department is required to find savings of \$11.7 million per year over the next four years commencing in 2003-04 to contribute to the Government's budget initiative to reduce expenditure by \$141 million from 2003-04 rising to \$167 million in 2006-07.⁵⁵³ The \$141 million is on top of productivity savings of \$140 million per year required from all Departments. In order to achieve these savings, the Department of Justice may need to reduce staff in areas of operation, probably through attrition and/or the offering of separation packages despite increasing staff numbers by 106 in priority areas such as corrections and fine collections. A recent media article reported that the Department of Justice wants to cut \$2.2 million from the cost of salaries and wages in 2003-04.⁵⁵⁴

The Committee accepts that staff reductions in certain areas of the Department may be necessary if required savings levels are to be achieved. However, care must be taken that staff reductions do not create additional workloads and stress for remaining staff, the indirect costs of which could nullify any potential savings.

The Minister for WorkCover has acknowledged to the Committee that the incidence of stress claims has increased across the public sector and

⁵⁵² *ibid.*, p.25

⁵⁵³ Budget Paper No.2, 2003-04 Budget Statement, p.27

⁵⁵⁴ *The Age* newspaper, 19 July 2003

WorkSafe has been developing strategies to address stress related claims particularly in the budget sector.⁵⁵⁵

The Minister for Police and Emergency Services has also advised the Committee of claims before the Australian Industrial Relations Commission whereby senior police are seeking an overtime allowance which they consider is needed to compensate for high levels of unpaid overtime.⁵⁵⁶ The claim, if successful, will add to pressures on the Department to operate within its budget allocation without reducing services in operational areas.

The Committee also notes that the forward estimates for the Department in 2003-04 include an amount of \$3.36 million representing payment of an 18 per cent pay increase for fire fighters in the Country Fire Authority and the Metropolitan Fire and Emergency Services Board. The pay increase, which covers the period from 8 June 2002 to 1 August 2005, was in recognition of the additional skills and training required for fire fighters.⁵⁵⁷

The Treasurer has advised the Committee that any increases in salaries and wages for public sector employees will be limited to 2.25 per cent plus an allowance for productivity growth.⁵⁵⁸

8.4.3 Professional development and training

In response to the Committee's questionnaire, the Department advised that it placed a high priority on training and development for its staff, including Victoria Police and the emergency services. The Department's expenditure on training and development represents approximately 2.2 per cent its total budget for salaries.⁵⁵⁹

In 2002-03 the expenditure on training and development was around \$5.4 million, including \$270,000 for Swinburne University to deliver the Department's corporate training program. Apart from the recruitment and training of sworn officers at the Police Academy, Victoria Police also spent \$230,000 on professional development and training activities for

⁵⁵⁵ Minister for WorkCover's response, received 15 July 2003, to the Committee's follow-up questions, p.7

⁵⁵⁶ Minister for Police and Emergency Services' response, received 23 July 2003, to the Committee's follow-up questions, Attachment 2, p.1

⁵⁵⁷ *ibid.*, Attachment 1, p.10

⁵⁵⁸ Hon J. Brumby, MP, Treasurer, transcript of evidence, 14 May 2003, p.58

⁵⁵⁹ Department of Justice, response to the Committee's 2003-04 Budget Estimates Questionnaire, p.26

police officers. Both Victoria Police and the Department intend to provide similar or greater levels of funding for professional development in 2003-04. Around \$1.6 million will be spent on training prison officers and staff located in two new prisons in 2003-04.⁵⁶⁰

The Committee commends the Department for its ongoing commitment to professional development of its staff in the context of other pressures to reduce expenditure.

Portfolio review

8.5 Attorney-General portfolio

8.5.1 2003-04 outlook for the portfolio

Tasks to be undertaken within the Department of Justice during 2003-04 that are specific to the responsibilities of the Attorney-General include:⁵⁶¹

- enhancements to Court infrastructure through the provision of \$20.5 million over four years, representing \$18 million for the construction of Moorabbin Magistrates' Court and \$2.5 million to acquire a site for the construction of the Latrobe Valley Court and Police Complex in Morwell;
- provision of \$14 million over four years to Victorian Legal Aid and Community Legal Centres. This amount comprises:
 - \$1.4 million to Community Legal Centres to enhance services to the most vulnerable sections of the community;
 - \$1.6 million to improve regional access to legal aid services; and
 - \$11 million to provide for an increase in professional fees. The Attorney-General advised the Committee that this was the first increase in professional fees for legal aid lawyers in 11 years. It is anticipated that the fee increase will attract senior legal practitioners back to legal aid work;⁵⁶²

⁵⁶⁰ *ibid.*

⁵⁶¹ Budget Paper No2, 2003-04 Budget Statement, p.232-8

⁵⁶² Hon R. Hulls, MP, Attorney-General, transcript of evidence, 30 May 2003, p.467

- an allocation of \$5.2 million over four years for the creation of a Domestic Violence Court as a Division of the Magistrates' Court of Victoria;
- provision of \$6.2 million over four years to establish a Sentencing Advisory Council and a system of guideline judgments; and
- enhancement of the asset confiscation scheme with a budget allocation of \$6.2 million.

The Attorney-General also advised the Committee that the Department is dealing with 20 native title claims, 13 of which are over large regional areas of Victoria.⁵⁶³

8.5.2 *Analysis of the portfolio budget*

The 2003-04 budget for the output groups for which the Attorney-General is responsible is \$459.2 million, which is virtually unchanged from the 2002-03 allocation of \$459.5 million. Details are as follows:

⁵⁶³ *ibid.*, p.459

Exhibit 8.5:

**Attorney-General's Portfolio
Output Costs**

Output Group	Outputs under the responsibility of the Attorney-General	2003-04 Output Cost (\$ million)
Legal Support for Government	Legal Policy	5.2
	Law Reform	2.3
	Legal Advice to Government	9.4
	Privacy Regulation	2.2
	Native Title Framework	2.7
	State Electoral Roll and Elections	21.7
Dispensing Justice	Public Prosecutions	26.0
	Forensic Evidence	13.5
	Matters in the Supreme Court	37.4
	Matters in the County Court	56.8
	Matters in the Magistrates' Court	68.2
	Matters in the Children's Court	8.6
	Matters in Coroner's Court	5.9
	Matters in the Civil and Administrative Tribunal	24.1
	Alternative Dispute Resolution	1.7
	Legal Aid	33.9
	Victims Support	10.5
Enforcing Court Orders	Traffic Fines Processing	81.5
	Enforcement of Court Orders and Warrants	34.0
	Asset Confiscation Order Processing	3.1
Achieving Equal Opportunity	Discrimination Prevention and Redress	5.1
	Advocacy and Guardianship	5.4
Total		459.2

Source: Budget Paper No.3, 2003-04 Budget Estimates, pp.220-240.

8.5.3 *Key issues impacting on the portfolio*

The Department's response to the Committee's questionnaire and the estimates hearing identified several issues that will impact on the portfolio and the Budget Estimates for 2003-04.

(a) *Collection of fines*

All fines collected by the Department are regarded as administered revenue and paid into the Consolidated Fund. During 2002-03 an estimated \$375.9 million was collected from this source and paid into the Consolidated Fund. In 2003-04 revenue from fines is estimated at

\$477.6 million.⁵⁶⁴ Due to the anticipated increase in fine collections, the outputs involving 'Traffic Fines Processing' and 'Enforcement of Court Orders and Warrants' also record a corresponding increase of \$23.4 million and \$3.9 million respectively, compared with 2002-03.⁵⁶⁵

On average around \$10 million per annum is written off as bad debts. Traffic fines represent around 75 per cent of the debts with the remainder representing court fines for other offences. For accounting purposes and in order not to over-inflate outstanding fine debtors, fines are normally written off as doubtful debts after 12 months if defendants cannot be located. However, if defendants are subsequently located, warrants for the outstanding fines can be issued up to five years after the offence. Based on the five year limitation, a doubtful debt provision of \$303.04 million was provided for at 30 June 2003, inclusive of an additional \$17.5 million increase in anticipation of the increased revenue from traffic infringements.

The Committee was advised that current enforcement activities result in 90 per cent of traffic camera infringement notices and fines imposed by Courts being collected. This percentage reduces for 'on-the-spot' traffic infringement notices, where only 74.7 per cent of such notices are collected within 120 days, increasing to 79.7 per cent within one year. Of the uncollected proportion of traffic infringements, a certain number is written off because the fine defaulter is given a custodial sentence or other circumstances exist, such as mental illness.⁵⁶⁶

Notwithstanding these circumstances, the writing off of revenue of up to \$10 million per annum from uncollected fines is of concern, as is the \$303 million which is regarded as doubtful of being collected. Substantial costs are also involved in pursuing debt collection processes before and after infringement notices are lodged through the PERIN Court system in circumstances where traffic fine infringements are not paid within 60 days.

With respect to the latter issue, traffic infringement notices issued by Municipal Councils which cannot be cleared are referred to the PERIN Court system for enforcement. The Committee was advised that approximately 50 per cent of these debts are then collected through the

⁵⁶⁴ Budget Paper No.3, 2003-04 Budget Estimates, p.248

⁵⁶⁵ *ibid.*, p.231

⁵⁶⁶ Attorney-General's response, received 18 July 2003, to the Committee's follow-up questions, p.3

Court system. The Department provided the Committee with figures indicating that \$77.7 million had been recovered and disbursed to Municipal Councils through the PERIN Court system since 1998-99 up until May 2003. Costs associated with the collection of the \$77.7 million amounted to \$46.8 million, representing a return to Councils of \$1.66 for every \$1 processed through the PERIN Court system.⁵⁶⁷

The challenge for the Government is to develop innovative methods for collecting fines at an early stage without incurring the additional costs of processing uncollected fines through the PERIN Court system. Measures currently used by the Sheriff's Office include payment of fines by instalments, suspension of driving licences, property seizures, and imprisonment.⁵⁶⁸

The Department informed the Committee that the Municipal Association of Victoria has suggested a number of sanctions that could be introduced to encourage people to pay fines and these suggestions are being reviewed.⁵⁶⁹

Innovative measures to collect overdue fines and encourage early payment could include using the Australian Taxation Office to collect fines, attaching fines to e-tag accounts, and allowing VicRoads to refuse registration or re-registration of vehicles until all outstanding fines are paid. The Committee acknowledges that the privacy implications associated with such proposals and adverse public reaction if harsh measures were introduced, would need to be addressed by the Government. However, ongoing efforts need to be made to reduce the costs associated with pursuing overdue fines and the number of fines written off each year.

Recommendation 42:

To assist with reducing the level of fines written off each year, prompt action be taken by the Department of Justice to introduce new measures to increase fine collections prior to Court action.

⁵⁶⁷ *ibid.*, p.7

⁵⁶⁸ *ibid.*, p.6

⁵⁶⁹ *ibid.*, p.8

(b) *Relationship between traffic infringements and road safety initiatives*

Of concern to the public is the perception that the strong emphasis on enforcement of traffic infringement penalties is a revenue raising activity of Government as distinct from improving road safety. Revenue from police fines, predominately traffic fines, is expected to increase by 30.9 per cent in 2003-04 to \$427.5 million, an increase of \$100.9 million over the anticipated collection of \$326.6 million in 2002-03.⁵⁷⁰ The Government attributes the increase in revenue to the next stage of road safety initiatives to be implemented in 2003-04, including flash-less, fixed site and point-to-point camera technology that will be installed at identified danger areas.⁵⁷¹

In recognition of public opinion, the Department undertook a two year joint research project with Monash University to provide insight into community attitudes and understanding of the role that Victoria's infringement penalty enforcement system plays in supporting road safety and traffic management strategies.⁵⁷²

The results of the study which were available in early 2003 supported the effectiveness of traffic penalty enforcement in changing driver behaviour as a road safety tool, particularly when targeted at speeding. Research suggested that where new road safety enforcement measures were introduced there was an initial increase in infringement notices, which tended to drop to lower levels as drivers modified their behaviour and drove slower. In 2000 and 2001, the average percentage of vehicles detected speeding by speed cameras was 2.4 per cent. Since then, with the introduction of new road safety initiatives including lower speed tolerance levels, the number of vehicles detected speeding more than 10 kilometres per hour above the speed limit has, in the latter part of 2002-03 dropped to around 1.5 per cent.

The Committee notes that as at 2 September 2003, according to the Victoria Police website, the Melbourne and metropolitan road toll had fallen by 19 per cent, in comparison with the same time in 2002. The country road toll had also been reduced by 11 per cent over the same period.

⁵⁷⁰ Budget Paper No.3, 2003-04 Budget Estimates, p.460

⁵⁷¹ *ibid.*

⁵⁷² Attorney-General's response, received 18 July 2003, to the Committee's follow-up questions, p.5

The Committee accepts that the strong traffic penalty enforcement system currently in force is a very important component of the Government's road safety strategy. In a media release on 6 August 2003, the Minister for Police and Emergency Services stated that based on the road toll of 397 persons in 2002, the cost to the Victorian community was about \$655 million.

8.6 Police and Emergency Services portfolio

8.6.1 2003-04 outlook for the portfolio

Tasks to be undertaken within the Department of Justice that are specific to the responsibilities of the Minister for Police and Emergency Services during 2003-04 include:⁵⁷³

- recruiting an additional 150 police officers as the first stage of the Government's policy to increase police numbers by 600 officers over the next four years. In the 2003-04 budget \$12.5 million was provided for this purpose as part of an allocation of \$125.8 million over four years;
- as part of the five year strategic plan for Victoria Police smarter crime fighting strategies will be developed, including detailed analyses of local crime trends in order to build customised crime reduction strategies around specific target zones and target groups;
- the roll-out of new booze buses, updated breath testing equipment, new speed and red light cameras and point-to-point cameras on rural roads;
- enhancing counter-terrorism capacity, including a \$6.4 million upgrade of the police information technology system and \$12 million to establish a counter-terrorism co-ordination unit within Victoria Police;⁵⁷⁴
- diverting low risk criminal offenders from custodial sentences to appropriate community supervision and treatment orders; and

⁵⁷³ Budget Paper No.2, 2003-04 Budget Statement, pp.203 and 232-8

⁵⁷⁴ Hon A. Haermeyer, MP, Minister for Police and Emergency Services, transcript of evidence, 23 May 2003, p.258

- the ongoing development of a state wide, Integrated Public Safety Communications Strategy to enhance the operational capabilities of the State's Emergency Service Organisations.

8.6.2 *Analysis of the portfolio budget*

The 2003-04 budget for the output groups for which the Minister for Police and Emergency Services is responsible for \$1,310.4 million, representing an increase of \$31.2 million by comparison with the 2002-03 revised budget of \$1,279.2 million. Details are provided below:

Exhibit 8.6:

Police and Emergency Services portfolio Output Costs

Output Group	Outputs under the responsibility of the Minister for Police and Emergency Services	2003-04 Output Cost (\$ million)
Public Safety Policy	Crime and Violence Prevention	4.0
	Emergency Readiness Support	5.7
Emergency Prevention and Response	Metropolitan Fire and Emergency Services	23.4
	Country Fire Authority	39.4
	State wide Emergency Services	29.0
Reducing the Crime Rate	Investigating Crimes	380.3
	Police Court and Custody Services	192.6
Reducing the Road Toll and Incidence of Road Trauma	Targeting Driver Behaviour	119.2
High Levels of Community Perceptions of Safety	Responding to calls for assistance	68.6
	Diversion and community support programs	397.6
High Levels of Customer Satisfaction	Community Confidence in Policing Services	21.7
	Partnership Policing	28.9
Total		1,310.4

Source: Budget Paper No.3, 2003-04 Budget Estimates, pp.211-9

8.6.3 *Key issues impacting on the portfolio*

The Department's response to the Committee's questionnaire indicated the following matters will impact on the portfolio and the budget estimates for 2003-04.

(a) *Emergency Fire Services*

The Minister for Police and Emergency Services informed the Committee that the major bushfires that occurred in Victoria in late 2002 and early

2003 were a significant cost to the 2002-03 budget. A Treasurer's Advance of \$20 million was provided to the Country Fire Authority to meet its costs associated with the bushfires. Budget Paper No. 2, 2003-04 Budget Estimates, recorded that across government \$138.9 million was provided in 2002-03. A further \$26.5 million will be provided until 2005-06 to fund a range of government and private initiatives to meet fire suppression expenses and assist with fire recovery.⁵⁷⁵

Large bushfires can cause considerable expense to both governments and the community and every effort needs to be made to improve fire preparedness and responses to future emergencies. The Committee notes that in the 2003-04 budget the Country Fire Authority received an extra \$3.8 million over its initial 2002-03 budget and the Metropolitan Fire and Emergency Services Board received an extra \$2.8 million.⁵⁷⁶ Of these increases, \$1.47 million and \$1.89 million will be directed towards meeting the 18 per cent salary increase for fire fighters awarded over a 3 year period from 8 June 2002.⁵⁷⁷

It was not feasible for the Committee to determine the adequacy of fire fighting vehicles and equipment available to the Fire Services, although the Committee is aware that the Country Fire Authority will need to replace a major proportion of its ageing tanker fleet over the next few years.

The Minister advised the Committee that aerial fire fighting strategies are now used much more comprehensively than in the past. Aerial water bombing of fires can quickly contain fires before they become too big. However, the purchase and maintenance of high volume fire bombing aircraft such as the Erickson Airplane is very costly and it is seen by the Government as cheaper to lease such aircraft for the duration of the fire season.⁵⁷⁸

The Minister advised that in recognition of the considerable advantages of aerial fire fighting, the Australasian Fire Authorities Council submitted a National Aerial Firefighting Strategy to the Commonwealth Government in August 2002, recommending the funding of 11 aircraft, including 4 airplanes. The Commonwealth Government subsequently

⁵⁷⁵ *ibid.*, p.201

⁵⁷⁶ Budget Paper No.3, 2003-04 Budget Estimates, p.212

⁵⁷⁷ Minister for Police and Emergency Services' response, received 23 July 2003, to the Committee's follow-up questions, p.10

⁵⁷⁸ Hon A. Haermeyer, MP, Police and Emergency Services, transcript of evidence, 23 May 2003, p.259

offered to pay 50 per cent of the capital lease cost of up to 3 Erickson aircranes, inclusive of one aircrane that was already leased by the former Department of Natural Resources and Environment. As a result of prolonged deliberations on the extent of Commonwealth funding it was not until 29 January 2003 that two extra Erickson aircranes commenced operations in Victoria and New South Wales.⁵⁷⁹

The Chief Fire Officer of the Department of Sustainability and Environment advised the Minister that had the additional aircraft been available at the beginning of the 2002-03 fire season they would have assisted in bringing about earlier control of the very serious fire situation in Victoria on 8 January 2003.⁵⁸⁰

The Committee considers that the above example illustrates a need for a concerted effort by both State and Commonwealth Governments to have a co-operative and co-ordinated approach to minimising the future risk of major disasters such as the January 2003 bushfires. Since those bushfires the Committee notes that the following actions have occurred in Victoria:

- a Ministerial Taskforce on Bushfire Recovery was established by the Premier;
- the Emergency Services Commissioner was to undertake a review of all operations centres across the State to ensure that Victoria's emergency services agencies are operating in a co-ordinated manner;
- the Country Fire Authority has undertaken a detailed study of their involvement in major bushfires with a view to identifying any aspects of operations that require modification; and
- the Emergency Services Commissioner conducted an inquiry into the 2002-03 bushfires and provided an interim report to the Government on 26 August 2003. The report highlighted there was no easy way to eliminate the bushfire risk but prudent planning and extensive fire preparation and suppression activities were key factors.⁵⁸¹

⁵⁷⁹ Minister for Police and Emergency Services' response, received 23 July 2003, to the Committee's follow-up questions, p.2

⁵⁸⁰ *ibid.*

⁵⁸¹ Office of the Premier, media release, 26 August 2003

Recommendation 43:

The Victorian Government discuss with the Commonwealth Government, other States and Territory Governments the need for a nationally co-ordinated and co-operative approach to enhance aerial support for fire fighting.

Recommendation 44:

The Government provide immediate funding to implement the recommendations arising from the 2002-03 State Bushfire Inquiry in time for the 2003-04 bushfire season.

(b) Victoria police resources

The 2003-04 budget provided \$125.8 million over four years, commencing with \$12.5 million in 2003-04 to provide for 600 additional police officers.⁵⁸² The projected increase is additional to the 800 extra police recruited in the first term of the Government. The additional police will boost the effectiveness, responsiveness and visibility of Victoria's police force.

The Committee sought information from the Minister as to the allocation of police resources to their major activities and was provided with the details summarised in Exhibit 8.7.

This information, although produced at May 2002, was the latest information able to be produced by Victoria Police. Apart from additional funding of around \$15 million provided in the 2003-04 budget which was directed towards reducing the crime rate, other funding allocations were relatively constant which suggests that similar allocations of police time would apply in 2003.

⁵⁸² Budget Paper No.2, 2003-04 Budget Statement, p.232

Exhibit 8.7:**Allocation of Police Time to Major Activities**

Activities	November 1998	May 2002	Change
	(%)	(%)	(%)
Crime Prevention	39.3	30.9	-8.4
Incident, Emergency and Event Management	6.9	10.2	3.3
Crime Identification and Investigation	20.6	29.9	9.3
Road Safety	11.0	9.4	-1.6
Supporting the Justice System	19.3	19.3	0.0
Other	2.9	0.3	-2.6
Total	100.0	100.0	

Source: Minister for Police and Emergency Services' response, received 23 July 2003, to the Committee's follow-up questions, p.6

As can be seen from Exhibit 8.7, the proportion of total police time allocated to road safety is significantly less than that allocated to other major activities. It also appears that the reduction in time allocated to crime prevention activities has been offset by a commensurate increase in crime investigation.

As the time allocated to road safety has declined marginally from November 1998, as compared to the large increase in crime investigation activities, this would suggest that road safety activities are not impacting on the core police function of crime investigation.

Apart from additional police resources being deployed in crime investigation and reduction two other important initiatives are also planned for 2003-04, namely:

(i) *Compstat information technology*

The 2003-04 budget provides capital and recurrent funding of \$5.5 million to establish a system known as Compstat.⁵⁸³ This system will provide timely and accurate information on where crimes are being committed, the time of commitment and the circumstances involved. Use of this data will result in the development of customised crime detection strategies around specific target zones. It will also make local police more

⁵⁸³ Minister for Police and Emergency Services' response, received 23 July 2003, to the Committee's follow-up questions, Attachment 2

accountable for the investigation, reduction and prevention of crime in respective police districts and locations.

(ii) *Forensic testing*

The demand by police forces for forensic services, especially DNA testing, has increased substantially in recent years as its benefits in crime investigation have improved with advances in technology and techniques. In recognition of the value of forensic testing and to minimise delays in forensic analysis for Court purposes, the 2003-04 budget provided \$6 million over two years for the expansion of forensic facilities, new forensic equipment and additional forensic officers specialising in DNA testing. The new forensic system is expected to result in increased efficiency and productivity.⁵⁸⁴ The entire Victorian prison population has been DNA tested, resulting in a range of previously unsolved crimes being resolved.⁵⁸⁵

(c) *Performance measurement of Victoria Police*

The Committee recognises the considerable potential benefits to the community from more police resources, increased use of information technology to conduct 'intelligence led' policing operations and better use of forensic facilities. However, given the very large public investment in Victoria Police, there is also an expectation that reductions in crime will occur, more crimes will be resolved and there will be higher levels of community perceptions of safety. In addition, there also needs to be enhanced accountability to the public and the Parliament for the performance of the police force.

The Committee acknowledges that for the first time, Victoria Police has a Five Year Strategic Plan and has revised its output structure to reflect the priorities identified in the plan. It has also introduced many new performance measures in 2003-04 which are seen as better measuring the levels of service provided by Victoria Police to the community. For example in the 'Reducing the Crime Rate' output group, Victoria Police set numerical targets for the projected number of crimes in the various categories to be investigated, the anticipated percentage of crimes investigated that will be cleared up, and the ideal time frames within which crimes will be resolved.

⁵⁸⁴ *ibid.*, Attachment 1, p.ii

⁵⁸⁵ *ibid.*

While these are positive developments, there still remains scope for improvement. As an example, the output group 'High Levels of Community Perceptions of Safety', has an output 'Responding to calls for assistance' which relates to the police providing timely responses to calls for assistance in matters of personal and public safety. The timeliness performance measure contained within this output refers to 'Priority 1 calls taken and dispatched in 160 seconds – metro'. The target is for at least 80 per cent of calls to fall within this category. This means that a police vehicle will be dispatched to an urgent incident within 160 seconds of a call being received at least 80 per cent of the time.

The Committee acknowledges the potential benefits of such a performance measure. However, such a measure could also suggest that it is anticipated 20 per cent of the time that a nearby police vehicle is not available within 160 seconds of a request to respond quickly. Of equal relevance to call taking and dispatch is the time taken by the police to actually arrive at an urgent incident.

Although not strictly comparable, the Metropolitan Ambulance Service aims to respond to priority 1 calls by dispatching vehicles within 150 seconds of a call at least 90 per cent of the time. In addition, the service has another measure which requires ambulances to arrive at the scene of a critical incident within 13 minutes of being dispatched at least 90 per cent of the time. For accountability purposes, as well as measuring the responsiveness of police to urgent calls, a similar measure to that used by the Ambulance Service needs to be introduced for Victoria Police. Analysis of such a measure could also indicate areas where police responsiveness warranted improvement and would also complement the COMPSTAT project.

(d) Additional Police and the impact on crime

A key measure of the effectiveness of a Police Force is widely seen as reflected in the crime rate, and to a lesser extent in reductions in the road toll and incidence of road trauma. At the time of preparation of this report, crime statistics were not available for 2002-03. The Minister provided the Committee with preliminary data as at March 2003 as shown below.

Exhibit 8.8:

Recorded Criminal Offences 2001-02 and 2002-03
Expressed as a rate per 100,000 population

Crime Category	2001-02	2002-03	Change in Rate
	No. of offences per 100,000 head	No. of offences per 100,000 head	% per 100,000 head
Crime against the person	752	727	-3.4
Crime against property	7363	6755	-8.3
Drug offences	272	269	-1.1
Other crime	753	770	2.2
Total	9141	8521	-6.8

Source: Victoria Police, 2002-03 Provisional Crime Statistics, 18 July 2003

Care must be taken in interpreting the above statistics in that the total number of offences recorded represents the rate of offending per 100,000 head of population. For example in 2001-02 the total number of offences recorded in Victoria was 440,835 offences, which converted to a rate of 9,141 offences per 100,000 head of population. The Minister informed the Committee that the methodology used to measure the crime rate is considered more appropriate than the actual number of offences reported, because as the population increases the propensity for crime increases proportionately.⁵⁸⁶

The Committee notes that the table reflects an overall decrease of 6.8 per cent in the crime rate for 2002-03 in comparison with the previous year. The extent to which this decrease can be attributed to the increase in police numbers as compared to other factors such as crime prevention strategies, better use of technology and diversion of first offenders away from prisons, is unknown. The Committee was advised that by comparison with 2001-02 the amount of hours dedicated in 2002-03 to the investigation of crimes against the person and crimes against property had increased by 14.25 per cent and 5.8 per cent respectively, reflecting the additional resources provided.

The Committee also observed that although overall there was reduction of 3.4 per cent in the incidence of crime against the person, within this category the incidence of assault remained stable at a rate of around 512 assaults per 100,000 head of population. The Chief Commissioner of Police informed the Committee that it was a strategy of Victoria Police to

⁵⁸⁶ Hon A. Haermeyer, MP, Minister for Police and Emergency Services, transcript of evidence, 23 May 2003, p.265-6

encourage people to report domestic violence incidents categorised as assaults and there had been an increase of up to 20 per cent in some regions in the level of reporting domestic violence. It was seen as beneficial to bring this type of violence into the open so it could be dealt with appropriately.

In recent budgets Victoria Police has had substantial increases in resources. Accordingly, the Committee considers there is an obligation on Victoria Police to demonstrate the impact of these extra resources on their performance. For example, given the overall increase of 1,400 projected in police numbers, what impact has this made on community safety and crime rates?

The Committee acknowledges the improvements that have occurred with performance indicators and the annual publication of crime statistics. Nevertheless, additional information needs to be provided as to the tangible benefits accruing to the community from its investment in the police force. Performance information can be readily derived from statistical information maintained within the Department of Justice, through areas such as Crime Prevention Victoria and the Criminal Justice Statistics Unit within the Department. The proposed COMPSTAT project will also provide additional data, despite being developed primarily for police operational purposes and will be largely of a confidential nature. Despite the amount of information available, very little has occurred in disseminating this information in suitable form to Parliament, government agencies and the community.

In its October 2002 report to the Parliament on an *Inquiry into Crime Trends*, the Drugs and Crime Prevention Committee recommended that 'a Bureau of Crime Statistics and Research be established in Victoria as an independent statutory agency that reports directly to the Parliament'. A similar agency was proposed in early 1992 and initial steps were taken to establish a Bureau of Crime Statistics and Research. When the Government changed in 1992 it did not proceed with the proposal.

The Committee enquired of the Minister whether any further consideration had been given to the establishment of an independent Bureau of Crime Statistics and Research as occurs in other States. The Minister responded that 'the integrity of Victoria Police Crime Statistics had been validated by a recent review undertaken by the Australian

Institute of Criminology. There are no plans to establish an independent Bureau'.⁵⁸⁷

Recommendation 45:

The Department of Justice provide more detailed information to the Parliament and the public on the effectiveness of Victoria Police in fulfilling its mission and objectives.

(e) *Diversion and community support programs*

In 2003-04 a new output was established: Diversion and Community Support Programs with a budget of \$397.6 million. The output will focus on preventing crime, supporting victims of crime, and using a range of alternative measures to divert low-risk offenders from custodial sentences to appropriate community supervision and treatment orders. The output will also provide enhanced pre and post release support to reduce the likelihood of released prisoners returning to the correctional system. The Committee is aware of the considerable benefits available from such programs, which also have the potential to alleviate pressures on a crowded prison system which is undergoing an expansion program.

Nevertheless, given the extent of funding for this output which represents 30 per cent of the total budget under the control of the Minister for Police and Emergency Services, the effectiveness of the programs needs to be communicated to Parliament and the public.

Given that existing performance measures in the Budget Papers refer only to 13,021 early offenders participating in these programs in 2003-04 along with a projected target of 76 per cent of community satisfaction with the programs⁵⁸⁸, the Committee enquired as to whether other qualitative measures would be more effective in evaluating the success of the programs. The Committee suggested a suitable measure could relate to the percentage of early offenders returning to the criminal justice system within 12 months of participating in such programs.

⁵⁸⁷ Minister for Police and Emergency Services' response, received 23 July 2003, to the Committee's follow-up questions, Attachment 2, p.6

⁵⁸⁸ Budget Paper No.3, 2003-04 Budget Estimates, p.217

The response provided by the Minister acknowledged that such a measure had been considered and that similar measures were used in overseas jurisdictions.⁵⁸⁹ It was also acknowledged that Victoria Police was unable to collect and match the relevant cross agency data sets necessary to report against such a measure. The Committee understands that there is a degree of compatibility between the police and correctional services information systems and that cross matching of data would be relatively simple. The suggestion was also made that although such a measure could be useful in measuring the quality and effectiveness of the programs, it would not necessarily serve as a measure of police responses involving cautioning and/or diverting early offenders away from the Courts.⁵⁹⁰

The Committee's view is that the success or otherwise of the diversion programs needs to be better evaluated given the extent of taxpayers funds involved. Questions also need to be raised that if these programs were successful then pressure on the prison system should be easing instead of increasing. Alternative police responses could be evaluated as a separate exercise. The Committee also notes that while considerable attention and funding is being directed towards diversion and rehabilitation programs, it is not aware of any extensive research being undertaken as to the underlying reasons Victoria's prison population is increasing, particularly women prisoners. Research of this nature could contribute to changes in social policy that can influence crime rates.

⁵⁸⁹ Minister for Police and Emergency Services' response, received 23 July 2003, to the Committee's follow-up questions, Attachment 2, p.5

⁵⁹⁰ *ibid.*

Recommendation 46:**The Department of Justice:**

- (a) evaluate the success of the diversion and community support programs and report to the Parliament on the outcomes of the various strategies that have been developed; and**
- (b) undertake research on the underlying reasons the prison population is increasing, particularly with women, and the results of this research be channelled into the development of relevant social policies and existing diversion programs.**

(f) *Mobile Data Network*

As part of the Government's Statewide Integrated Public Safety Communication Strategy, the 2002-03 budget provided for a Mobile Data Network project.⁵⁹¹ Project cost information was not provided as it was to be published following the tender process, but was projected at more than \$100 million.

The Mobile Data Network project was described in the Budget Papers as providing for emergency vehicles owned by Victoria Police and the Metropolitan Ambulance Service to be equipped with data terminals.⁵⁹² The technology, which interfaces with the Emergency Communications Victoria's (ECV) Computer Aided Despatch (CAD) system for emergency dispatches linked to the 000 emergency number, has the following benefits:⁵⁹³

- enables the CAD system to track and monitor the location of all emergency vehicles, including transit time between dispatch of vehicle and arrival at scene of emergency, departure from emergency scene and arrival at hospital or other destination and identification of emergency vehicles closest to scene of incident;

⁵⁹¹ Budget Paper No.2, 2002-03 Budget Statement, p.196

⁵⁹² *ibid.*

⁵⁹³ Minister for Police and Emergency Services, media release, 25 June 2003

- allows important information about emergencies such as patient history or criminal records, if available, to be sent directly to crews in the emergency vehicles;
- provides for police in the field to obtain real time access to databases to check outstanding warrants, vehicle registration details, outstanding fines, license information and wanted or missing persons. Such checks could be done randomly, for example, in conjunction with random breath testing;
- incorporation of a distress button in vehicles for emergencies or life threatening situations; and
- allows for police and ambulance officers to submit paperwork via computer while still in the field.

The mobile data network will complement the existing radio dispatch system utilised by ECV, and which will be upgraded to a digital system under the Mobile Metropolitan Radio Network project. The existing radio communications system would also serve as a backup to the Mobile Data Network should that system fail or be sabotaged.⁵⁹⁴

On 25 June 2003, the Government entered into a contract with communications company Motorola for almost \$140 million to implement the Mobile Data Network. An additional \$30 million will be spent by emergency service agencies to provide training, technology interfaces and internal development needs.⁵⁹⁵ The project is a *Partnerships Victoria* project and the State Government will have the option to own the equipment at the conclusion of the project. The Committee notes that as the costs associated with the project have not been detailed in the Budget Papers, parliamentary authority for this expenditure will need to be obtained.

The Committee acknowledges the considerable benefits available to the community and the emergency service organisations arising from the implementation of this technology which the company has assured the Government is viable, supported and proven technology offering the highest levels of availability and represents best value for money.

⁵⁹⁴ *ibid.*

⁵⁹⁵ *ibid.*

Implementation of the technology is projected by 2005 and is expected to improve emergency response times, as well as providing police and ambulance officers instant access to mission critical data.

The Committee believes the challenge for the Government is to utilise the management information collected through this new system which was not previously available in a reliable form, to develop performance measures designed to maximise resource usage.

Recommendation 47:

The Department of Justice develop mechanisms to capture the data produced by the Mobile Data Network in order to develop performance information and targets from which the efficiency and effectiveness of Victoria Police and the Metropolitan Ambulance Service can be measured in responding to emergencies and calls for assistance.

8.7 Corrections portfolio

8.7.1 2003–04 outlook for the portfolio

The 2003–04 budget did not include funding for any new initiatives for the Corrections portfolio. The Department advised the Committee that the projected higher expenditures in 2003–04 compared with 2002–03 were due to:⁵⁹⁶

- \$7.6 million for 297 permanent prison beds;
- \$2.6 million arising from enterprise bargaining agreements relating to public prison, community correctional services and other corrections employees;
- \$2.4 million for private prison indexation costs;
- \$1.3 million for capital-related costs for additions to prison infrastructure;

⁵⁹⁶ Minister for Corrections' response, received 23 July 2003, to the Committee's follow-up questions, p.4

- \$1 million for costs relating to the review of private prison operators; and
- \$1.0 million for the commissioning and operation of the new Beechworth prison.

The Minister indicated that restructuring would occur in the near future to integrate the Office of the Correctional Services Commissioner and the Public Correctional Enterprise (CORE) into one entity to be known as Corrections Victoria. The change would recognise private prison providers as subcontractors to Corrections Victoria rather than as competing providers with CORE. The development and implementation of policy will also be separated from the monitoring of performance, with the establishment of an independent prison inspectorate.⁵⁹⁷

Parliament passed legislation in June 2003 to establish home detention. The Minister advised the Committee that home detention for low-risk offenders will provide greater opportunities for victims of crime to receive restitution, lower the risk of recidivism and provide a better deal for dependants and families.⁵⁹⁸ Initially, 80 prisoners will be part of the pilot program, which is estimated to cost \$1.6 million in 2003-04.⁵⁹⁹

Another major activity for the Department in 2003-04 is the evaluation of the effectiveness of the Corrections Long Term Management Strategy. The evaluation contains two elements: (1) an overarching evaluation of the entire strategy and (2) individual evaluations of each initiative under the strategy. The Minister informed the Committee that Melbourne University's criminology department is evaluating one initiative – the Bridging the Gap Program – and expected to complete the evaluation later in 2003.

⁵⁹⁷ Hon A. Haermeyer, MP, Minister for Corrections, transcript of evidence, 23 May 2003, p.248

⁵⁹⁸ Hon A. Haermeyer, MP, Minister for Corrections, transcript of evidence, 23 May 2003, p.253

⁵⁹⁹ Minister for Corrections' response, received 23 July 2003, to the Committee's follow-up questions, p.3

8.7.2 *Analysis of the portfolio budget*

Exhibit 8.9:

Corrections portfolio Output Costs

Output Group	Outputs under the responsibility of the Minister for Corrections	2003-04 Output Cost (\$ million)
Enforcing Correctional Orders	Correctional system management	24.6
	Prisoner supervision and support	268.8
	Community based offender supervision	35.2
Total		328.6

Source: Budget Paper No.3, 2003–04 Budget Estimates, pp.233–4

The 2003–04 budget for the outputs of the Corrections portfolio is \$328.6 million, representing an increase of \$17.6 million (5.7 per cent) on the 2002–03 revised budget of \$311.0 million. Exhibit 8.9 provides details.

8.7.3 *Key issues impacting on the portfolio*

The Department's response to the Committee's budget estimates questionnaire and the estimates hearing identified several issues that will have an impact on the portfolio and the budget estimates for 2003–04.

(a) Expansion and redevelopment of prisoner accommodation

The prison population in Victoria increased from around 2,432 prisoners in June 1996 to 3540 in June 2002. Previous Committee reports on the budget estimates nominated prison accommodation as a key issue affecting the Department.⁶⁰⁰ The Committee noted that the reasons for the population increase are varied, but included:

- changes in legislation relating to sentencing laws, parole provisions and bail conditions, all of which made it more likely that serious offenders would be sent to prison, often for longer terms;
- the increase in violent crime attributed predominantly to drug addition; and
- increased time spent by prisoners in remand before sentencing.

⁶⁰⁰ Public Accounts and Estimates Committee, *Report on the 2002-03 Budget Estimates*, June 2003, p.407; and Public Accounts and Estimates Committee *Report on the 2001-02 Budget Estimates*, November 2001, p.360

The Committee noted that the Department is involved in initiatives to reduce the demand on prison resources. These initiatives include diverting some offenders from custodial to community based sentences and reducing the likelihood of re-offence and recidivism. Victoria's recidivism rate – 4.0 percentage points below the national average – declined in 2001-02 (the latest available year) for the first time since 1997-98.⁶⁰¹

The Minister also reported to the Committee that prison bed savings of around 38 beds were achieved by placing selected low-risk offenders on bail rather than in custody, diverting these offenders to appropriate community accommodation and support services.⁶⁰² Additional savings of more than 175 beds had also been achieved in 2002-03 by diverting offenders through community corrections.⁶⁰³ The Committee welcomes the apparent success of initiatives to address recidivism in Victoria and divert low-risk offenders from custodial care.

Notwithstanding these achievements in reducing the demand for prison accommodation, the Department has been involved in infrastructure development projects to both increase the number of permanent and temporary prison beds and improve the design of prison cells.⁶⁰⁴ In 2003-04, the Department is continuing several projects to expand prison accommodation in Victoria. At the estimates hearings, the Minister informed the Committee that these projects include:

- three new prisons – the Ravenhall Remand Centre (600 beds), the Lara Correctional Programs Centre (300 beds) and the minimum-security Beechworth Prison (120 beds);
- the expansion of Ararat Prison to accommodate a 26-bed specialist unit for sex offenders; and
- the redevelopment of the Langi Kal Kal and Ararat prisons.

The Minister advised the Committee that the delivery of the Ravenhall and Lara facilities would be delivered under the *Partnerships Victoria*

⁶⁰¹ Steering Committee for the Review of Commonwealth/State Service Provision, *Report on Government Services 2003*, Productivity Commission, p.C.15

⁶⁰² Minister for Corrections' response, received 23 July 2003, to the Committee's follow-up questions, p.5

⁶⁰³ Hon A. Haermeyer, MP, Minister for Corrections, transcript of evidence, p.255

⁶⁰⁴ Minister for Corrections' response, received 23 July 2003, to the Committee's follow-up questions, p.1-2

framework at an expected combined capital cost of approximately \$140 million.⁶⁰⁵

Following the estimates hearings, the Government subsequently awarded preferred tenderer status to the Victorian Correctional Infrastructure Partnership. Under the arrangement, the Government will operate the facilities and retain responsibility for the delivery of core services, while the private sector will carry the financial, design, construction and building maintenance responsibilities and risks.⁶⁰⁶

Recommendation 48:

After the contracts for the Ravenhall and Lara institutions have been signed, the Department of Justice publicly release details of:

- (a) the Public Service Comparators; and**
- (b) the contracts including the level and type of risks transferred to the contractor and the financial arrangements.**

(b) *Drugs in prisons*

The Government commenced the implementation of its Victorian Prison Drug Strategy in March 2002. The strategy has four main aims:⁶⁰⁷

- stopping drugs getting into prisons by introducing new security measures;
- reducing drug use in prisons by introducing measures designed to detect drugs and drug use within prisons, stop trafficking and manage prisoners caught using drugs;
- improving treatment to help prisoners stop using drugs; and
- reducing the drug use-related health and safety risks to prison staff, prisoners and the community.

⁶⁰⁵ Department of Justice, response to the Committee's 2003-04 Budget Estimates Questionnaire, p.46

⁶⁰⁶ Minister for Corrections, media release, *Preferred Tenderer for Major Prisons Project*, 1 July 2003

⁶⁰⁷ Office of the Correctional Services Commissioner, *Victorian Prison Drug Strategy*

The strategy was announced as part of the 2001-02 budget initiatives and estimated to cost \$1 million per year over four years. Funding for the strategy has been allocated until 2005-06. The Committee noted that the Minister attributed the following achievements to the strategy:

- doubling sniffer dog teams to 12, resulting in 36,937 additional searches being carried out in 2002-03;
- establishing 400 harm reduction and 150 intensive drug treatment places; and
- expanding the opiod substitution therapy program to provide methadone and buprenorphine treatment to high risk drug-dependent prisoners.

The Committee welcomes the Department's additional efforts to reduce use of drugs in prison. It notes the apparent success of these efforts, as evidenced by positive results from random drug tests declining from 6.3 per cent in 1997-98 to 3.6 per cent in 2002-03.

The Committee noted that information presented at a recent alcohol and drug forum by the Department indicated that released prisoners returning to the Victorian prison system for the second time were 20 per cent more likely to report alcohol and drug issues on entry.⁶⁰⁸ The Committee considers that this issue warrants greater attention: more effort is needed to ensure the rehabilitation programs provided in institutions and in the community, when offenders are released, address the factors that contribute to substance abuse and domestic violence.

⁶⁰⁸ Victorian Alcohol and Drug Association, *Drug Services and the Prison System*, Forum Report, 1 May 2003

Recommendation 49:**The Department of Justice:**

- (a) regularly evaluate the effectiveness of the substance abuse and domestic violence rehabilitation programs provided for offenders in institutions and in the community (after release) to ensure resources are focused on those areas where attention is most needed; and
- (b) develop performance measures that are designed to reduce the risk of re-offence.

8.8 Consumer Affairs portfolio**8.8.1 2003-04 outlook for the portfolio**

The 2003-04 budget included an additional \$2 million over four years (\$500,000 in 2003-04) for ongoing funding for the Consumer Utilities Advocacy Centre. The budget also allocated \$1.5 million in 2003-04 to extend the regulation of trade measurement to include the monitoring of utility meters and instruments used to measure the quality of agricultural products.⁶⁰⁹

8.8.2 Analysis of the portfolio budget

The 2003-04 budget for the output group for which the Minister for Consumer Affairs is responsible is \$55.3 million, representing an increase of \$2.1 million (3.9 per cent) in comparison with the 2002-03 revised budget of \$53.2 million. Details are outlined in Exhibit 8.10.

⁶⁰⁹ Minister for Consumer Affairs, *Confident consumers, protected communities*, media release, 6 May 2003

Exhibit 8.10:

**Consumer Affairs portfolio
Output Costs**

Output Group	Output under the responsibility of the Minister for Consumer Affairs	2003-04 Output Cost (\$ million)
Protecting consumers	Consumer protection	55.3
Total		55.3

Source: Budget Paper No. 3, 2003-04 Budget Estimates, p.235

8.8.3 *Key issues impacting on the portfolio*

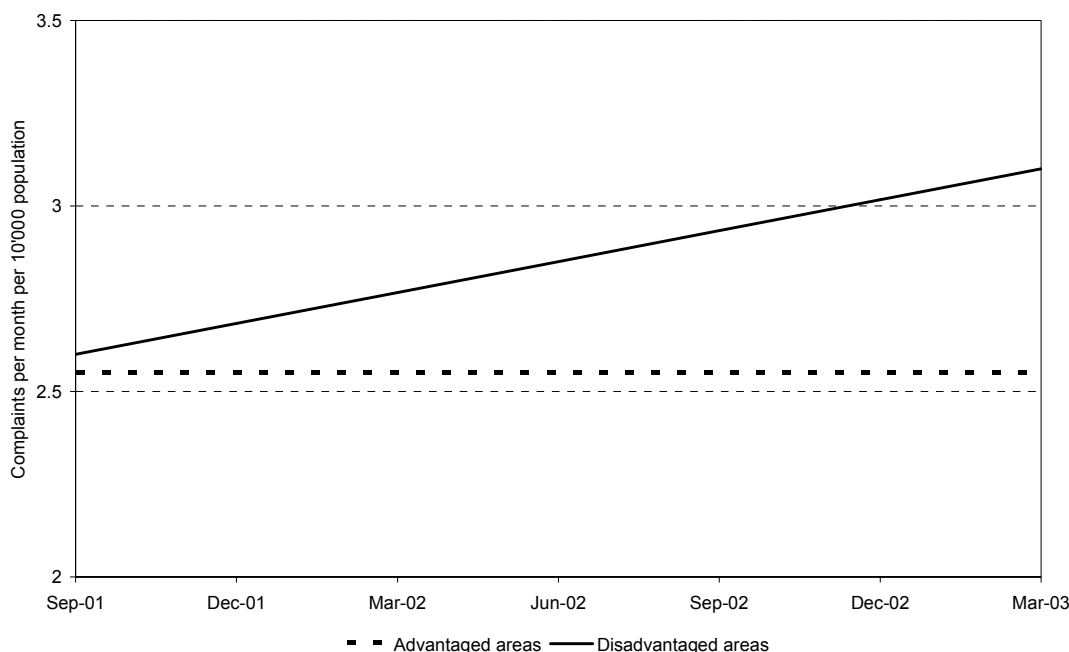
The Department's response to the Committee's questionnaire and the estimates hearing identified several issues that will impact on the portfolio and the budget estimates for 2003-04.

(a) *Improving access for vulnerable consumers*

The Minister informed the Committee that Consumer Affairs Victoria monitors the number of inquiries and complaints for separate postcode areas to identify the extent to which disadvantaged and more vulnerable consumers are utilising its services. The monitoring revealed that disadvantaged groups generally accessed Consumer Affairs Victoria's services at a rate that was similar to, or above, that of more advantaged areas (see Exhibit 8.11).

Exhibit 8.11:

**Consumer and Tenancy Complaints Trends
Advantaged and Disadvantaged Areas**



Source: Hon. J. Lenders, MP, Minister for Consumer Affairs, transcript of evidence, 15 May 2003, p.129

The Committee noted that Consumer Affairs Victoria planned further initiatives targeting disadvantaged groups in the community.

The Minister informed the Committee that an indigenous strategy was currently in draft form but will be finalised shortly. A separate Indigenous Consumers Unit would be responsible for implementing several parts of the strategy in 2003-04 including:⁶¹⁰

- improving service delivery to indigenous communities;
- prevention through education and awareness raising activities;
- encouraging best practice trading behaviour in the indigenous communities;
- identifying new and emerging consumer issues by indigenous communities; and

⁶¹⁰ Minister for Consumer Affairs' response, received 27 June 2003, to the Committee's follow-up questions, p.10

- identifying opportunities for shared initiatives to work at the national level.

The Committee noted that Consumer Affairs Victoria had allocated funding for the trialling of bilingual residential tenancy services to target tenants and landlords within specific communities. As part of the trial, Consumer Affairs Victoria will employ a full time Vietnamese and a full time Arabic tenancy worker.

The Committee welcomes the Department's efforts to make services more accessible. The Committee encourages the Department to implement performance measures that will enable the effectiveness of public awareness campaigns to be assessed.

(b) Online alternative dispute resolution

The 2002-03 budget allocated \$3.7 million over four years (\$900,000 in 2003-04) to strengthen alternative dispute resolution activities. As part of this initiative, Consumer Affairs Victoria and Dispute Settlement Centre Victoria would establish a website to assist with the resolution of disputes.⁶¹¹ Other potential public sector participants in the online program include the Victorian Civil and Administrative Tribunal, Melbourne Magistrates' Court, Plumbing Industry Commission, and the Business Access Division of the Department of Innovation, Industry and Regional Development.⁶¹²

As the first part of this project, the Department released in March 2003,⁶¹³ a research paper that evaluated current Australian and international online alternative dispute resolution schemes and identified best practice principles. The second part of the research, a needs assessment on the likely demand and requirements for online alternative dispute resolution in Victoria, was released in May 2003.⁶¹⁴

The Minister informed the Committee that the content for the website had been developed and useability tests would begin shortly.⁶¹⁵ The

⁶¹¹ Budget Paper No. 2, 2002-03 Budget Statement, p.196

⁶¹² Conley Tyler, M., Bretherton, D and Bastian, B., *Research into Online Alternative Dispute Resolution: Needs Assessment prepared for the Department of Justice Victoria*, The International Conflict Resolution Centre, University of Melbourne, 23 May 2003, p.5

⁶¹³ *ibid.*, 21 March 2003

⁶¹⁴ Conley Tyler, M., Bretherton, D and Bastian, B., *Research into Online Alternative Dispute Resolution: Needs Assessment prepared for the Department of Justice Victoria*, The International Conflict Resolution Centre, University of Melbourne, 23 May 2003

⁶¹⁵ Department of Justice, response to the Committee's Budget Estimates Questionnaire, p.7

system would be piloted by the Department prior to developing a business case for introducing a broader online alternative dispute resolution scheme.⁶¹⁶

(c) *Building Advice and Conciliation Victoria (BACV)*

Building Advice and Conciliation Victoria (BACV) was established on 1 July 2002 and is a joint initiative of Consumer Affairs Victoria and the Building Commission. The service, which arose from the withdrawal of Dexta Corporation from the builders warranty insurance market on 30 September 2002, is designed to help consumers and builders resolve and prevent building disputes. It is also responsible for introducing strategies that are designed to reduce the number of building disputes.

The introduction of the service enables the Building Commission to follow up serious complaints and, where appropriate, deregister builders responsible for sub-standard work and practices. In a media release on 3 September 2003, the Minister for Consumer Affairs advised that in its first year, BACV received 15,000 consumer enquiries, 1,200 written complaints and initiated 33 prosecutions of builders. Complaints received by BACV centred around the fine detail contained in contracts, failure to meet contractual obligations, work not started or completed, faulty workmanship and inequitable price rises.

The Committee acknowledges the success of the BACV in dealing with complaints. However, the high volume of complaints is of concern because it indicates that there is a high level of consumer dissatisfaction with the practices of a section of the building industry. Most complaints relate to faulty workmanship and the building warranty premiums. There are also other related issues, such as the quality of building inspections, previously undertaken by Municipal Councils, which are now undertaken by private building surveyors and disciplinary and compensation measures available where builders are at fault. These issues will be considered by the Committee at a future date.

⁶¹⁶ Hon J. Lenders, MLC, transcript of evidence, 15 May 2003, p.138

Recommendation 50:

The Building Commission and Building Advice and Conciliation Victoria:

- (a) work together to assess the appropriateness of existing builder entry and registration standards in conjunction with the development of a continuous professional development program for builders;
- (b) undertake an analysis of the more common complaints received and develop strategies to address these areas of concern; and
- (c) encourage builders to reach acceptable standards within a reasonable time frame through avenues such as additional training and satisfying an independent review of their operations. Alternatively, action be taken to remove substandard operators from the building industry.

8.9 Gaming portfolio

The Minister for Gaming has responsibility for one output in regulating and gaming output group – regulation of gambling. The Minister for Gaming and Racing has responsibility for another output in the output group – gaming and racing industry management.

8.9.1 2003-04 outlook for the portfolio

The major activity for the gaming portfolio highlighted in the 2003-04 budget was for the establishment of an Advocate for Responsible Gaming. The Committee noted that this position had recently been filled.⁶¹⁷

⁶¹⁷ Minister for Gaming, media release, *Advocate for responsible gambling announced*, 6 August 2003

The Minister advised the Committee that the Advocate's Office would be supported by a secretariat.⁶¹⁸ The Advocate's role will be to:

- investigate, report and make recommendations to the Minister and Secretary on the effectiveness of any aspect of gambling regulation aimed at promoting responsible gambling;
- promote, facilitate and encourage the provision, development and co-ordination of effective intervention services to people with gambling problems;
- chair the Problem Gambling Roundtable and report on this work to relevant Ministers, including the Premier;
- provide a clear channel for Government to listen to community concerns about gambling in their region or suburb and across the State;
- promote the development of community and voluntary organisations providing gambling-related public education services and supporting people with gambling problems;
- promote and assist educators to develop and provide relevant curriculum; and
- play a pro-active role in maintaining links with stakeholders, enabling information and idea exchange between stakeholders, the Minister for Gaming and the Government.

The Committee notes that two staff members were included in the Department's budget for the establishment of the Advocate's Office in 2003-04.⁶¹⁹ However, the Committee is concerned that the Advocate – who will be an important component of efforts to address responsible gambling in Victoria – may not have sufficient resources to effectively carry out the functions of that Office.

⁶¹⁸ Hon J. Pandazopoulos, MP, Minister for Gaming, transcript of evidence, 30 May 2003, p.434

⁶¹⁹ Department of Justice, response to the Committee's 2003-04 Budget Estimates Questionnaire, p.24

Recommendation 51:

The Department of Justice, in consultation with the Advocate for Responsible Gambling, develop appropriate performance information that will enable an assessment of the effectiveness of the Advocate's Office in discharging its responsibilities.

8.9.2 *Analysis of the portfolio budget*

The 2003-04 budget for gaming and racing industry management output is \$6.2 million. The output resulted from a review of outputs as part of the machinery of government changes in December 2002. Details are provided in Exhibit 8.12.

Exhibit 8.12:

Gaming portfolio Output Costs

Output Group	Outputs under the responsibility of the Minister for Gaming	2003-04 Output Cost (\$ million)
Regulating Gaming and Racing	Gaming and racing industry management	6.2
	Regulation of gambling	17.5
Total		23.7

Source: Budget Paper No.3, 2003-04 Budget Estimates, pp.233–34

The Minister advised the Committee that the budget for the gaming and racing industry management output included a one off contribution of \$3.8 million for the Australian Racing Museum and the contribution of \$375,000 for the Living Country Racing Program. The balance of \$2.07 million related to salaries and operating costs, including overheads.

The Committee noted that there had been no change in the level of funding for operational activities carried out within the regulating gaming and racing output group in 2003-04 compared to the previous year.⁶²⁰

⁶²⁰ *ibid.*

8.9.3 *Key issues impacting on the portfolio*

The Department's response to the Committee's questionnaire and the estimates hearing identified several issues that will impact on the portfolio and the budget estimates for 2003-04.

(a) *Implementation of gambling reforms*

A range of responsible gaming measures were introduced following the passage of the *Gaming Legislation (Amendment) Act 2002* in June 2002 and ministerial directions made by the Minister for Gaming under the *Gaming Machine Control Act 1991*. Some of these measures that were recently introduced include:⁶²¹

- regional caps to limit the number of poker machines in areas considered vulnerable to problem gambling;
- maximum bet limits of \$10;
- winnings above \$2,000 must be paid by cheque;
- restrictions on withdrawals from automatic teller machine and EFTPOS facilities at gaming venues; and
- requirements for loyalty programs linked to gaming machine play.

The Committee noted that the Office of Gambling Regulation — responsible for ensuring compliance with many of the recent reforms — was not allocated additional staff in 2003-04. However, the target for the number of compliance services (audits, inspections, revenue verification, operator procedures and rule approvals) in the Budget Papers was 8,241 in 2003-04, an increase of approximately one per cent.

In addition to these measures, bans on smoking in gaming areas came into effect in September 2002 following amendments to the *Tobacco Act 1987*. Responsibility for compliance monitoring and enforcement of smoking bans lies with the Department of Human Services.⁶²²

The Committee noted that the level of annual gaming expenditure on poker machines in Victoria had fallen by 8.9 per cent in 2002-03 — the

⁶²¹ OGR News, Office of Gambling Regulation, Issue 2, March 2003

⁶²² OGR News, Office of Gambling Regulation, Issue 3, June 2003.

first time annual expenditure had declined compared to the previous year since the introduction of poker machines in 1991.⁶²³

The Committee was advised that overall gambling revenue was down around 12 per cent since the introduction of smoking bans. However, the magnitude of the decline had varied across gaming venues.⁶²⁴ The Minister pointed out that although the Government would not be offering financial compensation to venues experiencing financial difficulties as a result of the smoking bans, the Department was working with Clubs Victoria and venues on strategic issues to assist clubs, such as tourism and venue management.⁶²⁵

Under the initiative to progressively remove gaming machines in certain areas, there is a requirement that by February each year a set reduction in four of the five capped areas must be met. As at February 2003, over 276 gaming machines had been removed from targeted regions. More than 150 further machines are required to be removed prior to February 2004.⁶²⁶

(b) Commissioning gambling research

The Department is responsible for the administration of the Gambling Research Panel, a statutory body that was established in May 2000 operating under the *Gaming Machine Control Act 1991*. The functions and powers of the Gambling Research Panel are to:⁶²⁷

- commission and monitor research relating to the social and economic impact of gambling and the causes of problem gambling and strategies to minimise harm from gambling; and
- publish the results of the research.

The Gambling Research Panel has responsibility for the administration of research funds that are provided through the Community Support Fund. Funding is dependent on acceptance by the Community Support Fund of the Panel's funding submission for the research plan. The Minister for Gaming must approve the Panel's research plan.

⁶²³ New figures show annual gaming spend down, Media release, Minister for Gaming, 8 August 2003

⁶²⁴ Hon J. Pandazopoulos, MP, Minister for Gaming, transcript of evidence, 30 May 2003, p.436

⁶²⁵ *ibid.*, p.437

⁶²⁶ OGR News, *Office of Gambling Regulation*, Issue 2, March 2003.

⁶²⁷ Gaming Machine Control Act 1991, s.138C

The Minister advised the Committee that he had recently signed off on a memorandum of understanding with the Commonwealth Government and other jurisdictions for a national centre on gambling research based in Victoria.⁶²⁸

At the estimates hearings, the Minister revealed that the Research Panel had published two reports in April and currently had 16 projects under way at a cost of \$1.6 million.⁶²⁹

The 2002-03 research plan was submitted to the Minister for approval in May 2002 and was launched in June 2002. The Panel proposed six research projects to examine issues such as changes in wagering in the racing industry, the changing electronic gaming machine industry/technology, the impact of electronic gaming machine gambling on a local community, gambling and crime and the early stage detection of potential problem gamblers by service professionals.⁶³⁰ The research plan did not include any proposed performance measures to assess the performance of the Panel or the effectiveness of the research that it had commissioned.

As of the end of August 2003 (two months into 2003-04), the research plan for 2003-04 had not been finalised. No information on the progress of projects commissioned under the 2002-03 research program was available on the Panel's website.

The Committee noted that the only performance measures included in the latest available annual report (for 2001-02) related to the expected completion date of five projects that were then underway. A further two projects were under negotiation.⁶³¹

The Committee welcomes the efforts of the Panel to commission research into gambling and problem gambling, including its measurement, causes, impact, the effectiveness of intervention measures and strategies to minimise harm from gambling.

However, the Committee believes that more information should be available to the Government and the public to monitor the effectiveness and efficiency of the Gambling Research Panel's efforts in identifying

⁶²⁸ Hon J. Pandazopoulos, MP, Minister for Gaming, transcript of evidence, 30 May 2003, p.432

⁶²⁹ *ibid.*, p.431

⁶³⁰ Gambling Research Panel 2002-03 Research Plan, Gambling Research Panel, June 2002

⁶³¹ Gaming Research Panel, Annual Report for 2001-02, pp.6-9

suitable research projects and managing their completion in a timely and cost effective manner.

Recommendation 52:

The Gambling Research Panel and the Department of Justice ensure that:

- (a) appropriate performance measures and targets are established, which enable effective monitoring of the Panel's project costs, timelines and implementation outcomes; and**
- (b) performance information is reported in the Gambling Research Panel's annual report.**

8.10 Racing portfolio

The Minister for Racing and Gaming has responsibility for the Regulating and Gaming output group: gaming and racing industry management.

8.10.1 2003–04 outlook for the portfolio

Included in the 2003-04 budget was a grant of \$3.8 million to Racing Victoria. The grant was provided to establish the Australian Racing Museum at Federation Square.⁶³² Racing Victoria will contribute the remaining funds for the museum.

In its 2002–03 report on the budget estimates, the Committee encouraged the Department to expedite the development of model leases for Victorian county racing clubs to ensure security of tenure and to enable clubs to undertake capital works that will not only benefit the industry but also contribute to the economic wellbeing of local communities.⁶³³ The Minister advised the Committee that the Department had finalised a report from the Racecourses on Crown Land Working Group and that template agreements (including a standard lease and licence) are now available to clubs.⁶³⁴

⁶³² Budget Paper No.2, 2003–04 Budget Statement, p.236

⁶³³ Public Accounts and Estimates Committee, *Report on the 2002-03 Budget Estimates*, 52nd Report, p.511

⁶³⁴ Hon J. Pandazopoulos, MP, Minister for Racing, transcript of evidence, 30 May 2003, p.425

The 2003–04 budget allocated \$1.5 million over four years (\$375,000 in 2003–04) for the continuation of the Living Country Racing Program.⁶³⁵ The Department aims to assess a minimum of 70 applications to improve facilities at country thoroughbred, harness and greyhound racing venues.⁶³⁶

8.10.2 Analysis of the portfolio budget

The Minister advised the Committee that the budget for the gaming and racing industry management output shown in Exhibit 8.13 included a one off contribution of \$3.8 million for the Australian Racing Museum and the contribution of \$375 000 for the Living Country Racing Program. The balance of \$2.07 million related to salaries and operating costs, including overheads.

Exhibit 8.13:

Racing Portfolio Output Costs

Output Group	Outputs under the responsibility of the Minister for Racing	2003-04 Output Cost (\$ million)
Regulating Gaming and Racing	Gaming and racing industry management	6.2
Total		6.2

Source: Budget Paper No.3, 2003–04 Budget Estimates, p.238

8.10.3 Key issues impacting on the portfolio

At the estimates hearing, the Minister informed the Committee that the racing industry in Victoria employs around 40,000 people, of whom approximately two-thirds are in rural and regional areas. The industry also has an economic impact of over \$2 billion, of which half occurs in rural and regional areas.⁶³⁷

The Committee sought details from the Minister about the status of betting exchanges. The Minister indicated that a betting exchange is a means by which parties stake money on opposing outcomes of a future

⁶³⁵ Minister for Racing 2003a, media release, 'Racing industry support', 6 May 2003

⁶³⁶ Minister for Racing's response, received 16 July 2003, to the Committee's follow-up questions, p.1

⁶³⁷ Hon J. Pandazopoulos, MP, Minister for Racing, transcript of evidence, 30 May 2003, p.429

event. Exchanges are structured to facilitate customers betting that a particular outcome will or will not occur.

The report of the Australasian Racing Ministers' Conference Betting Exchange Taskforce (July 2003) indicated that the impact of betting exchanges in targeting Australian markets has been moderate.⁶³⁸ It also highlighted, however, the potential threats of Internet based betting exchange wagering platforms to the future viability of the Australian racing industry, to the protection of punters and to government revenue flows from wagering.⁶³⁹

Much of the debate over betting exchanges has focused on their likely effects on racing integrity and the existing wagering operators. These effects are important to the industry because it derives significant revenue from the licensing of activities and betting activity. The Minister informed the Committee that all jurisdictions except the Northern Territory and the Australian Capital Territory had agreed in principle not to issue any licences for betting exchanges. The Minister also wrote to the Commonwealth Minister for Communications, who is responsible for the administration of the *Interactive Gambling Act 2001* (Cwlth), to request that the forthcoming review of this legislation also consider the issue of betting exchanges.

The Committee welcomes the Department's efforts to ensure the racing industry in Victoria maintains its high standards of integrity and continues to operate in a way that supports the viability of the industry.

⁶³⁸ Betting Exchange Taskforce, *Report of the Betting Exchange Taskforce to the Australian Racing Ministers' Conference*, 10 July 2003, p.ii.

⁶³⁹ *ibid.*, p.i

Chapter 9: Department of Premier and Cabinet

Key findings of the Committee:

- 9.1 Visitor numbers at Victorian cultural institutions have increased since the opening of Federation Square and the reduction of entry fees at three museum campuses.
- 9.2 The long anticipated opening of the National Gallery of Victoria in St Kilda Road will occur later this year. The Committee recognises the importance of the Gateway project in ensuring the timely and more cost effective delivery of major arts projects.
- 9.3 The public sector workforce will experience reprioritisation due to the introduction of a new career structure and new budget system.
- 9.4 Figures available through the Victorian WorkCover Authority indicate increasing levels of public sector stress claims. This data requires analysis to assist with developing future strategic directions for public sector and public service workforces.
- 9.5 The resolution of a number of matters relating to State-Commonwealth financial arrangements is crucial to the future planning of government services in Victoria.

Departmental review

9.1 Departmental overview

The Department of Premier and Cabinet supports the Premier in his role as head of Government. Its primary contribution is to provide policy advice for the Premier and Cabinet.⁶⁴⁰ It also has major roles in developing and co-ordinating whole of government initiatives, managing relationships with other governments in Australia and internationally, and delivering services that assist the arts and arts industries in Victoria.

⁶⁴⁰ Hon S. Bracks, Premier of Victoria, transcript of evidence, 13 May 2003, p.10

The Department has three output groups and supports two ministerial portfolios of Premier and the Arts.

The Department's objectives are to:

- deliver services and programs that enhance the contribution of creative industries;
- provide high quality policy advice and services to the Premier and Government; and
- support governance within the Victorian Public Sector.

The Department also provides support to four portfolio agencies and seven State owned cultural agencies (refer 9.2 for details)

9.1.1 *Key challenges for the Department in 2003–04*

A key challenge for the Department is the Victorian Government's relationship with the Commonwealth Government. The Premier advised the Committee of ongoing issues surrounding Commonwealth–State financial relations and cross subsidisation between States. These issues are tied to the proportional funding model, which is based on population and gross domestic product, and used for joint Commonwealth–State projects.⁶⁴¹ Currently, a \$1,000 million cross subsidy goes from Victoria to other States.⁶⁴²

9.1.2 *Performance measures*

The Public Accounts and Estimates Committee previously criticised the Department for its inconsistency in selecting performance measures from year to year.⁶⁴³ In response, the Department advised that its performance measures are regularly compared to those of other governments to determine whether there are more suitable ways of monitoring and reporting its core business outputs.⁶⁴⁴ The Department also advised that all outputs are intended to contribute to Growing Victoria Together outcomes.

⁶⁴¹ Budget Paper No.2, 2003-04 Budget Statement, p.109

⁶⁴² Hon S. Bracks, Premier of Victoria, transcript of evidence, 13 May 2003, pp.13-14

⁶⁴³ Public Accounts and Estimates Committee, *Report on the 2002–03 Budget Estimates*, 52nd Report, June 2002, p.464

⁶⁴⁴ Department of Premier and Cabinet, response to Committee's Budget Estimates Questionnaire, p.13

Following an internal review in 2002–03, the Department introduced a large number of new performance measures for that year (37 for the Premier’s portfolio and 16 for the Arts portfolio). By contrast, only minimal changes have occurred in 2003–04. The Department has introduced some new measures of quality such as satisfaction with outcomes achieved; changes have occurred as a result of the transfer of functions from the Department; and the Department has developed performance measures for the new output, Workforce Development.

The Department expects that a more stable basis for measuring its output achievement will emerge as performance measures are refined, the Growing Victoria Together strategy is bedded down, and links between this strategy and Department and the departmental outputs are defined.

9.1.3 *Impact of machinery of government changes*

The Committee encountered difficulty comparing estimates for 2002–03 with estimates for 2003–04 primarily because of the machinery of government changes. In particular, the tables in Budget Paper No.3 relating to the Department’s output performance fail to provide either cost or performance information for the period July 2002 to December 2003 for those outputs that were subsequently transferred to the Department for Victorian Communities (the Office of Women’s Policy, the Victorian Office of Multicultural Affairs, the Victorian Multicultural Commission, the Community Support Fund and the Office of Community Building, the Public Records Office and Information Victoria).⁶⁴⁵

Further, while the Department for Victorian Communities has reported full year performance targets and achievements for the outputs transferred from the Department of Premier and Cabinet, it has provided cost information only for the period January 2003 to June 2003.⁶⁴⁶ The Committee believes there should be consistency between timeframe and output measures.

⁶⁴⁵ Budget Paper No.3, 2003–04 Budget Estimates, p.254

⁶⁴⁶ *ibid.*, p.397

Recommendation 53:

Where machinery of government changes result in the transfer of responsibilities to other Departments, all comparative performance information should, where possible, be reported in the one place in the Budget Papers, against the full cost of those achievements.

9.2 Output management framework

The Minister for the Arts has responsibility for the Arts portfolio, which comprises the Arts and Cultural Development output group and includes oversight of Arts Victoria and the following seven arts agencies:

- Museum of Victoria
- State Library of Victoria
- National Gallery of Victoria (NGV)
- Victorian Arts Centre
- Geelong Performing Arts Centre
- Australian Centre for the Moving Image
- Film Victoria.⁶⁴⁷

The Premier has responsibility for two output groups – Strategic Policy Advice and Projects, and Public Sector Management, Governance and Support – as well as overseeing four portfolio agencies:

- Office of Governor General
- Office of Public Employment
- Office of Ombudsman
- Office of Chief Parliamentary Council.⁶⁴⁸

⁶⁴⁷ Budget Paper No.3, 2003–04 Budget Estimates, p.256; and organisational chart available on <http://www.dpc.vic.gov.au> (as at 8 September 2003)

⁶⁴⁸ *ibid.*

9.3 Budget summary

Exhibit 9.1 shows the Department's 2003–04 budget output summary.

Exhibit 9.1:

Department of Premier and Cabinet Output Costs

	Column 1	Column 2	Column 3	Column 3-2
Output Group	2002-03 Budget	2002-03 Revised	2003-04 Budget	Variation^(a)
	(\$ million)	(\$ million)	(\$ million)	(%)
Arts and Cultural Development	310.9	328.1	307.6	-6.2
Strategic Policy Advice and Projects	70.6	55.2	67.5	22.3
Public Sector Management, Governance and Support	15.6	16.5	17.6	6.7
Total	397.1	399.8	392.7	-1.8

Note (a) A negative variance indicates that the 2003–04 budget has decreased compared with the 2002–03 revised budget

Source: Budget Paper No.3, 2003–04 Budget Estimates, table 2.6.1, p.256

As a result of machinery of government changes, announced December 2002, the Community Engagement and Government Information output group was abolished. Outputs previously within this output group were either transferred to the Department for Victorian Communities (namely, the Multicultural Affairs output, the Women's Policy output and the Community Support Fund) or reallocated to the Department of Premier and Cabinet's Strategic Policy Advice and Projects output group (namely, the Government Information Services and Support output and the Protocol and Special Events output). This latter reallocation largely accounts for the 22.3 per cent increase in funding for this output group in 2003–04.

The Department's total budget allocation for 2003–04 is \$392.7 million, representing a \$7.1 million (or 1.8 per cent) decrease from the 2002–03 revised budget.

9.3.1 Financial analysis

The Department has budgeted in 2003–04 for a decrease in both revenue and expenses derived from ordinary activities. The anticipated net result for operating activities in 2003–04 is \$3.3 million — a variation of \$144.3 million from the revised 2002–03 result. The reasons for this

variation are discussed below. An increase in administered revenue is expected, resulting in a surplus for administered items. Exhibit 9.2 shows the Department's statement of financial performance.

Exhibit 9.2:

**Department of Premier and Cabinet
Statement of Financial Performance**

	Column 1	Column 2	Column 3	Column 4	Column 4-3
	2002-03 Budget	2002-03 Adjusted	2002-03 Revised	2003-04 Budget	Variation^(b)
	(\$ million)	(\$ million)	(\$ million)	(\$ million)	(%)
<i>Controlled items</i>					
Operating revenue	537.0	453.6	475.3	404.5	-14.9
Operating expenses	508.9	586.0	616.3	401.2	-34.9
Net Result^(a)	28.1	132.4	-141.0	3.3	102.3
<i>Administered items</i>					
Administered revenue	2.7	1.9	1.9	22.4	1078.9
Administered expenses	2.7	1.9	1.9	2.7	42.1
Surplus/Deficit	0.0	0.0	0.0	19.7	-

Notes (a) A negative dollar value indicates a deficit

(b) A negative variance indicates that the 2003-04 budget has decreased compared with the 2002-03 revised budget

Source: Budget Paper No.3, 2003-04 Budget Estimates, table 2.6.2, p.271 and table 2.6.5, p.274

The Department advised that the budgeted reduction in revenue from ordinary activities (\$70.8 million, or 14.9 per cent) for 2003-04 is due to the following factors:

- the transfer of certain activities to the newly created Department for Victorian Communities, effective for accounting purposes from 31 December 2002. Specifically, a \$69 million reduction was due to special appropriations revenue which was transferred as part of the Community Support Fund. Partly offsetting the impact of this transfer has been increased operational funding for arts agencies (the Museum, the National Gallery of Victoria (NGV) and the Australian Centre for the Moving Image); and
- 2002-03 sales revenue estimates for the Museum of Victoria not being met. Sales revenue has also been adversely affected by ongoing works at the NGV.

The reduction in expenses from ordinary activities (\$215.1 million, or 34.9 per cent) is also largely due to the transfer of activities to the newly created Department for Victorian Communities, including:

- \$143.6 million relating to Community Support Fund cash deposits (under the line item 'resources provided free of charge'); and
- further reductions due to the Community Support Fund grants now appearing as expenses in the Department for Victorian Communities' financial statements.⁶⁴⁹

The 2003–04 budget indicates that administered revenue and expenses will result in a surplus of \$19.7 million. This is due to the anticipated receipt of a payment relating to the Ambulance Royal Commission.⁶⁵⁰

9.3.2 Government savings

The Department must make savings of \$1.1 million, which it has advised will be achieved through general efficiencies in administration, and \$1.5 million in specific savings. It intends to achieve the specific savings by establishing a shared services model for agencies' administrative functions and by targeting programs more effectively.⁶⁵¹

9.4 Human resource issues

In its 2003–04 budget estimates questionnaire the Committee requested the following information on staff levels:

- the number of equivalent full time permanent (ongoing) staff, by output group, for (i) 2002–03 and (ii) 2003–04 (estimated); and
- the number of temporary or fixed term staff, by output group, for (i) 2002–03 and (ii) 2003–04 (estimated).

In response, the information summarised in Exhibit 9.3 was provided by the Department.

The Department provided staff information on a structural rather than an output basis. It also provided information on the number of employees

⁶⁴⁹ Department of Premier and Cabinet, response to the Committee's Budget Estimates Questionnaire, pp.16–17

⁶⁵⁰ Budget Paper No.3, 2003–04 Budget Estimates, p.275, 'Payments on behalf of State'

⁶⁵¹ Budget Paper No.2, 2003–04 Budget Statement, p.241

without distinguishing between those employed on a permanent basis and those employed on a temporary or fixed term basis.

Exhibit 9.3:

**Department of Premier and Cabinet
Equivalent Full Time Staff^(a)**

Division	June 2002	June 2003	June 2004
	Actual	Estimate	Estimate
Executive	4.6	5.4	n/a
Strategic, Economic and Social Policy ^(b)	64.8	43.2	n/a
Governance, Resources and Infrastructure ^(b)	185.0	157.4	n/a
Arts Victoria ^(b)	103.7	58.3	n/a
Office of Women's Policy ^(b)	15.6	0.0	n/a
Special Projects	0.0	0.0	n/a
Multicultural Affairs ^(b)	6.0	0.0	n/a
Office of the Premier	53.3	57.4	n/a
Ministerial and Parliamentary	18.5	13.9	n/a
Office of the Governor	26.8	29.9	n/a
Ministers Salaries and Allowances	20.0	21.0	n/a
Office of the Chief Parliamentary Counsel	31.6	29.6	n/a
Office of the Ombudsman	28.6	22.6	n/a
Office of Public Employment	13.6	19.0	n/a
Office for Workforce Development	8.0	13.0	n/a
Total	580.1	470.7	n/a

Notes (a) Includes permanent and ongoing, and temporary and fixed term staff. Excludes casual employees and board members.

(b) Staff from these divisions were transferred to the Department for Victorian Communities, thus accounting for the decrease in estimated staff numbers for 2003 compared with 2002

n/a Not available

Source: Premier of Victoria's response, received 15 August 2003, to the Committee's follow-up questions

The Department has stated that 'as the public service operates under an output framework, funding is provided for the cost of the delivery of a total output, rather than being based on inputs such as employment levels'.⁶⁵² The Committee is aware that a Department's annual budget appropriation represents the price the Government has agreed to pay for the Department to deliver certain outputs. The Committee believes the Department needs to consider the resource requirements that they will need to deliver their outputs under the purchaser provider model. In order to ensure the most economic use of government resources, Departments need to have an in depth understanding of the inputs

⁶⁵² Premier of Victoria's response, received 15 August 2003, to the Committee's follow-up questions

required to deliver the outputs that they have agreed to provide for the Government.

Recommendation 54:

The Department of Premier and Cabinet develop a way of tracking or allocating resources, including staff resources, across outputs to improve the accuracy of budget estimates and to facilitate analysis of the costs associated with outputs.

9.4.1 Staffing issues

The Department advised that it needed to develop capability in relation to policy skills to ensure it can continue providing quality strategic policy advice and strong leadership on a whole of government level.⁶⁵³

Portfolio review

9.5 Arts portfolio

9.5.1 2003–04 outlook for the portfolio

The portfolio's key tasks for 2003–04 focus on the overarching commitment to continue support for the long term artistic viability and sustainability of Victoria's creative industries, as well as support the ongoing operations of arts infrastructure projects.⁶⁵⁴ These tasks include:

- implementing stage one of Creative Capacity Plus, which is a 10-year policy for the Arts that was announced in May 2003;
- completing and opening NGV International (St Kilda Road);
- continuing the redevelopment of the State Library of Victoria, including the dome reading room;
- progressing the Yarra precinct arts integration project; and

⁶⁵³ Department of Premier and Cabinet, response to the Committee's Budget Estimates Questionnaire, p.9

⁶⁵⁴ *ibid.*

- implementing the portfolio's agency output framework development project.⁶⁵⁵

By delivering these tasks, the Government expects arts to be a significant contributor to social and economic development in Victoria.⁶⁵⁶

9.5.2 *Analysis of the portfolio budget*

The Arts Portfolio output structure for 2003-04 has essentially remained unchanged since 2002-03. The only minor exception was renaming of the output Portfolio Services and Policy to Arts Services and Policy.

Exhibit 9.4:

Arts Portfolio Output Costs

Output Group	Outputs under the responsibility of the Minister for the Arts	2003-04 Output Cost (\$ million)
Arts and Cultural Development	Arts development and access	27.0
	Infrastructure and cultural facilities ^(a)	75.7
	Arts services and policy	2.9
	Arts portfolio agencies	202.0
Total		307.6

Note (a) Includes \$71.8 million in capital assets charge and depreciation

Sources: Hon. M. Delahunty, MP, Minister for the Arts, transcript of evidence, 14 May 2003, p.70; and Budget Paper No.3, 2003-04 Budget Estimates, pp.264-7

The Premier advised the Committee that the funding priority for this year's Arts portfolio is the sustainability of key cultural institutions and cultural assets (buildings and collections).⁶⁵⁷ This priority was reflected by the announcement of four asset initiatives in 2003-04 (with a capital investment budget of \$10.3 million⁶⁵⁸) and recurrent funding initiatives for significant cultural institutions in 2003-04 of \$34.2 million⁶⁵⁹, compared with \$7 million⁶⁶⁰ in 2002-03.⁶⁶¹

⁶⁵⁵ Hon M. Delahunty, MP, Minister for the Arts, transcript of evidence, 14 May 2003, p.70 (For further details of the Arts Outlook for 2003-04, refer to Budget Paper No.3, 2003-04 Budget Estimates, p.255)

⁶⁵⁶ Hon M. Delahunty, MP, Minister for the Arts, transcript of evidence, 14 May 2003; p.70

⁶⁵⁷ Hon S. Bracks, Premier of Victoria, transcript of evidence, 13 May 2003, p.11

⁶⁵⁸ Budget Paper No.2, 2003-04 Budget Statement, p.241

⁶⁵⁹ *ibid.*, p.238, 5 initiatives

⁶⁶⁰ Budget Paper No.2, 2002-03 Budget Statement, p.207, 4 initiatives

⁶⁶¹ Minister for the Arts, media release, Tuesday 6 May 2003

Nevertheless, reductions have been made to the budget allocations for three outputs (\$20.6 million in total). The most significant decrease is \$14.1 million in funding for the infrastructure and cultural facilities output. This reduction can be attributed to the completion of certain major projects that received Cabinet Expenditure Review Committee funding in recent years.⁶⁶² Funding for the Arts portfolio agencies output in 2003–04 is \$6.2 million less than the expected result for 2002–03. This reduction is partly due to the transfer of the Public Records Office of Victoria to the Department for Victorian Communities.

9.5.3 *Key issues impacting on the portfolio*

The Department's response to the Committee's estimates questionnaire and estimates hearing identified several issues that will have an impact on the portfolio and the budget estimates for 2003–04.

(a) *National Gallery of Victoria redevelopment*

The NGV redevelopment in St Kilda Road is six months behind the revised completion date of July 2003.⁶⁶³ The completion date is now anticipated to be late 2003. The Minister for the Arts said the Government is 'looking forward to an opening towards the end of this year'.⁶⁶⁴ The project is expected to cost \$152.9 million (the original estimate for the NGV stage 1 development was \$136 million).⁶⁶⁵

The Government's original plan was to make contributions to stage 1 totalling \$96 million, with the balance to be funded through a Commonwealth Government grant of \$25 million and an Ian Potter Foundation donation of \$15 million. To fund the ongoing project costs (of \$16.9 million), the NGV Board committed to raising \$12.7 million, and an additional \$4.2 million has been included as an initiative in the 2003–04 budget, increasing the total State Government's contribution to \$100.2 million.

⁶⁶² Premier of Victoria's response, received 15 August 2003, to the Committee's follow-up questions, p.20

⁶⁶³ as advised to the Auditor-General during his review of the redevelopment – final report published June 2002

⁶⁶⁴ Hon M. Delahunty, MP, Minister for the Arts, transcript of evidence, 14 May 2003; p.73, and Budget Paper No.3, 2003–04 Budget Estimates, p.255

⁶⁶⁵ Hon M. Delahunty, MP, Minister for the Arts, transcript of evidence, 14 May 2003; p.73

Recommendation 55:

To assist with scoping future projects and providing more accurate budget and time estimates, Arts Victoria, and where appropriate in conjunction with the Office of Major Projects, review all relevant capital projects, including those recently completed, and identify deficiencies in original budget or time estimations.

(b) Visitors at Victoria's cultural institutions

Performance measures for the Arts portfolio agencies output show that targeted visitor numbers for 2002-03 were not met. The expected outcome for all agencies was down by 730,000 visitors on the target. The expected outcome for the Museum of Victoria was down by 190,000 while the Australian Centre for the Moving Image at Federation Square was down by 200,000. The Committee understands that entry prices were a disincentive, at least in the case of the Museum of Victoria, and had discouraged families from visiting. In response to this issue and in keeping with the Government's commitment to making the arts more accessible to the wider Victorian community,⁶⁶⁶ the Museum of Victoria has lowered prices at three of its campuses and will admit children for free.⁶⁶⁷

The Committee identified the decline in visitor numbers at Victorian cultural institutions as an issue for the past two years, and the decline continues to be a concern for 2003-04. The Committee is pleased that the Department has taken steps to improve the situation and, more recently, that arts institutions 'have made considerable gains in terms of broadening visitation'.⁶⁶⁸

The Minister for the Arts in a media release on 22 July 2003 highlighted the following points:⁶⁶⁹

⁶⁶⁶ Budget Paper No.2, 2003-04 Budget Statement, p.6

⁶⁶⁷ Hon M. Delahunty, MP, Minister for the Arts, transcript of evidence, 14 May 2003, p.71

⁶⁶⁸ Hon M. Delahunty, MP, Minister for the Arts, media release, *Victorians invited to discover their major arts venues*, 22 July 2003

⁶⁶⁹ *ibid.*

- since May 14, 2003, with the scrapping of entry prices for children and concession holders and a flat \$6 fee for adults, visitation to the Melbourne Museum, the Immigration Museum and Scienceworks increased by 47 per cent (compared with the same one month period last year);
- since opening late last year, the NGV and the Australian Centre for the Moving Image at Federation Square have had attendances in excess of initial expectations, attracting over 1.5 million and 830 000 visitors respectively;
- an exit survey conducted during March 2003 showed a 38 per cent increase in first time visitors to the NGV since its opening at Federation Square in November 2003;
- the State Library attracted almost 100,000 visitors to one exhibition, 'Kelly Culture', with 60 per cent of these visitors being firsttime attendees to the library; and
- the Arts Centre's V-Rap 9 project, which enables rural and regional students to attend an Arts Activity Day in Melbourne, attracted 83,400 students in 2002–03 (a 17 per cent increase on the number in 2001–02).

The Committee congratulates the Department and arts agencies on these achievements, and encourages their efforts to sustain and improve attendance rates throughout the coming years.

9.6 Premier's portfolio

9.6.1 2003–04 outlook for the portfolio

The long term vision for Victoria is the Premier's responsibility and a priority for this portfolio. Key priorities for 2003–04 have been articulated around the Growing Victoria Together strategy which looks forward 10 years and sets the following goals for Victoria's future: promoting decent and responsible Government (schools, health, jobs and safety); encouraging lifelong learning for all; and balancing economic, social and environmental goals.⁶⁷⁰

⁶⁷⁰ Hon S. Bracks, Premier of Victoria, transcript of evidence, 13 May 2003, p.10

In the immediate future (2003–04), the portfolio's priorities are:⁶⁷¹

- supporting and reviewing the Growing Victoria Together strategy;
- further developing the Department's capacity to provide policy and project advice and leadership;
- improving public sector management across the whole of government (specifically, developing workforce strategies and programs, increasing awareness of the public sector conduct principles, and improving legislative drafting services);
- developing functions to lead and manage information and communication technology (ICT) on a whole of government basis, and to drive the standardisation of corporate ICT infrastructure; and
- strengthening counter-terrorism awareness and response plans, including establishing a Security Unit within the Department and developing a State Crisis Centre for Victoria.

9.6.2 *Analysis of the portfolio budget*

The Premier advised the Committee that the key themes of the 2003–04 budget are, first, to minimise cost pressure issues while maximising economic benefits for Victoria and, second, to respond to growing service demand by the expanding population.⁶⁷²

Exhibit 9.5 outlines the 2003-04 budget estimates for the Premier's output groups.

A new output, workforce development, has been introduced for 2003–04 to reflect increased focus on developing the public service workforce to meet public demand.⁶⁷³ The Committee noted that all other outputs (except the Ombudsman services output and the strategic policy projects output) received funding increases for 2003–04 (\$13.2 million in total).

⁶⁷¹ Premier of Victoria's response, received 15 August 2003, to the Committee's follow-up questions, p.9 (refer also Budget Paper No.3, 2003-04, Budget Estimates, p.255)

⁶⁷² Hon S. Bracks, Premier of Victoria, transcript of evidence, 13 May 2003, p.11

⁶⁷³ This focus has also resulted in the Department creating a new division – the Office for Workforce Development - has been created to lead public service employment issues and represent the interests of government as employer. This involved a transfer of functions from the Office of Public Employment and Industrial Relations Victoria.

Funding for the strategic policy projects output has been reduced by \$3.5 million.

Exhibit 9.5:

**Premier's Portfolio
Output Costs**

Output Group	Outputs under the responsibility of the Premier	2003-04 Output Cost (\$ million)
Strategic Policy Advice and Projects	Strategic policy advice	30.3
	Strategic policy projects ^(a)	5.1
	Government information services and support	26.6
	Workforce development ^(b)	3.7
	Protocol and special events	1.8
Public Sector Management, Governance and Support	Advice to support the Governor	7.8
	Public sector employment and conduct services	2.3
	Ombudsman services	3.5
	Chief Parliamentary Counsel services	4.0
Total		85.1

Notes: (a) Previously titled 'policy leadership projects'

(b) A new output established for 2003–04

Source: Budget Paper No.3, 2003–04 Budget Estimates, pp.257–63

In 2002–03, the autonomy of the Ombudsman was enhanced, making the role 'an independent officer of the Parliament for the first time'.⁶⁷⁴

The Committee considers that the operations of the Ombudsman's Office need to be closely monitored by the Department and the Parliament to determine whether, in the absence of a funding increase, the Ombudsman is able to function effectively and discharge all his statutory responsibilities. This monitoring is particularly important given the volume and complexity of complaints to the Ombudsman and the recent addition of oversight of the whistleblower protection legislation to the Ombudsman's responsibilities.

⁶⁷⁴ Hon S. Bracks, Premier of Victoria, transcript of evidence, 13 May 2003, p.10

Recommendation 56:

The Department of Premier and Cabinet closely monitor the operations of the Ombudsman's Office to determine whether, in the absence of an increase in funding for 2003-04, the Ombudsman is able to function effectively and discharge all his statutory responsibilities.

9.6.3 *Key issues impacting on the portfolio*

The Department's response to the Committee's estimates questionnaire and estimates hearing identified several issues that will have an impact on the portfolio and the budget estimates for 2003-04.

(a) *The Growing Victoria Together strategy*

The Growing Victoria Together strategy was released November 2001. The strategy looks forward 10 years and sets out 'strategic issues of importance' (variously referred to through the Budget Papers as the Government's outcomes or policy objectives) that are linked to priority actions and measures. The strategy will be updated in 2003-04.⁶⁷⁵

The strategy provides a long term focus for Departments by outlining only the most important issues for the Government. It tries to provide a framework by which the Government's progress can be monitored,⁶⁷⁶ and it forms the backbone of the Government's budget highlights.⁶⁷⁷

The Premier advised last year that the Government would present an annual report to Parliament on its progress in achieving key targets and outcomes set in the Growing Victoria Together strategy document.⁶⁷⁸ This report appears at Appendix G of Budget Paper No.2, 2003-04 Budget Statement, pp.325-43.

The Committee welcomes the presentation of the report but stresses the need to improve the quality of the information. The Committee is pleased that the report acknowledged the need in future reports for 'attention [to]

⁶⁷⁵ Hon S. Bracks, Premier of Victoria, transcript of evidence, 13 May 2003, p.12; Hansard at pp.33-34

⁶⁷⁶ Hon S. Bracks, Premier of Victoria, transcript of evidence, 13 May 2003, p.30

⁶⁷⁷ Budget Paper No.2, 2003-04 Budget Statement, pp.1-7

⁶⁷⁸ Hon S. Bracks, Premier of Victoria, transcript of evidence, 13 May 2003, p.10

be paid to refining the progress measures to take account of a range of definitional and data issues'.⁶⁷⁹

The Committee believes a stronger link is needed between the Government's desired outcomes as outlined in the Growing Victoria Together strategy document and the outputs reported by each Department. The Committee noted that most Departments have attempted in the Budget Papers to link their departmental objectives to the Growing Victoria Together strategy, but not necessarily the outputs. The Committee noted that no Department attempted to show the impact of output achievements on Government outcomes.

The Committee is aware of the complex relationship between the Growing Victoria Together strategy and Government outcomes in general. The Auditor-General's recently published report, *Performance Management and Reporting: Progress Report and A Case Study* (April 2003), studies this relationship.⁶⁸⁰ The Committee believes that output measures still need to be tied more strongly to the outcomes that the Government seeks from the Growing Victoria Together strategy.

Recommendation 57:

As part of the review and update of the Growing Victoria Together strategy, to be undertaken in 2003–04, the Government:

- (a) clearly define the strategy's purpose and role;**
- (b) advance work being done to define progress measures and determine benchmarks; and**
- (c) frame links between outputs and outcomes.**

⁶⁷⁹ *ibid.*, p.325

⁶⁸⁰ Victorian Auditor-General's Office, *Performance Management and Reporting: Progress Report and A Case Study*, April 2003

(b) *Public sector and public service workforce*

(i) *Office for Workforce Development*

A new division within the Department – the Office for Workforce Development – has been created to lead public service employment issues and represent the interests of the Government as an employer. This development involves a transfer of functions from the Office of Public Employment and from Industrial Relations Victoria.

A key project of the Office is the design of a new career structure to assist with the development of a modern public service that can meet the demands of the Government. The aim of the new structure is to provide a clear career progression path, feedback and reward program. A feature of the new classification system is non-overlapping bands, which the Department expects will lead to clearer progression paths. The operative date for the new career structure is 1 November 2003. The Government will fund the transition to the new system to minimise budgetary impacts.

At the time of this Committee's report being written, a framework outlining the agreement (in relation to public service work levels, pay and progression conditions) between the Victorian Government and the Community and Public Sector Union (CPSU) was publicly available on the CPSU website. Nevertheless, the Office of Workplace Relations, the CPSU and the Australian Industrial Relations Commission were negotiating 'to resolve matters surrounding performance pay and recognition of qualifications in the descriptors for different classifications'.⁶⁸¹ Discussions are continuing, and all parties agree that progress is being made and that the proposed framework will help re-establish a greater measure of transparency and equity in the evaluation of jobs in the Victorian public service.⁶⁸²

(ii) *New Departmental Funding Model*

The Government advised that a new budget system will be introduced in 2004-05⁶⁸³. The new system will involve a change in the way in which funds for wages are allocated: responsibility for wage adjustments and

⁶⁸¹ Correspondence published on CPSU website – AIRC, CPSU and Office of Workplace Relations

⁶⁸² Mr Ewer of the Community and Public Sector Union, transcript of proceedings, Australian Industrial Relations Commission, 4 July 2003

⁶⁸³ Department of Treasury and Finance, Departmental Funding Model, Discussion Paper, July 2003

career progression will be devolved to Departments. Parliament will retain ultimate oversight – in that it will continue to control the amount appropriated for the purposes of employing staff – but Departments will have management discretion in negotiating wage increases through enterprise bargaining, career structures and levels.⁶⁸⁴

The Committee intends to seek a briefing from Department of Treasury and Finance on the proposed new arrangements and will report on this matter as part of its review of the Budget Outcomes for 2002-03.

(iii) *Public service workforce*

The Premier advised that the Government is looking to contain staff numbers in the public service, except in areas that the Government has identified for growth to improve services around Victoria in health, education and public policy. The exemptions include 600 extra police, 450 extra secondary teachers, 256 extra primary school welfare officers and, over two years, 900 extra nurses and health workers.⁶⁸⁵

At the same time, Departments are committed to achieving cost savings in their operational and program budgets.

The Committee is concerned that a combination of these factors, the new public service career structure, the introduction of a new departmental budget system in 2004-05 and the requirement to achieve savings, may affect services and programs provided by Departments.

(iv) *Stress claims in the Victorian public sector*

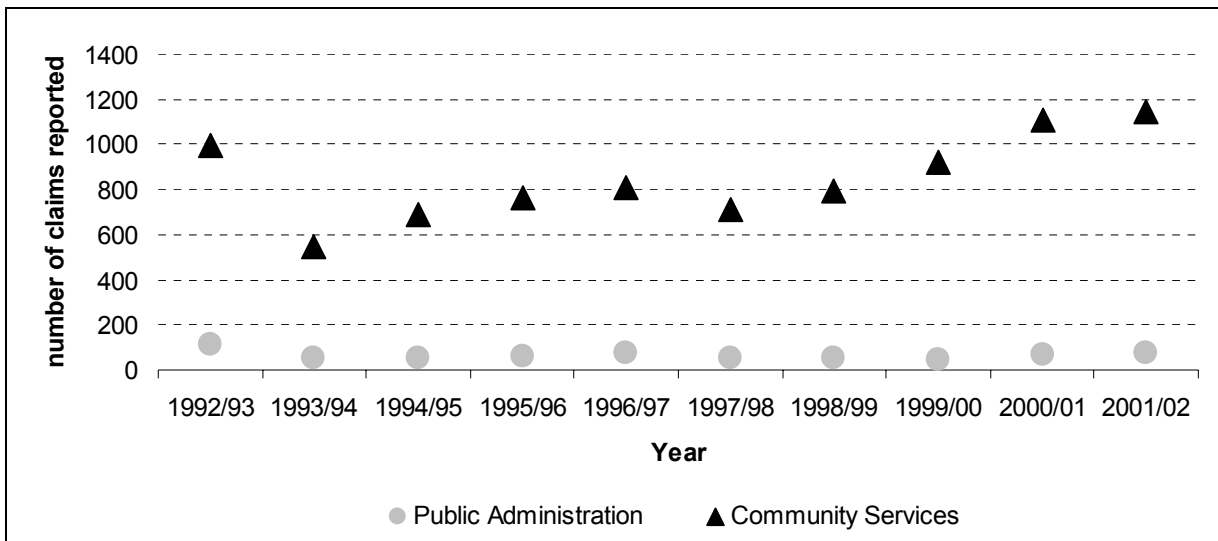
On a related matter, the Committee noted that the public sector workforce has a relatively high proportion of employees on stress leave.

⁶⁸⁴ Mr T. Moran, Secretary of the Department of Premier and Cabinet, transcript of evidence, 13 May 2003, p.23

⁶⁸⁵ Hon S. Bracks, Premier of Victoria, transcript of evidence, 13 May 2003, p.20

Exhibit 9.6:

**Reported Stress Claims
within Victorian Public Administration and Community Services Sectors**



Source: Victorian WorkCover Authority 2002, Statistical Summary 2001-02, Melbourne, [www.workcover.vic.gov.au/dir090/vwa/home.nsf/pages/stats_blank2/\\$File/t17b.html](http://www.workcover.vic.gov.au/dir090/vwa/home.nsf/pages/stats_blank2/$File/t17b.html)

Information on the number of stress claims in Victoria is available on the Victorian WorkCover Authority website.⁶⁸⁶ Exhibit 9.6 shows selected information from the website. It indicates that within the Victorian public administration and community services sectors, over the past five years in particular, rising numbers of stress related claims have been reported to the Victorian WorkCover Authority.

The Committee was interested in exploring the cost implications of stress leave on departmental budgets. The Committee asked the Department to provide them with the numbers of stress related WorkCover claims across the Victorian public sector on an agency basis for 2002-03, with comparative information for 2001-02.

The Department advised that the *Accident Compensation Act 1985* restricts the Victorian WorkCover Authority's disclosure of WorkCover information to only those parties authorised under the Act, and that the Department of Premier and Cabinet and the Premier's Office are not authorised parties.⁶⁸⁷ As a consequence, the Committee was not provided with the information.

⁶⁸⁶ <http://www.workcover.vic.gov.au/dir090/vwa/home.nsf>

⁶⁸⁷ Premier of Victoria's response, received 15 August 2003, to the Committee's follow-up questions

The Committee's review of the *Accident Compensation Act 1985* did not reveal any restriction on the release of statistical information to this Committee.

The Committee believes the Office for Workforce Development should work closely with the Victorian WorkCover Authority to investigate management of stress in the public sector. The Minister for WorkCover, in a response to a follow up question from the Committee, acknowledged that the incidence of stress claims has increased across all sections of the public service. A number of WorkSafe strategies have been developed to address this problem.⁶⁸⁸ The Committee is aware that occupational stress is a significant direct and indirect cost in public service employment. The Committee considers there may be opportunities to achieve cost savings through preventative measures and better management of existing stress claims.⁶⁸⁹

The Committee believes it is essential that the public service performs as efficiently and effectively as possible. A motivated, committed and highly skilled workforce that is developed and managed well is required to achieve this. Therefore it is important that workforce issues, such as stress leave, are addressed particularly at a time when the Government is seeking further productivity gains and cost savings by Departments.

Recommendation 58:

The Victorian WorkCover Authority:

- (a) review the effectiveness of the strategies to address the incidence of stress in the public sector workforce; and**
- (b) report on this matter in its annual report.**

(c) *Inter-governmental relations*

The Committee was interested in a number of matters to do with the State's relationships with the Commonwealth, other States and Territories and overseas governments.

⁶⁸⁸ Minister for WorkCover's response, received 11 July 2003, to the Committee's follow-up questions

⁶⁸⁹ Hon B. Baxter, MLC, member, Public Accounts and Estimates Committee, transcript of evidence, p.21

Issues that were discussed include:

(i) *Reform of the State-Commonwealth financial relations*

The Premier indicated that Victoria provides a \$1 billion subsidy to other States, as a consequence this State is losing up to \$280 million in economic costs.⁶⁹⁰ The Committee wanted to know what steps the Victorian Government had taken to get this issue on the agenda for discussion at a national level. The Premier advised that Victoria, New South Wales and Western Australia have jointly commissioned an independent review of the cross subsidisation of taxes across the States.

(ii) *Federal assistance and specific-purpose grants*⁶⁹¹

The Premier cited the Wimmera-Mallee pipeline project as an example of the difficulty the Government was having in securing federal assistance.⁶⁹² This project is considered to be an important program for Australia. It is the biggest single water infrastructure program in the country and will cost \$300 million. The Victorian Government is contributing \$77 million, while \$150 million is being contributed collectively by local catchment management authorities, water boards, local councils, farmers and other primary producers. The Commonwealth Government has been asked to contribute \$77 million to the project. The Commonwealth has not yet committed to provide this funding, but the project needs the additional funding to ensure its success.⁶⁹³ The Committee was interested to learn that funding provided by Victoria is not conditional on the Commonwealth commitment.

(iii) *Health care in Victoria*⁶⁹⁴

The Committee was concerned by figures in Budget Paper No.2, 2003-04 Budget Statement, at page 109 that show Victoria receives less than its population share in specific-purpose funding. The Committee asked about the resulting impact on health care in Victoria.

The Premier advised that a five year Australian Health Care Agreement was being renegotiated at the time of the estimates hearings. The

⁶⁹⁰ Hon S. Bracks, Premier, transcript of evidence, 13 May 2003, p.13

⁶⁹¹ These Commonwealth grants will be replaced by GST funding in 2007-08

⁶⁹² also discussed in this report at 11.6.2(a) Inter-jurisdictional co-operation, Department of Sustainability and Environment

⁶⁹³ Hon S. Bracks, Premier of Victoria, transcript of evidence, 13 May 2003, p.14

⁶⁹⁴ also discussed in this report at 5.5.3(a) Australian Healthcare Agreement Funding and changes to Medicare

agreement on offer by the Commonwealth Government represented a \$1 billion reduction compared with the previous agreement. The Premier is concerned that this will lead to a significant cut in support to States and Territories.

The Premier advised that an increase of 6.1 per cent in the State's health funding for 2003–04 showed Victoria's strong commitment to health care and would put the State in a good position to negotiate a better deal with the Commonwealth Government.⁶⁹⁵ The States had collectively called for a one year interim agreement so that wide ranging reforms could be addressed.⁶⁹⁶ Negotiations were however unsuccessful and the Victorian Government has now signed the new Australian Health Care Agreement.

(iv) *Commonwealth funding support for the Commonwealth Games*

The Committee is aware of the State's need to secure the Commonwealth Government's commitment to the budget for the Commonwealth Games. The Committee sought information about the Premier's role in these negotiations. The Premier advised that the Minister for the Commonwealth Games had written to the Honourable Rod Kemp regarding Commonwealth Government support for the Melbourne 2006 Commonwealth Games in February 2003.

The Premier explained that further meetings between the State and Commonwealth governments were being held to discuss contributions to the Games.⁶⁹⁷

(v) *Australia-US free trade agreement*

The Committee was interested in Victoria's position and role in the Australia-US free trade agreement. The Premier advised that he had written to the Prime Minister on this matter.⁶⁹⁸ In his submission to the Prime Minister, the Premier stated:⁶⁹⁹

The Victorian Government supports in principle pursuing the proposed AUSFTA and recognises the benefits that could potentially flow on to all Australian economies. A free trade

⁶⁹⁵ Hon S. Bracks, Premier of Victoria, transcript of evidence, 13 May 2003, p.16

⁶⁹⁶ M. Mellish, The Australian Financial Review newspaper, 20 August 2003, *States seek one year health deal*, p.4 and *Health call snub*, p.8

⁶⁹⁷ Hon S. Bracks, Premier of Victoria, transcript of evidence, 13 May 2003, p.23

⁶⁹⁸ *ibid.*, p.25

⁶⁹⁹ www.iird.vic.gov.au, letter from the Premier to the Prime Minister regarding the Free trade agreement with the US, May 2003

agreement such as this will have significant impacts on areas subject to State Government regulation. For this reason, and consistent with the Revised Principles and Procedures for Commonwealth-State Consultation on Treaties as agreed by the Council of Australian Governments in June 1996, it will be important for the States and Territories to have representation in Australia's negotiating delegation.

In summary, the submission focuses on the principles Victoria believes should underpin Australia's negotiating mandate:

- the proposed AUSFTA should be comprehensive in scope;*
- before entering into the negotiations, the Commonwealth should have established a clear walk away position, to be used if the proposed Agreement becomes anything less than a proper and comprehensive free trade agreement;*
- the Commonwealth needs to clearly identify those industries that will suffer from the proposed Agreement, and have in place appropriate adjustment mechanisms; and*
- the Commonwealth must keep States and Territories fully involved throughout the negotiation process.⁷⁰⁰*

During the estimates hearing, the Premier highlighted the film and television industry as an area that Victoria would like to protect.⁷⁰¹ This priority would be particularly important for Victoria, given its recent financial commitment to the Docklands Film and Television Studio. The Committee was pleased to learn of Victoria's active involvement in this matter.

(vi) Tenix operations at the old Commonwealth Docklands

The Committee was interested in learning how the possible rationalisation of Australia's ship building industry would affect Victoria.⁷⁰² The Premier said, '*A lot of effort has gone into the old Commonwealth Docklands at Williamstown. Tenix, a private sector operator now works out of there building frigates for the Australian Defence Forces*'.⁷⁰³

⁷⁰⁰ *ibid.*

⁷⁰¹ Hon S. Bracks, Premier of Victoria, transcript of evidence, 13 May 2003, p.25

⁷⁰² *ibid.*, p.27

⁷⁰³ *ibid.*, p.26

This dockyard has: specialist halls for the construction, assembly, blast, paint and outfit of ship hull modules; two 6000-tonne building berths; a graving dock suitable for vessels up to 145 metres; mobile craneage up to 250 tonnes; and transporters with 400-tonne capacity. Tenix builds the ANZAC class frigate at the Williamstown dockyard.⁷⁰⁴

The Premier advised the Committee that Commonwealth defence contracts, for the supply of frigates, have a significant impact on the Victorian economy; they represent thousands and thousands of jobs.⁷⁰⁵ The Commonwealth awarded the ANZAC ship project contract to Tenix Defence in 1989. This 17-year, fixed-price contract is currently worth approximately A\$6 billion and is the largest and most successful defence contract ever awarded in Australia.

The project is providing long term benefits for the economies of Australia and New Zealand, involving more than 1300 companies with 73 per cent local industry content and almost 8,000 jobs.⁷⁰⁶ The current contract is nearing completion. The Premier is concerned that defence contracts in the future may not be awarded in line with the principles of competitive neutrality. His concerns are based on the possibility that the sunk costs of the Commonwealth Government's investment in the Osbourne facility at the South Australian Docklands may influence Commonwealth decisions on the awarding of new defence contracts. The Premier has raised this matter with the Prime Minister and the Federal Minister for Defence, and will continue to push Victoria's case to ensure principles of competitive neutrality apply to future contract awards.⁷⁰⁷

⁷⁰⁴ Tenix website, <http://www.tenix.com>

⁷⁰⁵ Hon S. Bracks, Premier of Victoria, transcript of evidence, 13 May 2003, p.27

⁷⁰⁶ Tenix website, <http://www.tenix.com/News2.asp?ID=97>

⁷⁰⁷ Hon S. Bracks, Premier of Victoria, transcript of evidence, 13 May 2003, p.27

Chapter 10: Department of Primary Industries

Key Findings of the Committee:

- 10.1 A reduction in funding for research and development may impact on the Department of Primary Industries' capacity to attract and retain specialised staff.
- 10.2 The Government is providing additional resources to improve Victoria's capacity to prevent and respond to biosecurity threats to agriculture.
- 10.3 The Department of Primary Industries' needs to ensure that it consults with the Department of Sustainability and Environment in developing a sustainability strategy so there is sharing of knowledge and no duplication of effort.

Departmental Review

10.1 Departmental overview

The Department of Primary Industries supports the ministerial portfolios of Agriculture and Resources. It was established on 5 December 2002, following the transfer of the agriculture, fisheries and minerals and petroleum functions from the former Department of Natural Resources and Environment.

10.1.1 *Key challenges for the Department in 2003-04*

The Minister for Agriculture has highlighted biosecurity of agriculture as a key challenge for the Department in 2003-04, with several initiatives included in the budget to enhance the State's capacity to respond to the increasing threat of exotic animal pests and diseases.⁷⁰⁸

Other key challenges highlighted by the Department include:⁷⁰⁹

⁷⁰⁸ Hon B. Cameron, MP, Minister for Agriculture, transcript of evidence, 18 June 2003, p.502

⁷⁰⁹ Department of Primary Industries, response to the Committee's 2003-04 Budget Estimates Questionnaire, p.9

- developing aquaculture in Victoria through the promotion of training and industry development assistance to integrated aquaculture and farming operations;
- rebuilding local communities and industry following the largest bushfires experienced in Victoria since 1939. The recovery of natural resources in bushfire affected areas is a priority for the Government;
- improving fisheries protection through the development and implementation of a 24 hour a day, 7 day a week offence reporting service; and
- encouraging the development of practices and processes that demonstrate to domestic and international markets that the Victorian food sector is a supplier of safe, quality food from environmentally responsible agriculture.

10.1.2 Performance measures

The Committee noted that the Department has reviewed the performance measures in the three output groups that it administered and a number of performance measures were introduced, reworded or discontinued.⁷¹⁰

The Committee noted that, in some cases, full year performance information was reported for outputs in association with budget estimates that applied for only six months to June 2003.

The Committee reiterates that to enhance accountability where machinery of government changes result in the transfer of responsibilities to other Departments, all comparative performance information should be reported in the one place against the full cost of those achievements.

The Committee reviewed the Department's performance information for 2003-04 and noted that a significant proportion of the performance measures are process oriented and related to activities. The Committee believes that greater emphasis should be given to the development of performance measures that reflect the achievement of broader government outcomes.

⁷¹⁰ *ibid.*, p.3

The Committee noted that several areas of the Department – including the Minerals and Petroleum Regulation Branch – were undertaking projects to establish what comparable data is available to assist in developing common benchmarks and performance measures across jurisdictions. The Committee welcomes efforts by the Department to enable meaningful comparisons with other jurisdictions.

10.2 Output management framework

Two Ministers are responsible for the Department's three output groups. There are no shared responsibilities.

The Minister for Agriculture is responsible for two of the Department's output groups – Agriculture; and Fisheries. The Minister for Resources has responsibility for the output group Minerals and Petroleum.

10.3 Budget summary

Exhibit 10.1 shows that the Department's budget allocation for 2003-04 is \$297.3 million, an increase of \$75.9 million (or 34.3 per cent) from the revised 2002-03 budget.

Exhibit 10.1:

Department of Primary Industries Output Costs

	Column 1	Column 2	Column 3	Column 3-2
Output Group	2002-03 Adjusted^(a)	2002-03 Revised^(b)	2003-04 Budget	Variation
	(\$ million)	(\$ million)	(\$ million)	(%)
Agriculture ^(c)	111.2	188.4	239.7	27.2
Fisheries	24.4	23.5	40.3	71.5
Minerals and Petroleum	9.7	9.5	17.3	82.1
Total	145.3	221.4	297.3	34.3

Notes: (a) Incorporates changes to the output structure and organisational restructuring

(b) Includes the 2002-03 budget adjusted for machinery of government changes for the period 1 January 2003 to 30 June 2003 and the impact of approved Treasurer's Advances

(c) The 2002-03 Agriculture output budget and revised figures include \$8.8 million of 'resources received free of charge' relating to the transfer of trust account liabilities upon establishment of the Department of Primary Industries on 5 December 2002

Source: Budget Paper No.3, 2003-04 Budget Estimates, table 2.7.1, p.283

Comparisons between the revised budget for 2002-03 and budget for 2003-04 are difficult because of machinery of government changes.

Revised estimates for 2002-03 are based on the six months to 30 June 2003.⁷¹¹

At the budget hearings, the Committee requested that the Department provide it with further information to ensure comparisons that discounted the effect of the machinery of government changes could be made.

The Department provided the Committee with additional information to enable a comparison of the budgets for each output group for 2002-03 and 2003-04 that were unaffected by the machinery of government changes.⁷¹² The Committee appreciates the Department's co-operation and effort to provide this information, some of which is presented in Exhibit 10.2.

Exhibit 10.2:

**Department of Primary Industries and Energy
Output Costs**

	Column 1	Column 2	Column 3	Column 3-2
Output Group	2002-03 Budget^(a)	2002-03 Revised	2003-04 Budget	Variation^(c)
	(\$ million)	(\$ million)	(\$ million)	(%)
Agriculture ^(b)	205.6	314.4	239.7	-23.8
Fisheries	40.5	39.0	40.3	3.3
Minerals and Petroleum	17.3	17.8	17.3	-2.8
Total	263.4	371.2	297.3	-19.9

Notes: (a) Adjusted to not reflect machinery of government changes

(b) 2002-03 revised estimates includes additions to budgeted programs of \$87.7 million relating to Treasurer's Advances for the payments of imported red fire ant eradication and drought assistance

(c) A negative variance indicates that the 2003-04 budget has decreased compared with the 2002-03 revised budget

Source: Budget Paper No.3, 2003-04 Budget Estimates, table 2.7.1, p.283; Budget Paper No.3, 2002-03 Budget Estimates, p.238; Minister for Agriculture's response, received 11 July 2003, to the Committee's follow-up questions, p.2; Minister for Resources' response, received 22 July 2003, to the Committee's follow-up questions, p.1

Based on this information, the Committee found that forecast expenditure on the Fisheries and Minerals and Petroleum outputs in 2003-04 were relatively unchanged compared to both the 2002-03 budget estimates and the 2002-03 revised estimates. Higher than budgeted

⁷¹¹ Minister for Resources' response, received 22 July 2003, to the Committee's follow-up questions, p.3

⁷¹² Minister for Resources' response, received 22 July 2003, to the Committee's follow-up questions, and Minister for Agriculture's response, received dated 11 July 2003, to the Committee's follow-up questions, p.2

expenditures in 2002-03 for the Agriculture output were largely attributable to Treasurer's Advances to fund red fire ant reduction programs (\$5.4 million) and drought assistance (\$83.2 million).⁷¹³

The Committee found that for the Agriculture output, differences between the 2002-03 and the 2003-04 budget estimates were largely attributable to \$23.1 million of new initiatives and \$8.2 million in additional capital asset charges and depreciation. These additional expenses were partly offset by savings and redirections of \$3.6 million.⁷¹⁴

The Committee noted that three existing outputs reported for the Agriculture output group in 2002-03 were revised to two for the 2003-04 budget estimates. The change to the output structure reflects the links between research, extension and industry development activities and a greater focus on biosecurity of agriculture and market access.⁷¹⁵

The changes in Agriculture outputs followed a joint review by the Department of Treasury and Finance; the Department of Premier and Cabinet and the (former) Department of Natural Resources and Environment.⁷¹⁶

10.3.1 Financial analysis

The Department's Statement of Financial Performance is summarised in Exhibit 10.3. The Department is forecasting an operating deficit of \$400,000 in 2003-04.

The transfer of functions between Departments make comparisons between 2002-03 and 2003-04 difficult. The 2002-03 figures represent only the first six months of the Department's operations.

Administered revenues mainly represent mining royalties and contributions towards agricultural research projects from Rural Industry Research Corporations. The Department assumed responsibility from the Department of Treasury and Finance for the administration of mining royalties from January 2003.⁷¹⁷

⁷¹³ Minister for Agriculture's response, received 11 July 2003, to the Committee's follow-up questions, p.2; and Budget Paper No.2, 2003-04 Budget Statement, p.242

⁷¹⁴ Minister for Agriculture's response, received 11 July 2003, to the Committee's follow-up questions, p.17

⁷¹⁵ Department of Primary Industries, response to the Committee's 2003-04 Budget Estimates Questionnaire, pp.2-3

⁷¹⁶ *ibid.*

⁷¹⁷ *ibid.*, p.15

Exhibit 10.3:

**Department of Primary Industries
Statement of Financial Performance**

	Column 1	Column 2	Column 3	Column 4	Column 4-3
	2002-03 Budget^(a)	2002-03 Adjusted^(b)	2002-03 Revised	2003-04 Budget	Variation^(c)
	(\$ million)	(\$ million)	(\$ million)	(\$ million)	(%)
Controlled items					
Operating revenue	-	209.1	284.8	296.8	4
Operating expenses	-	145.3	221.4	297.3	34
Net Result^(d)	-	63.8	63.4	-0.4	-99
Administered items					
Administered revenue	-	37.5	47.1	74.6	58
Administered expenses	-	32.0	42.2	74.6	77
Surplus/Deficit	-	4.9	4.9	0.0	-100

- Notes: (a) 2002-03 budget data is not analysed, since this Department was created through machinery of government change announced by the Premier on 5 December 2002
- (b) Includes the 2002-03 budget adjusted for machinery of government changes for the period 1 January 2003 to 30 June 2003
- (c) A negative variance indicates that the 2003-04 budget has decreased compared with the 2002-03 revised budget
- (d) A negative dollar value indicates a deficit

Sources: Budget Paper No.3, 2003-04 Budget Estimates, table 2.7.2, p.297 and table 2.7.5, p.300

The Department will be required to save around \$3.2 million per year in the next four years from general efficiencies in administration and from research and development.⁷¹⁸ The Minister for Agriculture advised the Committee that the Department expected to achieve savings through more efficient delivery of research and development and without extensive job losses.⁷¹⁹

10.4 Human resources issues

The Department estimated that it would have 2,385 equivalent full time staff at 30 June 2004 compared to 2,341 staff at 28 February 2003, representing an increase of 44 staff, or 1.9 per cent.

The Department attributed most of the increase in staffing to the Agriculture and Fisheries output groups, where additional resources were required for the biosecurity of agriculture and the aquaculture initiatives.⁷²⁰

⁷¹⁸ Budget Paper No.2, 2003-04 Budget Statement, p.242

⁷¹⁹ Hon B. Cameron, MP, Minister for Agriculture, transcript of evidence, 18 June 2003, p.511

⁷²⁰ Department of Primary Industries, response to the Committee's 2003-04 Budget Estimates Questionnaire, pp.15-16

Exhibit 10.4:

**Department of Primary Industries
Equivalent Full Time Staff**

Output Group	2002-03 (Actual)			2003-04 (Estimate)		
	Permanent	Fixed Term	Total	Permanent	Fixed Term	Total
Agriculture	1,145.0	298.0	1,443.0	1,176.1	307.0	1,483.1
Fisheries	222.9	39.4	262.3	226.7	39.4	266.1
Minerals and Petroleum	111.0	18.5	129.5	111.4	18.5	129.9
Externally-funded staff ^(a)	401.1	104.6	505.7	401.1	104.6	505.7
Total	1,880.0	460.5	2,340.5	1,915.3	469.5	2,384.8

Note: (a) Externally funded staff are employed by the Department of Primary Industries, but are funded by the Department of Sustainability and Environment. These employees are involved in the delivery of regional Catchment and Agricultural Services programs and provide corporate and business services to regional Department of Primary Industry programs as part of a shared business model.⁷²¹

Source: Department of Primary Industries, response to the Committee's 2003-04 Budget Estimates Questionnaire, pp.15–16

The Department informed the Committee that, in line with Government policy and where longer term funding had been secured, approximately 40 staff were converted from fixed term to ongoing employment in 2002-03.

The Department indicated that while it is generally able to recruit staff to meet operational needs, a number of factors made it difficult to secure competitive recruitment fields and to retain employees in more specialised areas, including science.⁷²²

The Committee noted that, although the Department had programs in place that may address shortages in specialised areas, ongoing cuts to the delivery of research and development may not improve the capacity of the Department to attract and retain specialised staff.

Recommendation 59:

The Department of Primary Industries, in determining its current and future research activities, consider a range of flexible strategies to retain and attract specialist staff for key research programs.

⁷²¹ *ibid.*, p. 9

⁷²² *ibid.*, pp.15–16

Portfolio review

10.5 Agriculture portfolio

10.5.1 2003-04 outlook and analysis of the portfolio budget

The Agriculture output group accounts for \$239.7 million, or 80.6 per cent of the Department's 2003-04 budget. Exhibit 10.5 shows the outputs and their corresponding funding allocations for 2003-04.

Exhibit 10.5:

Agriculture Portfolio Output Costs

Output Group	Outputs under the responsibility of the Minister for Agriculture	2003-04 Output Cost (\$ million)
Agriculture	Biodiversity and Market Access	52.5
	Sustainable Agriculture and Food Sector Development	187.2
Total		239.7

Source: Budget Paper No.3, 2003-04 Budget Estimates, pp.284–87

Some of the major initiatives planned for 2003-04 include:⁷²³

- Our Rural Landscape – an initiative to support new and innovative research and development projects. The initiative will cost \$50 million over four years, with \$12.5 million allocated in 2003-04;
- funding for drought assistance that matches the Commonwealth Government's contribution for the Business Support component (interest subsidy) under the Exceptional Circumstances arrangements for drought-affected farmers in the Goulburn Irrigation Area. This is expected to cost \$2.2 million in 2003-04; and
- extending the Naturally Victorian Initiative. The initiative is intended to encourage the development of practices and processes that demonstrate to domestic and international markets that the Victorian food sector is a supplier of safe, quality food from

⁷²³ Budget Paper No.2, 2003-04 Budget Statement, Output initiatives, p.242

environmentally responsible agriculture.⁷²⁴ The extension will cost \$8 million over four years, with \$2 million allocated in 2003-04.

10.5.2 *Key issues impacting on the portfolio*

The Department's response to the Committee's questionnaire and estimates hearing identified several issues that will impact on the portfolio and the budget estimates for 2003-04.

(a) *Responding to biosecurity threats to agriculture*

A key issue for the Agriculture portfolio is to implement programs to improve Victoria's capacity to respond to the increasing threat of exotic animal pests and diseases.

Although Victoria's response to a national simulation exercise of a foot and mouth disease outbreak conducted in September 2002 ('Exercise Minotaur') was quick and effective, the exercise highlighted a number of areas for improvement.

The 2003-04 budget includes additional funds to enable risks in the area of animal and plant pest diseases to be addressed. These measures will cost \$24.1 million over four years, with \$7.6 million allocated in 2003-04.

The Department advised that the major elements of the package in 2003-04 included:⁷²⁵

- appointing additional staff and training to enable the establishment and long term operation of State/Local disease control centres (\$1.2 million);
- the appointment of additional staff to increase compliance auditing of renderers; livestock owners; and food manufacturers and retailers with respect to the ruminant feed ban and legislation labelling requirements (\$1 million); and
- appointing additional staff and training to ensure adequate infrastructure to allow the early recognition and effective response to exotic animal diseases, including training to ensure that rural

⁷²⁴ Hon B. Cameron, MP, Minister for Agriculture, transcript of evidence, 18 June 2003, p.507

⁷²⁵ Minister for Agriculture's response, received 11 July 2003, to the Committee's follow-up questions, pp.6-8

veterinarians and staff have core competencies to national levels (\$1 million).

The Committee welcomes the Government's commitment of additional resources to improve Victoria's capacity to prevent and respond to biosecurity threats to agriculture.

(b) Melbourne showgrounds redevelopment

The Department is responsible for administering the redevelopment of the Royal Melbourne showgrounds. The redevelopment will be managed by a joint venture with the Royal Agriculture Society. It is intended that the project will be carried out under the Partnerships Victoria policy.⁷²⁶

The Committee is aware of media reports that private development of up to \$400 million, including hotels, serviced apartments, townhouses, multi-media studios, exhibition spaces, restaurants, offices and shops may be included as part of the redevelopment.⁷²⁷ An assessment of the private sector's development proposals is expected in November 2003.

The Department advised the Committee that it had allocated \$25.2 million for the project in 2002-03, but only expected to spend \$5.2 million due to delays in reaching an agreement with the Royal Agricultural Society. Despite the delays, the Department expected construction to commence after the September 2004 show, with the project still on track to be completed by the September 2006 show. However, development of facilities other than the core facilities required to stage the Royal Melbourne Show may extend beyond 2006.⁷²⁸

(c) Administering emergency and assistance funding

In 2002-03, the Department was responsible for administering a range of contingency funds that provide short term or one off assistance to cover expenditures associated with unforeseen events. Funds for these measures are typically provided for by Treasurer's Advances rather than included in the budget estimates for the forthcoming year. During 2002-03, the Department advised the Committee that it had received \$87.7 million from the Treasurer's Advance to fund red fire ant reduction programs and drought assistance.⁷²⁹

⁷²⁶ *ibid.*, p.15

⁷²⁷ *\$500m plan for Showgrounds*, Herald Sun newspaper, 5 August 2003

⁷²⁸ Minister for Agriculture's response, received 11 July 2003, to the Committee's follow-up questions, p.15

⁷²⁹ *ibid.*, p.2

The Minister advised the Committee that during 2002-03, considerable departmental resources had been diverted to emergency issues, such as fighting fires and providing advice and assistance to local farmers. As a result of this, there had been some impact on the delivery of several industry extension programs.⁷³⁰

10.5.3 *Fisheries output group*

The Minister for Agriculture has responsibility for the Fisheries output group within the Department of Primary Industries. This output group accounts for \$40.3 million, or 13.6 per cent of the Department's 2003-04 budget. Exhibit 10.6 shows the outputs and their corresponding funding allocations for 2003-04.

Exhibit 10.6:

Fisheries Output Group Output Costs

Output Group	Outputs under the responsibility of the Minister for Agriculture	2003-04 Output Cost (\$ million)
Fisheries	Sustainable Fisheries Utilisation Services	18.9
	Industry and Community Compliance Services	18.0
	Aquaculture and Fishing Industry Development	3.4
Total		40.3

Source: Budget Paper No.3, 2003-04 Budget Estimates, pp.288–91

The major initiative in the Fisheries output group in 2003-04 is to prepare a new Victorian Aquaculture Strategy. A strategic policy and planning advisory group will be established to advise the Government, drawing on industry, scientific and community expertise. The group is intended to promote and assist the development of aquaculture in Victoria.⁷³¹ The initiative is expected to cost \$4 million over four years, with \$500,000 allocated in 2003-04.

Another initiative of the Fisheries output group is to strengthen the protection of fish resources by extending a fisheries offence reporting system. The initiative builds on a trial conducted by the Department and expands a telephone hotline to 24 hours per day/7 days per week for reporting suspected illegal fishing activities. The cost of the initiative is

⁷³⁰ Hon B. Cameron, MP, Minister for Agriculture, transcript of evidence, 18 June 2003, p.507

⁷³¹ Budget Paper No.3, 2003-04 Budget Estimates, p.281

expected to be \$200,000 in 2003-04, with a further \$900,000 to be provided over the next three years.⁷³²

A key issue for the fisheries portfolio is to protect the State's fish and aquatic resources from over exploitation. The Minister advised the Committee that the Department has increased the number of targeted operations in conjunction with other law enforcement agencies – including Victoria Police – which are aimed at apprehending unlicensed operators catching commercial quantities of fish.⁷³³

The Department informed the Committee that there was evidence to suggest that there was a displacement of illegal fishing activities to adjoining jurisdictions.⁷³⁴ The Committee noted that the Department was taking a proactive approach through a number of inter-jurisdictional forums toward the establishment of nationally consistent systems for the collection and storage of fisheries intelligence information and prosecutions data.

The Committee was advised that legislative amendments were being prepared for the Spring 2003 session of Parliament that would include a range of provisions designed to improve the effectiveness of fisheries compliance operations.⁷³⁵

Notwithstanding the additional resources and effort that the Department is directing to target illegal fishing activity, the Committee considers that the performance measures in the Budget Papers do not adequately reveal the effectiveness of its compliance activities in commercial and recreational fisheries.

⁷³² Budget Paper No.2, 2003-04 Budget Statement, Output initiatives, p.242

⁷³³ Hon B. Cameron, MP, Minister for Agriculture, transcript of evidence, 18 June 2003, p.507

⁷³⁴ Minister for Agriculture's response, received 11 July 2003, to the Committee's follow-up questions, pp.11–12

⁷³⁵ *ibid.*, p.11

Recommendation 60:

The Department of Primary Industries develop performance measures that would enable an assessment of the effectiveness of its compliance activities in the different categories of fisheries and report this information in the Budget Papers and the Department's annual report.

10.6 Resources portfolio

10.6.1 2003-04 outlook and analysis of the portfolio budget

The Minister for Resources has responsibility for the Minerals and petroleum output group within the Department of Primary Industries. This output group accounts for \$17.3 million, or 5.8 per cent of the Department's 2003-04 budget. Exhibit 10.7 shows the outputs and their corresponding funding allocations for 2003-04.

Exhibit 10.7:

**Minerals and Petroleum
Output Costs**

Output Group	Outputs under the responsibility of the Minister for Resources	2003-04 Output Cost (\$ million)
Minerals and petroleum	Minerals and Petroleum Regulation Services	8.0
	Minerals and Petroleum Industry Development and Information	9.3
Total		17.3

Source: Budget Paper No.3, 2003-04 Budget Estimates, pp.292-93

The 2003-04 budget estimates do not include any new funding initiatives for the Minerals and Petroleum output group. Funding commitments from previous initiatives include:⁷³⁶

- the third year of a \$4 million program (\$1 million in 2003-04) to acquire geoscientific data on mineral resources to promote the

⁷³⁶ Hon T. Theophanous, MLC, Minister for Resources, transcript of evidence, 28 May 2003, pp.330-37

development of the minerals and petroleum industry in Victoria; and

- the second year of a \$2.8 million (\$700,000 in 2003-04) contribution to the Co-operative Research Centre for Clean Power from Lignite. Other contributors include the Commonwealth Government and industry. A key aim of the Centre is to promote the development and commercialisation of new, cost effective and environmentally acceptable technologies for power generation from lignite coals.

Other activities that will be undertaken in the Minerals and Petroleum output group in 2003-04 include a review of the *Pipelines Act 1967*, the development of a state wide sustainability strategy for the mining and extractive sectors and a program of occupational health and safety inspections and enforcement in these industries.⁷³⁷

10.6.2 Key issues impacting on the portfolio

The Department's response to the Committee's questionnaire and estimates hearing identified several issues that will impact on the portfolio and the budget estimates for 2003-04.

(a) Continuing to attract and develop new minerals and petroleum projects

The Minister indicated that the Department had recently granted two coal exploration licences, with a third expected to be granted shortly, and that a mineral sands operation was emerging in the Murray Basin.⁷³⁸ Six new petroleum areas have also been released for exploration in 2003.⁷³⁹

The Minister informed the Committee that in 2003-04 the Department will continue with several activities – including providing world class pre-competitive data for investors, making a comprehensive marketing effort and encouraging investment in new commodities – aimed at attracting exploration and sustainable development investment.⁷⁴⁰

The Committee noted that the development of the State's mineral and petroleum resources were affected by Commonwealth Government

⁷³⁷ *ibid.*

⁷³⁸ *ibid.*, p.330

⁷³⁹ Minister for Resources' response, received 22 July 2003, to the Committee's follow-up questions, pp.3–4

⁷⁴⁰ Hon T. Theophanous, MLC, Minister for Resources, transcript of evidence, 28 May 2003, p.329

policies and programs. In some cases, timely development benefited from Commonwealth intervention, such as the streamlining of the development process at Hazelwood power station following the granting of major project facilitation status by the federal Minister for Industry.⁷⁴¹

The Committee also heard that, in some cases, development projects may be delayed due to difficulties in obtaining support from the Commonwealth. The Minister cited the importance of Commonwealth Government funding for rail standardisation to allow continued investment and expansion of the minerals sands industry.⁷⁴²

The Committee encourages the Department to continue working with the Commonwealth Government to develop sustainable resource projects in Victoria.

(b) Safe and environmentally responsible operations

The Committee was interested to learn that the Department had created a 'Sustainability' unit within the minerals and petroleum regulation branch. The Minister advised that the unit will develop a state wide sustainability strategy for the mining and extractive sectors, outlining the key actions that will be undertaken by the Government to support community expectations of safe and environmentally responsible behaviour.⁷⁴³

The Committee understands that the Department of Sustainability and Environment has received \$1.5 million in the 2003-04 budget to develop a sustainability strategy for a range of industries.⁷⁴⁴

The Committee encourages the Department of Agriculture's sustainability unit to ensure that it consults with the Department of Sustainability and Environment to minimise duplication of effort.

The Committee stresses the need for the commitments made in the sustainable strategy to be measurable and meaningful so the Parliament, industry and the community can monitor progress.

⁷⁴¹ *ibid.*, pp.328–38

⁷⁴² *ibid.*, p.338

⁷⁴³ *ibid.*, pp.335-36

⁷⁴⁴ Budget Paper No.2, 2003-04 Budget Statement, p.245

Recommendation 61:

The Department of Primary Industries in developing a state wide sustainability strategy for the mining and extractive sectors, ensure:

- (a) the targets are clear, understandable and reasonable;**
- (b) the targets and actions are clearly linked to goals and objectives; and**
- (c) performance reporting is relevant, meaningful and transparent.**

Chapter 11: Department of Sustainability and the Environment

Key findings of the Committee:

- 11.1 The creation of the Department of Sustainability and Environment is providing a strong focus on sustainable development.
- 11.2 Machinery of government changes have altered performance measures and make it difficult to assess longer term trends in the Department's performance.
- 11.3 The Department of Sustainability and Environment should give greater emphasis to developing performance measures that reflect outcomes. The Committee welcomes the Department's effort to develop common benchmarks across jurisdictions.
- 11.4 A number of major new funding initiatives were delivered in the Budget including the Smart Farms and Healthy Rivers initiatives, rebates for water smart gardens and homes, solar energy rebates, 50 new park rangers, \$24 million on weed reduction programs and the establishment of the Victorian Water Trust.
- 11.5 The Department of Sustainability and Environment needs to review its strategies for retaining and attracting specialist staff, given recruitment concerns experienced over several years.
- 11.6 Securing and implementing intergovernmental agreements on water issues are important to ensure future sustainable water use in Victoria.
- 11.7 Noting the establishment of the \$320 million Victorian Water Trust and advisory council, there is a need to develop improved performance information to provide an appropriate level of accountability for the advisory council's activities.

Departmental Review

11.1 Departmental overview

The Committee noted that the new Department of Sustainability and Environment was intended to provide a strong policy focus on sustainable development. The Government aimed to achieve this focus by bringing into one organisation all of the State responsibilities for managing both the built and natural environments.⁷⁴⁵

The Department of Sustainability and Environment supports the portfolios of Environment; Water; and Planning. It was established on 5 December 2002, following the transfer of the water, forestry, greenhouse, and land and environmental protection functions from the former Department of Natural Resources and Environment, along with the heritage, building and statutory planning related functions from the Department of Infrastructure.

The Department has identified four objectives to align with its seven output groups (Exhibit 11.1) and the three ministerial portfolios of Environment, Water and Planning. The Department's objectives are intended to be linked to the Government's *Growing Victoria Together* outcomes.⁷⁴⁶

11.1.1 Key challenges for the Department in 2003–04

The Committee was advised that the Department faced several key challenges in 2003–04, including:⁷⁴⁷

- developing a sustainability framework to determine where Government efforts to drive the sustainability agenda are likely to give the greatest returns, how priorities should be set for the allocation of Government resources and how to communicate these principles and priorities to the Victorian community and to business;

⁷⁴⁵ Hon M. Delahunty, MP, Minister for Planning, transcript of evidence, 14 May 2003, p.83

⁷⁴⁶ Budget Paper No.3, 2003-04 Budget Estimates, p.304

⁷⁴⁷ Department of Sustainability and Environment, response to the Committee's 2003-04 Budget Estimates Questionnaire, pp.12–17

- improving the effective management of rivers, lakes and dams, and waste water, and reducing urban demand for water;
- fostering energy efficiency and alternative energy sources in Victoria's homes, education and community facilities, and within Government;
- reducing waste and improving resource use through resource efficiency, reuse and recycling;
- deliver planning strategies that embrace the diversity of urban, rural and regional areas and facilitate responses to environmental, social and economic change;
- reducing wood chipping and logging in the Otways and creating a new national park to expand tourism and job opportunities; and
- rebuilding local communities and aiding the recovery of natural resources following the 2002-03 bushfires, which were the largest experienced in the State since 1939.

11.1.2 *Performance measures*

The Committee noted that the Department changed several outputs and performance measures for 2003-04. These changes were largely due to a review of the output structure of the departmental output framework to reflect the machinery of government changes.⁷⁴⁸

The Department established 75 new performance measures and discontinued 49 performance measures, largely as a result of the completion of existing programs or their replacement by new measures.⁷⁴⁹

The Committee reviewed the Department's performance information for 2003-04 and noted that a significant proportion of the performance measures are process oriented and related to activities. To assist readers of the Budget Papers to assess long term trends, the Committee believes that the Department should give greater emphasis to developing performance measures that reflect the achievement of broader

⁷⁴⁸ Budget Paper No.3, 2003-04 Budget Estimates, p.308

⁷⁴⁹ Department of Sustainability and Environment, response to the Committee's 2003-04 Budget Estimates Questionnaire, pp.18-29

Government outcomes. The Committee welcomed the participation of several areas of the Department – including the Land Information Group and Parks Victoria – in national programs to help develop common benchmarks and performance measures across jurisdictions.

11.2 Output management framework

Two Ministers have responsibility for the Department's outputs. There are no shared responsibilities.

The Minister for the Environment and the Minister for Water has responsibility for the following outputs under several output groups:⁷⁵⁰

- Catchment and Water output group – sustainable management and supply; sustainable catchment management;
- Conservation, Recreation and Public Land output group – services for management and governance of Victoria's parks; biodiversity conservation, utilisation and ecosystems services; nature and heritage recreation and tourism services;
- Environment Protection output group – policy frameworks, regulations and services to protect the environment;
- Forest and Fire Management output group – fire prevention and environment; fire operations; sustainable forest management services; sustainable forest production and industry development; and
- Sustainable Policy and Programs output group – sustainability and greenhouse policy.

The Minister for Planning has responsibility for the following outputs under several output groups:⁷⁵¹

- Land Information output group – land information;
- Conservation, Recreation and Public Land output group – Public Land Management;

⁷⁵⁰ Department of Sustainability and Environment 2003, op. cit., p.2

⁷⁵¹ Ibid, p.2

- Sustainable Policy and Programs output group – urban and regional strategies and programs; and
- Sustainable Cities and Regions output group – planning operations; heritage conservation; sustainable place management.

11.3 Budget summary

Exhibit 11.1:

Department of Sustainability and Environment Output Costs

	Column 1	Column 2	Column 3	Column 3-2
Output Group	2002-03 Budget^(a)	2002-03 Revised	2003-04 Budget	Variation^(c)
	(\$ million)	(\$ million)	(\$ million)	(%)
Catchment and Water	247.8	229.7	223.7	-2.6
Conservation, Recreation and Public Land	210.7	269.2	217.4	-19.2
Land Information	82.2	86.5	91.0	5.2
Environment Protection	54.3	64.3	58.0	-9.8
Forest and Fire Management	208.2	297.1	227.3	-23.5
Sustainability Policy and Programs	— ^(b)	—	50.7	n/a
Sustainable Cities and Regions	— ^(b)	—	32.9	n/a
Total	803.2	946.8	901.0	-4.8

Notes: (a) Incorporates changes to output structure and organisational restructuring, and therefore may differ from figures published in the 2002–03 budget
 (b) New outputs resulting from the machinery of government changes
 (c) A negative variance indicates that the 2003–04 budget has decreased compared with the 2002–03 revised budget
 n/a Not applicable

Source: Budget Paper No.3, 2003–04 Budget Estimates, table 2.8.1, p.310

The machinery of government changes in December 2002 make it difficult to compare the forecast budget for the Department in 2003–04 with the previous year.

Activities under the Department's new outputs – Sustainability Policy and Programs; and Sustainable Cities and Regions – were previously carried out by the former Department of Natural Resources and the Environment and the Department of Infrastructure.⁷⁵² These activities were allocated \$87.6 million in the 2002–03 budget.⁷⁵³ Based on the projected costs of the new outputs in the 2003–04 budget, the Committee

⁷⁵² Budget Paper No.3, 2002–03 Budget Estimates, p.309

⁷⁵³ Ibid, pp.110–116, p.256

found that there was a reduction of around \$4 million (4.5 per cent) in funding for these activities.

The Department provided the following explanations for the major variations between the revised 2002-03 estimates and the 2003-04 budget estimates for four output groups:⁷⁵⁴

- for the Conservation, Recreation and Public Land output group, the 2002-03 revised estimates were \$58.5 million higher than the 2002-03 adjusted budget forecast results primarily due to a one off expense for the Seal Rocks litigation settlement payment, which was provided as supplementary funding in that year;
- for the Land Information output group, the increase of \$4.5 million reflects new initiatives, including the Titles Registry Demand Model, VicMap data maintenance and the Land Valuation Quality Improvement project;
- for the Environment Protection output group, the \$6.3 million decrease is mainly due to the conclusion of the Stormwater Grants initiative; and
- for the Forest and Fire Management output group, the 2002-03 revised estimates include additional costs incurred in relation to the north east fires. These costs are partly offset in 2003-04 by additional funding for the Our Forests Our Future initiative and A New Future for the Otways initiative.

11.3.1 Financial analysis

Exhibit 11.2 shows the Department's projected statement of financial performance for 2003-04. The largest part of the Department's revenue in 2003-04 (\$726.4 million) is provided through appropriations. A further \$41.7 million is sourced from the metropolitan parks charge and the land fill levy.⁷⁵⁵ The Committee noted that the Department forecasts an operating deficit of around \$10.4 million.

Transactions administered by the Department on behalf of the State include contributions to the Murray-Darling Basin Commission and the

⁷⁵⁴ Department of Sustainability and Environment 2003, op. cit., p.45

⁷⁵⁵ Budget Paper No.3, 2003-04 Budget Estimates, p.341

Timber Promotion Council. These payments represent Victoria's share of agreed cost sharing arrangements between the States and the Commonwealth Government.⁷⁵⁶

Exhibit 11.2:

Department of Sustainability and Environment Statement of Financial Performance

	2003-04 Estimate (\$ million)
Controlled Items	
Operating revenue	890.6
Operating expenses	901.0
Net Result^(a)	-10.4
Administered Items	
Administered revenue	316.1
Administered expenses	316.1
Surplus/Deficit^(a)	-0.1

Note: (a) A negative dollar value indicates a deficit

Sources: Budget Paper No.3, 2003-04 Budget Estimates, table 2.8.2, p.341, and table 2.8.5, p.344

The Committee noted that the Department intended to write off around 75,000 of debt in 2002-03. As at 30 April 2003, approximately \$52,000 was written off by the Department. These debts related primarily to companies, that had received services from the Land Titles Office and Land Information Group, and were subsequently taken over by administrators with no prospect of repayment.⁷⁵⁷

The Committee noted with interest that the Department forecasts proposed ongoing savings of \$3.9 million per year from general efficiencies in administration and \$14 million per year from minimising duplication in grant programs and refocusing existing resources.⁷⁵⁸ The proposed savings are equivalent to around 2 per cent of the Department's forecast 2003-04 budget.

11.4 Human resource issues

The transfer of functions and the subsequent reallocation and review of outputs make it difficult to compare the number of staff employed in

⁷⁵⁶ Ibid, p.340

⁷⁵⁷ Department of Sustainability and Environment 2003, op. cit., p.43

⁷⁵⁸ Budget Paper No.2, 2003-04 Budget Statement, p.250

each output group in 2002-03 and 2003-04. Exhibit 11.3 shows the Department's estimated staffing levels in 2003-04.

Where output groups remained largely unchanged following the machinery of government changes, the Committee found that in 2003-04:⁷⁵⁹

- the number of staff in the forests and fire management group was estimated to decline by 29. This does not include fixed term staff employed on a seasonal basis as summer project fire fighters. In February 2003 the Department employed 653 staff on this basis;
- 50 equivalent full time positions are estimated to be lost in the catchment and water output group; and
- the number of staff in the conservation, recreation and public land; and land information output groups is estimated to decline by 22.

The Department attributed the proposed staffing reductions to the Government's budget redirections.⁷⁶⁰ The Committee noted that the current staffing establishment does not include any changes that may arise from establishing the Department's commercial forestry activities as a separate entity.⁷⁶¹

The Department advised the Committee that it generally can recruit staff to meet operational needs, but that it is difficult in specialised areas such as science, forestry, information technology and financial management.⁷⁶² The contributing factors that the Department identified included:⁷⁶³

- significant competition in the marketplace;
- the Department's inability to offer remuneration levels found in the industry elsewhere; and
- the difficulty of attracting staff to work in some geographic locations, particularly some country locations.

⁷⁵⁹ Hon J. Thwaites, MP, Minister for the Environment and Water, 2003, op. cit.

⁷⁶⁰ Department of Sustainability and Environment, 2003, op. cit., p.39

⁷⁶¹ Ibid, pp.37-9

⁷⁶² Ibid., p.39

⁷⁶³ Ibid, pp.39-40

The Department was advised that the Environmental Protection Authority has also experienced difficulty in obtaining expertise in specialist science roles such as hydrology and toxicology, and in roles that requires considerable knowledge of, and experience in, the chemicals and waste management industries.⁷⁶⁴

Exhibit 11.3:

Department of Sustainability and Environment Equivalent Full Time Staff

Output Group	Estimated Staff 2003-04		
	Ongoing	Fixed Term	TOTAL
Catchment and Water	185.2	37.7	222.9
Conservation, Recreation and Public Land	414.9	63.5	478.4
Land Information	519.6	46.5	566.1
Forests and Fire Management	721.7	176.5	898.2
Sustainability Policy and Programs	72.5	18.0	90.5
Sustainable Cities and Regions	163.3	40.6	203.9
Environment Protection Authority	286.3	79.5	365.8
Total^{(a)(b)}	2,363.5	462.3	2,825.8

- Notes: (a) Does not include fixed term staff employed as summer project fire fighters engaged in fire prevention and suppression activities on public land throughout Victoria. These staff are funded through the forests and fire management output group. On February 28 2003, 653 staff were employed on this basis
- (b) The Department employs a further 10–15 staff who are funded by various Department of Primary Industries programs. The Department also funds approximately 480 staff employed by the Department of Primary Industries to deliver regional catchment and agricultural services programs and provide corporate and business services under those programs and fisheries programs as part of a shared services business model

Source: Department of Sustainability and Environment, response to the Committee's 2003–04 Budget Estimates Questionnaire, pp.37–9

The Department and the Environmental Protection Authority have implemented a range of approaches to overcome these staffing issues, including formal graduate recruitment programs, leadership development programs and the short term recruitment of industry specialists. The Department advised the Committee that it ensures a minimum of 2 per cent of payroll (\$2 to \$2.5 million) is set aside for staff development and training.⁷⁶⁵

In its 2001-02 and 2002-03 reports on the Budget Estimates, the Committee noted that the (former) Department of Natural Resources and Environment had also experienced difficulties in recruiting specialist staff. In its 2002-03 budget estimates report, the Committee emphasised

⁷⁶⁴ Ibid, p.40

⁷⁶⁵ Ibid, pp.39–40

that it was important for the Department to continue to monitor the effectiveness of the strategies that it had adopted to address shortages in staff and expertise.⁷⁶⁶

Given continuing problems in the recruitment of staff with particular technical expertise, the Committee encourages the Department to review its recruitment strategies to determine what further changes are required.

Portfolio review

11.5 Environment portfolio

11.5.1 2003–04 outlook and analysis of the portfolio budget

Exhibit 11.4 shows outputs of the Environment portfolio. The Budget Papers reveal that these outputs will cost around \$519 million in 2003–04, accounting for around 58 per cent of the Department's forecast expenditure.

Exhibit 11.4:

Environment Portfolio Output Costs

Output Group	Outputs under the responsibility of the Minister for Environment	2003-04 Output Cost (\$ million)
Environment Protection	Policy frameworks, regulations and services to protect the Environment	58.0
Forest and Fire Management	Fire prevention and planning environment	19.9
	Fire operation	41.7
	Sustainable forest management services	89.8
	Sustainable forest protection and industry development	75.9
Conservation Recreation and Public Land	Services for management and governance of Victoria's parks	153.3
	Biodiversity conservation, utilisation and ecosystem services	19.4
	Nature and heritage recreation and tourism services	24.0
	Sustainability and greenhouse policy	36.5
Total		518.5

Source: Budget Paper No.3, 2003–04 Budget Estimates, pp.318–33

⁷⁶⁶ Public Accounts and Estimates Committee 2003, *Report on the 2002–03 Budget Estimates*, 52nd Report, June 2003, p.425; Public Accounts and Estimates Committee 2002, *Report on the 2001–02 Budget Estimates*, 43rd Report, November 2001, p.382

The Committee noted that the Department intends to develop a sustainability strategy framework that will account for current and new initiatives to which the Government committed at the last election, principally those contained in *The Sustainable State*.⁷⁶⁷ The major initiatives planned for 2003–04 include:⁷⁶⁸

- a New Future for the Otways, which is intended to reduce logging and woodchipping in the Otway Ranges by 25 per cent. The initiative will also create a single national park extending from Anglesea to Cape Otway. The initiative is expected to cost \$14 million over four years, with \$6 million allocated in 2003–04;
- additional funding to employ 50 new national park rangers in regional Victoria. The initiative is expected to cost \$16 million over four years, with \$4 million allocated in 2003–04; and
- additional funding for weed control programs for both private and public land. Two separate initiatives costing \$10 million and \$14 million respectively over the next four years (\$4.5 million in 2003–04) will assist the removal of weeds and other pests in the State.

11.5.2 *Key issues impacting on the portfolio*

The Department's response to the Committee's questionnaire and estimates hearing identified several issues that will affect the portfolio and the budget estimates for 2003–04.

(a) *Establishment of a Commissioner for Environmental Sustainability*

The Victorian Parliament passed legislation in May 2003 to establish a Commissioner for Environmental Sustainability.

The proposed functions of the Commissioner include:⁷⁶⁹

- preparing a report on the state of the environment of Victoria;

⁷⁶⁷ Hon J. Thwaites, MP, Minister for the Environment and Water 2003, op. cit.

⁷⁶⁸ Budget Paper No.2, 2003–04 Budget Statement, pp.245–9

⁷⁶⁹ *Commissioner for Environmental Sustainability Act 2003*, s.8

- conducting annual strategic audits of, and preparing reports on, the implementation of environmental management systems by agencies and public authorities; and
- auditing public education programs on ecologically sustainable development and advising the Minister on the effectiveness of the programs in encouraging the community to adopt ecologically sustainable development principles and practices.

The Department advised the Committee that a recruitment process to appoint the Commissioner had commenced. The 2003-04 budget allocated \$1 million for the Commissioner's office. The Commissioner will be able to appoint his or her own staff and engage consultants as necessary. The size of the Office will be determined once the Commissioner is appointed.⁷⁷⁰

The Minister informed the Committee that the exact nature of the proposed report on the state of the environment is yet to be finalised.⁷⁷¹ The Committee considers that the issues and performance indicators reported on by the Commissioner must assist the Government to identify progress with its overall strategy and framework for sustainability.

The Committee believes it is essential that the Commissioner has adequate resources to ensure he or she can effectively carry out the legislative responsibilities provided for this Office.

(b) Development of a sustainability strategy

The Committee noted that the 2003-04 budget allocated \$1.5 million to develop a sustainability strategy.⁷⁷² The strategy is intended to underpin the delivery of best practice environmental techniques across a range of industry sectors, including water, energy, urban development and land management. The Department advised the Committee that no detailed timetable for the strategy's development had been determined by 23 July, although a draft strategy would be completed in 2003-04.⁷⁷³

⁷⁷⁰ Hon J. Thwaites, MP, Minister for the Environment and Water 2003, op. cit.

⁷⁷¹ Ibid

⁷⁷² Budget Paper No.2, 2003-04 Budget Statement, p.245

⁷⁷³ Hon J. Thwaites, MP, Minister for the Environment and Water 2003, op. cit.

(c) *Bushfire recovery*

The Committee was advised that the bushfires that occurred in the summer of 2002–03 were the largest experienced in Victoria since 1939, burning around 1.3 million hectares of land, principally in national park and State forest areas. Approximately 90 000 hectares of private land were also burnt.⁷⁷⁴

In response to these events, the Department worked with affected communities, industry and a number of Government agencies (including the Department of Agriculture, Parks Victoria, catchment management authorities, alpine resorts and water authorities) to develop a bushfire recovery program, which was released in April 2003.

The recovery program involved the Department in:⁷⁷⁵

- holding regular meetings with operators of tours on public land, to identify priorities for re-establishing tour operations affected by the fire;
- supporting water authorities to implement their risk management strategies to provide the best quality water to the affected towns, both in the short term and medium term; and
- negotiating with licensees to use salvage logging to meet licensees' contracted volume levels within fire affected areas, and then substituting supply from areas not affected by the alpine fires.

The Committee noted that the Minister recently announced a program to regenerate and salvage fire affected State forest areas.⁷⁷⁶ The areas targeted for the program contain Alpine Ash that does not regenerate after being killed by fire. The salvage harvesting program will run in parallel with efforts to plant seeds collected to regenerate fire affected forests.

The Committee encourages the Department to continue with its bushfire recovery efforts to ensure local communities can recover as quickly as possible from the environmental, economic and social impacts of last summer's fires.

⁷⁷⁴ Department of Sustainability and Environment 2003, op. cit., p.17

⁷⁷⁵ Ministerial Taskforce on Bushfire Recovery 2003, *Final Report*, Melbourne

⁷⁷⁶ Minister for the Environment, media release, 21 August 2003

(d) *Fire prevention and planning*

The Department advised the Committee that the total cost of the bushfires to the Department in 2002-03 was around \$116 million.⁷⁷⁷

In the 2003-04 budget fire prevention and planning activities were allocated \$19.9 million. A further \$41.7 million was allocated for fire operations. The Minister for the Environment advised the Committee that although this represented the amount allocated to an average fire season, additional funding through the Treasurer's Advance would be available depending on requirements.⁷⁷⁸

The Committee noted that a recent Auditor-General's report into fire prevention and preparedness in Victoria had found that the Department, in conjunction with other agencies, had made significant advances in improving fire prevention and preparedness. However, the Auditor-General identified several areas where further work and improvement was required, including:⁷⁷⁹

- increased focus on strategic management of hazard reduction on public land, to ensure that appropriate targets are set, resources are provided for their achievement and performance is monitored; and
- improved fire prevention planning and hazard management on private land through the municipal fire prevention framework.

The Government welcomed the Auditor-General's report and its recommendations would be considered as part of a State bushfire inquiry being undertaken by the Commissioner for Emergency Services.⁷⁸⁰ This inquiry has wide terms of reference but is strongly focused on the fire suppression performance during the 2002-03 bushfires.⁷⁸¹

An interim report by the Inquiry in August 2003 made six recommendations for consideration by the Government. Of these, four relate directly to fire prevention activities — including reviewing the prescriptions and approvals processes for prescribed burns to ensure that

⁷⁷⁷ Minister for Environment and Water's response, received 23 July 2003, to the Committee's follow-up questions, p.2

⁷⁷⁸ Hon J. Thwaites, MP, Minister for the Environment and Water 2003, op. cit.

⁷⁷⁹ Victorian Auditor-General's Office, *Report on the Fire Prevention and Preparedness*, May 2003, pp.3-4

⁷⁸⁰ Minister for the Environment and Minister for Police and Emergency Services, media release, 8 May 2003

⁷⁸¹ Minister for the Environment and Water's response, received 23 July 2003, to the Committee's follow-up questions, pp.9-10

more of the annual number of suitable weather days for prescribed burns can be exploited.⁷⁸²

The Government responded to the interim report by announcing that extra resources would be committed to fuel reduction burns. The remaining recommendations include developing better and quicker processes for the approval of fuel reduction burns on Crown lands and private property and an improved notification system alerting agencies and residents of fuel reduction burning activity⁷⁸³

11.6 Water portfolio

11.6.1 2003–04 outlook and analysis of the portfolio budget

Exhibit 11.5 shows the outputs of the Environment portfolio. The Budget Papers reveal that these outputs will cost around \$224 million in 2003–04, accounting for around 25 per cent of the Department's forecast expenditure.

Exhibit 11.5:

Water Portfolio Output Costs

Output Group	Outputs under the responsibility of the Minister for Water	2003-04 Output Cost (\$ million)
Catchment and Water	Sustainable water management and supply	99.0
	Sustainable catchment management	124.7
Total		223.7

Source: Budget Paper No.3, 2003–04 Budget Estimates, pp.311–17

During 2003–04, activities carried out under the Water portfolio targeted a range of water supply and demand issues, to meet the Government's commitment of a reliable water supply in the future.⁷⁸⁴ The major initiatives planned for 2003–04 include:⁷⁸⁵

⁷⁸² Emergency Services Commissioner, Victoria, *Interim Report of the Inquiry into the 2002-03 Victorian Bushfires*, August 2003

⁷⁸³ Office of the Premier, media release, 26 August 2003

⁷⁸⁴ Hon J Thwaites, MP, Minister for Water and the Environment, 2003, op. cit., p.285

⁷⁸⁵ Budget Paper No.2, 2003–04 Budget Statement, pp.245–9

- \$2.5 million (of \$10 million over four years) to continue the Water Smart Gardens and Homes program, to reduce water consumption through more efficient water use in homes and gardens;
- \$2 million (of \$16 million over four years) for the Healthy Rivers initiative, to increase environmental flows and undertake riverbank and other catchment management works to help meet the Government's target to significantly improve the ecological health of Victoria's rivers by 2010; and
- \$2 million (of \$10 million over four years) for the Smart Farms initiative, to reduce salinity and improve water management on farms.

11.6.2 *Key issues impacting on the portfolio*

The Department's response to the Committee's questionnaire and estimates hearing identified the following issues that will have an impact on the portfolio and the budget estimates for 2003–04.

(a) *Interjurisdictional co-operation*

The Committee is aware that many issues relating to the Water portfolio – including both causes and responses – are not confined to Victoria. Many of the issues being addressed by the Department involve co-operative work with the Commonwealth and other State Governments. These issues include:⁷⁸⁶

- the need for additional Commonwealth Government funding for the construction of the Wimmera–Mallee pipeline; and
- a potential national scheme for the labelling of appliances in relation to their water saving priority.

The Committee is aware that the Government recently reached agreement with the NSW and Commonwealth Governments on the composition of the Snowy Joint Government Enterprise.⁷⁸⁷ The Enterprise will oversee management of water savings to provide additional flows for the Snowy and Murray rivers.

⁷⁸⁶ Hon J. Thwaites, MP, Minister for Water and the Environment 2003, op. cit., pp.284–92

⁷⁸⁷ Minister for Water, media release, 25 August 2003

At a recent Council of Australian Government meeting, the Victorian Government committed \$115 million to a \$500 million inter-jurisdictional initiative to address the over allocation of water in the Murray-Darling basin.⁷⁸⁸ The Government also agreed to develop, in association with other Governments, a National Water initiative that would address a range of issues including nationally compatible water access entitlements, best practice water pricing, integrated management of environmental water and urban water reform.⁷⁸⁹

While the Committee acknowledges the considerable amount of work being undertaken by the Department, it notes that fundamental to water reform is achieving intergovernmental water agreements that ensure future sustainable water use.

(b) Allocation of funding from the Victorian Water Trust

The Government established the Victorian Water Trust to fund major river restoration works, upgrades of irrigation assets and infrastructure, and upgrades of pipelines, water supplies and sewerage works.⁷⁹⁰ The 2003–04 budget allocated capital funding of \$52.5 million to the trust over four years.

An advisory council was established to advise the Government on the specific ways in which trust funds should be expended. The Minister advised the Committee that the role of the council in advising the Government on funding priorities included developing an investment strategy. The council does not initiate projects; the Government make the final decisions.⁷⁹¹ The Committee noted that the 2003–04 Budget Papers do not include performance measures relating to the advisory council's activities or departmental activities that support the trust.

The Committee noted that the Water Sector Development Group (originally to be established as part of the 2002–03 budget initiatives) will be established by September 2003 and have a key role in supporting the activities of the Water Trust.⁷⁹²

⁷⁸⁸ Communique, Council of Australian Government, 29 August 2003

⁷⁸⁹ Ibid

⁷⁹⁰ Ibid., p.285

⁷⁹¹ Ibid., p.293

⁷⁹² Budget Paper No.2, 2003–04 Budget Statement, p.249

Recommendation 62:

The Department of Sustainability and Environment:

- (a) develop a performance monitoring and evaluation framework for the Victorian Water Trust to assess the outcomes of the Trust's activities; and**
- (b) report the performance information in the Budget Papers and the Department's annual report.**

(c) *Promoting awareness about water conservation and recycling*

The Government has set specific targets relating to urban water use including reducing Melbourne's drinking water use per capita by 15 per cent and recycling 20 per cent of waste water by 2010.⁷⁹³

The 2003-04 budget includes several measures that influence the achievement of these targets. Specific measures include the funding of rebates for eligible households for the purchase of items that provide water savings such as efficient watering systems, timers, rainwater tanks and greywater systems.⁷⁹⁴

The Government recently announced that it would extend rebates to cover other conservation measures including the fitting of dual flush toilets, high pressure cleaning devices, home audits and more efficient shower heads.⁷⁹⁵

The Committee strongly supports the development of a public information strategy to educate the community about the benefits of reducing water use.

Responsibility for raising community awareness for efficient water use and recycling is generally assigned to the three Government owned metropolitan water retailers – Yarra Valley Water, City West Water and South East Water. These water retailers are required to have a plan for the conservation, efficient use and reuse of water approved by the Minister for Water on an annual basis as part of their operating licence.

⁷⁹³ Hon J. Thwaites, MP, *Ministerial Statement on implementing 'Water for the Future'*, April 2003

⁷⁹⁴ Budget Paper No.2, 2003-04 Budget Statement, p.245

⁷⁹⁵ Minister for Water, media release, 27 August 2003

The plans developed by the retailers are required to have regard to:⁷⁹⁶

- programs to educate the community about the conservation and efficient use of water;
- programs intended to encourage water conservation and efficient use of water;
- programs to investigate and, as appropriate, plan and provide for effluent reuse;
- programs intended to reduce leakage and unaccounted for water from the water supply system; and
- any other information as specified by the Minister.

An examination of each water retailer's latest annual report (2001-02) revealed that it is unclear how much money is being directed towards conservation activities and whether these funds are being effective in raising awareness.

The Committee considers that although there is some merit involving water retailers in community awareness activities because of their direct relationship with customers, there may at times be some tension between developing and funding activities that promote reduced water use and commercial incentives to maximise water consumption to increase revenues and profits.

Recommendation 63:

The Department of Sustainability and Environment review arrangements relating to the effectiveness of each water retailer's activities to promote community and industry awareness about water conservation and recycling.

⁷⁹⁶ *Water and Sewerage Licence*, Yarra Valley Water, South East Water and City West Water

11.7 Planning portfolio

11.7.1 2003–04 outlook and analysis of the portfolio budget

Exhibit 11.6 shows the outputs of the planning portfolio. The Budget Papers reveal that these outputs will cost around \$104 million in 2003–04, accounting for around 12 per cent of the Department's forecast expenditure.

Exhibit 11.6:

Planning Portfolio Output Costs

Output Group	Outputs under the responsibility of the Minister for Planning	2003-04 Output Cost (\$ million)
Sustainability Policy and Programs	Urban and regional strategies and programs	14.2
	Sustainability and greenhouse policy	36.5
Sustainable Cities and Regions	Planning operations	16.3
	Heritage conservation	9.1
	Sustainable place management	7.5
Conservation, Recreation and Public Land	Public land management	20.7
Total		104.3

Sources: Budget Paper No.3, 2003–04 Budget Estimates, pp.321–22, and pp.331–37

The 2003–04 budget includes additional funding for the Government's 30-year plan, Melbourne 2030, to continue planning to manage sustainable growth and change across metropolitan Melbourne and the surrounding region. Several initiatives in the 2003–04 budget implement parts of the existing Melbourne 2030 plan.

The major initiatives include:⁷⁹⁷

- \$4 million for the Victorian Heritage Program (of \$8 million over two years), which provides grants to local government and community groups for the repair and adaptation of heritage assets in public use;
- \$4 million (of \$16 million over four years) to improve public safety through risk mitigation works on Crown land, including coasts, alpine resorts, historic plains, floodplains and Crown reserves; and

⁷⁹⁷ Budget Paper No.2, 2003–04 Budget Statement, pp.245–49

- additional funding of \$1 million (of \$3.2 million over four years) to supplement the Valuation Best Practice initiative. This funding will enable the Valuer-General to continue to monitor audit council valuations in accordance with the initiative.

11.7.2 *Key issues impacting on the portfolio*

The Department's response to the Committee's estimates questionnaire and the estimates hearing with the Minister for Planning identified the following key issues that will have an impact on the portfolio and the budget estimates for 2003–04.

(a) *Planning and implementation of Melbourne 2030*

The key planning blueprint for managing Melbourne's future population growth in a sustainable way, *Melbourne 2030*, was released in October 2002. The Minister advised the Committee that a legal ruling means that local planning schemes will still guide development but that planning authorities must consider *Melbourne 2030* in exercising their discretion.⁷⁹⁸

Continuing high levels of building activity in Melbourne and regional areas have placed considerable pressures on both State and Local Government planning processes. The 2003–04 budget includes additional funding of \$2.8 million (of \$13.1 million over four years) for the Land Titles Office to ensure that lodgement processing is kept to a manageable level and that the system can cope with the trend growth in lodgements.⁷⁹⁹

The Department will continue to develop the *Melbourne 2030* planning framework in 2003–04. Additional funding of \$1 million (or \$4 million over four years) will enable the completion of structure planning, planning system improvements, and the development of growth area plans and green wedge protection management plans. Additional funding of \$3.6 million (or \$4.7 million over two years) will also be directed to local councils to implement *Melbourne 2030* and to the Victorian Civil and Administrative Tribunal to address anticipated workload increases.⁸⁰⁰

⁷⁹⁸ Minister for Planning's response, received 18 July 2003, to the Committee's follow-up questions, p.6

⁷⁹⁹ Budget Paper No.2, 2003–04 Budget Statement, pp.245–49

⁸⁰⁰ Ibid

(b) *Planning system*

Continued high levels of building activity have contributed to extended delays in responses to planning applications lodged with local councils. In 2001-02, around 45,000 planning applications were made with local councils in Victoria; metropolitan councils received an average of 1,200 to 1,300 applications each month. Of the applications to metropolitan councils, around 33 per cent receive objections and around 6 per cent of cases result in applications to the Victorian Civil and Administrative Tribunal for review.⁸⁰¹

Recent media reports raised several problems within the existing system, including:⁸⁰²

- a continuing problem with lack of experienced staff within councils;
- the lodgement of incomplete applications, which required additional material to be followed up; and
- a substantial backlog of applications before the introduction of the Rescode Regulations in mid-2001.

The Department has commissioned a review of the planning system: *Better Decisions Faster*. A discussion paper for the review was released in August 2003 and submissions close in November 2003. The review follows on from a reference group examination of decision making processes. This reference group reported to the Government in late 2002 on three issues: the use and interpretation of local policy; the substitution and amendment of plans; and enforcement methods.⁸⁰³

A main finding of the reference group was that efforts to introduce a more flexible system to cope with recent planning system changes had swung too far, so the level of flexibility outweighs the desirable degree of certainty that the development industry, the community and their elected representatives seek.⁸⁰⁴

⁸⁰¹ Department of Sustainability and Environment, Discussion paper, *Better Decisions Faster: Opportunities to improve the planning system in Victoria*, p.8

⁸⁰² *Cost delays put pressure on designers*, Sunday Age newspaper, 10 August 2003, *Building or renovating? Get in the queue and wait your turn*, The Age, 13 April 2003, *Planning founders in face of staff crisis*, Sunday Age newspaper, 1 June 2003, *Renovators' chaos*, Herald Sun, 5 July 2003

⁸⁰³ *Using and interpreting local policy, Substitution and amendment of plans, enforcement methods*, Reference Group on Decision-making processes

⁸⁰⁴ *Using and interpreting local policy*, Reference Group on Decision-making processes, p.3

Characteristics of the present planning system, as highlighted by the discussion paper, include:⁸⁰⁵

- long timeframes;
- poorly prepared permit applications;
- too many permit requirements;
- policy confusion;
- inconsistent decision making; and
- difficulty in amending planning schemes.

The discussion paper outlined assessment process options within the broad stages of the permit process. Responses to the options are due in November 2003.

The Committee noted that the Government is already responding to some of these concerns by providing additional funding for the Victorian Civil and Administrative Tribunal to address anticipated workload increases and by running a recent initiative to allow a pre-lodgement certification program for planning applications, following a pilot project with the Glen Eira City Council.⁸⁰⁶ Other Government efforts to address planning issues include providing funding to enhance the education and skills of the users of the planning system.

The Committee encourages the Department, after the review is completed and recommendations implemented, to establish performance indicators to measure improvements in planning procedures and practices, and to publish such information in the Department's annual report.

⁸⁰⁵ Department of Sustainability and Environment, Discussion paper, *Better Decisions Faster: Opportunities to improve the planning system in Victoria*, p.5

⁸⁰⁶ Municipal Association of Victoria, media release, *New Initiative to Slash Planning Approval Times*, 15 May 2003

Recommendation 64:

Following the implementation of the recommendations arising from the review of planning processes, the Department of Sustainability and Environment develop performance information that will enable the effectiveness of the new measures to be determined and report this information in the Department's annual report.

Chapter 12: Department of Treasury and Finance

Key findings of the Committee:

- 12.1 The Department of Treasury and Finance needs to further build on the progress made in developing performance measures of a qualitative nature and provide more detailed information on the achievement of Government outcomes.
- 12.2 Public Authority dividends are projected to decline by \$304.6 million from an estimated \$577.7 million in 2002-03 to \$273.1 million in 2003-04.
- 12.3 The Committee welcomes the Department of Treasury and Finance of employing additional staff to close loopholes involving the loss of revenue arising from avoidance of stamp duty on high value property transactions.
- 12.4 Summary information and rates of return on capital invested by the Government in Government Business Enterprises needs to be disclosed in Budget Papers.
- 12.5 The proposed new departmental funding system to be introduced in 2004-05 needs to take into account cost increases, particularly salary and wage increases, over which Departments ultimately have no control over.
- 12.6 In view of poor investment returns and certain other factors, the Government needs to review its strategy of eliminating the unfunded superannuation liability by 2035.
- 12.7 The Government is preparing for the adoption of International Accounting Standards to be applied to all public sector reporting entities after 1 January 2005.

- 12.8 The Committee welcomes the initiatives underway within the Department of Treasury and Finance to introduce triple bottom line reporting in the public sector.
- 12.9 The inclusion of informative performance measures and objectives in annual reports of all public sector agencies would be enhanced by a direction from the Minister for Finance to this effect.
- 12.10 Consolidated information on government accommodation costs needs to be included in the Budget Papers.
- 12.11 The Victorian WorkCover Authority needs to further improve its financial position if it is to become fully funded by June 2006.
- 12.12 Since the reintroduction of common law rights for work injuries in October 1999, only three claims have been settled.

Departmental review

12.1 Departmental overview

The Department of Treasury and Finance provides services to three ministerial portfolios: Treasury; Finance; and WorkCover. The Department's portfolio includes the Department of Treasury and Finance, the State Revenue Office and the Essential Services Commission. The Department provides the Government with economic, financial, commercial and resource management advice and performs a monitoring role to ensure the State's financial, accounting and reporting obligations are met. It also manages commercial activities on behalf of the Government.

12.1.1 *Key challenges for the Department in 2003-04*

One of the Department's objectives is to achieve 'sound financial management of the State's fiscal resources with an emphasis on maintenance of a substantial budget surplus'.⁸⁰⁷ In view of a range of international and domestic pressures, such as the global economic

⁸⁰⁷ Budget Paper No.3, 2003-04 Budget Estimates, p.347

slowdown which has impacted on Victoria's exports, the implications of the long term drought, moderation of domestic housing construction, minimal revenue growth and a further increase projected in Victoria's unfunded superannuation liabilities due to the ongoing poor performance of equity markets, the Committee acknowledges that a major challenge to the Department is to prudently manage the State's finances in order to achieve the projected budget surplus of \$245 million in 2003-04.

Another key objective of the Department is 'the provision of world class infrastructure to benefit all Victorians'.⁸⁰⁸ The Treasurer told the Committee there is a backlog of economic and social infrastructure remaining and although this backlog was being addressed, including entering into contracts with the private sector since June 2001 for over \$700 million in projects, there still remained a large number of projects to be undertaken.⁸⁰⁹ The Treasurer further advised that close to \$10 billion would be expended on capital investments over the next 4 years.⁸¹⁰ The Treasurer indicated that the challenge for the Department is to evaluate and co-ordinate these projects and obtain the best value for the taxpayer, irrespective of whether they are directly undertaken by the Government or the private sector in partnership with the Government.⁸¹¹

In recognition of the key long term economic issues facing Australia and Victoria, in April 2003 the Department of Treasury and Finance issued a discussion paper 'Shaping a Prosperous Future' which seeks public comment on the long term policy challenges and choices facing Governments and communities. Issues identified include financial pressures arising from demographic trends, an ageing population, technological advances increasing the cost of health care, changing infrastructure needs and greater community expectations of government service delivery, coupled with declining taxes and Commonwealth grants relative to Gross State Product.

The Department faces a challenging period as it seeks to develop innovative policies to ensure future economic growth and address the emerging needs outlined above.

⁸⁰⁸ *ibid.*, p.352

⁸⁰⁹ Hon J. Brumby, MP, Treasurer, transcript of evidence, 14 May 2003, p.51; and Office of the Treasurer, media release, 3 July 2003

⁸¹⁰ *ibid.*

⁸¹¹ *Partnerships Victoria* policy – Introduction by the Treasurer

12.1.2 Performance measures

Following a review by the Department's internal auditors, PricewaterhouseCoopers, in conjunction with the transfer of the Gaming output group to the Department of Justice in December 2002, the Department refined its performance measures for 2003-04.⁸¹² The review was intended to remove inappropriate performance measures that focused on process and non-critical outputs, and replace these measures with performance measures that were considered to be more appropriate, meaningful and targeted. The review resulted in a reduction in the number of performance measures from 220 in 2002-03 to 143 in 2003-04.

The Committee noted that while the new performance measurement structure is an improvement on the previous year's, the new performance measures introduced predominantly relate to activities achieved relative to numerical and percentage targets, as distinct from measures of a qualitative nature that are designed to measure whether outcomes have been achieved.

Although the Committee recognises the efforts made by the Department to improve its performance measures, more effort is required, particularly by comparison with the high quality of performance information produced by certain other Departments.

Recommendation 65:

The Department of Treasury and Finance build on the work undertaken to date to improve its performance measures and develop further performance information of a qualitative nature to provide more detailed information on whether Government outcomes were achieved.

12.2 Output management framework

As shown in the following exhibit, the Department's budget allocation for 2003-04 was \$178.4 million, representing a decrease of \$42.3 million, compared to the 2002-03 budget, and a decrease of \$11.3 million from the 2002-03 revised budget. The major reason for the decrease was the

⁸¹² Budget Paper No.3, 2003-04 Budget Estimates, p.350

transfer of the Regulation of Gambling and Gaming Policy Advice outputs to the Department of Justice as a result of machinery of government changes announced in December 2002.

Exhibit 12.1:

Department of Treasury and Finance Output Costs

	Column 1	Column 2	Column 3	Column 3-2
Output Group	2002-03 Budget^(a)	2002-03 Revised^(a)	2003-04 Budget	Variation^(b)
	(\$ million)	(\$ million)	(\$ million)	(%)
Financial Management Services	18.8	20.5	19.9	-2.9
Reform Services	2.2	1.6	1.4	-12.5
Regulatory Services	36.1	13.2	13.0	-1.5
Resource Management Services	64.2	57.9	44.5	-23.1
Risk Management Services	9.7	11.0	11.1	1.0
Strategic Policy Advice	26.9	25.1	27.1	8.0
Revenue Management Services	62.8	60.4	61.4	1.7
Total	220.7	189.7	178.4	-6.0

Note: (a) The 2002-03 budget and revised budget figures have been amended for comparative purposes to reflect changes to the output structure and organisational restructuring that occurred during the year. Figures will therefore differ from those published in the 2002-03 budget

(b) A negative variance indicates that the 2003-04 budget has decreased compared with the 2002-03 revised budget

Source: Budget Paper No.3, 2003-04 Budget Estimates, table 2.9.1, p.351

The Department provided the following explanations for the major variations:⁸¹³

- the Reform Services output group cost decreased by 12.5 per cent due to the 2002-03 figure being inflated by a carryover of an unspent appropriation from the prior year; and
- the 23.1 per cent reduction in the budget of the Resource Management Services output group for 2003-04 was attributed to a \$10.3 million reduction in the Government Accommodation Services output as maintenance and security expenses for government accommodation, previously recorded in this output, are now recorded in the outputs of the respective Departments occupying rental accommodation.

⁸¹³ Department of Treasury and Finance, response to the Committee's 2003-04 Budget Estimates Questionnaire, p.13

12.3 Budget summary

The Statement of Financial Performance for the Department is shown in Exhibit 12.2.

Exhibit 12.2:

Department of Treasury and Finance Statement of Financial Performance

	Column 1	Column 2	Column 3	Column 4	Column 4-3
	2002-03 Budget	2002-03 Adjusted^(a)	2002-03 Revised	2003-04 Budget	Variation^(b)
	(\$ million)	(\$ million)	(\$ million)	(\$ million)	(%)
Controlled items					
Operating revenue	265.8	255.2	222.0	228.9	3.1
Operating expenses	282.0	272.6	266.8	255.4	-4.3
Net Result^(e)	-16.2	17.4	-44.8	-26.5	
Administered items					
Administered revenue ^(c)	19,622.4	18,971.6	19,751.2	18,591.1	-5.9
Administered expenses ^(d)	19,544.5	18,893.7	19,964.3	19,042.3	-4.6
Surplus/Deficit^(e)	77.9	77.9	-213.1	-451.2	

- Note:
- (a) Includes the 2002-03 budget adjusted for machinery of changes for the period 1 January 2003 to 30 June 2003
 - (b) A negative variance indicates that the 2003-04 budget has decreased compared with the 2002-03 revised budget
 - (c) Includes Commonwealth Grants, Special Appropriations and Appropriations for payments made on behalf of the State estimated at \$9353 million in 2002-03 revised and \$9063 million in 2003-04 budget
 - (d) Expenditure includes payment of revenue collections into the Consolidated Fund, estimated at \$17,108 million in 2002-03 revised budget and \$16,509 million in 2003-04
 - (e) A negative dollar value indicates a deficit

Sources: Budget Paper No.3, 2003-04 Budget Estimates, table 2.9.2, p.380 and table 2.9.5, p.383

The following reasons were provided by the Department for major variations in administered revenue and expenditure between the revised budget estimates for 2002-03 and the 2003-04 budget estimates:⁸¹⁴

- revenue from public authority dividends is expected to decline from \$739 million in 2002-03 to \$427 million in 2003-04 due largely to the completion of a series of special dividends from the Transport Accident Commission in 2002-03 to fund the Accident Blackspot Program;
- public authority dividends in 2002-03 were inflated on account of additional dividends requested by the Department from some

⁸¹⁴ *ibid.*, p.9

water authorities generating large surpluses, in order that appropriate financial ratios were generated;

- stamp duty collections are expected to decline in 2003-04 by \$279 million as compared to 2002-03 due to stronger than expected growth in 2002-03 generating an additional \$500 million above the budget estimate for that year;
- from December 2002 the responsibility for the collection of revenue from electronic gaming machines was transferred to the Department of Justice. Until that date, the Department had collected \$691 million. As a result of this machinery of government change, administered revenue collected by the Department will be reduced by around \$1.4 billion in 2003-04, although this reduction will be partly offset by an expected increase in Commonwealth grants of \$258 million;
- as a result of the transfer of gaming revenue to the Department of Justice, administered expenses in the form of payments to the Consolidated Fund in 2003-04 will decrease by around \$600 million;
- insurance business fee revenue from stamp duty on insurance premiums is expected to further increase from \$504 million in 2002-03 to \$559 million in 2003-04. This is a reflection of premium increases by insurance companies as a result of the collapse of HIH, large premium increases in public liability and professional indemnity insurance and more moderate increases in household and domestic vehicle insurance; and
- interest earned on cash investments is projected to fall by \$36 million in 2003-04 due to interest rates falling to historically low levels in conjunction with the Department using cash reserves for capital initiatives.

Although not specifically projected, the Department anticipates an increase in revenue from stamp duty on high value conveyancing transactions. This will result from the establishment of a specialist team to investigate and close loopholes involving the loss of revenue from the avoidance of stamp duty on these transactions. At the estimates hearing,

the Treasurer advised that the potential loss of stamp duty could be as high as \$1 million on individual transactions.⁸¹⁵

The cumulative result of the above changes in revenue and expenditure is a projected deficit of \$451.2 million in 2003-04, an increase of \$238.2 million above the revised deficit for 2002-03. The deficit occurs because although the provision for any increase in the unfunded superannuation liability is treated as an administered expense to be provided for annually, funding for the expense is only appropriated in the year in which the superannuation provision becomes payable.

The increase in the deficit for 2003-04 was largely attributed to an increase in the unfunded superannuation liability of the State, and a corresponding increase in the departmental provision for this liability, which creates an additional expense. The increase in the unfunded superannuation liability reflected the impact of new actuarial projections arising from negative investment returns to the State Superannuation Fund as a result of weak equity markets.

The Department's controlled revenue, predominantly from output and special appropriations, building rentals and vehicle lease revenue, is expected to increase marginally from a revised budget of \$222 million in 2002-03 to \$228.9 million in 2003-04. Factors influencing the increase include:⁸¹⁶

- revenue from output appropriations was reduced by \$18.3 million on account of the transfer of gaming outputs to the Department of Justice;
- sales of Crown land are recorded as a reduction in controlled revenue with an offsetting amount recorded as administered revenue. As the estimated value of asset sales is expected to decrease from \$56 million in 2002-03 to \$37 million in 2003-04, this has the impact of inflating controlled revenue for 2003-04 by \$19 million; and
- the Department did not expect to receive any revenue from special appropriations in 2003-04, a source from which \$8.1 million was received in 2002-03.

⁸¹⁵ Hon J. Brumby, MP, Treasurer, transcript of evidence, 14 May 2003, p.53

⁸¹⁶ Department of Treasury and Finance, response to the Committee's 2003-04 Budget Estimates Questionnaire, p.9

Controlled expenses are projected to decrease by \$11.4 million from the revised 2002-03 budget of \$266.8 million to \$255.4 million in 2003-04. Factors influencing the decrease include:⁸¹⁷

- supplies and services were reduced by \$10.3 million largely due to maintenance and security costs for Government accommodation previously paid by the Department now being reflected in the accommodation rentals paid by the respective Departments occupying the premises; and
- employee benefits, which comprise salary and wages and entitlements for superannuation, annual leave and long service leave, reduced by \$6.6 million on account of the transfer of the gaming outputs and staff to the Department of Justice from December 2002.

The net result of the above changes in controlled revenue and expenses was a projected deficit of \$26.5 million in 2003-04, as compared to a deficit of \$44.8 million in 2002-03, a variance of \$18.3 million. Due to the accounting treatment associated with the sale of Crown land recorded as a controlled expense, with the revenue received included in administered revenue, the Department traditionally records an operating deficit. The \$18.3 million reduction in the projected deficit for 2003-04 can therefore be attributed to an estimated \$19 million reduction in proceeds arising from the sale of Crown land in 2003-04.⁸¹⁸

12.4 Human resource issues

The Department has advised that it anticipates having 975 effective full time staff by 30 June 2004.⁸¹⁹ This projection compares with 944 effective full time staff at 31 March 2003. Staffing numbers are inclusive of the Department's service agency, the State Revenue Office and the Essential Services Commission.

Specific details of staffing allocations within the Department are detailed in Exhibit 12.3 below.

⁸¹⁷ *ibid.*, p.13

⁸¹⁸ Budget Paper No.3, 2003-04 Budget Estimates, p.378

⁸¹⁹ Department of Treasury and Finance, response to the Committee's 2003-04 Budget Estimates Questionnaire, p.6

Exhibit 12.3:

**Department of Treasury and Finance
Equivalent Full Time and Fixed Term Staff**

Division	Actual			Estimate		
	2002-03 31 Mar	2002-03 31 Mar	Total	2003-04 30 June	2003-04 30 June	Total
	Permanent	Fixed Term		Permanent	Fixed Term	
Budget and Financial Management	130	4	134	130	4	134
Commercial Division	136	12	148	135	10	145
Economic and Financial Policy	72	2	74	70	2	72
Strategic Management	86	2	88	85	2	87
Office of the Secretary	37	8	45	40	7	47
State Revenue Office	388	21	409	420	20	440
Essential Services Commission	46	1	47	50	0	50
Total	895	50	945	930	45	975

Source: Department of Treasury and Finance, response to the Committee's 2003-04 Budget Estimates Questionnaire, p.6

As can be seen from the above table, with the exception of the State Revenue Office, staffing numbers will remain relatively static in 2003-04. Additional funding of \$1.8 million will be provided to the State Revenue Office in 2003-04 to enable a specialist team to be established to investigate stamp duty avoidance on high value conveyancing.

The Department advised the Committee that it does not experience any significant problems in recruiting skilled staff. In addition, a strong emphasis is placed on professional development and training activities for all staff, with approximately \$2,000 per staff member allocated in 2002-03 and in 2003-04 for identified training needs. The Department's performance management process provides a direct linkage between identified needs of individual staff and training and development opportunities.⁸²⁰

⁸²⁰ *ibid.*, p.7

Portfolio Review

12.5 Treasury portfolio

12.5.1 2003-04 outlook for the portfolio

Tasks to be undertaken within the Department of Treasury and Finance that are specific to the responsibilities of the Treasurer during 2003-04 include:⁸²¹

- implementing improved infrastructure project management and governance frameworks to more effectively manage major project costs and delivery risks across the Victorian Public Sector. This project, which is referred to as the 'Gateway' project, is to be applied to publicly funded infrastructure projects as opposed to privately built projects under the Department's Partnerships Victoria policy. The Committee was advised the project aims to achieve better capital investment outcomes for Government and is based on proven project management and risk management procedures used by the private sector and other jurisdictions;
- driving national issues such as Commonwealth-State relationships, regulation of utilities and insurance policy. With regard to Commonwealth-State relationships, the Treasurer advised the Committee that for every \$1 paid by Victorians in the GST, only 83 cents was received back from the Commonwealth Government. Under existing arrangements which were seen as needing urgent reform, Victoria would not benefit from the GST until at least 2007-08;⁸²² and
- ensuring taxation compliance for duty on high value land transfers. This will involve providing additional staff to the State Revenue Office to investigate the avoidance of stamp duty through artificial means on high value conveyancing transactions in circumstances where the value of land has increased substantially leading to increases in stamp duty payable.⁸²³

⁸²¹ Hon J. Brumby, MP, Treasurer, transcript of evidence, 14 May 2003, p.53

⁸²² *ibid.*, p.65

⁸²³ *ibid.*, p.53

12.5.2 *Analysis of the portfolio budget*

The 2003-04 budget for the output groups for which the Treasurer is either fully or partly responsible for is \$119.5 million, representing a marginal increase of \$1.3 million by comparison with the 2002-03 budget of \$118.2 million.⁸²⁴ Within these output groups the Treasurer has responsibility or shared responsibility for output costs totalling \$95.4 million. Details are as follows:

Exhibit 12.4:

Treasurer's Portfolio Output Costs

Output Group	Outputs under the responsibility of the Treasurer	2003-04 Output Cost (\$ million)
Strategic Policy Advice	Strategic Policy and Research	2.8
	Financial and Risk Management Policy Advice	1.0
	Economic, Regulatory, Environmental and Social Policy Advice*	4.6
	Inter-Government Financial Relations Policy Advice	1.5
	Taxation (State Revenue) Policy Advice	1.3
	Budget Formulation Advice*	4.0
Financial Management Services	Taxation (State Revenue) Monitoring and Forecasting Services	0.6
	Budget Development and Production*	5.6
	GBE Performance Monitoring Services	1.5
Risk Management Services	Commercial and Infrastructure Project Management	9.2
	Prudential Supervision and Financial Asset/Liability Management	1.9
Revenue Management Services	Revenue Management Services to Government	61.4
Total		95.4

Note: * Responsibility for output shared with the Minister for Finance

Source: Department of Treasury and Finance, response to the Committee's 2003-04 Budget Estimates Questionnaire, p.1; and Budget Paper No.3, 2003-04 Budget Estimates, pp.352-376

12.5.3 *Key issues impacting on the portfolio*

The Department's response to the Committee's questionnaire and the estimates hearing identified several issues that will impact on the portfolio and the Budget Estimates for 2003-04. The major issue is

⁸²⁴ Department of Treasury and Finance, response to the Committee's 2003-04 Budget Estimates Questionnaire, p.1; and Budget Paper No.3, 2003-04 Budget Estimates, pp.352-76

Partnerships Victoria, however, as several Departments are participating in projects under this policy, and the Committee is conducting an Inquiry into the Partnerships Victoria arrangements, comment on these arrangements will be considered in the context of the Inquiry.

(a) Public authority dividends

The payment of dividends by government business enterprises (GBEs) to the Government is based on the concept that the State should receive an appropriate return on its investment in these enterprises. The budget estimates 2003-04 record that public authority dividends received by the Department are projected to decline by \$304.6 million from an estimated \$577.7 million in 2002-03 to \$273.1 million in 2003-04.⁸²⁵

The rate of dividend is governed by two broad benchmarks. Where government business enterprises have similar operations to private sector firms, a dividend of 50 per cent of after tax profit is required, which broadly equates to the corporate tax rate applied in the private sector. For other government business enterprises, a payout rate of 65 per cent of pre-tax profit is applicable.⁸²⁶ The Treasurer provided the Committee with anticipated dividend income details for 2003-04 by comparison with 2002-03, as shown below in Exhibit 12.5.

The Treasurer informed the Committee of the following reasons for the major variances:⁸²⁷

- the introduction of full retail contestability in the gas industry in October 2002, effectively resulted in the dissolution of Gascor Pty Ltd and the cessation of dividends;
- due to the very high levels of housing development in 2002-03, water authorities had strong revenue growth and had the capacity to pay additional dividends. Lower distributions are expected in 2003-04 as climatic conditions improve after the drought in conjunction with more subdued land development activity; and

⁸²⁵ Budget Paper No.3, 2003-04 Budget Estimates, p.461

⁸²⁶ *ibid.*

⁸²⁷ Treasurer's response, received 18 June 2003, to the Committee's follow-up questions, Attachment 2; and Hon J. Brumby, transcript of evidence, 14 May 2003, pp.54-5

- completion of a series of special dividend payments by the Transport Accident Commission in 2002-03 to fund the Accident Blackspot Program.

No explanation was provided to the Committee for the expected 44 per cent reduction in the dividend from Treasury Corporation Victoria in 2003-04.⁸²⁸

Exhibit 12.5:

**Government Business Enterprise
Dividends**

Dividend Source	2002-03 (\$ million)	2003-04 (\$ million)
Gascor Pty Ltd	58.0	-
Water Authorities	355.2	215.0
Melbourne Port Corporation	10.5	9.3
Transport Accident Commission	110.0	-
Treasury Corporation of Victoria	13.9	7.8
Rural Finance Corporation	4.5	9.0
State Trustees Limited	3.1	3.2
Urban and Regional Land Corporation	21.6	23.0
Vic Track	-	5.0
Other	0.9	0.8
Total Dividends	577.7	273.1

Source: Treasurer's response, received 18 June 2003, to the Committee's follow-up questionnaire, Attachment 2

The Committee recognises that the cessation of dividends from Gascor Pty Ltd and the Transport Accident Commission are one off events that distort the projected drop in dividends in 2003-04. Nevertheless, excluding the impact of these events, dividend revenue from government business enterprises will still reduce by around 33 per cent overall in 2003-04. It is acknowledged that similar to the private sector, there are a range of factors that influence profitability, many of which could be beyond the control of the respective authorities such as the fall in international equity investments.⁸²⁹ However, in the longer term, the Government should expect an adequate return on its investment in these enterprises.

The Treasurer is responsible for the GBEs Performance Monitoring Services output within the Treasury Portfolio. This output is designed,

⁸²⁸ Treasurer's response, received 18 June 2003, to the Committee's follow-up questions, Attachment 2

⁸²⁹ Hon J. Brumby, MP, transcript of evidence, 14 May 2003, pp.54-5

‘inter alia’, to provide for an adequate return from GBEs to Government for the capital invested in them. The Committee notes that no information was provided in the 2001-02 annual report of the Department of Treasury and Finance or the 2003-04 Budget Papers on the return on capital achieved by the Government from the respective GBEs. Provision of such information over time would enable Parliament to determine whether some GBEs should be retained in Government ownership or restructured. This is particularly important given the significant amount of government capital invested in most GBEs.

Recommendation 66:

Summary information and rates of return on capital received and projected in the form of dividends from the respective government business enterprises be included in the Budget Papers.

(b) *Departmental funding system*

The Treasurer advised the Committee that in the 2004-05 budget the Government intended to introduce a new departmental funding system to better drive productivity growth and achieve improved policy outcomes. Under existing arrangements baseline funding and funding for new initiatives is provided for in the annual budget. Where wage increases occur, these are normally funded from a contingency amount provided for in Budgets which is not allocated to Departments, as wage outcomes are difficult to estimate until industrial agreements are finalised.⁸³⁰ An amount of \$488.1 million was provided for this purpose in 2003-04.⁸³¹ In addition, productivity dividends payable to the Government are deducted from some outputs of Departments.

In an attempt to simplify funding arrangements and to provide some certainty to Departments as to future funding for forward planning purposes, under the new funding system Departments will no longer receive supplementary funding for cost changes, particularly wage increases. The broad principle is that contingency funds will be minimised and Departments will be given a fixed budget, within which they will be required to fully manage all costs associated with delivering

⁸³⁰ Hon J. Brumby, MP, transcript of evidence, 14 May 2003, p.62

⁸³¹ *ibid.*

their outputs. The Treasurer further advised that the new system is designed to link departmental funding to improved public policy outcomes and productivity considerations in wages agreements.⁸³²

The Committee was advised that the Department of Treasury and Finance is currently undertaking further work to ensure the new system is ready for inclusion in the 2004-05 budget and can be implemented from 1 July 2004.⁸³³

The Committee acknowledges the potential benefits to be gained from the proposed system, particularly in terms of providing certainty of funding to Departments for forward planning purposes. Nevertheless, there are a range of issues associated with such a proposal that need to be resolved.

Salaries and wages currently represent around 40 per cent of the State Budget. The current policy on wage increases according to information provided to the Committee by the Treasurer, is that baseline inflation is projected at 2.25 per cent. A further 0.75 per cent has been allowed for service and productivity improvements, which effectively means that the Government intends to limit future wage increases to public sector employees to 3 per cent.⁸³⁴ Under the existing industrial relations system which is controlled by the Australian Government, if industrial agreements cannot be reached between Governments and their employees, after due process is followed, the Industrial Relations Commission will ultimately arbitrate on wage increases. This previously occurred in Victoria in 2000.

The implications of the existing industrial relations system would mean that under the proposed funding system any wage increases beyond the threshold nominated by the Government would have to be met by Departments through productivity savings. This may involve reducing services, staff retrenchments or a combination of all factors. As the Government intends to minimise contingency funding, any supplementary funding to avoid the above circumstances would need to be met from the Treasurer's Advance, if available, or by reducing projected surpluses. Apart from salaries and wages, there are also a range

⁸³² Hon J. Brumby, MP, Treasurer's response, received 18 June 2003, to the Committee's follow-up questions, Attachment 1

⁸³³ *ibid.*

⁸³⁴ Hon J. Brumby, MP, transcript of evidence, 14 May 2003, p.58

of other major costs, such as leases on buildings and equipment, which Departments have limited control over.

Another major factor is the heavy reliance certain Departments, especially the Department of Human Services, place on funded non-government agencies to provide services. Wage increases in these privately run agencies arising from Federal Industrial Relations Commission decisions would also need to be met within the fixed budgets of Departments.

The Committee is concerned that this proposed new arrangement may present particular difficulties for those Departments that have little discretionary funding or limited opportunities to make savings.

Recommendation 67:

In implementing the new departmental funding arrangements, the Government ensure that full recognition is given to cost increases, especially salaries and wages, over which Departments have no control and provide adequate contingency funding in future budgets for such purposes.

12.6 Finance portfolio

12.6.1 2003-04 outlook for the portfolio

Tasks to be undertaken within the Department of Treasury and Finance that are specific to the responsibility of the Minister for Finance during 2003-04 include:⁸³⁵

- progressing the introduction of electronic commerce for procurement across all Departments;
- establishing the Essential Services Commission as the economic regulator of the water industry;

⁸³⁵ Department of Treasury and Finance, response to the Committee's 2003-04 Budget Estimates Questionnaire, pp.2-3

- resolving a range of issues involving public liability insurance, builders warranty insurance, professional indemnity and insurance against acts of terrorism;
- developing financial guidelines for Departments as to the correct accounting treatment for private-public partnership arrangements; and
- ensuring the Government's resource management framework supports the achievement of 'Growing Victoria Together' outcomes, including the development of 'triple bottom line' reporting.

12.6.2 Analysis of the portfolio budget

Exhibit 12.6:

Finance portfolio Output Costs

Output Group	Outputs under the responsibility of the Minister for Finance	2003-04 Output Cost (\$ million)
Strategic Policy Advice	Financial Management Regulation and Compliance	3.5
	Economic, Regulatory, Environmental and Social Policy Advice*	4.6
	Budget Formulation Advice*	4.0
	Statutory Insurance Advice+	8.3
Financial Management Services	Financial Reporting and Control	7.7
	Budget Development and Production*	5.6
	Portfolio Performance Review	4.5
Reform Services	Resource Management Reform	1.4
Regulatory Services	Economic Regulatory Services	13.0
Resource Management Services	Procurement Services	4.2
	Government Accommodation Services	32.5
	Government Land and Property Services	5.6
	Management of Motor Vehicle Leases	2.2
Total		97.1

Note: * Shared responsibility with the Treasurer

+ Shared responsibility with the Minister for WorkCover

Source: Department of Treasury and Finance, response to the Committee's 2003-04 Budget Estimates Questionnaire, p.1; and Budget Paper No.3, 2003-04 Budget Estimates, pp.352-73

The 2003-04 budget for the output groups for which the Minister for Finance is either fully or partly responsible for is \$105.9 million, a reduction of \$12.4 million by comparison with the 2002-03 revised budget

of \$118.3 million.⁸³⁶ The main reason for the reduction was the elimination of around \$10.3 million from the Resource Services output group on account of maintenance and security costs associated with government accommodation that were previously recorded as an expense within this output group, now being recorded in the financial statements of the Departments occupying the accommodation.⁸³⁷

The Minister for Finance has responsibility or joint responsibility for output costs totalling \$97.1 million as detailed above in Exhibit 12.6.

12.6.3 *Key issues impacting on the portfolio*

The Department's response to the Committee's questionnaire and the estimates hearing identified several issues that will impact upon the portfolio and the budget estimates for 2003-04.

(a) *Superannuation policy*

The Minister for Finance is responsible for public sector superannuation policy. Victoria's major public sector superannuation schemes are the State Superannuation Fund and the Emergency Services Superannuation Scheme. The State's unfunded superannuation liability is the largest liability of the State and was \$12.8 billion at 30 June 2002, increasing to an estimated \$13.6 billion at 30 June 2003. For 2003-04, the liability is expected to further increase to \$14.1 billion and is projected to peak at \$15.8 billion in 2009-10.⁸³⁸ The Committee notes that these figures are substantially more than earlier budget estimates. For example, in the Budget Statement for 2001-02, the 2003-04 estimate was \$12.7 billion, some \$1.4 billion less than the current estimate for 2003-04.⁸³⁹ Similarly, the Budget Statement estimate in 2001-02 for the 2005 year was \$12.8 billion, as compared to the latest estimate of \$14.9 billion, a difference of \$2.1 billion.⁸⁴⁰

The reasons for the unexpected increase in the unfunded superannuation liability include:

⁸³⁶ Department of Treasury and Finance, response to the Committee's 2003-04 Budget Estimates Questionnaire, p.1; and Budget Paper No.3, 2003-04 Budget Estimates, pp.352-75

⁸³⁷ Budget Paper No.3, 2003-04 Budget Estimates, p.373

⁸³⁸ Budget Paper No.2, 2003-04 Budget Statement, p.120

⁸³⁹ Budget Paper No.2, 2001-02 Budget Statement, p.207

⁸⁴⁰ *ibid.*

- weak equity investment markets which means that low investment returns require a higher government contribution to meet future defined benefits;
- public servants favouring indexed pensions due to low returns available on lump sums;
- a higher number of public servants than previously envisaged, who are members of the defined benefit schemes, retiring early or accepting voluntary departure packages which allow for superannuation pensions to be deferred to age 55. These factors coupled with increasing life expectancy, results in indexed pensions becoming payable over longer periods;
- given that pensions payable under defined benefit schemes are based on a fixed percentage of the public servant's final salary, any salary increases up to retirement result in higher future pensions. The actuarial assessments assume a weighted average rate of salary increases, excluding promotions, of 4 per cent per annum. Increases beyond this level which have occurred in certain areas of the public sector can have a significant impact on the unfunded liability; and
- as pensions are indexed to the CPI, higher than expected inflation beyond a long term assumed inflation rate of 3 per cent per annum, will increase pensions payable in the future, adding to the liability.

As a result of the various factors influencing the unfunded liability, the superannuation expense for 2002-03 was revised upward by \$1,089 million, from the budget estimate of \$1,713 million to a revised estimate of \$2,802 million.⁸⁴¹ The Minister for Finance provided the Committee with the following reasons for the \$1.1 billion increase which had a substantial impact on the anticipated operating surplus of the State's budget sector:⁸⁴²

As outlined in Exhibit 12.7, any downturn in earnings from superannuation fund investments translates into an additional expense for the Government in order to adjust the unfunded liability in line with annual actuarial estimates. This adjustment is an accrual accounting entry and is in addition to annual payments by the Government into the

⁸⁴¹ Budget Paper No.2, 2002-03 Budget Statement, p.30; and Budget Paper No.2, 2003-04 Budget Statement, p.32

⁸⁴² Minister for Finance's response, received 27 June 2003, to the Committee's follow-up questions, p.1

superannuation funds. The cash equivalent of the accrual entry which is held in the consolidated fund is applied towards asset investment.⁸⁴³

Exhibit 12.7:

Increase in budgeted superannuation expense for 2002-03

Reasons	Value (\$ million)
Lower than expected investment returns on superannuation fund assets in 2002-03 due to weak global investment markets	917
Revaluation of tax credits available to public sector schemes	135
Adjustment to unfunded liability balance	22
Other (including higher than expected expenses in relation to Parliamentary Contributory Superannuation Scheme)	15
Total	1,089

Source: Minister for Finance's response, received 27 June 2003, to the Committee's follow-up questions, p.1

To eliminate the unfunded superannuation liability the Government has to contribute extra money to the State Superannuation Fund and/or increase the contribution of existing members to the Fund. Under Federal legislation, future benefits payable from the Funds cannot be reduced.

In 2000, the Government acknowledged its responsibility to eventually eliminate this very large burden on future taxpayers and adopted a framework involving annual payments to the State Superannuation Fund that would eliminate the unfunded liability by 2035. However, the Minister for Finance advised the Committee that the schedule of repayments was based on actuarial advice that the State Superannuation Fund would earn an average return of 7 per cent per annum over the 35 year period through to 2035.⁸⁴⁴ This did not occur in 2001-02 as the State Superannuation Fund incurred negative returns in most asset classes that year. This situation has not markedly improved in 2002-03, with a positive investment return of only 0.03 per cent projected, which will also add to the unfunded liability above what is already projected based on average returns of 7 per cent per annum.

The budget estimates for 2003-04 provide for a surplus of \$245 million. The 2003-04 estimates also provide for a superannuation expense of \$1,951 million as compared to the actual of \$2,802 million in 2002-03.⁸⁴⁵ The investment returns of the State Superannuation Fund for 2003-04 will

⁸⁴³ Budget Paper No.2, 2003-04 Budget Statement, p.12

⁸⁴⁴ Hon J. Lenders, MLC, Minister for Finance, transcript of evidence, 15 May 2003, p.145

⁸⁴⁵ Budget Paper No.2, 2003-04 Budget Statement, p.32

ultimately determine the superannuation expense and the impact on the surplus.

The Treasurer also advised the Committee that unfunded superannuation liabilities were expected to start falling from 2005-06, although the forward budget estimates through to 2006-07 did not indicate this would occur.⁸⁴⁶

The Minister for Finance acknowledged the current poor investment market conditions but maintained that actuarial advice still supported the assumption that a 7 per cent return per annum was achievable in the longer term and the debt would be extinguished in 2035 based on the existing level of annual payments by the Government.⁸⁴⁷

The Government Superannuation Office in June 2003 advised superannuation beneficiaries that it was hard to predict investment returns in the short term due to existing market volatility, but given existing low inflation and low interest rates investment returns are likely to remain modest in the immediate future.⁸⁴⁸ Moody's Investors Service in May 2003 acknowledged that the State still expected to fully fund the superannuation scheme by 2035 based on assumptions on investment returns in the future, but further stated 'increased contributions will also likely be necessary.'⁸⁴⁹

The Committee has concerns as to whether the repayment schedule committed to by the Government in 2000 will ultimately achieve the Government's objective of extinguishing the unfunded superannuation liability by 2035 without increasing contributions. The Committee also acknowledges that in view of the modest budget surpluses forecast any attempt to increase government contributions to the State Superannuation Fund will limit expenditure options for new output initiatives.

⁸⁴⁶ *ibid.*, p.121

⁸⁴⁷ Hon J. Lenders, MLC, Minister for Finance, transcript of evidence, 15 May 2003, p.145

⁸⁴⁸ GSO news, June 2003, p.1

⁸⁴⁹ Treasurer's response, received 18 June 2003, to the Committee's follow-up questions, Attachment – Moody's Investors Service Analysis, May 2003, p.3

Recommendation 68:

After the investment returns achieved by the State Superannuation Fund for 2002-03 are published, the Government review its strategy for achieving the 2035 full funding target.

(b) *Public sector financial reporting*

Part of the responsibilities of the Minister for Finance involve promoting sound financial management practices in the Victorian Public Sector and the provision of advice on whole of government reporting. Two significant issues are currently being considered within the portfolio in relation to financial reporting, namely triple bottom line reporting and the adoption of international accounting standards. At the estimates hearing, the Minister briefed the Committee on the progress in implementing these initiatives.

(i) *Adoption of International Accounting Standards*

The development and maintenance of Accounting Standards which reflect internationally agreed minimum benchmarks of best practice in public sector reporting can lead to the enhancement of the quality, transparency and consistency of financial reporting by public sector entities and governments.

The Minister for Finance advised the Committee that International Accounting Standards Board based accounting standards are to apply to all preparers of general purpose financial reports, including the Victorian Government and public sector entities, for financial periods commencing after 1 January 2005.⁸⁵⁰

The Victorian Government is commencing a project to identify differences between current accounting practices and those to be required under International Accounting Standards as part of the preparation for the adoption of the Standards.⁸⁵¹

⁸⁵⁰ Minister for Finance's response, received 27 June 2003, to the Committee's follow-up questions, p.4

⁸⁵¹ *ibid.*

(ii) *Triple Bottom Line Reporting*

There is growing recognition that financial reporting is only one of the components available to assess the performance of public sector entities. Entities must also consider their social and environmental performance in addition to their economic performance. Although measurement of economic and financial performance can be achieved through the application of Accounting Standards, similar standards are not yet available to measure environmental and social justice performance.

The Minister for Finance advised the Committee that, in September 2002, Cabinet approved the implementation of an Environmental Management System (EMS) whereby Departments from 2003-04 will be required to include in their annual reports information about their performance in relation to energy use, waste production, paper use, water consumption, transportation and how purchasing activities are environmentally responsible. All Departments are required by November 2003 to provide to Department of Treasury and Finance the performance data collected to date along with proposed targets and other relevant performance information.⁸⁵²

The Committee recognises that the EMS framework is a new initiative that will ultimately be refined depending on the level and quality of performance data received. The Committee also anticipates that with further modifications to the framework, consistency in reporting of environmental performance across all Government Departments will be achieved.

The Committee welcomes the initiatives underway within the Department of Treasury and Finance to provide leadership in the public sector on the introduction of triple bottom line reporting and the harmonisation of International Accounting Standards.

(c) *Performance measurement*

The Victorian Management and Reporting Framework is designed to improve public sector accountability by aligning available resources to the Government with the Government's environmental, social and economic objectives. The framework relies extensively on the

⁸⁵² *ibid.*

development of performance measures that link desired Government policy outcomes with departmental outputs and targets.

In past reports of the Committee considerable comment has been made on the inadequacy of many performance measures utilised by Departments, which were predominantly focused on throughputs as distinct from measurement of outcomes. The Committee's views have been reinforced by the Auditor-General. In the Auditor-General's April 2003 *Report on Performance Management and Reporting*, the Auditor-General advised that despite his mandate to audit the performance measures of public sector entities as published in their annual reports, further progress was required in the development of performance information contained within the framework before the VAGO could undertake a full audit examination.⁸⁵³

The Audit Report also drew attention to the absence of any Directions of the Minister for Finance under the *Financial Management Act 1994* requiring public sector entities to include their objectives and related performance measures in their annual reports.⁸⁵⁴ As a matter of good practice some Departments do include this information in their annual reports, although such a practice is not uniform and as referred to in various estimates reports of the Committee, considerable disparities exist as to the quality of performance information presented.

Some performance information is included under the respective outputs of the individual Departments in the Budget Papers. This information, if it is meaningful, relevant and credible, can be very useful to the Committee and Members of Parliament in analysing current budget allocations in the light of estimated performance against targets in the previous year and in seeking explanations for major variations.

The importance of providing relevant and useful performance information has been recognised in other jurisdictions in Australia. For example, in Western Australia the Treasurer has issued detailed directions to all Departments on the need to include meaningful performance measures in annual reports and in the Budget Papers.

The Minister for Finance advised the Committee that his role is to set and monitor the Financial Management Compliance Framework, inclusive of

⁸⁵³ Victorian Auditor-General's Office, *Report on Performance Management and Reporting*, April 2003, p.vii

⁸⁵⁴ *ibid.*, p.25

relevant legislation and Directions, for all Victorian Departments and public sector entities. The Minister further advised that his responsibility through the directions was to require that 'reporting happens' and 'not to monitor how the reporting goes'.⁸⁵⁵ Comment on the adequacy of performance measures was seen as the responsibility of the Committee and the Auditor-General.⁸⁵⁶

The Auditor-General recommended in his report that the Ministerial Directions be amended to require comprehensive *ex-ante* and *post-ante* reporting of key performance indicators against agency objectives and government outcomes.⁸⁵⁷ The Committee supports this recommendation and, if implemented, could be regularly monitored by the Department of Treasury and Finance in line with the recently developed Financial Management Compliance framework. The framework is intended to provide a mechanism through which the Government will monitor and review the compliance of Departments with the Ministerial Directions and financial reporting requirements.

Recommendation 69:

The Minister for Finance:

- (a) issue to public sector agencies a Direction on the level and nature of performance measurement required to complement the Government's Performance Management and Reporting Framework; and**
- (b) ensure consistency of performance information is included in the Budget Papers and the annual reports of Departments.**

(d) *Government Accommodation strategy*

The Department of Treasury and Finance's Victorian Property Group provides property, office accommodation and facilities management services for Victorian Government entities. Under the Government's

⁸⁵⁵ Hon J. Lenders, MLC, Minister for Finance, transcript of evidence, 15 May 2003, p.159

⁸⁵⁶ *ibid.*

⁸⁵⁷ Victorian Auditor-General's Office, *Report on the Performance Management and Reporting*, April 2003, p.29

Accommodation Policy Departments and entities should utilise vacant or under utilised public sector owned or leased office space to minimise dead rent wherever it is cost effective and appropriate. In addition, new lease commitments for office accommodation should be minimised and reflect the current and future service needs of Government.⁸⁵⁸

A major initiative of the Government has been the progressive implementation of the City Precinct Strategic Plan designed to rationalise and consolidate departmental office accommodation in Melbourne's Central Business District (CBD). The plan, which had incurred expenditure of \$94 million up until 30 June 2002, involved the fit-out and refurbishment of key government owned buildings, leasing minimum new office space and the identification of surplus/redundant properties for disposal. Rental savings estimated at \$27 million per annum have been achieved from the strategy.⁸⁵⁹

The Minister advised the Committee that the Government's strategy is to relocate Departments currently located at the western end of the CBD in various buildings to the eastern CBD, where accommodation will be consolidated in two major locations, namely:⁸⁶⁰

(i) *Former Southern Cross Hotel Site*

The 2003-04 budget allocated \$50 million over a five year period for the fit-out of a new building to be constructed on the site, with a completion date of 2006-07. The building will provide accommodation for the Departments of Innovation, Industry and Regional Development, Justice and Treasury (State Revenue Office). The rationale behind the progressive funding of fit-out costs associated with partitioning and cabling during building construction is that it provides better value to taxpayers as compared with undertaking such works on completion of the building.⁸⁶¹

(ii) *Casselden place*

The Department of Human Services will eventually be relocated from an existing five locations in the western CBD to 50,000 square metres leased

⁸⁵⁸ Victorian Government Property Group, *Office Accommodation Guidelines*, 2001, p.7

⁸⁵⁹ *ibid.*, p.3

⁸⁶⁰ Hon J. Lenders, MLC, Minister for Finance, transcript of evidence, 15 May 2003, p.142-143

⁸⁶¹ *ibid.*, p.142, 160-161

in an existing building in Casselden Place, close to Parliament House in Spring Street, Melbourne.

The Government considers that these projects, although involving leased premises, will bring about overall savings and productivity improvements, particularly in terms of reducing travel between locations. As the buildings will be energy efficient, further savings are to be obtained from reduced outgoings, such as electricity, heating and cleaning costs.⁸⁶²

The Minister provided the Committee with the following information (Exhibit 12.8) on properties owned or leased by the State Government in the CBD:⁸⁶³

Exhibit 12.8:

**State government properties in Melbourne
Central business district**

Category	No. of properties (no.)	Total lease area (m2)	Total area (%)	Total rental (\$ per annum)
Owed	13	81,876	23.5	20,714,659
Leased/Part leased	29	266,913	76.5	81,524,225
Total	42	348,789	100.0	102,238,884

Source: Minister for Finance's response, received 27 June 2003, to the Committee's follow-up questions, Attachment 1

The above table excludes government owned buildings in the Treasury Reserve, East Melbourne, which is not deemed to be part of the Melbourne CBD. Apart from the 42 properties owned or leased in the Melbourne CBD there are approximately another 60 premises providing government accommodation in suburban Melbourne and regional centres.⁸⁶⁴

The Minister for Finance is responsible for the output group – Government Accommodation Services - within this portfolio. The budget for this output is \$32.5 million in 2003-04. The Minister advised the Committee that the cost of the output only reflected costs associated with properties managed directly by the Department of Treasury and Finance. Where properties are occupied totally by a government agency, all costs

⁸⁶² *ibid.*, pp.142-143

⁸⁶³ Minister for Finance's response, received 27 June 2003, to the Committee's follow-up questions, p.1

⁸⁶⁴ Victorian Government Property Group, Office Accommodation Guidelines 2001, p.11

associated with the building are reflected in the output costs of that particular agency and are not identifiable in the budget papers. The cost of electorate offices for Members of Parliament is included in the output costs of the Joint Services Department within Parliament.⁸⁶⁵

As can be seen from Exhibit 12.8 rental costs alone within the CBD exceed \$100 million. It was not practical for the Committee to determine the overall cost to the State of providing accommodation for all Departments and entities, nor was it feasible to analyse the respective costs associated with Government owned properties versus leasing of properties.

Given that accommodation is a major expense for the Government and current policy is directed towards achieving cost savings from the consolidation of accommodation and minimising new lease commitments, the extent to which this is being achieved could be recorded in future Budget Papers under the Department of Treasury and Finance. Performance information on the cost of Government accommodation would assist readers of the Budget Papers in determining whether the government is achieving a key outcome described in the Budget Estimates as maximising value in purchasing decisions, accommodation needs and property management.

Recommendation 70:

To enable Parliament to evaluate the total cost of rental accommodation, as compared with the capital costs involved in owning accommodation, consolidated information on all Government accommodation costs within the budget sector be included in the Budget Papers, along with relevant performance measures and targets.

⁸⁶⁵ Hon J. Lenders, MLC, Minister for Finance, transcript of evidence, 15 May 2003, pp.159-160

12.7 WorkCover portfolio

12.7.1 2003-04 outlook for the portfolio

Tasks to be undertaken within the Department of Treasury and Finance that are specific to the responsibility of the Minister for WorkCover during 2003-04 include:⁸⁶⁶

- quarterly monitoring of the financial and performance reports of the Victorian WorkCover Authority and the Transport Accident Commission. Both of these Authorities have been recording profits from insurance operations but have been recording overall deficits due to investment markets producing returns well below long term expectations;
- implementing the first stage of a simplified WorkCover premium process intended to provide employers with a greater choice of premium options based on factors such as improvements in workplaces and rewarding health and safety improvements; and
- providing strategic policy advice to the Government on general insurance issues impacting on Victorians.

12.7.2 Analysis of the portfolio budget

The Minister for WorkCover is jointly responsible for the Statutory Insurance Advice output within the Department's Strategic Policy Advice output group. The budget for the output was \$4 million in 2003-04, representing a marginal increase of \$300,000 on the estimated actual for 2002-03.

12.7.3 Key issues impacting on the portfolio

The Department's response to the Committee's questionnaire and the estimates hearing identified several issues that will impact upon the portfolio and the Budget Estimates for 2003-04:

⁸⁶⁶ Hon R. Hulls, MP, Minister for Workcover, transcript of evidence, 30 May 2003, p.448

(a) Victorian WorkCover Authority Financial Status

The Victorian WorkCover Authority recorded a \$98 million loss for the year ended 30 June 2002.⁸⁶⁷ At the time of preparing this report, the final year results for 2002-03 were not available as the results were dependent on an actuarial assessment of the Authority's outstanding claims liability at that date in conjunction with determining the return on investments for the year.

The latest available financial results were for the half year ended 31 December 2002. To that date, a \$338 million profit on insurance operations was achieved, but was offset by ongoing poor performance of investments resulting in a net loss of \$253 million for the six month period.⁸⁶⁸ In addition, unfunded claims liabilities increased by \$253 million to \$1,034 million, as compared to \$781 million at 30 June 2002, representing around 17 per cent of the total outstanding claims liability of \$6.13 billion at 31 December 2002, as illustrated in Exhibit 12.9. An unfunded liability represents the extent to which total liabilities exceed net assets.

Exhibit 12.9:

**Victorian WorkCover Fund Valuation Results
as at 31 December 2002**

	Dec 2002 (\$ million)	Jun 2002 (\$ million)
Gross Outstanding Claims Liability	6,302	5,901
Less Recoveries	-172	-120
Net Outstanding Claims Liabilities ^(a)	6,130	5,781
Less Net Assets ^(b)	5,096	5,000
Deficit	-1,034	-781
Funding Ratio ^(c)	83%	87%

Notes: (a) Net outstanding claims liability is gross outstanding claims liability less estimated recoveries

(b) Net assets are total assets less all liabilities other than outstanding claims liabilities

(c) Funding ratio as a percentage is calculated as: (Net Assets/Net Liabilities) x 100

Source: Victorian WorkCover Authority, 6 month report to 31 December 2002, Attachment 3

The relevance of the above information is that an actuarial projection in December 2002 stated that the WorkCover scheme would be fully funded

⁸⁶⁷ Victorian Workcover Authority, 2002 Annual Report, p.38

⁸⁶⁸ Victorian Workcover Authority, statement of financial performance for half-year ended 31 December 2002, Attachment 1

by June 2006. Obviously to achieve this outcome, the insurance operations will need to remain profitable, in conjunction with a return to positive investment returns and higher interest rates. If these key factors do not occur, it will be difficult to achieve the objective of full funding of the scheme by the target date.

The Minister advised the Committee that the Victorian WorkCover Authority has set an investment return objective of at least 4 per cent per annum in excess of wage inflation (3 per cent) over the next 5 years.⁸⁶⁹ The Committee notes that in 2001-02 the Authority's investment portfolio returned a negative growth of 4 per cent, which was better than the median return of Australian superannuation funds of a negative 4.9 per cent.⁸⁷⁰ The Committee acknowledges that investment strategies are designed to achieve positive returns over a long term period to meet the liabilities of the Authority and that short term losses can occur. The investment strategy of the Authority assumes that investment returns will be negative at least once every four to five years. However, the Committee is concerned that, in contrast to past experience, there could be negative investment returns in 2002-03 for the second consecutive year, leaving in question whether the projected average 7 per cent return projected over the next five years is realistic.

The Victorian WorkCover Authority advised the Committee that based on an actuarial valuation in December 2002, the break-even premium for the Victorian WorkCover Authority in Victoria is 1.9 per cent of payroll costs, as compared to current premium rates of an average of 2.22 per cent across all businesses. The Minister advised the Committee that the additional premiums were necessary, in effect, to recoup past losses.⁸⁷¹

The Minister further advised that the 2.22 per cent was an average across all businesses. Premiums for small businesses with a payroll below \$1 million will continue to have no change in their WorkCover premiums in 2003-04 in line with the Government's 2002-03 Building Tomorrow's Businesses Today policy. The Minister acknowledged that lower premiums charged to the majority of employers will be offset against premiums charged to other employers with a claims history.⁸⁷²

⁸⁶⁹ Hon R. Hulls, MP, Minister for Workcover, transcript of evidence, 30 May 2003, p.456

⁸⁷⁰ Victorian WorkCover Authority, 2002 Annual Report, p.7

⁸⁷¹ Hon R. Hulls, MP, Minister for WorkCover, transcript of evidence, 30 May 2003, p.456

⁸⁷² Minister for WorkCover's response, received 16 July 2003, to the Committee's follow-up questions, p.5

As part of the Authority's efforts to reduce claims and encourage the early return to work of injured workers, some of the initiatives to be introduced or are continuing in 2003-04 include:⁸⁷³

- addressing through intensive promotion and educational activities the very high incidence of farm related injuries and fatalities. The vast majority of these incidents involve self employed farmers as distinct from farm employees. Consequently, for example, of the 11 farm fatalities recorded between 1 July 2002 and 30 April 2003, only one claim involving an employee was received by the Authority. Nevertheless farm environments are high risk workplaces incurring high WorkCover premiums. Over 37 per cent of all fatalities reported to WorkSafe Victoria between 1 January 2001 and 30 April 2003 involved farming operations;
- ongoing application of a new common law claims management process introduced in July 2002. Of the 107 common law claims received by the Authority since the reintroduction of common law rights in October 1999, only three cases have been finalised at 2 June 2003. A further 58 matters were not determined, 38 matters were before a Court and 11 applicants had been granted a serious injury certificate. The extent of the potential liability for these claims could not be determined. The Minister advised the Committee that the new approach to processing common law claims demonstrated that they could be managed.⁸⁷⁴ As very few common law claims have been settled by WorkCover to date, this area will be further monitored by the Committee in future years;
- in 2001, there were 34 deaths and 2,874 hospitalised injury claims reported to WorkSafe. Equivalent figures for 2002 were 33 deaths and 2,602 hospitalised injury claims. The key features of the strategy adopted by WorkSafe to address work related deaths and serious injury are:⁸⁷⁵
 - implementing industry programs to address major risk factors such as forklifts, tractors, all-terrain vehicles, older farmers, workplace chemicals, asbestos and falls from heights. New

⁸⁷³ Hon R. Hulls, MP, Minister for Workcover, transcript of evidence, 30 May 2003, p.453

⁸⁷⁴ Minister for WorkCover's response, received 16 July 2003, to the Committee's follow-up questions, pp.3-4

⁸⁷⁵ *ibid.*, p.4

projects will be developed in 2003-04, including attempts to prevent disease-related deaths occurring from workplaces;

- working with other agencies such as the State Coroner's Office and community organisations to reduce workplace deaths which were seen as preventable;
- the development of new legislation and codes of practice to address key risk factors for work-related deaths;
- obtaining more workplace data on deaths and serious injuries and sharing the outcomes from the data with stakeholders and the broader community; and
- more effective management of weekly compensation benefits, particularly in respect of first year recipients, impairment benefits, encouraging the early return to work, long term recipients of benefits and an increased focus on medical liabilities.

The Minister advised the Committee that the incidence of work related stress claims, including those in the public sector, has increased. The upward trend in stress claims was also being experienced in other States, such as Queensland and New South Wales. In response, a range of WorkSafe strategies have been introduced to address stress-related claims, particularly in the budget sector.⁸⁷⁶

In summary, the Committee acknowledges the complexity of the issues facing the Victorian WorkCover Authority in maintaining its financial position in the light of poor investment returns and an increase in both the total claims liability and the unfunded portion of that liability. Recognition is also made of the ongoing efforts of the Authority, as referred to above, in focusing on accident prevention and more effective claims management. The challenge for the Authority, in conjunction with the Department of Treasury and Finance, is to further improve its overall financial position which indicated deterioration in the latest available results for the period to 31 December 2002.

⁸⁷⁶ *ibid.*, p.7

(b) Workplace inspection program

The Minister informed the Committee that preliminary data at 1 July 2003 disclosed that around 14,844 improvement notices and directions, excluding late reports, had been issued in 2002-03 arising from WorkSafe workplace inspections. Up until that date 323 notices and directions had not been complied with, although for some employers the time period for improvements to occur had not elapsed. WorkSafe Victoria undertook 217 prosecutions during 2002-03.⁸⁷⁷

Further advice was provided to the Committee that WorkSafe's approach to improving workplace health and safety involves a combination of inspection of workplaces, targeting of high risk industries for improved practices, provision of support to both employers and employees to understand their roles under Occupational Health and Safety legislation and assisting the Government in making, updating and implementing new and existing laws and regulations.⁸⁷⁸

The Minister advised that there are over 200,000 workplaces in Victoria that are potentially subject to inspection by WorkSafe. Inspections are undertaken as a result of notifications by employees or other persons in conjunction with the targeting of certain workplaces.⁸⁷⁹ The extent to which inspections occurred during 2002-03 was not provided to the Committee, although the Committee is aware that additional inspectors have been appointed over recent years partly in recognition that self regulation of health and safety standards by employers does not always work.

Although around 15,000 notices and directions about improvements deemed necessary in workplaces were issued in 2002-03,⁸⁸⁰ considerable more work needs to be done to make employers aware of their health and safety obligations for their staff. The Committee acknowledges the efforts made by WorkSafe to upgrade its inspection program by employing more inspectors and this is obviously resulting in more breaches of legislative requirements being detected.

⁸⁷⁷ Minister for WorkCover's response, received 16 July 2003, to the Committee's follow-up questions, p.8

⁸⁷⁸ *ibid.*

⁸⁷⁹ *ibid.*

⁸⁸⁰ *ibid.*

Recommendation 71:

The Department of Treasury and Finance, in conjunction with WorkSafe and the Victorian WorkCover Authority, develop further strategies aimed at making employers more aware of their responsibilities for providing a safe workplace for their employees, in conjunction with communicating to employees the need to observe safe work practices.

Chapter 13: Department for Victorian Communities

Key findings of the Committee:

- 13.1 The Department for Victorian Communities aims to create active, confident and resilient communities through partnerships and co-operation with local government, community organisations and business.
- 13.2 Funding for the Sport, Recreation and Commonwealth Games output group in 2003–04 is approximately \$159 million, representing a \$62.7 million (or 65.1 per cent) increase on the 2002–03 funding. The increase is for the increased costs associated with the Commonwealth Games initiatives.
- 13.3 Funds allocated from the Community Support Fund have increased significantly, up from approximately \$70 million in 1996–97 to almost \$188 million estimated for 2003–04. Just under half of 2003–04 monies from the fund (approximately \$78 million) are for the implementation of the Government's election commitments.
- 13.4 Smoking bans in gaming venues had an impact on the revenue that the Community Support Fund received in 2002–03, which was approximately \$20 million lower than projected.
- 13.5 The Department for Victorian Communities needs to develop appropriate performance measures and targets that will allow monitoring of the effectiveness and progressive implementation of initiatives to streamline and simplify access to the present myriad of grants programs.
- 13.6 A priority for the Department for Victorian Communities is the review of approximately 190 performance measures inherited from other Departments.

- 13.7 While the budgeted cost of employment-related outputs has declined by approximately \$28.7 million since 2000-01, efficiency savings from reforms to employment programs are projected to equal another \$42.1 million during the period 2003–07. The effect of these reforms on clients' future access to services is unclear.
- 13.8 The Government aims to boost Victoria's share of skilled and business migrants to 25 per cent by 2006–07.
- 13.9 The Department for Victorian Communities needs to establish appropriate accountability arrangements to ensure the effective implementation of the Work, Family, Community Life Balance Strategy, the Women's Safety Strategy and the Queen Victoria Women's Centre Strategy.
- 13.10 The Department for Victorian Communities has implemented initiatives to strengthen the asset management capability of the local government sector.
- 13.11 The Department for Victorian Communities will provide whole of games financial reports, which will provide a more complete understanding of the Government's total expenditure for the Commonwealth Games.
- 13.12 There are few performance targets for the Commonwealth Games portfolio. The current measures should be increased to improve accountability for the \$697 million of State Government contributions towards the staging of the Commonwealth Games.
- 13.13 The Department for Victorian Communities is confident that all integral projects will be completed in time for the Commonwealth Games, but there have been delays in the commencement and progress of projects.

Departmental review

13.1 Departmental overview

This new Department was created through machinery of government changes announced in December 2002. It supports eight ministerial portfolios: Victorian Communities; Employment and Youth Affairs; Multicultural Affairs; Women's Affairs; Aboriginal Affairs; Local Government; Sport and Recreation; and the Commonwealth Games.

13.1.1 *Key challenges for the Department in 2003–04*

The key challenges and strategic issues that have influenced the development of the Department's estimates for 2003–04 include:

- planning for the 2006 Commonwealth Games;
- increasing participation in sporting activities through initiatives that will increase access to, and strengthen the capacity of, sporting organisations. These initiatives will include the upgrading or establishing of State, regional and suburban sporting facilities;
- increasing participation and engagement in cultural and social activities through initiatives that encourage people to become more involved in their community;
- creating and improving partnerships among Departments, local government, businesses and community organisations;
- reviewing the Department's existing performance measures and developing a simpler, more outcomes focused set of measures that reflect the broader objectives of Government; and
- establishing governance arrangements for the Department's financial and administrative operations, including delivering corporate services through a shared service delivery.

13.1.2 *Performance measures*

The Department advised it had inherited 190 performance measures associated with the objectives, programs and outputs of former source

Departments. For 2003–04, the Department has consolidated the output structure as an interim measure and is developing outcome indicators that reflect its objectives and focus, for implementation in 2004–05. The Committee will review the Department's performance measures in the next Budget estimates report.

13.2 Output management framework

The Department for Victorian Communities has three output groups and provides support to eight portfolios. Although there are many Ministers, their responsibilities are clearly aligned with specific outputs as shown in Exhibit 13.1

Exhibit 13.1:

Ministerial Responsibilities

Output Group	Outputs	Portfolio
Supporting Local Government	Local Government Development Sector	Local Government
Sport, Recreation and the Commonwealth Games	Sport and Recreation Sector Development	Sport and Recreation
	Commonwealth Games	Commonwealth Games
People, Community Building & Information Services	Employment Programs Youth Programs	Youth Affairs
	Community Building Information Services	Victorian Communities
	Indigenous Community and Cultural Development	Aboriginal Affairs
	Women's Policy	Women's Affairs
	Multicultural Affairs	Multicultural Affairs

Source: Department for Victorian Communities, response to the Committee's Budget Estimates Questionnaire, p.3

13.3 Budget summary

Exhibit 13.2 shows the Department's budgeted and revised output group expenditure for 2002–03 and its estimates for 2003–04. The Committee was advised that the 2002–03 figures reflect a half year budget for the Department from 1 January 2003. The Committee was also advised that the 2002–03 budget figures corresponding to the Sport, Recreation and the Commonwealth Games output group are for the full year (although

not explicitly stated in Budget Paper No.3).⁸⁸¹ Given the status of the remaining output groups, the 2003-04 estimate therefore represents the first full year budget figure for the Department since its establishment.

Exhibit 13.2:

Department for Victorian Communities Output Costs

	Column 1	Column 2	Column 3	Column 3-2
Output Group	2002-03 Adjusted^(a) (\$ million)	2002-03 Revised (\$ million)	2003-04 Budget^(c) (\$ million)	Variation (%)
Supporting Local Government	9.3	9.3	33.0	n/a
Sport, Recreation and the Commonwealth Games	96.3	96.3	159.0 ^(b)	65.1
People, Community Building and Information Services	87.5	87.5	166.6	n/a
Total	193.1	193.1	358.6	n/a

- Notes: (a) Reflects the six month impact of the machinery of government changes and is not directly comparable to the 2003-04 budget
- (b) This figure includes \$760,000 in corporate costs which was omitted from the amount published in Budget Paper No.3, 2003-04 Budget Estimates, and has been added back to reflect the full cost of this output group in 2003-04
- (c) The total estimated output cost for 2003-04 is lower than the total in the Statement of Financial Performance because the output costs include appropriation plus the net movement in trust fund balances while the Statement of Financial Performance reflects all revenue and expense transactions.
- n/a Not applicable

Sources: Budget Paper No.3, 2003-04 Budget Estimates, p.397; and Department for Victorian Communities, response to the Committee's 2003-04 Budget Estimates Questionnaire, p.27

Due to machinery of government changes, a meaningful comparison of the overall departmental allocation for 2002-03 (\$193.1 million) and 2003-04 (\$358.6 million) is not possible. For the Sport, Recreation and the Commonwealth Games output group, however, for which comparable figures are available, Exhibit 13.2 shows a \$62.7 million (or 65.1 per cent) increase in funding from the 2002-03 level. The Committee noted that most of the increase relates to the increased costs of the Commonwealth Games output and the planned commencement of new initiatives.

13.3.1 Financial analysis

Exhibit 13.3 shows the Department's Statement of Financial Performance.

⁸⁸¹ Department for Victorian Communities, correspondence received 15 July 2003, in response to the Committee's follow-up questions

Exhibit 13.3:

**Department for Victorian Communities
Statement of Financial Performance**

	Column 1	Column 2	Column 3	Column 4	Column 4-3
	2002–03 Budget^(a)	2002–03 Adjusted^(b)	2002–03 Revised	2003–04 Budget	Variation
	(\$ million)	(\$ million)	(\$ million)	(\$ million)	(%)
<i>Controlled items</i>					
Operating revenue	-	356.4	390.7	416.3	n/a
Operating expenses	-	194.9	269.8	479.7	n/a
Net Result^(c)	-	161.5	120.9	-63.4	n/a
<i>Administered items</i>					
Administered revenue	-	242.7	220.3	493.2	n/a
Administered expenses	-	242.7	220.3	493.2	n/a
Surplus/Deficit	-	0.0	0.0	0.0	n/a

Notes: (a) 2002-03 budget data is not available, since this Department was created through a machinery of government change announced by the Premier, 5 December 2002

(b) Include the 2002-03 budget adjusted for machinery of government change for the period 1 January 2003 to 30 June 2003

(c) A negative dollar value indicates a deficit

n/a Not applicable

Sources: Budget Paper No.3, 2003–04 Budget Estimates, table 2.10.2, p.414 and table 2.10.5 p.417

While comparison between years is not possible, the projected increase in operating revenue and expenditure from 2002–03 is mainly due to the transfer to the Department of programs relating to the Community Support Fund, Aboriginal Affairs, Multicultural Affairs, Youth Affairs, Women's Affairs, the Office of Community Building and Local Government.

The Department's operating statement indicates an estimated deficit of \$63.4 million for 2003–04. This deficit has resulted from estimated expenditure from the Community Support Fund exceeding the fund's estimated annual revenue by \$63.4 million. The Department advised that the excess will be met from accumulated fund reserves and will not put the fund in deficit.⁸⁸²

13.3.2 Government savings

Budget Paper No.2 indicates that the Department needs to achieve general efficiencies in administration of \$1.2 million in 2003–04 (\$4.8 million over four years). The Department will also achieve savings

⁸⁸² Department for Victorian Communities, response to the Committee's 2003–04 Budget Estimates Questionnaire, p.24

of \$6.1 million in 2003–04 (\$42.1 million over four years) as a result of refocusing and retargeting Victoria's employment, training and vocational education programs.

13.4 Human resource issues

13.4.1 Portfolio workforce

As shown in Exhibit 13.4, the Department indicated that it expects to have 646.3 equivalent full time staff by 30 June 2004. This number represents an effective increase of 25.2 from 2002–03. Exhibit 13.4 also shows that this increase in staff is in the Sport, Recreation and the Commonwealth Games output group.

Exhibit 13.4:

**Department for Victorian Communities
Equivalent Full Time and Fixed Term Staff**

Output Group	2002–03 permanent	2002–03 fixed term	Total	2003–04 permanent	2003–04 fixed term	Total
Supporting Local Government	36.7	1.0	37.7	40.3	3.0	43.3
Sport Recreation and the Commonwealth Games	91.0	38.0	129.0	100.4	53.2	153.6
People, Community Building and Information Services	396.6	57.9	454.5	415.5	33.9	449.4
Total	524.3	96.9	621.2	556.2	90.1	646.3

Source: Department for Victorian Communities, response to the Committee's 2003–04 Budget Estimates Questionnaire, p.22

Performance assessment processes used in the 2002–03 performance cycle were inherited from the Department of Infrastructure, the Department of Innovation, Industry and Regional Development, the Department of Justice, the Department of Education and Training, the Department of Premier and Cabinet and the former Department of Natural Resources and Environment. The Department for Victorian Communities advised that it is developing a performance management system to suit its specific requirements, which will link professional development activities and service wide training opportunities to identified skill deficiencies.⁸⁸³

⁸⁸³ *ibid.*

Portfolio review

13.5 Victorian Communities portfolio

Exhibit 13.5 shows that the Minister for Victorian Communities is responsible for the information services output and the community building output within the People, Community Building and Information Services output group.

Exhibit 13.5:

Victorian Communities Portfolio Output Costs

Output Group	Outputs under the responsibilities of the Minister for Victorian Communities	2003–04 output cost (\$ million)
People, Community Building and Information Services	Information services	29.5
	Community building	65.2
Total		94.7

Source: Budget Paper No.3, 2003–04 Budget Estimates, pp.409–10

The total combined cost of both outputs is \$94.7 million, which represents approximately 26.4 per cent of the Department's total 2003–04 budget.

The responsibilities of the Minister for Victorian Communities include:⁸⁸⁴

- implementing whole of government strategies to strengthen the capacity of communities and to generate shared educational, social, economic, cultural and environmental benefits;
- managing the Community Support Fund and the Office of Community Building through the provision of advice to the Government;
- improving the range, quality and availability of information from Government to Victorians; and
- fostering dialogue between the Government and communities, and facilitating information sharing among communities.

⁸⁸⁴ Budget Paper No.3, 2003–04 Budget Estimates, p.409

13.5.1 *2003–04 outlook for the portfolio*

The major activities and projects planned in the Victorian Communities portfolio for 2003–04 include:

- developing and supporting community building approaches and programs implemented by all Government Departments;
- expanding the role of the Community Support Fund in supporting community building proposals; and
- continuing to support the whole of government Community Building Demonstration Projects, which provide funding for communities to address local priorities.

13.5.2 *Key issues impacting on the portfolio*

The Department's response to the Committee's budget estimates questionnaire and estimates hearing identified the following key issues that will have an impact on the portfolio and the budget estimates for 2003–04.

(a) *Community strengthening*

The co-ordinating Minister for the Department for Victorian Communities informed the Committee that a primary aim of the Department is to create active, confident and resilient communities through partnerships and co-operation with local government, community organisations and business.⁸⁸⁵ According to the Minister, this objective is motivated by research, which shows that strong social networks and connections within the community, together with participation in community and social life, are factors that are linked to economic prosperity and wellbeing. Further, evidence suggests that a concentrated effort to build the resilience and strength of individuals and communities represents a form of prevention and early intervention that can have an impact on the demand for services such as child protection and juvenile justice.⁸⁸⁶

A major initiative undertaken by the Government in pursuit of this objective has been the establishment and progressive implementation of

⁸⁸⁵ Hon J. Thwaites, MP, Minister for Victorian Communities, transcript of evidence, 27 May 2003, p.295

⁸⁸⁶ *ibid.*

10 Community Building Demonstration Projects.⁸⁸⁷ The Committee was advised that these projects (launched in October 2001) have been successfully established in metropolitan and rural locations across Victoria at a cost of \$500,000 per project over three years.⁸⁸⁸

Total funding of approximately \$1.3 million was provided for stage 1, commenced in 2002, which involved community engagement, consultation and planning. All projects have completed stage 1 and submitted action plans and strategies for evaluation.

The Committee was advised that funding of approximately \$2 million was approved in April 2003 for the project duration of five of the 10 demonstration projects. Since the estimates hearing the Government has funded another \$1.7 million for the remaining five projects.⁸⁸⁹

The Minister advised that the managers of the projects will implement their action plans in 2003–04 in partnership with the local community, service providers, and local and State governments. Activities for 2003–04 include: ⁸⁹⁰

- running local skills and leadership workshops;
- improving parklands;
- implementing joint local business/community projects; and
- establishing community information portals and neighbourhood action groups.

The Minister advised that these projects will initiate more joined-up approaches to resolving key community issues and create new socioeconomic opportunities in partnership with local services.⁸⁹¹

He noted that the Department will also manage the ongoing implementation of the Community Capacity Building Initiative and the Community Centres Program. The Community Capacity Building Initiative is a three year, \$3 million joint project of the Department and Regional Development Victoria, with support from the Victorian Farmers

⁸⁸⁷ *ibid.*

⁸⁸⁸ Minister for Victorian Communities' response, received 24 July 2003, response to the Committee's follow-up questions, pp.3-4

⁸⁸⁹ *ibid.*

⁸⁹⁰ *ibid.*

⁸⁹¹ *ibid.*

Federation. It aims to strengthen the ability of small rural communities to take charge of their own future.⁸⁹²

The Community Centres Program is a new initiative that will provide \$2.5 million in 2003–04 (of \$10 million over four years) in Community Support Fund grants to local communities across Victoria, to establish facilities that will support social, economic and cultural activities.⁸⁹³ The program aims to deliver more streamlined, accessible and joined-up services and programs for local communities, and will support people to deliver local projects that aim to maximise local economic, social, environmental and cultural outcomes.⁸⁹⁴

The Committee noted that the Community Capacity Building Initiative incorporates 11 pilot projects involving 55 small rural towns and settlements.⁸⁹⁵ The initiative shares the same principles with the Community Building Demonstration Projects, aiming to support local communities to develop locally relevant community strengthening strategies. Unlike the demonstration projects, which are metropolitan based, the Community Capacity Building Initiative focuses on small rural communities.⁸⁹⁶

The Minister advised that interim results suggest that the initiative has been successful and the pilot projects in 2003–04 will focus on consolidating the community capacity building approach and achievements of the past three years, to enable communities to independently carry-forward local initiatives beyond June 2004.⁸⁹⁷

The Committee welcomes the Government's efforts to promote stronger and more resilient local communities, and awaits with interest the outcomes of the evaluation of the Community Building Demonstration Projects and the Community Capacity Building Initiative. The Committee considers that the evaluation, to effectively guide the Government's future policy initiatives in this area, will need to demonstrate the effectiveness and efficiency of specific project activities, using performance indicators that reflect the strategic objectives of

⁸⁹² Hon J. Thwaites, MP, Minister for Victorian Communities, transcript of evidence, 27 May 2003, p.299

⁸⁹³ Budget Paper No.2, 2003–04 Budget Statement, p.256

⁸⁹⁴ Department for Victorian Communities, 2003–04 Victorian Budget Fact Sheet, *Funding for Community Facilities – Community Centres and Recreation Camps*

⁸⁹⁵ Department for Victorian Communities, *Community Capacity Building Initiative* Fact Sheet, p.1

⁸⁹⁶ Hon J. Thwaites, MP, Minister for Victorian Communities, transcript of evidence, 27 May 2003, p.299

⁸⁹⁷ Minister for Victorian Communities' response, received 24 July 2003, to the Committee's follow-up questions, p.4

improved community resilience and strength. The Committee noted that the development of such indicators represents one of the key challenges and priorities for the new Department for Victorian Communities.⁸⁹⁸

The Committee understands that the concept of ‘community strengthening’ is multidimensional, and that no single outcome indicator can adequately capture the complexity of such a construct. The Department should, however, pursue indicators that relate to the aspects of community strengthening that individual projects or initiatives target.

Recommendation 72:

The Department for Victorian Communities:

- (a) ensure the evaluation of the Community Building Demonstration Projects and the Community Capacity Building Initiative assess the effectiveness of individual projects and activities; and**
- (b) ensure the outcome indicators for the evaluation reflect the dimensions of community strengthening that specific projects target.**

(b) *Community Support Fund*

The Minister informed the Committee that the Community Support Fund represents an important element of the Department’s efforts to strengthen local communities.⁸⁹⁹ The Committee noted that total funds allocated from the fund since its inception have increased from approximately \$70 million in 1996–97⁹⁰⁰ to just under \$188 million estimated for 2003–04.⁹⁰¹

The Minister advised that of the \$188 million allocated in 2003–04, approximately \$78 million relates to the Government’s election commitments, while the remainder (approximately \$110 million) is for

⁸⁹⁸ Hon J. Thwaites, MP, Minister for Victorian Communities, transcript of evidence, 27 May 2003, p.296

⁸⁹⁹ *ibid.*, p.295

⁹⁰⁰ Minister for Victorian Communities, presentation made at the estimates hearing, 27 May 2003

⁹⁰¹ Hon J. Thwaites, MP, Minister for Victorian Communities, transcript of evidence, 27 May 2003, p.297

other programs.⁹⁰² The Committee noted that the Government intends to review the funding guidelines for the Community Support Fund, to ensure they are consistent with the new Department's objectives of community strengthening and joined-up Government.⁹⁰³ The Minister advised that the Department will increasingly look for projects that exhibit such characteristics.⁹⁰⁴

The Committee was also advised that the implementation of smoking bans in gaming venues has affected the revenue that the Community Support Fund received in 2002–03, when revenue was approximately 20 per cent lower than projected (amounting to a shortfall of approximately \$20 million).⁹⁰⁵ While the impact of the introduction of smoking bans in restaurants was marginal, the Minister indicated that there appears to be a link between smoking and gaming. The long term impact on Community Support Fund revenue remains unclear.⁹⁰⁶

The Committee noted that the Budget Papers indicate an expected decline in the number of fund applications from 220 in 2002–03 to 90 for 2003–04, but the output cost has increased from \$24.1 million to \$65.2 million over the same period. The Minister advised that the increase in funding reflects expenditure on initiatives related to election commitments and to previous commitments that are to be implemented in 2003–04. Further, the decline in the expected number of applications reflects the increasing emphasis on initiatives that involve joined-up Government and related strategic approaches.⁹⁰⁷

(c) *Joining up Government*

A key objective of the Department is to simplify public access to Government agencies and programs by joining up services, wherever possible, at the local level. The Minister advised that a priority of the Department will be to consolidate relevant programs and performance measures inherited from other Departments, so as to realign existing programs to better support the joined-up service model.⁹⁰⁸

⁹⁰² Minister for Victorian Communities' response, received 24 July 2003, to the Committee's follow-up questions, p.1

⁹⁰³ Hon J. Thwaites, MP, Minister for Victorian Communities, transcript of evidence, 27 May 2003, p.296

⁹⁰⁴ *ibid.*

⁹⁰⁵ *ibid.*, p.297

⁹⁰⁶ *ibid.*

⁹⁰⁷ *ibid.*

⁹⁰⁸ *ibid.*, p.295

The development of a strategic grants framework will support the joined-up service delivery approach. The Minister advised that some community groups often find it difficult to access the numerous grant programs across federal, State and local governments.⁹⁰⁹ A further obstacle is the often time consuming and demanding application process, which particularly affects organisations accessing multiple grant programs.

Through the development of a strategic grants framework, the Department aims to simplify the grants process to:⁹¹⁰

- facilitate more strategic, consistent and outcome focused grant decisions;
- achieve administrative efficiencies across the Department; and
- develop a whole of government framework for community grant decision making.

The Minister advised that integrating the delivery of programs based on ‘place’ – through a strong regional presence, the development of shared protocols and approaches, and a simplified application process – will ensure community groups have greater access to support, information and a simpler grants application process.⁹¹¹

The Committee strongly supports the Government’s initiatives to streamline and simplify access to the present myriad of grants programs. It considers that the Department needs to develop appropriate performance measures and targets that will allow monitoring of the effectiveness and progressive implementation of these improvement initiatives. The performance measures should reflect the achievement of project milestones, as well as grant applicants’ awareness of, use of, and satisfaction with the improved services.

⁹⁰⁹ *ibid.*, p.298

⁹¹⁰ Minister for Victorian Communities, presentation made at the estimates hearing, 27 May 2003

⁹¹¹ *ibid.*

Recommendation 73:

The Department for Victorian Communities:

- (a) develop relevant performance measures and targets that reflect:**
 - (i) the status of the implementation of key components of the strategic grants framework;**
 - (ii) the level of awareness among potential grant applicants of the availability of the new service; and**
 - (iii) the extent to which grant applicants use the new service.**
- (b) report on this performance information in the Budget Papers and the Department's annual report.**

13.6 Employment and Youth Affairs portfolio

The Employment and Youth Affairs portfolio was created in December 2002. It brings together the formerly separate portfolios of Employment and Youth Affairs, which were transferred from the Department of Innovation, Industry and Regional Development and the Department of Education and Training respectively.

13.6.1 2003–04 outlook for the portfolio

The key priorities and initiatives of the portfolio in 2003–04 include:⁹¹²

- \$9.6 million (of \$38.4 million over four years) for the Community Jobs Program, to improve the employment prospects of long term unemployed people and those at risk of long term unemployment by providing paid employment and nationally accredited training;

⁹¹² Budget Paper No.2, 2003–04 Budget Statement, pp.253–6

- \$2.6 million (of \$10.4 million over four years) for the Jobs for Young People initiative, which will aim to create 1,100 new jobs and traineeships in local government authorities by providing a wage incentive to encourage the creation of trainee and apprenticeship opportunities for young Victorians aged 15–24 years;
- \$500,000 (of \$2 million over four years) for the Youth Employment Link initiative, to assist young people to investigate careers, further education courses and other employment related matters through an online database;
- \$2 million (of \$10.1 million over four years) for the Community Industry Regional Skills Program, to address gaps or skill mismatches within local labour markets through the supply of various levels of industry-specific skilled labour;
- \$500,000 (of \$2 million over four years) to extend the FReeZA youth cultural program, to strengthen the development of young people's skills in organising and participating in music entertainment events;
- \$500,000 (of \$6 million over four years) for the Skilled Migration Program to increase Victoria's share of Australia's skilled and business migrants by 2006-07 and boost the population of regional Victoria by attracting skilled migrants to regions with skill needs; and
- \$1 million (of \$5 million over four years) to extend access to the youth development program to all government schools over the next four years, to encourage young people to volunteer for leading community organisations and participate in leadership programs that encourage community service.

13.6.2 *Analysis of the portfolio budget*

Exhibit 13.6 shows that the Minister for Employment and Youth Affairs is responsible for the employment programs output and the Youth Programs output within the People, Community Building and Information Services output group. Exhibit 13.6 also shows that these outputs collectively account for \$48.2 million (or 13.4 per cent) of the Department's 2003–04 budget allocation of \$358.6 million.

Exhibit 13.6:

**Employment and Youth Affairs Portfolio
Output Costs**

Output group	Outputs under the responsibility of the Minister for Employment and Youth Affairs	2003–04 Output Cost (\$ million)
People, Community Building and Information Services	Employment programs	36.2
	Youth programs	12.0
Total		48.2

Source: Budget Paper No.3, 2003–04 Budget Estimates, pp.403–04 and 406

13.6.3 *Key issues impacting on the portfolio*

The Department's response to the Committee's budget estimates questionnaire and estimates hearing identified the following key issues that will have an impact on the portfolio and the budget estimates for 2003–04.

(a) *Employment programs*

The Minister advised the Committee of sustained employment growth of about 8 per cent in Victoria since October 1999, which represents the creation of approximately 177,500 new jobs over the same period.⁹¹³ Approximately 117,400 jobs were created in metropolitan Melbourne, along with another 53,500 jobs in country Victoria. The Minister pointed out that the unemployment rate in Victoria, consistent with the overall growth in employment, has exhibited a trend of almost steady decline since 1996–97.⁹¹⁴ The Committee noted that the State's unemployment rate was 5.9 per cent in April 2003, below the national average of 6.1 per cent.⁹¹⁵

Pointing to the Government's achievements over the past financial year, the Minister advised that Victorian community employment initiatives have assisted 10,342 job seekers into employment since July 2002, along with 18,306 young people into apprenticeships or traineeships under the Government's youth employment initiatives.⁹¹⁶ Achievements of individual programs include the following:⁹¹⁷

⁹¹³ Hon J. Allan, MP, Minister for Employment and Youth Affairs, transcript of evidence, 16 May 2003, p.191

⁹¹⁴ Minister for Employment and Youth Affairs, presentation made at the estimates hearing, 16 May 2003

⁹¹⁵ Hon J. Allan, MP, Minister for Employment and Youth Affairs, transcript of evidence, 16 May 2003, p.191

⁹¹⁶ Minister for Employment and Youth Affairs, presentation made at the estimates hearing, 16 May 2003

⁹¹⁷ *ibid.*

- the Community Jobs Program has achieved its three year target of 6,900 placements, with two out of three participants in the program going on to some form of employment, education or training three months after completing the program;
- the Youth Employment Scheme has placed 1,942 young people into apprenticeships and traineeships since July 2000, with 48 per cent of these placed in country Victoria;
- the Go for IT initiative has resulted in the placement of 877 apprenticeships and traineeships since February 2000 in the information and communications and technology (ICT) industry;
- a total of 330,000 enquiries were directed to the Youth Employment Link's web and telephone services. These services provide information and referrals on careers, further education and employment for young people;
- since July 2002, the Overseas Qualification Unit, the Overseas Qualified Professionals Program and the Skilled and Business Migration Program have assisted 7,214 migrants; and
- the Forestry Worker Assistance Program has assisted 321 forest workers. The program is designed to help workers who are displaced from the Victorian native forest timber industry as a direct result of Government initiated reforms.

The Minister advised the Committee that the Government is refocusing and retargeting the State's employment, vocational education and training programs, to maximise positive outcomes for young and unemployed Victorians under the new Jobs for Victoria Program.⁹¹⁸ The Committee noted that the program consists of a four year, \$155 million package of vocational training and employment initiatives that will target the young and the most disadvantaged people in the labour market, including the long term unemployed, Kooris, migrants and job seekers in regional communities.⁹¹⁹ The aim of refocusing and retargeting training and employment initiatives is to better integrate various program components so as to achieve more sustainable employment

⁹¹⁸ Hon J. Allan, MP, Minister for Employment and Youth Affairs, transcript of evidence, 16 May 2003, p.192

⁹¹⁹ *ibid.*

outcomes and stronger links with other community building initiatives such as Neighbourhood Renewal.⁹²⁰

Relevant employment initiatives to be undertaken as part of the overarching Jobs for Victoria Program include:⁹²¹

- \$38.4 million over four years for the Community Jobs Program, which aims to enhance the employment prospects of the long term unemployed and those at risk of long term unemployment by providing up to 16 weeks paid employment and nationally accredited training. The program aims to create 3,500 jobs over the four year period;
- \$10.4 million over four years for the Jobs for Young People initiative to create 1,100 new jobs and traineeship opportunities in the local government sector for young Victorians aged 15–24 years, focusing on rural and regional local communities;
- \$2 million over four years for the Youth Employment Link service to continue helping young people to investigate careers, further education courses and other employment related matters through an online database;
- \$10.1 million over four years for the Community Regional Industry Skills Program to address gaps or skills mismatches in local labour markets through the supply of various levels of industry specific skilled labour. The program will tackle skill shortages and support sustainable industries and jobs across country Victoria; and
- \$6 million over four years for the Skilled Migration Program, which aims to increase skilled and business migration to Victoria, particularly in rural and regional locations.

The Committee noted that the budgeted cost of employment related outputs has declined by approximately 44 per cent since 2000–01, down from \$64.9 million to \$36.2 million estimated for 2003–04. The fall is due mainly to machinery of government changes. Exhibit 13.7 shows that the largest decrease (approximately \$18.2 million) occurred between 2001–02 and 2002–03, when responsibility for the employment output group was

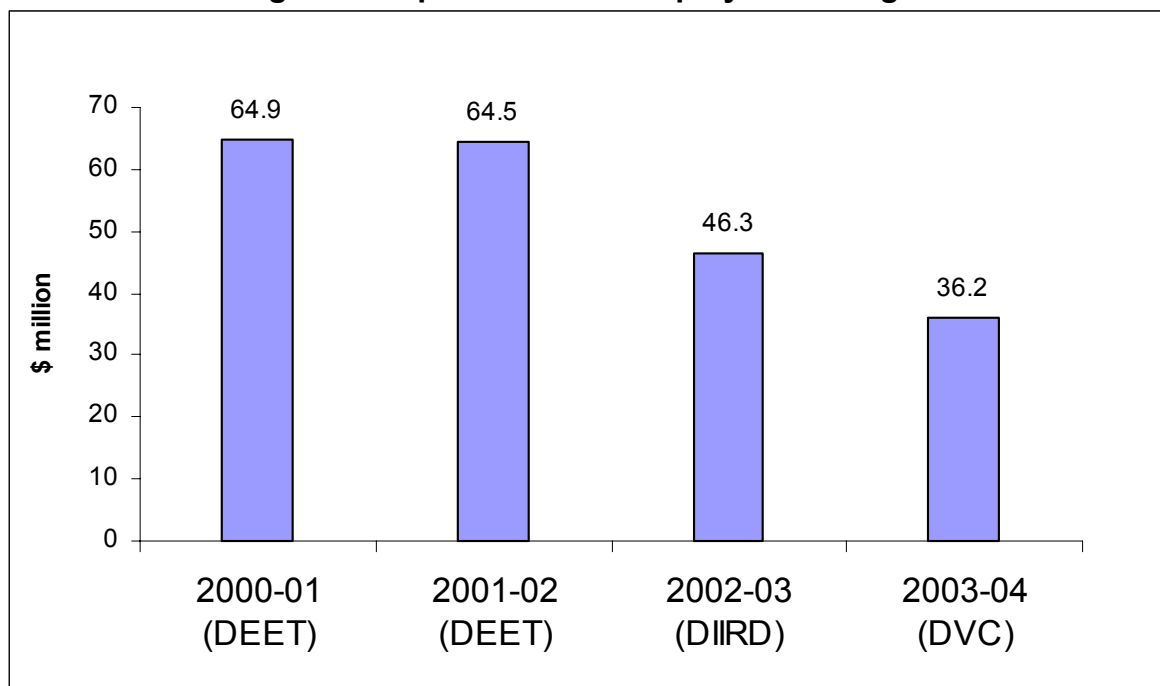
⁹²⁰ Minister for Employment and Youth Affairs, presentation made at the estimates hearing, 16 May 2003

⁹²¹ Budget Paper No.2, 2003–04 Budget Statement, pp.252–4

transferred to the Department of Innovation, Industry and Regional Development, but the training related activities were retained by the former Department of Education, Employment and Training.⁹²²

Exhibit 13.7:

Budgeted Output Costs for Employment Programs



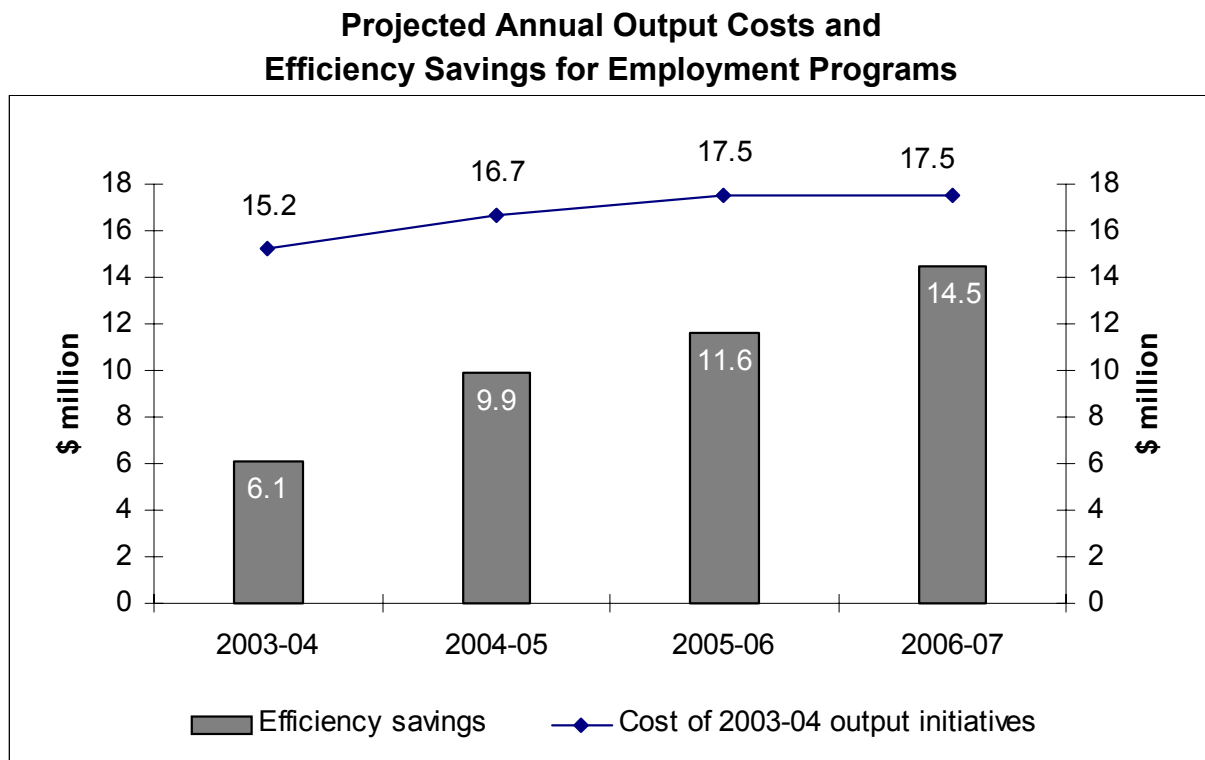
Sources: Budget Paper No.3, Budget Estimates of 2000-01, pp.35-7; 2001-02, pp.31-2; 2002-03, pp.174-6; 2003-04, pp.403-405

The Committee acknowledges that the almost \$10 million reduction in output cost estimated for 2003–04 also reflects savings achieved as a result of machinery of government changes. Additionally, it noted that the Government intends to achieve a further \$42.1 million in efficiency savings over the next four years by retargeting and reforming employment related programs.⁹²³ The Committee sought information on the nature and source of specific savings. The Minister advised that savings were being sought to ensure that Government funds were being spent more efficiently. She also advised that the Department would achieve the savings through greater efficiency in administration, by reducing duplication with Commonwealth funded services, improving productivity and better targeting services and programs.⁹²⁴

⁹²² Minister for Employment's response, received 30 August 2002, to the Committee's follow-up questions

⁹²³ Budget Paper No.2, 2003–04 Budget Statement, p.252

⁹²⁴ Hon J. Allan, MP, Minister for Employment and Youth Affairs, transcript of evidence, 16 May 2003, p.195

Exhibit 13.8:

Source: Budget Paper No.2, 2003–04 Budget Statement, p.252

As shown in Exhibit 13.8, the Committee observed that savings from employment program reforms are projected to grow by approximately 137 per cent from \$6.1 million in 2003–04 to \$14.5 million in 2006–07. Portfolio expenditure on 2003–04 output initiatives, however, is projected to increase by only approximately 15 per cent over the same period. The Committee also noted that total efficiency savings from employment program reforms over the next four years account for approximately 90 per cent of the total amount of savings to be achieved by the Department.⁹²⁵

The Committee considers that there is an upper limit to the level of efficiency savings that can be reasonably expected from administrative restructuring and program reforms. It is concerned that the Budget Papers do not provide adequate information to permit a clear understanding of the specific source and nature of savings to be achieved by the Department. Further, the Committee is concerned about the possible impact, which is unclear at this stage, of reduced portfolio expenditure and rising efficiency savings on the Department's capacity

⁹²⁵ Budget Paper No.2, 2003–04 Budget Statement, p.252

to maintain existing employment related service levels and client access to services.

Recommendation 74:

- (a) The Department for Victorian Communities' savings initiatives, as outlined in future Budget Papers, be accompanied by explanatory notes that clearly describe the composition of savings to be achieved in terms of their source(s), nature and associated amounts; and**
- (b) The Department for Victorian Communities assess the impact of desired efficiency savings on its capacity to deliver employment services and maintain existing service levels, including the impact on client access to services.**

(b) *Youth programs*

The Government released its strategic framework for youth policy and program development — Respect: The Government's Vision for Young People — in August 2002.⁹²⁶ The Office for Youth, in conjunction with all government Departments, developed the framework, which outlines the Government's vision for enhancing the lives of young people in Victoria and the issues that the Government will focus on to achieve that vision. The framework also provides a comprehensive, agreed approach to the Government's policy and program development for young people.

The Government's vision is for a State where young people benefit from supportive and inclusive communities in which they are:⁹²⁷

- valued and respected;
- supported through social, educational, cultural and employment opportunities;

⁹²⁶ Hon J. Allan, MP, Minister for Employment and Youth Affairs, transcript of evidence, 16 May 2003, p.212

⁹²⁷ *ibid.*

- able to live healthy, satisfying lives; and
- able to realise their full potential.

The Minister advised that the objective of the Office for Youth is to develop and lead whole of government initiatives to facilitate this vision.⁹²⁸ The Office for Youth was established in January 2000 and provides leadership across the whole of government in co-ordinating research and policy development on issues relating to Victoria's youth. The Committee noted that the transfer of the Office for Youth from the Department of Education and Training to the Department for Victorian Communities reflects the Government's priority on better integrating activities for young people through more joined-up, whole of government service delivery.

In 2003–04, the functions of the Office for Youth will be delivered through a single output, youth programs, which consolidates the former four outputs from the Department of Education and Training: youth policy co-ordination, youth consultation, youth participation and youth programs. The estimated cost of the youth programs output in 2003–04 is \$12 million, which is to be allocated as follows:⁹²⁹

- \$2.4 million for youth policy, including the costs of the secretariat, youth liaison officers and regional youth committees, as well as net adjustments due to machinery of government changes; and
- \$9.6 million for youth programs, consisting of \$2 million for the FReeZA program, \$500,000 for the new FReeZACentral initiative, \$3 million for the Victorian Youth Development Program and \$4.1 million for the Youth Services Program;

The Committee noted that the 2003–04 budget provides an additional \$7 million over four years for two new initiatives: the FReeZACentral initiative (\$2 million over four years) and Advance (a youth development program) (\$5 million over four years).⁹³⁰ The Committee was informed that Advance will build on the former Victorian Youth Development Program, providing opportunities for students in all government secondary schools to promote youth leadership, community

⁹²⁸ *ibid.*

⁹²⁹ Minister for Employment and Youth Affairs' response, received 27 June 2003, to the Committee's follow-up questions

⁹³⁰ Minister for Employment and Youth Affairs, presentation made at the estimates hearing, 16 May 2003

participation and volunteerism over the next four years.⁹³¹ The program will be delivered through a community partnership model that aims to encourage communities to value and engage with young people, build the competence of individuals and provide benefits to communities and community organisations through volunteering for community service activities.

The Committee also noted that a key component of Advance is linking schools with community organisations so as to promote more active, resilient and confident Victorian communities.⁹³²

Regarding the FReeZACentral initiative, the Minister advised that the Department will build on the existing FReeZA program, which provides funding to local communities to organise drug- and alcohol free entertainment events for young people and which facilitates:⁹³³

- personal development, including the development of teamwork and leadership skills;
- opportunities for experiential learning and skill development;
- opportunities to minimise risk factors and to enhance and promote positive behaviours for young people; and
- informal, formal and community recognition of learning.

The FReeZACentral initiative aims to build on the FReeZA program by providing young people with an opportunity to gain access to practical, high level music industry experience, as well as training in music industry management. Specifically, it will provide young people involved in FReeZA in their local communities with the opportunity to participate in a Statewide music entertainment event. The Committee noted that the event will be supported by high level mentoring from industry professionals and will involve young people in all aspects of organising and performing in a major entertainment production.

The Committee acknowledges the Government's commitment to Victoria's youth and welcomes the new initiatives. It considers that these initiatives will provide valuable opportunities for young people to

⁹³¹ Hon J. Allan, MP, Minister for Employment and Youth Affairs, transcript of evidence, 16 May 2003, p.214

⁹³² Department for Victorian Communities, 2003–04 Victorian Budget Fact Sheet, *Funding for Young People- Youth Development*

⁹³³ Hon J. Allan, MP, Minister for Employment and Youth Affairs, transcript of evidence, 16 May 2003, p.217

develop new and existing skills, as well as promoting more active and stronger partnerships within local communities. The Committee also notes, however, that associated performance measures in the Budget Papers do not provide any information on the nature and extent of outcomes to be achieved by these initiatives. The Committee believes that participation measures alone are inadequate indicators of program effectiveness, and that the Office for Youth should develop an appropriate evaluation strategy to assess the effectiveness and efficiency of the new initiatives.

Recommendation 75:

The Office for Youth develop an appropriate evaluation strategy for FReeZACentral and the Advance youth development program, incorporating relevant effectiveness and efficiency indicators for both programs.

13.7 Multicultural Affairs portfolio

The Minister for Multicultural Affairs is responsible, through the Victorian Office of Multicultural Affairs and the Victorian Multicultural Commission, for providing policy advice and co-ordinating the whole of government approach to multicultural affairs. The approach includes:

- monitoring the responsiveness of Government Departments to Victorians from non-English speaking backgrounds; and
- allocating grants to community organisations.

The Minister for Multicultural Affairs is responsible for the multicultural affairs output within the People, Community Building and Information Services output group of the Department. The Committee noted that machinery of government changes resulted in the transfer of output responsibility from the Department of Premier and Cabinet to the Department for Victorian Communities. Exhibit 13.9 shows that the 2003–04 output cost is \$6.7 million, representing 1.9 per cent of the Department's 2003–04 budget of \$358.6 million.

Exhibit 13.9:

**Multicultural Affairs Portfolio
Output Costs**

Output Group	Outputs under the responsibility of the Minister for Multicultural Affairs	2003–04 Output Cost (\$ million)
People, Community Building and Information Services	Multicultural affairs	6.7
Total		6.7

Source: Budget Paper No.3, 2003–04 Budget Estimates, pp.407–8

13.7.1 *2003-04 outlook for the portfolio*

The key priorities and initiatives of the Multicultural Affairs portfolio in 2003–04 include:

- \$300,000 (of \$1.2 million over four years) to the Victorian Multicultural Commission's Community Grants Program to support ethnic and community based organisations to more adequately resource the State's culturally and linguistically diverse communities, particularly the smaller and newly emerging communities, women's support groups and regional culturally and linguistically diverse groups; and
- \$500,000 (of \$6 million over four years) to increase Victoria's share of Australia's skilled and business migrants by 2006-07 and boost the population of regional Victoria by attracting migrants to regions with particular skill needs. This initiative and associated programs are intended to reduce targeted regional economic disadvantage and skills shortages through direct assistance to employers and migrants, additional English language training and housing assistance.

13.7.2 *Key issues impacting on the portfolio*

The Department's response to the Committee's budget estimates questionnaire and estimates hearing identified the following key issues that will have an impact on the portfolio and the budget estimates for 2003–04.

(a) *Increasing skilled and business migration to Victoria*

The Committee noted that the Government intends to undertake a more aggressive approach in the future to attracting skilled and business migrants to Victoria. The Premier advised that Victoria's past performance in attracting skilled and business migrants has been relatively poor compared with that of other States.⁹³⁴

Specifically, while Victoria represents approximately 25 per cent of the nation's economy, its share of Australia's business migrants in 2001-02 was equivalent to that of Queensland's (approximately 17 per cent) and substantially lower than that of New South Wales (28 per cent) and Western Australia (24 per cent).⁹³⁵ Victoria's share of skilled and business migrants is approximately 23 per cent, and the Premier informed the Committee that the Government's objective is to achieve a target of 25 per cent by 2006-07.⁹³⁶ In an effort to achieve this objective, the Government has allocated \$6 million over four years for the Skilled Migration Program, which aims to boost the population of regional Victoria by attracting skilled migrants to regions with skill needs.

The Premier advised that the funding will be used to support councils and other community groups to attract business and skilled migration to their regions by providing housing assistance, additional English language training, bridging skills and other services and information to new migrants choosing whether to settle in Victoria or other States.⁹³⁷

(b) *Victorian Multicultural Commission's Community Grants Program*

The Committee noted that the Government intends to expand the Victorian Multicultural Commission's Community Grants Program in 2003-04, with the allocation of an additional \$1.2 million in funding over four years to more adequately resource culturally and linguistically diverse communities to develop projects to meet local needs.⁹³⁸ The Premier advised that the additional funding will be directed to community organisations in different categories, including community

⁹³⁴ Hon S. Bracks, MP, Premier and Minister for Multicultural Affairs, transcript of evidence, 13 May 2003, p.6

⁹³⁵ *ibid.*

⁹³⁶ *ibid.*, p.2

⁹³⁷ *ibid.*, p.6

⁹³⁸ Department for Victorian Communities, 2003-04 Victorian Budget Fact Sheet, *Funding for Multicultural Communities*

partnerships, community building activities, ethnic schools and multicultural festivals and events.⁹³⁹

The Premier noted that new funding allocated to the Community Grants Program in 2003–04 builds on the additional support provided by the Government in previous years, which has resulted in the progressive increase in available annual funding for grants (up from approximately \$750,000 in 1999 to \$2.8 million in 2003–04).⁹⁴⁰

In its report on the 2002–03 Budget Estimates, the Committee noted that the magnitude of recent increases in funding for the Community Grants Program required appropriate monitoring of the program's performance in meeting key targets and outcomes.⁹⁴¹ The Committee notes that the 2003–04 Budget Papers do not contain performance measures of the program's effectiveness and efficiency in achieving desired outcomes.

Recommendation 76:

The Victorian Multicultural Commission develop an evaluation strategy incorporating relevant and appropriate key performance indicators and targets to assess the effectiveness and efficiency of the Commission's Community Grants Program in achieving the Government's desired outcomes.

13.8 Women's Affairs portfolio

The Minister for Women's Affairs is responsible, through the Office of Women's Policy, for the women's policy output within the People, Community Building and Information Services output group of the department. The Committee noted that machinery of government changes resulted in the transfer of output responsibility from the Department of Premier and Cabinet to the Department for Victorian Communities. Exhibit 13.10 shows that the 2003–04 output cost is

⁹³⁹ Hon. S. Bracks, MP, Premier and Minister for Multicultural Affairs, transcript of evidence, 13 May 2003, p.5

⁹⁴⁰ *ibid.*

⁹⁴¹ Public Accounts Estimates Committee, *Report on the 2002-03 Budget Estimates*, 52th Report, June 2003, p.474

\$2.3 million, representing less than 1 per cent of the Department's 2003-04 budget of \$358.6 million.

Exhibit 13.10:

**Women's Affairs Portfolio
Output Costs**

Output Group	Outputs under the responsibility of the Minister for Women's Affairs	2003-04 Output Cost (\$ million)
People, Community Building and Information Services	Women's policy	2.3
Total		2.3

Source: Budget Paper No.3, 2003-04 Budget Estimates, p. 408

13.8.1 2003-04 outlook for the portfolio

The priorities for the Office of Women's Policy in 2003-04 are to implement relevant components of the Growing Victoria Together framework. Key areas of focus for the portfolio in 2003-04 will be:

- implementing key initiatives of the Women's Safety Strategy;
- supporting women's leadership through Women's Community Leadership grants and appointments on Government boards and committees;
- progressing works relating to the Queen Victoria Women's Centre; and
- finalising the Charter for Better Balance of Work and Family.

13.8.2 Key issues impacting on the portfolio

The Department's response to the Committee's budget estimates questionnaire and estimates hearing identified the following key issues that will have an impact on the portfolio and the budget estimates for 2003-04.

(a) Work, Family, Community Life Balance Strategy

The Committee noted that a major work priority for the Office of Women's Policy in 2003-04 is the finalisation and implementation of the

Work, Family and Community Life Strategy.⁹⁴² The Minister advised that balancing work, family and community commitments is a major challenge facing the community and that the Government is committed to helping people better manage and participate in work, family and community life.⁹⁴³

The Committee noted that the facilitation of a better balance in work and family responsibilities has been identified as a priority under the Government's Growing Victoria Together policy framework.⁹⁴⁴ At the Third Annual Victorian Women's Summit on 17 July 2002, the Government announced its intention to release a work, family and community life strategy in late 2002.⁹⁴⁵ It commissioned the Royal Melbourne Institute of Technology to research policy options in the area of work/family and work/life balance. The research report (released in June 2002) outlined 20 policy options, which have assisted with the development of the Work, Family and Community Life Strategy.⁹⁴⁶ The Minister advised that development of the strategy will be ongoing and that associated work had been temporarily interrupted by the 2002 State election.⁹⁴⁷

The Committee also noted that Budget Paper No.3 indicates that the Charter for Better Balance of Work and Family is expected to be finalised in November 2003.⁹⁴⁸ The Minister stated that the Government intends to establish a work family unit and has allocated \$2 million over four years, (through the Department of Innovation, Industry and Regional Development) for the Better Work and Family Balance initiative. This initiative will develop pilot programs, run as partnerships between Victorian businesses and Government, to demonstrate innovative and flexible family friendly workplace arrangements.⁹⁴⁹

The Committee welcomes and supports the Government's effort to develop a strategy to improve the balance between work and family responsibilities. It is concerned, however, about the extended time taken to finalise the strategy and the absence of performance measures and

⁹⁴² Hon M. Delahunty, MP, Minister for Women's Affairs, transcript of evidence, 14 May 2003, pp.76, 78

⁹⁴³ *ibid.*, p.78

⁹⁴⁴ Department of Premier and Cabinet, November 2001, *Growing Victoria Together*, p.22

⁹⁴⁵ Hon M. Delahunty, MP, Minister for Women's Affairs, transcript of evidence, 14 May 2003, p.79

⁹⁴⁶ *ibid.*

⁹⁴⁷ *ibid.*, p.79

⁹⁴⁸ Budget Paper No.3, 2003–04 Budget Estimates, p.408

⁹⁴⁹ Hon M. Delahunty, MP, Minister for Women's Affairs, transcript of evidence, 14 May 2003, p.79

targets within the Budget Papers relating to the strategy's finalisation. While the Committee accepts that periodic review and refinement are important mechanisms that will ensure the ongoing future effectiveness of the strategy, the Government nevertheless needs to finalise and publicise its original strategy, on which future revisions shall be based.

Recommendation 77:

- (a) The Office of Women's Policy develop relevant and appropriate performance measures and targets relating to the timely finalisation and effective implementation of the Work, Family, Community Life Strategy; and**
- (b) the annual report of the Department for Victorian Communities provide detailed information on the progress achieved against these performance measures and targets.**

(b) *Queen Victoria Women's Centre*

In its report on the 2000-01 Budget Estimates, the Committee recommended that the Government develop a comprehensive strategy for the ongoing operation of the Queen Victoria Women's Centre in response to a Ministerial Advisory Committee report that found the centre had failed to achieve a self funding level and had reached a critical point in terms of its financial survival.⁹⁵⁰ The Committee reiterated this recommendation in 2001-02, noting that the Government had yet to develop a strategy addressing the medium and long term operation of the centre.⁹⁵¹

At the 2002-03 estimates hearing, the Committee raised this issue with the new Minister, who advised that the strategy was nearing completion and would be publicly available in the near future.⁹⁵² The Committee noted at the 2003-04 estimates hearing, that the Government still had to

⁹⁵⁰ Public Accounts and Estimates Committee, *Report on the 2000-01 Budget Estimates*, 38th Report, November 2000, p.459

⁹⁵¹ Public Accounts and Estimates Committee, *Report on the 2001-02 Budget Estimates*, 43rd Report, November 2001, p.447

⁹⁵² *ibid.*

finalise the development of the strategy, which had been delayed by the appointment of a new board to the Queen Victoria Women's Centre Trust.⁹⁵³ The Minister advised that the new board had developed a vision for the centre and was revising the strategy to reflect that vision. The Minister assured the Committee that the strategy would be publicly available imminently and that the new board was preparing a strategic communication plan to share its vision with the people of Victoria.⁹⁵⁴

The Committee is concerned about the ongoing delays and extended time taken to develop and finalise this strategy. It strongly urges the Government to prioritise the finalisation, which should serve as an important mechanism to guide the long term financial viability of the Queen Victoria Women's Centre.

Accordingly, the Committee reiterates its 2000–01 recommendation.

Recommendation 78:

The Government develop a comprehensive strategy for the ongoing operation of the Queen Victoria Women's Centre, based on the findings of the Ministerial Advisory Committee.

(c) *Implementation of the Women's Safety Strategy*

The Committee noted that a key priority for the Office for Women's Policy in 2003–04 is the implementation of the Women's Safety Strategy, which the Government launched in October 2002. The Minister stated that in addition to the \$3.3 million allocated to the strategy in the 2002–03 Budget, \$600,000 has been allocated for the strategy's implementation in 2003–04.⁹⁵⁵ The Committee noted that the strategy contains 44 initiatives to improve the safety of women across Victoria and to reduce the level and fear of violence experienced by Victorian women.⁹⁵⁶

Key initiatives to be implemented include:⁹⁵⁷

- a new code of practice on family violence for Victoria Police;

⁹⁵³ Hon M. Delahunty, MP, Minister for Women's Affairs, transcript of evidence, 14 May 2003, p.81

⁹⁵⁴ *ibid.*

⁹⁵⁵ *ibid.*, p.80

⁹⁵⁶ Minister for Women's Affairs, media release, 21 October 2002

⁹⁵⁷ *ibid.*

- improved services for victims of crime, including the establishment of a new victims support agency to regulate and monitor the delivery of services to victims;
- education and training on violence against women for judges and magistrates, through the Judicial College established by the Attorney-General;
- \$1.8 million to increase housing and support options for women and children who have experienced family violence;
- \$1.6 million to prevent family violence through a pilot project for magistrates to direct men on family violence intervention orders to attend behaviour change programs;
- a further \$1.5 million to enhance regional family violence networks so local communities can more effectively prevent and respond to family violence; and
- two family violence prevention pilots (one in a rural area and one in a metropolitan area), involving intensive prevention projects to be undertaken in partnership with local communities.

The Minister advised that the strategy is intended as a blueprint for all Government agencies to act together, reflecting the Government's commitment to joined-up service delivery through a partnership model.⁹⁵⁸

The Committee previously indicated that it considers violence against women to be a significant community issue. It strongly supports the development of the Women's Safety Strategy, as well as the implementation of the above initiatives, which will make a significant contribution to enhancing the safety of Victorian women.

In its report on the 2002-03 Budget Estimates, the Committee stated that the Government needs to monitor the strategy's implementation to ensure key targets and objectives are being met.⁹⁵⁹ The Committee's review of performance measures contained in the 2003-04 Budget Papers

⁹⁵⁸ Hon M. Delahunty, MP, Minister for Women's Affairs, transcript of evidence, 14 May 2003, p.80

⁹⁵⁹ Public Accounts and Estimates Committee, *Report on the 2002-03 Budget Estimates*, 52nd Report, June 2003, pp.484-5

indicates that insufficient information is available to assess the timely and effective implementation of the above initiatives.

Accordingly, the Committee reiterates its 2002–03 recommendation.

Recommendation 79:

The Government establish formal reporting protocols for the Women’s Safety Strategy to ensure key performance targets are established and regularly compared to actual performance.

Recommendation 80:

- (a) The annual report of the Department for Victorian Communities contain detailed information on the progress made in implementing the Women’s Safety Strategy against relevant performance measures and targets; and**
- (b) The Office for Women’s Policy include the strategy’s performance measures and targets under relevant outputs in future Budget Papers.**

13.9 Aboriginal Affairs portfolio

The Minister for Aboriginal Affairs has responsibility, through Aboriginal Affairs Victoria, for the indigenous community and cultural development output within the People, Community Building and Information Services output group of the Department. The Committee noted that machinery of government changes resulted in the transfer of output responsibility from the former Department of Natural Resources and Environment to the Department for Victorian Communities. Exhibit 13.11 shows that the 2003–04 output cost is \$14.6 million, representing 4.1 per cent of the Department’s 2003–04 budget of \$358.6 million.

Exhibit 13.11:

**Aboriginal Affairs Portfolio
Output Costs**

Output Group	Outputs under the responsibility of the Minister for Aboriginal Affairs	2003–04 Output Cost (\$ million)
People, Community Building and Information Services	Indigenous community and cultural development	14.6
Total		14.6

Source: Budget Paper No.3, 2003–04 Budget Estimates, pp.405–6

13.9.1 2003–04 outlook for the portfolio

The priority for the portfolio in 2003–04 is to continue to provide a whole of government approach to Aboriginal affairs, to ensure Aboriginal disadvantage is tackled across all agencies. The major activities planned in the portfolio for 2003–04 revolve around the continued implementation of initiatives announced in the 2002–03 budget, including:⁹⁶⁰

- the Victorian Indigenous Family Violence strategy, which aims to address the incidence of family violence within the Victorian Aboriginal community;
- the Indigenous Community Capacity Building Program, which provides grants funding and organisational support to increase the stability, effectiveness and functioning of local Aboriginal community organisations;
- the Stolen Generations Initiative, which will provide direct service delivery in response to the urgent and complex social, emotional and cultural needs of members of the Stolen Generations through the establishment of the Stolen Generations Organisation;
- the Indigenous Community Infrastructure Program, which will provide capital infrastructure support to some Aboriginal communities;
- improvements to the management and protection of Victoria's Aboriginal heritage, through Government partnerships with

⁹⁶⁰ Hon G. Jennings, MLC, Minister for Aboriginal Affairs, transcript of evidence, 19 June 2003, p.561

Victoria's Aboriginal communities and the efficient administration of State and delegated Commonwealth Aboriginal cultural heritage legislation;

- the development of relevant whole of government policy and planning, including the preparation of the annual Aboriginal affairs report and the implementation of the Council of Australian Governments reconciliation pilot; and
- active promotion of awareness of indigenous culture and issues.

13.9.2 *Key issues impacting on the portfolio*

The Department's response to the Committee's budget estimates questionnaire and estimates hearing identified the following key issues that will have an impact on the portfolio and the budget estimates for 2003–04.

(a) *Indigenous Community Capacity Building Program*

The Committee noted that the Government has allocated approximately \$2 million over two years from the Indigenous Community Capacity Building Program to help develop effective links between Victorian Government agencies and Victorian indigenous community organisations.⁹⁶¹ The Committee was advised that the program has the following four key components:⁹⁶²

- the Indigenous Community Capacity Building Fund, which aims to provide flexible operating grants to indigenous community based organisations, to help them undertake local initiatives that enhance their capacity to work in partnership with Government and deliver community based services. There were 25 successful applications in the first round, equating to approximately \$896,000 in grant funding;
- the Chief Executive Officer Network, for which approximately \$200,000 in funding has been provided to the Victorian Aboriginal Community Controlled Health Organisation to operate the network. The network will build awareness of Victorian Government policy, programs and services among indigenous

⁹⁶¹ Minister for Aboriginal Affairs' response, received 11 July 2003, to the Committee's follow-up questions

⁹⁶² *ibid.*

community organisation managers. It will also promote the development of best practice approaches in community development and organisational management;

- training and support, including a Chief Executive Officer Mentor Program, an Indigenous Community Organisation Officer Exchange Program, an online management resource database and training services. Training and support programs will also be directed at indigenous community organisation managers following the establishment of the Chief Executive Officer Network (approximately \$150,000 over two years); and
- an Internet portal, for which approximately \$125,000 will be allocated over two years to development. The dedicated internet site for Victorian indigenous community organisation managers will provide training and support materials, host online forums and provide direct support to senior staff in the Victorian indigenous community organisation sector.

The Committee supports the Government's effort to develop better links between Victorian indigenous community organisations and Victorian Government agencies. The Government needs, however, to establish an effective monitoring and evaluation framework to ensure the above initiatives achieve the desired outcomes effectively and efficiently.

Recommendation 81:

Aboriginal Affairs Victoria develop a comprehensive monitoring and evaluation framework for the Indigenous Community Capacity Building Program. The framework should include relevant key performance indicators and targets that adequately reflect the effectiveness and efficiency of each of the program's four key components.

(b) *Victorian Indigenous Family Violence Strategy*

In March 2002, the Government established a Victorian Indigenous Family Task Force to lead the development of the Victorian Indigenous Family Violence Strategy announced in the 2002–03 budget. The strategy

aims to resource and support an indigenous led approach to preventing, reducing and responding to the high levels of family violence in indigenous communities throughout Victoria.⁹⁶³ The strategy was developed through the establishment of the following four key components:⁹⁶⁴

- the indigenous Family Violence Task Force;
- nine local indigenous Family Violence Action Groups;
- a state wide co-ordinator and nine indigenous family violence support officers; and
- a \$2.6 million Indigenous Family Violence Community Initiatives Fund.

The Indigenous Family Violence Community Initiatives Fund represents a key component of the strategy: it will provide up to \$650,000 annually over four years for local indigenous community groups to address family violence.⁹⁶⁵ The Minister informed the Committee that the Government had announced in March 2002 the allocation of approximately \$638,000 in grants from the fund for projects designed to reduce family violence in indigenous communities across Victoria.⁹⁶⁶ The projects comprise six projects in the major grants category (up to \$100,000 per project) and nine projects in the minor grants category (up to \$15,000 per project).

The Committee noted that both the Budget Papers and the whole of government indigenous affairs report provide insufficient information to assess the effectiveness and success of initiatives implemented through the funded projects. The Minister acknowledged this situation and advised that the Indigenous Family Violence Taskforce is investigating options for appropriate performance monitoring and the evaluation of effectiveness. The Minister stated that the taskforce will report to the Government on this issue in late 2003.⁹⁶⁷

The Committee supports the Government's initiatives aimed at reducing family violence within Victoria's indigenous communities. Further, it

⁹⁶³ Department of Natural Resources and Environment, 2002-03 Victorian Budget Fact Sheet, *Victorian Indigenous Family Violence Strategy*

⁹⁶⁴ *ibid.*

⁹⁶⁵ Minister for Aboriginal Affairs, media release, 17 March 2003

⁹⁶⁶ Hon G. Jennings, MLC, Minister for Aboriginal Affairs, transcript of evidence, 19 June 2003, p.563

⁹⁶⁷ *ibid.*

strongly encourages the Government to expedite the development of a performance monitoring and effectiveness evaluation strategy, particularly given the level of funding being allocated for projects in this area.

13.10 Local Government portfolio

The Minister for Local Government has sole responsibility for the local government sector development output within the Supporting Local Government output group of the Department. The Committee noted that machinery of government changes resulted in the transfer of output responsibility from the Department of Infrastructure to the Department for Victorian Communities. Exhibit 13.12 shows that the 2003–04 output cost is \$33 million, representing 9.2 per cent of the Department's 2003–04 budget of \$358.6 million.

Exhibit 13.12:

Local Government Portfolio Output Costs

Output Group	Outputs under the responsibility of the Minister for Local Government	2003–04 Output Cost (\$ million)
Supporting Local Government	Local government development sector	33.0
Total		33.0

Sources: Budget Paper No.3, 2003–04 Budget Estimates, pp.398–9

13.10.1 2003–04 outlook for the portfolio

At the estimates hearing, the Minister indicated that key priorities for the portfolio in 2003–04 included:⁹⁶⁸

- enacting the Local Government (Update) Bill, which will introduce measures to improve accountability, transparency and democracy at the local government level;
- strengthening the local government sector through enhanced financial management and improved community knowledge about council activities, by implementing performance management practices;

⁹⁶⁸ C. Broad, MLC, Minister for Local Government, transcript of evidence, 23 May 2003, p.220

- creating stronger relationships between Government and local government by establishing strategic partnerships with both individual councils and groups of councils;
- improving asset management knowledge and guidelines, including implementing monitoring and continuous improvement practices for infrastructure activities, as well as progressing the proposed Road Management Bill; and
- promoting more integrated services through the administration of local government grants.

13.10.2 Key issues impacting on the portfolio

The Department's response to the Committee's budget estimates questionnaire and estimates hearing identified the following key issues that will have an impact on the portfolio and the budget estimates for 2003–04.

(a) Local Government (Update) Bill

The Minister indicated that a key priority for the Government in 2003–04 is the progression and implementation of legislative reforms to improve democracy and transparency in local government.⁹⁶⁹ The Committee noted that the Government intends to reintroduce the Local Government (Update) Bill into Parliament during 2003. The Minister advised that preparation of the Bill has followed wide consultation on the previous version, with additional consultations with peak bodies and individual councils and shires.⁹⁷⁰

The Committee noted that key changes to be effected through the implementation of the Bill include:⁹⁷¹

- clear and comprehensive reporting of council decisions;
- standard financial reporting to ensure transparency and comparability;

⁹⁶⁹ *ibid.*, p.221

⁹⁷⁰ *ibid.*

⁹⁷¹ Minister for Local Government, media release, 16 May 2002

- the introduction of proportional representation as a standard voting system for multimember elections, to ensure more representative elections;
- independent reviews of electoral systems and electoral boundaries for all councils;
- a requirement for councils to adopt codes of conduct for councillors, which include dispute resolution mechanisms;
- the required public disclosure of campaign donations to council election candidates;
- a requirement for councillors to declare all interests in matters they have before the council, to ensure public transparency in decision making; and
- the introduction of financial management principles similar to those that apply to the State Government.

The proposed changes follow recent complementary amendments to the Victorian Constitution to formally recognise the place of local government as a distinct and essential tier of government.⁹⁷² These amendments also ensure each council is responsible for the good governance of the area designated by its municipal boundaries and that it is accountable for its decisions and actions.⁹⁷³

The Committee noted that recent constitutional amendments, together with proposed changes in the Local Government (Update) Bill, represent the most significant reforms to local government legislation for 15 years.⁹⁷⁴

(b) *Local government infrastructure maintenance*

The Minister advised that a major priority of the portfolio in 2003–04 is the implementation of initiatives to address the problem of inadequate council planning and expenditure in asset renewal projects.⁹⁷⁵ The Minister acknowledged that the Government and the Auditor-General

⁹⁷² S.74A(1), Constitution Act 1975 (Vic)

⁹⁷³ *ibid.*

⁹⁷⁴ C. Broad, MLC, Minister for Local Government, transcript of evidence, 23 May 2003, p.221

⁹⁷⁵ *ibid.*, p.220

(in his June 2002 report, *Management of Roads by Local Government*) have previously acknowledged this problem.⁹⁷⁶

The Minister stated that the Department is undertaking initiatives to build the asset management capability of the sector. These initiatives, which are funded from the Department's existing operating budget, include:⁹⁷⁷

- the Asset Management Performance Measures Project, which has developed a method and a data collection and reporting tool to enable councils to measure their own performance in managing infrastructure assets and to demonstrate continuous improvement. This tool will also provide the Minister with aggregate data on councils' progress in asset management activities;
- the development of asset management policy and guidelines documents to support the sector in asset management planning; and
- asset management forums for local government chief executive officers. These were conducted in early 2003 to provide an overview of the key asset management initiatives being undertaken by the Department and peak bodies, and to identify other initiatives that are required.

The Minister advised that the Government has also set aside approximately \$80,000 for bushfire recovery bridges assessment funding. This funding is to be made available to affected councils to conduct structural assessments of relevant bridges, to determine their level of safety.⁹⁷⁸ Further, the Committee noted that the *Local Government in Victoria 2002* report incorporates two new infrastructure indicators, which will permit ongoing monitoring of the renewal and maintenance spending activities of local governments.⁹⁷⁹

The Committee supports the Government's efforts to strengthen the asset management capability of the local government sector. It considers the ongoing monitoring of local government activities as a positive development. The Committee previously stated that it considers the

⁹⁷⁶ *ibid.*, p.220

⁹⁷⁷ Minister for Local Government's response, received 14 July 2003, to the Committee's follow-up questions

⁹⁷⁸ C. Broad, MLC, Minister for Local Government, transcript of evidence, 23 May 2003, p.224

⁹⁷⁹ *ibid.*, p.219

maintenance of infrastructure as extremely important for the delivery of quality services to the community, and it continues to encourage all municipalities to place a high priority on this process.⁹⁸⁰

(c) Library funding

The Minister advised that of the estimated \$33 million appropriated to the portfolio for the local government development sector output, approximately \$25.8 million in recurrent and capital funding has been allocated to public libraries through the Public Libraries Grants Program.⁹⁸¹ These funds are in addition to the \$12 million in grants provided from the Community Support Fund for the three year Living Libraries Program established in 2000 for the replacement and refurbishment of public library buildings.⁹⁸²

The Committee noted that the \$25.8 million in operating grants provided through the Public Libraries Grants Program in 2003–04 represents approximately a 20 per cent increase in funding provided for public library operating costs since 1998.⁹⁸³ The Minister indicated that the formula to allocate those funds has been revised following extensive consultations with the local government sector. Specifically, in 2003–04, the formula will reflect different pressures on library services across Victoria, including relative socioeconomic status, remoteness, population dispersion and English proficiency.

13.11 Sport and Recreation portfolio

The Sport and Recreation portfolio focuses on:

- providing strategic leadership for the sport and recreation sector, and
- funding, co-ordinating and facilitating services that generate investment to develop, improve and extend sport and recreation facilities throughout Victoria at all levels.⁹⁸⁴

⁹⁸⁰ Public Accounts and Estimates Committee, *Report on the 2001-2002 Budget Estimates*, 43rd Report, November 2001, p.317

⁹⁸¹ C. Broad, MLC, Minister for Local Government, transcript of evidence, 23 May 2003, p. 222

⁹⁸² *ibid.*, p.223

⁹⁸³ Minister for Local Government, media release, 6 June 2002

⁹⁸⁴ Budget Paper No.3, 2003–04 Budget Estimates, p.402

13.11.1 2003–04 outlook for the portfolio

The Minister outlined the following Government objectives for Sport and Recreation:⁹⁸⁵

- to increase participation in sport and physical activity;
- to maximise the range and quality of opportunities available;
- to strengthen sporting organisations to deliver programs and services to the community;
- to develop a better understanding of the commercial potential of the industry;
- to research the benefits for the economy, community and individuals of sport and recreation, and ensure the community is well informed about these opportunities; and
- to build strategic partnerships to make the most of expertise and funding.

The Department will implement sporting initiatives that seek to increase participation in sport by increasing access, building the capacity of sporting organisations and facilitating the upgrade or establishment of State, regional and suburban sporting facilities. These initiatives will build on, and bring a new dimension to, the role that sport plays in bringing together people and building stronger, more active communities. Exhibit 13.13 summarises some of the major initiatives planned for 2003–04.

⁹⁸⁵ Hon J. Madden, MLC, Minister for Sport and Recreation, transcript of evidence, 19 June 2003, p.525

Exhibit 13.13:

**Sport and Recreation portfolio
Major initiatives**

Initiative	Total Estimated Investment (\$ million)
National Ice Skating Centre (business plan)	0.4
Rights for sports spectators (\$0.2 million per year)	1.6
Sport event ticketing legislation (\$0.2 million per year)	n/a
Increasing participation in sport and physical activity	10.0
Strengthening sporting organisations	11.0
Regional sporting organisations and facilities	14.0
Suburban sporting facilities	20.0
Kardinia Park redevelopment	13.5
Sport and recreation camps	3.6

Notes: n/a Not available

Sources: Hon. J. Madden, MLC, Minister for Commonwealth Games, Sport and Recreation, media release, 6 May 2003; and Budget Paper No.2, 2003–04 Budget Statement, p.93

13.11.2 Analysis of the portfolio budget

The total output budget for the Sport and Recreation portfolio is \$82.4 million. It consists of funding for one output – sport and recreation sector development – and accounts for 23 per cent of the Department's output budget for 2003–04 (\$357.8 million). It represents a 70 per cent increase on the original 2002–03 estimate (\$48.4 million in 2002–03), reflecting infrastructure investments related to the Commonwealth Games.

Exhibit 13.14:

**Sport and Recreation portfolio
Output Costs**

Output Group	Outputs under the responsibility of the Minister for Sport and Recreation	2003–04 Output Cost (\$ million)
Sport Recreation and the Commonwealth Games	Sport and recreation development sector	82.4
Total		82.4

Source: Budget Paper No.3, 2003–04 Budget Estimates, pp.400–2

13.11.3 *Key issues impacting on the portfolio*

The Department's response to the Committee's budget estimates questionnaire and estimates hearing identified the following key issues that will have an impact on the portfolio and the budget estimates for 2003–04.

(a) *Major events economic assessments*

At the estimates hearing, the Minister listed the strategic issues for the portfolio, which included 'maintaining Victoria's position as the premier sporting state by attracting and facilitating world class events and maximising their tourism potential and their contribution to the state economy'.⁹⁸⁶ The Committee was interested to learn about Victoria's success in attracting major sporting events to the State and also in understanding how these events contribute to the State's economy.

The Minister confirmed the Committee's understanding that 'before the State puts in any of its financial contributions [to a major sporting event] an independent analysis must be done in order to enable the State to assess whether (or not) it wishes to make a contribution to an event'.⁹⁸⁷ The Minister explained that the Government pursues only events that are expected to provide a net economic benefit to the State.⁹⁸⁸

Amongst the events Victoria will host in the coming years are:⁹⁸⁹

- the 2003 World Superbike Championships;
- the 2003 Rip Curl Pro Surfing Classic;
- the 2003 World Cup Triathlon;
- the 2003 IDSF Ten Dance World Championships;
- the 2004 World Hot Air Ballooning Championships;

⁹⁸⁶ Hon J. Madden, MLC, Minister for Sport and Recreation, transcript of evidence, 19 June 2003, p.526, other strategic issues mentioned were: supporting the development of elite athletes and providing grass-roots openings for talented youngsters; supporting those who reach elite level; building infrastructure to support community sport and recreation; and ensuring a more even spread of sport and recreation opportunities and assets across Victoria, especially for regional Victoria.

⁹⁸⁷ Hon C. Campbell, Chair, Public Accounts and Estimates Committee, transcript of evidence, 19 June 2003, p.528

⁹⁸⁸ Hon J. Madden, MLC, Minister for Sport and Recreation, transcript of evidence, 19 June 2003, p.528

⁹⁸⁹ *ibid.*, p. 527

- the 2004 Women's Road Cycling World Cup;
- the 2004 UCI World Track Cycling Championships;
- the 2005 World Deaflympic Games;
- the 2005 FIG World Artistic Gymnastics Championships;
- the 2006 Commonwealth Games;
- the 2006 Commonwealth Youth Games;
- the 2006 World Life Saving Championships; and
- the 2007 World Swimming Championships.

The Committee was advised that the Government determines estimated economic impacts through:⁹⁹⁰

... the collection of historical data from previous editions of the event and/or the from the event owner. An assessment is then made regarding likely visitation, length of stay and expected expenditure for the event in question.

The actual economic impact is calculated using similar information to the estimation, however a professional survey company (usually at the event venue) collects data directly from event patrons and utilises information such as ticket sales and event budget expenditure. This data is analysed and assessed using a recognised methodology.

Professional firms, such as Ernst and Young, the National Institute of Economic and Industry Research or Victoria University, undertake all estimated and actual assessments of economic impact from major high profile events. The Victorian Major Events Company or the State Government undertakes the estimate and actual assessment of smaller events using a recognised methodology.⁹⁹¹

The Minister for Sport and Recreation told the Committee that 'in 2002-03 the economic impact of major events in Victoria was estimated to be \$956.5 million and this was greater than was achieved in 2001-02'.⁹⁹²

⁹⁹⁰ Minister for Sport and Recreation's response, received 10 July 2003, to the Committee's follow-up questions

⁹⁹¹ *ibid.*

⁹⁹² Hon J. Madden, MLC, Minister for Sport and Recreation, transcript of evidence, 19 June 2003, p.527

In relation to the Commonwealth Games, the Minister informed the Committee that similar events, such as the Sydney Olympics and the Manchester Commonwealth Games, had produced benefit cost multipliers of 2.5, and on this basis expenditure of \$1.1 billion on the Melbourne Commonwealth Games could be expected to generate in excess of \$2 billion in economic benefits.⁹⁹³ A detailed analysis of potential economic, social and environment benefits will be conducted during 2003-04.⁹⁹⁴

The Committee was pleased to learn that economic assessments are regularly undertaken using an independent approach and recognised method. The Committee considers also that post event economic impact analyses should be robust and made available to the Parliament. Further, the Committee considers that the intangible social benefits and environmental impacts of hosting major events should be separately identified and used to complement economic figures.

13.12 Commonwealth Games portfolio

This portfolio provides planning, development, co-ordination and management services in the Office of Commonwealth Games Co-ordination with Melbourne 2006 Commonwealth Games Pty Ltd (the organising company) to ensure the successful preparation and staging of the 2006 Commonwealth Games in Melbourne. The Office of Commonwealth Games Co-ordination manages the relationship with the Melbourne 2006 Commonwealth Games Organising Committee and oversees all Commonwealth Games issues across Government. Its major objectives are:⁹⁹⁵

- to ensure the event is conducted in a transparent manner;
- to provide an event that is safe, enjoyable and affordable to all Australians;
- to maximise the positive international exposure of Melbourne, Victoria and Australia, with the aim of enhancing the State's ability to attract further tourism, business and sporting visitors and major events;

⁹⁹³ Minister for the Commonwealth Games' response, received 10 July 2003, to the Committee's follow-up questions, p.2

⁹⁹⁴ *ibid.*

⁹⁹⁵ www.dtscg.vic.gov.au

- to provide a lasting sport infrastructure legacy (both in personnel and infrastructure) that will stimulate the chances of hosting future sporting events in Victoria;
- to enhance the interest and participation in sport, particularly junior participation;
- to enhance the expertise of sporting associations; and
- to enhance the environmental benefits of the event.

13.12.1 2003–04 outlook for the portfolio

Key initiatives for 2003–04 are to:⁹⁹⁶

- facilitate more detailed planning for the 2006 Commonwealth Games with other agencies;
- develop and implement a memorandum of understanding with all involved agencies; and
- commence sporting and urban infrastructure projects to support the Games' sporting and cultural programs.

In addition, the Budget Papers note that a key element of maximising the legacy of the Games is the volunteering strategy, which aims to increase the scope and diversity of volunteering in Victoria.⁹⁹⁷

The following are among the major plans for 2003–04:⁹⁹⁸

- the Office of Commonwealth Games Co-ordination was allocated additional funding in 2002–03 to continue to manage the Government's role during the preparations for the Melbourne 2006 Commonwealth Games;
- funding provided for the whole of government Commonwealth Games operating budget for the period 2003–04 to 2006–07 includes funding for Melbourne 2006 Commonwealth Games Pty Ltd, the Office of Commonwealth Games Co-ordination and other Victorian departments providing services for the Games;

⁹⁹⁶ Budget Paper No.3, 2003–04 Budget Estimates, p.394

⁹⁹⁷ *ibid.*

⁹⁹⁸ Budget Paper No.2, 2003–04 Budget Statement, Appendix A, p.253

- funding is provided to ensure maximum benefit to Victorian businesses from the Commonwealth Games. Melbourne's preparations for the 2006 Games will be used to showcase Victorian industry to the world and demonstrate the capabilities of Victorian suppliers to provide goods and services to the Beijing Olympics in 2008;
- the State Government has contributed funding (\$77 million in capital costs and \$360 million via a Treasury loan) to the redevelopment of the Northern Stand of the Melbourne Cricket Ground. This project will help maximise the seating capacity for the Commonwealth Games in 2006, as well as for other events; and
- the Government has committed \$109 million in new funding for the development of an Athletes Village at Parkville for the 2006 Commonwealth Games.

In addition to the above output measures, the asset investments shown in Exhibit 13.15 were included in the Budget Statement⁹⁹⁹ for the sport and recreation sector development output. All of the developments listed here are essential to the success for the Commonwealth Games and will provide a legacy of sport and recreation infrastructure beyond 2006. The total estimated investment for these assets is \$25 million.

Exhibit 13.15:

Commonwealth Games Asset Investment

Project	Total Estimated Investment (\$ million)
Athletics track at the Melbourne Cricket Ground	18.5
State mountain bike facility development	3.0
State Netball and Hockey Centre pitch replacement	0.8
Olympic Park athletics track replacement	2.7
Total	25.0

Sources: Department For Victorian Communities, response to the Committee's Budget Estimates Questionnaire, p.29; and 2003-04 Victorian Budget Fact Sheet, Funding for Commonwealth Games Infrastructure, and Minister for the Commonwealth Games, media release, 6 May 2003

⁹⁹⁹ *ibid.*, p.95

Exhibit 13.16 summarises other projects of the sport and recreation sector development output that will also contribute to the success of the Commonwealth Games by enhancing public enjoyment and improving security and accessibility. The total estimated investment for these assets is \$31.2 million.

Exhibit 13.16:**Commonwealth Games Related Asset Investment**

Project	Total Estimated Investment (\$ million)
Pedestrian bridge access to the Melbourne Cricket Ground	27.8
Yarra precinct lighting	2.1
Jolimont station	1.3
Total	31.2

Source: Department For Victorian Communities, response to the Committee's 2003-04 Budget Estimates Questionnaire, p.29; and 2003-04 Victorian Budget Fact Sheet, Funding for Commonwealth Games Infrastructure; and Minister for the Commonwealth Games, media release, 6 May 2003

Finally, Major Projects Victoria is overseeing the Melbourne Sport and Aquatic Centre expansion on a full cost recovery fee for service basis.¹⁰⁰⁰

13.12.2 Analysis of the portfolio budget

The total output budget for the Commonwealth Games portfolio in 2003-04 is \$75.7 million. It consists of one output and accounts for 21.2 per cent of the Department's budget for 2003-04 (\$357.8 million).

Exhibit 13.17:**Commonwealth Games Portfolio
Output Costs**

Output Group	Outputs under the responsibility of the Minister for Commonwealth Games	2003-04 Output Cost (\$ million)
Sport Recreation and the Commonwealth Games	Commonwealth Games	75.7
Total		75.7

Source: Budget Paper No.3, 2003-04 Budget Estimates, Output information p.402

¹⁰⁰⁰ Budget Paper No.3, 2003-04 Budget Estimates, Note (n), p.148

In 2003–04, for the first time all Commonwealth Games related expenditure will be appropriated through the Department. This explains the significant rise in the output budget for the Commonwealth Games (\$24 million in 2002–03, a rise of 215 per cent). In the past, funding related to the Commonwealth Games event but expended by other agencies (such as the Department of Infrastructure, the Department of Justice and the Department of Innovation, Industry and Regional Development) was appropriated directly to the agency. Having all Commonwealth Games funding go through the Department for Victorian Communities will assist reporting and tracking of the full cost of the Commonwealth Games and should improve transparency for this expenditure.

The Minister announced a whole of games budget of \$1.1 billion, which includes a capped Government contribution for operating expenses of \$474 million. The total estimated investment in asset initiative funding is not expected to exceed \$223 million. These figures imply a revenue target of \$403 million for the event.

The Minister advised that the revenue targets developed as part of the whole of games budget are realistic and achievable. The Government is confident that the revenue to be generated by the Games Organising Committee and the Commonwealth Government's funding contribution to the Games will match these expectations. If the actual revenue generated varies from these expectations, then the scope and level of services being provided for the Games will be reviewed to match expenditure to the budget parameters set by the Government.¹⁰⁰¹

In determining the whole of games budget, the Government decided the type of games (in terms of scope and level of services) that it could afford within the broader State Budget context. The Government expects the Games Organising Committee and the Office of the Commonwealth Games to deliver the best ever Commonwealth Games cost effectively within the available budget.¹⁰⁰²

13.12.3 *Key issues impacting on the portfolio*

The Department's response to the Committee's budget estimates questionnaire and estimates hearing identified the following key issues

¹⁰⁰¹ Minister for the Commonwealth Games' response, received 10 July 2003, to the Committee's follow-up questions, p.10

¹⁰⁰² *ibid.*, p.11

that will have an impact on the portfolio and the budget estimates for 2003–04.

(a) Whole of games reporting

The Department is compiling whole of games information for its first annual report. At the same time, the Commonwealth Games output is working to determine the total expenditure for the Commonwealth Games to 30 June 2003. The Committee understands that the Victorian Auditor-General will review this information, which will be presented as part of the Department's annual report due to be tabled in Parliament in October 2003. During the estimates hearings, however, the Minister was unable to advise the Committee of how much had been spent on the Commonwealth Games so far.

Given the announcement of a capped contribution of \$474 million to the operating budget for the Games, along with confirmation that this budget includes expenditure to date as well as budgeted future appropriations,¹⁰⁰³ the Committee is concerned that a better understanding of the Government's expenditure was not available during the estimates process. The Committee considers that it is now imperative that the Department focus on improving Commonwealth Games financial management and its ability to extract and report financial information. This effort must include having systems in place to track all costs and revenue deriving from Commonwealth Games activities.

On a closely related matter, the Committee noted that the budget for the Commonwealth Games had increased significantly from that in the original bid. The Committee asked for a reconciliation of the increases. The Department's response is summarised in Exhibit 13.17.¹⁰⁰⁴

The Commonwealth Games is a large event in terms of the funding invested in it and the attention that the event will receive locally, throughout Australia and internationally. The resources that it consumes and the benefits that it provides must be made transparent at every stage, including the preparation, event and post event phases.

¹⁰⁰³ *ibid.*, p.8

¹⁰⁰⁴ *ibid.*, p.5

Exhibit 13.17:**Commonwealth Games Budget**

Budget Item	Original Budget (\$ million)	Current Budget (\$ million)	Increase	
			(\$ million)	(%)
Capital works ^(a)	97	223	126	129.9
Operating ^(b)	253	474	221	87.4
Total	350	697	347	99.1

Notes: (a) Major infrastructure projects announced as part of the whole of games budget include the Melbourne Cricket Ground Northern Stand redevelopment, the Melbourne Sports and Aquatic Centre stage 2 development, the Birrarung Marr pedestrian bridge, the Melbourne Cricket Ground temporary athletics track, the State mountain bike facility and the social housing component of the Athletes Village.

- (b) The Department advised that the increase in operating budget was due to:
- \$60 million in consumer price index increases over the seven years since the original bid budget was prepared;
 - \$51 million in licence fees (paid to the Commonwealth Games Federation and the Australian Commonwealth Games Association);
 - \$50 million to account for changes to the security environment and the need to pay for additional public transport services under the privatised public transport franchise agreements and free public transport for Games ticket holders; and
 - the remainder for re-scoping other areas, including technology, ceremonies and the legacy program.
 - The Department also advised that the contingency reserve has been increased by \$50 million to align with approaches adopted by other major sporting events.

Source: Minister for the Commonwealth Games' response, received 10 July 2003, to the Committee's follow-up questions, p.5

The Committee therefore encourages the Department's efforts to prepare whole of games financial reports, and it looks forward to these documents being tabled in Parliament. The Committee trusts that this information will enable a better understanding of the resources consumed and benefits derived from hosting the Commonwealth Games.

(b) Commonwealth Games performance measures

The performance measures being reported for the Commonwealth Games are project management milestones focused on timeliness. There are no measures that indicate the quality of work being undertaken for the Games. The Committee recognises that the ultimate performance measure for this portfolio will be the success of the event and that the most appropriate performance measures at present are those that focus on timeliness of activities; nevertheless, it expects that the Department will introduce measures of quality as the Games draw closer.

At least eight key infrastructure projects will be under way in 2003-04.¹⁰⁰⁵ Given the importance of infrastructure to the Commonwealth Games, the Committee would like to see more key project milestones included as performance targets in the Budget Papers.

Of the nine performance measures listed in the 2003-04 Budget Papers for the Commonwealth Games output, only four have 2003-04 targets. Five measures will be discontinued because targets have been achieved. Of the four continuing measures, two relate to the quantity of progress reports prepared, one is a revised target for the commencement of the Athletes Village (given that the original target of February 2003 was not met) and the last measure relates to establishing memoranda of understanding with other Government agencies. The Committee does not believe these measures are sufficient to provide an adequate level of accountability for this portfolio, which will be overseeing Government contributions of \$697 million¹⁰⁰⁶ to the Commonwealth Games.

Recommendation 81:

The Department for Victorian Communities develop performance measures for the Commonwealth Games output that:

- (a) reflect key issues and activities that are the subject of progress reports (rather than focusing on only the production of the reports);**
- (b) relate directly to key project milestones, such as timeliness and cost; and**
- (c) have targets that are disclosed in the Budget Papers.**

(c) *Commonwealth Games infrastructure projects*

Preparations for the Commonwealth Games include significant infrastructure projects. The completion of these projects on time is essential to the success of the Games. The Committee asked the Minister

¹⁰⁰⁵ *ibid.*, pp.2-5

¹⁰⁰⁶ \$474 million towards the operating budget and \$223 million towards capital investments as advised by the Hon J. Madden, MLC, Minister for the Commonwealth Games, transcript of evidence, 19 June 2003, p.548

to provide details of the expected progress and costs of all significant projects as at 30 June 2004, 2005 and the final completion date before the Games in 2006.

The Minister advised that ‘all Commonwealth Games infrastructure projects are tracking on time, for completion in time for the 2006 Games’.¹⁰⁰⁷

The Committee is pleased that the Department is confident that all integral projects will be completed in time for the Commonwealth Games, but it remains concerned that slight delays in commencement, capital expenditure and project progress may lead to increased costs, as projects are necessarily ‘ramped up’ to meet the March 2006 deadline.

The Committee noted earlier in this chapter that the Budget Papers contain insufficient information to track the progress of capital projects.

(d) *Commonwealth Games Athletes Village*

After lengthy consideration, Royal Park was selected as the site for the Athletes Village. The Minister for the Commonwealth Games said the site ‘gives us the opportunity to have long lasting benefits in terms of a benchmark suburb’ and considers that this site could provide the most substantial financial and legacy benefits to the Victorian community.¹⁰⁰⁸

The Minister said the Government had undertaken much public consultation on the development at the Royal Park site. He advised that the selection of the site and the development of project plans were subject to an exhaustive tender process that took over 15 months. The Minister argued that the process secured the best value outcome for the State in terms of both the Games and post Games village development. The site decision was based not only on financial grounds, but also on delivering a positive legacy in the form of a well-integrated, self sufficient housing development after 2006.

The criteria used during the site assessment process included:¹⁰⁰⁹

¹⁰⁰⁷ Hon J. Madden, MLC, Minister for the Commonwealth Games, transcript of evidence, 19 June 2003, p.539, and Minister for the Commonwealth Games’ response, received 10 July 2003, to the Committee’s follow-up questions, p.2; and media release, 19 June 2003

¹⁰⁰⁸ Hon J. Madden, MLC, Minister for the Commonwealth Games, transcript of evidence, 19 June 2003, p.537

¹⁰⁰⁹ Minister for the Commonwealth Games’ response received 10 July 2003 to the Committee’s follow-up estimates questions, p.1

- major project capability;
- project concept and design;
- project delivery capability;
- project costing and financing;
- a social housing concept; and
- environmental initiatives.

Plans for the site include the remediation of approximately 4 hectares of Crown land, which will be replanted with trees and become an important link with the proposed adjacent Royal Park wetlands.¹⁰¹⁰

¹⁰¹⁰ Minister for the Commonwealth Games, media release, *Bracks Government expands Royal Park*, 20 August 2003

Chapter 14: PAEC interim response to the Auditor-General's performance audit report on Parliamentary Control and Management of Appropriations

Key findings of the Committee:

- 14.1 The Committee agrees with the Auditor-General on the need to re-examine the balance between the Parliament's ability to scrutinise and approve the spending of public money and the Executive Government's discretion to manage and fund resources to meet emerging demands and developments.
- 14.2 The Committee intends to further examine the issues relating to parliamentary control and management of appropriations, along with the arrangements for ex post accountability for performance outcomes.

14.1 Introduction

The Auditor-General's recent report on *Parliamentary Control and Management of Appropriations*¹⁰¹¹ has suggested a number of reforms be made to the current legislative and administrative arrangements associated with parliamentary appropriations. As the Parliament has delegated responsibility for undertaking the detailed review of appropriations to the Public Accounts and Estimates Committee, the Committee has included in this budget estimates report a review of the significant issues raised by the Auditor-General.

As the proposed reforms have implications for the Parliament, the Government and this Committee, the PAEC intends at a later stage to report on these matters in greater detail.

The key audit finding was that the recent financial management and accountability reforms provide the Executive Government with

¹⁰¹¹ Victorian Auditor-General's Office, *Report on Parliamentary control and management of appropriations*, April 2003

substantial discretion over spending taxpayers' funds.¹⁰¹² During 2001–02, State expenditure (excluding local government expenditure) totalled \$29,989 million, of which \$21,760 million (72 per cent) was funded from parliamentary appropriations.¹⁰¹³

The audit report aimed to provide Parliament with an opportunity to reassess how well it is placed to exercise effective control over public finances and to hold the Executive Government to account for performance outcomes. It identified ways of strengthening the effectiveness of parliamentary control and the management of appropriations. The Auditor-General considered that there is scope to significantly improve scrutiny and accountability arrangements so as to enhance the transparency of the Government's operations and to facilitate Parliament's monitoring of public spending.¹⁰¹⁴

14.2 The appropriations process

In Victoria, the annual appropriations process is the key means by which Government spending receives parliamentary approval. This process involves Members of Parliament annually debating and voting on the Government's funding requests which are specified in the annual appropriation Acts and supported by supplementary information in the Budget Papers.

The annual appropriation Acts provide the legal authority for the Government to make payments from the Consolidated Fund for the purposes specified in the Acts.

Further spending authority arises from special (standing) appropriations that are instituted in specific legislation. These special appropriations generally relate to payments that need to be made on an ongoing basis independent of the Government's annual budget priorities.

To provide the Government with budgetary flexibility in managing the State's financial affairs and responding to emerging needs and developments, the legislative framework also includes provisions that enable the Government to reallocate and augment existing appropriations. These flexibility provisions include the annotation of

¹⁰¹² *ibid.*, p.4

¹⁰¹³ *ibid.*, p.3

¹⁰¹⁴ *ibid.*

receipts, borrowing against future appropriations, the carry-forward of unused appropriations, the transfer of appropriations within the same Department, the Treasurer's Advance and temporary advances.¹⁰¹⁵

Since 1993–94, annual appropriations have been generally provided to Departments on a global basis – that is, as high level, aggregated budget allocations for broad operating and capital purposes. This approach has provided substantial resource management flexibility to the Government.¹⁰¹⁶

In 1998–99, the Government adopted an accrual output-based budgeting and appropriation framework that fundamentally changed the nature of appropriations and the way in which they are managed.¹⁰¹⁷

The current budgeting and appropriation framework is based on a purchaser/provider model, under which Parliament provides appropriation authority to the Treasurer (acting as the purchaser on behalf of the Government) to purchase outputs from Departments (the providers), based on the agreed accrual (full) cost of delivering the outputs.¹⁰¹⁸ The Treasurer applies the appropriations once satisfied that the relevant Departments have delivered the agreed outputs according to the standards specified. The 'price' paid for the outputs includes costs incurred but not yet paid (such as creditors), depreciation (representing the consumption/depletion of asset capacity with output delivery) and a capital assets charge (reflecting the cost of capital tied up in the net assets employed).¹⁰¹⁹

Annual appropriations to Departments are for the following three purposes:¹⁰²⁰

- providing outputs (that is, producing services or goods);
- making additions to the net asset base (that is, acquiring or constructing new assets or the injection of capital funding); and

¹⁰¹⁵ *ibid.*, p.11

¹⁰¹⁶ *ibid.*

¹⁰¹⁷ *ibid.*

¹⁰¹⁸ *ibid.*, pp.33, 35 and 37

¹⁰¹⁹ *ibid.*, p.28

¹⁰²⁰ *ibid.*, p.19

- making payments on behalf of the State (that is, paying transfers, central financing costs and other expenditure not directly related to the purchase of services or goods by the Government).

Under the current framework, the Government performs the combined role of purchaser, funder and owner, with the Treasurer (on behalf of the Government) being purchaser under the appropriation Acts in the application of appropriations.¹⁰²¹ Portfolio Ministers and departmental Secretaries act as providers of goods and services that may be supplied either internally or by external service providers; they also act as managers of the 'ownership' interest in Departments. Portfolio Ministers and departmental Secretaries are:¹⁰²²

- responsible for the delivery of agreed outputs and ultimately accountable for such delivery to the Government, through the Treasurer and the Minister for Finance as detailed in the Financial Management Act; and
- accountable to the Government for their operating results and the management of assets and other resources (that is, the management of the 'ownership' interest).

14.3 Audit findings and recommendations and Department of Treasury and Finance response

The following sections provide a brief outline of the key findings and recommendations of the Auditor-General in relation to the budgeting and parliamentary appropriations system and its components. Also included are the responses of the Department of Treasury and Finance to the audit findings and recommendations.

14.3.1 *Global appropriations*

Since 1993-94, annual appropriations to Departments have been provided on a global basis, with changes in focus over the years. Between 1993-94 and 1997-98, appropriations were generally provided to Departments for two purposes: (1) recurrent expenditure and (2) capital expenditure.¹⁰²³ From 1998-99, annual appropriations have been

¹⁰²¹ *ibid.*, pp. 26-29

¹⁰²² *ibid.*, p.27

¹⁰²³ *ibid.*, p.11

provided for three purposes: (1) providing outputs, (2) making additions to the net asset base and (3) making payments on behalf of the State.¹⁰²⁴

As an example, the *Appropriation Act 2002* (covering the 2002–03 financial year) authorised \$19,576 million expenditure on 30 individual items across the various Departments, including the Treasurer's Advance. Of these appropriation items, nine related to the provision of outputs by Departments and accounted for \$17.1 billion (or 87 per cent) of the annual appropriation to Departments. The balance mainly related to appropriations for additions to net assets (\$792 million, or 5 per cent), payments on behalf of the State (\$932 million, or 5 per cent) and the Treasurer's Advance (\$622 million, or 3 per cent).¹⁰²⁵

In support of the global appropriations, section 40 of the *Financial Management Act 1994* requires the Government to provide supplementary information to Parliament in the Budget Papers. This information includes the outputs that each Department expects to deliver and a description of the total funds available to each Department during the relevant period. The supplementary information is not binding, however, in that the Government is free to shift monies between outputs within the same Department.¹⁰²⁶

The Directions issued by the Minister for Finance under the Financial Management Act require Departments to include in their annual reports a comparison of the output targets specified in the Budget Papers with actual performance. This requirement represents the accountability mechanism whereby Departments are accountable to Parliament for their output performance.¹⁰²⁷

In the audit report, the Auditor-General noted that Parliament's direct control over Government spending is limited under the global appropriations system.¹⁰²⁸ A particular concern, given the diversity of portfolios and programs managed by Departments, is that Parliament exercises little directive control over spending on key areas of public service delivered by individual Departments.¹⁰²⁹ The Department of Human Services, for example, incorporates the portfolios of Health, Aged

¹⁰²⁴ *ibid.*, p.19

¹⁰²⁵ *ibid.*, p.34

¹⁰²⁶ *ibid.*

¹⁰²⁷ *ibid.*, p.35

¹⁰²⁸ *ibid.*, p.36

¹⁰²⁹ *ibid.*

Care, Housing and Community Services. The Department of Infrastructure includes the portfolios of Transport; Information and Communication Technology; Major Projects and Energy Industries.

The Auditor-General considered that the role of Parliament in directing Government expenditure to major areas of public service and/or policy needs to be considered, particularly the disaggregation of the global departmental appropriations to levels such as portfolios or major public sector agencies within those portfolios.¹⁰³⁰

The Department of Treasury and Finance does not agree with the Auditor-General.¹⁰³¹ The Department responded by noting that the disaggregation of the appropriations would have no impact on parliamentary control of appropriations unless either the structures of the Departments or the provisions of the Financial Management Act are changed.¹⁰³² The main reason for the disagreement is that the existing provisions of the Financial Management Act allow appropriation amounts to be transferred within the same Department. More particularly, the Department is concerned that a disaggregation of appropriations would run counter to the fundamental structural principle of Victorian Departments, which cover related portfolios to facilitate co-ordinated (or joined-up) delivery of services.¹⁰³³

14.3.2 Budget management provisions

In addition to the flexibility provided under the global appropriation arrangements, further flexibility is available to the Government to reallocate and augment existing parliamentary appropriations as circumstances require, without parliamentary approval. The key budget management mechanisms available to the Government under the existing legislative framework cover:¹⁰³⁴

- the Treasurer's Advance, which is a specific allocation included in the annual appropriation legislation for 'urgent' and unforeseen expenditure claims; (included in schedule 1 of the annual Appropriation Act)

¹⁰³⁰ *ibid.*

¹⁰³¹ *ibid.*, p.60

¹⁰³² *ibid.*

¹⁰³³ *ibid.*

¹⁰³⁴ *ibid.*, p.36

- salary and related cost increases (under s.3(2) of the annual Appropriation Act);
- the appropriation of additional Commonwealth grants received post-Budget (under s.10 of the Financial Management Act);
- borrowing against future year appropriations, for additional expenditure that accrues benefits for future years, with the amount borrowed capped at 3 per cent of the relevant Department's annual appropriation (under s.28 of the Financial Management Act);
- annotated receipts, which are specified departmental receipts under the terms and conditions agreed between the responsible Minister and the Treasurer (under s.29 of the Financial Management Act);
- transfers between items of departmental appropriation (under sections 30 and 31 of the Financial Management Act);
- the carry-forward of unused appropriations, which are surpluses from output provision that are available for spending by Departments in future years without parliamentary approval (under s.32 of the Financial Management Act);
- the draw-down of (accrual-based) appropriations provided in previous years for the payment of liabilities (such as creditors and employee entitlements) and asset replacements (under s.33 of the Financial Management Act); and
- temporary advances for 'urgent' expenditure claims, with the authority limit capped at 5 per cent of total annual appropriations (under s.35 of the Financial Management Act).

Looking at 2001–02 as an example, about \$2.9 billion (or 13 per cent) of the total appropriations applied (\$21.8 billion) was incurred using the authority of the discretionary Budget management provisions.¹⁰³⁵ The supplementation amounts were 8–11 per cent in the previous three years.¹⁰³⁶

¹⁰³⁵ *ibid.*, p.37

¹⁰³⁶ *ibid.*

At present, the Government and its agencies are subject to the following accountability arrangements for the application of discretionary budget management provisions:¹⁰³⁷

- annual appropriation legislation must include accompanying schedules that provide a summary of payments made in the most recently completed financial year from the Treasurer's Advance and from temporary advances, with the payments deemed to be appropriated once the legislation is passed by Parliament;
- the Government's annual financial report must include details of annotated receipts, borrowing against future appropriations, transfers of appropriations within Departments, the carry-forward of unused appropriations, expenditure against carried-forward appropriations and expenditure against the Treasurer's Advance and temporary advances; and
- departmental annual reports must present a compliance statement that summarises available appropriation authorities and the appropriation amounts applied against those authorities.

The Auditor-General made recommendations in the audit report aimed at enhancing parliamentary control over, and *ex post* accountability for, the use of budget supplementations. These recommendations are outlined below.

The Auditor-General considered that there is scope to improve the quality of the disclosures for annotated receipts (\$1.4 billion in 2001-02), which represent the largest source of budgetary flexibility exercised by the Government.¹⁰³⁸ Under the current reporting regime, the Budget Papers and the Government's annual financial report show only the total amounts of such receipts for each Department; the users of these reports cannot ascertain the key sources of the receipts. The Auditor-General argued that the Budget Papers, departmental financial statements and the Government's annual financial report should contain a summary of the composition of the receipts.¹⁰³⁹

The Auditor-General also noted that legislation does not cap the extent to which the Government can access budget management provisions to

¹⁰³⁷ *ibid.*, pp.37-38

¹⁰³⁸ *ibid.*, p.38

¹⁰³⁹ *ibid.*

increase spending without further parliamentary sanction, except for the Treasurer's Advance, temporary advances and borrowing against future appropriations.¹⁰⁴⁰ There are no legislated limits on, for example, the amount of unspent appropriations that may be carried forward to a subsequent year, the extent to which annotated receipts augment approved net appropriations and the transfer of appropriations within the same Department.¹⁰⁴¹

While the Auditor-General recognised that the imposition of legislated caps or limits on the use of budget management provisions, in addition to those in place, would reduce the Government's financial flexibility, he argued that these measures should be considered as a means of strengthening Parliament's control over public spending.¹⁰⁴² Under this approach, Parliament would establish boundaries for the Government's exercise of discretionary expenditure authority; it would approve, *ex ante* through a subsequent appropriation Bill, non-urgent proposed expenditures beyond such boundaries.¹⁰⁴³

The audit report pointed out that the Victorian Government (unlike the Commonwealth and New South Wales governments) does not usually obtain parliamentary appropriations for non-urgent funding needs by tabling supplementary appropriation Bills during the year.¹⁰⁴⁴

The accrual appropriation regime allows Departments to accrue substantial financial assets that represent appropriations that have been applied but for which money has not been drawn from the Consolidated Fund.¹⁰⁴⁵ These funds are available for spending without further parliamentary approval. The unspent appropriations may be attributable to:¹⁰⁴⁶

- appropriations previously applied for the payment of future liabilities (such as creditors and employee entitlements) and depreciation expenses; and

¹⁰⁴⁰ *ibid.*, p.38

¹⁰⁴¹ *ibid.*

¹⁰⁴² *ibid.*, p.39

¹⁰⁴³ *ibid.*, p.67

¹⁰⁴⁴ *ibid.*, p.67

¹⁰⁴⁵ *ibid.*, p.40

¹⁰⁴⁶ *ibid.*

- surpluses arising from the provision of outputs (that is, where the amount of the appropriations exceeded the expenditure incurred by the Department).

At 30 June 2002, \$1.6 billion from the Consolidated Fund was available for Departments to draw over future years.¹⁰⁴⁷ The unspent appropriations for each Department are recorded within the State Administration Unit, which is a form of ledger accounts.¹⁰⁴⁸

Departments disclose the total amount of their financial assets as part of the 'receivables' in their annual financial reports. This total is also disclosed in the Government's annual financial report as part of the Consolidated Fund balance.¹⁰⁴⁹ These reports do not, however, disclose components of the balances, such as the surplus component (which may be used to fund outputs not of an ongoing nature) and the depreciation component (which is available to fund asset replacement in future years).¹⁰⁵⁰

The Auditor-General argued for improving the balance related disclosures provided in financial reports, given that the financial assets represent increasingly significant resources available to Departments and the Government for future use. The Auditor-General noted that this improvement could be achieved by Departments and the Government including in their annual financial reports:¹⁰⁵¹

- the key components of the balances; and
- the application of the components attributable to departmental surpluses and depreciation, a summary of the outputs funded and assets replaced with these funds.

Further, the Auditor-General recommended consideration of the establishment of an upper limit for surpluses that Departments may retain for subsequent draw-down from the Consolidated Fund.

The general view of the Department of Treasury and Finance is that the current balance between *ex ante* parliamentary control (typically in the form of appropriation legislation and supporting Budget Papers) and *ex*

¹⁰⁴⁷ *ibid.*, p.58

¹⁰⁴⁸ *ibid.*, p.57

¹⁰⁴⁹ *ibid.*, p.40

¹⁰⁵⁰ *ibid.*, p.41

¹⁰⁵¹ *ibid.*, p.40

post monitoring and accountability is appropriate and that the budgetary flexibility provided is necessary to support high levels of departmental performance.¹⁰⁵² The Department does not recognise a need to impose any additional caps or limits on the Budget management provisions. It also considers that the existing *ex post* accountability arrangements are sufficiently strong. The arrangements include Departments reporting actual output delivery against what they published in the Budget Papers for scrutiny by Parliament.¹⁰⁵³

14.3.3 Special appropriations

Special appropriations are standing spending authorities in specific legislation for payments that need to be made on a one off or ongoing basis.¹⁰⁵⁴ They are established to fund protected expenditures, such as salaries of the judiciary, the costs of Parliament, electoral expenses and employer contributions to superannuation fund retirements. They also facilitate the hypothecation of revenue for specific purposes, such as gambling revenue for the funding of public hospitals.¹⁰⁵⁵

While the application of special appropriations does not require annual authorisation by Parliament, the Government's annual Budget Papers include estimates of such appropriations expected in the year. Substantial expenditure is funded each year under special appropriation authority, with this authority provided by about 30 individual Acts of Parliament. This expenditure represented about 9 per cent of applied appropriations in 2001-02 and comprised mainly the automatic hypothecation of gambling revenue for specified purposes, along with payments to reduce State debt and unfunded superannuation liabilities.¹⁰⁵⁶

The level of expenditure incurred under the authority of special appropriations has been reasonably steady in recent years. Given the ongoing and generally uncapped nature of such appropriation authorities, however, the Auditor-General recommended that they be continually reviewed to ensure they remain appropriate.¹⁰⁵⁷

¹⁰⁵² *ibid.*, p.60

¹⁰⁵³ *ibid.*

¹⁰⁵⁴ *ibid.*, p.41

¹⁰⁵⁵ *ibid.*

¹⁰⁵⁶ *ibid.*, pp.41-2

¹⁰⁵⁷ *ibid.*, p.42

14.3.4 Parliamentary scrutiny and oversight of budget estimates and outcomes

Under the current appropriation framework, the Government is required to table supplementary information in Parliament (through the Budget Papers) in support of the annual appropriations. It is not, however, legally bound to direct its spending according to the plans and priorities specified in the Budget Papers as they represent supplementary information which is not appended to the Appropriation Act.

The Auditor-General noted that the global appropriation approach has placed substantial importance on the effectiveness of Parliament's review processes in ensuring informed parliamentary debate and voting on the annual appropriation Bills and the related expenditure plans and priorities of the Government. Effective *ex post* accountability to Parliament through the annual reports of individual Departments is also critical, given that these reports facilitate Parliament's oversight of Government spending and stewardship.¹⁰⁵⁸

The audit report raised major issues in relation to the Parliament's processes for reviewing budget estimates and outcomes, and also the quality of information included in the Budget Papers and annual reports. A major part of the Public Accounts and Estimates Committee's work program involves the scrutiny of departmental estimates incorporated in the Budget Papers. At present, the Committee hearings are finalised and the estimates report is tabled in the Parliament after the appropriation Bills have been debated and passed by Parliament.

Other Australian jurisdictions have adopted the following approaches to ensure the timeliness of parliamentary scrutiny of budget estimates:¹⁰⁵⁹

- the establishment of multiple select committees that participate in budget briefings and hearings within short time frames, to report to Parliament before the appropriation legislation is passed; and/or
- the establishment of supply arrangements that operate for an interim period into the following financial year, pending Parliament's consideration, scrutiny and passing of the appropriation legislation later in the year.

¹⁰⁵⁸ *ibid.*

¹⁰⁵⁹ *ibid.*, p.43

The audit report identified the following major deficiencies in the information provided in Victoria's Budget Papers and agencies' annual reports:¹⁰⁶⁰

- the Budget Papers do not include a reconciliation of the aggregate expenditure detailed in the papers with the value of appropriations subject to parliamentary consideration. As a result, when voting on the annual appropriation legislation, Members of Parliament cannot readily ascertain the extent to which Budget Sector expenditure disclosed in the Budget Papers is subject to parliamentary control through the appropriation process;
- there is no requirement for changes to output performance measures and targets to be disclosed and detailed in the Budget Papers and annual reports. As a result, the comparability of performance information across years and Parliament's capacity to assess performance trends are limited;
- while information on departmental objectives, outputs and associated performance measures and targets is available to Parliament through the Budget Papers, Departments and other public sector agencies are not required to table or otherwise make publicly available *ex ante* information on the corporate objectives, priorities, key indicators of efficiency and effectiveness, and associated performance targets. The Auditor-General argued that the availability of this information to Parliament would assist assessment of the Government's appropriation requests and facilitate effective *ex post* accountability for performance;

To enhance the effectiveness of parliamentary oversight and accountability by the Government, the Auditor-General recommended that consideration be given to:¹⁰⁶¹

- ensuring the more timely conduct and finalisation of Parliament's scrutiny and reporting of budget estimates and outcomes;
- disclosing reconciliations of estimated expenditures shown in the Budget Papers with parliamentary appropriations sought by the Government;

¹⁰⁶⁰ *ibid.*, pp.42-44

¹⁰⁶¹ *ibid.*, p.44

- strengthening the output performance reporting requirements to explicitly provide for the disclosure of changes to the performance measures and targets;
- requiring all Departments to disclose (within their annual financial reports) information on both the actual and budgeted revenues and expenditures for each output class for the current and previous years; and
- requiring all Departments to table in Parliament their corporate plans, including key performance indicators and targets.

The Department of Treasury and Finance's response indicated in principle support for greater disclosure of information relevant to assessing the performance of Departments, and also for any practical means of facilitating Parliament's timely and informed scrutiny of Budget estimates and outcomes.¹⁰⁶² The Department does not support, however, the disclosure of the following additional information, as recommended by the Auditor-General, because it believes that the information is of limited use, difficult to interpret and costly to produce:¹⁰⁶³

- a detailed reconciliation of estimated expenditures shown in the Budget Papers with parliamentary appropriations;
- the ongoing reporting of discontinued performance measures; and
- the inclusion of actual and budget financial data for outputs.

Regarding the tabling of Departments' corporate plans in Parliament, the Department of Treasury and Finance believes that the intentions and performances of agencies are well reflected in the Budget Papers and annual reports tabled in Parliament.¹⁰⁶⁴ While acknowledging that the planning process is crucial to achieving Government outcomes, the Department regards the details to be internal departmental matters rather than matters for Parliament.¹⁰⁶⁵

¹⁰⁶² *ibid.*, pp.60-61

¹⁰⁶³ *ibid.*, p.60

¹⁰⁶⁴ *ibid.*, p.61

¹⁰⁶⁵ *ibid.*

14.3.5 Administration of appropriations

The Treasurer is authorised by the annual appropriation Acts to apply the appropriations approved by Parliament. The application of the appropriations is based on a certification by the Minister for Finance of the outputs delivered by Departments (referred to as 'the revenue certification process').¹⁰⁶⁶

The audit report pointed out that the departmental performance information used for the revenue certification process is not subject to any periodic independent validation.¹⁰⁶⁷ The Auditor-General recommended the development of appropriate strategies and procedures to provide for periodic independent validations of Departments' performance data and the underlying information systems.¹⁰⁶⁸ The audit report mentioned that both the United States and the United Kingdom have such a requirement for their public sector agencies.¹⁰⁶⁹

The report also noted that some performance measures of Departments focus on only certain aspects of output delivery, so do not adequately capture overall output performance. This is an inherent limitation of the current output management regime.¹⁰⁷⁰

To enhance departmental accountability and the effectiveness of the appropriation certification process, the Auditor-General recommended that the output measures and targets published in the Budget Papers should seek to capture the key aspects of output delivery and be supplemented with brief supporting information on the underlying complexities and key drivers of quantity and quality.¹⁰⁷¹

The Auditor-General also recommended that:¹⁰⁷²

- a review of quarterly performance measures and targets be undertaken to enable Departments to more clearly demonstrate progress in their delivery of agreed outputs during the quarterly revenue certification process;

¹⁰⁶⁶ *ibid.*, p.46

¹⁰⁶⁷ *ibid.*, p.47

¹⁰⁶⁸ *ibid.*

¹⁰⁶⁹ *ibid.*

¹⁰⁷⁰ *ibid.*, p.49

¹⁰⁷¹ *ibid.*, p.50

¹⁰⁷² *ibid.*, pp.51-54

- the Department of Treasury and Finance develop a comprehensive method to better guide and assist the assessment of departmental output performance and to drive the delivery of improved outcomes;
- the Treasurer and relevant Minister sign appropriate agreements on all receipt sources that are qualified for the annotated receipt arrangements, with such agreements to be finalised before each financial year commences; and
- the appropriation authority associated with annotated receipts be applied only where the conditions/requirements relating to such receipts (such as the conditions of Commonwealth Government grant funding) have been satisfied. Where the conditions/requirements have not been met at year end, Departments should seek approval to carry-forward the appropriation authority to the subsequent financial year, under the authority of s.32 of the Financial Management Act.

The Department of Treasury and Finance agrees with the need for more focused, relevant and comprehensive performance measures of outputs, as well as for appropriate mechanisms to ensure the integrity and reliability of the supporting management information systems.¹⁰⁷³ It also considers that it is equally important to have evidence based evaluation of effectiveness to ensure outputs are achieving Government's desired outcomes, and to have benchmarking and process analysis to ensure outputs are being efficiently produced.¹⁰⁷⁴ Further, the Department advised that it is amending the administrative guidelines to ensure the appropriation authority associated with annotated receipts is applied only when the conditions relating to such receipts have been met.¹⁰⁷⁵

The audit report identified inconsistencies between the accrual-based appropriation arrangements and the funding models adopted by some Departments.¹⁰⁷⁶ One example relates to the funding arrangements between the Department of Education and Training and the Technical and Further Education (TAFE) institutes (the service providers) for the delivery of outputs. The arrangements do not provide for the funding of

¹⁰⁷³ *ibid.*, p.61

¹⁰⁷⁴ *ibid.*

¹⁰⁷⁵ *ibid.*

¹⁰⁷⁶ *ibid.*, p.55

depreciation (that is, for the maintenance of asset capacity during output delivery). Instead, the Department assesses institutes' requests for capital funds independent of the output pricing regime and incorporates them into the Department's capital program as appropriate.¹⁰⁷⁷ The audit report noted a similar inconsistency in the funding arrangements between the Department of Human Services and public hospitals.¹⁰⁷⁸

While the Auditor-General acknowledged that the practice of Departments not to on-pass depreciation funding to output delivery agencies facilitates central control over asset investment decisions, he is concerned about a possible negative effect on the capacity of agency managers to exercise effective asset management and planning given the uncertain availability of asset replacement funding.¹⁰⁷⁹

Given the significance of the issues in the context of the accrual-based (full cost) appropriations and funding regime, the Auditor-General recommended that:¹⁰⁸⁰

- an examination of the impacts of the above two and other similar funding arrangements on service provider/managerial behaviour, to assess the arrangements' sustainability and consistency with the output-based purchaser/provider model; and
- the Budget Papers provide enhanced transparency in relation to the operational impacts of such arrangements, to facilitate a more informed parliamentary debate of the annual appropriation Bills.

The Department of Treasury and Finance considers that the existing funding arrangements for depreciation allow the Government the greatest flexibility, as an owner, in determining the quantum and timing of asset investment in its businesses, so as to best achieve its outcomes by varying the level of asset investment across priority areas.¹⁰⁸¹

The State Administration Unit was established within the Public Account to meet the accounting and accountability needs that arise from new accrual-based output management arrangements. These arrangements include the recording of the Treasurer's application of appropriations

¹⁰⁷⁷ *ibid.*

¹⁰⁷⁸ *ibid.*

¹⁰⁷⁹ *ibid.*, p.56

¹⁰⁸⁰ *ibid.*

¹⁰⁸¹ *ibid.*, p.61

(which may be accessed over future financial periods to cover incurred costs that become due) and the departmental draw-down of monies from the Consolidated Fund.¹⁰⁸²

A further function of the unit is to facilitate the achievement of effective cash management within the Budget sector, whereby the Consolidated Fund holds departmental entitlements to the cash equivalent of applied appropriations (representing receivables of Departments) until the Departments need to draw down those entitlements to meet cash requirements. This arrangement prevents individual Departments from holding substantial cash balances across separate bank accounts.¹⁰⁸³

In recognition that the State Administration Unit account balance represents a substantial resource that can be used in part to supplement future output delivery and asset replacement, the Auditor-General recommended that consideration be given to:¹⁰⁸⁴

- improving the disclosures in departmental annual reports and the Government's annual financial reports of the composition of State Administration Unit account balances and the application of such balances; and
- establishing upper monetary limits for the appropriation surpluses that Departments may retain for subsequent draw-down from the Consolidated Fund.

The Department of Treasury and Finance acknowledges that greater disclosure of the composition of the State Administration Unit account balances may be of use to Parliament, but does not agree with providing detailed disaggregation of transactions within the Account or requiring re-appropriation of funds that Parliament has already appropriated.¹⁰⁸⁵

14.3.6 Use of the Treasurer's Advance

The Treasurer's Advance represents a specific appropriation given to the Treasurer each year, as part of the annual appropriation Act, to meet any 'urgent claims that may arise before Parliamentary sanction is obtained'. Given that State Budgets represent estimates of revenue and expenditure

¹⁰⁸² *ibid.*, p.57

¹⁰⁸³ *ibid.*, p.59

¹⁰⁸⁴ *ibid.*

¹⁰⁸⁵ *ibid.*, p.61

based on expected conditions over future periods, the Auditor-General considers that it is not unreasonable for the Budgets to include provision for unforeseen events.¹⁰⁸⁶ Parliamentary approval for the money spent out of the Treasurer's Advance is obtained through the subsequent financial year's annual appropriation Act, which includes a schedule outlining all payments made against the advance. Accountability for the use of the Treasurer's Advance also occurs through the a summary of each year's expenditure in the Government's annual financial report, which is tabled in Parliament after the end of the financial year.¹⁰⁸⁷

The level of the Treasurer's Advance, compared with the total budgeted expenditure, does not seem unreasonable. The value of the Treasurer's Advance has been equivalent to about 2 per cent of total annual appropriations in recent years.¹⁰⁸⁸

The Auditor-General, however, is concerned that the appropriation Acts and other legislation do not clearly define what constitutes 'urgent claims'. Further, criteria for urgent claims have not been established at an administrative level to guide assessments of departmental claims for use of the Treasurer's Advance. As a result, the type of expenditure able to be funded from the Advance has been open to wide interpretation, in terms of the urgency or otherwise of the expenditure.¹⁰⁸⁹

The audit report referred to the Commonwealth Government as an example of tighter legislative and administrative prescription of the conditions under which expenditures may be funded from the Treasurer's Advance.¹⁰⁹⁰ The report has also noted that governments within Victoria in recent times have not used supplementary appropriations to seek parliamentary approval for expenditure needs that have arisen after the annual appropriation process; instead, they have relied on the Treasurer's Advance to fund new or additional outputs and capital works.¹⁰⁹¹

The Auditor-General recommended that consideration be given to more clearly defining in the annual appropriation Acts and the associated administrative guidelines the purposes to which the Treasurer's Advance

¹⁰⁸⁶ *ibid.*, p.65

¹⁰⁸⁷ *ibid.*

¹⁰⁸⁸ *ibid.*, p.66

¹⁰⁸⁹ *ibid.*, p.67

¹⁰⁹⁰ *ibid.*

¹⁰⁹¹ *ibid.*

may be applied.¹⁰⁹² In response, the Department of Treasury and Finance notes, given that use of the Treasurer's Advance is subject to scrutiny through the subsequent year's appropriation Bills and also through the Government's annual financial report, that the important point should be to apply the advance 'when immediate attention is required to avoid a situation developing with more serious ramifications'.¹⁰⁹³ The Department does not believe that more precise prescription of when and how to use the Treasurer's Advance would significantly change the situation.¹⁰⁹⁴

14.3.7 *Role of the Trust Fund*

The Trust Fund¹⁰⁹⁵ was established under the Financial Management Act as a separate and discrete component of the Public Account. It comprises:¹⁰⁹⁶

- accounts established to record the receipt of certain Consolidated Fund appropriations and their disbursement for specified purposes. These include trust accounts established to record the receipt and disbursement of State revenue that is hypothecated (through special appropriations) for particular purposes (such as gaming revenue hypothecated for the provision of health services);
- accounts established to record the receipt and disbursement of specific-purpose payments from the Commonwealth Government that are on-passed by the State to other organisations (such as non-government schools, local government bodies and TAFE institutes);
- suspense accounts established for accounting purposes;
- working accounts established for departmental commercial and service units to record fees and charges collected for the sale of goods and services; and

¹⁰⁹² *ibid.*, p.68

¹⁰⁹³ *ibid.*, p.69

¹⁰⁹⁴ *ibid.*

¹⁰⁹⁵ Examples of trust funds are the estate agents guarantee fund; residential tenancies fund; domestic building fund; consumer credit fund.

¹⁰⁹⁶ *ibid.*, p.73

- accounts established to facilitate the receipt and disbursement of private funds held by the State in trust.

A number of the trust accounts are established under the authority of specific legislation. The Financial Management Act further provides that the Minister for Finance may establish accounts within the Trust Fund and define the purposes for which they are established. The financial reports of the administering Departments report the financial transactions and balances of the Trust Fund accounts. The Government's annual financial report also includes a high level summary of these transactions and balances.¹⁰⁹⁷

At 30 June 2002, \$1 billion was held in 77 trust accounts in the Trust Fund, with the majority of this balance (\$867 million) relating to accounts established to administer funds that come from State sources.¹⁰⁹⁸ For 2001-02, payments from the Trust Fund totalled about \$7.8 billion.¹⁰⁹⁹

To enhance the transparency and accountability of the activities of the Trust Fund, the Auditor-General recommended amending the annual reporting requirements at whole of government and departmental levels to incorporate additional disclosures for trust accounts.¹¹⁰⁰ The Auditor-General argued that the disclosures should include information about the establishment of new accounts and their purposes, the closure of existing accounts and, where appropriate, the transactions and balances of the trust accounts.¹¹⁰¹

According to the audit report, a number of trust accounts that were established many years ago under the cash appropriation arrangements, continue to operate under the new accrual output-based arrangements (for example, the Hospital and Charities Fund).¹¹⁰² The Auditor-General noted that the purposes served by these and similar trust accounts under the previous appropriation arrangements may now be adequately managed within the current appropriation and departmental accountability framework, without the need for separate trust accounts.¹¹⁰³

¹⁰⁹⁷ *ibid.*

¹⁰⁹⁸ *ibid.*, p.74

¹⁰⁹⁹ *ibid.*, p.75

¹¹⁰⁰ *ibid.*, p.77

¹¹⁰¹ *ibid.*

¹¹⁰² *ibid.*, p.78

¹¹⁰³ *ibid.*, p.79

The Auditor-General thus recommended a regular review by the Departments and the Department of Treasury and Finance (in its central agency role) of the operations of individual trust accounts to ensure the accounts remain relevant and appropriate in the context of the current financial management and accountability framework.¹¹⁰⁴ The Department of Treasury and Finance agrees that individual Departments should be requested to systematically review all their trust accounts and justify the accounts' continued existence.¹¹⁰⁵

14.3.8 Proposed departmental funding model

In July 2003, the Department of Treasury and Finance released a discussion paper on a departmental funding model.¹¹⁰⁶ The new funding model to be adopted by budget funded Departments and agencies will have implications for the future use of the Budget management provisions under the Financial Management Act and the annual appropriations Act.

The Government directed that the development and implementation of a new departmental funding model will occur from the 2004-05 budget. Under the new model, Departments and agencies will be required to manage costs within the output price determined by the Government. This price will increase over time by an approved escalation factor.¹¹⁰⁷

Escalation will be applied on an annual basis and be cumulative. Each year, aggregate base prices (that is, output appropriations) in the forward estimates will be escalated by a given factor. To maximise revenue certainty for Departments, a four year escalation factor is likely to be used, covering the entire forward estimates period.¹¹⁰⁸

In the discussion paper, the Department of Treasury and Finance stated that rigorous cost management will be necessary to achieve the Government's fiscal target for an operating surplus of at least \$100 million in each year while ensuring output delivery objectives are attained. An aim of the model is to place greater responsibility and accountability for cost control on managers within Departments.¹¹⁰⁹

¹¹⁰⁴ *ibid.*

¹¹⁰⁵ *ibid.*, p.81

¹¹⁰⁶ Department of Treasury and Finance Discussion Paper on *Departmental Funding Model*, July 2003, p.2

¹¹⁰⁷ *ibid.*

¹¹⁰⁸ *ibid.*

¹¹⁰⁹ *ibid.*

Under the new approach, Departments will have greater freedom to choose the most efficient and innovative mix of outputs and delivery methods within the revenue provided by the Government, but they are also expected to manage their local risks. Greater revenue certainty through the use of escalation factors is designed to give Departments an enhanced capacity to plan and manage.¹¹¹⁰

Of particular interest to the Committee is the following statement on Budget management in the future:¹¹¹¹

- to maximise the Government's capacity to increase output appropriations through escalation, it will be necessary to reduce the use of existing contingencies. Departments will be expected to fund emerging and unanticipated costs through internal reprioritisation. Where this cannot be achieved, departmental business cases to access increased price will need to be strong.¹¹¹²

The Committee will watch with interest whether the use of budget management provisions to fund additional expenditure needs arising after the passage of the annual appropriation Act is reduced in the future.

14.4 Committee's position

The accrual output-based resource management and budgeting system in Victoria has been in place for over five years. Comparing the system with similar systems in other Australian jurisdictions, the Committee noted that the Victorian system has the following major distinguishing features:¹¹¹³

- Victoria does not have a practice of using supplementary appropriation Bills to obtain funding for additional non-urgent expenditures not provided for in the original budget. In the Commonwealth and New South Wales governments, for example, additional appropriation Bills are tabled in Parliament regularly during the year to augment appropriations approved under the annual appropriation Act. The advantage of this approach is that Parliament has the role of authorising (or not authorising)

¹¹¹⁰ *ibid.*

¹¹¹¹ *ibid.*, p.3

¹¹¹² *ibid.*, p.3

¹¹¹³ Victorian Auditor-General's Office, *Report on Parliamentary control and management of appropriations*, April 2003, pp.85-88

payments in advance rather than in retrospect, as in the case of the Treasurer's Advance;

- Victoria has the most extensive range of budget management provisions that can be used to provide additional funding to Departments, outside the annual appropriation process;
- the provision allowing borrowing against future year appropriations, for example, has no equivalent in any other jurisdiction. The carry-forward of unused appropriations and the availability of temporary advances also are uncommon elsewhere;
- although the annual appropriation Act specifies that the Treasurer's Advance can be used to meet only urgent expenditure claims, the type of expenditure funded from the advance in the past has been open to wide interpretation of the urgency or otherwise of the funding need; and
- the Commonwealth Government, in contrast, requires stringent conditions to be met, because funding is provided for only urgent and unforeseen need or an erroneous omission in, or understatement of, the original annual appropriations.

The Committee also identified a gap in the existing *ex post* accountability arrangements for Departments' use of budget supplements. Under the Financial Management Act, Departments are required to include in their annual financial statements a 'Summary of compliance with annual parliamentary appropriations'.¹¹¹⁴ The summary is to indicate the parliamentary appropriations available for use by a Department (including details of any supplementary funding made available), together with the amounts actually applied against those authorities. It is required, however, only to explain any material variance between total parliamentary authority and appropriations applied, not to give reasons for the use of budget supplementations.

The Committee agrees with the Auditor-General on the need to re-examine the existing balance between the Parliament's ability to scrutinise and approve the spending of public money and the Executive Government's discretion to manage and fund resources for meeting merging demands and developments.

¹¹¹⁴ *ibid.*, p.21

The Committee intends to further examine the issues relating to parliamentary control and management of appropriations, along with the arrangements for *ex post* accountability of performance outcomes. It will undertake this work in the context of a future inquiry.

Chapter 15: PAEC interim response to the Auditor-General's Report on Performance Management and Reporting – Progress Report

Key Findings of the Committee:

- 15.1 In the past, the Committee has expressed concerns about the slowness in the development of the Performance Measurement and Reporting Framework. The gaps that exist within the current framework, in the Committee's view, have hindered accountability for the performance of Departments in the delivery of service outputs and the desired outcomes.
- 15.2 Agencies need assistance from Department of Treasury and Finance in implementing the Performance Management and Reporting Framework. The Committee is concerned that the Department of Treasury and Finance is not currently engaged in any form of active monitoring of the progress made by agencies in implementing the framework. The Committee believes that where leadership is shown by Departments or agencies in performance measurement and reporting that expertise should be acknowledged and information shared.
- 15.3 The Committee believes that the Department of Finance and Treasury should be more proactive in establishing best practice in performance measurement and reporting.

15.1 Introduction

In April 2003, the Auditor-General tabled in Parliament a performance audit report on *Performance Management and Reporting: Progress Report and a Case Study*. Since December 1999, the Auditor-General has had a mandate to audit the relevance, appropriateness and fair presentation of the performance indicators published in agencies' annual reports. Performance indicators are the key mechanisms for accountability within

the Victorian Performance Management and Reporting Framework, linking government policy outcomes with public sector outputs and the budget process.

In earlier reports, the Auditor-General indicated that he would initially focus on a review of the adequacy of the Performance Management and Reporting Framework and the accompanying performance indicators before actually auditing the indicators themselves.¹¹¹⁵ The framework has been under development for several years. In the November 2001 Report, the Auditor-General concluded that the development of the framework was still not complete.¹¹¹⁶ The main aim of the April 2003 Report was to provide a progress review of the development of the framework and to use a case study of the waste management sector to illustrate some of the comments made in the report regarding the adequacy of the Framework.¹¹¹⁷

The latest Report highlighted that the Auditor-General is still some way from being in a position to subject the performance information of agencies to the rigours of a full attest audit.¹¹¹⁸ The main reason is because the development of the performance indicators has yet to be finalised. The Report has also identified a number of other deficiencies within the existing framework and has put forward a set of recommendations for consideration by the Government.¹¹¹⁹

15.2 Performance management and reporting framework

The key objectives of the Performance Management and Reporting framework are to:¹¹²⁰

- improve strategic planning in the public sector through the identification of high level government desired outcomes and the establishment of clear and improved linkages to the corporate planning and business planning processes;

¹¹¹⁵ Victorian Auditor-General's Office, *Report on Ministerial Portfolios*, June 2001, p.428

¹¹¹⁶ Victorian Auditor-General's Office, *Departmental performance management and reporting*, November 2001, p.4

¹¹¹⁷ Victorian Auditor-General's Office, *Performance management and reporting: Progress report and a case study*, April 2003., p.4

¹¹¹⁸ *ibid.*, p.3

¹¹¹⁹ *ibid.*, p.28

¹¹²⁰ Victorian Auditor-General's Office, *Departmental performance management and reporting*, November 2001, p.25

- ensure resource allocation decisions are made in the context of the Government's strategic policy directions; and
- improve management of budget sector resources in order to achieve the Government's outcomes and to ensure adequate internal and external accountability for performance.

The framework has three components:¹¹²¹

- **Outputs:** The funded activities of government agencies which are 'paid' to deliver specified goods and services. Output performance is assessed by reference to performance measures (i.e. quantity, quality, timeliness and cost);
- **Objectives:** The achievements obtained as a result of the activities of government agencies. Objectives are assessed by reference to performance indicators which address efficiency, effectiveness and the impact of government programs in the medium to long term; and
- **Government outcomes:** The overall impact achieved by the Government. Government outcomes are normally affected by a range of factors including external influences and the broad environment in which the Government operates. Government outcomes are assessed by reference to measures of progress that may only be partly within the control of government agencies.

15.3 Recent developments

Since the issue of the Auditor-General's second progress report in November 2001, there have been a number of developments in relation to the Performance Management and Reporting Framework.

In November 2001, the Government released the Growing Victoria Together strategy, setting out its key policy goals for the next 10 years. Specifically, 11 'important issues' considered important to Victorians are linked to 42 'priority actions' necessary to achieve these and 35 'measures of progress' by which to assess achievement.¹¹²² When the strategy was introduced, the Government indicated that it was not intended to

¹¹²¹ Victorian Auditor-General's Office, *Performance management and reporting: Progress report and a case study*, April 2003, p.5

¹¹²² *ibid.*

articulate all of the Government's desired outcomes but would provide a guide to agencies' strategic planning to ensure a broad alignment between agency objectives, the delivery of outputs and the Government's policy priorities.¹¹²³

In May 2002, the Government endorsed the high level desired outcomes and 'measures of progress' in the achievement of those outcomes for publication in the 2002-03 Budget Papers.¹¹²⁴ The results achieved against those indicators are to be reported for the first time in 2003-04. The Auditor-General's review of the 2002-03 Budget Papers found that the departmental objectives disclosed were aligned to the 'important issues' and 'measures of progress'.¹¹²⁵

15.4 Major deficiencies of the existing framework

In the report, the Auditor-General noted a number of major deficiencies within the existing Performance Management and Reporting Framework.¹¹²⁶ A large number of those deficiencies have already been previously identified in the November 2001 Report.¹¹²⁷

15.5 Coverage of the framework

An audit review of the 'important issues' set out in the Growing Victoria Together strategy found that they represent the key economic, environmental and social issues of importance to Victorians. However, they do not cover the full spectrum of government outcomes.¹¹²⁸ These are more broadly defined in other government policy and strategic documents (for example Labor's Financial Statement, Women's Safety Strategy, the Government's drugs strategy), and the relevant legislation and established processes that make up most of the day-to-day management of government services and regulation.¹¹²⁹

Whilst the Auditor-General acknowledges that Growing Victoria Together is not intended to provide a comprehensive coverage of all

¹¹²³ *ibid.*

¹¹²⁴ *ibid.*, p.12

¹¹²⁵ *ibid.*

¹¹²⁶ *ibid.*, pp.4-29

¹¹²⁷ Victorian Auditor-General's Office, *Departmental performance management and reporting*, November 2001, pp.7-11

¹¹²⁸ Victorian Auditor-General's Office, *Performance management and reporting: Progress report and a case study*, April 2003, p.6

¹¹²⁹ *ibid.*

government outcomes, the concern is that there is a range of other government outcomes which should also be included as part of the framework.¹¹³⁰ For any accountability framework to be credible, the Auditor-General's view is that it must reflect all of the key elements of the Government's policy outcomes and agencies' objectives and outputs.¹¹³¹

A further matter of concern to the Auditor-General is that the performance of the whole of the public sector in implementing the 'important issues' cannot be measured within the current framework.¹¹³² This is because the framework only covers Departments and does not incorporate other public sector agencies, including statutory bodies that contribute to the achievement of the Growing Victoria Together priorities and the Government's other broader outcomes.¹¹³³

The response of the Department of Premier and Cabinet and the Department of Treasury and Finance is that the framework has never been intended to provide coverage of the performance of all the State's public bodies and that a complete accountability structure already exists for these bodies through legislation, governance arrangements, financial and performance reporting and direct accountability to customers.¹¹³⁴

The Auditor-General's concern is that the existing accountability mechanisms have not necessarily resulted in greater public understanding of the benefits they receive from the activities of government and its agencies.¹¹³⁵ The Auditor-General believes that the framework should bring all these mechanisms together in a comprehensive and easily understood way to assist:¹¹³⁶

- all government agencies to manage the achievement of outputs and objectives which are aligned to specified government outcomes; and
- the public to receive timely and relevant reports of progress and better understand government achievements.

¹¹³⁰ *ibid.*

¹¹³¹ *ibid.*

¹¹³² *ibid.*

¹¹³³ *ibid.*

¹¹³⁴ *ibid.*, p.8

¹¹³⁵ *ibid.*

¹¹³⁶ *ibid.*

15.6 Major 'Gaps' in performance information

The Auditor-General has found that, at present, the departmental objectives and outputs shown in the Budget Papers are not aligned to the full range of Government outcomes.¹¹³⁷ The main problem is that the Government outcomes disclosed in the Budget Papers are only confined to those identified in the Growing Victoria Together strategy.¹¹³⁸

The audit examination also noted that none of the departmental objectives published in the 2001-02 Budget Papers recognised organisational capacity (that is capability of employees and sustainability of the public service infrastructure).¹¹³⁹ A subsequent review of the objectives of two selected Departments published in the 2002-03 Budget Papers showed no progress in this matter.¹¹⁴⁰

According to the audit report, the Department of Treasury and Finance's review of the existing corporate planning guidelines still has not been finalised.¹¹⁴¹ The report has reiterated a previous recommendation that all corporate plans should have standardised elements and that there should be synchronised planning periods across government.¹¹⁴²

The Auditor-General noted during the audit that a high proportion of the 32 'measures of progress' in the achievement of the Government outcomes are too general in nature and would require a significant amount of supporting performance information to be meaningful.¹¹⁴³

Considerable work is currently underway in some Departments and public sector agencies in developing performance indicators and evaluative mechanisms by which agency objectives can be managed, measured and reported upon. Although the performance indicators were in the strategic and business plans, the audit found that they had not been fully disclosed in the annual reports.¹¹⁴⁴ Also for the most part, they were found not to have been well connected to the budget processes,

¹¹³⁷ *ibid.*, p.6

¹¹³⁸ *ibid.*

¹¹³⁹ *ibid.*, p.12

¹¹⁴⁰ *ibid.*

¹¹⁴¹ *ibid.*

¹¹⁴² *ibid.*

¹¹⁴³ *ibid.*, p.13

¹¹⁴⁴ *ibid.*, p.14

Growing Victoria Together strategy or the broader Government outcomes.¹¹⁴⁵

Departments are still working on better alignment between resource allocation and the Performance Management and Reporting Framework. However, despite these efforts, there is still no means by which the achievement of Government outcomes can be properly assessed because there are no outcome indicators.¹¹⁴⁶

Another issue of concern to the Auditor-General is that there is no provision for the reporting of performance against Government outcomes on a whole of government basis.¹¹⁴⁷ There is also an absence of a mechanism to report cross-agency activities, for example road safety and crime prevention, where multiple Departments are involved in the delivery of programs or services.¹¹⁴⁸ The Government published its first whole of government progress report in the 2003-04 Budget Paper No.2.¹¹⁴⁹

While the publication of the whole of government report should be viewed as a positive step by the Government, many of the reported results confirm the Auditor-General's conclusion that a high proportion of the measures of progress are general and require a significant level of supporting performance information to be meaningful.

Additionally, it should be noted that the important issues and measures of progress within the Growing Victoria Together strategy do not represent either the full scope of government outcomes or performance of all non-departmental agencies – which places a further limitation on the whole of government report.

Finally, the Committee is of the opinion that the issue of consolidated reporting of cross agency activities is not resolved by the whole of government report presented in Budget Paper No.2 (for example for road safety and crime prevention). It still remains difficult to reconcile the performance of individual Departments and agencies in terms of their contribution to government outcomes driven by cross agency programs

¹¹⁴⁵ *ibid.*

¹¹⁴⁶ *ibid.*, p.16

¹¹⁴⁷ *ibid.*

¹¹⁴⁸ *ibid.*

¹¹⁴⁹ Budget Paper No. 2, 2003-04 Budget Statement, pp.325–43

and initiatives. Examples include – *arrive: alive!*, and the Government's drug strategy.

15.7 Further development of performance information

According to the Auditor-General's *Performance Management and Reporting Progress* report, a key challenge for the Government is the further development of performance information for each of the three major levels within the Performance Measurement and Reporting Framework, that is outcomes, objectives and outputs.¹¹⁵⁰ To achieve a more comprehensive framework, the Auditor-General believes that the focus in developing performance indicators should be directed away from departmental objectives towards the policy objectives of each ministerial portfolio.¹¹⁵¹ In the Auditor-General's view, a reporting system revolving around policy objectives at ministerial portfolio level, rather than departmental level, has two principal advantages:¹¹⁵²

- the policy objectives of ministerial portfolios are directly linked to the outputs shown in the Budget Papers and, therefore, provide a pivotal link between government outcomes and delivered outputs; and
- it enables both the identification and inclusion within the framework of all public sector agencies which contribute to the achievement of relevant portfolio outcomes.

Both the Department of Premier and Cabinet and the Department of Treasury and Finance do not accept that there is a strong case for a change to the current system of departmental based accountability.¹¹⁵³ In fact, they are concerned that a shift of focus of accountability from Departments to ministerial portfolios could hinder joined-up policy development and service delivery and diminish the co-ordination that currently exists within Departments. In their view, the issues raised by the Auditor-General could be addressed by better defining the objectives of Departments to incorporate the contribution of non-departmental agencies.¹¹⁵⁴

¹¹⁵⁰ *ibid.*, p.19

¹¹⁵¹ *ibid.*

¹¹⁵² *ibid.*, p.21

¹¹⁵³ *ibid.*, pp.22–23

¹¹⁵⁴ *ibid.*

In order for the Government to measure its progress towards the achievement of outcomes over time, the Auditor-General considers that agencies must have the ability to benchmark data, formulate targets and track progress over time.¹¹⁵⁵ Experience has shown that agencies find it difficult to monitor trends and identify milestones for the measurement of government outcomes and associated performance indicators. In the Auditor-General's view, this deficiency has limited the ability of the Government to track and assess overall performance in a timely manner and to identify current and emerging issues that require remedial actions to be taken.¹¹⁵⁶

The Auditor-General is of the view that the following steps need to be taken for the next stage of the Performance Measurement and Reporting Framework's development:¹¹⁵⁷

- specifying the milestones between current strategies and the targets (or continuous improvement trajectories) for each of the 'measures of progress';
- gaining an understanding of the cause and effect relationship between strategies, resources, milestones and targets;
- developing appropriate data to track performance;
- creating or enhancing integrated performance management systems within agencies which link government outcomes to agency actions, utilising the outputs provided through the budget process; and
- specifying levels of agency contribution to the achievement of outcomes that cut across agency responsibilities.

15.8 Reporting and auditing of performance indicators

In the November 2001 report, the Auditor-General pointed out that the *Financial Management Act 1994* did not explicitly require the objectives and the related performance indicators of agencies to be included in their

¹¹⁵⁵ *ibid.*, p.23

¹¹⁵⁶ *ibid.*

¹¹⁵⁷ *ibid.*, p.25

annual reports.¹¹⁵⁸ This situation affects all public sector agencies that are governed by the Act and not just the nine Departments.

Most non-departmental agencies have accountability and reporting obligations set out in various legislation, governance arrangements, reporting requirements and direct accountabilities. However, the Auditor-General has found that none of these covers the essential requirement of public *ex-ante* and *ex-post* reporting of performance indicators against agency objectives that are tied to the Government outcomes.¹¹⁵⁹ The Auditor-General firmly believes that the incorporation of this requirement into the Ministerial Directions issued under the Financial Management Act is crucial to the accountability of public sector agencies and the effectiveness of the Performance Measurement and Reporting Framework.¹¹⁶⁰

Further, until public sector agencies report performance information against their objectives, the Auditor-General does not believe that he is in a position to carry out his responsibilities to audit performance indicators.¹¹⁶¹ A review of the Ministerial Directions has been undertaken by the Department of Treasury and Finance and the Committee is disappointed that the requirement to report against objectives using performance indicators has not been included in the changes.

The mandate of the Auditor-General to audit performance indicators is set out in the *Audit Act 1994*. The mandate covers not only output performance measures (i.e. the activities of government agencies) but also effectiveness measures as well as their relevance and appropriateness.¹¹⁶²

15.9 Audit recommendations

The Auditor-General has repeated the following recommendations made in the November 2001 report:¹¹⁶³

¹¹⁵⁸ Victorian Auditor-General's Office, *Departmental performance management and reporting*, November 2001, p.56

¹¹⁵⁹ Victorian Auditor-General's Office, *Performance management and reporting: Progress report and a case study*, April 2003, p.25

¹¹⁶⁰ *ibid.*

¹¹⁶¹ *ibid.*

¹¹⁶² *ibid.*, p.26

¹¹⁶³ *ibid.*

- annual *ex-ante* reporting to Parliament of the whole of government strategic directions and priorities, and 'measures of progress' and targets, related to government outcomes;
- annual *ex-ante* reporting to Parliament by individual agencies, signalling their key objectives, performance indicators, measures and targets, risks, strategies and priorities through agency plans;
- annual reporting to Parliament of whole of government performance against Government outcomes and related 'measures of progress';
- consolidated reporting of performance of cross-agency programs or strategies;
- development of a streamlined, standardised format for agency performance reporting;
- comprehensive disclosure of the reasons why targets have not been achieved; and
- certification of the accuracy and reliability of data used for performance management and reporting and a monitoring framework which ensures comparability of *ex-ante* and *ex-post* reporting.

The Auditor-General has put forward the following additional recommendations for consideration by the Government:¹¹⁶⁴

- the Performance Management and Reporting Framework include:
 - the broad range of government outcomes, not just those in Growing Victoria Together;
 - all public sector agencies contributing to the achievement and reporting of government outcomes; and
 - specification of objectives and performance indicators, at ministerial portfolio level, that reflect the unique contributions of Departments and relevant non-departmental agencies to government outcomes;

¹¹⁶⁴ *ibid.*, pp.28–29

- Departments and relevant non-departmental agencies:
 - work together to develop and improve alignment between their objectives and government outcomes, at ministerial portfolio level, along with Growing Victoria Together;
 - develop performance indicators in support of their objectives, and make these available to the public, as a priority;
 - develop and collect data sets to supply the performance information; and
 - ensure that relevant social and economic indicators are included, together with indicators which measure the sustainability of public sector infrastructure;
- central agencies:
 - continue to refine the 'measures of progress' in Growing Victoria Together so that each have two or more of the following:
 - rate of improvement or established target;
 - time frame; and
 - identification of relevant benchmarks;
 - amend the Directions of the Minister for Finance, under the *Financial Management Act 1994*, to include the requirement for comprehensive *ex-ante* and *ex-post* reporting of key performance indicators against agency objectives and government outcomes.

15.10 Committee's position

In the past, the Committee has expressed concerns in a number of its budget estimates and outcomes reports about the slowness in the development of the Performance Measurement and Reporting Framework. The Committee believes that the gaps that exist within the framework that has been developed to date, have hindered effective accountability for the performance of the Government and its agencies in the delivery of service outputs and the desired outcomes.

The key concerns of the Committee are:¹¹⁶⁵

- the deficiencies of the existing legislative framework (particularly the lack of clear prescription of the key elements that are essential for effective performance reporting);
- the absence of comprehensive guidance on the preparation of agencies' corporate and business plans;
- the weakness of the correlation between the corporate and business plans of agencies and their annual reports;
- the inadequacies of the existing performance indicators for agencies' outputs and objectives and for the Government's desired outcomes;
- the poor linkages between agencies' outputs, resource allocation and objectives and the Government's desired outcomes;
- the lack of whole of government reporting of outcomes and accountability mechanisms for cross-agency initiatives and programs;
- principles of good performance reporting not clearly understood or applied by agencies; and
- current system and culture providing few incentives for good performance reporting or sanctions for poor reporting.

As the Department of Treasury and Finance is the central agency with the responsibility for implementing the Performance Measurement and Reporting Framework, it needs to provide assistance to agencies. At present many agencies have resorted to employing private sector consultants for assistance and advice. This is not cost efficient from the whole of government perspective and has led to inconsistent approaches being applied across the public sector. Also, at present, there are no formal arrangements in place to facilitate the sharing of knowledge and information between agencies.

¹¹⁶⁵ Public Accounts and Estimates Committee, *Report on the 2000-01 Budget Estimates*, 38th Report, November 2000, pp.177-190; *Report on the 2001-02 Budget Estimates*, 43rd Report, November 2001, pp.155-198; *Report on the 2002-03 Budget Estimates*, 52nd Report, June 2003, pp.143-152; *Report on the 2000-01 Budget Outcomes*, 51st Report, June 2003, pp.87-113.

The Committee believes that a further cause for the delay in finalising the framework lies in the fact that the Department of Treasury and Finance is not currently engaged in any form of active monitoring of the progress being made by individual agencies. To expedite the process, mechanisms need to be established to track developments and to hold agencies accountable for the rate of progress.

The issues raised by the Auditor-General in the April 2003 and earlier reports, together with other related matters, will be further examined by the Committee within the context of a future Inquiry.

Chapter 16: Review of Annual Reports of Departments and Agencies

Key Findings of the Committee:

- 16.1 Generally Departments and Agencies have improved reporting on their performance in annual reports but the Committee is disappointed at the rate of progress.
- 16.2 A number of major factors have contributed to the current state of annual reporting. Those factors include inadequacies of the legislative framework and the Performance Measurement and Reporting Framework; good performance reporting principles not clearly understood or applied by agencies; lack of strong incentives for good performance reporting and few sanctions for poor reporting within the current system.
- 16.3 The Committee's review has identified a number of common deficiencies in the performance information produced by Departments and Agencies. The key problems that have been found include:
- lack of focus on accountability for performance outcomes and too much emphasis on providing details in relation to initiatives, projects and activities undertaken during the year;
 - poor quality of the performance information on the delivery of outputs and, in particular, the achievement of departmental objectives and Government outcomes;
 - completed initiatives and projects not reported against those planned for the current year; and
 - agencies not giving a balanced presentation of the results of operations emphasising mainly the 'good news' with few references to failures, setbacks and problems encountered during the year.

- 16.4 As a matter of urgency the Minister of Finance needs to update the Directions on Annual Reporting.
- 16.5 The Department of Treasury and Finance provide guidance material or templates on annual reporting to other agencies.
- 16.6 The Committee will monitor and report on these developments in future reports.

16.1 Introduction

The Government's financial management reform program offers great potential for improving the effectiveness and efficiency of government programs and services. Part of this process involves consistent and meaningful reporting and formally linking the information contained in corporate and business plans, the budget papers and annual reports – so there is an accountability framework.

All public sector agencies are accountable to Parliament for their activities and outcomes. The annual reports of these agencies are a powerful instrument in the accountability process. They provide an important source of information for a wide range of users of official information, such as Members of Parliament, the media, the community and business organisations, and form an important part of Victoria's historical record.

As an impetus for encouraging a high standard of reporting, the Committee reviewed the 2001-02 annual reports of all Departments and Victoria Police, the Environment Protection Authority and the five Parliamentary Departments.

The focus of the review was on performance reporting and compliance with the annual reporting requirements as prescribed in the Directions issued by the Minister for Finance under the *Financial Management Act 1994*.¹¹⁶⁶

From the review, the Committee has noted that generally agencies have made some improvement in reporting on their performance over recent

¹¹⁶⁶ Sections 45 to 54 of Part 7 of the *Financial Management Act 1994*, as amended, specify the annual reporting requirements for departments and public bodies and Part 9 of the Directions of the Minister for Finance include details of annual reporting requirements.

years but the Committee is disappointed at the rate of progress. The following factors stand out as contributing to the current state of reporting:

- the existing legislative framework does not prescribe the key elements that are essential for effective performance reporting;
- the Performance Measurement and Reporting Framework has still not been completed. Consequently there are significant gaps within the performance information currently produced by the Government and its agencies;
- the absence of comprehensive guidance on the preparation of agencies' corporate and business plans;
- the principles of good performance reporting are not clearly understood or applied by agencies;
- there is a general absence of a spirit of open accountability for outcomes and an organisational philosophy and culture founded on the use of comprehensive performance information to monitor progress towards achievement of departmental objectives and Government outcomes;
- the political dimensions of performance reporting; and
- there are few incentives for good performance reporting and few sanctions for poor reporting.

The Committee's review has identified a number of common deficiencies in the performance information disclosed by agencies in the 2001-02 reports and they are outlined below:

- few agencies set out the major initiatives that they had planned to deliver for 2001-02 and the target indicators of achievement of objectives, and then reported back against the plans and targets;
- in reporting what they had achieved, most agencies focused too much on providing an excessive amount of detail on initiatives, projects and activities rather than concentrating on performance outcomes achieved and the levels of their contribution to the Government's strategic priorities;

- the key performance indicators shown in the reports were not sufficiently comprehensive to adequately account for all major areas of operation and the achievement of the key objectives of the agencies;
- although some agencies had developed a comprehensive set of key performance indicators for their corporate and business plans, those indicators did not flow through to their annual reports;
- the performance information presented was also deficient in a number of other respects as it did not incorporate one or more of the following important elements:
 - key performance indicators for prior years (i.e. trend data) as well as for the following year;
 - a benchmarking comparison with the performance results achieved by similar agencies in other Australian jurisdictions;
 - adequate explanations for instances of under and over performance (including details of actions taken to improve future performance in the light of the lessons learned);
 - reporting on shared responsibilities for cross-agency performance issues;
 - adequate explanations to assist with the interpretation and understanding of the key performance indicators; and
 - highlighting all changes to the key performance indicators and the reasons for the changes.
- most reports did not give a balanced presentation as agencies reported mainly the good news and made few references to failures, setbacks and problems encountered during the year;
- very few reports included an adequate 'Overview' section commenting briefly on:
 - progress towards achievement of the agency's corporate objectives;

- important initiatives and events in the current year and plans and outlook for the following year (including both positive and negative factors); and
 - performance indicators relating to the key features of the agency's operations.
- most reports did not contain a separate section on 'Future Directions and Developments' even though it is a requirement of annual reporting and specified in the Directions issued by the Minister for Finance. This section is normally expected to provide pertinent forward looking information and comments such as:
 - a discussion of the future outlook for the agency including issues and events that are likely to have a significant impact on the following year's performance or position;
 - details of expected future changes and trends within the agency's operating environment; and
 - an outline of what the agency aims to achieve in future years (particularly in the next year) and objective measures of performance.

In reviewing the annual reports, the Committee found that some agencies either did not present a set of Budget Portfolio Outcomes Statements as required by Clause 9.10 of the Directions issued by the Minister for Finance or did not provide explanations for the major variances between the actual and budget amounts shown in those statements.

The Committee is pleased that some agencies have taken steps to improve the quality of information contained in their annual reports – in particular Department of Natural Resources and Environment, Department of Education and Training and the Victorian Parliamentary Library.

Set out below are the detailed results of the Committee's review of the 2001-02 annual reports:

16.2 Department of Treasury and Finance

The annual report is presented in a well structured format and has been written in a clear and succinct style. The main focus is on accountability for output performance. The Department is one of the few Departments to provide detailed explanations for all instances of major under and over performance in relation to each of the output groups.

The performance information is essentially process oriented as it is related to the outputs delivered by the Department. In the report, no key performance indicators are specifically linked to the major objectives of the Department for example, sound financial management, innovative policy advice and capability building. Therefore, it would be difficult for readers to determine the extent to which the Department was successful in achieving its objectives even though there is an abundance of information on output performance.

Without appropriate performance indicators for the objectives, the Committee is concerned that the linkage of the Department's operating results to the achievement of the Government's desired outcomes and the budget process has not been demonstrated.

As a central agency, the Department is involved, from time to time, with other agencies in addressing cross-agency and whole of government issues. It is noted that the report has not provided any comments on shared responsibilities for cross-agency performance issues and the Department's contribution to the outcomes.

An analysis of the report has also identified the following additional matters that will need to be considered in preparing future reports:

- the 'Output Performance Summary' (page 19) is one of the positive features of the report but it can be further improved. The summary basically gives a brief statistical analysis of the output data. In addition to this, it could have also provided commentary on the major trends in output performance as well as an overview of the critical success factors, key drivers of performance, and significant problems and issues encountered during the year;
- in presenting the performance information on each of the seven output groups, there is a separate section on key projects and initiatives completed or progressed during 2001-2002. The

information on its own is not sufficient to allow an assessment of whether the Department was able to deliver on its plans as set out for the year. What is required is an outline of the major initiatives and projects planned for the year and details of results achieved (together with explanations for any delay and the revised target date for completion). From an accountability perspective, it is important that readers of the report be able to track the performance of the Department in delivering on the key initiatives from year to year as part of a continuing story;

- no explanations have been given for the major variations between actual and budgeted output costs and for the use of the different types of budget supplementations during the year;
- the 'Financial Outcomes' section could be further expanded by including a discussion and analysis of the trends as reflected in the 'Five Year Financial Summary' and also a commentary on major internal financial management issues;
- the 'Year in Review' section is deficient in a number of respects. For example, there are limited references to the Department's own key performance indicators and problems and setbacks encountered during the year. Data relating to, for example, general government net financial liabilities as a percentage of Gross State Product and general government sector net infrastructure investment does not constitute valid performance indicators because they are not directly attributable to the efforts of the Department.

In this section, the Department has claimed an improvement in its capability (Objective No.4) by referring to the halving of the budget allocations over the last five years from \$343 million in 1998-99 to a forecast of \$194 million in 2002-03. The Section, however, has not given any indication as to what proportion of the \$149 million reduction was directly attributable to the Department's own productivity gains as distinct from other external factors e.g. cessation or transfer of functions. For example, on page 48, there is a reference to a reduction of the budget from \$219 million in 2000-01 to \$201 million in 2001-02 due to completion of major activities under superannuation reform and the transfer of some functions to another Department;

- the 'Outlook for 2002-03' section contains only a list of strategic priority areas for the following year. This is deficient because the discussion and analysis of performance must also have a forward looking orientation in addition to accountability for past results achieved. This section, therefore, needs to be revamped to incorporate comments on:
 - future operating environment and developments (including expected future changes and trends);
 - issues and events that are likely to have a major impact on the Department and on the Government's budgetary performance and financial/economic position; and
 - the more significant initiatives and projects planned for the following year;
- a new 'Overview' section should be included in future reports providing comments on:
 - progress towards achievement of the Department's goals (including major initiatives implemented against plans);
 - significant issues and developments in the current year and the plans and outlook for the following year (including both positive and negative factors);
 - performance targets and results relating to the key aspects of the Department's operations; and
 - the financial results for the year;
- the 'Occupational Health and Safety' section has not provided any performance indicators nor any targets for improved performance next year, as required by the Minister for Finance's Directions – Clauses 9.8 (i) and (ii);
- the report has not included a statement on post balance date events, as required by the Minister for Finance's Directions – Clause 9.1.3 (ii) (e); and
- there are a number of photographs of staff members throughout the report and the captions refer to their names. The photographs are

useful in portraying the 'people' focus of the Department but their relevance could be enhanced by providing an explanation of the work context.

16.3 Department of Premier and Cabinet

The annual report provides the readers with a comprehensive coverage of the year's activities and detailed information on an output group basis. The report appears to attempt to be both an instrument of accountability and an information document. As a result, the performance focus has been somewhat diminished by the vast amount of low level detail disclosed concerning projects, activities and events. Such details, in the Committee's view, should be provided to the stakeholders by other communication means for example through the Department's website and information brochures.

The 'Review of Operations' section presents a substantial amount of details on the aims and achievements of the Department's projects and initiatives, but the Committee has noted that there are:

- only a small number of quantitative key performance indicators disclosed regarding the achievement of the corporate objectives;
- limited commentaries on problems, issues and setbacks encountered during the year;
- insufficient explanations provided on under and over performance with respect to the delivery of outputs; and
- few references to the Department's achievements in relation to cross agency performance issues.

A number of measures of stakeholder satisfaction with the services provided by the Department are disclosed but the report does not give any details in regard to the methodologies used to obtain the feedback for the surveys (e.g. sample selection and sample sizes).

Many of the aims set for 2001-02 are expressed in a way that is difficult to measure for example using words like 'to improve', 'to make further progress' and 'to continue to implement'. Generally, there are few references to targets and milestones. Because of the non-specific ways the

aims have been articulated, it would be difficult for readers to determine how successful the Department has been in delivering on its plans.

As an example, one of the aims under the Multicultural Affairs output group was to 'advise on performance monitoring for planning processes and service delivery outcomes'. The achievement reported is 'facilitated effective departmental reporting on responsiveness to cultural diversity'.¹¹⁶⁷

In addition, the Committee's review of the report has found the following:

- there is an absence of an 'Overview' section or an executive summary;
- for each output group, there is a separate section titled 'Plans and Challenges for 2002-03' which outlines the initiatives, projects and activities for next year. The report, however, does not contain a section on 'Future Directions' covering major strategic issues at the departmental level. This requirement is referred to in the introduction to Part 9 of the Directions issued by the Minister for Finance on annual reporting. The 'Future Directions' section is expected to provide pertinent forward looking information and comments such as:
 - a discussion of the future outlook for the Department including issues and events that are likely to have a significant impact on the following year's performance or position;
 - details of expected future changes and trends within the Department's operating environment; and
 - an outline of what the Department aims to achieve in future years (particularly in the next year) and objective measures of performance.
- no explanations have been disclosed for the major variations between the target and actual costs of a number of outputs; and
- there is no information on the performance indicators used to monitor occupational health and safety related matters and on the

¹¹⁶⁷ Department of Premier and Cabinet 2001-02 Annual Report, p.12

results achieved nor targets for improved performance next year (Minister for Finance Directions clause 9.8).

16.4 Department of Natural Resources and Environment

The Department has achieved a high standard of disclosure with a strong focus on reporting output performance against targets. An alignment between the Government's vision, departmental objectives, strategic priorities, achievements and future directions has provided the basis for a relatively comprehensive document. Also, the report's layout and structure, together with appropriate cross-referencing, ensures that the reader can quickly and easily locate information.

The Committee's review has identified other positive features in the 2001-02 report that can be used as examples for some of the other Departments. They are briefly described below:

- the 'Financial and Performance Measures Results' tables present not only actual and target data for the current year but also actual data for the two preceding years. In addition, explanations have been provided for all instances where there is an under or over performance in comparison with the targets set or where there is a variation between actual and budgeted cost for a particular output. The Committee believes that it is essential to include a discussion and analysis of the important trends;
- detailed explanations have been provided for:
 - the major variances between the original budget and the total parliamentary authority and also between the total parliamentary authority and the appropriations applied; and
 - the major variances between the budgeted and actual figures in the budget portfolio outcomes statements.
- the corporate governance and people-related information included in the report provides a good example for other Departments; and
- this is one of the few Departments that has actually provided a description of the work contexts for the photographs shown in the report.

Whilst the Department has achieved a relatively high standard in performance reporting, the Committee can see room for improvement in some areas:

- the 'Our Highlights' section (page 3) is a calendar of initiatives and events and there is an absence of information and commentary on key performance indicators and outcomes achieved. The 'Our Year in Brief' section (pages 6-9) provides brief details on the Government's vision, departmental objectives, achievements and future directions. However, the achievements and future directions reported are only related to projects and initiatives for the current year and next year rather than the performance outcomes and strategic outlook of the Department. The Committee suggest that the 'Our Highlights', 'Our Year in Brief' and 'Financial Summary' sections be replaced by an 'Overview' section;
- the 'Financial and Performance Measures Results' presented in the report have not been classified under 'Quantity', 'Timeliness' and 'Quality';
- the details provided in the 'Achievements' sections on the projects, initiatives and activities undertaken are far too descriptive. They should be condensed to only focus on the key items and the details on the less significant initiatives should be placed on the Department's website;
- in reporting on each of the output groups, a separate 'Future Directions' section has been included. These sections only provide a list of projects and initiatives planned for next year. In addition, to these details, the report also needs to incorporate a new section at the end with a focus on discussing the future directions and developments of the Department at a strategic level; and
- key performance indicators also need to be referred to in the reports of the individual Institutes.

16.5 Department of Human Services

The report has adopted an orderly and logical structure to report on the Department's achievements in addressing the key priority issues and objectives of the organisation. Because of the substantial amount of

detailed information, the report is more in the nature of an information document rather than one that is focused on accounting for performance outcomes.

There are two major areas of strength noted by the Committee. First, the report has provided explanations of reasonable standards for all instances of under and over performance as well as for cost variances (between actual and budget) in the delivery of outputs. The Committee believes that some additional comments on remedial actions taken to improve performance where the Department has failed to meet a target would be helpful to readers. Secondly, the Department has described the linkage between its key priorities and the desired outcomes of the Government as reflected particularly in the Growing Victoria Together strategy.

The following issues have also been identified by the Committee:

- the performance reporting structure could be enhanced by the inclusion of:
 - details of major projects and initiatives planned for the current year so that they can be compared with the results achieved;
 - an analysis of the trend information relating to key performance results; and
 - a benchmarking comparison with the performance results achieved by similar agencies in other Australian jurisdictions.
- the '2001-02 Highlights' Section and the 'Key Results' sections refer to a number of key performance indicators but, in some cases, only the percentage changes are mentioned without the related volume figures. In other cases, only the current year volumes are stated but they are not accompanied by last year's comparatives. In none of the cases has the details relating to the targets set been provided;
- the '2001-02 Highlights' section be replaced by an 'Overview' section; and
- each of the divisional reports has a 'Future Directions' section but only present a long list of planned projects, initiatives and activities. Because the Department operates in a highly complex

environment with rapid change across portfolio areas and increasing community expectations, it is important the report has a separate section that comments on issues relating to the future directions and developments of the Department at a strategic level.

A number of other matters have also been noted in the report:

- no explanations have been provided for the major variances shown in the Budget Portfolio Outcomes Statements (Minister for Finance Directions clause 9.10);
- the 'Financial Summaries' provide very limited commentary on changes in financial position and results and there is an absence of a trend analysis (Minister for Finance Directions clauses 9.1.3 (ii) (a) and (b));
- the graphs are useful communication tools but they need to be accompanied by explanatory footnotes; and
- the report has not included a 'Statement on Major Contracts' and also last year's comparatives for the workforce data as required by the Minister for Finance Directions clauses 9.6 and 9.1.3 (i) (e) respectively.

16.6 Department of Education and Training

The Department is among the few Departments which incorporated an analysis of the output performance indicators in the main body of the report. The indicators are of a high standard generally and cover both the quantity and quality aspects of the outputs and the effectiveness of the operations.

The Committee is pleased to note that the suite of performance indicators was further expanded and improved during 2001-02. The use of those indicators is expected to lead to better monitoring of progress towards achievement of the Government's goals and targets, departmental objectives and delivery of outputs. The Committee recommends that the future reports also give a trend analysis of the performance data in addition to year-to-year comparisons.

There are a number of instances in the report where a comparison of aspects of the Department's performance with the national benchmark

levels is made. The Committee would like to see an extension of the benchmarking comparison to cover all major areas of operations.

Generally in the 'Review of Operations' section of the report too much detail is provided on projects, initiatives and activities. The detail should be reduced and an objective assessment of performance would be easier if a summary is included at the beginning of each section within the Review of Operations, which identifies the key initiatives planned for the year and the corresponding results achieved.

Another improvement could be made to the existing structure by including a separate section on 'Future Directions' at the end of the report. An 'Outlook' section has been included in various parts of the Review of Operations but those sections contain only a long list of initiatives, projects and activities planned for the following year.

16.7 Department of Justice

The report contains a significant amount of details on initiatives, projects and activities completed or progressed during the year. To be an effective accountability document, the Committee believes that the entire format needs to be revamped to focus on performance results and outcomes.

In particular, the 'Review of Operations' section discloses far too much detail on projects, initiatives and ongoing activities and there are limited references to, and discussion on, the key performance indicators of the organisation. Also, a meaningful commentary on problems and setbacks is absent.

The Committee is of the view that the 'Review of Operations' section should concentrate on analysing and discussing the key performance indicators relating to the achievement of the objectives and the delivery of outputs and how the Department contributed to the attainment of the Government's desired outcomes. These are all important elements of good accountability reporting. As part of the performance review, a trend analysis needs to be included together with a benchmarking of the Department's performance results against those of similar agencies in other Australian jurisdictions.

In addition, to the above general issues, the Committee would also like to draw the Department's attention to the following matters:

- the early part of the report does not give an outline of the Department's vision and mission;
- an 'Overview' section should be included at the beginning of the report because the 'Snapshot of Significant Results' section only provides a detailed list of initiatives, some of which are of a relatively minor nature - see pages 8 and 9. There are no references to any key performance indicators;
- a positive feature of the report is the provision of explanations for where there is a significant under performance in relation to a particular output. Where this occurs, details on remedial actions taken to improve performance would be helpful;
- explanations should be provided on the more complex performance indicators and also on the methodologies used to conduct stakeholder surveys;
- some useful Correctional Services statistics have been included in the report but they have not been accompanied by adequate commentaries on the significance of the data and trends;
- data relating to the target and actual costs for the outputs has not been provided (Minister for Finance Directions clause 9.1.2 (iii));
- there are no comments, at the strategic level, on the future directions and prospects of the Department (as required by the introduction to Part 9 of the Directions issued by the Minister for Finance); and
- no explanations have been provided for the major variances between actual and budget figures in the Budget Portfolio Outcomes Statements. (Minister for Finance Directions clause 9.10).

The report has not provided any information on the following matters as required by the Directions issued by the Minister for Finance:

- Occupational Health and Safety (Minister for Finance Directions clauses 9.8); and
- a summary of balance sheet and cash flow items over a five year period (Minister for Finance Directions clause 9.1.3 (ii) (b)).

16.8 Department of Tourism, Sports and Commonwealth Games

This is a new Department which was created on 5 March 2002 and therefore the report only covers four months' operations. Based on the Committee's review, the following suggestions are made to assist the Department to improve the effectiveness of its performance reporting in the future and to ensure compliance with all legislative requirements:

- details of the vision, mission, objectives and broad strategies of the organisation should be clearly explained at the beginning of the report to provide the necessary background and context. All this information should be sourced from the corporate and business plans;
- the 'Highlights' section discloses details of the major initiatives and projects undertaken during the period and a number of statistics relating to the tourism area are also referred to. This section should be replaced by an 'Overview' section;
- the 'Achievements' section is, in effect, the 'Review of Operations' section. This section provides an excessive amount of detailed information on projects, initiatives and events. In future, the details should be substantially reduced by focusing only on reporting the delivery of key initiatives against plans and other key performance indicators. A few key performance indicators for the tourism area only have been included together with last year's comparatives. It is clear that a lot more work is still required to develop meaningful indicators covering all the different areas of the Department's operations particularly on the achievement of objectives and the quality aspects of the outputs;
- stakeholder feedback surveys will be an integral part of the Department's performance measurement methodology given the nature and scope of its operations. It is important to clearly explain the ways in which the surveys are conducted so that readers can make an informed judgement about the validity of the results;
- the actual performance results achieved must be reported against the targets set (in addition to last year's comparatives). Explanations need to be provided for all instances where there is a

major under or over performance. Neither of these two requirements has been met in the 2001-02 report;

- the report must clearly demonstrate the link between what the Department set out to achieve (i.e. its objectives) and the contributions it made to the Government's desired outcomes. Also, there needs to be a discussion and analysis of the key trend data and a benchmarking of the Department's performance against its counterparts in the other Australian jurisdictions (wherever appropriate data is available);
- given the high level of public interest in the sport and Commonwealth Games aspects of the Department's operations, the 'Financial Review of Operations and Financial Conditions' section in future should include detailed comments on the financial results and changes to the financial conditions as well as the major financial management issues dealt with during the year;
- the report does not contain a section on 'Future Directions' which should comment on the future operating environment of the Department as well as future plans and projects (including those that are designed to improve performance); and
- the report has not provided any information on the following matters as required by the Directions issued by the Minister for Finance:
 - occupational health and safety disclosures (Clause 9.8); and
 - portfolio Budget Outcomes Statements (Clause 9.10).

16.9 Department of Innovation, Industry and Regional Development

The annual report is essentially a detailed information document about the initiatives, projects and activities of the Department for the 2001-02 year, rather than a document that focuses on explaining and accounting for the performance outcomes. In relation to performance reporting, the Committee has noted the following major deficiencies:

- the main body of the report has not provided any information on the vision, mission, objectives and strategies of the Department.

Also, the linkage between the objectives and the Government's desired outcomes and also the Department's contributions to those outcomes have not been explained;

- there are few performance indicators reported that show the extent of the achievement of the Department's objectives;
- there are no references in the main body of the report to the output performance targets set out in the Budget Papers and the actual results achieved. Those targets and results are disclosed in one of the appendices but there are no explanations for the major variances from targets. Also, the target and actual cost information relating to the outputs have not been shown;
- a significant majority of the performance measures reported are related to the quantity and timeliness aspects of the outputs and there are few measures of quality. Most of the measures of quality refer to either 'compliance with internal quality standards' or 'client surveys'. To facilitate assessment of performance, more detail needs to be provided on the particulars of the internal quality standards and how the client surveys were conducted so that their validity can be judged;
- the 'Highlights' section contains a large amount of detail on major events, policy initiatives and new developments but it does not explain what the Department planned to achieve and what it in fact achieved. The report also needs to have a section that comments on the significant problems and setbacks encountered by the Department during the year. The Committee is of the view that both successes and setbacks must be analysed and discussed to ensure a balanced presentation. In fact, both these two sections can be incorporated into an executive summary and located at the beginning of the report;
- the 'Achievements' section contains a vast amount of low-level detail relating to initiatives, projects and activities and those details are not linked to any specific objectives. This section should concentrate on reporting only the key initiatives and projects against plans (including explanations for non-achievement of plans and details of revised target dates or timelines). The 2001-02 report

has not given any details about those projects and initiatives that were planned for that year;

- there is no separate section on 'Future Directions';
- a separate 'Financial Review' section would be helpful to provide discussion and analysis of the changes to the financial position and results as compared with the previous year and over time (i.e. trend analysis); and
- throughout the report, statistics are quoted that do not relate to the performance of the Department. If statistics are to be reported, the Committee believes that at least an attempt should be made to explain the extent of the Department's contributions to the statistical outcomes.

The report has not included the following disclosures as required by the Directions issued by the Minister for Finance:

- occupational health and safety reporting (clause 9.8);
- budget portfolio outcomes statements (clause 9.10); and
- last year's comparatives for the workforce data (clause 9.1.3 (1) (e)).

16.10 Department of Infrastructure

The Committee's analysis of the report shows that it is basically an information document on projects, initiatives and activities for the year. One positive feature of the report is that it has been written in a relatively succinct manner providing, where appropriate, electronic links to other more detailed sources of information.

In relation to performance reporting, the Committee has identified a number of ways in which it can be improved:

- the link between the objectives and the eight key portfolio outcomes of the Department and the Government's desired outcomes needs to be clearly articulated in the report, including how the Department contributed to the whole of government goals;
- the major key performance indicators should be analysed and discussed in the main body of the report. This would normally

involve a comparison of actual results with targets, a trend analysis and a benchmarking comparison. The Committee has noted that there are no references to any key performance indicators in the main body of the 2001-02 report. Although an important target is referred to (that is, 'the Government's commitment to increasing rails' share of port-related freight movements to 30 per cent across all commercial ports by 2010' (see page 28), there are no comments on the progress made in achieving that target;

- the explanations for under and over performance in the delivery of outputs are generally reasonable but can be improved by providing details on the remedial action taken to improve performance and changes to targets where there has been a consistent over performance;
- although a lot of detail has been given on projects and initiatives completed or started during the year there is no comparison with what the Department planned to deliver for the 2001-02 year;
- the 'DOI Output Performance' table on page 12 is difficult to understand. If included, it needs to be explained properly;
- the findings of all internal reviews conducted into the operations of the Department should be disclosed together with details of recommendations and actions taken. No such details are given on the reviews performed during the year (see page 58);
- it is a specific requirement under the Minister for Finance's Directions to report on the future directions of the Department but only limited details have been included in the 2001-02 report;
- no explanations have been provided for the major variances between actual and budget figures in the Budget Portfolio Outcomes Statements (Minister for Finance Directions clause 9.10);
- the reports on a number of statutory authorities under the control of the Department are deficient in that they have not provided sufficient information and commentary on key performance indicators.

The report has not provided the following information as required by the Directions issued by the Minister for Finance:

- performance indicators relating to occupational health and safety matters (clauses 9.8.2 and 9.8.3); and
- a Statement on 'Post Balance Date Events' (clause 9.1.3 (ii) (e)).

16.11 Environment Protection Authority

At a time of high interest in the environment, organisations such as the Environment Protection Authority are subject to close scrutiny on their activities. The Committee is concerned that the report lacks information on performance outcomes and does not clearly explain the key priorities and strategies of the Authority or the extent to which their goals were achieved. However, the report portrays an organisation that was very active during the year with projects, initiatives and ongoing activities.

In relation to performance reporting, the major deficiencies noted are:

- the report does not contain a comparison of the output targets (as specified in the Budget Papers) with the actual performance against those targets. This particular reporting requirement is stipulated in clause 9.1.2 of the Directions issued by the Minister for Finance;
- only a limited number of performance indicators are shown for air and water quality and they are not accompanied by adequate explanations. Because of the highly technical nature of the data, it is necessary to provide the readers with additional comments to assist interpretation and analysis;
- no performance indicators have been disclosed for three of the major program activities that is 'Protecting Groundwater and Land Environment', 'Noise Control' and 'Reduction and Management of Waste'. In the case of 'Emergency Response Services', the only performance indicator shown is the number of emergency response incidents, which is only a workload indicator. There are no references to other indicators on timeliness (e.g. response times) and quality of service (e.g. client satisfaction indices); and
- in discussing and analysing the performance of the Authority, trend information on performance indicators must also be provided together with a benchmarking comparison of the performance

results with those of similar agencies in other Australian jurisdictions.

- It is clear from the review that a substantial amount of work is still required to be done to develop meaningful performance indicators that are reflective of the outcomes of the different aspects of the Authority's operations. It is important that the indicators chosen can be linked directly to the efforts of the Authority.

In addition to the above performance reporting issues, the following suggestions are made to assist in enhancing the quality of the presentation of future reports:

- the 'Financial Summary' and 'Summary of Statistics' sections need to be accompanied by a commentary on major variations from previous year's data and an analysis of the trend data; and
- a separate 'Overview' section and a section on future directions be incorporated in the report.

The report has not complied with the following requirements of the Directions issued by the Minister for Finance:

- performance indicators relating to occupational health and safety (clause 9.8); and
- disclosure of Major Contracts (clause 9.6).

16.12 Victoria Police

The report provides comprehensive information about projects, initiatives and ongoing activities. It has a number of positive features such as a separate section titled 'Key Management Areas' which identifies the critical success factors with a summary of major initiatives implemented during the year. Another good feature is the provision of information on the funding allocated to the individual components of each output group thus giving the reader a broad indication of the output group's strategic significance from the Department's perspective.

The Committee, however, has the following major concerns in regard to the 'Performance Review' section of the report:

- generally, the coverage of the performance measures is inadequate because there are insufficient measures of the 'quality' and 'timeliness' aspects of performance. For example, the actual results for a number of the important measures of the community's satisfaction with the services provided by the agency have not been included in the 2001-2002 report. The reason given is the cessation of the Community Monitor Survey previously conducted by the Department of Justice;
- the Committee is aware that a comprehensive suite of key performance indicators have been developed at the direction of the Council of Australian Governments for benchmarking purposes between jurisdictions. However, the report has not made any reference at all to such comparisons;
- a few key performance indicators are mentioned in the 'Key Management Areas' section i.e. crime rates, public complaints against Victoria Police, number of internal discipline matters, and staff attribution rate. The results are only compared with last year and there is no reference to the targets that were set for the year;
- the projects and initiatives have not been reported against those that were planned for 2001-02 thus making it difficult to track the performance of the agency in delivering its promises over time. There is also an absence of a trend analysis of the performance results over time; and
- explanatory comments have not been provided for the 'Financial Management Summary' (page 49) and for the major variances identified in the 'Budget Portfolio Outcomes Statements' (pages 82-85).

The report has not included last year's comparatives for the workforce data as required by clause 9.1.3 (i) (e) of the Directions issued by the Minister for Finance.

Given the constantly changing environment in which the Victoria Police operates, it is important to have a separate section in the report providing an insight into the future directions and developments of the organisation and the challenges that Victoria Police expects to face within the operating environment.

16.13 Review of the Annual Reports of Parliamentary Departments

The Committee undertook a review of the 2001-2002 annual reports of the five Parliamentary Departments. The key aim of the examination was to assess how well each of the Departments has explained what it planned to achieve and what it has in fact achieved in terms of the performance outcomes and the stated objectives.

Under the *Financial Management Act 1994*, Parliamentary Departments are not required to comply with the legislative provisions in the Act and the associated Ministerial Directions in relation to the preparation of their annual reports. To ensure full accountability to stakeholders for the use of taxpayers' money, the Committee can see no reason 'in principle' why the Parliamentary Departments should be treated any differently from other budget-funded agencies in relation to their annual reporting requirements. Therefore, it is the view of the Committee that the reporting requirements of the *Financial Management Act 1994* should be followed by the Parliamentary Departments, particularly the Joint Services Department.

The following are the requirements that appear to the Committee to be appropriate for adoption by the Joint Services Department:

- operational and budgetary objectives for the financial year and performance against those objectives including significant achievements and activities during the year (Minister for Finance Directions clause 9.1.3 (ii) (c));
- a comparison of the output targets (including output costs) specified in the State Budget with actual performance against those targets (Minister for Finance Directions clause 9.1.2 (iii));
- a summary of the financial results for the year and significant changes in financial position during the year (Minister for Finance Directions clauses 9.1.3 (ii) (a) & (b));
- a chart setting out the organisational structure of the Department (Minister for Finance Directions clause 9.1.3 (i) (d) (iii));

- a statement on workforce data and a general statement on the application of the merit and equity principles (Minister for Finance Directions clause 9.1.3 (i) (e));
- use of consultants (Minister for Finance Directions clauses 9.1.3 (ii) (f) and (g));
- a statement on compliance with the building and maintenance provisions of the Building Act (Minister for Finance Directions clause 9.1.3 (ii) (h));
- Occupational Health and Safety Reporting (Minister for Finance Directions clause 9.8); and
- an Output Group Schedule (Minister for Finance Directions clause 9.2.2 (i) (d)).

In regard to the other four Parliamentary Departments, the Committee believes that the inclusion of the disclosures as specified in the Minister for Finance Directions clauses 9.1.3 (ii) (c), 9.1.2 (iii), 9.1.3 (i) (e) and 9.8 as well as an Output Group Schedule would significantly enhance the accountability value of their annual reports. The Output Group Schedule shows the revenues, expenses, assets and liabilities for a particular output group.

Set out below are the results of a review of the 2001-02 annual reports of the five Parliamentary Departments. In addition, to the suggestions outlined above, a number of other matters have also been identified for future attention by the Departments.

16.13.1 *Joint Services Department*

The report has presented a comprehensive coverage of the activities, projects and initiatives of the different operational units for the year. The achievements reported are linked to the role (or objectives) of each of the units.

In the 'Summary - 2001/2002', there is a reference to a rewrite of the Parliament's Corporate Plan and also the conduct of a Parliament-wide satisfaction survey on the services provided by Parliamentary Departments. There is a general statement that all operational units

received a rating of 'satisfied or better' by more than 70 per cent of respondents.

Stakeholder feedback is a critical component of the Department's performance measurement system and as such the report should have presented the detailed rating results (including the targets set) for each of the operational units. In addition, the review has found that no other quantitative performance indicators (sourced from the Corporate and Business Plans and Budget Papers) have been included in the main body of the report.

The Committee also suggests that future annual reports include:

- a summary of the key priorities and initiatives planned for the current year and the actual results achieved. (Where an initiative was not able to be implemented, an explanation must be given as well as an estimated completion date); and
- a 'Future Directions' section at the end of the report providing pertinent forward looking information and comments such as:
 - a discussion of the major issues and events that are likely to have a significant impact on the Department; and
 - an outline of the key priority initiatives that the Department aims to deliver in coming periods (particularly in the next year) and objective measures of performance.

Some performance indicators on occupational health and safety have been incorporated in the report but they need to be expanded along the lines of the requirements as set out in clause 9.8 of the Directions issued by the Minister for Finance.

16.13.2 Department of Legislative Assembly

The report refers to the development of a Business Plan and an Action Plan identifying the initiatives to be delivered under the objectives, and the specified timeframes. Although the planned initiatives and target dates are stated in the plans, there is no *ex-post* accountability through the annual report.

Whilst the report contains details of many completed initiatives and projects (some of which are of a relatively minor nature), it is not possible to determine whether the Department was successful in delivering on its objectives because the details are not available in the document.

A positive feature of the report is the linking of the Review of Operation to the nine goals of the Department. The review, however, has not included any information and comments on key performance indicators, particularly those relating to the measurement of the timeliness and quality of the services provided.

In addition to these issues, the Committee is of the view that the report could be improved with:

- a commentary on the significant variances between the 'Major Outputs and Deliverables' of the current year and those of the previous year;
- some explanations for the major variances between budget and actual expenditure; and
- a commentary on the Legislative Assembly sitting and Committee statistics.

16.13.3 *Department of Legislative Council*

The Clerk of the Legislative Council has made a statement in the 'Overview' section of the report (page 1) that 'the Department has met its objectives at a high level'. Whilst this may well be the case, the report has not demonstrated the achievements with the use of key performance indicators and a trend analysis. The indicators are available from the Corporate and Business Plans and the Budget Papers.

In addition, there is no systematic reporting of achievements against the key strategic priorities and deliverables as identified in the Corporate and Business Plans.

Some explanatory comments on the charts, graphs and statistics included in the report would be helpful to the readers. Two of the appendices could be deleted from future reports because the information provided is of a minor nature.

16.13.4 Victorian Parliamentary Library

The Department has once again maintained a high standard of reporting with a report that presents a strong focus on accounting for performance outcomes against the objectives of the organisation. The commentaries are relevant, clear and concise and they have addressed achievements and challenges faced by the Department.

Specifically, the Committee has noted that, throughout the report, performance indicators have been used to demonstrate how well the objectives were achieved. Other positive features include:

- a reference to the directions, purpose and values of the Department as articulated in the Corporate Plan;
- a full disclosure of the details of all changes made to the performance measures during the year; and
- some forward looking comments in regard to future plans and initiatives.

The Committee looks forward to a comprehensive coverage of the stakeholder survey results in future reports, as well as a systematic comparison of implemented initiatives with those as identified in the Business Plan.

16.13.5 Department of Parliamentary Debates

The Committee is pleased to note the inclusion of an Output Summary in the report showing performance targets and results for the outputs delivered during the year. However, apart from the Output Summary, there are no other performance indicators (including stakeholder survey results) disclosed for each of the seven goals of the Department. The end result is that the extent of the achievement of those goals remains largely unaccounted for.

Many projects and initiatives have been reported but it is difficult to determine the degree of success because there are no targets or milestones provided in terms of what the Department set out to achieve under the corporate and business plans.

The Committee suggests that, in future, all graphs and the Output Summary be accompanied by suitable explanatory comments so as to enhance their usefulness to the reader.

APPENDIX 1: ACRONYMS AND ABBREVIATIONS

ABS	Australian Bureau of Statistics
A&RMC	Austin and Repatriation Medical Centre
AIRC	Australian Industrial Relations Commission
AUSTFA	Australia-US free trade agreement
BACV	Building Advice and Conciliation Victoria
CAD	Computer Aided Despatch
CORE	Public Correctional Enterprise
CPI	Consumer Price Index
CPSU	Community and Public Sector Union
CRU	Community Residential Units
CSF	Community Support Fund
CSHA	Commonwealth-State Housing Agent
CSTDA	Commonwealth-State-Territory Disability Agreement
EBA	Enterprise Bargaining Agreement
ECV	Emergency Communications Victoria
EFT	Equivalent Full Time
EMS	Environmental Management System
FSM	Federation Square Management Company Pty Ltd
GBE	Government Business Enterprise
GST	Goods and Services Tax
GTC	Group Training Companies
GVT	Growing Victoria Together
HACC	Home and Community Care
HARD	Hospitals Admissions Risk Program

HIH	HIH Insurance Limited
ICT	Information and Communication Technologies
LOTE	Language other than English
M2006	Melbourne 2006 Commonwealth Games Pty Ltd
MHSKY	Mental Health Services for Kids and Youth
MMV	Multimedia Victoria
MPV	Major Projects Victoria
MSAC2	Melbourne Sports and Aquatic Centre (Stage 2)
NGV	National Gallery of Victoria
OneLink	OneLink Transit Systems Pty Ltd
Parlynet	Parliament of Victoria communication network
PERIN	Penalty Enforcement by Registration of Infringement Notice
PRMS	Physical Resources Management System
RIDF	Regional Infrastructure Development Fund
RMIT	Royal Melbourne Institute of Technology University
SARS	Severe Acute Respiratory Syndrome
SIDS	Sudden Infant Death Syndrome
TAFE	Technical and Further Education
TCFL	Textiles, Clothing, Footwear and Leather
TEI	Total Estimated Investment
TPAMS	Telecommunications, Purchasing and Management Strategy
VAGO	Victorian Auditor-General's Office
VCAT	Victorian Civil and Administrative Tribunal
VCDRC	Victorian Child Death Review Committee

APPENDIX 2: PAEC 2003-04 BUDGET ESTIMATES QUESTIONNAIRE

PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

ESTIMATES QUESTIONNAIRE 2003-2004

1. Departmental Strategies

- 1.1** Please provide information on which Minister is responsible for each output within the Department.
- 1.2** Please provide details of what changes have occurred to the Department's output group structure, and within the outputs, since the 2002-2003 budget, along with reasons for the changes.
- 1.3** What progress was made in implementing the major initiatives identified in the 2002-2003 Budget Papers Nos. 2 and 3? Please provide your response in the following form:

Initiative	Activities Undertaken	Progress against pre-determined performance indicators as at 30 April 2003	Progress achieved against key Government outcomes

2. Departmental Issues

- 2.1** Please list a minimum of 7 strategic issues that have influenced the development of the Department's estimates for the 2003-2004 financial year. Please describe how the Department will address these issues in 2003-2004.

(In this context, a significant issue should not include the historical basis of the estimate ie. the existing funding for output, but may be any other matter or strategy affecting the Department, whether it arises from the external environment, or internally, or as a result of new policy or legislation.)

3. Output and Performance Management

- 3.1** What new performance measures has the Department introduced to evaluate the cost, efficiency and effectiveness of the delivery of outputs for the 2003-2004 financial year?

- 3.2 What performance measures are likely to be discontinued or changed for 2003-2004 and why?
- 3.3 Are there any barriers to the Department further developing and improving its capacity to collect, collate and use performance measurement information that is more closely linked to outputs and the achievement of government outcomes?
- 3.4 For each output group, please indicate which of the output/performance measures shown in Budget Paper No. 3 are considered by the Department to be the **key** measures of the Department's performance.
- 3.5 Please explain:
- (a) What internal/external reviews, including pricing reviews, were undertaken in 2002-2003 of departmental output groups?
 - (b) What action was taken as a result of these reviews?
 - (c) Did the Department undertake any external validation of performance achievement in 2002-2003? If so, please provide details.
- 3.6 What progress, if any, has been made in developing benchmarks and performance measures that would enable meaningful comparisons with similar programs and outputs in terms of unit costs, efficiency and effectiveness that operate in other States, Territories and the Commonwealth?
- 3.7 What new services/activities were outsourced for the first time in 2002-2003 and what additional outsourcing arrangements, if any, are planned for 2003-2004?

4. Human Resources

- 4.1 Please provide details of the following:
- (a) number of EFT permanent (on-going) staff by output groups for:
 - (i) 2002-2003; and
 - (ii) estimated 2003-2004.
 - (b) number of temporary or fixed term staff by output groups:
 - (i) 2002-2003; and
 - (ii) estimated 2003-2004.

- 4.2** Is the Department experiencing a shortage of expertise in any areas (for example: Financial Management, Information Technology, Technical etc.)? If yes, please provide details, including the strategies adopted by the Department to overcome any shortfall in staff expertise?
- 4.3** Are staff performance assessments which identify skill deficiencies directly linked to professional development activities and service-wide training opportunities? What level of funding was provided in 2002-2003 and intended for 2003-2004 for professional development and training activities?

5. Departmental Financial Performance

- 5.1** What are the estimated actual operating revenue and expenses for the 2002-2003 financial year in comparison to the amounts budgeted for the year (as per the departmental operating statement of Budget Paper No. 3) and the January 2003 Budget Update?

Operating Statement (\$ million)	1 2002-2003 Estimate (\$ million)	2 2002-03 Revised Estimate (\$ million)	3 2002-2003 Estimated Actual (\$ million)	4 2003-2004 Estimate (\$ million)	Variation (%) Col. 1-3
Operating Revenue					
Revenue from State Government					
Section 29 Receipts – Commonwealth					
Section 29 Receipts – Other					
Other Commonwealth Grants					
Other Revenue					
Total					
Operating Expenses					
Employee related expenses					
Purchases of Supplies and Services					
Depreciation					
Capital Assets Charge					
Other Expenses					
Total					

Operating Surplus/Deficit before revenue for increase in net assets					
Add					
Revenue for increase in net assets					
Section 29 Receipts – Asset Sales					
Operating Surplus/Deficit Administered Items					
Operating Revenue					
Revenue from State Government					
Other Commonwealth Grants					
Other Revenue					
Total					
Operating Expenses					
Employee related expenses					
Purchases of supplies and services					
Depreciation					
Other expenses					
Total					
Operating Surplus/Deficit					

- please provide a succinct explanation for each expected variation in excess of 5 per cent from the original budgeted amount; and
- please provide:
 - (a) a succinct explanation of how deficits are financed;
 - (b) details of any surplus expected to be carried over by the Department from 2002-2003 or returned to Consolidated Revenue; and
 - (c) an explanation of why there was a surplus or a deficit.

5.2 What is the estimated value of any bad debts written off or intended to be written off in 2002-2003?

5.3 Where bad debts were written off, what was the nature of the debts and the aggregate amount involved, and the reasons for writing off?

6.1 Departmental Revenue

Please provide the following information:

Revenue Item (\$ million)	1 2002-2003 Estimate B.P.3 (\$ million)	2 2002-2003 Revised Estimate (\$ million)	3 2002-2003 Estimated Actual (\$ million)	4 2003-2004 Estimate (\$ million)	Variance (%) Col. 1-3
Revenue					
Taxation					
Regulatory fees and fines					
Public authority income					
Grants					
Sale of goods and services					
Net surplus from disposal of physical assets					
Fair value of assets received free of charge					
Other revenue					
Total Revenue					

- succinct explanations for all variances greater than 5 per cent between the 2002-2003 estimate and 2002-2003 estimated actual.

6.2 Please provide details of the Department's budgeted and revised output group expenditure for 2002-2003 and the estimate for 2003-2004; and

- a succinct explanation for each expected variation in excess of 5 per cent from the revised budgeted amount for 2002-2003 as compared to the 2003-2004 budget estimate.

6.3 Please provide an itemised breakdown of balances contained in "Other Revenue" and "Other Expenses" for both controlled and administered categories within the operating statement together with an explanation for variances in excess of 5 per cent.

6.4 During 2003-2004 are there any new revenue-raising initiatives planned or major changes to existing revenue initiatives?

- 6.5** What was the Department's estimated actual assets and liabilities as at 30 June 2003 in comparison to the amounts estimated in Budget Paper No. 3 for 2003-2004?

Item	1 2002-2003 Budget (\$ million)	2 2002-2003 Estimated Actual (\$ million)	3 2003-2004 Budget (\$ million)	Variation (%) 3-1
Current assets				
Cash and deposits				
Investments				
Receivables				
Prepayments				
Inventories				
Other				
Total current assets				
Non current assets				
Investments				
Receivables				
Physical assets and other				
Total non current assets				
Total assets				
Current liabilities				
Payables				
Borrowings				
Employee entitlements				
Superannuation				
Other				
Total current liabilities				
Non current liabilities				
Payables				
Borrowings				
Employee entitlements				
Superannuation				
Other				
Total non current liabilities				
Total liabilities				
Net assets				

- 6.6** Please provide a succinct explanation for all variances in excess of 5 per cent between the 2003-2004 budget estimates and estimated actual figures for 2002-2003.

7. Departmental Asset Investment

Please provide a list of the asset investment projects for which capital expenditure has occurred or was budgeted to occur in 2002-2003 or for which capital expenditure is budgeted to occur in 2003-2004 or subsequently, including:

- 7.1** Details of the expected capital expenditure to 30 June 2003 in comparison with the amounts budgeted for each project.
- 7.2** A succinct explanation for each expected variation in excess of 5 per cent below capital budget projections.
- 7.3** For each project with an expected variance in excess of 5 per cent above budget, the total end cost for the project, if amended from the original cost.
- 7.4** Details of projects where the expected completion date has changed. Please provide details of the revised completion date and the reasons for the change.
- 7.5** Please indicate which capital works projects are intended to maintain the Department's existing service delivery capacity and which are intended to increase the service delivery capacity.
- 7.6** Please provide the following information:
- (a) details of all asset revaluations during the year or anticipated prior to 30 June 2003;
 - (b) details of major assets disposed of during the year and how the proceeds of disposals were utilised;
 - (c) details of any forecast movements in asset balances as at 30 June 2003 due to the Department recognising previously owned assets in the balance sheet for the first time (eg. where the movement has resulted from the development of asset registers or other improvements in accounting practices);
 - (d) a succinct explanation of why those assets were not previously included in the balance sheet;
 - (e) whether the Department is satisfied that all assets under its control are recorded in asset registers.

8. Departmental Strategies

- 8.1** Please provide a copy of the Department's corporate and business plans (draft copies where available) covering the 2003-2004 financial year. Have any changes been made to these plans since the document was printed; if so, please provide details.
- 8.2** Please provide a copy of your Department's policy and guidelines on corporate governance.

9. State Administration Unit

Please provide details of:

- (a) the balance of your Department's funds held by the S.A.U. as at 30 June 2002, along with the composition of the various components, eg. depreciation, employee entitlements, creditors and accruals, within the fund;
- (b) the extent to which retained surpluses have been applied to additional outputs or other initiatives approved by the Treasurer during 2002-2003;
- (c) asset acquisitions financed from accumulated depreciation to date during 2002-2003 and intended for 2003-2004; and
- (d) has accumulated depreciation equivalents previously held by the S.A.U. been applied for other than asset replacement during 2002-2003? If so, what amounts and for what purposes and under what authority?

10. Management and Implementation of the Government's Partnerships Victoria Policy

- 10.1** What services were delivered in partnership with the private and not-for-profit sectors for the first time in 2002-2003?
- 10.2** The Committee understands that the Partnerships Victoria Policy applies to all public infrastructure projects worth over \$10 million.
- (a) please provide an overview of projects currently being evaluated for delivery under the Partnerships Victoria framework; and

- (b) please provide a list of projects that will be delivered in partnership with the private sector in 2003-2004 or subsequently, including the projected costs of the projects and the role to be played by the private sector.

10.3 What are the key challenges facing the Department in the implementation of the Partnerships Victoria Policy? Issues could include a genuine transfer of risk to the private sector, demonstrated value for money for the public sector, sustainable long term capacity for service delivery, effective project management and contract conditions negotiated in the best interests of the public.

11. E-Commerce

11.1 Please provide details on the use of E-Commerce in the Department's operations, including:

- (a) the type of services using E-Commerce presently; and
- (b) services planned for the future, including on-line procurement of goods and services.

11.2 What level of funding was/has been allocated to the development of systems etc. to facilitate the use of E-Commerce within the Department in 2003-2004?

11.3 Please provide an assessment of the Department's implementation of E-Commerce strategies compared with the Department's intended position as at 30 June 2003. Please specify by projects planned, projects implemented, target dates for completion, dates completed, estimated costs by projects, actual costs by project, anticipated benefits (financial and operational) by projects and actual benefits (financial and operational) realised by project.

11.4 What problems have been encountered in implementing the Department's E-Commerce strategy?

12. The Growing Victoria Infrastructure Reserve

12.1 Please provide details of:

- (a) the number of projects that your Department is participating in under the Growing Victoria Infrastructure Reserve;
- (b) actual and planned funding for the projects in 2002-2003 and 2003-2004; and
- (c) the balance of uncommitted funds and a status report on the progress of projects against estimated completion dates.

- 12.3** Please provide details of benefits that have been realised to date from completed projects in terms of improved outputs and meeting defined government outcomes. Examples of benefits could include employment growth, improved service delivery, additional investment generated, tourism/visitation and other community benefits.

13. Environmentally Sustainable Policies/Strategies

- 13.1** Given the Government's commitment to establish a Commissioner for Environmental Sustainability to audit government agencies and public authorities:
- (a) what policies and strategies has the Department adopted to ensure its practices are environmentally sustainable; and
 - (b) how effective have such measures been to date?

1. Contact Details

Department:.....

Contact Officer:.....

Position:.....

Contact Numbers: Telephone:.....

Fax:.....

The completed questionnaire must be returned **by no later than** **2003.**

Please return the response to the questionnaire to:

Executive Officer
Public Accounts and Estimates Committee
Level 8, 35 Spring Street
MELBOURNE VIC 3000

Telephone: (03) 9651 3551
Fax: (03) 9651 3552
Email: paec@parliament.vic.gov.au

APPENDIX 3: LIST OF PERSONS AND DEPARTMENTS PROVIDING EVIDENCE AND SUBMISSIONS

Evidence

Portfolios: Premier; Multicultural Affairs

Department of Premier and Cabinet and Department for Victorian Communities

13 May 2003

Hon S Bracks, Premier and Minister for Multicultural Affairs;
Mr Y Blacher, Secretary, Department for Victorian Communities;
Mr S Mather, Corporate Finance, Department for Victorian Communities; and
Ms E Jensen, Director, Victorian Office of Multicultural Affairs.

Hon S Bracks, Premier;
Mr T Moran, Secretary, Department of Premier and Cabinet;
Ms F Thorn, Deputy Secretary, Governance, Resources and Infrastructure;
and
Mr G Lampe, Director, Social Policy Branch, Department of Premier and
Cabinet.

Portfolios: Treasurer; State and Regional Development; Innovations Department of Treasury and Finance; Department of Innovation, Industry and Regional Development

14 May 2003

Hon J Brumby, Minister for State and Regional Development and Minister for
Innovation;
Mr P Harmsworth, Secretary, Department of Innovation, Industry and
Regional Development;
Ms A Polmear, Head of Business Group, Department of Innovation, Industry
and Regional Development;
Ms D Goodin, Chief Operating Officer, Department of Innovation, Industry
and Regional Development.

Hon J Brumby, Treasurer;
Mr I Little, Secretary, Department of Treasury and Finance;
Mr S Helgeby, Deputy Secretary, Budget and Financial Management,
Department of Treasury and Finance; and

Mr J Monforte, Director, Budget Development and Production, Department of Treasury and Finance.

**Portfolios: Arts; Women's Affairs; Planning
Department of Premier and Cabinet; Department for Victorian
Communities; and Department of Sustainability and Environment
14 May 2003**

Hon M Delahunty, Minister for the Arts;
Ms P Hutchinson, Director, Arts Victoria; and
Mr D Carmody, General Manager, Arts Agencies and Corporate Services,
Arts Victoria.

Hon M Delahunty, Minister for Women's Affairs;
Mr T Healy, Deputy Secretary, People and Community Advocacy,
Department for Victorian Communities;
Ms P Thurgood, Acting Director, Office of Women's Policy; and
Mr S Mather, Senior Finance Officer, Department for Victorian Communities.

Hon M Delahunty, Minister for Planning;
Mr P Jerome, Executive Director, Planning and Land;
Mr J Collins, Executive Director, Policy and Research, Department of
Sustainability and Environment; and
Mr T Arnel, Commissioner, Building Control Commission.

**Portfolio: Health
Department of Human Services
15 May 2003**

Hon B Pike, Minister for Health;
Ms P Faulkner, Secretary, Department of Human Services;
Mr L Wallace, Executive Director, Financial and Corporate Services;
Mr S Solomon, Executive Director, Metropolitan Health and Aged Care; and
Dr C Brook, Executive Director, Rural and Regional Health and Aged Care,
Department of Human Services.

**Portfolios: Finance; Consumer Affairs
Department of Justice and Department of Treasury and Finance
15 May 2003**

Hon J Lenders, Minister for Consumer Affairs;
Ms P Armytage, Secretary, Department of Justice; and
Mr D Cousins, Director, Consumer Affairs Victoria.

Hon J Lenders, Minister for Finance;
Mr I Little, Secretary, Department of Treasury and Finance;
Mr A Nye, Director, Insurance Policy;
Mr P Carroll, Director, Property Group; and
Mr L Norris, Finance Policy Compliance Adviser, Department of Treasury and Finance.

Portfolio: Education and Training
Department of Education and Training
16 May 2003

Hon L Kosky, Minister for Education and Training;
Mr G Hehir, Secretary, Department of Education and Training; and
Ms J Samms, Director, Office of Portfolio Integration, Department of Education and Training.

Portfolios: Employment and Youth Affairs; Education Services
Department for Victorian Communities and Department of Education and Training
16 May 2003

Hon J Allan, Minister for Employment and Youth Affairs;
Mr Y Blacher, Secretary, Department for Victorian Communities;
Mr T Healy, Deputy Secretary;
Mr S Mather, Corporate Finance; and
Ms J Griffiths, Executive Director, Employment Programs, Department for Victorian Communities.

Hon J Allan, Minister for Education Services;
Mr G Hehir, Secretary, Department of Education and Training; and
Ms J Samms, Director, Office of Portfolio Integration, Department of Education and Training.

Hon J Allan, Minister for Employment and Youth Affairs;
Mr Y Blacher, Secretary of Department for Victorian Communities;
Mr T Healy, Deputy Secretary;
Mr S Mather; Corporate Finance; and
Mr P Lyons, Director; Youth Affairs, Department for Victorian Communities.

Portfolios: Local Government; Housing
Department of Human Services Department for Victorian Communities
and
23 May 2003

Ms C Broad, Minister for Local Government;
Mr Y Blacher, Secretary of the Department for Victorian Communities;
Ms P Digby, Executive Director, Local Government and Regional Services;
and
Ms J Rumble, Acting Finance Manager, Department for Victorian Communities.

Ms C Broad, Minister for Housing;
Ms P Faulkner, Secretary of Department of Human Services;
Mr K Downie, Director of Housing;
Mr L Wallace, Executive Director, Financial and Corporate Services; and
Mr M Darmody, Director, Strategic Asset Management, Department of Human Services.

Portfolios: Corrections; Police and Emergency Services
Department of Justice
23 May 2003

Hon A Haermeyer, Minister for Corrections;
Ms P Armytage, Secretary, Department of Justice; and
Mr A Clayton, Deputy Secretary, Department of Justice.
Hon A Haermeyer, Minister for Police and Emergency Services,
Ms P Armytage, Secretary, Department of Justice;
Mr A Clayton, Deputy Secretary, Department of Justice; and
Ms C Nixon, Chief Commissioner of Police.

Portfolios: Environment; Water
Department of Sustainability and Environment
27 May 2003

Hon J Thwaites, Minister for Environment;
Professor L Neilson, Secretary, Department of Sustainability and Environment;
Mr K Love, Deputy Secretary, Public Land Stewardship and Biodiversity, Department of Sustainability and Environment.

Hon J Thwaites, Minister for Water;
 Professor L Neilson, Secretary, Department of Sustainability and Environment; and
 Mr P Sutherland, General Manager, Intergovernmental and International Relations, Department of Sustainability and Environment.

Hon J Thwaites, Minister for Victorian Communities;
 Mr Y Blacher, Secretary, Department for Victorian Communities;
 Mr R Judd, Executive Director, Community Building; and
 Ms J Rumble, Acting Finance Manager, Department for Victorian Communities

**Portfolios: Financial Services Industry; Manufacturing and Exports
 Department of Innovation, Industry and Regional Development
 28 May 2003**

Hon T Holding, Minister for Financial Services Industry;
 Mr P Harmsworth, Secretary, Department of Innovation, Industry and Regional Development; and
 Mr B Mapperson, General Manager, Service Industries, Department of Innovation, Industry and Regional Development.
 Mr P Rea, Director, Office of Manufacturing, Department of Innovation, Industry and Regional Development.

Hon T Holding, Minister for Manufacturing and Exports;
 Mr P Harmsworth, Secretary, Department of Innovation, Industry and Regional Development; and
 Mr P Rea, Director, Office of Manufacturing, Department of Innovation, Industry and Regional Development.

**Portfolios: Resources; Energy Industries
 Department of Infrastructure, Department of Primary Industries and
 28 May 2003**

Hon T Theophanous, Minister for Resources;
 Ms C Munro, Secretary, Department of Primary Industries;
 Mr A Young, Chief Finance Officer, Department of Primary Industries; and
 Dr R Aldous, Executive Director, Minerals and Petroleum, Department of Primary Industries.

Hon T Theophanous, Minister for Energy Industries;
 Mr R Bolt, Executive Director, Energy and Security, Department of Infrastructure; and
 Mr B McDonald, Chief Finance Officer, Department of Infrastructure.

**Portfolios: Information and Communication Technology; Small Business
Department of Infrastructure and Department of Innovation, Industry and
Regional Development
29 May 2003**

Hon M Thomson, Minister for Information and Communication Technology;
Mr H Ronaldson, Secretary, Department of Infrastructure;
Mr B McDonald, Chief Finance Officer, Corporate Finance Division,
Department of Infrastructure; and
Mr R Straw, Executive Director, Multimedia Victoria.

Hon M Thomson, Minister for Small Business;
Mr P Harmsworth, Secretary, Department of Innovation, Industry and
Regional Development;
Mr P Hatton, Director, Business Access; and
Mr R Arwas, Director, Small Business, Department of Innovation, Industry
and Regional Development.

**Portfolio: Community Services
Department of Human Services
29 May 2003**

Hon S Garbutt, Minister for Community Services;
Ms P Faulkner, Secretary, Department of Human Services;
Mr L Wallace, Executive Director, Financial and Corporate Services;
Ms P White, Executive Director, Community Care; and
Mr A Rogers, Executive Director, Disability Services, Department of Human
Services.

**Portfolios: Tourism; Gaming
Department of Innovation, Industry and Regional Development and
Department of Justice
30 May 2003**

Hon J Pandazopoulos, Minister for Tourism;
Mr P Harmsworth, Secretary; and
Ms L Appleby, Chief Executive, Tourism Victoria, Department of Innovation,
Industry and Regional Development.

Hon J Pandazopoulos, Minister for Racing;
Ms P Armytage, Secretary, Department of Justice; and
Mr R Kennedy, Director, Office of Gaming and Racing, Department of Justice.

Hon J Pandazopoulos, Minister for Gaming;
Ms P Armytage, Secretary, Department of Justice; and
Mr R Kennedy, Director, Office of Gaming and Racing, Department of Justice.

Portfolios: Industrial Relations; Workcover; Attorney-General

Department of Innovation, Industry and Regional Development ; Department of Treasury and Finance; Department of Justice

30 May 2003

Hon R Hulls, Minister for Industrial Relations;
Mr P Harmsworth, Secretary, Department of Innovation, Industry and Regional Development; and
Mr P Lorraine, Executive Director, Department of Innovation, Industry and Regional Development.

Hon R Hulls, Minister for WorkCover;
Mr J MacKenzie, Chair, Transport Accident Commission and Victorian WorkCover Authority;
Mr G Tweedly, Chief Executive, Victorian WorkCover Authority;
Mr D Kearsley, Acting Managing Director, Transport Accident Commission;
Mr I Little, Secretary, Department of Treasury and Finance; and
Ms H Silver, Deputy Secretary, Economic and Finance Policy, Department of Treasury and Finance.

Hon R Hulls, Attorney-General;
Ms P Armytage, Secretary, Department of Justice; and
Ms E Eldridge, Deputy Secretary, Legal and Equity Portfolio, Department of Justice.

Portfolios: Major Projects; Transport

Department of Infrastructure

17 June 2003

Hon P Batchelor; Minister for Major Projects;
Mr H Ronaldson, Secretary, Department of Infrastructure;
Mr B McDonald, Executive Director, Corporate Resources and Chief Finance Officer, Department of Infrastructure; and
Mr J Cain, Executive Director, Department of Infrastructure.

Hon P Batchelor; Minister for Transport;
Mr H Ronaldson, Secretary, Department of Infrastructure;
Mr B McDonald, Executive Director, Corporate Resources and Chief Finance Officer, Department of Infrastructure;
Mr A Smith, Deputy Secretary, Capital, Department of Infrastructure;
Mr D Anderson, Chief Executive Officer, VicRoads;
Ms G Moody, Executive Director, Infrastructure Projects, Department of Infrastructure; and
Mr P Harris, Director of Public Transport, Department of Infrastructure.

**Portfolio: Agriculture
Department of Primary Industries
18 June 2003**

Hon R Cameron, Minister for Agriculture;
Ms C Munro, Secretary, Department of Primary Industries;
Mr B Kefford, Deputy Secretary, Regional Services and Agriculture, Department of Primary Industries;
Mr R McLoughlin, Executive Director, Fisheries Victoria;
Mr A Young, Chief Finance Officer, Department of Primary Industries.

**Portfolios: Sport and Recreation; Commonwealth Games
Department for Victorian Communities
19 June 2003**

Hon J Madden; Minister for Sport and Recreation;
Mr T Healy, Acting Secretary, Department for Victorian Communities;
Mr P Hertan, Executive Director, Sport and Recreation Victoria; and
Mr S Mather, Corporate Finance, Department for Victorian Communities.

Hon J Madden; Minister for Commonwealth Games;
Mr T Healy, Acting Secretary, Department for Victorian Communities;
Ms M Sussex, Executive Director, Office of Commonwealth Games Co-ordination;
Ms B Glyn, Chief Finance Officer, Office of Commonwealth Games Co-ordination.

**Portfolios: Aboriginal Affairs; Aged Care
Department of Human Services; Department for Victorian Communities
19 June 2003**

Hon G Jennings, Minister for Aboriginal Affairs;
Mr T Healy, Acting Secretary Department for Victorian Communities;
Mr T Cahir, Executive Director, Aboriginal Affairs Victoria; and
Mr S Mather, Corporate Finance, Department for Victorian Communities.
Hon G Jennings, Minister for Aged Care;
Ms P Faulkner, Secretary, Department of Human Services;
Dr C Brook, Executive Director, Rural and Regional Health and Aged Care
Services;
Mr L Wallace, Executive Director, Financial and Corporate Services, and
Ms J Herington, Director Aged Care, Department of Human Services.

**Portfolio: Presiding Officers
Parliamentary Departments
24 June 2003**

Hon M Gould, MLC, President of the Legislative Council;
Hon J Maddigan, MP, Speaker of the Legislative Assembly;
Mr R Purdey, Clerk of the Parliaments and Clerk of the Legislative Assembly;
Mr W Tunnecliffe, Clerk of the Legislative Council;
Mr S Aird, Director, Corporate Services, Department of Joint Services;
Mr H Barr, Manager, Finance, Department of Joint Services;
Mr G Spurr, Director, Infrastructure Services, Department of Joint Services;
Ms G Dunston, Parliamentary Librarian, Parliamentary Library;
Ms C Williams, Editor of Debates, Department of Parliamentary Debates.

Submissions

The following Departments and Agency responded to the Committee's annual estimates questionnaire:

Education and Training;
Environment Protection Authority
Human Services;
Infrastructure;
Innovation, Industry and Regional Development;
Justice;
Parliamentary Departments;
Premier and Cabinet;
Primary Industries;
Sustainability and Environment;
Treasury and Finance;
Victorian Communities

In addition, all Departments provided further information on request of the Committee.