PARLIAMENT OF VICTORIA

Public Accounts and Estimates Committee

Report on the 2017-18 Budget Estimates

Parliament of Victoria
Public Accounts and Estimates Committee

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Committee functions

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

The Committee comprises nine members of Parliament drawn from both Houses of Parliament.

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

- any proposal, matter or thing concerned with public administration or public sector finances
- the annual estimates or receipts and payments and other budget papers and any supplementary estimates of receipts or payments presented to the Assembly and the Council
- any proposal, matter or thing that is relevant to its functions and has been referred to the Committee by resolution of the Council or the Assembly or by order of the Governor in Council published in the Government Gazette.

The Committee also has a number of statutory responsibilities in relation to the Office of the Auditor-General and Parliamentary Budget Officer.

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Acronyms and terms

(Asset) investment through other sectors	'Asset investment' funded through another sector (most commonly funded by the 'general government sector' and through the 'public non–financial corporations sector') for an asset that becomes part of that other sector. It is referred to in the budget papers as 'net cash flows from investments in financial assets for policy purposes'
AASB	Australian Accounting Standards Board
ABS	Australian Bureau of Statistics
ACCC	Australian Competition and Consumer Commission
Agency	Government entities which generally receive their funding through 'departments' and for which 'departments' are responsible for reporting. Examples include Victoria Police, hospitals and TAFEs. Agencies, like 'departments', are directly accountable through one or more ministers to Parliament.
AHURI	Australian Housing and Urban Research Institute
ALCAM	Australian Level Crossing Assessment Model
ANROWS	Australian National Research Organisation for Women's Safety
Appropriation	The authority to withdraw funds from the Consolidated Fund. This may be a once-off authority (as provided in the annual Appropriation acts) or a standing authority (a special appropriation provided by another act).
Asset initiative	A new program or project ('initiative') that delivers assets. See 'asset investment'.
Asset investment	Expenditure on assets (generally infrastructure such as roads or hospitals) as opposed to expenditure on the delivery of products and services ('outputs').
Budget estimates	Forecasts for future years made in the budget papers about matters such as revenue, expenditure, assets, liabilities and goods and services to be delivered.
Budget papers	The set of documents released with the annual budget. These normally include the Treasurer's speech and volumes on: strategy and outlook; service delivery; capital investment; and the estimated financial statements.
CEDA	Committee for Economic Development Australia
CCTV	Closed Circuit Television
CFA	Country Fire Authority
Consolidated Fund	The Government's primary bank account. This account receives all revenue raised by the State or received in grants from other parties. It does not receive funds received for specific purposes, for which trust accounts have been set up. The Consolidated Fund, together with the 'Trust Fund' forms the 'Public Account'.
Department	Large government entities. Funding for most 'agencies' is generally provided through departments and departments are required to report on the financial and performance results of the agencies for which they are responsible. Departments, like 'agencies', are directly accountable through one or more ministers to Parliament. At 6 October 2017 there were seven departments in Victoria, plus Courts Services Victoria and the Parliamentary Departments.

Depreciation	The amount of money it would require to keep the State's assets in the same condition as they were in last year. This amount is listed as an expense on the operating statement, and the cash equivalent to that amount is usually used to partially fund 'asset investment'.
Direct (asset) investment	'Asset investment' by the 'general government sector', whereby an 'entity' such as a department manages the construction or purchase of the asset and owns the asset once it is complete.
DEDJTR	Department of Economic Development, Jobs, Transport and Resources
DELWP	Department of Environment, Land, Water and Planning
DET	Department of Education and Training
DHHS	Department of Health and Human Services
DJR	Department of Justice and Regulation
DPC	Department of Premier and Cabinet
DPS	Department of Parliamentary Services
DTF	Department of Treasury and Finance
EBA	Enterprise Bargaining Agreement
ECIS	Early Childhood Intervention Services
ECL	Environmental Contribution Levy
EFS	Estimated Financial Statement
Entity	Either a 'department' or an 'agency'.
ESC	Essential Services Commission
FIRB	Foreign Investment Review Board
Forward estimates period	The period for which estimates are made in the budget papers. This includes the budget year and the following three financial years. The forward estimates period for the 2017-18 Budget is 2017-18 to 2020-21 inclusive.
Funds outside the Public Account	Funds held by entities that are in separate bank accounts and not in a 'Trust Fund' or the Consolidated Fund.
General government sector	Departments and other entities that provide goods and services for no charge, or for charges significantly less than the cost of their provision.
General-purpose (GST) grants	Grants from the Commonwealth Government to the State Government sourced from GST revenue. There are no restrictions imposed by the Commonwealth Government on how the funding can be spent.
GIPS	Government Identity Provisioning System
GMW	Goulburn Murray Water
Government infrastructure investment	A measure of 'general government sector' expenditure on infrastructure which includes: 'direct asset investment' (net of proceeds from asset sales); 'asset investment through other sectors'; and estimates of investment expenditure (made by the private sector) for 'public private partnerships'. This last component also includes any other unpublished expenditure on asset investment projects.
GSP/Gross State Product	The total value of goods and services produced by the state in a year. This includes the goods and services delivered by the Government and the private sector.
GST	Goods and Services Tax

HILDA Survey	Household, Income and Labour Dynamics in Australia Survey
HVHR	High-Value, High-Risk
ICT	Information and Communications Technology
IGR	Intergenerational Report
Income tax equivalent revenue	Revenue received from Government-owned corporations in payments that are levied to ensure the corporations operate on a competitively neutral basis with the private sector.
Initiative	A specific program or project detailed in the budget papers. Budget papers can include ‘asset initiatives’, ‘output initiatives’, ‘revenue initiatives’, ‘revenue foregone initiatives’ and ‘expenditure reduction initiatives’.
Investments in financial assets for policy purposes	See ‘(asset) investment through other sectors’.
ISDN	Integrated Services Digital Network
Liabilities	Amounts that an organisation is obliged to pay in future years. Examples include borrowings and defined benefits superannuation plans.
LXRP/LCRP	Level Crossing Removal Program/Project
MFB	Melbourne Fire Brigade, also known as the Melbourne Fire and Emergency Service Board
NAHC	National Affordable Housing Consortium
NDIA	National Disability Insurance Agency
NDIS	National Disability Insurance Scheme
Net borrowings	New interest bearing liabilities raised from public borrowings during the year (less interest bearing liabilities repaid).
Net debt	A calculation based on the difference between the value of selected categories of financial assets and financial liabilities. Essentially, the difference in value between what the Government owes and assets that it could easily convert to cash. Not all financial assets and liabilities are included.
Net lending / borrowing	A measure of financial performance in a year. This indicator is similar to ‘operating surplus/deficit’, but also includes some asset investment transactions, including some PPPs. A negative figure indicates a net borrowing position, and a positive figure indicates a net lending position. The indicator does not take investments through other sectors into account.
Net operating balance	See ‘operating surplus/deficit’.
Net result	A measure of an entity’s financial performance in a year which is calculated by taking the ‘net result from transactions’ and then adding other economic flows, such as changes in the values of financial assets and liabilities. The net result is different to the ‘net result from transactions’ (see below). ‘Asset investment’ is not included in either the net result or the ‘net result from transactions’.
Net result from transactions	See ‘operating balance’.
Operating deficit	See ‘operating balance’
Operating result/ operating balance	A measure of an entity’s financial performance in a year. This is calculated by subtracting the entity’s expenses in the year from its income. A positive result is referred to as an operating surplus; a negative result is an operating deficit. Also known as the ‘net result from transactions’ or ‘net operating balance’. ‘Asset investment’ is not included in the operating balance.

Operating surplus	See 'operating balance'
OSARS Projects	Outer Suburban Arterial Roads Projects
Output	An aggregate of goods and services (such as health care or policing services) delivered by a 'department' or its 'agencies'. Outputs are identified in the budget papers.
Output expenditure	Expenditure on 'outputs' (that is, goods and services). This is distinct from 'asset investment', although it includes some expenditure on 'public private partnerships'.
Output initiative	A new program or project ('initiative') that delivers goods and services (part of a department's 'outputs'). Output initiatives are usually for a limited period of time, although they are sometimes perpetual.
PABX	Private Automatic Branch Exchange
PAEC	Public Accounts and Estimates Committee
PFC	Public financial corporations – see 'public financial corporations sector'.
PNFC	Public non-financial corporations – see 'public non-financial corporations sector'.
PPB	Police Procurement Board
PPP infrastructure investment	An estimate of the amount invested each year by the private sector on behalf of the State on PPP projects under construction.
PPP/Public private partnership	An arrangement in which the private sector delivers an asset on behalf of the Government. Ownership of the asset usually passes to the Government after a defined period of time.
PROMPT	PRactical Obstetric Multi-Professional Training
PSAI	Planning for Sustainable Animal Industries
PSTN	Public Switched Telephone Network
PTV	Public Transport Victoria
Public Account	The Government's principal bank account. The Public Account includes the 'Consolidated Fund' and the 'Trust Fund'.
Public financial corporations (PFC) sector	Government-owned financial institutions, such as the Treasury Corporation of Victoria or the Transport Accident Commission.
Public non-financial corporations (PNFC) sector	Government business enterprises, such as water corporations, that are run on commercial lines and charge market-based rates for their services. Does not include 'agencies' providing financial services (see 'public financial corporations sector').
Public sector as a whole	The 'general government sector', 'public non-financial corporations sector' and 'public financial corporations sector' consolidated together. Referred to in the budget papers as the 'State of Victoria'.
Purchase of non-financial assets	See 'direct investment'.
RBA	Reserve Bank of Australia
Revenue	Income received by the Government, mostly from State taxes and grants from the Commonwealth Government.
Revenue initiative	Changes in policy which result in an increase in 'revenue'. Examples include new taxes or increasing existing taxes. Revenue initiatives are usually perpetual.
SCADA	Supervisory Control and Data Acquisition

SIP	Session Initiation Protocol
Specific-purpose grants	Grants from the Commonwealth Government to the State Government with restrictions on how the funding can be spent.
SRO	State Revenue Office
State of Victoria	See 'public sector as a whole'.
State-sourced revenue	Revenue raised by the Government using its own powers, such as taxes, fees, sales, fines and dividends. Contrasts to grants received from the Commonwealth Government.
tbc	To be confirmed
TAC	Transport Accident Commission
TAFE	Technical and Further Education. A range of State-funded tertiary institutions that provide mainly vocational education. This is in contrast to universities, which are mostly funded by the Commonwealth.
TCV	Treasury Corporation of Victoria
TEI/Total estimated investment	An estimate of the total amount of expenditure required to deliver an 'asset investment' project.
TPAMS	Telecommunications Purchasing and Management Strategy
Trust Fund	Trust accounts within the Trust Fund are set up to receive and distribute funds for specific purposes. The Trust Fund, together with the 'Consolidated Fund' forms the 'Public Account'.
VAGO	Victorian Auditor-General's Office
VET	Vocational Education and Training
VGPB	Victorian Government Purchasing Board
VGRMF	Victorian Government Risk Management Framework
VMIA	Victorian Managed Insurance Authority
VoIP	Voice over Internet Protocol
VOTS	Victorian Office Telephony Service

Chair’s foreword

I am pleased to present the Public Accounts and Estimates Committee’s Report on the 2017-18 Budget Estimates.

The report considers the major aspects of the 2017-18 Budget, including the Government’s plans for raising and spending revenue and the levels of borrowings and debt for funding its infrastructure investment program for 2017-18 and the forward estimates period. In addition to analysing the planned expenditure for output expenses and asset investment, this year the Committee has also closely examined key output initiatives and major asset infrastructure projects announced in the 2017-18 Budget including the *Family Violence* initiative and the Homes for Victorians package. The Committee also reviewed the *Level Crossing Removal Program* and the assets of water corporations.

The report scrutinises departmental performance measures. This year the Committee also reviewed the implementation of the recommendations made in three performance audits tabled by the Victorian Auditor-General’s Office in 2013-14. The audits examined telecommunications expenditure, the Government’s risk management framework and the environmental contribution levy.

As part of this inquiry, public hearings were conducted between 12th May and 2nd June 2017. All Government ministers together with senior departmental officials appeared before the Committee to answer questions regarding the Budget. I would like to thank all the inquiry’s witnesses, and their staff, for their effort in preparing and appearing before the Committee, and responding to questions taken on notice.

I would like to thank my Deputy Chair, Mr David Morris, together with the other Committee members for their substantive contribution to the inquiry hearings and report. I would also like to thank Ms Louise Staley, who temporarily replaced Mr Danny O’Brien as a member of the Committee at short notice in May when the public hearings had just commenced.

I would also like to acknowledge the Committee’s secretariat for their support throughout the inquiry. This includes the research support and analytical skills of the research team as well as administrative support.

The Committee hopes the series of recommendations made in this report as a result of its deliberations on the 2017-18 Budget will increase the transparency of the Government’s spending plans.

Danny Pearson MP
Chair

Recommendations

2 Economic overview

RECOMMENDATION 1: The Department of Treasury and Finance undertake intergenerational reporting every five years, to complement departmental long-term planning. 17

RECOMMENDATION 2: The Department of Economic Development, Jobs, Transport and Resources develop performance measures to assess the performance of the *Wander Victoria* campaign. 23

3 Key aspects of the 2017-18 Budget

RECOMMENDATION 3: Future budget papers include a description of transfers of fixed assets that are anticipated between the general government sector and the public non-financial corporations sectors. These descriptions should include what the fixed assets are and why they are being transferred between the sectors. 42

4 Revenue

RECOMMENDATION 4: Future budget papers include a list of public entities that are expected to provide payments to the State as ‘other contributions and grants’ rather than as dividends, together with the amount they are expected to pay.. 67

6 Output expenditure

RECOMMENDATION 5: The responsible ministers for each element of whole of government initiatives should be published as part of the budget papers, to ensure there is clarity as to who is accountable for the outcomes of each output initiative. 99

RECOMMENDATION 6: The Department of Justice and Regulation:

(a) give consideration to publicly releasing the report by Professor Ogloff evaluating the effectiveness of the High Intensity Violence Intervention Program and Moderate Intensity Violence Program due at the end of 2017

(b) introduce a performance measure and target for the completion of violence related programs by family violence offenders in prisons in the budget papers. . .100

RECOMMENDATION 7: The Government ensure that the family violence outcomes framework directly links to the performance measures set out in the budget papers. . .102

7 Asset investment

RECOMMENDATION 8: Where a large public private partnerships project is announced in a budget which is expected to be commissioned beyond the forward estimates period, the budget papers in which it is announced should detail the expected impact of the project on net debt and how the Government intends to manage the debt. 130

RECOMMENDATION 9: The transparency of the *Level Crossing Removal Program* be enhanced with the regular publication of the latest Australian Level Crossing Assessment Model data on risks by individual level crossings and details of the $1.4 billion *Metropolitan Network Modernisation Program*. 136

RECOMMENDATION 10: The Department of Treasury and Finance require entities in the public non-financial corporations sector to include the ratio of 'payments made for infrastructure assets' to 'depreciation on infrastructure assets' as a key performance indicator in the performance report published within the annual report. . 139

8 Performance measures

RECOMMENDATION 11: The Department of Environment, Land, Water and Planning develop appropriate timeliness and quality measures for the new Suburban Development portfolio. 154

RECOMMENDATION 12: The Department of the Treasury and Finance reject the use of 100 per cent targets for performance measures in the next update of the *Performance Management Framework for Victorian Government Departments*. 155

RECOMMENDATION 13: The Department of Environment, Land, Water and Planning increase the target for the 'Users of the Victorian Energy Compare website who report a better understanding of their usage costs after using the website'. 156

RECOMMENDATION 14: The Department of Economic Development, Jobs, Transport and Resources discontinue using 'Milestones delivered in accordance with agreed budget and timelines' as the performance measure for asset investment infrastructure projects with a total estimated investment over $500 million, and develop a set of substantial quantity, quality, timeliness and cost measures that would inform the public as to how these projects are progressing. 157

RECOMMENDATION 15: The Department of Economic Development, Jobs, Transport and Resources and VicRoads develop further road maintenance performance measures that fully respond to the recommendations made in the Victorian Auditor-General's Office 2017 report. 159

RECOMMENDATION 16: The Minister for Finance retain the 16 proposed discontinued performance measures identified in section 8.5.1 of this report. 165

RECOMMENDATION 17: Performance measures be included in the budget papers on the myki ticketing system. The measures should capture the key elements of the new Public Transport Victoria myki performance framework. 168

RECOMMENDATION 18: The Department of Economic Development Jobs, Transport and Resources include the new performance measure of 'total owned global customer profiles' measuring Visit Victoria's total engaged digital audience for 2017-18. 171

RECOMMENDATION 19: The Department of Health and Human Services increase the target for the measure 'Participation by young people in programs that provide opportunities to be involved in social and economic life in their communities. 172

RECOMMENDATION 20: The performance measures in the budget papers be regularly reviewed to ensure measures and targets:

(a) are adjusted to reflected significant increases in funding

(b) reflect government expenditure on key services including the public transport ticketing system

(c) are formulated and embedded in the design of significant government initiatives such as the *Family Violence* initiative, rather than at the mid or post implementation stage

(d) promote service improvement and are not set artificially low

(e) are meaningful

(f) capture changes in technology and community engagement, incorporating coverage across social media platforms

(g) are adjusted in light of repeated over performance. 173

9 Implementation of previous recommendations

RECOMMENDATION 21: Future budget papers include details of the programs from which funding has been reprioritised, including:

(a) the name of the program, initiative or project from which funding has been reprioritised;

(b) the amount reprioritised from each year of the forward estimates period; and

(c) the budget in which the initiative was released (where relevant).. 184

RECOMMENDATION 22: The Government update the 2009 *Corporate Planning and Performance Reporting Requirements for Government Business Enterprises* document. The updated document should include a more detailed explanation of the Government's dividend policy. 188

10 Government Risk Management Framework

RECOMMENDATION 23: The Department of Treasury and Finance provide guidance to departments on developing risk management indicators that will objectively measure agencies' risk over time. 209

RECOMMENDATION 24: As a matter of urgency, agencies finalise the development of risk performance indicators that will objectively measure agencies' risk over time, and will also help track the effectiveness of the *Victorian Government Risk Management Framework*. 209

RECOMMENDATION 25: In order to improve the integration of risk management guidance, the Department of Treasury and Finance:

(a) alter public private partnership guidance and the *Victorian Government Risk Management Framework* to emphasise the role the VGRMF has in public private partnership procurement

(b) alter High-Value, High-Risk projects and gateway review guidance documents to refer users to the *Victorian Government Risk Management Framework*. 210

RECOMMENDATION 26: Documentation and programs provided by the Victorian Managed Insurance Authority provide examples of a wider variety of risk types, including the risk factors that cause the most common variances from planned outcomes, and discuss ways of managing these risks. 212

RECOMMENDATION 27: The Department of Treasury and Finance update the Model Report to require agencies that are involved in the management of interagency and State-wide risks to describe their contribution to the management of these risks as well as to include details of the lead agency. 213

11 Managing telecommunications usage and expenditure

RECOMMENDATION 28: All departments and public sector entities strengthen their governance over telecommunications by:

(a) regularly undertaking internal checks and audits to confirm that their procedures established to manage telecommunications usage and costs are being applied consistently across the organisation

(b) monitoring and reporting to their executive management on organisation wide telecommunications use and expenditure. 230

RECOMMENDATION 29: In heavily decentralised agencies, monitoring and oversight of telecommunications usage and expenditure across the various business units be centralised. 230

RECOMMENDATION 30: The Department of Premier and Cabinet work with departments and public sector entities, including the Metropolitan and Fire Emergency Service Board, to standardise the policies and guidelines governing the allocation and acceptable use of mobile devices and data, in line with the *Government's Workplace Environment Statement of Direction for the Victorian Public Service*. The policies and guidelines would include the purchase of approved devices, allocation, usage, international roaming rules, security, monitoring and compliance arrangements. 235

RECOMMENDATION 31: In relation to cost savings in telecommunications, the Committee recommends that:

(a) departments and agencies establish savings targets across specific areas of telecommunications categories and/or within various parts of the organisation and record savings achieved through the application of new technologies and the re-negotiation of telecommunication service arrangements

(b) the Department of Premier and Cabinet monitor and report on the savings and benefits achieved by departments and agencies accessing telecommunications services through the state purchase contracts negotiated under the Victorian Government Telecommunications Purchasing Management Strategy 2025 in its annual report. 243

12 Environmental Contribution Levy

RECOMMENDATION 32: The Department of Environment, Land, Water and Planning make the findings from the review undertaken at the beginning of Environmental Contribution Levy tranche 4 of including the rates, revenue base and applicable revenue classes, and likely customer impact publicly available. 259

RECOMMENDATION 33: The cost of the Environmental Contribution Levy to customers be itemised in water bills. 259

RECOMMENDATION 34: The Department of Environment, Land, Water and Planning, as part of its annual report, incorporate a section providing details on the activities undertaken, revenue collected, expenditure made, the projects funded and outcomes, including environmental outcomes, achieved during the year through Environmental Contribution Levy funded projects.. 260

RECOMMENDATION 35: The Department of Environment, Land, Water and Planning publish on its website detailed information on the expected and actual outcomes for each of the Environmental Contribution Levy initiatives.. 260

1 Introduction

1.1 The role of the Public Accounts and Estimates Committee

Under the *Parliamentary Committees Act 2003*, every year the Public Accounts and Estimates Committee is required to:

> ... inquire into, consider and report to the Parliament on ... the annual estimates or receipts and payments and other Budget papers and any supplementary estimates of receipts or payments presented to the Assembly and the Council.[1]

The Committee must then report on its findings to the Parliament.

The Committee's objective in its scrutiny of the budget estimates in the 58th Parliament is to:

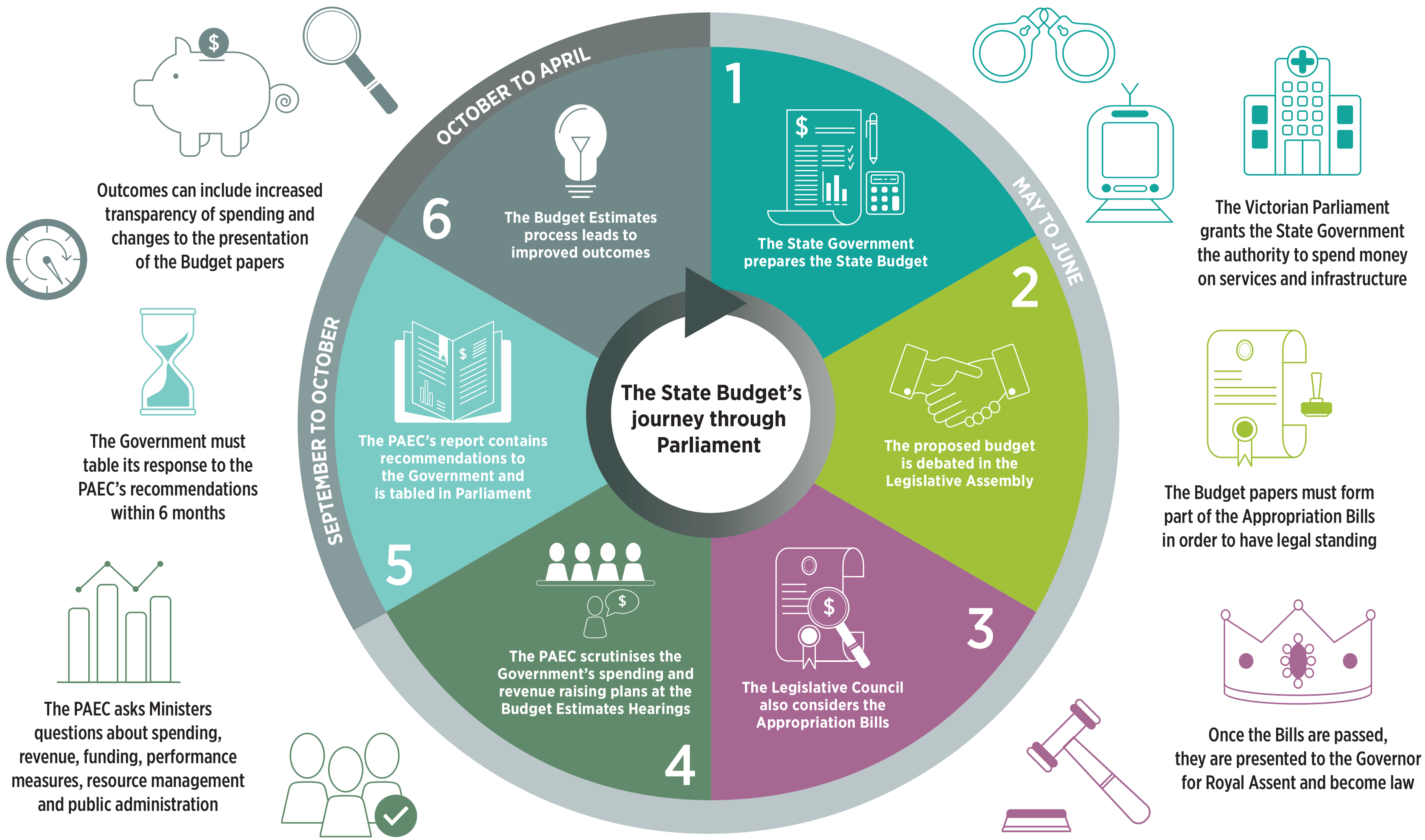
- assist Members of Parliament in their deliberation on the appropriation bills
- make recommendations which promote clear and full disclosure of the information contained in the budget papers
- provide members of Parliament and the Victorian community with an improved understanding of the Budget
- consider and make recommendations to the Minister for Finance regarding proposed discontinued performance measures announced in the Budget that it believes should be retained
- provide feedback on new and existing departmental performance measures
- encourage economical, efficient and effective government administration.

This report presents the findings of the Committee's deliberations across these matters.

Figure 1.1 illustrates the State Budget's journey through Parliament, and the role of the Public Accounts and Estimates Committee in scrutinising the Government's spending plan for the upcoming financial year. In addition to public spending, the Public Accounts and Estimates Committee also examines the Government's plans for revenue and funding, performance measures, resource management and public administration.

1 *Parliamentary Committees Act 2003* (Vic), *s.14*

Figure 1.1 The State Budget's journey through Parliament



1.2 Contents of this report

This report contains 12 chapters. Chapter 2 provides an overview of the Victorian economy together with an assessment of the forecasts made in the budget papers of key economic indicators for the upcoming financial year. Chapter 3 presents the key aspects of the 2017-18 Budget. Chapter 4 details the Government's plans for revenue and discusses issues raised by the Committee at the public hearings, including the treatment in the budget papers of dividends and other payments made by the public financial corporation (PFC)[2] Transport Accident Commission (TAC) to the general government sector.[3] Chapter 5 discusses the levels of borrowings and debt the Government believes will be required to fund its accelerated infrastructure investment program for 2017-18 and the forward estimates period.

Chapters 6 and 7 examine the planned output and asset investment expenditure for 2017-18, together with a closer examination of some of the initiatives announced as part of this year's budget. In terms of output initiatives, the *Whole of Government - Family Violence* initiative, the *Homes for Victorians* package and initiatives related to water and energy were chosen by the Committee for closer examination. Similarly, the *Level Crossing Removal Program*, regional transport initiatives announced in the 2017-18 Budget and assets relating to the public non-financial corporations (PNFC) sector,[4] focussing on the water corporations, are discussed in detail in Chapter 7.

In keeping with budget estimates inquiries over recent years, this report contains chapters on the implementation of recommendations previously made by the Committee (Chapter 8) and departmental performance measures (Chapter 9). Chapter 9 includes a list of the proposed discontinued performance measures put forward by the Government in the 2017-18 Budget that the Committee recommends be maintained.

This year, in addition to reporting on the 2017-18 budget estimates, the Committee has undertaken a desktop review of three performance audits tabled in Parliament in recent years. In line with its functions under the *Parliamentary Committees Act 2003*[5] and as an important motivator of improved public sector accountability, from time to time the Committee undertakes a follow-up review

2 The public financial corporation (PFC) sector is made up of government-owned financial institutions, such as insurance providers.

3 The general government sector is made up of departments and other entities that provide goods and services for no charge, or for charges significantly less than the cost of their provision.

4 The public non-financial corporations (PNFC) sector is made up of government business enterprises, such as water corporations, that are run on commercial lines and charge market-based rates for their services.

5 Under section 14 of the *Parliamentary Committees Act 2003*, the Committee has a role in inquiring into, considering, and reporting to the Parliament 'on any proposal, matter or thing concerned with public administration or public sector finances.'(*Parliamentary Committees Act 2003* (Vic), s.14(1)(a)(i)). In addition, section 33 of the *Parliamentary Committees Act* provides the Committee with the authority to 'inquire into, consider and report to the Parliament on any annual report or other document relevant to the functions of the Committee that is laid before the House of the Parliament in accordance with an Act'. (*Parliamentary Committees Act 2003* (Vic), s.33(3))

of the issues and recommendations made by the Auditor-General. These reviews assess the extent of progress made by public sector agencies in addressing the issues raised and implementing the recommendations made.

In many cases, the Committee's review includes additional recommendations providing further impetus for improvement in both public sector efficiency and more effective management of public sector resources.

The audit reviews the Committee undertook were:

- the *Implementation of the Government Risk Management Framework* report tabled in 2013 whereby the Auditor-General assessed the implementation of the 2011 *Victorian Government Risk Management Framework* (Chapter 10)
- the 2013 audit report, *Managing Telecommunications Usage and Expenditure*, examining the extent to which a selection of agencies were managing the use and expenditure of fixed voice and mobile telecommunication services (Chapter 11)
- the Auditor General's 2014 report on the Environmental Contribution Levy (ECL) (Chapter 12).

1.3 Key findings of this report

1.3.1 The 2017-18 Budget at a glance

The Government expects the operating result for 2017-18 to be $1.2 billion.[6] Revenue is expected to rise to $63.4 billion in 2017-18, while output expenditure is expected to rise to $62.3 billion.[7] The expected result for 2017-18 is lower than the 2016-17 revised result due to output expenses growing faster than revenue. Employee expenses are the largest component of output expenditure for the general government sector.[8]

Net debt for the general government sector is expected to reach $23.8 billion by June 2018 and increase to $28.9 billion by June 2021 at the end of the forward estimates period.[9] General government sector borrowings are also expected to increase over this time, reaching $42.0 billion by June 2021.[10] In the public hearings held as part this inquiry, the Treasurer informed the Committee that the Government is borrowing funds for infrastructure investment, taking advantage of the current low interest rate environment.[11]

6 Department of Treasury and Finance, *Budget Paper No.2: 2017-18 Strategy and Outlook* (2017), p.59

7 Department of Treasury and Finance, *Budget Paper No.5: 2017-18 Statement of Finances* (2017), p.7; Department of Treasury and Finance, *Budget Paper No.2: 2017-18 Strategy and Outlook* (2017), p.50

8 Department of Treasury and Finance, *Budget Paper No.5: Statement of Finances* (2017), p.7

9 Department of Treasury and Finance, *Budget Paper No.2: 2017-18 Strategy and Outlook* (2017), p.58

10 Department of Treasury and Finance, *Budget Paper No.5: 2017-18 Statement of Finances* (2017), p.36

11 Hon. Tim Pallas MP, Treasurer, *Inquiry into the 2017-18 Budget Estimates Transcript of Evidence*, 12 May 2017, p.16

Direct investment by the general government sector is expected to increase to $8.3 billion in 2017-18, due to a combination of accelerated capital expenditure on existing projects including the *Level Crossing Removal Program*, as well as expenditure relating to new asset initiatives in the Budget.[12] The Committee found one of the significant changes to government infrastructure investment is the growing reliance by government on public private partnerships (PPPs) as a financing mechanism for the delivery of infrastructure.

1.3.2 Impact of high population growth

Throughout the 2017-18 budget papers the Government notes the impact of the Victoria's high level of population growth, and the flow on effect of this across aspects of the budget including revenue, expenditure and services delivery.[13]

The economic overview contained in Chapter 2 notes the revision, made by the Australian Bureau of Statistics (ABS) after the budget papers were published, of Victoria's population growth rate from 2.1 per cent to 2.4 per cent for the year to June 2016.

In light of this revision, the Committee has examined the impact of the higher rate of population growth on the established financial indicators of revenue and asset investment per head of population.

The Committee notes that unplanned high levels of population growth may lead to increased demand for services that the Government has not budgeted for, and that departments and agencies are unable to meet. It could also mean that higher levels of revenue will be needed to maintain the same level of service delivery or efficiencies found.

As part of this report the Committee also discusses the importance of intergenerational reporting in order to identify and respond to long-term fiscal challenges and financial pressures that may be presented by factors such as the growing population. The Committee believes intergenerational reports are beneficial as they can inform public policy development across a range of areas, and has recommended that the Department of Treasury and Finance undertake this reporting exercise.

1.3.3 Status of Victorian water corporations

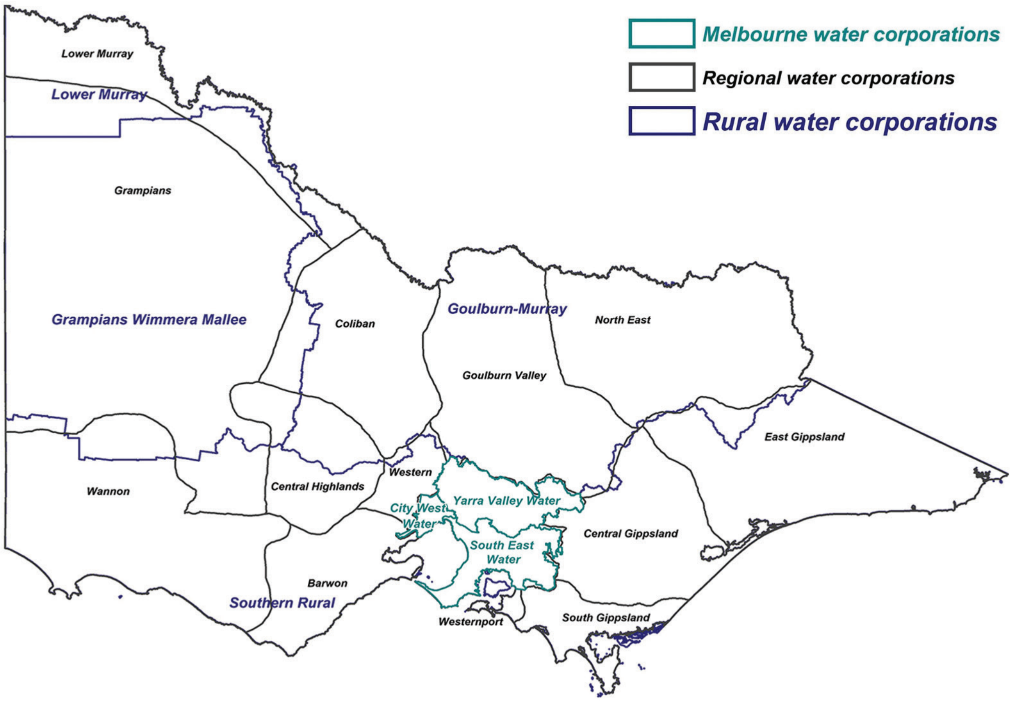
The status of Victoria's water corporations is examined in various chapters throughout this report. Victoria's water sector includes 19 entities or corporations, presented in Figure 1.2. These water corporations are classified as public non-financial corporations (PNFCs).

12 Department of Treasury and Finance, *Budget Paper No.4: 2017-18 State Capital Program* (2017), p.18

13 Department of Treasury and Finance, *Budget Paper No.2: 2017-18 Strategy and Outlook* (2017), pp.3, 7, 31-32, 38, 77-82

1

Figure 1.2 Service areas for Victoria's metropolitan, rural and regional water corporations



Note: In addition to the water corporations presented in the map, the Melbourne Water Corporation operates as a wholesaler and manages Melbourne's water supply catchments, sewage, rivers and major drainage systems throughout the Port Phillip and Westernport region.

Source: Public Accounts and Estimates Committee

The budgetary and financial situation of Victoria's water corporations, together with the current infrastructure and asset management environment, are discussed throughout this report. Some of the key findings made by the Committee include:

- the Melbourne water corporations are anticipated to hold most (82 per cent) of the debt for the PNFC sector by the end of the forward estimates period.[14] They also continue to pay considerable levels of dividends to the general government sector. In 2017-18, this is estimated to be $205 million.[15] From the current budget year to the end of the forward estimates period (2020-21) Melbourne based water corporations will be expected to pay $524 million in dividends, of which $262 million or 50 per cent, will come from South East Water.[16]
- infrastructure planning for Victoria's water market is increasingly difficult due to the impact of climate change and the demand placed on infrastructure services by Victoria's growing population and increasing urbanisation.

14 Committee calculations based on Department of Treasury and Finance, *Response to the Committee's 2017-18 Budget Estimates General Questionnaire*, received 8 May 2017, pp.58-59

15 Department of Treasury and Finance, *Budget Paper No.5: 2017-18 Statement of Finances* (2017), p.21

16 ibid.

- while the 19 water corporations made up 58.2 per cent of PNFC sector revenue in 2015-16, they accounted for 64.9 per cent of PNFC sector net infrastructure investment.[17] This indicates that water corporations invest more heavily in assets than other PNFC entities. The asset replacement ratio[18] which shows whether assets are being built or used up over a year is currently unable to be calculated for the combined water corporations.

As discussed earlier, Chapter 12 of this report is a follow up of the Environmental Contribution Levy (ECL) which was established in 2004 and collected from water corporations based on their revenue. The Committee's review of the ECL found that the Department of Environment, Land, Water and Planning has clarified its interpretation of the levy's objectives and established a methodology to select and prioritise projects. The department has also establishing a sound evaluation framework to assess the effectiveness of projects funded by the levy over the next three years. However, the Committee also notes the information provided in the Department's annual reports (2014-15 and 2015-16) does not fulfil the Auditor-General's recommendations on public reporting of the activities funded by the levy.

1.3.4 Programs, projects and performance measures in the 2017-18 Budget

In addition to examining the water related output initiatives in Chapter 6 and the status of the water corporations' assets in Chapter 7, the Committee also scrutinised four other large output and asset initiatives announced in the 2017-18 Budget. They are:

- the *Whole of Government - Family Violence* initiative
- the *Homes for Victorians* initiative aimed at addressing housing affordability issues
- the progress of the *Level Crossing Removal Program*
- investment in asset infrastructure projects announced in the 2017-18 Budget related to regional transport.

In the course of their deliberations on these projects and programs the Committee found:

- the large number of Ministers involved in the delivery of the *Whole of Government - Family Violence* initiative is a potential relevant consideration that will need to be carefully managed in order to ensure its successful roll out. The Family Violence Index announced in May 2015 as a system-wide measure of success has also not yet been finalised.

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17 Water Corporation and Entity Annual Reports 2015-16; Department of Treasury and Finance, *2015-16 Financial Report* (2016), pp.136, 140

18 The asset replacement ratio for the general government and PNFC sectors is discussed in Section 3.5.1. It measures the value of assets that are created over a year against the value of assets that are being depleted. A ratio above 1.0 shows that the asset base is increasing during the year, whereas a ratio below 1.0 shows that the asset base is being eroded.

- measures introduced by the Government such as five year leasing arrangements for tenants and landlords and the *Better Apartments* design guidelines reflect changes in how people are now living in Melbourne, with an increasing proportion of the population now living in rental accommodation, as well as in apartments, units and townhouses.
- in addition to changes to stamp duty on land transfers which will reduce the amount payable for first home buyers, the Government plans to introduce two shared equity pilot schemes as part of the *Homes for Victorians* package, which also aim to assist first home buyers to enter the property market.
- the large scale *Level Crossing Removal Program* is estimated to cost $6.9 billion in the 2017-18 Budget, an increase compared to the previous estimates of $5 to $6 billion in the 2015-16 and 2016-17 Budgets. The Committee believes a higher level of transparency regarding this project would be beneficial. The Committee commented on the late release of the project's business case, the $1.4 billion *Metropolitan Network Modernisation Program* and the desirability of a set of rigorous and meaningful performance measures regarding the project.

The Committee has also examined the performance measures and targets set out in the budget papers for the Government's existing programs and projects, making a series of recommendations aimed at creating measures that provide greater clarity, meaningfulness and robustness. Overall, the Committee identified some shortcomings regarding departmental performance measures and targets and will continue to monitor their use and effectiveness in upcoming inquiries.

1.4 The inquiry process

Two questionnaires were sent to all departments and their agencies as part of this inquiry.

The questionnaire responses informed much of the discussion and deliberations in the chapters of this report and the Committee appreciates the effort of departmental staff in completing these.

The general questionnaire contained a standard set of questions to all departments and entities and was sent on 9 March 2017 for return on 3 May 2017. The topics in the general questionnaire covered:

- departmental strategic planning and the development of corporate plans
- departmental expenditure and expenditure reduction initiatives
- output and asset initiative funding
- information on public private partnership projects
- revenue, including revenue reduction initiatives and grants from the Commonwealth
- performance measures
- staffing.

The second, entity-specific questionnaire, contained a series of departmental-specific questions on a variety of topics. This was sent to departments on 28 June 2017 for return on 12 July 2017.

1.4.1 Public hearings

Public hearings were held from 12 May 2017 to 2 June 2017 with the Premier, Treasurer, ministers, parliamentary presiding officers and senior departmental officials all appearing before the Committee. The hearings provided an opportunity for all ministers to present information on their portfolios, highlighting relevant aspects from the 2017-18 Budget. The Committee also used the public hearings to question the relevant ministers and public officials about various aspects of the budget.

As part of the hearings process, the ministers, presiding officers and departmental officials took questions on notice from Committee members.

The responses provided in the hearings to the Committee's questions were key to the findings and recommendations presented in this report, and the Committee appreciates the effort made, and time given, by all witnesses, their staff and departments towards this inquiry.

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

2 Economic overview

Key findings

- The Victorian economy performed well over the last financial year, recording growth in real gross state product and employment, together with a falling unemployment rate. Growth over the last year for consumer prices and wages growth indicators, however, was subdued.
- Victoria's population growth rate for the year to June 2016 has been revised from 2.1 per cent to 2.4 per cent or 146,600 additional people. This is the highest growth rate of all the states and territories.
- Unexpected high levels of population growth may lead to increased demand for services that the Government has not budgeted for, and that departments and agencies are unable to meet.
- Unlike the Commonwealth and New South Wales Governments, the Victorian Government does not undertake intergenerational reporting to identify and respond to long-term fiscal challenges and financial pressures. The findings of these reports inform public policy development across a range of areas.
- Regional Victoria overall has experienced positive labour market outcomes over the past financial year.
- The value of Victorian services exports continues to increase, driven by significant growth in international education exports – by 18 per cent between 2015 and 2016. Exports of goods decreased in 2016, but the value of manufactured items has been increasing since 2010. Pharmaceutical exports to the United States alone jumped from $99 million in 2015 to $583 million in 2016.

2.1 Introduction

This chapter provides an overview of Victoria's economic environment for 2016-17. The chapter examines the forecasts made in the budget papers for key economic indicators such as gross state product (GSP), population, employment growth, the unemployment rate and the outlook for trade conditions.

The discussion in this chapter has a particular focus on Victoria's recent high population growth, and the benefits and risks that this poses to the economy and State's fiscal position. The analysis looks at where population growth has occurred in Melbourne and regional Victoria, and how the Government has responded to this growth in terms of programs and policies outlined in the 2017-18 budget papers.

The economy of regional Victoria is also examined closely, with an update of employment conditions and an industry profile. A discussion of recent developments and policy announcements made regarding key regional sectors such as tourism and agriculture is also included.

Finally, the chapter examines Victoria's recent trade performance, the outlook for export conditions for 2017-18 and the potential risks to the Victorian economy and budget position in the event of significant changes to the global trade environment. This may include Australia's key export partners pursuing more protectionist trade policies.

2.2 Overview of economic conditions

2.2.1 Victorian real gross state product

Victoria's real gross state product (GSP) grew by 3.3 per cent in 2016-17, and the Budget papers forecast a Victorian real GSP growth rate of 2.75 per cent for 2017-18 and over the forward estimates period.[19] The forecast is driven by steady growth in household consumption, business and dwelling investment, as well as the positive impact of continuing low interest rates and strong levels of population growth.[20]

GSP growth is considered important to the economy as it is seen as an indicator for an increasing standard of living. However, GSP growth only delivers this if it is greater than the level of population growth. In last year's budget papers the Government stated 'keeping economic growth ahead of population growth is critical to ensuring all Victorians benefit from economic growth, and relies on greater employment and increased productivity'.[21]

While the latest figures indicate Victoria's GSP is growing at a higher rate than population growth, the revised population growth figure for 2016-17 of 2.4 per cent and the forecast real GSP growth rate of 2.75 per cent for 2017-18 indicate the two measures are getting closer.[22] The possible positive and negative impacts of Victoria's recent high level of population growth on the economy is discussed later in this chapter.

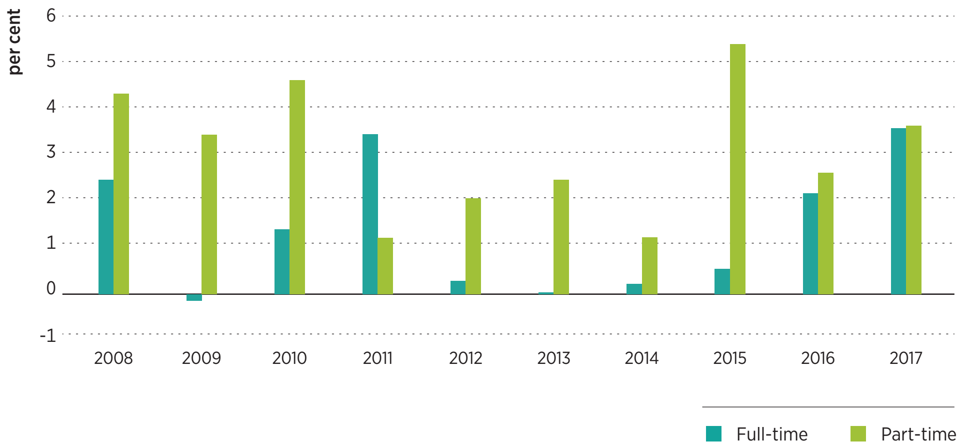
2.2.2 Victorian employment

The Victorian labour market has performed strongly over the last year, with year on year employment growth in 2016 at 3.0 per cent. This is the highest level of growth since 2010.[23] The unemployment rate continues to fall, from 5.9 per cent in 2015-16 to a predicted 5.75 per cent for 2016-17. The forecast for 2017-18 and over the forward estimates period in 5.5 per cent.[24]

19 Department of Treasury and Finance, *Budget Paper No.2: 2017-18 Strategy and Outlook* (2017), p.26
20 ibid., p.25
21 Department of Treasury and Finance, *Budget Paper No.2: 2016-17 Strategy and Outlook* (2016), p.3
22 ibid., p.37
23 ibid., p.29
24 ibid., p.26

At the public hearings the Minister for Industry and Employment informed the Committee that the Government has a '... focus on full time employment obviously. That is why we are investing in areas such as manufacturing, because we know that that is an area that predominately has many full time jobs'.[25] Figure 2.1 below shows the annual growth rates for full and part time employment in Victoria over the last ten years. The figure shows that while the rate of full time employment growth has been increasing since 2013, the 3.7 per cent growth rate for the year to June 2017 is on par with the growth rate for part time employment.

Figure 2.1 **Annual growth rates, full time and part time employment, Victoria, 2008 to 2017[(a)]**



(a) Year to June average

Source: Australian Bureau of Statistics, *Cat. no. 6202.0 - Labour Force, Australia,* June 2017

2.2.3 Consumer prices and wages growth

The budget papers note that 'the outlook for wages and inflation is tightly linked' and at the national level the outlook is 'subdued'.[26] The wage price index growth forecast for Victoria in 2017-18 of 2.25 per cent remains well below the trend estimate used by the Department of Treasury and Finance of 3.25 per cent as a result of expected above trend levels of employment growth in Victoria.[27]

Consumer prices also continue to be weak, both for Melbourne and nationally, which has been attributed to 'low inflation expectations and heightened competitive pressure in some product markets'.[28]

FINDING 1: The Victorian economy has performed well over the last financial year, recording growth in real gross state product and employment, together with a falling unemployment rate. Growth over the last year for consumer prices and wages growth indicators, however, was subdued.

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25 Hon. Wade Noonan MP, Minister for Industry and Employment, *2017-18 Budget Estimates Transcript of Evidence*, 19 May 2017, p.22

26 Department of Treasury and Finance, *Budget Paper No.2 2017-18: Strategy and Outlook* (2017), pp.27, 33

27 ibid., p.27

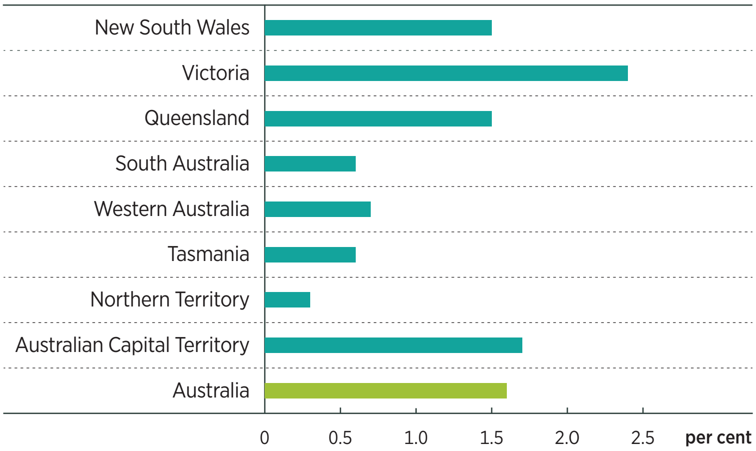
28 ibid., p.27

2.3 Victoria's population growth

The 2017-18 budget papers forecast a Victorian population growth rate of 1.9 per cent for 2017-18. The population growth rate is then expected to return to the trend growth rate of 1.8 per cent over the remainder of the forward estimates period. The budget papers also state the Victorian population growth rate for 2015-16 of 2.1 per cent 'was the highest of all the states'.[29]

Revisions made to the official Australian population statistics following the release of 2016 Census data, and published after the 2017-18 Budget was handed down, indicate the Victorian population growth rate for the year to June 2016 was 2.4 per cent or 146,600 additional people.[30] This was well above the Australian average of 1.6 per cent and the Queensland and New South Wales growth rate of 1.5 per cent, shown in Figure 2.2.

Figure 2.2 Population growth by state and territory, 2015 to 2016



Source: Australian Bureau of Statistics, *Cat no 3101.0 Australian Demographic Statistics*, March 2016,

FINDING 2: Victoria's population growth rate for the year to June 2016 has been revised from 2.1 per cent to 2.4 per cent or 146,600 additional people. This is the highest growth rate of all the states and territories. The Budget papers predict a population growth rate of 1.9 per cent for 2017-18 and a return to the trend figure of 1.8 per cent by the end of the forward estimates period in 2020-21.

The budget papers outline some of the positive economic outcomes that are a result of strong population growth. These include:

- the high levels of migration and labour market participation amongst young 'prime working-age individuals' to Victoria contributing to Victoria's accelerated economic growth rate[31]

29 ibid., p.31

30 Australian Bureau of Statistics, *Cat no 3101.0 Australian Demographic Statistics*, March 2016, Available at <www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/3101.0Main+Features1Mar%202017?OpenDocument>, viewed 24 October 2017

31 Department of Treasury and Finance, *Budget Paper No.2 2017-18: Strategy and Outlook* (2017), p.37

- the creation of additional demand for goods and services[32]
- increasing the labour supply which can contain wages, keep production costs down and can lower the rate of inflation.[33]

Positive impacts of high population growth on the Budget include:

- increasing demand for housing, which in turn contributes to higher land transfer duty revenue.[34] Revenue from other streams such as payroll, insurance tax and motor vehicle duty will similarly benefit from increasing population.[35]
- a greater share of the national GST pool, as Victoria's population growth rate outpaces that of other states.[36]

However, there are also risks to high levels of population growth, as the Treasurer noted to the Committee at the public hearings:

> This kind of population growth represents an economic advantage for Victoria, but only if we manage it properly. Broadly, that means doing two things. First, we need to make sure that we remain a safe and competitive place to do business. Second, we need to add enough infrastructure and services to accommodate these new residents.[37]

2.3.1 Risks to the budget position due to high population growth

Higher-than-expected population growth can pose a fiscal risk to Victoria's financial position and budget outcomes. As the budget papers note:

> ...[A] key risk is growth in demand for government services exceeding current projections. This can occur, for example, as a result of higher than forecast population growth or expenditure in response to unforeseen events such as natural disasters, including bushfires and floods.[38]

An example of the impact of unforeseen demand for government services on the State's Budget was highlighted in the Committee's last report. In 2015-16, the financial outcomes for employee expenses in the general government sector were over the initial budget estimate due to an unexpected increase in demand for health agencies and hospital services.[39]

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32 ibid., p.77-8

33 ibid., p.78

34 ibid., p.51

35 ibid.

36 ibid., p.52

37 Hon. Tim Pallas, Treasurer, *2017-18 Budget Estimates Transcript of Evidence*, 12 May 2017 p.2

38 Department of Treasury and Finance, *Budget Paper No.2 2017-18: Strategy and Outlook* (2017), p.61

39 Public Accounts and Estimates Committee, *Report on the 2015-16 Financial and Performance Outcomes* (2017), pp.115-117

This year, the Department of Health and Human Services recognised meeting the higher demand for services as a result of population growth as a key risk for the Department:

> The most significant risk and challenge for the Department regarding service delivery is the unprecedented growth in demand for health and human services. Population growth, increased complexity of needs and intergenerational disadvantage have combined to create rapid growth in demand for services delivered or funded by the Department.[40]

In addition to the Department of Health and Human Services, the Department of Economic Development, Jobs, Transport and Resources, Court Services Victoria, Department of Education and Training and the Department of Justice and Regulation all identified not meeting the challenges posed by high levels of population growth as a key risk for service delivery in response to the Committee's general questionnaire or corporate plan.[41]

FINDING 3: Unexpected high levels of population growth may lead to increased demand for services that the Government has not budgeted for, and that departments and agencies are unable to meet.

2.3.2 Intergenerational reporting

The Commonwealth and New South Wales Governments' currently produce intergenerational reports (IGR) approximately every five years. These reports are an exercise in long-term planning, examining what the jurisdictions might look like over the next 40 years. The reports are informed by demographic, housing and workforce trends. Ultimately, intergenerational reporting identifies key economic challenges and opportunities, which can be helpful in identifying future financial pressures that states and territories can face.[42]

In a speech given on the tenth anniversary of the introduction of intergenerational reporting at the Commonwealth level, Treasury official Dr David Gruen noted the first intergenerational report produced by the Commonwealth Treasury:

> ... played a major role in raising community awareness of long-term fiscal challenges and, in so doing, placed greater focus on Government decisions with long-term consequences.

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40 Department of Health and Human Services, *Response to the Public Accounts and Estimates Committee 2017-18 General Questionnaire*, received 11 May 2017, p.7

41 Department of Economic Development, Jobs, Transport and Resources, *Response to the Public Accounts and Estimates Committee 2017-18 General Questionnaire*, received 5 May 2017, p.9; Court Services Victoria, *Response to the Public Accounts and Estimates Committee 2017-18 General Questionnaire*, received 17 May 2017, pp.5-6; Department of Education and Training, *Response to the Public Accounts and Estimates Committee 2017-18 General Questionnaire*, received 3 May 2017, p.6; Department of Justice and Regulation, *Corporate Plan 2016-2020* (2016), p.19

42 New South Wales Government, *Intergenerational Report* (2016)

> In earlier times, governments in Australia and elsewhere typically made spending commitments without any systematic attempt to estimate, or address, their long-term fiscal consequences. The IGR has made an important contribution to changing this pattern of behaviour
>
> Valuable tools have been developed to undertake long-term economic and fiscal projections across a broad range of public policy areas. These tools have been put to good use to inform policy makers about the likely longer term fiscal implications of policy changes.[43]

At the public hearings, the Committee asked the Treasurer whether there were any plans to introduce intergenerational reporting in Victoria. The Treasurer gave the following response:

> Can I say there are no plans from the Government in terms of broader intergenerational reports. That is not to dismiss this as being a very significant issue in terms of the shift of onus, which I think is increasingly and might I say disproportionately falling on the shoulders of the young. The reason I think it is important that we attend to these problems with policy adjustments rather than an another intergenerational report is every think tank across the country is providing us with proposals but what we know is you have to invest in skills and training. You have to make it easier for young people to move into the property market, and we have to recognise that in many ways the choices we make as a community in terms of our infrastructure investment has to recognise a long run cost of that infrastructure and the benefit to future generations.[44]

The Committee notes that changes made in 2017 to the *Performance Management Framework for Victorian Government Departments* include a requirement that departments undertake long-term planning.[45] While the Committee welcomes this development, it believes the benefits of intergenerational reporting extend beyond the identification of possible future fiscal outcomes. They can provide useful information that can inform and shape important areas of public policy in the context of a rapidly changing service delivery environment.

FINDING 4: Unlike the Commonwealth and New South Wales Governments, the Victorian Government does not undertake intergenerational reporting to identify and respond to long-term fiscal challenges and financial pressures. The findings of these reports inform public policy development across a range of areas.

FINDING 5: The Treasurer indicated to the Public Accounts and Estimates Committee there are currently no plans to introduce intergenerational reporting in Victoria.

RECOMMENDATION 1: The Department of Treasury and Finance undertake intergenerational reporting every five years, to complement departmental long-term planning.

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43 Commonwealth Government, Department of the Treasury, *A Decade of Intergenerational Reports: Contributing to Long-term Fiscal Sustainability* (2012)

44 Hon. Tim Pallas MP, Treasurer, *2017-18 Budget Estimates Transcript of Evidence*, 12 May 2017 p.2

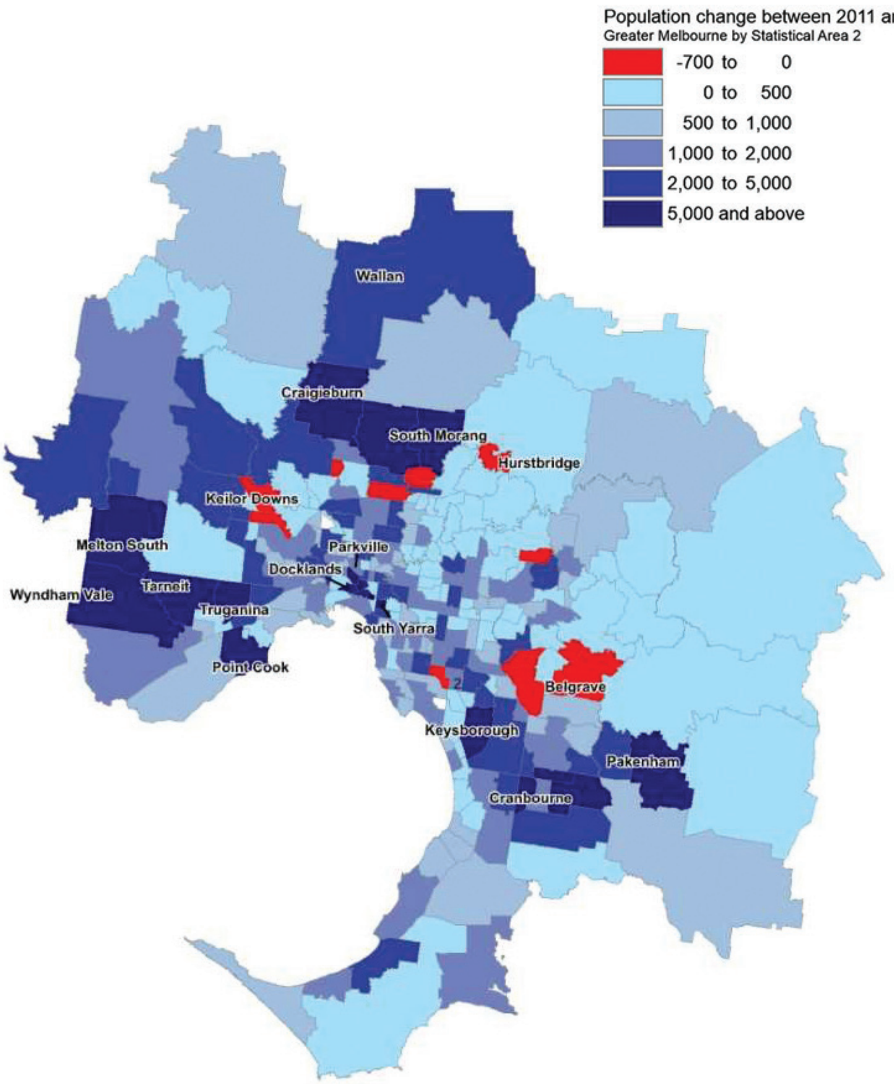
45 Department of Treasury and Finance, *Performance Management Framework for Victorian Government Departments* (2017), pp.10-11

2

2.3.3 Areas of high population growth in Melbourne and regional Victoria

The release of Census data for 2016 provides population growth data at a detailed level. Figure 2.3 shows the areas of population change in Greater Melbourne between 2011 and 2016. The areas with the greatest population growth are Craigieburn and South Morang in Melbourne's north; Wyndham Vale, Melton South, Tarneit and Point Cook in the western metropolitan area; and Pakenham and Cranbourne in Melbourne's south east. Inner city areas such as Southbank, Parkville and South Yarra also had considerable population growth. The figure also shows some areas declined in terms of population between 2011 to 2016, including established suburbs such as Hurstbridge, Keilor and Belgrave.

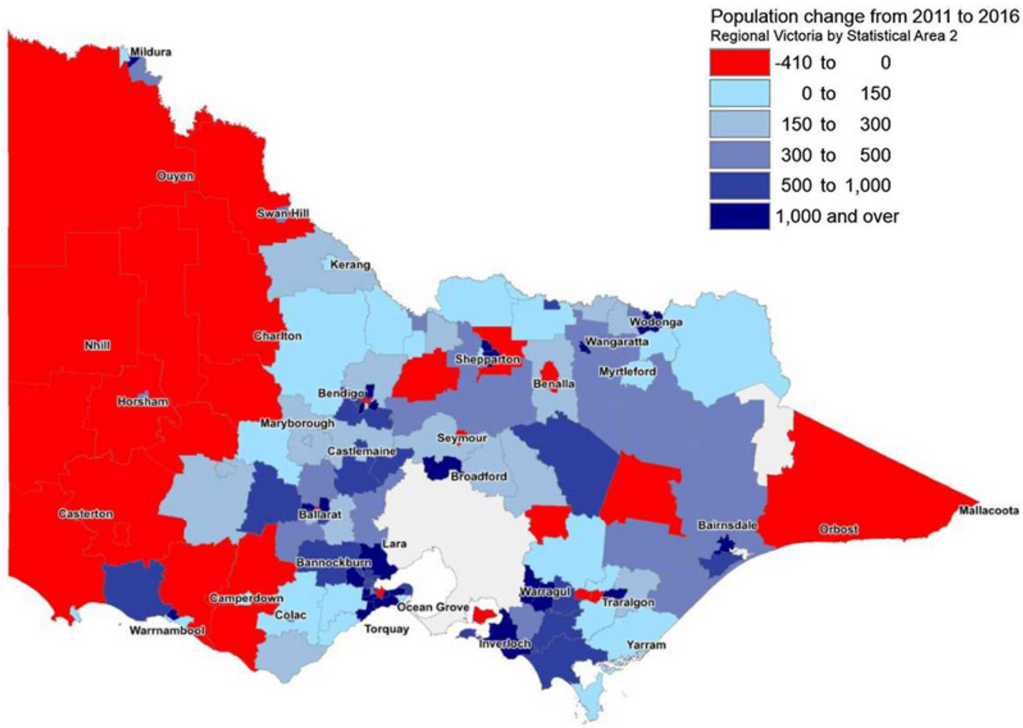
Figure 2.3 Population change by Greater Melbourne Statistical Area 2, 2011 to 2016



Source: Australian Bureau of Statistics, *Census 2011, 2016*

In terms of population growth in regional Victoria, Figure 2.4 shows that the highest population growth between 2011 and 2016 was in areas adjoining the Melbourne boundary such as Broadford, Lara and Warragul. Areas in and around the Geelong region such as Ocean Grove and Torquay also had higher levels of population growth, along with the major regional cities such as Ballarat, Bendigo, Shepparton, Wangaratta and Traralgon. Some areas of regional Victoria experienced population decline such as western Victoria and far eastern Gippsland.

Figure 2.4 Population change by regional Victoria Statistical Area 2, 2011 to 2016



Source: Australian Bureau of Statistics, *Census 2011, 2016*

2.4 Regional Victoria's economy

In the 2017-18 Budget a series of asset and output programs were announced relating to regional Victoria. These included:

- *Regional Roads* asset and output initiatives worth $905.5 million from 2016-17 to the end of the forward estimates period. There is also a further $1.1 billion for 2016-17 to the end of the forward estimates period in asset and output expenditure initiatives for *Regional Public Transport*. Transport related initiatives aim to improve infrastructure and connectivity in regional areas.[46]

46 ibid., pp 27-28, 41-42

- a regional and rural schools upgrade asset program valued at $64.1 million over 2017-18 and the forward estimates period.[47] This aims to ensure services provided by the Government such as education meet increasing demand driven by higher regional population growth.
- $50.0 million for 2016-17 and across the forward estimates towards the *Double the First Home Owners Grant for New Homes in Regional Areas* program as part of the broader whole-of-Government *Homes for Victorians* initiative. Providing first home owners grants for new homes based in regional areas is aimed to relocate population away from the capital city, creating greater demand in regional areas and stimulate local economies.[48]
- introduce the *Reduce the Payroll Tax Rate Applicable to Regional Businesses* revenue initiative whereby the payroll tax rate will be reduced 'by 25 per cent to 3.65 per cent for businesses with payrolls that comprise at least 85 per cent wages associated with regional employees'.[49] This is intended to promote business activity and employment growth based in regional Victoria.

2.4.1 Labour market outcomes in regional Victoria

There are limitations to the economic data regarding the regional Victorian economy. Australian Bureau of Statistics data indicate employment in regional Victoria has grown over the past year, increasing by 4.6 per cent over the year to May 2017, which was higher than the Greater Melbourne growth rate of 3.8 per cent and the Victorian rate of 3.5 per cent. The latest (May 2017) unemployment rate for regional Victoria is 5.7 per cent, less than the Greater Melbourne unemployment rate of 5.9 per cent.[50]

Although the recent labour market figures for regional Victoria as a whole are positive, labour market outcomes can vary widely across regional areas. Regional areas that have experienced population declines shown in Figure 2.4 will also have a smaller pool of workers engaged with the labour market. The recent closure of the Hazelwood mine and power plant and the ongoing re-adjustment of the dairy industry in the wake of the Goulburn Murray Co-operative price collapse in 2016 are examples of how regional Victorian employment and economies are susceptible or sensitive to downturns and closures, as regional labour markets are often concentrated towards a particular employer or industry.

Figure 2.5 shows the proportion of employment by industry for regional Victoria, Greater Melbourne and Victoria as a whole, demonstrating their differences. As the budget papers note, regional Victoria has a high proportion of employment in services-related industries. The regional Victorian proportion of employment across health care and social assistance, retail trade and accommodation and food services are all higher compared to Melbourne and Victoria as a whole. Another

47 ibid., p.59

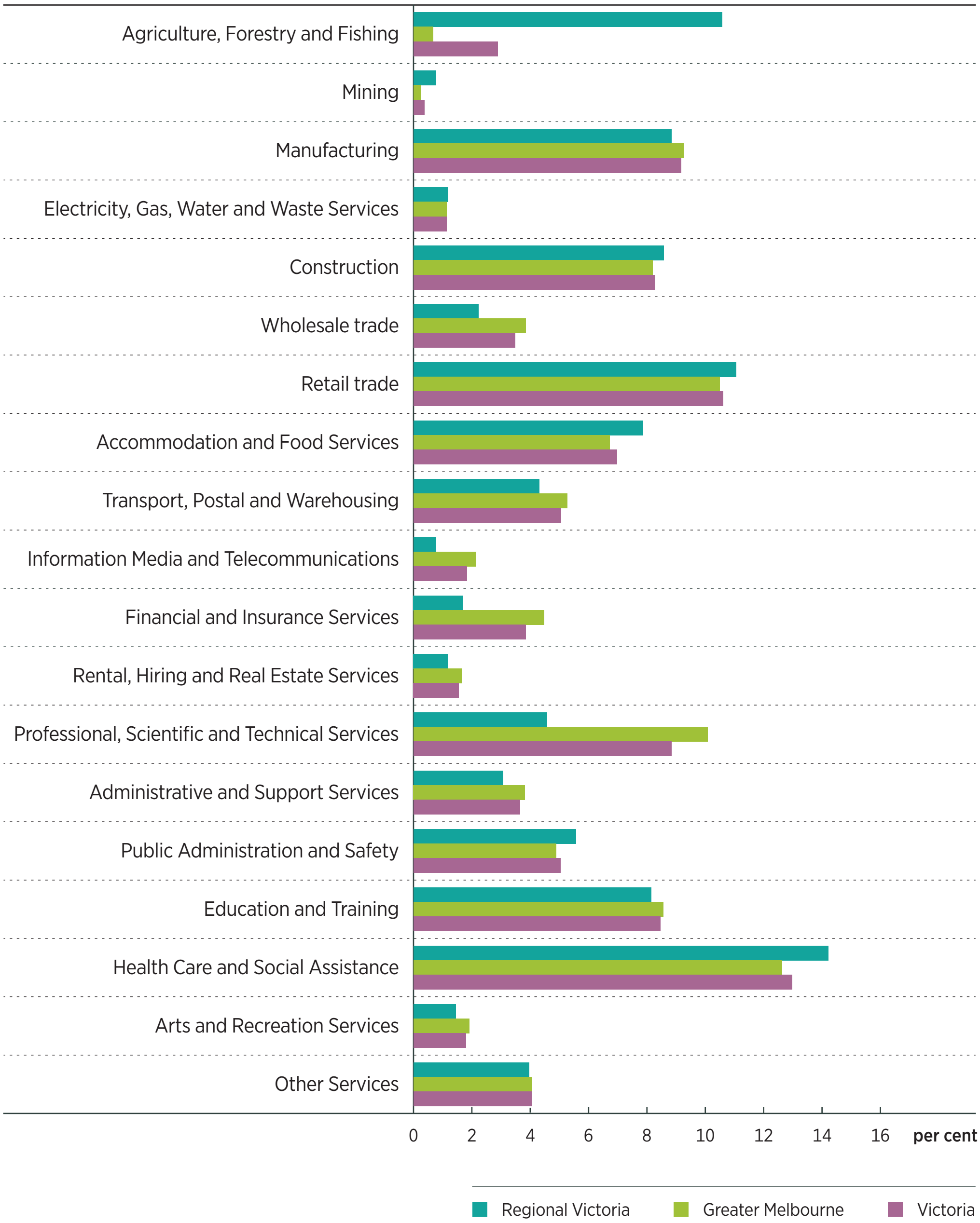
48 ibid., p.19

49 ibid., p.112

50 Australian Bureau of Statistics, Cat. No. 6291.0.55.001 *Labour Force, Australia, Detailed, Quarterly* (2017). Note these unemployment rates are original terms, and are not trend results or seasonally adjusted figures.

high employing industry in regional Victoria is agriculture, forestry and fishing, which employs over 10.1 per cent of the labour force compared to 0.7 per cent in Melbourne and 2.9 per cent for Victoria as a whole.[51]

Figure 2.5 **Proportion of employment by industry, regional Victoria, Greater Melbourne and Victoria, 2017[(a)]**



(a) Average over year to May 2017

Source: Australian Bureau of Statistics, Cat. No. 6291.0.55.003 *Labour Force, Australia, Detailed, Quarterly* (2017)

51 Australian Bureau of Statistics, Cat. No. 6291.0.55.003 *Labour Force, Australia, Detailed, Quarterly* (2017)

FINDING 6: Regional Victoria overall has experienced positive labour market outcomes over the past financial year. The economy of regional Victoria differs to that of Melbourne and Victoria as a whole by having a higher proportion of employment in services industries such as accommodation and food services and retail trade, as well as agriculture, forestry and fishing.

2.4.2 Services industries and tourism activity in regional Victoria

The services industries of accommodation and food services and retail trade can be used as an indicator for tourism related employment.[52] Tourism related activity and employment is particularly valuable to regional Victoria. Its economy continues to adjust after energy sector-related closures at Hazelwood and ongoing structural adjustments affecting the Victorian economy as a whole, including continuing declines in manufacturing employment.

The latest available data (March 2017) indicates there were 519,400 international overnight visitors to regional Victoria, an increase of 9.7 per cent over the previous year, while their expenditure increased by 28.2 per cent to reach $513.0 million.[53] The domestic overnight visitor market to regional Victoria was worth $5.3 billion over the same time.[54]

In 2016 the Government introduced the $4.5 million *Wander Victoria* marketing campaign aimed at increasing intrastate tourism, or 'getting Victorians out to discover their own backyard'.[55] Further information provided to the Committee by the Minister for Tourism and Major Events indicates some early success of the campaign:

> Intrastate overnight visitor numbers in Regional Victoria have grown by 15.9% from year ending March 2015 to year ending March 2017 (Source: National Visitor Survey, year ending March 2017, Tourism Research Australia). The rise in visitor numbers to Regional Victoria coincides with the launch of the *Wander Victoria* campaign in February 2016.[56]

At the public hearings the Minister was also asked about key performance indicators of the campaign.[57] The Committee was informed:

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52 Visit Victoria, *Economic Contribution of Tourism to Victoria 2015-16* (2017), p.2

53 Department of Economic Development, Jobs, Transport and Resources, *International Visitation*. Available at <www.tourism.vic.gov.au/research/international-research/international-visitation.html>, viewed 17 July 2017

54 Department of Economic Development, Jobs, Transport and Resources, *Domestic Visitation*. Available at <www.tourism.vic.gov.au/research/domestic-and-regional-research/domestic-visitation.html>, viewed 17 July 2017

55 Hon. John Eren MP, Minister for Tourism and Major Events, *2017-18 Budget Estimates Transcript of Evidence*, 23 May 2017 pp.3, 9

56 Hon. John Eren MP, Minister for Tourism and Major Events, 2017-18 Budget Estimates hearings, response to questions on notice received 11 July 2017, p.3

57 Hon. David Morris MP, Deputy Chair, Public Accounts and Estimates Committee, *2017-18 Budget Estimates Transcript of Evidence*, 23 May 2017 p.12

> Visit Victoria has engaged a research agency to track the performance of the *Wander Victoria* campaign. The metrics used to track the performance include website traffic, social media results, advertising awareness, changes in attitudes, behaviours and perceptions of regional Victoria, and visitation.[58]

Performance measures developed by Visit Victoria, as well as other agencies, are discussed further in Chapter 8. While there are a series of existing performance measures regarding domestic visitation and expenditure on regional tourism, the Committee notes there are not as yet any measures regarding the *Wander Victoria* campaign.

FINDING 7: Although international tourist visitation to regional Victoria has increased over the last year and Visit Victoria's *Wander Victoria* marketing campaigns aims to increase intrastate tourism to regional areas, there are currently no performance measures in place regarding the *Wander Victoria* campaign.

RECOMMENDATION 2: The Department of Economic Development, Jobs, Transport and Resources develop performance measures to assess the performance of the *Wander Victoria* campaign.

2.4.3 Victoria's agriculture sector

As mentioned previously, the agriculture, forestry and fishing sector accounts for 10.1 per cent of regional Victorian employment. The Minister also informed the Committee at the public hearings that in 2015‑16, agriculture, fisheries and forestry generated $9.9 billion in Victorian total factor income, representing 2.7 per cent of the state's total.[59]

Victoria's agricultural production sector is often referred to as 'food and fibre'. The food component comprises the production of wheat, dairy and meat commodities as well as food and beverage manufacturing, while the fibre sector largely refers to the forestry, wood and paper products, animal skins, hides, fibres, and the textiles, clothing and footwear industries.[60] Victoria is a net exporter of food products (that is, the State exports a greater value of foodstuffs than it imports from other countries).[61] A discussion paper released by the Department of Economic Development, Jobs, Transport and Resources on Victoria's food and fibre sector stated that 20 per cent of Victorian food manufacturing is exported, and the proportion of locally‑produced timber and agricultural products that is exported is higher still.[62]

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58 Hon. John Eren MP, Minister for Tourism and Major Events, 2017‑18 Budget Estimates hearings, response to questions on notice, received 11 July 2017, p.3

59 Hon. Jaala Pulford MP, Minister for Agriculture, *2017‑18 Budget Estimates Transcript of Evidence*, 1 June 2017, p.2

60 Department of Economic Development, Jobs, Transport and Resources, *Victoria's Future Industries: Food and Fibre Sector Discussion Paper (*2015), p.11

61 ibid., p.16

62 ibid.

The food and fibre exports are linked to market forces such as exchange rates and changing climate conditions. Official data indicates food and fibre exports were valued at $11.9 billion in 2015-16, which was a $197 million decrease over the previous year.[63] The decline in export values were attributed to falling values across the key Victorian markets of:

- dairy, where the decline in the value of exports reflected the reduction in the value of global dairy commodities
- grains, which experienced dry seasonal conditions
- meat, which experienced a tighter supply and higher prices.[64]

Overall, the impact of the weak Australian dollar has been offset by weaker currencies in competitor countries such as Brazil, Russia, the Ukraine and India.[65]

The budget papers paint an optimistic picture for food and fibre export results for 2016-17 and conditions for the following financial year:

> Merchandise export growth is expected to recover in 2016-17, mostly due to increased agricultural production. Victoria produced a record winter crop of 10 million tonnes in 2016-17, a 145 per cent increase on 2015-16. The forecasts assume a return to average seasonal conditions in 2017-18.[66]

FINDING 8: Although food and fibre exports declined in 2015-16 over the previous year, the Department of Treasury and Finance expects that it will recover considerably in 2016-17.

2.4.4 The risk to Victoria's agriculture sector of growing urbanisation in agricultural areas

Both Figures 2.3 and 2.4 on population change show the greatest population growth is occurring in peri urban areas on the Melbourne urban boundary, particularly in the Cranbourne-Pakenham area in Melbourne's south east and Tarneit-Werribee in the metropolitan west. These areas are established 'food bowl' areas. Urbanisation has also encroached on established farming areas across parts of regional Victoria, particularly in Gippsland and the Surf Coast area over a sustained period of time.

The Minister for Planning acknowledged the problem at the public hearings and explained the revisions to the planning scheme outlined in the current metropolitan planning strategy document *Plan Melbourne* are designed to cater for population and jobs growth to occur within existing urban areas in regional cities:

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63 Department of Economic Development, Jobs, Transport and Resources, *Victorian Food and Fibre Export Performance Report 2015-16* (2016), p.4

64 ibid.

65 ibid.

66 Department of Treasury and Finance, *Budget Paper No.2: 2017-18 Strategy and Outlook* (2017), p.27

> The opportunities that are available in our regional cities are endless, but you have to ensure where you possibly can — and that is the whole goal of what Plan Melbourne has been about — that you have jobs and housing located together. That is why a place like Bendigo is a classic example, where the Bendigo city council have done all of the strategic planning. They have said, 'We can cater for population growth in Bendigo within an existing urban growth boundary'. That is very important so you are not getting that conflict that occurs between the encroachment of residential housing onto established farming land — and that is, as you know, a very significant problem in regional Victoria.[67]

The Minister for Agriculture also received a question taken on notice regarding the role of the Department of Economic Development, Jobs, Transport and Resources in protecting key food growing areas in peri-urban and regional areas from urban development. The Minister provided the following response:

> The Minister for Planning is responsible for the *Planning and Environment Act 1987*, and local government is typically the responsible authority that administers and enforces planning schemes.
>
> The Department of Economic Development, Jobs, Transport and Resources (DEDJTR) has no formal role in protecting key food growing areas from urban development.
>
> However, DEDJTR works with the Department of Environment, Land, Water and Planning (DELWP) and local government to ensure the needs of the agriculture sector are understood and addressed in planning for Victoria's peri-urban and regional areas.
>
> A current example is the Planning for Sustainable Animal Industries (PSAI) work program, jointly led by DEDJTR and DELWP. PSAI is the government's multifaceted approach to improving land use planning by making the planning system easier to use and understand for animal production industries and local governments.[68]

FINDING 9: Population growth is putting pressure on agricultural land in peri-urban and regional areas.

FINDING 10: The Department of Economic Development, Jobs, Transport and Resources does not have a formal role in protecting key food growing areas from urban development.

FINDING 11: In order to prevent established farming areas in regional Victoria from becoming urbanised, the Government is encouraging regional population growth to take place within existing urban boundaries in regional centres.

67 Hon. Richard Wynne MP, Minister for Planning, *2017-18 Budget Estimates Transcript of Evidence*, 16 May 2017, p.19

68 Hon. Jaala Pulford MP, Minister for Agriculture, 2017-18 Budget Estimates hearings, response to questions on notice, received 7 July 2017, p.4

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2.4.5 Plans, schemes and initiatives to assist the regional economy outlined in the budget

The Government has announced a number of output initiatives in the 2017-18 Budget to assist regional economic development, including $9.5 million in 2017-18 and a further $18.0 million over the forward estimates for *Regional Partnerships and Economic Projects*. The Government anticipates this will support a range of programs and projects aimed at improving agricultural productivity, tourism planning and the Food Fibre Action Plan.[69] The Government also announced *Connecting Regional Communities*, a $45.2 million program to assist homes and businesses based in regional Victoria get better access to mobile and broadband technologies.[70] The Minister for Agriculture explained how this program is intended to assist industries based in regional areas to the Committee at the public hearings:

> The kinds of industries that I think will be most likely to benefit from that are our strongest and most significant industries in regional Victoria, being primary production, agricultural industries and the visitor economy. But I think that there will be opportunities for communities that are very dependent on manufacturing work as well. What we will do is we will be working closely with each of the regional partnerships, because this will look different in each region. What is common is the problem, but the specific manifestations of it really vary quite a bit from region to region.[71]

2.5 Victoria's export performance

Exports from Victoria for the 2016 calendar year were worth $40.4 billion, with goods exports worth $23.3 billion or 57.7 per cent, of the export total. Services exports were worth $17.1 billion, or 42.3 per cent.[72] While goods exports for 2016 fell by $605.7 million or 2.5 per cent over the 2015 figure, services exports continue to increase in value – rising by $1.6 billion or 9.7 per cent over the previous year.[73] International education continues to drive increases in Victoria's services exports. These services were worth $7.1 billion in 2016, an increase of $1.1 billion, or 18.1 per cent over the previous year.[74]

Although overall goods exports for Victoria fell in 2016, more detailed data released by the Department of Foreign Affairs and Trade indicates the composition of goods exports has been changing in recent years, with the value of manufactured items steadily increasing since 2010, to be worth $9.1 billion and accounting for just under 40 per cent of the goods exports total in 2016.[75]

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69 Department of Treasury and Finance, *Budget Paper No.3: 2017-18 Service Delivery* (2017), pp.27, 34

70 ibid.

71 Hon. Jaala Pulford, Minister for Regional Development, *2017-18 Budget Estimates Transcript of Evidence*, 1 June 2017, p.13

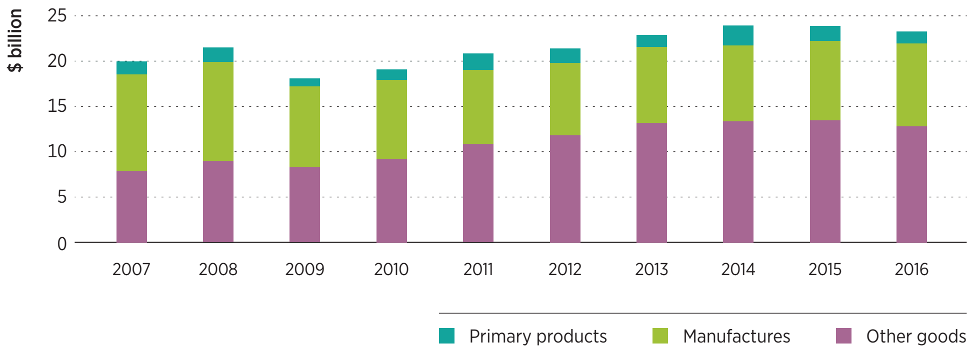
72 Department of Foreign Affairs and Trade, *Australia's Merchandise exports and Imports* (2016)

73 ibid.

74 Australian Bureau of Statistics, Cat. No. 5368.0.55.004 - *International Trade: Supplementary Information, Calendar Year, 2016*

75 Department of Foreign Affairs and Trade, *Australia's Merchandise exports and Imports* (2016)

Figure 2.6 Value of Victorian goods exports[(a)] 2007 to 2016



(a) Trade Import and Export Classification (TRIEC)
Source: Department of Foreign Affairs and Trade, *Australia's Merchandise exports and Imports* (2016)

Two of Victoria's top ten merchandise exports for 2016 were not food and fibre products, but manufactured items – passenger motor vehicles and pharmaceutical products.

Table 2.1 Top ten merchandise exports[(a)] for Victoria, 2015 to 2016

	Item	2015 dollars	2016 dollars	2015 to 2016 growth (per cent)
1	Wool & other animal hair	1,636,435	1,651,119	0.9
2	Passenger motor vehicles	1,577,439	1,406,357	-10.8
3	Meat (excludes beef)	1,288,201	1,204,038	-6.5
4	Edible products & preparations	818,363	1,054,153	28.8
5	Beef	1,389,871	992,393	-28.6
6	Milk, cream, whey & yoghurt	1,090,368	948,179	-13.0
7	Confidential items of trade	1,242,330	933,003	-24.9
8	Pharmaceutical products	337,151	908,135	169.4
9	Fruit & nuts	963,879	882,566	-8.4
10	Cheese & curd	720,417	671,547	-6.8

(a) Standard International Trade Classification (SITC)
Source: Department of Foreign Affairs and Trade, *Trade Statistical Pivot Tables*

The growth in the value of pharmaceutical products exports for 2016 was driven by a pronounced increase in exports to the United States, which increased from $99.2 million in 2015 to $582.8 million in 2016.[76] A recent report released by the Export Finance and Insurance Corporation notes that US trade growth is forecast to accelerate in 2017-18, driven by strong household consumption, a 'firming' labour market and a growing levels of business investment.[77]

76 Department of Foreign Affairs and Trade, *Trade Statistical Pivot Tables*
77 Export Finance and Insurance Corporation, *Victorian Trade Outlook*, May 2017

FINDING 12: The value of Victorian services exports were worth $17.1 billion in 2016. International education exports were worth $7.1 billion in 2016, an increase of $1.1 billion, or 18.1 per cent over the previous year.

FINDING 13: Exports of goods were worth $23.3 billion in 2016, a decrease of $605.7 million or 2.5 per cent over the 2015 figure. However, the value of manufactured item exports has been increasing since 2010. Pharmaceutical exports to the United States alone jumped from $99.2 million in 2015 to $582.8 million in 2016.

2.5.1 Risks to the Victorian economy due to increasing international trade protection

The Export Finance and Insurance Corporation report noted the risk of protectionist policies pursued by Victoria's major trade partners.[78] The Victorian budget papers also expand on this development:

> Australia's economic performance is heavily influenced by global economic conditions and international trade. An increase in global tariffs could reduce the competitiveness of Victoria's exports, lower Australia's terms of trade and lower Victoria's GSP growth.[79]

The updated sensitivity analysis section in Budget Paper No. 2 models the impact of a global trade shock on the Victorian economy. The analysis found that in line with weaker global demand, Victorian exports would fall, leading to lower GSP growth over the forward estimates.[80] This would ultimately impact on Victoria's budgetary position, as

> ...slower growth in real GSP, [means] consumption, property prices and wages, income from transactions is lower over the next four years consistent with lower growth in revenue from land transfer duty, payroll tax and lower GST revenue.[81]

FINDING 14: Victoria's economy and budget position could be adversely affected if there is a shift in global trading conditions towards protectionist trade policies by key Victorian export partners.

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78 ibid.

79 Department of Treasury and Finance, *Budget Paper No.2: 2017-18 Strategy and Outlook* (2017), p.35

80 ibid., pp.74-77

81 ibid., p.75

3 Key aspects of the 2017-18 Budget

Key findings

- The operating result for the general government sector in 2017-18 is expected to be $1.2 billion, which is lower than the 2016-17 result due to output expenses growing faster than revenue.
- Over the forward estimates period, government infrastructure investment is expected to increase significantly over historical levels. This increase was set out in the 2016-17 Budget, and estimates have been increased further in the 2017-18 Budget.
- While net debt for the general government sector is anticipated to rise in dollar terms, its proportion of gross state product is not expected to exceed six per cent. This means the Government is set to meet its sustainability target of net debt to gross state product.
- Net debt for the public non-financial corporations sector is anticipated to continue to increase in dollar terms over the forward estimates period. While the asset base for the sector is expected to increase during 2017-18, over the forward estimates period it is anticipated to erode.
- Large transfers of fixed assets between sectors have influenced net lending/borrowing in the general government sector and public non-financial corporations sectors. Details of the assets transferred and the reasons for their transferral are not set out in the budget papers.
- There have been improvements to the presentation of the budget papers for 2017-18.

3.1 Introduction

This chapter provides an overview of the 2017-18 Budget.

The chapter starts with a discussion of the Government's strategy, including the targets set for sustainability over the forward estimates period.

It then provides a high-level overview of the main sources of funds and the uses to which the Government can put them to and how the Government expects these will combine during 2017-18.

The chapter discusses the general government sector, putting the estimates from the budget papers into historical context and examining the sector's sustainability. It then examines estimates for the public non-financial corporations (PNFC) and public financial corporations (PFC) sectors.

The chapter finishes with a brief description of major changes in the structure of the budget papers themselves and the role of the Victorian Auditor-General in the preparation of the budget papers.

3.2 Government strategies

Each year, the budget papers set out the Government's strategies for the upcoming year and for the longer term. For 2017-18, the long-term management objectives are unchanged from the previous year.[82] In the budget estimates hearing, the Treasurer informed the Committee that:

> There are three basic strategies that we are seeking to apply here: general government net debt as a percentage of gross state product (GSP) to be maintained at a sustainable level over the medium-term, fully fund the unfunded superannuation liabilities by 2035 and a net operating surplus consistent with maintaining general government net debt at a sustainable level over that medium-term period.[83]

The budget papers also specify the level of net debt as a proportion of GSP that the Government considers 'sustainable'. This is the highest proportion that has been recorded over the past five actual results, which was 6.2 per cent of GSP recorded in June 2015.[84]

The estimates over the next four years have been set in accordance with these three strategies.

3.3 Key components for the general government sector, 2017-18

The key sources and uses of cash for 2017-18 are set out in Figure 3.1. The Government anticipates that net debt will grow by $5.7 billion (31.3 per cent) over 2017-18,[85] making it one of five sources for its asset expenditure program. For the year, the Government plans to use funds for **infrastructure investment**, both as direct investment and under public private partnership arrangements.

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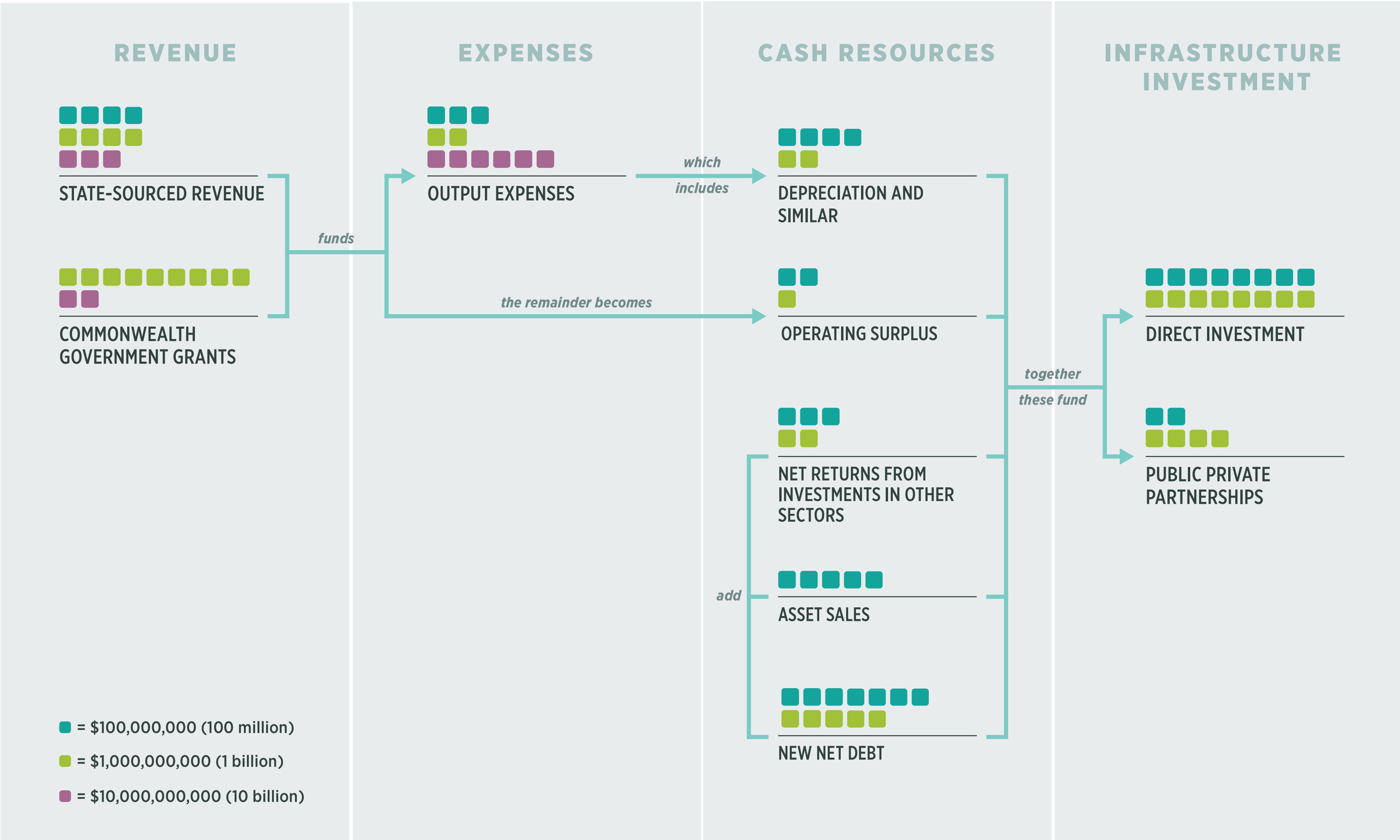
82 Department of Treasury and Finance, *Budget Paper No.2: 2017-18 Strategy and Outlook* (2017), p.23

83 Hon. Tim Pallas MP, Treasurer, *2017-18 Budget Estimates Transcript of Evidence*, 12 May 2017, p.16

84 Department of Treasury and Finance, *Budget Paper No.5: 2017-18 Statement of Finances* (2017), p.17; Department of Treasury and Finance, *Consolidated Comprehensive Operating Statement – General Government Sector* (2017)

85 Department of Treasury and Finance, *Budget Paper No.5: 2017-18 Statement of Finances* (2017), p.9

Figure 3.1 Key components of the 2017-18 Budget



Sources: Department of Treasury and Finance, *Budget Paper No.2: 2017-18 Strategy and Outlook* (2017), p.59; Department of Treasury and Finance, *Budget Paper No.4: 2017-18 State Capital Program* (2017), p.19; Department of Treasury and Finance, *Budget Paper No.5: 2017-18 Statement of Finances* (2017), pp.7, 10, 22

The diagram also shows the two distinct types of expenditure by the Government.

- goods and services that will be used immediately are paid for as **output expenses**. This includes public transport, education, medical services and community services.
- goods and services that are to be used over a number of years are paid for with **infrastructure investment** expenditure. This creates assets including railways, roads, schools, hospitals and public housing.

3.3.1 Sources of cash

One of the purposes of the budget is to estimate how much cash will be raised through the Government's activities and how to manage the spending of this cash. For 2017-18, the total cash available to the Government is $12.1 billion. This is made up of the five sources below.

(1) Operating result

The Government is able to raise **State-sourced revenue** in a number of ways, principally through taxes, fees, charges and levies. The Government has a level of control over this 'own-source' revenue, and can set tax and other rates as well as make other changes such as adjusting concession conditions, or introducing new or abolishing old taxes. As these are adjustments to revenue, these are known as 'revenue initiatives'.

As well as being able to raise its own revenue, the Government receives **Commonwealth Government grants**, made up of tied grants (which have a specific purpose), and untied grants (which the Government can use as it wishes). The Government has less control over grants received from the Commonwealth.

Out of this, the Government must pay its **output expenses** such as costs of labour, purchased services, consumables, or grants paid to local governments. Chapter 6 discusses output expenditure in greater detail.

Once operating expenses are paid, the balance is known as the operating result. In years when expenses are less than revenue, this is referred to as an **operating surplus**. For 2017-18, the operating result is expected to be a surplus of $1.2 billion.[86]

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86 Department of Treasury and Finance, *Budget Paper No.2: 2017-18 Strategy and Outlook* (2017), p.59

(2) Recognition of non-cash costs

In presenting its finances, the Government uses two concurrent accounting methods, accrual and cash accounting. Accrual accounting represents costs that relate to the period in which benefits from those costs are received, whereas cash accounting represents costs as they are paid.[87]

Adding back **depreciation and similar** costs adds $2.4 billion to the amount of cash available to the Government for 2017-18.[88]

(3) Investments in other sectors

The Government has investments in businesses and entities in other parts of the public sector. These include money used to set up and create assets through self-funded agencies such as VicTrack or the Port of Melbourne Corporation. The Government can also 'disinvest' in these bodies, which means that, in some years, factors such as the sale of the lease of Port Melbourne's operations result in more money flowing from these investments back to the Government than outward. In 2017-18, **net returns from investments in other sectors** provides $2.3 billion for the Government's use.[89]

(4) Asset sales

Each year the Government also raises funds through **sales of assets** of assets such as parcels of Crown land that are considered by the Government to be surplus to requirements. In 2017-18, the budget papers anticipate that this will raise $503 million.[90]

(5) Debt

Each year the Government decides how much it will spend on asset investment. If there is insufficient cash available for this, the Government must make up the difference by increasing its debt. The budget papers anticipate that between June 2017 and June 2018, **net debt** will rise by $5.7 billion.[91]

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87 For example, the cost of a new computer system that will last five years will all be 'recognised' (that is, entered into the State's finances) in the first year under the cash accounting system. However, under accrual accounting, the cost of the system will be spread over all five years of the asset's life. Under this system the State's finances will show a 'depreciation' cost, for example, in the second or third year. While this cost has been recognised, it can be added back because no cash transaction occurred.

88 Department of Treasury and Finance, *Budget Paper No.2: 2017-18 Strategy and Outlook* (2017), p.59

89 ibid., p.10

90 ibid.

91 Department of Treasury and Finance, *Budget Paper No.2: 2017-18 Strategy and Outlook* (2017), p.59

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3.3.2 Uses for cash

Direct investment

Direct investment involves the Government purchasing or constructing new assets, with the asset becoming the property of the relevant department. This has been the standard way of investing in past years, although other methods have become more prevalent, such as funding investments in the public non-financial corporations sector (PNFC) or by providing assets through public private partnership (PPP) arrangements.

Because projects can take several years to complete, asset provision for 2017-18 includes amounts spent on new projects announced since the 2016-17 Budget, as well as on existing projects under construction. New asset initiatives from the 2017-18 Budget have a total value of $6.1 billion,[92] of which $1.2 billion is expected to be spent on **direct investment** during 2017-18.[93] Together with expenditure on existing projects under construction as well as capital expenditure on projects too small to be included in the budget papers, total expenditure on direct investment in 2017-18 is expected to be $8.8 billion.[94]

Other investment including public private partnerships

Increasingly, the Government uses **public private partnership (PPP)** arrangements for asset provision. Under a PPP agreement, the private sector invests in infrastructure on behalf of the public sector. For most PPP projects, little or no cash changes hands before the project has been completed. However, the debt implication of payment commitments is entered into the State's finances at the end of the construction stage.

Discussion of investment using this approach for a small number of large projects leads to such a figure looking uneven and appears confusing. Instead, the budget papers include an estimate of how much the private sector spends on construction of PPP projects. This component of asset investment is not formally included in the State's finances as the public sector is not involved in the transaction.

PPP and other investment also includes expenditure on projects for which figures have yet to be accurately determined.[95] The Department of Treasury and Finance includes figures which are 'commercially sensitive' in this item.[96] These estimates relate to projects under negotiation with third parties (such as potential PPP projects) and are not disclosed separately in the budget papers for reasons of competitive advantage.

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92 Department of Treasury and Finance, *Budget Paper No.3: 2017-18 Service Delivery* (2017), p.2

93 Department of Treasury and Finance, *Budget Paper No.4: 2017-18 State Capital Program* (2017), p.18

94 Department of Treasury and Finance, *Budget Paper No.5: 2017-18 Statement of Finances* (2017), p.10

95 Such as the *West Gate Tunnel Project* or the *Port-Rail Shuttle*

96 Department of Treasury and Finance, *Budget Paper No.4: 2017-18 State Capital Program* (2017), p.19, footnote (b)

For 2017-18, the budget papers estimate that PPP and other investments will be $4.2 billion.[97]

FINDING 15: Over 2017-18, the budget papers state that the operating surplus, depreciation funds and asset sales and returns from investments in other sectors will not be sufficient for the Government's asset investment program. New borrowings will be required to make up the required funds.

3.3.3 Other indicators for 2017-18

The Committee examines two additional indicators of expenditure sustainability - the operating result and net lending/borrowing.

Table 3.1 Revenue, expenses and operating result, general government sector, growth from 2016-17 revised estimates

	2016-17 revised estimate	2017-18 Budget	Growth/reduction	
	($ million)	($ million)	($ million)	(per cent)
Revenue	60,710.6	63,404.7	+2,694.1	+4.4
Expenses	59,366.7	62,251.7	+2,885.0	+4.9
Operating result	1,343.9	1,153.0	-190.9	-14.2
Net lending/borrowing	315.0	-659.8	-974.8	-309.5

Source: Department of Treasury and Finance, *Consolidated Comprehensive Operating Statement – General Government Sector* (2017)

The anticipated growth of expenses for the general government sector over 2017-18 is shown in Table 3.1 to be higher than the growth rate of revenue. The Government expresses its 'sustainability objective'[98] over four years, so it would not consider expenses growing faster than revenue for a single year to be unsustainable. However, this does lead to the forecast operating result for 2017-18 to be lower than 2016-17.

The table also shows that the Government anticipates that it will be a net borrower in 2017-18. This means that the operating balance for 2017-18, augmented by asset sales and the depreciation add-back is not expected to be sufficient to cover direct investment in assets. However, the net lending/borrowing indicator does not include returns from investments. These are expected to provide $2.3 billion for the year.

This is a weaker position than the revised estimate for 2016-17, in which the sector is expected to be a net lender. Net lending/borrowing is discussed further below.

97 ibid., p.19

98 Department of Treasury and Finance, *Budget Paper No.5: 2017-18 Statement of Finances* (2017), p.17

FINDING 16: The operating result for 2017-18 is expected to be $1.2 billion, which is lower than in 2016-17 due to output expenses growing more than revenue.

FINDING 17: The budget papers anticipate that the general government sector will be in a net borrowing position during 2017-18. Returns from investments in other sectors and new borrowings will be required to fund annual asset investment.

FINDING 18: Although the net borrowing position for 2017-18 means the Government may still meet its sustainability target, which calculates revenue growing more than expenses over a four year period, the net borrowing position for 2017-18 is weaker than the revised estimate of a net lending position in 2016-17.

3.4 General government sector finances in historical context

The Government's expenditure can be classified as either 'operations', which provides services which are to be used immediately or goods that are to be consumed within the year, and 'asset investment', which funds projects that will continue to benefit the State into the future. This section provides a brief examination of indicators from both groups.

3.4.1 Operating results

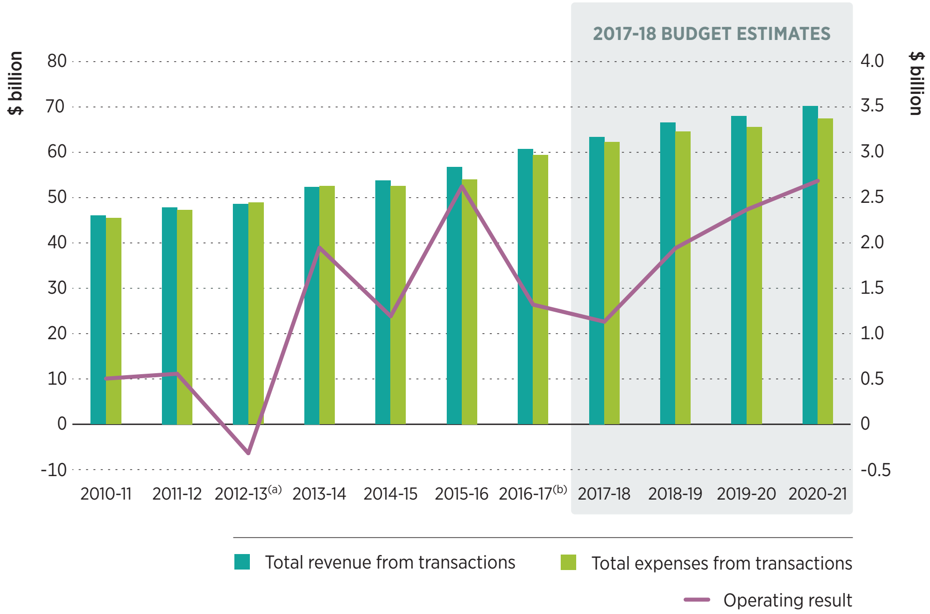
Revenue expenses relating to day-to-day operations of the Government, and the operating result, which is the excess of revenue over expenses are shown in Figure 3.2.

The operating results expected in 2016-17 and 2017-18 are lower than in 2015-16, with the result for 2017-18 expected to be $190.9 million (14.2 per cent) less than the revised estimate for 2016-17.[99] This was a result of increased operating expenditure by the Government. However, the Government intends that not only will revenue remain greater than operation expenses, but that the operating surplus will continue to grow over the forward estimates period.[100] This estimate is in line with its sustainability objectives, discussed earlier in this chapter.

99 Department of Treasury and Finance, *Budget Paper No.2: 2017-17 Strategy and Outlook* (2017), p.59

100 ibid.

Figure 3.2 Revenue, expenses and operating result, general government sector, 2010-11 to 2020-21



(a) The operating deficit in 2012-13 was a result of a change made to Accounting Standard AASB 119, which related to the treatment of changes in values of predicted superannuation liabilities. This took place after the original financial year result was published. Before the change in the standard, the result for 2012-13 had been reported in the *2012-13 Financial Report* as an operating surplus of $316.4 million.

(b) The 2016-17 figure is a revised estimate.

Source: Department of Treasury and Finance, *Consolidated Comprehensive Operating Statement - General Government Sector* (2017)

FINDING 19: While the operating surplus is expected to decrease by $190.9 million (14.2 per cent) over 2017-18, the Government anticipates an increasing operating surplus over the forward estimates period in line with its strategy. This indicates that day-to-day operations are expected to be sustained by revenue.

3.4.2 Asset investment

Government infrastructure investment (GII) from 2010-11 and over the forward estimates period is shown in Figure 3.3. This shows the creation of assets for use by the State. GII for 2017-18 is anticipated to be $10.1 billion, an 8.4 per cent increase over the revised 2016-17 estimate.[101]

101 Department of Treasury and Finance, *Net Infrastructure Investment* (2017). Available at <www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Other-financial-aggregates>, viewed 29 June 2017

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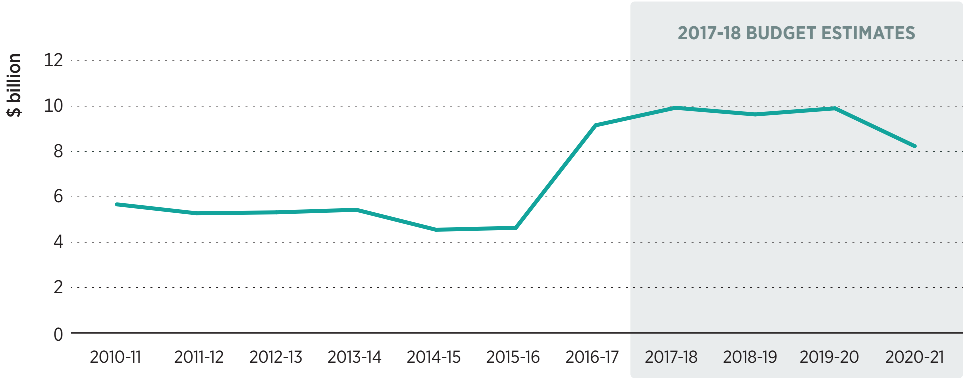
Figure 3.3 Government infrastructure investment, 2010-11 to 2020-21



Source: Department of Treasury and Finance, *Net Infrastructure Investment* (2017)

The Government plans a significant increase in asset expenditure beginning in 2016-17. Although this was in line with the 2016-17 Budget,[102] expenditure levels outlined for 2017-18 and across the forward estimates in the latest budget have been increased.

FINDING 20: Over the forward estimates period, government infrastructure investment is expected to increase significantly over historical levels. This increase was set out in the 2016-17 Budget, and estimates have been increased further in the 2017-18 Budget.

3.4.3 Sustainability and general government sector net debt

The budget papers use the operating result as a financial target,[103] and as an indicator of the fiscal position of the State.[104] However, in recent years, the Committee has used net lending/borrowing as a more comprehensive indicator as it incorporates some asset investment expenditure as well as operations, including the depreciation allowance, the accounting estimate of the cost of assets used up during the year.[105]

The net lending/borrowing indicator for the general government sector since 2010-11 and over the forward estimates period is shown in Figure 3.4.

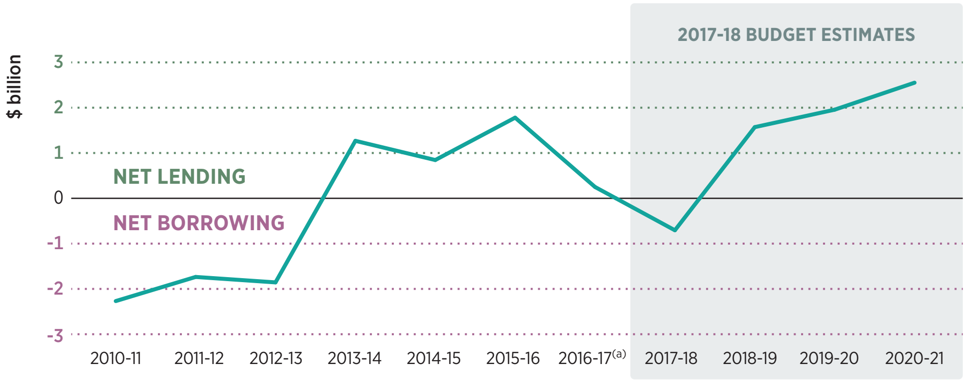
102 Department of Treasury and Finance, *Budget Paper No.4: 2016-17 State Capital Program* (2016), p.15

103 Department of Treasury and Finance, *Budget Paper No.2: 2017-18 Strategy and Outlook* (2017), p.23

104 ibid., p.5

105 Net lending/borrowing includes proceeds from asset sales and direct asset investment, but does not include asset transactions through other sectors. In relation to PPP liabilities, it recognises the total value of a project in the year in which it is commissioned, even though actual payments for a PPP occur over a number of years.

Figure 3.4 Net lending/borrowing, general government sector, 2010-11 to 2020-21



(a) The 2016-17 figure is a revised estimate.

Source: Department of Treasury and Finance, *Consolidated Comprehensive Operating Statement - General Government Sector* (2017)

After having been in a net lending position since 2013-14, the general government sector is forecast to be a net borrower in 2017-18. This is due to the lower net operating balance providing less funds and a significant increase in direct asset investment for the year.[106]

After 2017-18, however, the Government expects the sector to return to a net lending position. The improvements after 2017-18 are mostly due to increases in the net operating result coupled with lower direct asset investment anticipated for the second half of the forward estimates period.[107]

The general government sector net debt in dollar terms is illustrated in Figure 3.5. After a peak of $22.3 billion in June 2015, net debt stabilised in 2016 and then decreased to $18.1 billion in 2017. However, from June 2018 it is expected to return to an upward trend. Increasing debt is a deliberate Government policy that takes advantage of the historically low cost of borrowing.[108]

However, measured as a proportion of GSP, net debt is expected to rise more gradually from the end of 2017-18 to reach six per cent of GSP at the end of the forward estimates period. This is in line with the Government's strategy as discussed in Section 3.2.

FINDING 21: The Government expects that the general government sector will be a net borrower during 2017-18, due to a lower operating surplus and the increased direct asset investment in the year. While net debt is anticipated to rise in dollar terms, its proportion of gross state product is not expected to exceed six per cent, in line with the Government's strategy on net debt.

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106 Department of Treasury and Finance, *Budget Paper No.5: 2017-18 Statement of Finances* (2017), pp.7-8, 203-4

107 ibid., pp.32, 217

108 Hon. Tim Pallas MP, Treasurer, *2017-18 Budget Estimates Transcript of Evidence*, 12 May 2017, p.16

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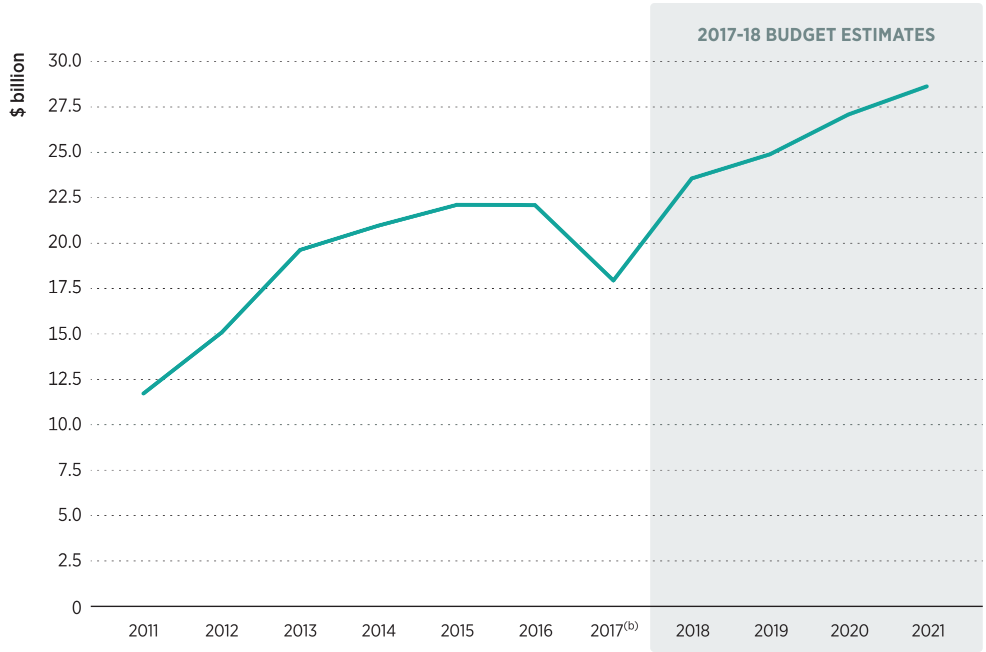
Figure 3.5 General government sector net debt, 2011 to 2021[(a)]



(a) Balances at 30 June each year

(b) The June 2017 figure is a revised estimate.

Source: Department of Treasury and Finance, *Consolidated Balance Sheet - General Government Sector* (2017)

3.5 Other sectors

The general government sector is only one of three sectors that make up the whole of the State. The other sectors are the public non-financial corporations (PNFC) sector, which are Government-owned businesses that recover most of the costs by passing on costs of their services to customers, and public financial corporations (PFC) sector, which provide financial services to Government and other public entities.

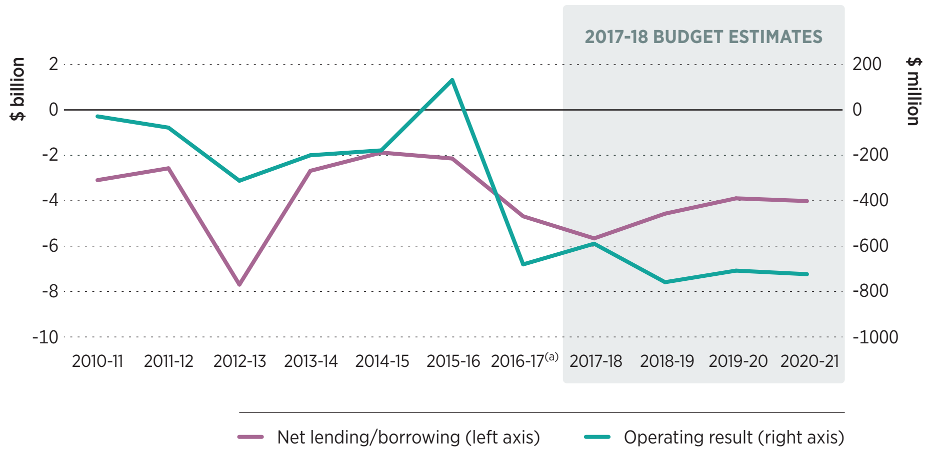
3.5.1 Public non-financial corporations

Victoria has a significant number of diverse PNFCs, which provide goods and services to customers using a commercial business model. These include water authorities such as the metropolitan and rural water businesses, waste and resource recovery groups, VicTrack and V/Line. The PNFC sector includes also smaller entities such as the Puffing Billy Railway and a number of cemetery trusts.

Operating result and net lending/borrowing

Figure 3.6 shows the operating result and net lending/borrowing for the PNFC sector from 2010-11 to the end of the forward estimates period.

Figure 3.6 **Operating result and net lending/borrowing, public non-financial corporations sector, 2010-11 to 2020-21**



(a) The 2016-17 figure is a revised estimate.

Source: Department of Treasury and Finance, *Budget Paper No.5: 2017-18 Statement of Finances* (2017), pp.47-8; Department of Treasury and Finance, *Financial Report*, 2010-11 to 2015-16

Apart from 2015-16, the PNFC sector has had operating deficits since 2010-11. This situation is expected to continue over the forward estimates period. For 2017-18, the Government expects that the operating result for the PNFC sector will be a deficit of $581 million. This is a 13.8 per cent improvement on the revised operating deficit for 2016-17 of $674 million.[109]

The figure also shows that the sector has also been a net borrower over the same period. The budget papers show that this situation is expected to continue.[110]

The difference between these two figures is 'net acquisitions of non-financial assets from transactions'.[111] For the PNFC sector, the budget papers disaggregate this figure into components of:

- net purchases of non-financial assets
- depreciation
- other movements of non-financial assets.[112]

109 Department of Treasury and Finance, *Budget Paper No.5: 2017-18 Statement of Finances* (2017), p.47. The budget papers provide figures for this sector to the nearest million.

110 Department of Treasury and Finance, *Budget Paper No.5: 2017-18 Statement of Finances* (2017), p.48

111 ibid.

112 ibid., p.54

The budget papers reveal that annual changes in net lending/borrowing in 2017-18 and 2018-19 for the PNFC sector are primarily caused by changes in net asset investment, which the Committee considers to be consistent with previous years. However, for the revised 2016-17, 2019-20 and 2020-21 estimates, fluctuations are caused by 'other movements in non-financial assets'.[113] The budget papers note that this:

> ... relates to fixed asset transfers from the general government sector to the public non-financial corporations sector.[114]

The Committee notes that other movements in non-financial assets are expected to lower the net lending/borrowing indicator for the sector by $20.1 billion between 2016-17 and 2020-21.[115] Over the same period, transfers of fixed assets from the general government sector to other sectors (including the PNFC sector) are expected to lift the net lending/borrowing indicator for the general government sector by $17.0 billion.[116]

The net lending/borrowing in the general government sector and the PNFC sectors are therefore substantially influenced by large transfers of fixed assets between the two sectors. However, the Committee notes that these transfers are not quantified or detailed.

The Committee considers that a more comprehensive description of the transfers of fixed assets between sectors would enhance transparency in the State finances. This would include identifying what the assets are as well as why they are being transferred between sectors.

FINDING 22: The public non-financial corporations sector is expected to have an operating deficit for 2017-18, which will remain over the forward estimates period. The sector is also expected to be a net borrower over the period.

FINDING 23: Large transfers of fixed assets between sectors have influenced net lending/borrowing in the general government sector and public non-financial corporations sectors. Details of the assets transferred and the reasons for their transferral are not set out in the budget papers.

RECOMMENDATION 3: Future budget papers include a description of transfers of fixed assets that are anticipated between the general government sector and the public non-financial corporations sectors. These descriptions should include what the fixed assets are and why they are being transferred between the sectors.

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113 Committee calculations based on: Department of Treasury and Finance, *2015-16 Financial Report* (2016), p.136; Department of Treasury and Finance, *Budget Paper No.5: 2017-18 Statement of Finances* (2017), p.54

114 Department of Treasury and Finance, *Budget Paper No.5: 2017-18 Statement of Finances* (2017), p.54

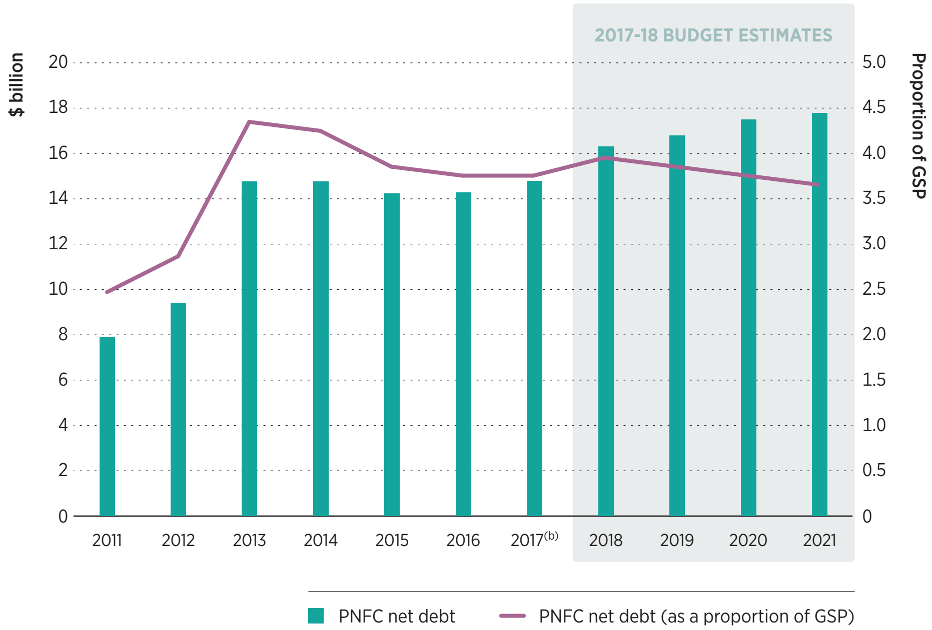
115 ibid.

116 ibid., pp.32, 217

Net debt

Net debt for the PNFC sector is shown in Figure 3.7. This is expected to rise in dollar terms over the whole of the forward estimates period. The figure also shows that, as a proportion of GSP, net debt for the sector is expected to fall over the forward estimates period after a single year rise in 2017-18. The difference in these two trends is a result of the forecast GSP growth rate being higher than the forecast net debt for the sector in dollar terms.

Figure 3.7 **Net debt, public non-financial corporations sector, 2011 to 2021[(a)]**



(a) Balances at 30 June each year

(b) The June 2017 figure is a revised estimate.

Sources: Department of Treasury and Finance, *Budget Paper No.5: 2017-18 Statement of Finances* (2017), p.49; Department of Treasury and Finance, *Financial Report*, 2010-11 to 2015-16

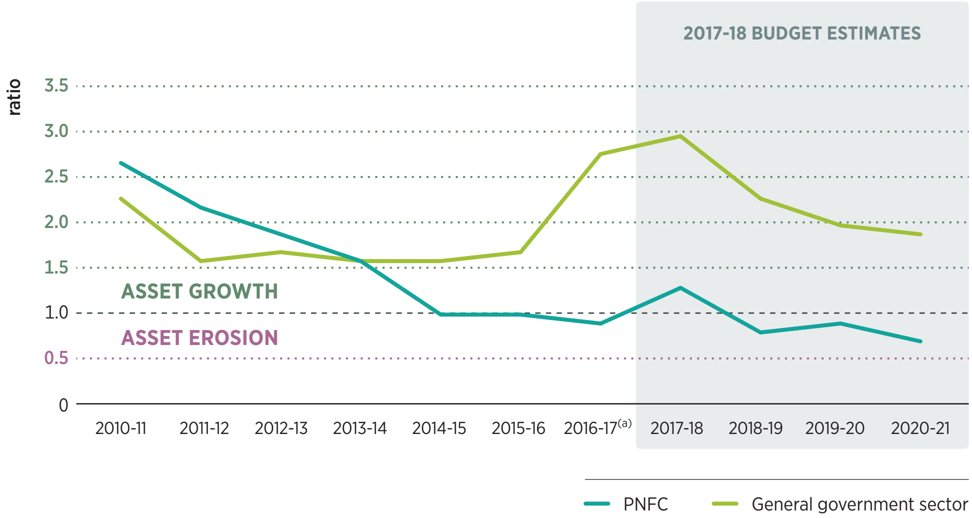
FINDING 24: Net debt for the public non-financial corporations sector is anticipated to continue to increase in dollar terms over the forward estimates period. However, due to the forecast growth rate of gross state product, net debt for the sector as a proportion of gross state product is expected to fall.

Asset replacement ratio

The asset replacement ratio for the PNFC sector is shown in Figure 3.8.[117] This ratio shows whether assets are being built or used up for the year. A ratio above 1.0 shows that the asset base is increasing during the year, whereas a ratio below 1.0 shows that the asset base is being eroded during the year. The ratio for the general government sector is also shown as a comparison.

117 This ratio compares net direct investment to depreciation in the sector.

Figure 3.8 Asset replacement ratio, general government and public non-financial corporations sectors, 2010-11 to 2020-21



(a) The June 2017 figure is a revised estimate.

Sources: Department of Treasury and Finance, *Consolidated Cash Flow Statement - General Government Sector* (2017); Department of Treasury and Finance, *Consolidated Comprehensive Operating Statement - General Government Sector* (2017); Department of Treasury and Finance, *Budget Paper No.5: 2017-18 Statement of Finances* (2017), pp.47, 50; Department of Treasury and Finance, *Financial Report*, 2010-11 to 2015-16

In 2016-17 additions to the asset base were insufficient to outweigh the use of assets, leading to an overall decrease in the asset base in the PNFC sector. The anticipated peak in asset investment for 2017-18 will reverse this for the year, but the forward estimates show that the asset base is expected to continue to be eroded over the rest of the period. As a comparison, the net asset base in the general government sector is expected to be built up over the whole of the forward estimates period.

FINDING 25: For the public non-financial corporations sector, the asset base is expected to increase during 2017-18. However, over the forward estimates period, it is anticipated to erode.

Asset investment in the PNFC sector is discussed further in Chapter 7.

3.5.2 Public financial corporations

Government-owned businesses that provide financial services to the whole of the public sector (such as the Treasury Corporation of Victoria (TCV), which provides loans to Government entities, the Victorian Managed Insurance Authority (VMIA) and WorkSafe, both of which provide insurance and risk management products) make up the public financial corporation (PFC) sector.

Operating result

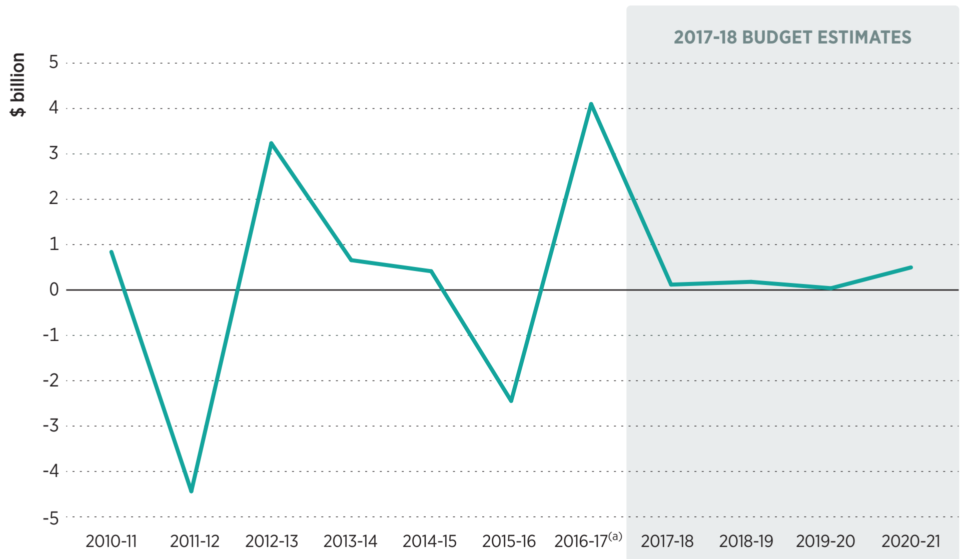
Government-owned businesses charge market rates for their services. These fees and charges form part of the sector's operating revenue. The sector's operating costs are subtracted from this to calculate the sector's operating result (a surplus or deficit).

The operating result for the PFC sector has been a deficit since prior to 2010-11, and this is not expected to change over the forward estimates. For 2017-18, the budget papers forecast a net operating deficit of $1.7 billion. This is a 13.9 per cent improvement on the revised 2016-17 estimate.[118]

Net result

The majority of the sector's performance is a result of returns on funds it manages. These changes are represented 'below the line' rather than being counted as revenue for the sector. For this reason, the operating result is less informative than the net result, which does take these changes in fund values into account.

Figure 3.9 **Net result, public financial corporations sector, 2010-11 to 2020-21**



(a) The 2016-17 figure is a revised estimate.

Sources: Department of Treasury and Finance, *Budget Paper No.5: 2017-18 Statement of Finances* (2017), p.61; Department of Treasury and Finance, *Financial Report*, 2010-11 to 2015-16

The figure shows that the net result has fluctuated heavily since 2010-11.

118 Department of Treasury and Finance, *Budget Paper No.5: 2017-18 Statement of Finances* (2017), p.61

For 2017-18, the net result is expected to be $134 million, which is a significant (96.8 per cent) decrease on the revised 2016-17 estimate.[119] Overall, the Government anticipates that the net result will be positive over the forward estimates, forecasting that capital gains on investment portfolios will be sufficient to outweigh the expected continuing operating deficit.

The Committee notes that the volatility seen in the past is not reflected in the forward estimates for the sector. The Committee accepts that sudden external shocks can be expected for the PFC sector, but that their direction and timing cannot be forecast, and this has resulted in the apparently stable forecast. Similar stable forecasts have been made in all recent budgets.[120]

The Committee recommended in its *Report on the 2015-16 Budget Estimates* that the Government consider including 'fan charts' in budget papers.[121] These charts can show not only the published forecasts, but also the likelihood of variations, based on past performance. In the case of the PFC net result, the 'likely zone' around the forecast would appear much wider than for other financial items, reflecting the lower historical accuracy of the forecast.

The Government was reviewing the recommendation,[122] and recently advised the Committee that while it had not been implemented:

> The applicability of 'fan charts' was considered for the 2017-18 Budget. However, the use of 'fan charts' was not adopted as the sensitivity analysis chapter (Budget Paper No.2 - Appendix A) currently provides more detailed information on the fiscal impact of variations in forecasts.[123]

The Committee notes that the sensitivity analysis in the budget papers does not report effects on the net result and does not report effects on the PFC sector. The Committee considers that the Government's response to its question concerns a different issue.

The Committee will continue to monitor this issue.

FINDING 26: The budget papers forecast a net operating deficit for the public financial corporations sector of $1.7 billion. Capital gains on investment portfolios are expected to balance this, with a net result forecast of $134 million. The past volatility of the net result is not represented in the budget papers.

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119 ibid.

120 For example, the 2014-15 Budget forecast the net result for the PFC sector to be $615.2 million in 2014-15, rising gradually to $832.7 million in 2017-18 (Department of Treasury and Finance, *Budget Paper No.5: 2014-15 Statement of Finances* (2014), p.60. The actual results shown in Figure 3.9 are very different.

121 Public Accounts and Estimates Committee, *Report on the 2015-16 Budget Estimates* (2015), Recommendation 3, p.5

122 Victorian Government, *Government Responses to the Recommendations of Public Accounts and Estimates Committee's Report on the 2015-16 Budget Estimates*, tabled 4 May 2016, p.3

123 Department of Treasury and Finance, *Response to the Committee's 2017-18 Budget Estimates Entity-specific Questionnaire*, received 12 July 2017, p.24

3.5.3 Amalgamated sectors

Each year, the Committee examines results of other combinations of the three sectors of Government, eliminating purely internal transactions, as follows:

- the non-financial public sector, being the general government sector amalgamated with the public non-financial corporations sector
- the public sector as a whole, being all three sectors amalgamated.

Operating results, net lending/borrowing and net debt for these amalgamations are presented in the budget papers.[124]

While the Committee considers that these amalgamated sectors can provide worthwhile insights, it does not intend to examine these in further detail here as trends in these amalgamated sectors are largely similar to those already discussed in this chapter.

3.6 Changes to the structure of the budget papers

Each year, the Committee describes any changes that have been made in the layout and structure of the budget papers.

For 2017-18, the basic form of the suite of budget papers, including five main volumes, is unchanged. In addition, there is a budget overview document, two budget information papers on rural and regional as well as suburban aspects of the Budget, and a pamphlet on gender equality.

The Department of Treasury and Finance informed the Committee that new features have been incorporated into two of the budget papers.

Streamlined financial statements

The most significant change in the budget papers for 2017-18 is a new structure used in presenting the estimated financial statements. Rather than presenting the main statements followed by a large number of notes, the budget papers discuss the finances more thematically. Sections include 'how funds are raised', 'how funds are spent' and 'major assets and investments'.

This change follows a similar implementation in the *2016-17 Financial Report*. The Department of Treasury and Finance advised the Committee that:

> Streamlining of the estimated financial statements (EFS) improves its clarity to users, and better reflects the State's financial operations, position and its performance. It brings Victorian financial reporting to the forefront of contemporary public sector reporting practice.[125]

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124 Department of Treasury and Finance, *Budget Paper No.5: 2017-18 Statement of Finances* (2017), Chapter 2

125 Department of Treasury and Finance, *Response to the Committee's 2017-18 Budget Estimates General Questionnaire*, received 8 May 2017, pp.48-9

The Committee considers that this change makes the finances easier to read. It improves the clarity of the estimated financial statements without sacrificing information.

FINDING 27: The 2017-18 budget papers present the estimated financial statements using a thematic layout. This is clearer and easier to read.

Sensitivity analysis

In previous reports the Committee has made a series of recommendations regarding the 'sensitivity analysis' section of the budget papers, which can be found as an appendix to *Budget Paper No.2: Strategy and Outlook*.[126] For 2017-18, the sensitivity analysis has been revamped, as a new economic model has been introduced.

In previous years, the sensitivity analysis focussed on independent changes in major economic parameters (e.g. GSP, employment) and historical forecasting to estimate effects on elements of the budget such as the operating result or net debt.[127]

The new model used for the sensitivity analysis presents a set of three scenarios to determine how sensitive the budget may be to various economic 'shocks'. In the 2017-18 Budget, the three scenarios are:

- a global trade shock
- population growing stronger than expected
- population and participation growing stronger than expected.

The new sensitivity analysis section outlines the impact of each scenario on a number of 'economic parameters' (such as GSP, employment, share prices, etc.), and in turn the impact these will have on general government sector finances (namely the operating result and net debt).[128]

The new sensitivity analysis section is a considerable improvement on the analysis provided in previous budget papers. The discussion of the impact of the three scenarios on the Victorian economy and State finances is particularly useful and easy to understand, with helpful charts and figures explaining key aspects of each scenario's impact on the Victorian economy.

The three scenarios are also useful and relevant to Victoria's current economic outlook, particularly the scenarios connected to strong population growth. Population growth has been a key theme in the Committee's deliberations for this inquiry and informs much of the discussion and analysis in the upcoming chapters of this report.

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126 Public Accounts and Estimates Committee, *Report on the 2015-16 Financial and Performance Outcomes* (2015), p.21

127 Department of Treasury and Finance, *Budget Paper No.2: 2017-18 Strategy and Outlook* (2017), p.82

128 Department of Treasury and Finance, *Response to the Committee's 2017-18 Budget Estimates General Questionnaire*, received 8 May 2017, p.48

The Committee presumes the scenarios in the sensitivity analysis will change in the future as the Victorian economy and state finances face different circumstances.

FINDING 28: The 2017-18 budget papers includes a revamped sensitivity analysis, which uses a quantitative model to estimate changes resulting from three scenarios to 'economic parameters'. These parameters are then used to estimate how the scenarios may affect general government sector financial outcomes.

3.7 Role of the Auditor-General in the preparation of the budget papers

3.7.1 Legislative provisions

The Auditor-General reviews the estimated financial statements - *Budget Paper No.5: Statement of Finances* - and makes a report to Parliament under Section 16B of the *Audit Act (1994)*. This includes a review of the estimated comprehensive operating statement, revised balance sheet, estimated balance sheet, estimated cash flow statement, estimated statement of changes in equity, a statement of significant accounting policies and forecast assumptions and other explanatory information and the certification by the Treasurer and Department of Treasury and Finance.[129]

The Auditor-General reviews whether:

- the statements have been prepared on a basis consistent with the accounting policies on which they are stated to be based
- the statements are consistent with the targets specified in the current financial policy objectives and strategic statement for each key financial measure specified in that statement
- the statements have been properly prepared on the basis of the assumptions contained in the accompanying statement prepared in association with the statements under section 23K of the *Financial Management Act (1994)*
- the methodologies used to determine those assumptions are reasonable.

It is the Treasurer's responsibility to prepare and present the estimated financial statements in accordance with the *Financial Management Act (1994)* and for maintaining internal controls to enable the preparation of the statements that are free from material misstatement, whether due to fraud or error.

Victoria is the only Australian jurisdiction where the Auditor-General routinely performs this role. The Committee understands that the New South Wales Government has invited the NSW Auditor-General to conduct this work in the last three years.

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129 Department of Treasury and Finance, *Budget Paper No.5: 2017-18 Statement of Finances* (2017), pp.3-5

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3.7.2 The review process

The Treasurer must provide the Auditor-General with access to any documents requested by the office, including any drafts of the estimated financial statements. The Auditor-General must then give the review report to the Treasurer within a reasonable timeframe before the budget papers are tabled in the Parliament.

The Auditor-General is not entitled to question the merits of the Government's policy objectives. The Auditor-General provides limited assurance rather than expressing an audit opinion. A limited assurance engagement is substantially more narrow in scope than an audit.

In undertaking the review the Auditor-General:

- seeks to understand the basis of the statements preparation and performs consistency checks in its application
- reviews Cabinet decisions to ensure they are reflected in the estimates
- reviews estimates against government's key financial measures.

3.7.3 The Auditor-General's views on the 2015-16, 2016-17 and 2017-18 estimated financial statements

The Auditor-General found no significant issues arising from the 2015-16 and 2017-18 estimated financial statements.[130]

In 2016-17 the Auditor-General reached a qualified review conclusion. The Auditor-General could not determine whether the balance for Department of Education and Training land, buildings, infrastructure, plant and equipment had been properly prepared. Proper accounts and records were not available. The Auditor-General also noted that the *East West Link* project funding was recorded as a nonliability transaction and retained by Victoria. This was due to a formal agreement between the Commonwealth and Victorian Governments.[131]

3.7.4 Benefits of the Auditor-General's involvement

The Committee understands that the review of the estimated financial statements undertaken by the Auditor-General is intended to add discipline and rigour to the budgeting process. It requires that the Department of Treasury and Finance have sound quality assurance mechanisms in place. Ultimately the quality of the estimates financial statements could expect to be enhanced with the Auditor-General's involvement.

130 ibid., pp.3-5, 7

131 ibid., p.3

4 Revenue

Key findings

- Revenue is expected to rise to $63.4 billion in 2017-18 and then increase by an average of 3.4 per cent per year over the forward estimates period to $70.2 billion in 2020-21.
- Population and revenue growth figures in the 2017-18 budget papers do not incorporate the higher revised Victorian population growth rate of 2.4 per cent for 2016-17. In the event of the population growing more than the Government expects over the forward estimates period, higher levels of revenue will be needed to maintain the same level of services delivery or efficiencies found.
- State-sourced revenue is expected to raise $34.4 billion in 2017-18, while Commonwealth sourced revenue is anticipated to be $29.0 billion.
- Dividends and similar revenue is expected to be $1.2 billion in 2017-18 and is mostly comprised of dividends from the public financial corporation and public non-financial corporation sectors. It is expected to fall below $800 million by 2020-21 at the end of the forward estimates period.
- The Transport Accident Commission is expected to pay $1.5 billion to the general government sector between 2017-18 and 2019-20 but unlike previous years, this will not be shown as a dividend from the public financial corporation sector in the budget papers. The accumulated losses that the Transport Accident Commission has accrued over recent years means that under accounting rules it is unable to make payments to the State in the form of dividends. These payments will be classified under the 'other contributions and grants' line item.
- Melbourne-based water corporations are expected to pay $205 million in dividends to the general government sector in 2017-18, and $524 million over the forward estimates period.
- For the first time, the budget papers contain a breakdown of 'locally raised funds' including school fundraising and voluntary parent/carer contributions in the education sector, which are expected to be $535 million in 2017-18 and approximately $550 million for every year over the forward estimates.

- Commonwealth specific-purpose grants revenue is expected to average $14.2 billion over the next four years. In 2017-18, the largest areas receiving these grants are expected to be health, making up 47 per cent of the total, and education, accounting for 20 per cent.
- The impact of Victoria's recent high levels of population growth can be seen in Victoria's growing goods and services tax share, from 23.6 per cent in 2017-18 to 24.9 per cent in 2020-21, reflecting the State's increasing proportion of the national population.

4.1 Introduction

The Government's operating revenue is derived from State taxes and Commonwealth grants. The combined revenue is primarily used to fund the State's output expenditure program together with much of its asset and infrastructure investment projects.

This chapter discusses the main aspects of revenue in the general government sector over the next four years including:

- estimates and components of revenue for 2017-18 and the forward estimates period to 2020-21
- a review of the impact of high population growth on the real revenue per Victorian figure
- an analysis of the anticipated dividends from the PFC and PNFC sectors to the general government sector, together with an overview of the assessment of the financial health of these entities provided by the Minster for Finance and Treasurer at the estimates hearings
- Commonwealth Government grants
- an overview of the main new revenue initiatives announced in the 2017-18 Budget.

4.2 Revenue estimates

Total revenue for the general government sector is expected to be $63.4 billion in 2017-18.[132] This is an increase of 4.4 per cent compared to the revised estimate for 2016-17 of $60.7 billion.[133] The budget papers also indicate that the Government expects revenue to increase at a slower pace over the last two years of the forward estimates period in comparison to past years, with growth rates of 2.1 per cent in 2019-20 and 3.3 per cent in 2020-21 (see Table 4.1).

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132 Department of Treasury and Finance, *Budget Paper No.5: 2017-18 Statement of Finances* (2017), p.7

133 ibid., p.203

Table 4.1 **Total revenue, 2017-18 to 2020-21**

	2017-18 Budget	2018-19 Budget	2019-20 Budget	2020-21 Budget
Total revenue ($ million)	63,405	66,524	67,947	70,169
Annual growth rate (per cent)	4.4	4.9	2.1	3.3
Real revenue per Victorian ($)	10,050	10,119	9,910	9,807
Average annual growth rate[a] (per cent)		**3.4**		

(a) Compound annual growth rate from 2017-18 to 2020-21

Sources: Department of Treasury and Finance, *Budget Paper No.5: 2017-18 Statement of Finances* (2017), p.7; Committee calculations based on Department of Treasury and Finance, *Consolidated Comprehensive Operating Statement – General Government Sector* (2017)

FINDING 29: Revenue is expected to rise to $63.4 billion in 2017-18 and then increase by an average of 3.4 per cent per year over the forward estimates period to $70.2 billion in 2020-21.

4.2.1 Real revenue per Victorian

Calculating the amount of revenue per head of population is one way the Committee can analyse the Government's budget estimates for revenue in a demographic and economic context. Real revenue per Victorian is calculated by dividing the anticipated population figure with the revenue estimates contained in the budget papers. Using these budget figures, real revenue per Victorian for 2017-18 is expected to be $10,050. It is then expected to follow an upward trend in 2018-19, reaching $10,119. Following lower expected revenue growth rates, real revenue per Victorian is then expected to decrease to $9,910 in 2019-20 and to $9,807 in 2020-21.[134]

Despite the higher amounts of expected real revenue per Victorian to 2018-19, the declining trend anticipated towards the end of the forward estimates period also suggests that, while revenue is increasing in nominal terms, population growth and inflation are expected to outweigh this growth.

In previous inquiries, the Committee has found that the revenue is underestimated in the budget papers towards the end of the forward estimate period.[135] If the growth estimates for revenue in this year's budget papers prove to be accurate, together with the forecasts for population growth and inflation, there would be a decline in revenue on a per capita basis.

FINDING 30: Revenue estimates have been consistently underestimated in the past.

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134 Committee calculations based on Department of Treasury and Finance, *Consolidated Comprehensive Operating Statement – General Government Sector* (2017)

135 Public Accounts and Estimates Committee, *Report on the 2015-16 Budget Estimates*, (2016), pp.77-79

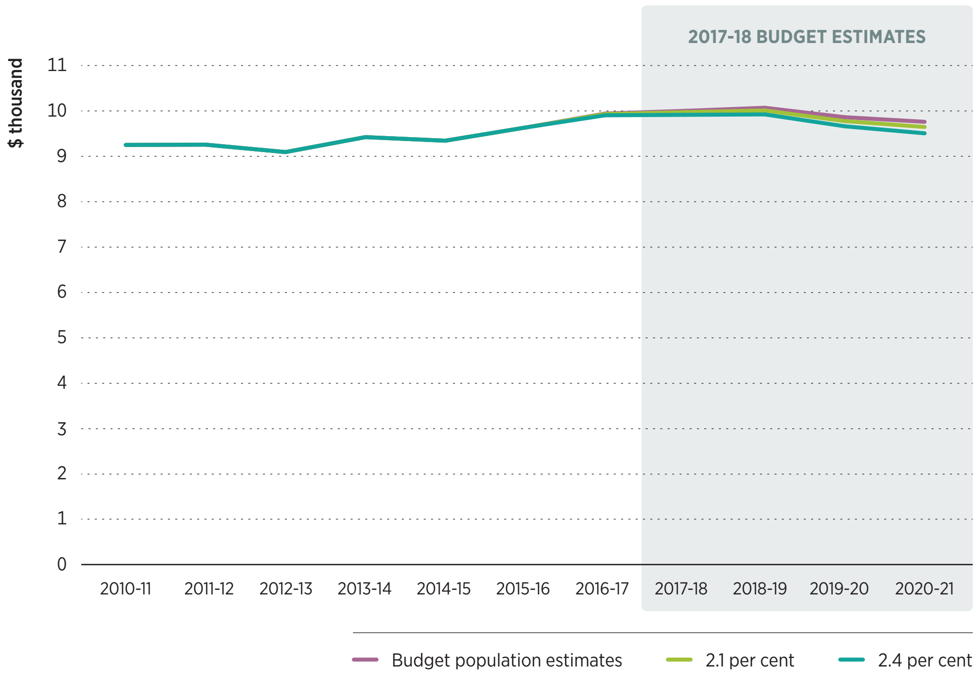
Impact of higher-than-expected population growth

The discussion on population growth in Chapter 2 established that Victoria experienced an annual growth rate to June 2016 of 2.4 per cent, revised upwards from 2.1 per cent.[136] Population estimates in the budget papers do not reflect the higher revised figure, and assume population growth will return to the trend level of 1.8 per cent by 2018-19 and for the remainder of the forward estimates period.

In the event of the population growing more than the Government expects over the forward estimates period, higher levels of revenue will be needed to maintain the same level of service delivery or efficiencies found.

Using the 2.4 per cent growth rate for 2016-17, for example, instead of the 2.1 per cent growth assumed in the budget papers, real revenue per Victorian would be $9,952, as opposed to $9,991 seen in Figure 4.1. If a population growth rate of 2.1 per cent is assumed over the forward estimates period, real revenue per Victorian would be $9,692 by 2020-21, and if a growth rate of 2.4 per cent is assumed, real revenue would be $9,551 by 2020-21.

Figure 4.1 Real revenue per Victorian[(a)] 2010-11 to 2020-21



(a) Real revenue is calculated using the price deflator implicit in the Department of Treasury and Finance's calculation of real and nominal gross state product. Expressed in 2017-18 prices

Source: Committee calculations based on Department of Treasury and Finance, *Consolidated Comprehensive Operating Statement – General Government Sector* (2017)

FINDING 31: Using estimates in the budget papers, revenue per Victorian in real terms is expected to be $10,050 in 2017-18 and peak at $10,119 in 2018-19, before decreasing over the last two years of the forward estimates period to be $9,807 in 2020-21.

136 Australian Bureau of Statistics, *Cat no 3101.0 Australian Demographic Statistics, March 2017*

FINDING 32: Population and revenue growth figures in the 2017-18 budget papers do not incorporate the higher revised Victorian population growth rate of 2.4 per cent for 2016-17. In the event of the population growing more than the Government expects over the forward estimates period, higher levels of revenue will be needed to maintain the same level of services delivery or efficiencies found.

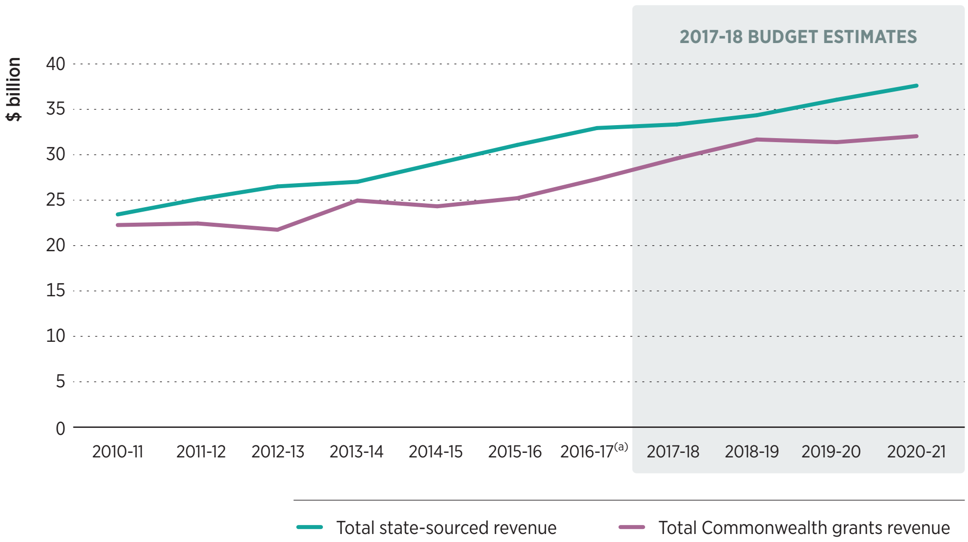
4.3 Components of revenue

The two main revenue streams for Victoria are:

- state-sourced revenue, which includes state taxation, sales of goods and services, dividends and similar revenue and other revenue (such as fines, interest and royalties). For 2017-18 this is expected to be $34.4 billion, or 54.3 per cent of the total.[137]
- Commonwealth grant revenue, which includes specific-purpose grants, specific-purpose grants for on-passing and grants for specific purposes that includes the goods and services tax (GST). For 2017-18 this is expected to be $29.0 billion, or 45.7 per cent of the total.[138]

Figure 4.2 shows the trend for both revenue streams between 2010-11 and 2020-21.

Figure 4.2 **State-sourced taxation and Commonwealth grants revenue, 2010-11 to 2020-21**



(a) 2016-17 is a revised estimate

Source: Committee calculations based on Department of Treasury and Finance, *Consolidated Comprehensive Operating Statement – General Government Sector* (2017)

137 Department of Treasury and Finance, *Budget Paper No.5: Statement of Finances* (2017), p.7, 22

138 ibid.

According to the budget papers, state-sourced revenue is expected to increase by a compound average of 3.7 per cent over the forward estimates to reach $38.3 billion by 2020-21. Growth in Commonwealth grants revenue is forecast to increase at a slower rate of 3.1 per cent over the same period, and is expected to be $31.8 billion by 2020-21.

FINDING 33: State-sourced revenue is expected to raise $34.4 billion in 2017-18, while Commonwealth sourced revenue is anticipated to be $29.0 billion. The Government expects Commonwealth grants revenue growth over the forward estimates period will be slower that State based revenue growth over the same time.

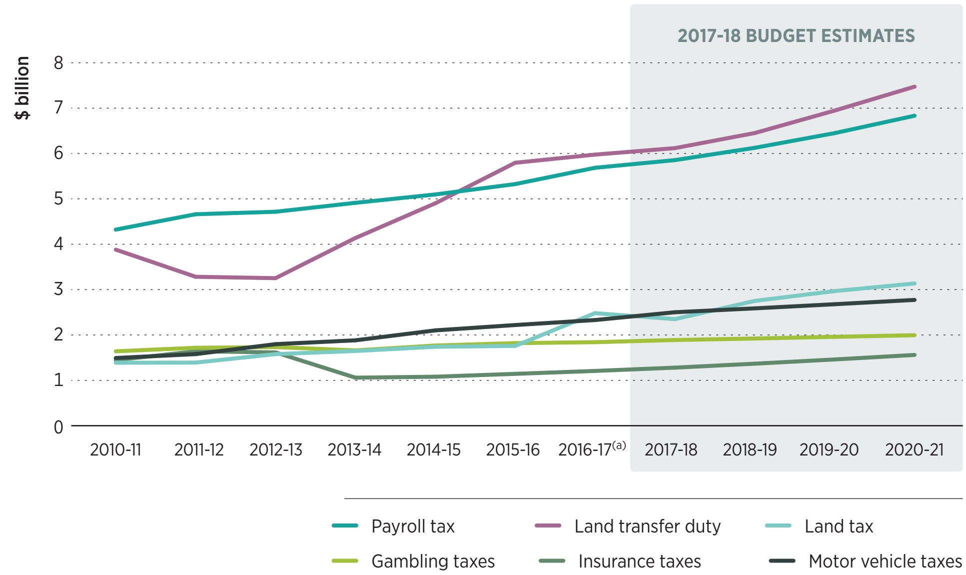
4.3.1 State-sourced revenue

Taxation revenue

The largest component within state-sourced revenue is state taxation, which is primarily driven by the State's economic activity, particularly the labour market (in terms of salaries and wages growth), the property market and the insurance sector.[139]

The major State taxes are property-based taxes such as land transfer duty and land tax, payroll tax, motor vehicle taxes, gambling taxes and insurance taxes. Figure 4.3 shows the expected trend for these taxes from 2010-11 to 2020-21.

Figure 4.3 State taxation revenue, main components, 2010-11 to 2020-21



(a) 2016-17 is a revised estimate.

Source: Department of Treasury and Finance, *State Taxation Revenue – Annual* (2017)

139 ibid., pp.19,20

State taxation is expected to account for 34.4 per cent ($21.8 billion) of total revenue in 2017-18 and to grow by an average of 5.5 per cent between 2017-18 and 2020-21.[140] This growth rate is lower compared to the growth rate between 2010-11 and 2016-17 of 6.9 per cent. According to the 2017-18 budget papers, this lower growth rate is driven in the short-term by lower growth rates in property-based taxes (that is, land transfer duty and land tax).[141] However, the Government expects that this will be partially offset by payroll taxes growing at a faster pace than in previous years.[142] Despite the slower growth rate, property based taxes are still expected to raise more revenue than payroll tax, following the trend set in 2015-16 (see Figure 4.3).

Payroll tax

Payroll tax is expected to be $5.9 billion in 2017-18, $170.2 million or a 3.0 per cent increase on the revised 2016-17 figure of $5.7 billion.[143] Payroll tax is expected to increase by an average growth rate of 5.0 per cent between 2017-18 and 2020-21, when it will reach $6.8 billion.[144] The budget papers state that this growth rate is primarily attributed to the solid conditions expected in the Victorian labour market.[145]

In this year's budget, the Government announced three revenue reduction initiatives relating to payroll tax. The *Bring Forward Increases in the Payroll Tax-free Threshold* initiative was first announced in the 2016-17 Budget, and the 2017-18 Budget amendment to the initiative brings forward the threshold increase from $625,000 to $650,000 in 2017-18 instead of 2018-19.[146] The Government estimates this action will reduce revenue by $24 million a year for both 2017-18 and 2018-19.[147]

The *Reduce the Payroll Tax Rate Applicable to Regional Businesses* initiative is a 25 per cent payroll tax reduction for businesses that have 85 per cent or more of wages associated with regionally based employees.[148] The initiative is estimated to reduce payroll tax by $173 million between 2017-18 and 2020-21.[149] The Treasurer explained the expected impact of the payroll tax reduction on regional businesses to the Committee:

> This will directly reduce costs for around 4000 businesses and provide a direct boost to regional economies. It means Victorian regional businesses will pay the lowest rate of payroll tax in the nation.[150]

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140 ibid., p.19

141 Department of Treasury and Finance, *Budget Paper No.2: 2017-18 Strategy and Outlook* (2017), p.51

142 ibid.

143 Department of Treasury and Finance, *Budget Paper No.5: Statement of Finances* (2017), p.149

144 ibid.

145 Department of Treasury and Finance, *Budget Paper No.2: 2017-18 Strategy and Outlook* (2017), p.51

146 Department of Treasury and Finance, *Budget Paper No.3: 2017-18 Service Delivery* (2017), p.112

147 ibid., p.111

148 ibid., p.112

149 ibid., p.111

150 Hon. Tim Pallas MP, Treasurer, *2017-18 Budget Estimates Transcript of Evidence*, 12 May 2017, p.3

For 2017-18, the Government also announced the *Payroll Tax – Increase the Threshold for Annual Payments* initiative. This initiative is not expected to impact upon the budget, but increases the threshold for monthly to yearly payments for annual payroll tax liabilities of $10,000 to $40,000 thereby reducing the administrative burden.[151]

FINDING 34: The Government expects payroll tax to be $5.9 billion in 2017-18 and grow by 5.0 per cent a year to reach $6.8 billion by 2020-21. The Government does not expect the overall amount of revenue received from payroll tax to decrease as a result of the new budget initiatives.

Property taxes

There are two property-related taxes in Victoria; land transfer duty and land tax. Figure 4.3 shows that land transfer duty is the largest state-based tax, and is estimated to be $6.2 billion in 2017-18, an increase of $144.1 million or 2.4 per cent on the revised 2016-17 estimate of $6.0 billion.[152] The Government expects land transfer duty increase to $7.5 billion by the end of the forward estimates period in 2020-21, growing at a compound average rate of 6.9 per cent.[153]

The budget papers indicate that, despite an expected modest growth rate in 2017-18 (compared to higher growth rates in past years, particularly between 2014-15 and 2015-16), the trend over the forward estimates period is 'in line with the low interest rate environment and strong population growth'.[154] The Department of Treasury and Finance was expecting the property market to cool over 2016-17, but that the market correction was not as pronounced as initially forecast.[155] The budget papers indicate the Department of Treasury and Finance is not expecting any year on year declines for land transfer duty between 2017-18 and 2020-21.[156]

Nevertheless the Committee asked the Department of Treasury and Finance what contingencies are in place in the event of any economic change or property market 'correction' that results in a fall in land transfer duties. The Department replied:

> DTF's land transfer duty revenue forecasts consider uncertainty in the property market. Such uncertainty may arise from the interest rate outlook and concern about the elevated national debt-to-income ratio, as well as the risks of stronger than expected population and employment growth positively impacting on transaction

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151 Department of Treasury and Finance, *Budget Paper No.3: 2017-18 Service Delivery* (2017), p.112

152 Department of Treasury and Finance, *Budget Paper No.5: Statement of Finances* (2017), p.149

153 ibid.

154 Department of Treasury and Finance, *Budget Paper No.2: 2017-18 Strategy and Outlook* (2017), p.51

155 The 2016-17 budget papers initially forecast land transfer duty to fall by 6.4 per cent to be $5.7 billion for that year, predicting conditions in the property market would ease. The latest revision for land transfer duty for 2016-17 in the 2017-18 Budget (released in April 2017) shows the Government revised land transfer duty upwards, to $6.0 billion, or a growth rate of 2.6 per cent over the 2015-16 figure. See Department of Treasury and Finance, *Budget Paper No.2: Strategy and Outlook* (2016), p.46 and Department of Treasury and Finance, *Budget Paper No.5: Statement of Finances* (2017), p.149

156 Department of Treasury and Finance, *Budget Paper No.5: Statement of Finances* (2017), p.149

> volume growth and house prices. Given the possibility of market sentiment being affected by these factors, the forecast profile allows for a period of moderate growth from 2017-18 before a return to around trend growth by 2019-20.[157]

FINDING 35: The Government expects revenue from land transfer duty to be $6.2 billion in 2017-18, an increase of 2.4 per cent on the revised 2016-17 estimate of $6.0 billion. The Government also expects that land transfer duty will continue to grow in 2017-18 and over the forward estimates, although not at the rate seen between 2014-15 and 2015-16.

Land tax is expected to be $2.4 billion in 2017-18, a decrease of $132.6 million or 5.3 per cent on the revised figure for 2016-17.[158] According to the budget papers, this follows growth seen in 2016-17 'as a result of the biennial revaluation process'.[159] The impact of the biennial revaluation process for land tax can be seen in Figure 4.3, whereby revenue increases have a stepped appearance. The Government has announced changes to the revaluation process for land tax starting in 2018-19, whereby 'the current biennial property valuation process for the calculation of land tax will be centralised within the Valuer-General Victoria and undertaken annually, aligning with the practice in other Australian jurisdictions'.[160] As a result of this, land tax estimates over the forward estimates are smoother (see Figure 4.3).

At the public hearings, the Treasurer was asked whether this change will impact negatively on 'asset rich, cash poor, generally older people in our community disproportionately'.[161] The Treasurer responded:

> The idea of a land tax is that it requires people to think rationally about whether or not their acquisition and the maintenance of landholdings is in their best personal interest, and ultimately the aim is it should assist the economy if those landholdings are put back into the market. For example, a greater capacity for land to come into the market is exactly one of the things that we kept hearing from the federal government on the side of supply. Certainly our view is that the land values generally undertaken over the past two years have seen taxpayers have an increase. Our land values are partially the result of government investments in infrastructure, so in many cases it is a return to the state of the capacity and the ongoing capacity to make and to recover costs associated with that. Do we have any plans in the near future I think was the nub of your question around land tax relief. Other than that we will now move to an annual process of assessment, which will avoid those peaks and troughs …
>
> There is no way to avoid that other than to have a much smoother approach. The point I would make is that these are not householders who are owning their house; it is not their principal place of residence that is being taxed here. These are investment properties.[162]

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157 Department of Treasury and Finance, *Response to the Committee's 2017-18 Budget Estimates Entity-specific Questionnaire*, received 12 July 2017, p.9

158 Department of Treasury and Finance, *Budget Paper No.5: Statement of Finances* (2017), p.149

159 Department of Treasury and Finance, *Budget Paper No.2: 2017-18 Strategy and Outlook* (2017), p.51

160 Department of Treasury and Finance, *Budget Paper No.5: Statement of Finances* (2017), p.170

161 Hon. Fiona Patten MLC, Public Accounts and Estimates Committee, *2017-18 Budget Estimates Transcript of Evidence*, 12 May 2017, p.15

162 Hon. Tim Pallas MP, Treasurer, *2017-18 Budget Estimates Transcript of Evidence*, 12 May 2017, p.15

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FINDING 36: Land tax is expected to raise $2.4 billion in 2017-18. From 2018-19 land tax revaluations will no longer occur biennially but will take place every year, in line with the practice across other Australian states.

Other smaller state based taxes

Other smaller state-based taxes include gambling taxes, motor vehicle taxes and insurance taxes.

For 2017-18 gambling taxes are expected to be $1.9 billion and average $2.0 billion a year for the remainder of the forward estimates period.[163] The budget papers indicate that this level of gambling taxes revenue reflects lower-than-expected growth in lotteries revenue.[164] The Treasurer also confirmed at the public hearings that Victoria, along with the Commonwealth and other states, is developing a point of consumption tax for online gambling, and that the '... state has made an overall modest provision around what contingencies will look like'.[165]

Motor vehicle taxes are expected to be $2.5 billion, increasing by an average of 3.5 per cent between 2017-18 and 2020-21, to reach $2.8 billion in the last year of the forward estimates period.[166] The budget papers state that the growth in motor vehicle taxes over the next four years reflects 'the offsetting impacts of higher vehicle registrations due to stronger population growth and lower stamp duty revenue flowing from weaker than expected consumer sentiment'.[167] The Government also announced the new revenue initiative *Aligning Motor Vehicle Duty Rates* in this year's budget, which is expected to raise $93.8 million in 2017-18 and an average of $99.2 million across each remaining year of the forward estimates.[168] This initiative will see motor vehicle duty on purchases of new cars increased to the same rate as purchases of used vehicles, which is in line with other Australian states.[169]

Insurance taxes[170] are expected to be $1.3 billion and increase by an average of 6.8 per cent each year to reach $1.6 billion by 2020-21.[171] The budget papers indicate that the expected growth in insurance taxes over the forward estimates period is consistent with the expected growth in the economy and population.[172]

FINDING 37: The smaller state-based taxes of gambling, motor vehicle and insurance taxes are expected to raise $1.9 billion, $2.5 billion and $1.3 billion respectively for 2017-18.

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163 Department of Treasury and Finance, *Budget Paper No.5: Statement of Finances* (2017), p.19
164 Department of Treasury and Finance, *Budget Paper No.2: 2017-18 Strategy and Outlook* (2017), p.51
165 Hon. Tim Pallas MP, Treasurer, *2017-18 Budget Estimates Transcript of Evidence*, 12 May 2017, p.30
166 Department of Treasury and Finance, *Budget Paper No.5: Statement of Finances* (2017), p.19
167 Department of Treasury and Finance, *Budget Paper No.2: 2017-18 Strategy and Outlook* (2017), p.51
168 Department of Treasury and Finance, *Budget Paper No.3: 2017-18 Service Delivery* (2017), p.111
169 ibid.
170 There is a 10 per cent stamp duty levied on general insurance policies such as motor vehicle and house and contents insurance, collected by the State Revenue Office.
171 Department of Treasury and Finance, *Budget Paper No.5: Statement of Finances* (2017), p.19
172 Department of Treasury and Finance, *Budget Paper No.2: 2017-18 Strategy and Outlook* (2017), p.51

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Sales of goods and services

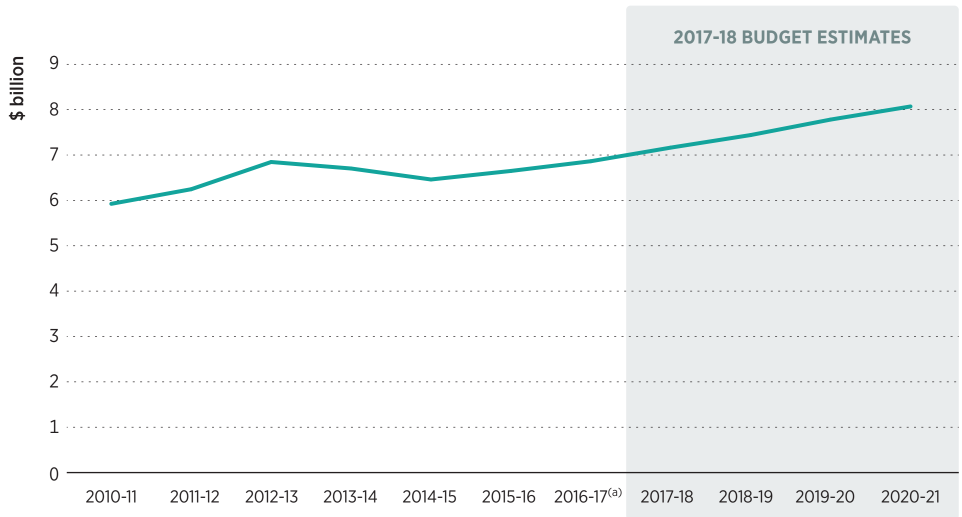
Sales of goods and services is revenue derived from:

> ... the direct provision of goods and services, and includes fees and charges for services rendered, sales of goods and services, fees from regulatory services and work done as an agent for private enterprises. It also includes rental income under operating leases and on produced assets such as buildings and entertainment, but excludes rent income from the use of non-produced assets such as land.[173]

Sales of goods and services also includes the inter-sector capital asset charge, which is a payment that the Government may require of public sector entities based on the written-down value of assets held by them.[174]

Figure 4.4 shows the trend of sales of goods and services revenue between 2010-11 and 2020-21.

Figure 4.4 **Sales of goods and services revenue, 2010-11 to 2020-21**



(a) 2016-17 is a revised estimate

Source: Department of Treasury and Finance, *Consolidated Comprehensive Operating Statement – General Government Sector* (2017)

Sales of goods and services are expected to provide revenue of $7.2 billion in 2017-18, equivalent to 11.3 per cent of total revenue, rising to $8.1 billion in 2020-21.[175] Sales of goods and services are expected to increase by 4.4 per cent over the revised 2016-17 figure of $6.9 billion, and the budget papers state the annual increase 'largely reflects an increase in the capital asset charge revenue from VicTrack associated with an increase in its asset base, and an increase in

173 Department of Treasury and Finance, *Treasury and Finance Glossary for Budget and Financial Reports*, p.27

174 This charge is currently held at 8.0 per cent and is intended to encourage the disposal of assets that are not used. Department of Treasury and Finance, *BFMG – 12 Capital Assets Charge* (2009), p.21

175 Department of Treasury and Finance, *Budget Paper No.5: Statement of Finances* (2017), p.19

TAFE fees for services'.[176] Overall, the inter-sector capital asset charge within the general government sector is expected to be $2.0 billion in 2017-18 and then increase to $2.2 billion in 2020-21.[177]

After a query made at the public hearings, the Minister for Finance informed the Committee that the expected increase in TAFE fees for services does not reflect an increase in the actual amount of TAFE fees charged, but rather 'reflects expected enrolment growth, as a result of Government policies and other demographic changes'.[178]

FINDING 38: The Government expects revenue from the sales of goods and services to steadily increase over the next four years, from $7.2 billion in 2017-18 to $8.1 billion in 2020-21.

Dividends and similar revenue

This revenue stream includes:

- dividends paid mainly by the public non-financial corporations (PNFC) and the public financial corporations (PFC) sectors. As indicated in the budget papers, 'these revenues are forecast based on the State's dividend policy and expected profitability as forecast by the PNFCs and PFCs at the time of the Budget'.[179]
- payments made to the Government which are equivalent to income tax and local government rates.[180]

Dividends and similar are expected to be $1.2 billion in 2017-18, accounting for 1.9 per cent of total revenue. Figure 4.8 shows that most of the dividends and similar revenue for 2017-18 comes from dividends from the PFC ($475.0 million) and PNFC ($457.0 million) sectors. The figure also shows that the Government expects the level of dividends and similar revenue to fall below $600 million in 2018-19 and remain under $800 million over the forward estimates.

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176 Department of Treasury and Finance, *Budget Paper No.2: 2017-18 Strategy and Outlook* (2017), p.52

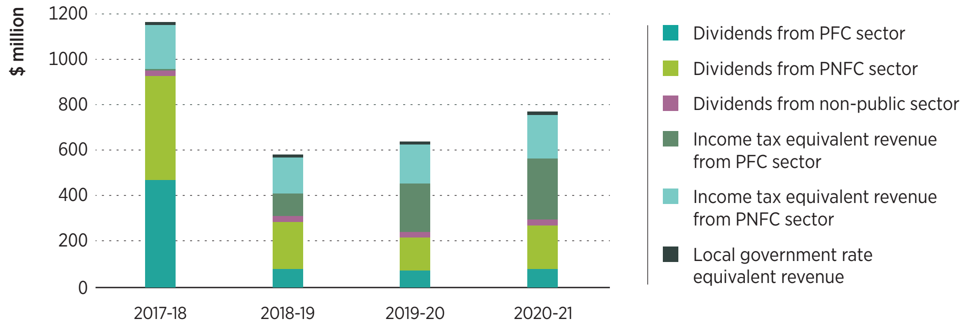
177 Department of Treasury and Finance, *Budget Paper No.5: Statement of Finances* (2017), p.21

178 The Hon. Robin Scott MP, Minister for Finance, 2016-17 Budget Estimates hearings, response to questions on notice, received 6 July 2017, p.1

179 Department of Treasury and Finance, *Budget Paper No.5: 2017-18 Statement of Finances* (2017), p.20

180 The budget papers explain that 'While most government departments and agencies are exempt from federal income tax, certain larger PNFC and PFC entities are subject to income tax equivalents payable to the general government sector in accordance with the National Tax Equivalent Regime (NTER). The primary objective of the NTER is to promote competitive neutrality, through uniformly applying income tax laws, between NTER entities and their privately held counterparts.' (Department of Treasury and Finance, *Budget Paper No.5: 2017-18 Statement of Finances* (2017), p.20)

Figure 4.5 **2017-18 Budget estimates for dividends and similar revenue, 2017-18 to 2020-21**



Source: Department of Treasury and Finance, *Budget Paper No.5: 2017-18 Statement of Finances* (2017), p.20

The Government uses two funding ratios to assess the liability of PFCs and PNFCs – the *accounting funding ratio* and the *economic funding ratio*. The *accounting funding ratio* is considered a more conservative measure, and represents the extent to which the entity's assets are available to meet its accounting liability. The *economic funding ratio* measures the extent to which the entity's assets can meet its economic liability.

The sources and levels of dividend payments are a matter of Government policy, with the Department of Treasury and Finance informing the Committee:

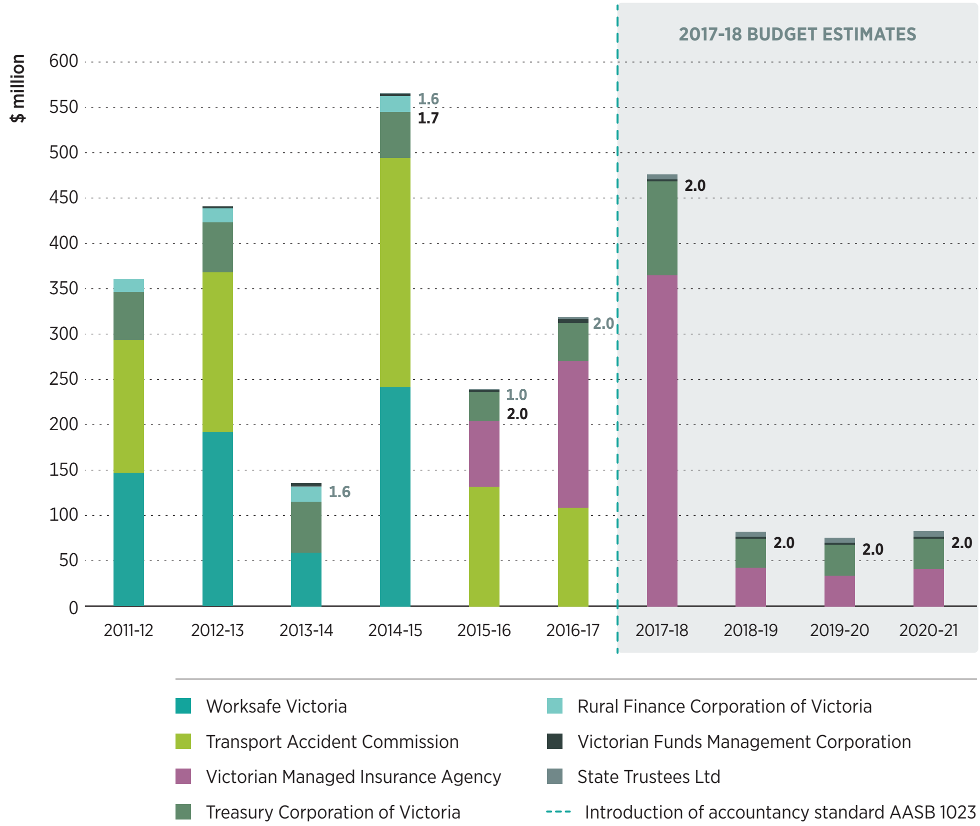
> In negotiating the appropriate level of proposed dividends, the Department has considered the performance and commercial position of the business (including, as applicable, profit, operating cash flow, capital funding requirements, gearing and interest cover), the views of the Board and the portfolio Minister, and the Government's Budget position.
>
> The Department has given careful consideration to all of these factors.[181]

FINDING 39: Dividends and similar revenue is expected to be $1.2 billion in 2017-18 and is mostly comprised of dividends from the public financial corporations (PFC) and public non-financial corportions (PNFC) sectors. It is expected to fall below $600 million in 2018-19 and remain under $800 million over the forward estimates.

181 Department of Treasury and Finance, *Response to the Committee's 2017-18 Budget Estimates Entity-specific Questionnaire*, Received 12 July 2017, p.7

4.3.2 PFC dividends

Figure 4.6 Dividends paid by entity, public financial corporations sector, 2011-12 to 2020-21



Source: Department of Treasury and Finance, *Budget Paper No.5: 2017-18 Statement of Finances* (2017), p.21

Figure 4.6 shows the levels and sources of dividend payments made by the PFC sector from 2011-12 to the end of the 2017-18 budget estimates period in 2020-21. The figure illustrates the majority of PFC dividends between 2011-12 and 2014-15 came from the Transport Accident Commission (TAC) and Worksafe Victoria, while dividends from the Victorian Managed Insurance Agency (VMIA) and Treasury Corporation of Victoria (TCV) comprise the majority of PFC dividends from 2015-16, the estimated figure for 2016-17 in the latest Budget, and the forward estimates period. The Government expects that dividends paid by the PFC sector will be $475 million in 2017-18 and will decrease to approximately $80 million for each year over the forward estimates.

Dividends from the Victorian Managed Insurance Agency

In the public hearings the Committee asked the Treasurer about the expected 2017-18 dividend of $365 million from the VMIA, noting that the previous year's budget planned $165 million in dividends from the entity for 2017-18.[182] The Treasurer explained:

182 Hon. Danny O'Brien MP, Public Accounts and Estimates Committee, *2017-18 Budget Estimates Transcript of Evidence*, 12 May 2017, p.8

> It is just a higher funding ratio. Our expectation is that they are performing well, so in 16–17 I think the estimate was 173; in 17–18, 153; and it is sort of around that 153, 155 position going forward. The way that we determine what is an appropriate drawdown is really about the retained earnings and the improved profitability.[183]

Previous inquiries undertaken by the Committee have found considerable revisions are made to dividend payments for both the PFC and PNFC sectors over a financial year. In 2014-15, for example, the original budget papers estimated dividends from the PFC and PNFC sectors would be $414.0 million, but the actual amount of dividends for the year was $822.2 million.[184] In 2015-16, the original budget papers stated $835.1 million would be paid in dividends from the PFC and PNFC sectors, when the actual amount was $388.0 million.[185]

The Minister for Finance explained to the Committee the consultation process between the Minister for Finance and the Treasurer to determine the amount of dividends:

> There is an annual process to determine payments like capital repatriation, and there is a consultation process with myself to make sure that any such repatriation or dividend ensures the financial viability. I have to say again all of the statutory authorities are in good financial health, but there is an annual process …
>
> [This]…is a formalised consultation process with myself which relates principally to the financial viability — I can assure you that they are all healthy and viable, financially strong organisations — and then there is a process whereby there is a determination by the Treasurer in that context. We provide that information.[186]

There is further discussion on the Government's dividends policy in Chapter 9 on the implementation of previous Committee recommendations.

FINDING 40: Dividends from the Victorian Management Insurance Agency are expected to be $365 million in 2017-18, a $200 million increase on the 2016-17 Budget estimate.

Dividends from the Transport Accident Commission

The Committee notes that, in comparison to the 2016-17 Budget, the TAC is not expected to pay dividends between 2017-18 and 2020-21. In last year's Budget, the TAC was expected to pay $596 million between 2016-17 and 2019-20.[187] However, these figures have been revised to 'zero' in the 2017-18 Budget.[188]

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183 Hon. Tim Pallas MP, Treasurer, *2017-18 Budget Estimates Transcript of Evidence*, 12 May 2017, p.8

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

185 Department of Treasury and Finance, *2015-16 Financial Report* (2016), p.37; Department of Treasury and Finance, *Budget Paper No.5: Statement of Finances* (2015), p.28

186 Hon. Robin Scott MP, Minister for Finance, *2017-18 Budget Estimates Transcript of Evidence*, 2 June 2017, p.18

187 Department of Treasury and Finance, *2016-17 Victorian Budget Update* (2016), p.48

188 Department of Treasury and Finance, *Budget Paper No.5: 2016-17 Statement of Finances* (2016), p.21

The Secretary of the Department of Treasury and Finance explained to the Committee that dividends paid by the TAC are required to be reported through a different revenue item ('other contributions and grants'), rather than as dividends:

> Not that I am an expert on that particular standard [AASB 1023], but in a sense what it means is the Auditor-General requires the dividends of the TAC to come back through a different revenue line. Essentially it comes back as a grant rather than as a dividend, so it still comes back as part of total revenue; it is just appearing in a different line. The reason why that is the case is because the technical definition of a dividend is that it represents the distribution of entity accounting profits.[189]

The Department of Treasury and Finance further explained to the Committee that:

> The 2017-18 Budget includes payments totalling $1 499 million from the TAC to the State over the period 2017-18 and 2019-20. These payments have been classified as grants rather than dividends. The classification of these payments from the TAC to the State as grants aligns with the application of Financial Reporting Direction 119A and advice from the Victorian Auditor General's Office.
>
> Consistent with previous Budget papers, grant income is only disclosed in aggregate in the State's operating statement (Table 4.3: Grants page 157 of *2017-18 Budget Paper No. 5 Service Delivery*).[190]

The Secretary of the Department of Treasury and Finance indicated that the TAC is expected to pay grants of $505 million in 2017-18, $431 million in 2018-19, $563 million in 2019-20 and $252 million in 2020-21.[191]

The Committee sought further details from the Auditor-General in relation to the accounting treatment of the TAC's expected grant as well as the financial circumstances particular to the TAC that make the payment not possible to be classified as a dividend. The Auditor-General's response is reproduced in Appendix A2.1.

The Committee understands that while the TAC has enough cash to make a payment to the state, this cannot be classified under the accounting rules as a dividend due to accumulated losses on the entity's balance sheet over recent years.

Due to the importance of payments made to the State by public entities, the Committee considers that transparency would be improved if the budget papers incorporated a list of public entities that are expected to make payments to the State but, due to accounting standards, are required to report these as 'other contributions and grants' instead of dividends.

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189 Mr David Martine, Secretary, Department of Treasury and Finance, *2017-18 Budget Estimates Transcript of Evidence*, 12 May 2017, pp.6-7

190 Department of Treasury and Finance, *Response to the Committee's 2017-18 Budget Estimates Entity-specific Questionnaire,* received 12 July 2017, p.7

191 Mr David Martine, Secretary, Department of Treasury and Finance, *2017-18 Budget Estimates Transcript of Evidence*, 2 June 2017, p.18

FINDING 41: The Transport Accident Commission is expected to pay $1.5 billion to the general government sector between 2017-18 and 2019-20 but unlike previous years, this will not be shown as a dividend from the public financial corporation sector in the budget papers. The accumulated losses that the Transport Accident Commission has accrued over recent years means that under accounting rules it is unable to make payments to the State in the form of dividends. These payments will be classified under the 'other contributions and grants' line item.

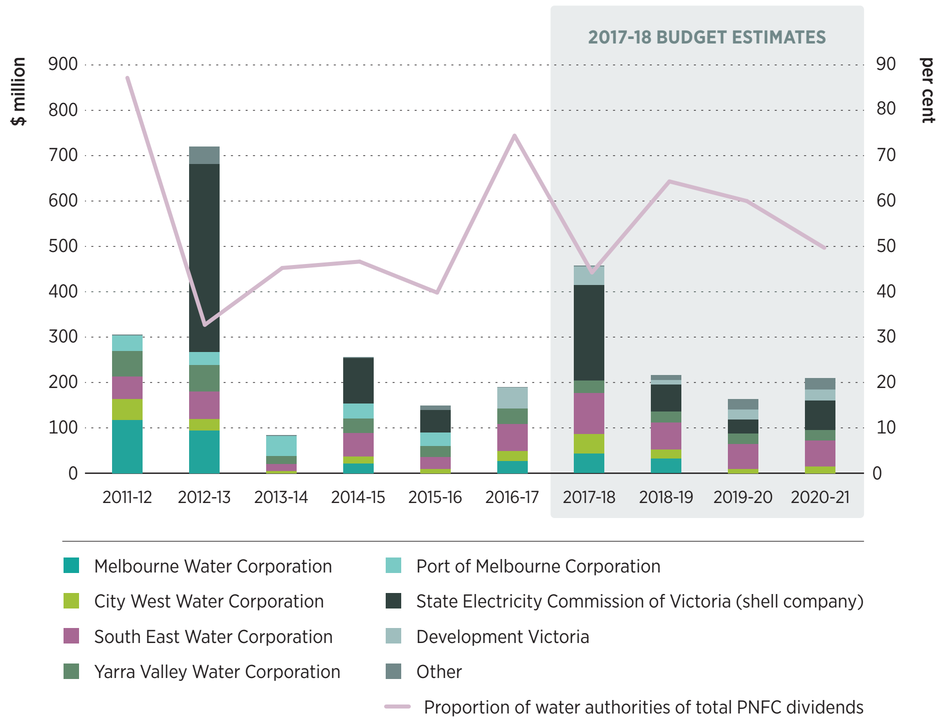
RECOMMENDATION 4: Future budget papers include a list of public entities that are expected to provide payments to the State as 'other contributions and grants' rather than as dividends, together with the amount they are expected to pay.

4.3.3 Public non-financial corporations sector dividends

Figure 4.7 shows the levels and sources of dividend payments made by the PNFC sector from 2011-12 to the end of the forward estimates period in 2020-21. PNFC dividends are expected to be $457 million in 2017-18 and fall to under $200 million by the end of the forward estimates period in 2020-21.[192]

The inter-sector capital asset charge payments made by the PNFC entities is discussed in Section 4.3.1 as part of the general government sector's revenue from the sales of goods and services.

Figure 4.7 **Dividends paid by entity, public non-financial corporations sector, 2011-12 to 2020-21**



Source: Department of Treasury and Finance, *Financial Report* 2011-12 to 2015-16; Department of Treasury and Finance, *Budget Paper No.5: 2017-18 Statement of Finances* (2017), p.21

192 Department of Treasury and Finance, *Budget Paper No.5: 2017-18 Statement of Finances* (2017), p.21

Dividends from the State Electricity Commission of Victoria

The largest contributor to the expected PNFC dividends for 2017-18 is a $210 million payment made by the State Electricity Commission of Victoria (SECV).[193] This is an upward revision on the 2016-17 Budget figure for SECV dividends for 2017-18, which originally was $70 million.[194]

The Committee asked the Treasurer about this difference at the public hearings. The Treasurer explained:

> — Look, I think it comes down simply to a timing issue. We chose simply in, I think, the 16–17 budgeted year, to transfer some of the dividends into the 17–18 financial year. Essentially, if I could give you an appreciation that the SECV contract with the Portland smelter, which ceased on 31 October 2016 — the SECV of course is going to continue to hold the state's investment in Snowy Hydro, and the SECV dividends from 18–19 right through to 20–21 really reflect the dividend inflows that the state is receiving and expects to receive from Snowy Hydro ...
>
> ... that is in part due to a decision that government took in the previous budget not to take those dividends in preceding years, but chose to take them based on our expectation of capital inflows, gearing ratios. We considered it appropriate to draw down those funds in this year and the years forward, basically reflecting what we saw as being an appropriate inflow ...
>
> ... we formed the view, and I mean this is really based on a judgement that government makes about the gearing ratios, the profitability of the organisations. Dividends from that PNFC sector are estimated to be higher in 17–18 compared to the 16–17 year. The retained earnings and the improved profitability that estimates of PNFCs, including the SECV, have driven the increase in the dividends. It is as simple as that.[195]

FINDING 42: Higher-than-expected profitability and a deferral of dividends from 2016-17 has driven expected dividends from the State Electricity Commission of Victoria from $70 million in 2016-17 to $210 million in 2017-18.

Dividends from PNFC entities that are water corporations

Figure 4.7 also shows the proportion of PNFC dividends paid by the Melbourne water corporations since 2011-12. For 2017-18, this figure is expected to be $205 million.[196] Of the $524 million in dividends expected from water corporations across 2017-18 and the forward estimates period, $262.0 million or 50 per cent of this will come from South East Water.

The Committee asked the Treasurer about the impact of dividend payments on the longer term financial position of the water corporations at the public hearings. The Treasurer responded:

193 ibid.

194 Department of Treasury and Finance, *Budget Paper No.5: 2016-17 Statement of Finances* (2016), p.26

195 Hon. Tim Pallas MP, Treasurer, *2017-18 Budget Estimates Transcript of Evidence*, 12 May 2017, p.8

196 Department of Treasury and Finance, *Budget Paper No.5: 2017-18 Statement of Finances* (2017), p.21

> I think essentially this really just comes down to the underlying profitability that is reflected in the water corporations ... dividends from the PNFC sector are really estimated to be higher in the 17–18 period compared to, say, the 16–17 period ... it is retained earnings and it is improved profitability...[197]

The Treasurer also told the Committee that dividends from water corporations do not necessarily equate to higher water prices for consumers:

> — Look, let us go just back to basics on this. When you are talking about the dividends that the state retains or draws down from these authorities, that has no direct impact upon what the pricing regime is, because the Essential Services Commission makes the judgements about how water prices are set, so it does not necessarily flow that you will see a reduction in water prices. Similarly, what you can have some confidence in is that through these budget papers you can see the judgements that the government makes in terms of reduction in terms of tax liability. So rather than have a disconnect process where the Essential Services Commission may or may not choose to provide relief, what the state is doing is making a conscious decision that will make relief in certain areas.[198]

FINDING 43: Melbourne-based water corporations are expected to pay $205 million in dividends to the general government sector in 2017-18, and $524 million over the forward estimates period.

Dividends from Development Victoria

The statutory authority Development Victoria began formal operations on 1 April 2017. The authority is an amalgamation of Places Victoria and Major Projects Victoria.[199] The Government expects $41 million in dividends from Development Victoria in 2017-18, and $58 million over the remainder of the forward estimates period. The Minister for Major Projects informed the Committee at the public hearings:

> Development Victoria has been established ... to oversee the ongoing delivery of the major projects agenda, the civic projects delivery, but also to oversee the major urban renewal development of under utilised government land. We are also looking through Development Victoria at how we can deliver a really diverse range of projects that are about meeting the government's broader policy objectives to get more out of our projects. Whether it is building more social and affordable housing or activating under-utilised government land holdings, we have a policy that we want to get the most we can out of our projects.[200]

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197 Hon. Tim Pallas MP, Treasurer, *2017-18 Budget Estimates Transcript of Evidence*, 12 May 2017, p.12

198 ibid.

199 Development Victoria, *About*, <www.development.vic.gov.au/about>, viewed 8 August 2017

200 Hon. Jacinta Allan MP, Minister for Major Projects, *2017-18 Budget Estimates Transcript of Evidence*, 18 May 2017, pp.2-3

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4.3.4 Other revenue

Other revenue mainly includes fines, royalties, donations and gifts. Other revenue is expected to raise $2.5 billion in 2017-18, rising to $2.6 billion at the end of the forward estimate period in 2020-21.[201]

Revenue raised through donations and gifts is expected to be $248.0 million for 2017-18 and is expected to remain around $240 million every year over the forward estimates.[202] The Minister for Finance informed the Committee via a question taken on notice that:

> The donations and gifts estimate of $248m in 2017-18 primarily relates to donations and gifts expected to be received by the State's public hospitals, representing $201m of this balance. These include donations of various types, including research, bequests and fundraising activities.[203]

This year's budget papers break down what was previously listed as the 'Other miscellaneous revenue' into three further components:

- 'Other revenue – Health'
- 'Other revenue – Education'
- 'Other miscellaneous revenue'.[204]

'Other revenue – Education' is estimated to raise $535 million in 2017-18 and approximately $550 million for every year over the forward estimates. According to the budget papers this item 'mainly comprises locally raised funds from school fetes, fundraising events and voluntary contributions made by parents'.[205] The value and oversight of 'locally raised funds' in the education sector was the subject of a 2015 Victorian Auditor General Office report, which put the figure at $626 million in 2013-14,[206] while the *Greater Returns on Investment in Education: Government Schools Funding Review* reported the figure for 2014-15 was 'around $660 million'.[207] The Committee welcomes the budget papers' disclosure of locally raised funds, as this inclusion increases the transparency of, and accountability for, public money in the education sector.

'Other miscellaneous revenue' is expected to be $650 million in 2017-18 and is forecast to raise approximately $670 million each year over the forward estimates. The revenue is 'received from a variety of miscellaneous sources and is forecast based on historical trends and expectations'.[208] The 'Other revenue – Health'

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201 Department of Treasury and Finance, *Budget Paper No.5: 2017-18 Statement of Finances* (2017), p.23

202 ibid.

203 Response to questions on notice from the Hon. Robin Scott MP, Minister for Finance to Chair, Victorian Parliament Public Accounts and Estimates Committee, received 6 July 2017, p.1

204 Department of Treasury and Finance, *Budget Paper No.5: 2016-17 Statement of Finances* (2016), p.27; Department of Treasury and Finance, *Budget Paper No.5: 2017-18 Statement of Finances* (2017), p.23

205 Department of Treasury and Finance, *Budget Paper No.5: 2017-18 Statement of Finances* (2017), p.23

206 Victorian Auditor General's Office, *Additional School Costs for Families* (2015), p.viii

207 Department of Education and Training, *Greater Returns on Investment in Education: Government Schools Funding Review* (2015), p.71

208 Department of Treasury and Finance, *Budget Paper No.5: 2017-18 Statement of Finances* (2017), p.23

item is estimated to raise $54 million in 2017-18 and in each year over the forward estimates, and 'mainly comprises research funding from non-government organisations and non-salary cost recovery from external organisations in the health sector'.[209]

FINDING 44: Other revenue is expected to raise $2.5 billion in 2017-18, rising to $2.6 billion at the end of the forward estimate period in 2020-21.

FINDING 45: For the first time, the budget papers contain a breakdown of 'locally raised funds' including school fundraising and voluntary parent/carer contributions in the education sector, which are expected to be $535 million in 2017-18 and approximately $550 million for every year over the forward estimates.

4.4 Commonwealth Government grants

Commonwealth grants are expected to raise $29.0 billion of total revenue in 2017-18.[210] Commonwealth grants assist the State, through different payment arrangements, to meet the State's obligations, and consist of:

- general-purpose grants, which are mainly GST payments that can be freely spent by the State
- specific-purpose grants, which the State Government can only spend in particular areas, programs or projects, as previously agreed with the Commonwealth. This includes $3.8 billion which is expected to be passed on to local government or non-government schools.[211]

Figure 4.8 provides the break-down for Commonwealth grants from 2010-11 to 2020-21.

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209 ibid.

210 Department of Treasury and Finance, *Budget Paper No.5: 2017-18 Statement of Finances* (2017), pp.7,22

211 Referred to in the budget papers as 'specific purpose grants for on-passing'.

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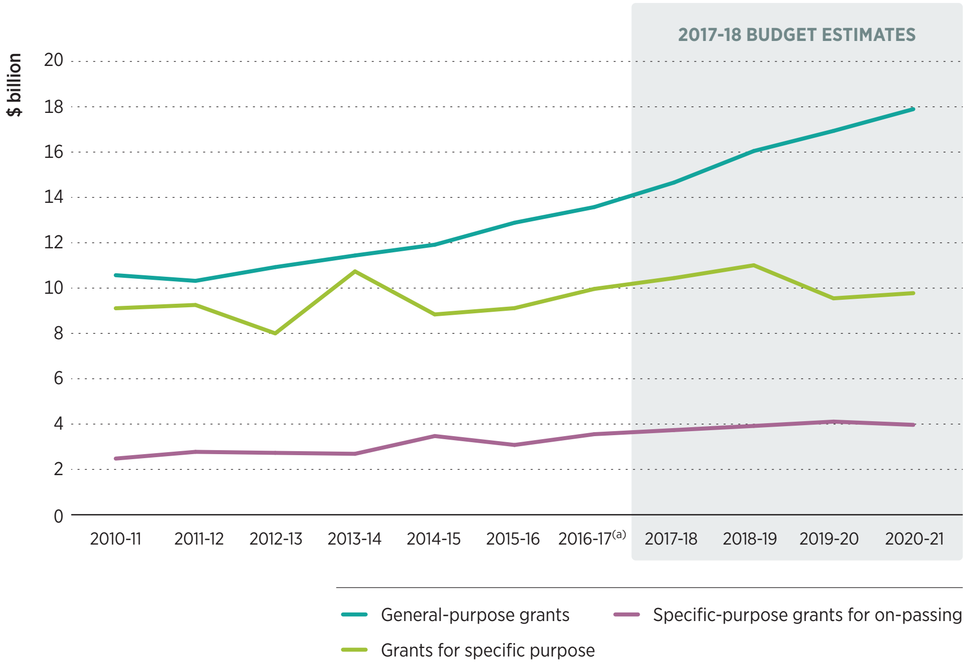
Figure 4.8 Commonwealth grants revenue by type, 2010-11 to 2020-21



(a) 2016-17 is a revised estimate.

Sources: Department of Treasury and Finance, *Financial Report,* 2010-11 to 2015-16; Department of Treasury and Finance, *Budget Paper No.5: 2017-18 Statement of Finances* (2017), pp.22, 213

General-purpose grants

General-purpose grants are primarily funded by the Commonwealth's goods and services tax (GST). The Commonwealth collects GST from all Australian jurisdictions (that is, into a central pool) and distributes the money back based on assessed 'relativities'[212] assigned to each jurisdiction calculated by the Commonwealth Grants Commission, and the Commonwealth Government's population projection.[213]

GST revenue is therefore determined mainly by:

- the amount of money collected by the Commonwealth Government (the national GST pool)
- Victoria's GST relativity
- Victoria's share of Australia's population.[214]

212 These 'relativities' are intended to reflect the jurisdictions' abilities to raise their own revenue and provide the required services

213 Department of Treasury and Finance, *Budget Paper No.5: 2017-18 Statement of Finances* (2017), p.22

214 ibid., p.158

General-purpose grants are expected to be $14.7 billion in 2017-18, an increase of 8.0 per cent over the revised 2016-17 estimate.[215] Over the forward estimates, these grants are expected to rise by an average of 6.9 per cent to a forecast $18.0 billion by 2020-21.[216]

The budget papers indicate that the national GST pool is expected to grow over the budget year and the forward estimates period 'in line with moderate growth in Shousehold consumption and below-trend growth in consumer prices'.[217] Further, the budget papers estimate that general-purpose grants revenue will also steadily increase over the next four years because 'the pace of growth in GST-liable consumption is below that of total consumption growth as GST-exempt categories are growing faster than GST-liable categories'.[218]

Victoria's GST share is expected to rise from 23.6 per cent in 2017-18 to 24.9 per cent in 2020-21.[219] This reflects Victoria's increasing share of the national population, which is expected to rise from 25.3 per cent in 2017-18 to 25.6 per cent in 2020-21.[220]

FINDING 46: The Government expects general-purpose grants from the Commonwealth to steadily increase over the next four years by an average growth rate of 6.9 per cent to reach $18.0 billion by 2020-21.

FINDING 47: The impact of Victoria's recent high levels of population growth can be seen in Victoria's growing goods and services tax share, from 23.6 per cent in 2017-18 to 24.9 per cent in 2020-21, reflecting the State's increasing proportion of the national population.

Grants for specific purposes and grants for on-passing

Specific-purposes grants are expected to provide $14.3 billion in 2017-18, of which $3.9 billion are grants for on-passing associated with grants to local government and the *Students First – A Fairer Funding Agreement for Schools* funds.[221] Over the forward estimates period, these grants are expected to average $14.2 billion.[222]

Table 4.2 provides the expected figures for grants for specific purposes and grants for on-passing for 2016-17 and 2017-18.[223]

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215 ibid., p.157

216 ibid.

217 ibid., p.158

218 ibid.

219 ibid.

220 ibid.

221 ibid., p.159

222 Department of Treasury and Finance, *Budget Paper No.2: 2017-18 Strategy and Outlook* (2017), p.52

223 A more detailed break-down can be found in Department of Treasury and Finance, *Budget Paper No.5: 2017-18 Statement of Finances* (2017), pp.159-65

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Table 4.2 Grants for specific purposes and grants for on-passing, 2016-17 and 2017-18

	2016-17 Revised ($ million)	2017-18 Budget ($ million)
GRANTS FOR SPECIFIC PURPOSES		
Affordable housing	360	366
Community services	557	623
Education	2,128	2,054
Environment	247	219
Health	4,924	4,944
Infrastructure	475	550
Contingent/Other	1,332	1,747
Total grants for specific purposes	**10,022**	**10,503**
GRANTS FOR ON-PASSING		
Commonwealth Government grants to local government	542	565
Students First – A Fairer Funding Agreement for Schools	3,033	3,193
Total grants for on-passing	**3,575**	**3,757**

Source: Department of Treasury and Finance, *Budget Paper No.5: 2017-18 Statement of Finances* (2017), pp.159-60

The Committee notes that grants for specific purposes are expected to decrease from $11.1 billion in 2017-18 to $9.8 billion in 2020-21.[224] This trend is largely due to a series of lapsing agreements with the Commonwealth. However, past results for this group of grants has shown a consistent rise over time, due to the extension of lapsing agreements or the creation of new grant programs. The Department of Treasury and Finance further explained:

> The continuation of Commonwealth funding over the next four years for specific purposes is dependent on the successful renegotiation of expiring agreements. It is noted that several key agreements are currently being renegotiated, including in the portfolios of education, housing and homelessness.
>
> The notable exception from specific purpose grant renegotiations is funding currently received under the National Disability Specific Purpose Payment, which will cease in 2019-20 under arrangements for transition to the full scheme of the National Disability Insurance Scheme. Funding under the National Disability Specific Purpose Payment currently provides around $400 million per annum to Victoria until 2019-20.[225]

224 Department of Treasury and Finance, *Budget Paper No.5: 2017-18 Statement of Finances* (2017), p.157

225 Department of Treasury and Finance, *Response to the Committee's 2017-18 Budget Estimates Entity-specific Questionnaire,* received 12 July 2017, p.16

FINDING 48: Commonwealth specific-purpose grants revenue is expected to average $14.2 billion over the next four years. In 2017-18, the largest areas receiving these grants are expected to be health, making up 47 per cent of the total, and education, accounting for 20 per cent.

FINDING 49: The 2017-18 budget estimates for specific-purpose grants over the forward estimates may increase in future Budgets. According to the Department of Treasury and Finance, the amount of these grants is dependent on the successful renegotiation of expiring agreements.

4.5 Revenue initiatives

The 2017-18 Budget contained ten budget initiatives that are expected to increase revenue by $313 million between 2017-18 and 2020-21.

Table 4.3 Revenue initiatives from the 2017-18 Budget

	2017-18 ($ million)	2018-19 ($ million)	2019-20 ($ million)	2020-21 ($ million)
Abolish Insurance Duty on Agricultural Products	-4.0[(a)]	-4.0	-4.0	-4.0
Aligning Motor Vehicle Duty Rates	93.8	96.5	99.2	101.9
Billboard Advertising Revenue Along Freeway Corridors	2.0	2.0	2.0	2.0
Bring Forward Increases in the Payroll Tax-Free Threshold	-24.0	-24.0	-	-
Payroll Tax – Increase the Threshold for Annual Payments	-	-	-	-
Reduce the Payroll Tax Rate Applicable to Regional Businesses	-41.0	-42.0	-44.0	-46.0
Removing the Exemption for Certain Transfers of Property Between Spouses	20.0	20.0	20.0	20.0
Abolish Stamp Duty for First Home Purchases Valued up to $600 000, with a Concession Applying for Purchases Valued between $600 000 and $750 000	-150.9	-212.1	-233.4	-254.6
Introduce a Vacant Residential Property Tax	10.0	20.0	25.0	25.0
Retarget the Off-the-Plan Stamp Duty Concession	51.0	156.7	260.7	372.8
Total revenue initiatives 2017-18 Budget	**-43.1**	**13.1**	**125.5**	**217.1**

(a) A negative figure means the Government expects that initiative to decrease revenue (that is, 'revenue foregone' initiative).

Source: Department of Treasury and Finance, *Budget Paper No.3: 2017-18 Service Delivery* (2017), p.111

Four of the ten new revenue initiatives relate to the whole-of-Government *Homes for Victorians* series of output initiatives.[226] The most substantial of the revenue-related initiatives is the *Abolish Stamp Duty for First Home Purchases*, which is expected to reduce revenue by $851.0 million over the next four years.[227] Offsetting the impact of this revenue foregone initiative is the $841.2 million the Government expects to receive between 2016-17 to 2020-21 through the *Retarget the Off-the-Plan Stamp Duty Concession* initiative.

The *Vacant Residential Property Tax* is expected to raise $10 million in 2017-18 and $70 million over the remainder of the forward estimates, and is 'intended to encourage these [vacant property] owners to make their property available for purchase or rent, allowing Melbourne's current housing stock to be used as efficiently as possible'.[228] Further, the Department indicated that 'only vacant properties in the inner and middle areas of Melbourne where the issue of housing affordability is most pressing will be subject to the tax'.[229] However, the Department also noted that the estimates for this revenue initiative do not take into account the potential incentive for property owners to sell their properties, thus reducing the expected revenue from the *Vacant Residential Property Tax*.[230]

FINDING 50: The Government expects the revenue initiatives announced in the Budget to raise $313 million between 2017-18 and 2020-21. Four of the ten new revenue initiatives relate to the whole-of-Government *Homes for Victorians* series of output initiatives.

Further discussion of the whole-of-Government *Homes for Victorians* series of output initiatives can be found in Chapter 6 on output expenses.

226 Department of Treasury and Finance, Budget Paper No.3: 2017-18 Service Delivery (2017), p.19

227 ibid., p.111

228 Department of Treasury and Finance, *Response to the Committee's 2017-18 Budget Estimates Entity-specific Questionnaire*, received 12 July 2017, p.10

229 ibid.

230 ibid.

5 Borrowings and net debt

KEY FINDINGS

- The Government is borrowing funds for investing in infrastructure, taking advantage of the current low interest rate environment.
- General government sector borrowings are expected to increase in 2017-18 and over the forward estimates period to $42.0 billion by June 2021. Increases in general government sector net debt are mostly due to the Government's planned infrastructure investment program.
- Borrowings for the public non-financial corporation sector have remained around $16 billion since 2013 but are expected to grow at a compound average rate of 2.8 per cent over the forward estimates to reach $18.9 billion by June 2021. After four years of remaining around $14.8 billion, net debt in the public non-financial corporations sector is expected to increase to $16.3 billion in June 2018 and is forecast to reach $17.8 billion by June 2021.
- Melbourne Water Corporation and the three metropolitan water corporations (Yarra Valley Water, South East Water and City West Water) are expected to comprise 82 per cent of the net debt in the public non-financial corporations sector by June 2021.
- The Government looks set to meet its net debt to GSP target for the general government sector in 2017-18.
- In-principle support has been given to the Committee's recommendation that the Government's public non-financial corporation sector net debt strategy be discussed in upcoming budget papers.

5.1 Introduction

This chapter examines the Government's borrowings and net debt arrangements for the general government sector and the public non-financial corporations (PNFC) sector, as set out in the 2017-18 budget papers. The future debt levels for Melbourne's water corporations, which carry most of the PNFC sector debt, are also examined.

The chapter discusses the progress the Government is making towards its financial sustainability target relating to general government sector debt. The chapter concludes with a section on the Government's in-principle support of the Committee recommendation to include a PNFC net debt strategy in future budget papers.

5.2 General government sector

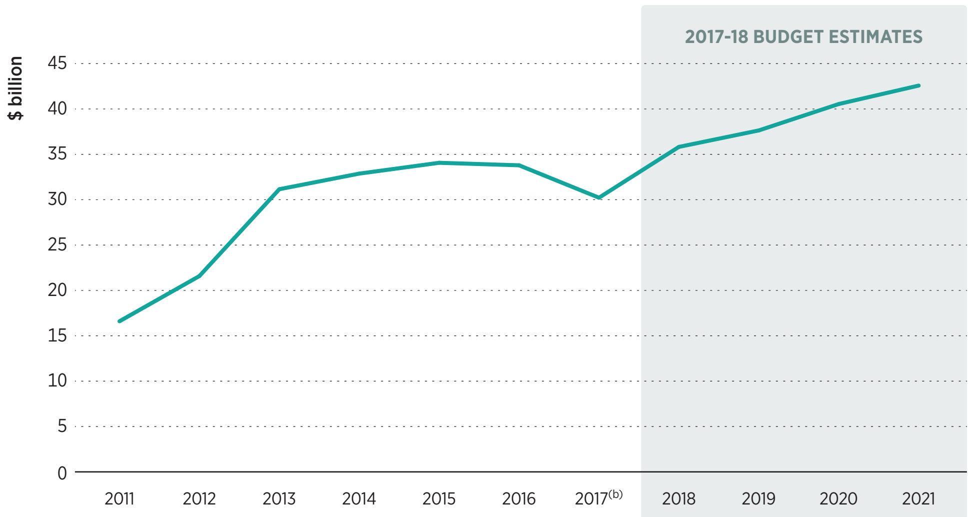
5.2.1 Borrowings estimates

Government borrowings mainly consist of loans that assist in meeting the costs of infrastructure projects. The borrowings are usually public debt arrangements made on behalf of the Victorian Government by the public financial corporation (PFC) entity, Treasury Corporation of Victoria. The Treasurer explained further:

> All loans relate to capital expenditure funding. Loans to DTF provide part of the funding for asset investment by departments in public infrastructure, including construction of roads, public transport, schools, hospitals, police stations and other public facilities.[231]

Figure 5.1 shows the amount of borrowings for the general government sector from June 2011 to the end of the 2017-18 Budget forward estimates period in June 2021.

Figure 5.1 **Borrowings, general government sector – current and expected trend, 2011 to 2021[(a)]**



(a) Balances at 30 June each year.
(b) The 2017 figure is a revised estimate.
Source: Department of Treasury and Finance, *Consolidated Balance Sheet – General Government Sector* (2017)

The chart shows that borrowings steadily increased from June 2011 to June 2015, when they reached $34.1 billion, before falling slightly the following year to $33.8 billion. The decline in borrowings to $30.5 billion in June 2017 is associated with the sale of the Port of Melbourne operations lease.

231 Response to questions on notice from the Hon. Tim Pallas MP, Treasurer, to Chair, Victorian Parliament Public Accounts and Estimates Committee, received 3 July 2017, p.2

The Government expects borrowings to reach $35.7 billion by June 2018, an increase of $5.2 billion, or 17.2 per cent, over the revised estimate for June 2017.[232] Over the forward estimates, borrowings for the general government sector are expected to increase from June 2018 at a compound growth rate of 5.6 per cent to reach $42.0 billion by June 2021.[233]

FINDING 51: The budget papers indicate borrowings for the general government sector are due to decline by June 2017 as a result of the proceeds from the Port of Melbourne lease. General government sector borrowings are expected to increase in 2017-18 and the forward estimates period to $42.0 billion by June 2021.

The Treasurer advised the Committee of the Government's rationale for increasing borrowings at the inquiry hearings:

> … We are currently in a period of extraordinarily low interest rates. The latest 10-year bond rate published by TCV for the month of March, for example, was 2.98 per cent—about 3 percentage points. So after the GFC, the central banks right across the world substantially cut interest rates in an attempt to stimulate the economy and stimulate economic recovery. This period of substantially low interest rates has, at least to some extent, been a feature of financial markets since the GFC. In short, it is a very good time for governments to borrow in order to increase government investment in productive infrastructure.[234]

While noting the Treasurer's response, the Committee also notes that continuous borrowings will consequently result in holding debt and incurred interest expenses. From June 2018 to the end of the forward estimates period, the general government sector is expected to incur annual interest expenses averaging $2.2 billion.[235]

FINDING 52: The Government is borrowing funds for investing in infrastructure, taking advantage of the current low interest rate environment.

FINDING 53: The general government sector is expected to incur annual interest expenses averaging $2.2 billion between June 2018 and June 2021.

5.2.2 Net debt estimates

Net debt is 'the sum of borrowings, deposits held and advances received less the sum of cash and deposits, advances paid, and investments, loans and placements'.[236] The current and expected net debt trend for the general government sector from June 2011 to June 2021 is shown in Figure 5.2.

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232 Department of Treasury and Finance, *Budget Paper No.5: 2017-18 Statement of Finances* (2017), p.36

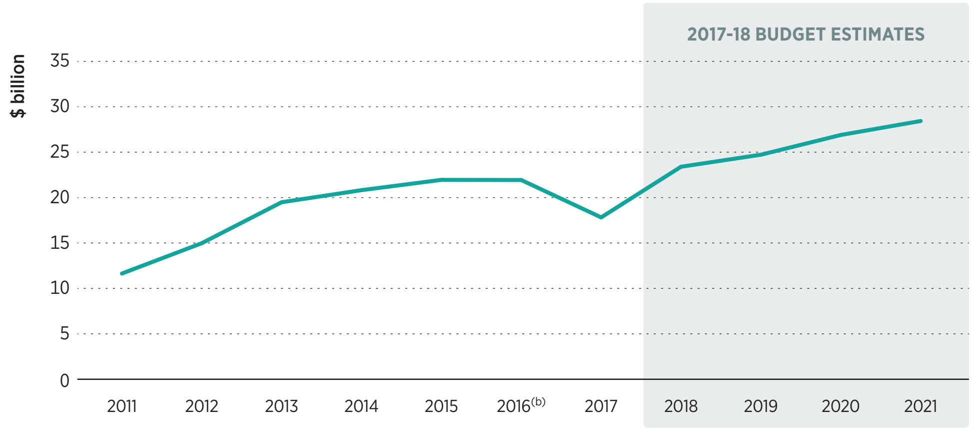
233 ibid.

234 Hon. Tim Pallas MP, Treasurer, *2017-18 Budget Estimates Transcript of Evidence*, 12 May 2017, p.16

235 Department of Treasury and Finance, *Budget Paper No.5: 2015–16 Statement of Finances* (2017), p.7

236 Department of Treasury and Finance, *Budget Paper No.2: 2017-18 Strategy and Outlook* (2017), p.67

Figure 5.2 Net debt, general government sector – current and expected trend, 2011 to 2021(a)



(a) Balances at 30 June each year.

(b) The 2016 figure is a revised estimate.

Source: Department of Treasury and Finance, *Consolidated Balance Sheet – General Government Sector* (2017). Available at <www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Aggregate-financial-statements>, viewed 30 June 2017

Between June 2011 and June 2016, general government sector net debt increased from $11.8 billion to $22.3 billion. The revision to the June 2017 figure announced in the 2017-18 budget papers indicates the Government expects net debt to decrease to $18.1 billion as a result of proceeds associated with the sale of the medium-term lease of the Port of Melbourne.[237] However, general government sector net debt is set to rise the following year to $23.8 billion and reach $28.9 billion by June 2021. The Department of Treasury and Finance explained that the increase in net debt for 2017-18 and the forward estimates:

> … is primarily due to the significant increase in infrastructure investment as outlined in the *2016-17 Budget Update* and *2017-18 Budget*. Other key changes include:
>
> - the net impact of new output measures, largely offset by:
>   - additional taxation receipts, due to improved estimates for land transfer duty and land tax; and
>   - additional GST revenue from the Commonwealth [Government], driven by a stronger outlook for Victoria's share of the national population.[238]

FINDING 54: The budget papers state that general government sector net debt will decrease from $22.3 billion in June 2017 to $18.1 billion by June 2018 primarily due to proceeds associated with the sale of the medium-term lease of the Port of Melbourne. However, general government sector net debt is expected to increase to $23.8 billion by June 2018 and reach $28.9 billion by the end of the forward estimates period in June 2021.

237 ibid., p.58

238 Department of Treasury and Finance, *Response to the Committee's 2017-18 Budget Estimates General Questionnaire*, received 8 May 2017, p.59

FINDING 55: Increases in general government sector net debt are mostly due to the Government's planned infrastructure investment program.

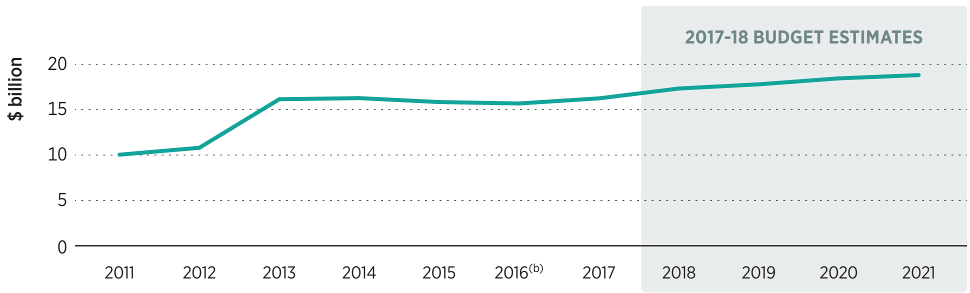
5.3 Public non-financial corporations sector

5.3.1 Borrowings estimates

The 2017-18 budget papers indicate that borrowings for the PNFC sector are expected to reach $17.4 billion by June 2018, $1.1 billion or 6.7 per cent greater than the revised June 2017 figure of $16.3 billion.[239]

Figure 5.3 shows the current and expected borrowings trend for the PNFC sector from June 2011 to June 2021 at the end of the forward estimates period.

Figure 5.3 Borrowings, public non-financial corporations sector – current and expected trend, 2011 to 2021[(a)]



(a) Balances at 30 June each year.

(b) The 2016 figure is a revised estimate.

Sources: Department of Treasury and Finance, *Financial Report,* 2011-12 to 2015-16; Department of Treasury and Finance, *Budget Paper No.5: 2015-16 Statement of Finances* (2017), p.49

The chart shows a sharp increase in borrowings from $10.9 billion in June 2012 to $16.2 billion by June 2013 as a result of borrowing arrangements made as part of the Victorian Desalination Plant project. Between June 2013 and June 2016 (together with the revised estimate for June 2017), borrowings for the PNFC sector remained steady at around $16.0 billion. The budget papers indicate that after this time the borrowings for the PNFC sector will once again increase, growing by a compound average rate of 2.8 per cent to reach $18.9 billion by June 2021 at the end of the forward estimates period.[240]

FINDING 56: Borrowings for the public non-financial corporations sector have remained around $16 billion since 2013 but are expected to grow at a compound average rate of 2.8 per cent over the forward estimates period to reach $18.9 billion by June 2021.

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239 Department of Treasury and Finance, *Budget Paper No.5: 2015-16 Statement of Finances* (2017), p.49

240 ibid.

5.3.2 Net debt estimates

Net debt for the PNFC sector is expected to reach $16.3 billion in June 2018, an increase of $1.5 billion, or 10.3 per cent, over the revised June 2017 figure of $14.8 billion. The debt pattern is similar to borrowings. Since June 2013, PNFC sector debt remained around $14.8 million, however, the 2017-18 budget papers indicate that after the expected increase to $16.3 billion in June 2018, PNFC debt will continue to rise over the forward estimates period, reaching $17.8 billion by June 2021.[241]

FINDING 57: After four years of remaining around $14.8 billion, net debt in the public non-financial corporations sector is expected to increase to $16.3 billion in June 2018 and is forecast to reach $17.8 billion by June 2021.

5.3.3 Debt held by Victorian water corporations

Most of the net debt held in the PNFC sector is concentrated in the Victorian water corporations, and specifically corporations based in metropolitan Melbourne. Figure 5.4 shows the net debt estimate of the Melbourne Water Corporation of $8.2 billion for June 2018 will be 48.9 per cent of the PNFC sector's total net debt.[242] This is principally due to debt associated with the Victorian Desalination Plant.[243] The three remaining metropolitan water corporations (Yarra Valley Water, South East Water and City West Water) are expected to account for approximately $5.4 billion, or 32.4 per cent of the sector's total net debt, by June 2018.[244]

The Government expects the net debt contribution for these four metropolitan water corporations to rise gradually over the forward estimates period, reaching $14.6 billion, or 81.8 per cent of the sector's total net debt, by June 2021.[245] The significance of this debt in the context of Victoria's population growth and increasingly dry conditions is discussed further in Chapters 6 and 7.

241 Department of Treasury and Finance, *Financial Report*, 2011-12 to 2015-16; Department of Treasury and Finance, *Budget Paper No.5: 2015-16 Statement of Finances* (2017), p.49

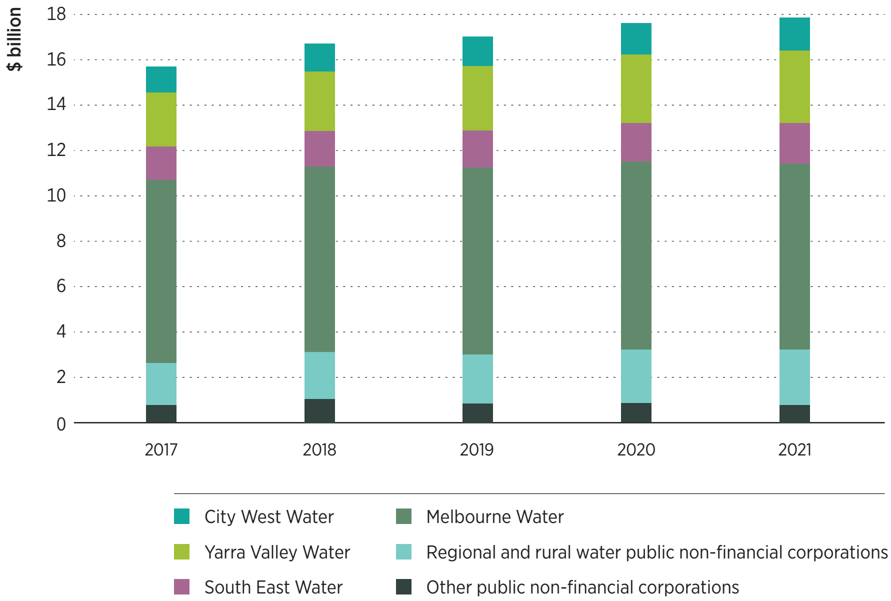
242 Committee calculations based on Department of Treasury and Finance, *Response to the Committee's 2017-18 Budget Estimates General Questionnaire*, received 8 May 2017, pp.58-59

243 Department of Treasury and Finance, *Response to the Committee's 2016-17 Budget Estimates General Questionnaire*, received 4 May 2016, p.39

244 Committee calculations based on Department of Treasury and Finance, *Response to the Committee's 2017-18 Budget Estimates General Questionnaire*, received 8 May 2017, pp.58-59

245 ibid.

Figure 5.4 Net debt estimates composition by public non-financial corporations, 2017 to 2021(a)



(a) Balances at 30 June each year.

Source: Committee calculations based on Department of Treasury and Finance, *Response to the Committee's 2017-18 Budget Estimates General Questionnaire*, received 8 May 2017, pp.58-59

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FINDING 58: Melbourne Water Corporation and the three metropolitan water corporations (Yarra Valley Water, South East Water and City West Water) are expected to comprise 82 per cent of the net debt in the public non-financial corporations sector by June 2021. The proportion of this held by the Melbourne Water (49 per cent) is principally due to debt associated with the Victorian Desalination Plant.

The Committee asked the Department of Treasury and Finance about the challenges and risks of the projected $14.6 billion of debt by June 2021 for the metropolitan water corporations, given the sector's ongoing asset maintenance and replacement requirements. The Department of Treasury and Finance responded:

> Water corporations need to plan for and manage their debt levels, to ensure that they can service the debt from operating cash flows, and fund their required capital investments. The Department carefully considers water corporations' financial projections and performance, including debt levels, as part of the corporate planning and quarterly performance reporting framework and the annual borrowing approval process.
>
> The Essential Services Commission, the independent pricing regulator, regulates the prices that the water businesses charge to customers for water, sewerage and drainage services. The Essential Services Commission's Pricing Determinations provide for the water corporations to fund their efficient expenditure, including recovery of operating costs, maintenance, renewal and rehabilitation of existing assets, and a rate of return on the regulatory capital employed in the business. The rate of return on capital allowed for in the Essential Services Commission's

> Pricing Determinations includes provision to cover the cost of borrowing to finance required capital investments, and a return on the Government's equity in the business.[246]

The Committee notes that in fact water corporations only have limited control over their debt as the Essential Services Commission determines pricing (revenue) and the government determines the dividends paid by water corporations to the general government sector.

The Department also informed the Committee that the debt for the water corporations is '... raised centrally through TCV...[and] there is no risk differential between State Government debt raised for water corporations and State Government debt raised for other entities and purposes'.[247] The Treasurer and TCV further explained:

> All loans that are provided to the Victorian water businesses relate to their capital works programs. Water businesses are capital intensive by nature and invest millions of dollars in renewals and new infrastructure annually.[248]

Asset investment and capital works projects undertaken by the water entities are discussed further in Chapter 7. The Environmental Contribution Levy (ECL) — a levy on water corporations' revenue, is examined in Chapter 12.

5.4 Debt to gross state product sustainability target

5.4.1 General government sector

In the 2017-18 Budget, one of the Government's three financial management strategies relates directly to the level of general government sector net debt. This target is:

> ... net debt to gross state product no greater than its peak over the past five years by the end of the forward estimates.[249]

The peak proportion of government sector net debt to gross state product (GSP) recorded for the past five actual results was 6.2 per cent in June 2015.[250]

The increase in net debt projected in the budget papers, together with the level of anticipated GSP growth, indicate that the Government expects net debt as a proportion of GSP to increase from 4.6 per cent at June 2017 to 6.0 per cent of

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246 Department of Treasury and Finance, *Response to the Committee's 2017-18 Budget Estimates Entity-specific Questionnaire*, received 12 July 2017, p.23

247 ibid.

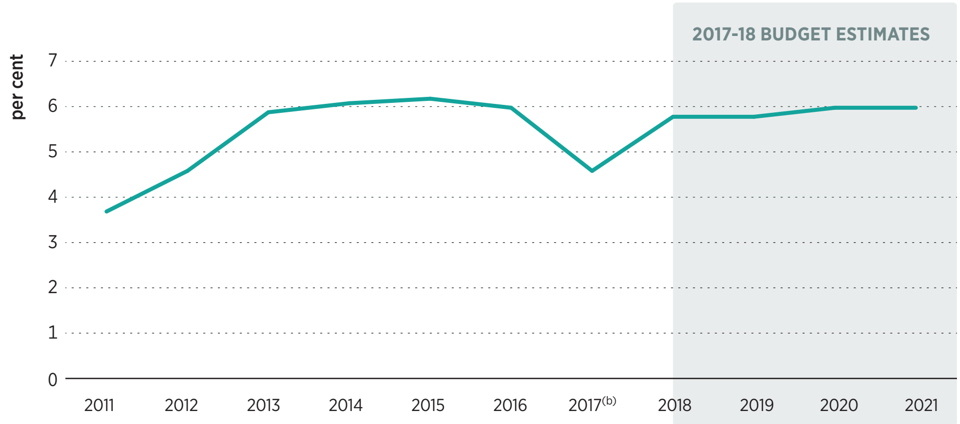
248 Response to questions on notice from the Hon. Tim Pallas MP, Treasurer, to Chair, Victorian Parliament Public Accounts and Estimates Committee, received 3 July 2017, p.2

249 Department of Treasury and Finance, *Budget Paper No.5: 2017-18 Statement of Finances* (2017), p.17

250 Department of Treasury and Finance, *Consolidated Balance Sheet – General Government Sector* (2017). Available at <www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Aggregate-financial-statements>, viewed 28 June 2017; Department of Treasury and Finance, *Macroeconomic Indicators* (2017). Available at <www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Macroeconomic-indicators>, viewed 18 July 2017

by June 2021.[251] As these projected figures are less than the 6.2 per cent of GSP recorded for June 2015, the Government appears to be on track to meet this financial management target.

Figure 5.5 **Proportion of net debt to gross state product, general government sector, 2011 to 2021[(a)]**



(a) Balances at 30 June each year.

(b) The 2017 figure is a revised estimate.

Source: Committee calculations based on: Department of Treasury and Finance, *Macroeconomic Indicators* (2017); Department of Treasury and Finance, *Budget Paper No.5: 2017-18 Statement of Finances* (2017), p.9; Department of Treasury and Finance, *Financial Report*, 2011-12 to 2015-16

The Treasurer made the following statement regarding the long-term nature of the net debt to GSP strategy at the estimates hearings:

> This is not a strategy that this government has put in place. Might I say, it is something that has been in place for, let us say, a decade, and it has been consistently applied by governments of all persuasions. The idea is that you cut down those liabilities as you have the capacity to, and we continue to attend to that responsibility.[252]

FINDING 59: The budget papers predict that general government sector net debt to gross state product for Victoria will be 4.6 per cent in June 2017 and increase to 6.0 per cent by June 2021. As these estimates are under 6.2 per cent, the level of highest net debt to gross state product proportion over the last five years, the Government looks set to meet its net debt to gross state product target for the general government sector in 2017-18.

5.4.2 Debt strategy for the public non-financial corporations sector

Unlike the general government sector, the 2017-18 budget papers do not contain a net debt strategy for the PNFC sector. PNFC net debt as a proportion of Victoria's GSP is expected to increase slightly from the revised estimate for June 2017 of

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251 Department of Treasury and Finance, *Budget Paper No.2: 2017-18 Strategy and Outlook* (2017), p.22

252 Hon. Tim Pallas MP, Treasurer, *2017-18 Budget Estimates Transcript of Evidence*, 12 May 2017, p.16

3.8 per cent to reach 4.0 per cent in June 2018. It will remain under 4.0 per cent over the forward estimates period to June 2021. Overall, PNFC net debt to GSP will continue to trend downward after peaking at 4.4 per cent in June 2013.[253]

In its *Report on the 2016-17 Budget Estimates*, the Committee recommended that in future budget papers, the Government 'explain its strategy for net debt in the PNFC sector'.[254] The Committee is pleased that this recommendation has received in-principle support from the Government.[255] The Government provided the following information on the current level of oversight of PNFC debt levels in its response to the Committee:

> The Government monitors the level of net debt for the general government and public non-financial corporation (PNFC) sectors. The current overall level of general government and PNFC sectors net debt and projections is consistent with the State's triple-A credit rating.
>
> All PNFCs submit corporate plans (including debt forecasts and future capital expenditure programs) to the Treasurer and relevant portfolio ministers on an annual basis. The Treasurer considers all requests for increases in PNFC borrowings, and, based on the individual PNFC's business needs and the overall PNFC sector debt levels, debt arrangements for PNFCs are adjusted on an annual basis.[256]

Following the in-principle support given by the Government to the recommendation, the Committee anticipates greater discussion and explanation of the PNFC debt strategy in the 2018-19 budget papers.

FINDING 60: In-principle support has been given to the Committee's recommendation that the Government's public non-financial corporations sector net debt strategy be discussed in upcoming budget papers.

253 Committee calculations based on: Department of Treasury and Finance, *Macroeconomic Indicators* (2017). Available at <www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Macroeconomic-indicators>, viewed 18 July 2017; Department of Treasury and Finance, *Budget Paper No.5: 2017-18 Statement of Finances* (2017), p.9; Department of Treasury and Finance, *Financial Report*, 2011-12 to 2015-16

254 Public Accounts and Estimates Committee, *Report on the 2016-17 Budget Estimates* (2016), Recommendation 11, p.103

255 Victorian Government, *Government Response to the Recommendations of the Public Accounts and Estimates Committee's Report on the 2016-17 Budget Estimates*, tabled 24 May 2017, p.5

256 ibid.

6 Output expenditure

Key findings

- Output expenditure is expected to rise to $62.3 billion in 2017-18 and then increase by an average of 2.7 per cent to $67.4 billion in 2020-21.
- Employee expenses are the largest component of output expenditure for the general government sector. They are estimated to account for 37.0 per cent ($23.0 billion) of total expenditure in 2017-18 and then increase to $25.3 billion in 2020-21. The number of police officers (including dedicated family violence officers), hospital and other health services workers has contributed to the projected increase in employee expenses over the forward estimates period. Recent enterprise bargaining agreements with paramedics and nurses have also contributed to the increases in employee expenses.
- The introduction of the National Disability Insurance Scheme will see the level of other operating expenses increase modestly over the forward estimates period, while the level of grant expenses will increase at a greater rate as the State increases its contribution to the Commonwealth with more clients entering the National Disability Insurance Scheme.
- The large number of ministers involved in the delivery of the family violence initiative is a potential relevant consideration that will need to be carefully managed in order to ensure its successful roll out. It is unclear in the budget papers which minister is responsible for each output within whole-of-government initiatives, including the family violence initiative.
- The most recent study on the effectiveness of violence intervention programs in Victorian prisons was undertaken ten years ago. Another evaluation is currently underway and due for release at the end of 2017.
- Twenty-two new performance measures have been added to the 2017-18 budget papers on family violence up from three identified by the Royal Commission into Family Violence. The measures are however largely output rather than outcomes focussed.
- The Family Violence Index announced in May 2015 as a system-wide measure of success has not yet been finalised.
- There is currently a disconnect between the budget papers and other mechanisms being established to measure the outcomes of the expenditure on family violence.

- The Government plans to introduce five year leasing arrangements for tenants and landlords as part of the *Making Long-term Leasing a Real Option for Victorians* as a response to the increasing number of people living in rental accommodation. The Government is also reviewing aspects of the *Residential Tenancies Act 1997* to give greater protection to, and more flexibility for tenants.
- In 2016, the proportion of people living in Melbourne townhouses, apartments and flats was 33 per cent. The Government introduced the *Better Apartments* design guidelines in March 2017, mandating design requirements for apartments including access to daylight, layout and room depth and natural ventilation.
- The Government will pilot two shared equity schemes as part of the *Homes for Victorians* package. The largest of these is *HomesVic*, a $50 million equity provision scheme run by State trustees over two years that is anticipated to assist 400 first home buyers.
- Critics of demand side housing policies such as shared equity schemes and first home buyer's grants believe they are ultimately ineffectual in addressing problems associated with housing affordability, as they promote increasing participation in the housing market which can drive up prices.
- The Government has also announced a series of supply side policies in the 2017-18 Budget aimed at placing downside pressure on house prices, including the *Inclusionary Housing in Major Developments* initiative and the *Inclusionary Housing on Surplus Government Land Pilot Scheme* which will make an extra 100,000 lots of land in Melbourne's growth corridors available to home buyers.
- Climate change and population growth are expected to affect energy and water markets. The Government's plans to manage these include schemes to increase supply (including the growth of renewable sources), improve system efficiency, manage the growth of demand, and enhance information to allow consumers and planners to achieve better outcomes.

6.1 Introduction

The Government's output expenditure relates to the delivery of services such as education, health, public order and safety, and transport and communications.

This chapter provides an overview of output expenditure for the general government sector over the next four years, as presented in the 2017-18 Budget. It analyses the estimates and components of output expenditure between 2017-18 and 2020-21. The chapter then examines three output initiatives of significant public interest and government expenditure announced in the 2017-18 Budget in greater detail. They are:

- the *Whole of Government – Family Violence* initiative
- the *Homes for Victorians* initiative
- initiatives related to water and energy.

6

6.2 Output expenditure estimates

Total output expenditure for the general government sector is expected to be \$62.3 billion in 2017-18, increasing by 4.9 per cent in comparison to the 2016-17 revised estimate of \$59.4 billion.[257] The 2017-18 budget estimates forecast output expenditure to grow by an average of 2.7 per cent and reach \$67.4 billion in 2020-21.[258] This growth rate is lower than the estimated average growth rate of 4.5 per cent between 2010-11 and 2016-17.[259]

Table 4.1 shows the 2017-18 budget estimates for output expenditure over the forward estimates period.

Table 6.1 Total output expenditure, 2017-18 to 2020-21

	2017-18 Budget	2018-19 estimate	2019-20 estimate	2020-21 estimate
Total output expenditure ($ billion)	62.3	64.5	65.5	67.4
Annual growth rate (per cent)	4.9	3.7	1.5	2.9
Average annual growth rate[(a)] (per cent)		**2.7**		

(a) Compound annual growth rate from 2017-18 to 2020-21

Sources: Department of Treasury and Finance, *Budget Paper No.5: 2017-18 Statement of Finances* (2017), p.7; Committee calculations based on Department of Treasury and Finance, *Consolidated Comprehensive Operating Statement – General Government Sector* (2017)

FINDING 61: Output expenditure is expected to rise to \$62.3 billion in 2017-18 and then increase by an average of 2.7 per cent to reach \$67.4 billion in 2020-21.

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257 Department of Treasury and Finance, *Budget Paper No.2: 2017-18 Strategy and Outlook* (2017), p.50

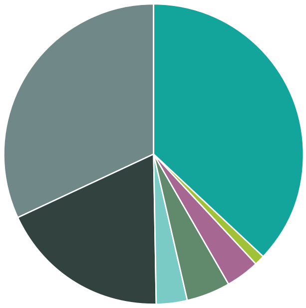
258 ibid.

259 Committee calculation based on Department of Treasury and Finance, *Consolidated Comprehensive Operating Statement – General Government Sector* (2017)

6.3 Components of output expenditure

Figure 6.1 breaks down output expenditure estimates according to the line items in the operating statement.

Figure 6.1 **Output expenditure components, 2017-18**



Sources: Department of Treasury and Finance, *Budget Paper No.5: Statement of Finances* (2017), p.7; Department of Treasury and Finance, *Consolidated Comprehensive Operating Statement – General Government Sector* (2017)

Figure 6.1 shows the three largest output expenditure components anticipated for 2017-18 are employee expenses, other operating expenses and grant expenses.

Employee expenses

Employee expenses include wages, salaries, fringe benefit tax, leave entitlements and redundancy costs.[260] All these costs are associated with the employment within the Victorian public service and other staff employed as part of the general government sector.

Employee expenses are expected to increase at an average annual growth rate of 3.3 per cent to reach $25.3 billion in 2020-21.[261] According to the budget papers, this growth 'reflects the largest ever investment in initiatives to end family violence, commencement of the recruitment of 2,729 additional police officers to tackle crime, and increased investments in hospitals to improve access to health care'.[262]

An extra 415 specialist family violence officers are included within the 2,729 additional sworn police officers that form part of the *Community Safety Statement* initiative. This initiative is budgeted at $190.8 million for 2017-18 and $1.4 billion over the forward estimates period.[263] At the public hearings, the Minister for Police explained the Government's rationale behind the additional funding for more police officers to the Committee:

> … one of the things that the government has been attempting to do, which is to move away from … a boom and bust approach to police numbers and police resourcing.

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260 Department of Treasury and Finance, *2015-16 Financial Report* (2016), p.41

261 Department of Treasury and Finance, *Budget Paper No.5: Statement of Finances* (2017), p.7

262 Department of Treasury and Finance, *Budget Paper No.2: 2017-18 Strategy and Outlook* (2017), p.53

263 Department of Treasury and Finance, *Budget Paper No.3: 2017-18 Service Delivery* (2017), p.94

> … you have these massive gaps where you have no police funded, and what we are attempting to do [is]…to try to stabilise [funding] that so you do not have a situation where you have a number of years where no new police are basically hitting the streets, aside from attrition.[264]

Employee expenses are described in the budget papers as a 'fiscal risk' due to the potential impact of future enterprise agreement negotiations.[265] The Committee has previously noted repeated underestimation in the budget papers of employee expenses, particularly relating to hospital services.[266]

In terms of the growth of hospital and other health care employee expenses in 2017-18 and over the forward estimates, the Committee discussed the impact of recent enterprise bargaining agreements (EBA) with nurses and paramedics at the public hearings.

When asked by the Committee if the Department of Health and Human Services could provide the forward costs of the nurses EBA, it was informed:

> … the department is not a party to the agreement. The agreement is signed by Victorian Hospitals Industrial Association on behalf of employers. Whilst we are an interested party, we are not a formal party to the agreement. … there are a number of offsets in the negotiation process that make it particularly challenging to calculate the cost — the gross cost or net cost. The other moving part, if you like — and there are a number of moving parts — depending on when the previous agreement had ceased, there are sometimes retrospective payments or sign up payments that relate to different periods. The size of the workforce and the general make up of the workforce will vary across our 86 health services. Again over the course of an agreement you will have multiple moving parts, and generally the other major moving part is the part outlined in the budget papers. On average we have been attracting $300 to $500 million additional funding for health services. That is a moving part that builds year on year through the course of any agreement. Having said all of that, the average increase of the agreement over the full settlement of the nurse's award is about 3.4 per cent per annum …
>
> … we look at the wages make up across health services at a point in time. The cost base at that point in time was around $3.1 billion, so 3100 million, and we average that across the course of the agreement, so 3.45 per cent on that base.[267]

With reference to ambulance workers, the budget papers note that output costs for *Ambulance Services* will increase by 27.9 per cent from 2016-17 to $1.0 billion in 2017-18, due to 'additional funding for the Ambulance Victoria Enterprise Agreement'.[268] The Secretary of the Department of Health and Human Services told the Committee at the hearings:

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264 Hon. Lisa Neville MP, Minister for Police, *2017-18 Budget Estimates Transcript of Evidence*, 1 June 2017, p.2

265 Department of Treasury and Finance, *Budget Paper No.2: 2017-18 Strategy and Outlook* (2017), p.60

266 Public Accounts and Estimates Committee, *Report on the 2015-16 Financial and Performance Outcomes* (2017), pp.115-117

267 Mr Greg Stenton, Chief Finance Officer, Department of Health and Human Services, *2017-18 Budget Estimates Transcript of Evidence,* 17 May 2017, p.27

268 Department of Treasury and Finance, *Budget Paper No.3: 2017-18 Service Delivery* (2017), pp.228, 241

> … it is worth saying that that note could have been more fulsome. It is not only reflective of the work value outcome; it does reflect increase in service as well as the EBA.[269]

While the Committee received further information to questions taken on notice regarding the cost of the work value case for both the paramedics and nurses EBAs, the responses did not give the actual cost figures, which is what the Committee requested.[270]

The Committee will continue to monitor employee expenses, the impact of EBAs and the levels of hospital and health care workers' employee costs in future budget estimates and financial outcomes inquiries.

FINDING 62: Employee expenses are the largest component of output expenditure for the general government sector. They are expected to account for 37.0 per cent ($23.0 billion) of total expenditure in 2017-18 and then increase to $25.3 billion in 2020-21.

6

FINDING 63: The number of police officers (including dedicated family violence officers), hospital and other health services workers has contributed to the projected increase in employee expenses over the forward estimates period. Recent enterprise bargaining agreements with paramedics and nurses have also contributed to the increases in employee expenses.

Other operating expenses

The second highest output expense is 'other operating expenses', which are expected to be $19.8 billion in 2017-18 and then increase by $206 million over the forward estimates period to $20 billion by 2019-20. Other operating expenses 'generally represent the day-to-day running costs incurred in normal operations' and are mainly (89.4 per cent) comprised of 'purchases of supplies and consumables' and 'purchase of services'.[271] The impact of the moderate expected increase of this line item can be seen in Figure 6.2, and is primarily driven by a reduction in the 'purchases of services' component from $11.3 billion in 2017-18 to $10.3 billion in 2020-21.[272] The budget papers explain that:

> The reduction in service contracts is largely driven by the State's existing expenditure on disability services, including payments to disability service providers, being allocated towards the State's contribution to the National Disability Insurance Scheme (NDIS). These services will be funded by the NDIS.[273]

269 Ms Kym Peake, Secretary, Department of Health and Human Services, *2017-18 Budget Estimates Transcript of Evidence*, 17 May 2017, p.10

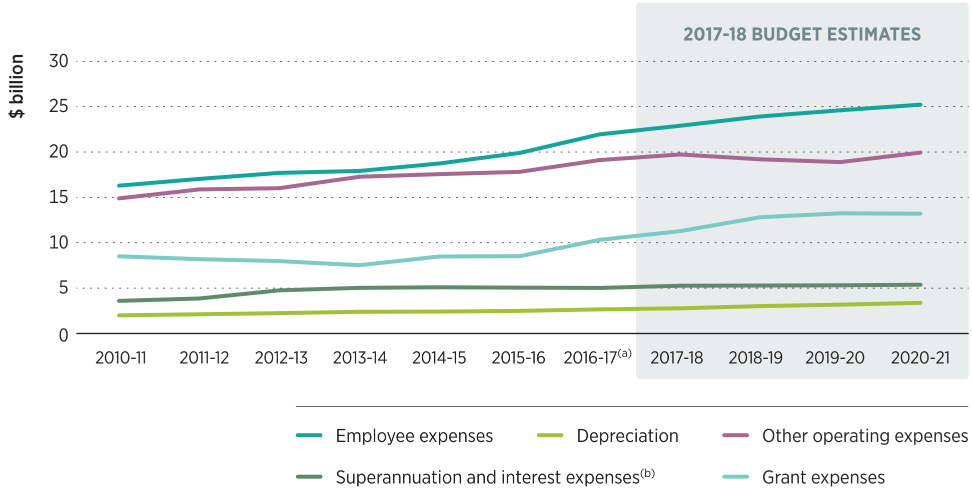
270 Response to questions on notice from the Hon. Jill Hennessey MP, Minister for Health, to Chair, Victorian Parliament Public Accounts and Estimates Committee, received 30 June 2017, p.3; Response to questions on notice from the Hon. Jill Hennessey MP, Minister for Ambulance Services, to Chair, Victorian Parliament Public Accounts and Estimates Committee, received 30 June 2017, pp.2-3

271 Department of Treasury and Finance, *Budget Paper No.5: 2017-18 Statement of Finances* (2017), pp.27-8

272 ibid., p.27

273 ibid.

Figure 6.2 Output expenditure components, 2010-11 to 2020-21



(a) The 2016-17 figure is a revised estimate.

(b) Includes net superannuation interest expenses, other superannuation and interest expenses.

Source: Department of Treasury and Finance, *Consolidated Comprehensive Operating Statement – General Government Sector* (2017)

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FINDING 64: 'Other operating expenses' are the second largest component of output expenditure for the general government sector, accounting for 31.9 per cent ($19.8 billion) of the total in 2017-18.

Grant expenses

Grant expenses are expected to account for 18.2 per cent of total output expenditure in 2017-18, and are anticipated to increase from $11.3 billion in 2017-18 to $13.3 billion in 2020-21.[274] The budget papers explained the increase in spending for this item is once again associated with the introduction of the NDIS, as 'The State's contribution to the NDIS transition is expected to increase over the next four years as more clients transition into the scheme'.[275]

In relation to the timeline of the rollout of the NDIS, the Minister for Housing, Disability and Ageing explained to the Committee at the hearings:

> ... the National Disability Insurance Scheme rollout is certainly gathering pace, and we will make sure that this important, indeed system changing, national program is delivered in partnership with the commonwealth and that this reform will continue as set out in the agreements between the state and commonwealth governments. We want to make sure that we support Victorians living with acute disability, and we want to make sure that the transition support packages that are there over and above our commitment to the national disability insurance scheme are continued throughout. I want to be clear: we do not see the NDIS as an opportunity for the state to vacate the public policy space of disability support. Even though we continue to

274 ibid.

275 Department of Treasury and Finance, *Response to the Committee's 2017-18 Budget Estimates General Questionnaire*, received 8 May 2017, p.49; Department of Treasury and Finance, *Budget Paper No.5: 2017-18 Statement of Finances* (2017), p.27

> be the majority funder of the NDIS rollout in Victoria for at least the next two years, we see our role as being ongoing well beyond that, both in the NDIS and the wider service support.[276]

FINDING 65: The introduction of the National Disability Insurance Scheme will see the level of other operating expenses increase modestly over the forward estimates period, while the level of grant expenses will increase at a greater rate as the State increases its contribution to the Commonwealth with more clients entering the scheme.

6.4 Output initiatives in the 2017-18 Budget

Output initiatives announced in this year's budget total $2.9 billion for 2017-18 and $6.6 billion over the remainder of the forward estimates period. The following sections of this chapter focus on three major output initiatives announced in the 2017-18 Budget. They are:

- the *Whole of Government – Family Violence* initiative, worth $444.6 million in 2017-18 and a $1.2 billion over the forward estimates
- the *Homes for Victorians* initiative aimed at addressing housing affordability issues comprising $123.5 million in output initiatives, $10 million in asset initiatives and $312.6 million in revenue initiatives from 2016-17 to the end of the forward estimates period in 2020-21[277]
- initiatives related to water and energy that are funded through the Department of Environment, Land, Water and Planning and the Department of Economic Development, Jobs, Transport and Resources, worth $258.9 million from 2016-17 to 2020-21.

6.5 *Whole of Government – Family Violence* output initiatives

6.5.1 The cost of family violence in Victoria

The human cost of family violence cannot be calculated. However, the economic costs can be estimated and provide an important context for government investment in preventing and addressing family violence. The Royal Commission into Family Violence stated that:

> Beyond the personal harm that family violence causes, it also has a significant economic cost at a societal level. This arises from the direct costs of preventing and responding to family violence (for example, policing, courts and crisis services) and also the indirect costs with its effects (for example, health costs or work absences). Identifying the economic costs of family violence to individuals, government and

276 Hon. Martin Foley MP, Minister for Housing, Disability and Ageing, *2017-18 Budget Estimates Transcript of Evidence*, 31 May 2017, p.3

277 Department of Treasury and Finance, *Budget Paper No.3: 2017-18 Strategy and Outlook* (2017), pp.19, 23, 111

> the community as a whole is important when considering arguments for increasing government investment to prevent such violence and reduce its long-term impact on victims.[278]

The Royal Commission found limitations with the information available on the costs associated with family violence in Victoria but concluded the costs were substantial. The Victorian Government estimated the cost to be $3.1 billion in 2014-15.[279]

The Royal Commission recommended that within 12 months, the Government perform (or commission) a rigorous and consistent measurement of the cost of family violence to government, the community and individuals.[280] The report subsequently commissioned by the Government and released in May 2017 found that in fact the total costs were $5.3 billion in 2015-16, far higher than the 2014-15 estimate, of which:

- $2.6 billion of costs were borne by individuals and their families. These costs included costs associated with the long-term health impacts of family violence and increased risk of mental ill-health, lost income and property damage from violence
- $1.8 billion of costs were borne by government for the provision of supports such as specialist family violence services, justice services and child and family services
- $918 million of costs to the Victorian community and broader economy. These costs included direct costs to businesses and employers as well as the costs borne by the broader community and economy.[281]

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6.5.2 2017-18 budget estimates and estimates hearings

The *Whole of Government – Family Violence* output initiatives were allocated a total of $444.6 million in 2017-18.[282] A further $1.2 billion has been allocated to the family violence output initiatives in the forward estimates. The output initiatives cover multiple ministerial portfolios from the courts case management system to information sharing, prevention and support for vulnerable children.

The subject of family violence and the planned budgetary expenditure featured heavily in the 2017-18 budget estimates hearings. The Premier described family violence as 'a national emergency' and 'number one law and order issue in our state and our nation'.[283] The Premier made reference to the costing work that had been undertaken:

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278 Royal Commission into Family Violence, *Report and Recommendations* (2016), p.219

279 ibid., pp.219, 222

280 Royal Commission into Family Violence, *Report and Recommendations* (2016), Recommendation 219, p.242

281 KPMG, *The Cost of Family Violence in Victoria: Summary Report* (2017), p.2

282 Department of Treasury and Finance, *Budget Paper No.3: 2017-18 Service delivery* (2017), p.6

283 Hon. Daniel Andrews MP, Premier, *2017-18 Budget Estimates Transcript of Evidence*, 12 May 2017, p.3

> … there has been some work that has been released from KPMG today that estimates beyond all the human cost, beyond the things that are perhaps intangible and cannot be given a monetary value, that there is some $5.3 billion worth of cost to the Victorian economy from family violence each and every year. On any measure this is a challenge that needs to be met, and we need to do much more than has been done historically, and that is what the budget outlines…[284]

The Minister for Police advised the Committee that 40 to 60 per cent of crime is connected to family violence.[285] The Minister for Health emphasised the importance of people, including health professionals, identifying and acting on signs of family violence:

> One of the very interesting things that many community dental providers share with me is the early indicator of women who come in with their teeth smashed out, and obviously some of the evidence that has been given in the course of the royal commission is that this can be another early indicator that someone is experiencing family violence. Whether it be through the emergency department, irrespective of how people necessarily identify how their injuries were sustained, the health sector, I think, is a critical part of trying to better respond to family violence, to identify it early. Even in those very tragic circumstances where you might see a particular victim who may not have had any engagement with a refuge or other services, you can usually bet your bottom dollar that they have been in a hospital or a GP or a dentist having their injuries attended to, so we should never underestimate the power and possibilities of health services as a platform to be able to identify and support.[286]

Committee members asked questions of ministers about many facets of the family violence package including:

- the proportion of funding allocated to prevention versus crisis response
- the timeframe for the establishment of all the support and safety hubs
- demarcation of responsibilities between ministers
- changes anticipated to the justice system including specialist family violence courts
- funding for agencies such as Centres Against Sexual Assault, Australian National Research Organisation for Women's Safety (ANROWS) and Our Watch.

It is not possible to examine all of these issues in detail. The Committee has selected two challenges to the family violence package to discuss in further detail below — the management of interagency risk and performance measurement.

6.5.3 Management of interagency risk

The large number of ministers and departments involved in the delivery of the *Family Violence* initiative is a risk that will need to be carefully managed in order to ensure its success. There are nine different ministers responsible for delivering

284 ibid.

285 Hon. Lisa Neville MP, Minister for Police, *2017-18 Budget Estimates Transcript of Evidence,* 1 June 2017, p.11

286 Hon. Jill Hennessy MP, Minister for Health, *2017-18 Budget Estimates Transcript of Evidence,* 17 May 2017, p.35

components of the initiative, as set out in Table 6.2. This total does not include portfolios that clearly intersect with the issue – Police and Ambulance Services nor less obvious agencies such as Essential Services Commission that can, for example, facilitate wider access to hardship programs to include family violence as an explicit eligibility criterion.[287] The Department of Premier and Cabinet has central agency oversight and monitoring responsibilities for the Government's family violence initiatives and for monitoring and reporting on the progress of implementing the Royal Commission's recommendations.[288]

Table 6.2 *Whole of Government – Family Violence* utput Initiatives

Output Initiative	Responsible Minister
Building the Capacity to Deliver Family Violence Services for Culturally Diverse Communities	Multicultural Affairs
Courts Case Management System	Attorney-General
Court Integrated Services Program (CISP) and CISP Remand Outreach Pilot	
Delivering on the Royal Commission into Family Violence Recommendations on Funding Reform	Special Minister of State
Enhanced Role for Universal Service Providers	Health
Establishing a Family Violence Coordination Agency	Special Minister of State
Establishing Support and Safety Hubs	
Family Violence Industry Planning	
Family Violence Monitoring and Reporting	
Housing Support for Family Violence Victims	Housing, Disability and Ageing
Information Sharing	Special Minister of State
Legal Responses to Family Violence and Child Protection	Attorney-General
More Support for Aboriginal Victorians at Risk of Family Violence	Aboriginal Affairs except the sub-initiatives allocated to the Attorney-General, below
• *Culturally Appropriate Family Violence Legal Services for Aboriginal Communities*	Attorney-General
• *Improving Prevention, Early Intervention and Diversion in Response to Family Violence in Koori Communities*	
• *Koori Women's Gathering Place*	
Perpetrator Accountability	Attorney-General except the sub-initiatives allocated to Corrections and Families and Children, below
• *Responding to Family Violence in the Corrections System*	Corrections
• *Changing Perpetrator Behaviour*	Families and Children
Planning for a Future Integrated Case Management System in Corrections Victoria	Corrections

287 Department of Environment, Land, Water and Planning, *Water for Victoria: Water Plan* (2016), p. 173

288 Department of Premier and Cabinet, *Response to the Committee's 2017-18 Budget Estimates Entity-specific questionnaire response*, received 12 July 2017, pp.1-2

Output Initiative	Responsible Minister
Prevention	Prevention of Family Violence
Responding to Lesbian, Gay, Bisexual, Trans and Gender Diverse and Intersex People Experiencing Family Violence	Equality
Risk Assessment and Risk Management	Special Minister of State
Risk Assessment Report Portal (L17 Portal)	Families and Children
Specialist Family Violence Integrated Court Response	Attorney-General
Specialist Support for Family Violence Victims	Families and Children except the sub-initiative allocated to Consumer Affairs, below
• *Financial Counselling*	Consumer Affairs
Support for Vulnerable Children	Families and Children

Source: Department of Premier and Cabinet, *Response to the Committee's 2017-18 Budget Estimates Entity-specific Questionnaire Response*, received 12 July 2017, pp.1-2

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The Victorian Managed Insurance Authority advised the Committee that the types of risks Departments find most difficult to manage include complex interagency risks such as the *prevention* [added emphasis] of family violence.[289] The Committee notes that the prevention element is only mentioned in one of 22 outputs that form the 2017-18 Budget initiative. The Committee asked the Department of Premier and Cabinet what the three main risks to the delivery of outcomes in 2017-18 are and how they would be managed. The Department of Premier and Cabinet stated that:

> DPC have run a series of interagency workshops with departments and agencies facilitated by the Victorian Managed Insurance Authority. The purpose of this process is to identify the main shared risks across government to the successful delivery of family violence reform initiatives. This approach is a first of its kind for the Victorian Government and demonstrates this government's commitment to interagency risk management. This process also aligns to the annual attestation requirements of the Standing Directions of the Minister for Finance 2016 which set the standard for financial management by Victorian Government agencies from 1 July 2016 onwards. DPC will continue to run these workshops to ensure the risks and appropriate controls to manage these risks are in place.
>
> Three important risk themes identified through these workshops include:
>
> - capability and resourcing – this risk theme refers to work required to increase the capability and capacity of staff and service providers to deliver reforms
> - co-ordination and dependency management – this risk theme refers to work required to ensure the effective collaboration and sequencing of reforms across government
> - information and data sharing – this risk theme refers to work required to reform IT systems and information sharing protocols.[290]

289 Department of Treasury and Finance, *Response to the Committee's 2017-18 Budget Estimates General Questionnaire*, received 8 May 2017, p.41

290 Department of Premier and Cabinet, *Response to the Committee's 2017-18 Budget Estimates Entity-specific Questionnaire*, received 12 July 2017, p.2

FINDING 66: The large number of ministers involved in the delivery of the family violence initiative is a potential relevant consideration that will need to be carefully managed in order to ensure its successful roll out. It is unclear in the budget papers, which minister is responsible for each output within whole-of-government initiatives, including the family violence initiative.

RECOMMENDATION 5: The responsible ministers for each element of whole of government initiatives should be published as part of the budget papers, to ensure there is clarity as to who is accountable for the outcomes of each output initiative.

The Committee asked the Department of Justice and Regulation about the extent of unmet demand for violence prevention courses and therapy in Victorian prisons. The Committee also asked about the typical wait for a place. The Department of Justice and Regulation stated that 'Offending Behaviour Program performance measures support the monitoring of program demand, however this is limited by existing information system and data constraints … Due to data constraints, valid information around typical wait times for a program place is not available'.[291]

6

The Committee notes that a new measure has been introduced to the 2017-18 budget papers – 'Successful completion of violence related programs for family violence offenders in community corrections'. The target for 2017-18 is 80 per cent. The Committee was also interested in the work that had been undertaken by Corrections Victoria in determining the effectiveness of prisoner rehabilitation program relating to family violence in light of the new funding package and findings of the Victorian Ombudsman's report in 2015 on the rehabilitation and reintegration of prisoners in Victoria.

The Department of Justice and Regulation provided the Committee with a copy of the 2007 evaluation of the *Corrections Victoria Violence Intervention Program*, the first evaluation of the program. The department also advised that a second evaluation by the same author (Professor Ogloff) was due for completion in late 2017.[292] The 2007 report identified the following systemic issues:

- perceived problems regarding the distinct shortage of treatment spaces (places)
- the need to ensure the treatment programs are targeted to those at highest need
- practical problems associated with staff recruitment, continuity and turnover.[293]

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291 Department of Justice and Regulation, *Response to the Committee's 2017-18 Budget Estimates Entity-specific Questionnaire*, received 19 July 2017, p.4

292 ibid.

293 Centre for Forensic Behavioural Science, Monash University and Victorian Institute of Forensic Mental Health, *An Evaluation of the Corrections Victoria Violence Intervention Program: Final Report* (2007), p.2

The report found 67 per cent of the offenders eligible to commence the Moderate Intensity Violence Intervention Program or High Intensity Violence Intervention Programs, introduced in 2005, had previous violent convictions.[294] It also found that a quarter of offenders who had successfully completed the program had subsequent contact with the police for violent offences.[295] One quarter of eligible offenders did not successfully complete the programs.[296]

FINDING 67: The most recent study on the effectiveness of violence intervention programs in Victorian prisons was undertaken ten years ago. Another evaluation is currently underway and due for release at the end of 2017.

Preventing violence against women involves, in part, rehabilitating people prior to their release back into the community who have been convicted for such violence. Additional funding has been allocated in 2017-18 and the forward estimates to the treatment of offenders. Accordingly, the Committee recommends that:

RECOMMENDATION 6: The Department of Justice and Regulation:

(a) give consideration to publicly releasing the report by Professor Ogloff evaluating the effectiveness of the High Intensity Violence Intervention Program and Moderate Intensity Violence Program due at the end of 2017

(b) introduce a performance measure and target for the completion of violence related programs by family violence offenders in prisons in the budget papers.

6.5.4 Funding transparency and performance measurement

The Royal Commission highlighted the need for:

- family violence performance measures to be introduced in the Budget
- changes to the way departments and agencies fund and monitor service provision
- the costs associated with family violence to be made more transparent.[297]

The Department of Treasury and Finance advised the Commission that the main purpose of outputs and associated performance measures is to make the Budget commitments visible to the public and to ensure that government is held financially accountable to Parliament each year.[298] Yet the Commission found that of the estimated 1,000 performance measures applicable to all outputs delivered by Government, only three related to family violence. Two of the three

294 ibid.,p.81

295 ibid., p.86

296 ibid., p.82

297 Royal Commission into Family Violence, *Report and Recommendations* (2016), p.239

298 ibid., p.223

were in the policing services output. There were no output performance measures relevant to family violence in the housing assistance or child protection and family services output, or any of the numerous health-related outputs.[299]

The Royal Commission recommended that the Victorian Government introduce in the 2017-18 Budget additional output performance measures relating to the prevention of family violence and the assistance provided to victims and perpetrators in order to increase the visibility of family violence in budgetary processes.[300]

The Royal Commission selected the 2017-18 Budget as it expected the new performance measures to be informed by the proposed Statewide Family Violence Action Plan.[301]

The Committee notes that 22 new performance measure relating to family violence were introduced in the 2017-18 budget papers. Some of the measures are focussed on victims and perpetrators and the expected outcomes of government expenditure. For example, satisfaction of clients with Support and Safety Hubs Services[302] and number of nights of refuge accommodation provided to victims of family violence.[303] Other measures are output rather than outcome focussed and subsequently less meaningful, for example, satisfaction by workers with family violence training[304] and number of hours of family violence related education provided to police.[305] Only two of the 22 new performance measures relate to the prevention of violence against women with the delivery of the Respectful Relationships initiative in primary and secondary schools.[306]

FINDING 68: Twenty-two new performance measures have been added to the 2017-18 budget papers on family violence up from three identified by the Royal Commission into Family Violence. The measures are however largely output rather than outcomes focussed.

The Royal Commission noted that the scarcity of outcome-based metrics was part of a broader problem with how government and government-funded services measure what they do.[307] The Secretary of the Department of Health and Human Services advised the Commission that one of the reasons that there had not been a decisive shift toward outcomes away from outputs is because they require both good definition of those outcomes and good data sources to measure progress against when managing contracts with external providers, and this was a work in progress.[308]

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299 ibid.

300 Royal Commission into Family Violence, *Report and Recommendations* (2016), Recommendation 217, p.242

301 Royal Commission into Family Violence, *Report and Recommendations* (2016), p.241

302 Department of Treasury and Finance, *Budget Paper No.3: 2017-18 Service delivery* (2017), p.257

303 ibid., p.256

304 ibid., p.257

305 ibid., p.273

306 ibid., p.176

307 Royal Commission into Family Violence, *Report and Recommendations* (2016), p.150

308 ibid.

The Government subsequently announced its plan to develop a system wide measure of success – a Family Violence Index. The development of the index was announced in May 2015, with the ANROWS commissioned to define what measures, statistics and data should be included in the index. The index has not been finalised.

FINDING 69: The Family Violence Index announced in May 2015 as a system-wide measure of success has not yet been finalised.

The Committee requested a copy of the Family Violence Outcomes Framework and Indicators from the Department of Health and Human Services. The Committee was provided with the framework published in the *Rolling Action Plan 2017-2020*. The framework does not contain measures or targets, instead listing indicators. It is unclear to the Committee how the $444.6 million of expenditure committed and performance measures set out in the 2017-18 budget papers link in with the index and outcomes framework.

Other mechanisms for reporting on activities underway as a result of the Royal Commission include a website (www.vic.gov.au/familyviolence/recommendations) that contains details on the progress being made to implement each of the Commission's 227 recommendations. The Family Violence Reform Implementation Monitor is due to table the first report by 1 November 2017.

FINDING 70: There is currently a disconnect between the budget papers and other mechanisms being established to measure the outcomes of the expenditure on family violence.

RECOMMENDATION 7: The Government ensure that the family violence outcomes framework directly links to the performance measures set out in the budget papers.

The Royal Commission also identified the need, within 12 months, for government expenditure on family violence to be made more transparent.[309] As a result departments and agencies will be required to establish consistent methods of collecting data — including data on costs incurred by generalist services — on activities relating to family violence prevention and response and include that information in their annual reports. The Committee looks forward to the progress made on annual reporting as part of its upcoming Inquiry into Financial and Performance Outcomes for 2016-17.

309 ibid., p.242

6.6 *Homes for Victorians*

Homes for Victorians is a whole of Government initiative comprising $123.1 million in output initiatives, $10 million in asset initiatives and $312.6 million in revenue initiatives from 2016-17 to the end of the forward estimates period in 2020-21.[310] The Department of Treasury and Finance informed the Committee that the scheme:

> … contains a package of initiatives to rebalance the housing market to support home buyers rather than investors, for example, removing the off-the-plan stamp duty concession for investors and introducing a vacant residential property tax to encourage vacant properties to be made available for rent or sale. In addition, a number of initiatives will increase the supply of housing through faster planning and land release which will put downward pressure on housing prices.[311]

The following section examines the factors affecting housing affordability, the impact of rising median house prices on home ownership, and first home buyers in particular, the increase in rental accommodation as well as apartment living in Melbourne and policy responses made by the Government to these trends that form the *Homes for Victorians* set of initiatives.

6.6.1 Factors behind rising property prices

As noted in the 2017 report on the Household, Income and Labour Dynamics in Australia (HILDA) survey regarding home ownership in Australia:

> House prices do not move in complete unison across Australia. House price growth has tended to be stronger in the major capital cities and the magnitude and timing of increases also often varies across these cities. For example, Australian Bureau of Statistics data show that house price growth has been particularly strong in Sydney and Melbourne in recent years, whereas prices in Perth and Darwin have been flat or declining.[312]

Figure 6.3 shows the median price for houses, unit/apartments and vacant house blocks for metropolitan Melbourne from the start of the 1990s to the present day. It shows that median prices, particularly for houses and units/apartments steadily increased from the mid 1990s to 2010. Median prices fell between 2010 and 2012, before increasing once again to what has been labelled the '2012-2017 boom'.[313]

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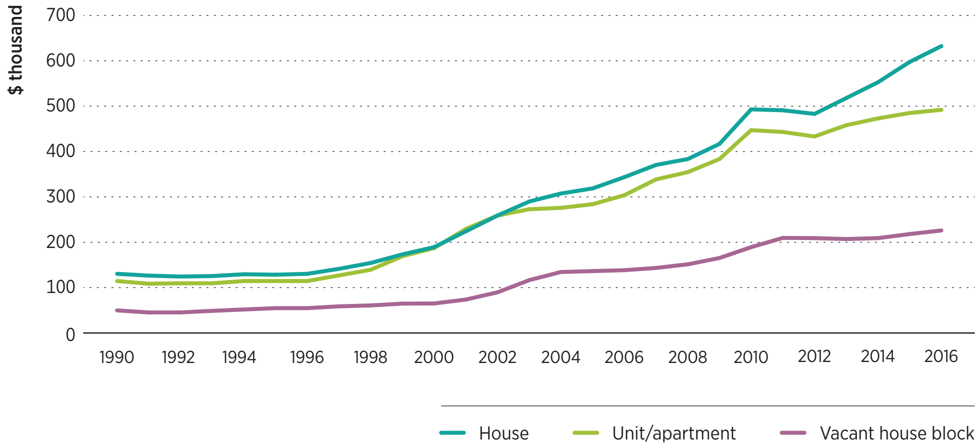
310 Department of Treasury and Finance, *Budget Paper No.3: 2017-18 Strategy and Outlook* (2017), p.19,23,111

311 Department of Treasury and Finance, *Response to the Committee's 2017-18 Budget Estimates Entity-specific Questionnaire*, received 12 July 2017, p.10

312 Roger Wilkins, *The Household, Income and Labour Dynamics in Australia Survey: Selected Findings from Waves 1 to 15: The 12th Annual Statistical Report of the HILDA Survey* (2017), p.91

313 Dr Nigel Stapledon, 'Is the current period of price movement unusual?' in *Housing Australia*, Committee for Economic Development of Australia (CEDA) (2017), p.45

Figure 6.3 Metropolitan Melbourne median property prices, 1990 to 2016



Source: Department of Environment, Land, Water and Planning, *Property Prices* (2017)

This current boom is a result of a number of factors including:

- aggressive interest rate cuts made by the Reserve Bank of Australia (RBA) over 2012 to 2016 as a response to the fall in mining investment at the end of the resources boom[314]
- an increase in migration that has left the housing market ‘tight’ and in turn placed further pressure on the rental market[315]
- policy settings at the Commonwealth level whereby investors are given beneficial treatment through the taxation system for investing in all forms of property, including residential property.[316]

In last year’s budget estimates report the Committee commented on the impact of the increase in foreign buyers in the local residential property market.[317] The Foreign Investment Review Board’s (FIRB) *Annual Report 2015-16* found that foreign investment in residential property remains high in Melbourne and Sydney.[318] Figure 6.4 shows that Melbourne received the most foreign investment approvals out of all the capital cities from 1 July 2010 to 31 March 2015.[319]

314 ibid.

315 ibid.

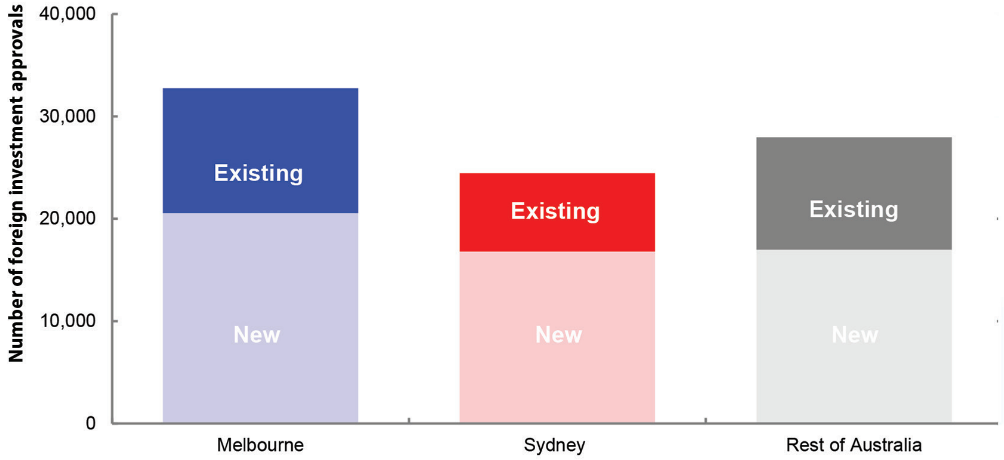
316 Associate Professor David Morrison, ‘The impact of tax regulation on housing’ in *Housing Australia*, Committee for Economic Development of Australia (CEDA) (2017), p.97

317 Public Accounts and Estimates Committee, *Report on the 2016-17 Budget Estimates* (2016), pp.67-70

318 Foreign Investment Review Board, *Annual Report 2015-16* (2017), p.32

319 ibid.

Figure 6.4 Location of foreign investment approvals, 1 July 2010 to 31 March 2015[(a)]



(a) The data in the chart uses Melbourne postcodes between 3000 and 3207 and Sydney postcodes between 2000 and 2234.

Source: Commonwealth Government, Department of the Treasury, *Foreign Investment and Residential Property Price Growth*, Treasury Working Paper (2016) p.2

A 2016 paper by the RBA into the growth of apartment construction in Australia noted 'the net impact from foreign buyers on housing demand will depend on the relative mix of those buyers who plan to occupy their dwelling (or leave it vacant) and those who plan to rent out their property'.[320] The Government introduced two revenue initiatives related to foreign buyers of residential property in 2015-16; the *Land Transfer Duty Surcharge on Foreign Buyers of Residential Property* and the *Absentee Owner Surcharge*.[321] The Committee asked the Department of Treasury and Finance about the interaction between the *Vacant Residential Property Tax* introduced in this year's Budget (previously discussed in Chapter 4 on Revenue) and the *Absentee Landowner Surcharge*. The Department informed the Committee:

> The Vacant Residential Property Tax applies to residential properties in particular suburbs of Melbourne which are unoccupied for more than six months a year. This is an annual tax of 1 per cent of the capital improved value (CIV) of taxable land. The CIV of a property is the value of land and buildings as determined by the general valuation process. It is applied regardless of the owner's location status, and solely based on the occupancy status of their property.
>
> In terms of interactions, there may be cases where absentee owners of particular properties may be liable for both taxes, if they own a residential property in the relevant Melbourne suburb and leave it vacant.[322]

FINDING 71: Median house prices in Melbourne have increased rapidly from 2012 to 2017 due to a combination of low interest rates, high migration levels and strong investment activity in the residential housing market.

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320 Reserve Bank of Australia, *The Growth of Apartment Construction in Australia*, report prepared by Michael Shoory (2016), p.22

321 Department of Treasury and Finance, *Budget Paper No.3: 2015-16 Service Delivery* (2015), p.104

322 Department of Treasury and Finance, *Response to the Committee's 2017-18 Budget Estimates Entity-specific Questionnaire*, received 12 July 2017, p.11

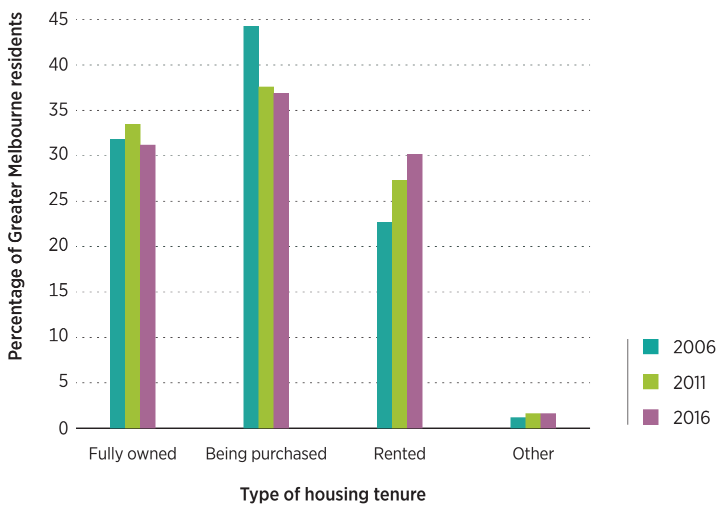
FINDING 72: Foreign buyers continue to invest in the Melbourne residential market, with Melbourne receiving the most foreign investment approvals out of all the capital cities for the period 1 July 2010 to 31 March 2015.

6.6.2 Increasing participation in the rental market

One outcome of higher residential property prices has been the increase in the proportion of people participating in the private rental market. As property prices continue to rise, together with the amount of money required for home loan deposits, potential home buyers are staying in the rental market longer.

Figure 6.5 shows the proportion of Melbourne residents by housing tenure over the last three Censuses. The figure shows the proportion of renters has increased steadily over the ten years, from 22.7 per cent in 2006 to 30.2 per cent by 2016. The proportion of residents who are in the process of purchasing the home they are living in (otherwise known as 'owned with a mortgage') has fallen from 44.3 per cent in 2006 to 36.9 per cent by 2016.

Figure 6.5 Proportion of Greater Melbourne residents by housing tenure, 2006 to 2016



Source: Australian Bureau of Statistics, *Census 2006, 2011, 2016*

A study examining the intergenerational divide between older, 'baby boomer' generation Australians and younger, working age 'Gen Xers' found that between 1990 and 2013, the share of housing wealth increased for age cohort 55-64 years from 19 to 25 per cent, while the share of housing wealth declined for 35-44 years from 18 per cent to 14 per cent.[323] Further to this, the report into the outcomes of the HILDA survey found that the proportion of 18 to 39 year olds with some level of homeownership in Melbourne declined from 35.7 per cent in 2002 to 21.3 per cent by 2014, the greatest decline out of all Australian capital cities.[324]

323 Professor Rachel Ong 'Housing futures in Australia: an intergenerational perspective' in *Housing Australia*, Committee for Economic Development of Australia (CEDA), (2017) p.86

324 Roger Wilkins, *The Household, Income and Labour Dynamics in Australia Survey: Selected Findings from Waves 1 to 15: The 12th Annual Statistical Report of the HILDA Survey* (2017),p.91

FINDING 73: The proportion of renters in Melbourne increased from 22.7 per cent in 2006 to 30.2 per cent by 2016, while the proportion of residents who are in the process of purchasing the home they are living in fell from 44.3 per cent in 2006 to 36.9 per cent by 2016. The proportion of 18 to 39 year olds with some level of homeownership in Melbourne also declined from 35.7 per cent in 2002 to 21.3 per cent by 2014, the greatest decline out of all Australian capital cities.

These intergenerational shifts now mean people will be participating in the rental market for longer and indeed, may never be homeowners. To address the shift towards people participating in the rental market for longer, the Government has introduced the *Making Long-term Leasing a Real Option for Victorians* initiative valued at $1.2 million from 2017-18 to 2020-21.[325] As part of this initiative, the Government intends to establish long-term lease agreements available for landlords and tenants that wish to enter tenancies lasting more than five years, and creating a dedicated website to connect such landlords and tenants.[326]

In addition, the Government is currently reviewing the *Residential Tenancies Act 1997*, examining possible changes to the act including:

- requiring landlords to have clear reasons to end leases
- greater protection and more flexibility for tenants who face early and unexpected termination of lease arrangements.[327]

The review is also examining options for greater disclosure when landlords intend to sell their property while they are engaged in a tenancy agreement.[328]

FINDING 74: The Government plans to introduce five year leasing arrangements for tenants and landlords as part of the *Making Long-term Leasing a Real Option for Victorians* as a response to the increasing number of people living in rental accommodation. The Government is also reviewing aspects of the *Residential Tenancies Act 1997* to give greater protection to and more flexibility for tenants.

6.6.3 Increasing apartment stock

In the *Report on the 2016-17 Budget Estimates*, the Committee discussed the growth of apartment stock in Melbourne.[329] At the public hearings this year the Minister for Planning informed the Committee that 30 per cent of all dwelling approvals are now for apartments.[330]

The shift to apartment living can also be seen in the recent Census data (see Figure 6.6), whereby Melbourne residents living in separate house dwellings has fallen from just under 80 per cent in 2006 and 2011, to 66 per cent by 2016.

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325 Department of Treasury and Finance, *Budget Paper No.3: 2017-18 Service Delivery* (2017), p.19

326 ibid., p.21

327 Victorian Government, *Residential Tenancies Act* (2017)

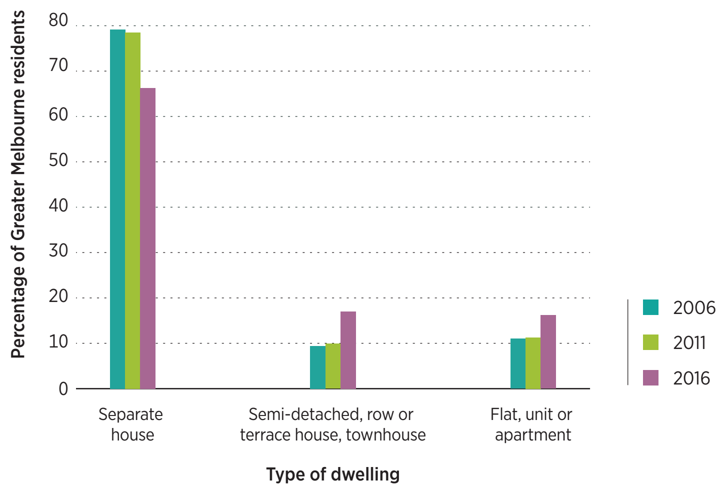
328 ibid.

329 Public Accounts and Estimates Committee, *Report on the 2016-17 Budget Estimates* (2016), pp.29-31

330 Hon. Richard Wynne MP, Minister for Planning, *2017-18 Budget Estimates Transcript of Evidence*, 16 May 2017, p.17

People living in semi detached houses, townhouses increased to 17 per cent by 2016, from under 9.4 percent in 2006 and people living in flats or apartments increased to 16.2 per cent from 11 per cent over the previous two Census periods.

Figure 6.6 **Proportion of Greater Melbourne residents by type of dwelling, 2006 to 2016**



Source: Australian Bureau of Statistics, *Census 2006, 2011, 2016*

The Minister noted this shift at the public hearings, informing the Committee:

> Apartments do play a key role in housing our future population so it is important to ensure that buyers and renters can enjoy comfortable, well designed and healthy apartments.[331]

FINDING 75: The proportion of people living in separate houses in Melbourne fell from 80 per cent in 2006 and 2011 to 66 per cent, or two thirds of the population, by 2016. People living in Melbourne townhouses, apartments and flats increased to 33 per cent by 2016.

In March 2017, the Government introduced a new set of design guidelines for apartments known as *Better Apartments*. The Minister explained elements of the new design guidelines that will improve liveability for apartment residents:

> Some of the headline elements of the new standards are: building setbacks that provide for adequate access to daylight, outlook and privacy; requirements that ensure functional layout and room depth, making for comfortable and more usable bedrooms and living spaces; and requirements for the provision of both communal and private open space, servicing the needs of residents. The other six standards encapsulate things such as solar access, the communal open space — obviously if you are going into communal open space, you want to have air and light — natural ventilation... [332]

331 ibid., p.3
332 ibid., p.26

The Minister for Planning was asked at the public hearings about the reported oversupply of small single and double room apartments, together with the growth of family households living in apartment accommodation. In replying, the Minister noted that:

> Lots of people want two, three or four bedroom apartments. We need to learn from Docklands that the social infrastructure has to be put in place to support families. We have got a school site now in Docklands. These are the sorts of things that were not retrofitted in the past. They have come at a huge cost, particularly to the City of Melbourne, with their library, their maternal and child health ... [333]

The *Better Apartment* guidelines establish a minimum width and depth for living areas for studio and one bedroom apartments and two or more bedroom apartments.[334] When asked if there is any further guidance in *Better Apartments* for larger, multi bedroom apartments, the Minister informed the Committee that there are no mandatory requirements for this dwelling type, stating that '... we are not mandating it. The market is shifting itself'.[335]

FINDING 76: The Government introduced the *Better Apartments* design guidelines in March 2017, mandating design requirements for apartments including access to daylight, layout and room depth and natural ventilation.

6.6.4 Shared equity schemes

As part of the *Homes for Victorians* initiative, the Government announced two new shared equity schemes aimed at assisting first home buyers to enter the property market. The budget papers state the *HomesVic* shared equity scheme will commence in January 2018 and will contain a $50 million equity provision supplied over two years.[336] The 2017-18 Budget sets aside $2.6 million across 2016-17 to 2019-20 for costs associated with establishing the initiative, including staffing.[337] The scheme is intended to assist 400 first home buyers who meet the criteria for securing a housing loan but do not have enough for a deposit. Under the scheme, the Government would take an equity stake in a new or existing property of up to 25 per cent, thus reducing the required deposit amount for the first home buyer. The first home buyer would need a five per cent deposit and would avoid paying mortgage insurance.[338]

The scheme is open to first home buyers with incomes up to $75,000 for singles and $95,000 for couples and families.[339] The scheme will be administered through State Trustees, which holds the relevant financial licences.[340] The Committee

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333 ibid., p.18

334 Department of Environment, Land, Water and Planning, *Apartment Design Guidelines for Victoria* (2017), p.54

335 Hon. Richard Wynn MP, Minister for Planning, *2017-18 Budget Estimates Transcript of Evidence*, 16 May 2017, p.18

336 Victorian Government, *Fact Sheet – Shared Equity* (2017), p.1

337 Department of Treasury and Finance, *Budget Paper No.3: 2017-18 Service Delivery* (2017), pp.19-22

338 Victorian Government, *Fact Sheet – Shared Equity* (2017), p.1; Mortgage insurance is required when buyers have less than a twenty per cent deposit on a property.

339 Victorian Government, *Fact Sheet – Shared Equity* (2017), p.1

340 ibid.

understands that parameters of the scheme including the location of properties, the amount available for participants to borrow, a maximum value for eligible properties and loan and refinancing arrangements are in the process of being finalised before the pilot scheme's planned introduction in January 2018.

The other shared equity scheme is *Buy Assist*, whereby the Government will contribute $5 million in 2017-18 towards the national community sector scheme run by the National Affordable Housing Consortium (NAHC).[341] The Government anticipates that 100 home buyers will be eligible for the scheme.[342] *Buy Assist* differs from *HomesVic* in that eligible participants do not need to have money for a deposit or mortgage insurance, as the NAHC will take out a registered second mortgage on the property, and arrange the relevant financing with commercial providers.[343]

FINDING 77: The Government will pilot two shared equity schemes as part of the *Homes for Victorians* package. The largest of these is *HomesVic*, a $50 million equity provision run by State Trustees over two years that is anticipated to assist 400 first home buyers.

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A report by the Australian Housing and Urban Research Institute (AHURI) into shared equity housing initiatives in Australia found the costs to the Government (and by association the taxpayer) include the risk that the equity injection may not be repaid at a future stage and the potential for losses in the event of a decline in property values.[344] Benefits to the Government include the possibility of capital appreciation of the shared equity component of the property over time, the freeing up of social housing stock and alleviation of public housing waiting lists and the transfer of maintenance costs to the owner.[345]

For the home owner, the benefits include the purchase opportunity being brought forward due to the minimal deposit requirements, together with no mortgage insurance, access to affordable sustainable mortgage finance via the scheme and the flexibility and ability to buy the remaining equity share when financial circumstances are conducive to do so. Also, in the event of a fall in property values, the losses would be mitigated by the share taken by the equity partner.[346]

In terms of costs to the home owner, shared equity schemes mean that while they do not have full ownership of the property, they must pay all bills and taxes associated with property, as well as cover the cost of all repairs. It is possible that the principal mortgage component tied to the government lender could be less flexible compared to other commercial providers, as well as other limitations such as limiting the loan amount or value of the property. There may also be limitations on the capacity to move elsewhere in the market due to the redemption arrangements of the equity loan back to the Government.[347]

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341 Department of Treasury and Finance, *Budget Paper No.3: 2017-18 Service Delivery* (2017), pp.19-22

342 Victorian Government, *Fact Sheet – Shared Equity* (2017), p.2

343 ibid.

344 Australian Housing and Urban Research Institute (AHURI), *Innovative Financing for Homeownership: the Potential for Shared Equity Initiatives in Australia*, report prepared by Simon Pinnegar, Hazel Easthope, Bill Randolph, Peter Williams and Judith Yates (2009), p.83

345 ibid., p.84

346 ibid.

347 ibid.

As noted earlier, further information on the pilot shared equity schemes announced in the 2017-18 Budget regarding the parameters and protections for both (that is, home owners and the Victorian Government) equity partners will be released by the end of the year.

6.6.5 Demand and supply side policies for housing announced in the 2017-18 Budget

The shared equity schemes, along with the stamp duty relief initiatives aimed to assist first home buyers announced in this year's budget, can be seen as 'demand side policies' to address the issue of housing affordability. That is, they seek to assist potential first home buyers who are facing demand side barriers to entry into the housing market, such as rising prices driven by increasing competition for properties from other potential home purchasers.

Critics of demand side housing policies such as first home owner grants and shared equity schemes claim that overall such initiatives will have little impact on the current housing affordability crisis, as they only serve to create extra demand for housing, which will continue to drive up prices. In the Committee for Economic Development of Australia (CEDA) report *Housing Australia*, Dr Judith Yates notes:

> Demand side policies, such as increasing grants to First Home Buyers, introducing concessional savings schemes, or allowing access to superannuation, all aim to increase income or reduce the deposit gap. Their main effect will be to enable marginal buyers to purchase bigger homes in better locations. They are band-aid solutions that … will be ineffective in the long-run. None will change the fundamental causes of declining affordability.[348]

FINDING 78: Critics of demand side policies such as shared equity schemes and first home buyer's grants believe they are ultimately ineffectual in addressing problems associated with housing affordability, as they promote increasing participation in the housing market which can drive up prices.

In addition to the demand side policies introduced by the Government in this year's budget, there are also 'supply side' initiatives such as the *Inclusionary Housing in Major Developments* initiative and the *Inclusionary Housing on Surplus Government Land Pilot* scheme, which aim to:

> … increase the supply of housing through faster planning and land release which will put downward pressure on housing prices. For example, an extra 100,000 lots of land will be made available in Melbourne's growth corridors and making better use of previously industrial land to increase development opportunities in Melbourne's inner and middle suburbs.[349]

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348 Dr Judith Yates, 'Housing Australia' in *Housing Australia*, Committee for Economic Development of Australia (CEDA) (2017), p.23

349 Department of Treasury and Finance, *Response to the Committee's 2017-18 Budget Estimates Entity-specific Questionnaire*, Received 12 July 2017, p.10

FINDING 79: The Government has also announced a series of supply side policies in the 2017-18 Budget aimed at placing downside pressure on house prices. These include the *Inclusionary Housing in Major Developments* initiative and the *Inclusionary Housing on Surplus Government Land Pilot* scheme which will make an extra 100,000 lots of land in Melbourne's growth corridors available to home buyers.

6.7 Water and energy

This section examines initiatives in the 2017-18 Budget relating to the security and affordability of gas, water and electricity.[350]

6.7.1 Initiatives in the 2017-18 Budget

The 2017-18 Budget includes 14 initiatives relating to the electricity, water and gas sectors. Together, these initiatives are anticipated to provide $258.9 million in output expenditure over the forward estimates period.[351] The initiatives are intended to assist in aspects of security of resource, security of supply and affordability to consumers.

The budget papers also note that nine of the initiatives will be funded from the Environmental Contribution Levy[352] and three will be funded from the Sustainability Fund.[353] The Environmental Contribution Levy is discussed in further detail in Chapter 12 of this report.

6.7.2 Infrastructure and costs to consumers

The Committee considers that there is a clear trade-off between the amount spent on infrastructure and the cost of the utilities produced by that infrastructure.

Demand for water and energy is not easily predictable: factors such as how cold the next winter will be and rainfall over the next few years are unknown. At the 2017 Deakin Oration, Professor Tony Wong of the Cooperative Centre for Water Sensitive Cities noted the increasing difficulty in designing infrastructure for future climatic conditions:

> … we can no longer design infrastructure with confidence about the future conditions in which it will operate. We are in the precarious position of reaching some of the planet's "limits to growth", with symptoms both global and local. Global in terms of climate change. And local, in terms of how growing populations and increased urbanisation place pressure on the security of our water supply, the health of our water environment, and protection from the hazards of flooding. So what are the specific consequences for infrastructure planning?

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350 This includes sewerage and drainage aspects of water supply.

351 Department of Treasury and Finance, *Budget Paper No.3: 2017-18: Service Delivery* (2017), pp.27, 66. Does not include Victoria's contribution to the Murray-Darling Basin Authority.

352 Department of Treasury and Finance, *Budget Paper No.3: 2017-18: Service Delivery* (2017), pp.72-4

353 ibid., p.75

> Much of our understanding of water resources hydrology and the ways in which we have engineered and designed our water infrastructure, such as dams, water pipes, sewerage systems, and drainage works, have been based on statistical analysis of past conditions – the streamflows, the rainfall, the floods. We are all familiar with references to the "100-year flood" or the "50-year drought". But we need to understand that such references may be increasingly meaningless. In 2008, scientists published a definitive warning that we cannot rely on past data and its statistical properties to predict future events. Globally and in Australia, hydrological and meteorological data and trends no longer follow the statistical properties of the past ...
>
> While we anticipate a future of more severe droughts and heatwaves, and more frequent floods, we do not actually know the likelihood or probability of these future occurrences. That means that we can no longer reliably design infrastructure to achieve a desired level of service or protection.[354]

Professor Wong noted the Millennium Drought experienced between the late 1990s and 2009 was:

> Not only ... the worst drought recorded since European settlement, the drought was broken by big floods, and followed by periods of record-breaking heatwave conditions. This 14-year-long period of contrasting climatic extremes is a stark reminder of how vulnerable our cities and towns are to a changing climate.[355]

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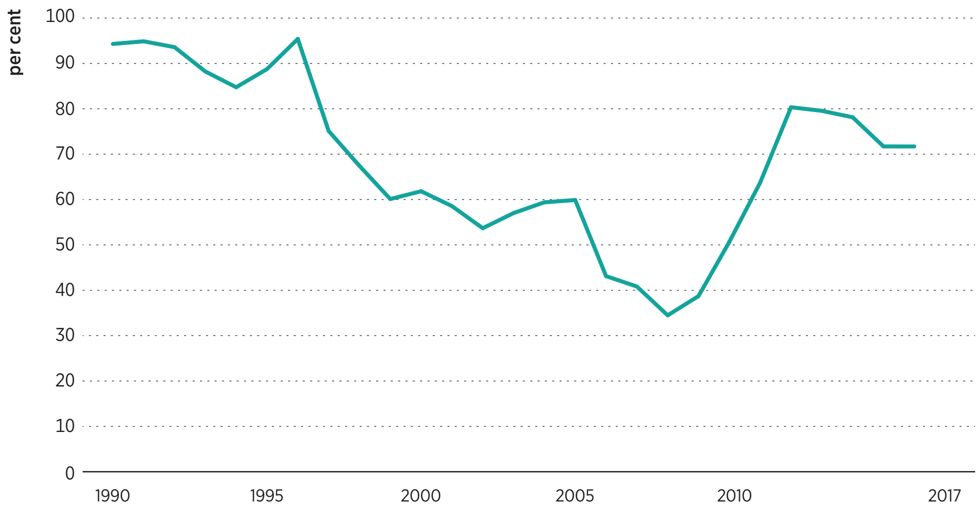
Figure 6.7 **Melbourne water storages, November[(a)] 1990 to 2016, percentage full**



(a) November is the end of the 'filling season', when storages are at their highest on average

Source: Melbourne Water Corporation, *Storages Over the Years* (2017).

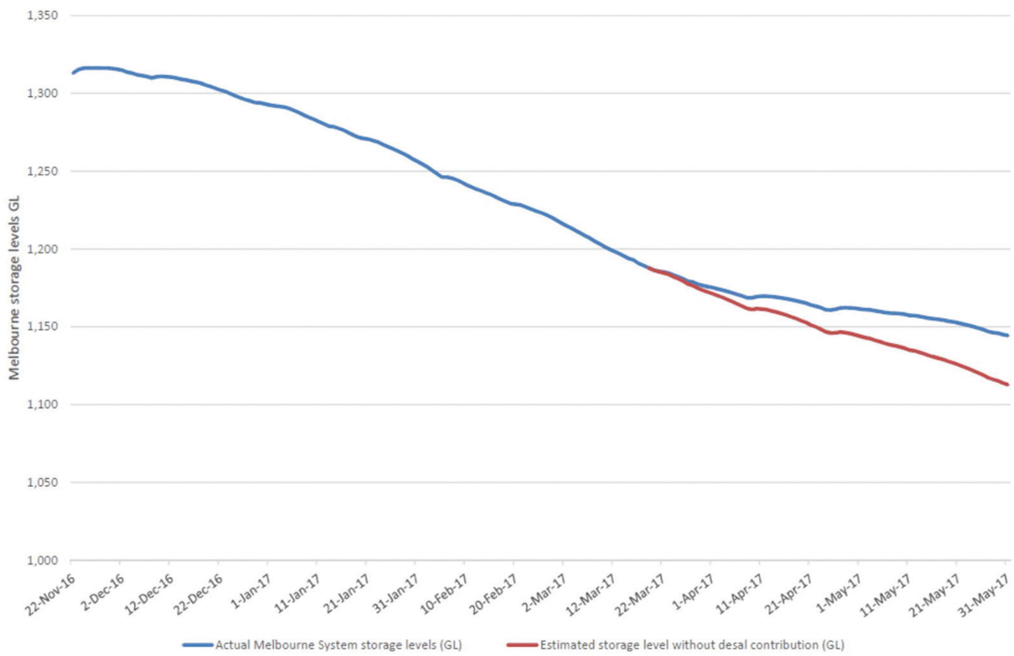
354 Dr Tony Wong, Chief Executive Officer, Cooperative Research Centre for Water Sensitive Cities, 'Deakin Oration 2017' (speech delivered at Parliament House Victoria, Melbourne, 31 August 2017)

355 ibid.

At the public hearings, the Minister for Water presented a chart showing the estimated effect the Wonthaggi Desalination Plant has had on Melbourne's storages between March and May 2017. In describing the chart, the Minister informed the Committee that:

> ... since desal has come in it has started to stabilise the decline. ... It is a small contribution to the system but one that is critical for water security into the future.[356]

Figure 6.8 **Desalination and Melbourne's water storages, with and without the Wonthaggi Desalination Plant, November 2016 to May 2017**



Source: Reproduced from the Minister for Water, Environment and Climate Change's presentation to the Committee, 2017-18 Budget Estimates Hearing, 1 June 2017. Available at <www.parliament.vic.gov.au/paec>, viewed 9 August 2017

The Committee notes that such improvements come at a cost, and this must ultimately be paid for by some or all of the people in Victoria, either through taxes paid by all to the Government, through utility bills paid by customers,[357] or a combination of both.

FINDING 80: Calculating future demand for water and energy for infrastructure planning is increasingly difficult due to factors such as climate change and the demand placed on infrastructure services by a growing population and increasing urbanisation.

6.7.3 Management of future changes

The Government expects that three major factors, climate change, population growth and changes in energy technology affect energy and water markets.

356 Hon. Lisa Neville MP, Minister for Water, *2017-18 Budget Estimates Transcript of Evidence*, 1 June 2017, p.3

357 which may include payments to private sector consortia that have built infrastructure under PPP arrangements

The expected effects of climate change on Victoria are complex. The broadest expected effect of climate change is that Victorian water is likely to be scarcer and its supply less reliable. However, actions taken to slow or mitigate the impacts of climate change, particularly in the production of energy, are expected to have flow-on effects.

Population growth is expected to increase overall demand for both water and energy. However, anticipated changes in population density are also expected to affect local distribution in a variety of ways.

The Government's plans to manage the expected effects of climate change and population growth include schemes to:

(1) increase supply (including the growth of renewable sources)

(2) improve system efficiency

(3) manage the growth of demand

(4) enhance information to allow consumers and planners to achieve better outcomes.

(1) Renewable energy and new supply

Developing new sources of supply and developing renewable resources may limit the price growth of water and energy products. The Minister for Energy, Environment and Climate Change informed the Committee:

> One of the key parts of that of course is to ensure that we actually get more energy supply into the market. When you get more energy supply into the market, more supply in any market—and in this case electricity, let us say, as an example—does actually mean more competition and lower prices. So that is one thing that is very important in terms of more generation through our renewable energy target scheme ...[358]

For renewable resources, one of the stated objectives of the Department of Environment, Land, Water and Planning is a 'reliable, efficient, accessible, safe and sustainable energy services'.[359] The Department's progress towards this objective is partly indicated by the relative share of Victoria's energy sourced from renewables. While the Department reports this share each year,[360] no annual target is given in the budget papers. The State's longer-term target is that 25 per cent of electricity generated in the State will come from renewable sources by 2020 and this will rise to 40 per cent by 2025.[361]

358 Hon. Lily D'Ambrosio MP, Minister for Energy, Environment and Climate Change, *2017-18 Budget Estimates Transcript of Evidence*, 19 May 2017, pp.4-5

359 Department of Treasury and Finance, *Budget Paper No.3: 2017-18: Service Delivery* (2017), p.208

360 The objective indicator was included in the *2015-16 Annual Report* (p.217) for the Department of Economic Development, Jobs, Transport and Resources, and transferred to the Department of Environment, Land, Water and Planning in a machinery-of-government change.

361 Hon. Daniel Andrews MP, Premier of Victoria, *Renewable Energy Targets To Create Thousands Of Jobs* (Media release, 15 June 2016)

Part of the $42.4 million *Victorian Gas Program* initiative that was released with the 2017-18 Budget will help fund the search for new offshore gas resources.[362] The Minister continued that:

> The work will initially focus on the area considered by the Geological Survey of Victoria to be the most prospective for conventional gas in the Otway geological basin between Port Campbell and Warrnambool.[363]

However, for onshore unconventional gas, the Government has extended its moratorium on conventional onshore gas exploration and development to 30 June 2020.[364]

Finally, the Committee considers that the expansion of energy supply is likely to change the ways in which the various grids work. For example, the growth of rooftop solar panels is already altering summer peak demand levels, shifting the peak towards the evening.[365] These changes may prove a challenge to grid operators, but may be solved through increased efficiency rather than further expanded supply.

(2) System efficiency improvements

In general, the aim of system efficiency improvements is to prevent losses, bottlenecks and other inefficiencies. In the case of the water system, this will enable users to use water that would otherwise have been lost through leakage, evaporation, or other ways such as unmetered usage. For the electricity grid, system efficiency improvements also include techniques to enable demand to be matched with supply, both geographically and across time periods.

The 2017-18 Budget included a number of initiatives that are intended to improve system efficiency. This includes the $52.4 million *Water for Victoria – Entitlements and Planning initiative*, which is intended to simplify regulation, improve compliance and enforcement and begin a long-term water resource assessment process as well as water sustainability reviews.[366]

The $13.9 million *Water for Victoria – Water Grid and Markets* initiative released in the 2017-18 Budget is intended to improve the operation of the water market by strengthening the water entitlement framework and establishing a grid oversight function.[367] That is, improving the definition of what can be traded and improving the way these entitlements are traded. The Minister for Water, in describing the initiative, noted that benefits are intended to be shared between users and the environment.

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362 Department of Treasury and Finance, *Budget Paper No.3: 2017-18: Service Delivery* (2017), pp.26, 35

363 Hon. Wade Noonan MP, Minister for Resources, *2017-18 Budget Estimates Transcript of Evidence*, 19 May 2017, p.4

364 Hon. Wade Noonan MP, Minister for Resources, *Fracking Banned In Victoria, Giving Certainty To Farmers* (Media release, 7 March 2017)

365 Australian Energy Market Operator, *Rapid Uptake of Rooftop Solar Changing WEM Paradigm* (Media release, 15 June 2017)

366 Department of Treasury and Finance, *Budget Paper No.3: 2017-18: Service Delivery* (2017), pp.66, 73

367 ibid., pp.66, 74

> ... if you are modernising your system, you get less waste, you get less evaporation, you have got more opportunities for both environmental water and water for irrigators, and particularly in the context of overall less water, which we are all going to have to confront.[368]

A long-running project that is intended to improve water system efficiency by preventing losses is the *Connections Project*,[369] which is being provided through the Goulburn-Murray Rural Water Corporation.[370] The purpose of this project is to modernise infrastructure in order to save water losses. This includes replacing open channels with new water pipelines and improving the condition of existing open channels as well as other efficiency-boosting automation and demand management works such as new meters. The Minister for Water told the Committee:

> ... modernising a major irrigation district, is also about making sure that we are most efficiently and effectively using our water and reducing losses that are caused from evaporation. Old channels often use more water to deliver water for use by the irrigator than they actually need, so a lot of water is wasted.[371]

The water saved by the *Connections Project* is intended for both the irrigators and the environment. According to the Minister, the project is:

> ... providing water savings that go back to the environment under the Murray-Darling Basin plan; but also providing savings back to irrigators through modernising the system.[372]

The Committee notes that the *Melbourne Water System Strategy* has a number of elements related to system efficiency. This strategy document, which was released in March 2017 by the Melbourne Water Corporation, lists actions relating to making the most of the water supply system, using water efficiently and optimising the water grid and markets.[373]

With respect to the electricity system, the $88.8 million *Securing our Modern Energy Future* initiative, released in the 2017-18 Budget, is intended to, in part, support large-scale electricity storage.[374] The Minister commented that the Government would:

> ... run a grant system, if you like, for there to be the deployment of two large-scale batteries of 20 megawatt hours each, which I think would total about 100 megawatt hours in terms of actual energy that could be used, ... to be deployed around the western Victoria area, where there are particular grid constraints.[375]

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368 Hon. Lisa Neville MP, Minister for Water, *2017-18 Budget Estimates Transcript of Evidence*, 1 June 2017, p.7

369 Prior to 2013-14, this was known as the *Northern Victoria Irrigation Renewal Project* (Department of Treasury and Finance, *Budget Paper No.4: 2013-14 State Capital Program* (2013), p.92)

370 Department of Treasury and Finance, *Budget Paper No.4: 2017-18 State Capital Program* (2017), p.97

371 Hon. Lisa Neville MP, Minister for Water, *2017-18 Budget Estimates Transcript of Evidence*, 1 June 2017, p.4

372 ibid., p.5

373 Melbourne Water, *Melbourne Water System Strategy* (2017), pp.6-7

374 Department of Treasury and Finance, *Budget Paper No.3: 2017-18: Service Delivery* (2017), pp.66, 75

375 Hon. Lily D'Ambrosio MP, Minister for Energy, Environment and Climate Change, *2017-18 Budget Estimates Transcript of Evidence*, 19 May 2017, p.28

Such a storage system may, for example, allow the more reliable supply and efficient use of electricity generated by the wind farms in western Victoria. The Minister also noted that this is an example of a solution which is less expensive than alternatives.

For gas, storage is also a way of increasing system efficiency, as well as managing prices. According to the Minister for Resources, under the 2017-18 Budget's $42.4 million *Victorian Gas Program* initiative:

> … studies will also be undertaken into known depleted gas wells and surrounding areas to identify whether there are new opportunities for commercial gas storage. Further storage will help mitigate short-term price peaks and secure supply during periods of high demand.[376]

The Minister also informed the Committee:

> What we understand is that there are currently 10 potential sites in the Otway Basin that have been identified by the Geological Survey of Victoria as having potential for gas storage.[377]

Finally, in the longer term, system security may be traded off for overall cost. This would result in electricity, water and gas supply being cheaper for consumers, but that reliability of supply would be lower, resulting in system interruptions. A number of sources have suggested that price and reliability are already higher than desirable.[378]

(3) Demand management schemes

The purpose of demand management schemes is to lower demand for water or energy, with the ultimate aim limiting expensive infrastructure growth while still providing services for a growing population.

Some schemes attempt to manage usage directly, either by regulation (imposing restrictions on use, as has been done with water in times of drought) or voluntarily, using education campaigns such as *Target 155*.

The Government provides programs to assist households in switching to more energy-efficient technology, such as the *Home Energy Assist* program, which helps concession card holders with complex healthcare needs.[379] This program is intended to upgrade 1,000 homes, including the installation of high-efficiency heating, insulation, window coverings, draught proofing, and high efficiency lighting.[380]

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376 Hon. Wade Noonan MP, Minister for Resources, *2017-18 Budget Estimates Transcript of Evidence*, 19 May 2017, p.2

377 ibid., p.9

378 For example, Philip Lasker, 'Power prices: Australia has a Gold-plated Electricity Grid that Consumers Can't Afford', ABC News, 19 July 2017

379 Hon. Lily D'Ambrosio, Minister for Energy, Environment and Climate Change, *2017-18 Budget Estimates Transcript of Evidence*, 19 May 2017, p.6

380 Department of Environment, Land, Water and Planning, *Home Energy Assist Program*

Other demand management schemes can change the tariffs under which energy and water are sold. The Brotherhood of St Lawrence noted that 'the fixed retail charges Victorian consumers face are much higher than the fixed network charges that underlie the retail tariff'.[381] The Committee considers that a tariff change that lowers the fixed charge to consumers while raising the consumption cost will enhance the incentive to restrict the use of utilities.[382]

In December 2016, the Government re-launched the *Target 155* campaign, a demand management program that promotes behaviour change through awareness of water usage. Water usage figures are compared against the target on water bills sent to metropolitan households.

The Minister for Water noted that the campaign has a measurable effect:

> We have reinstated it, and you might have seen that on water bills and our water authorities running those programs. ... The water authorities will continue to really press this because 155 does save us. It is equivalent to around 20 gigalitres of water ... 20 gigalitres from just having a 155 target.[383]

The Government has also launched a similar campaign for regional areas, *Target 155 – Target Your Water Use*.[384]

(4) Information for planners and consumers

Separation of utilities into wholesale and retail providers has resulted in an increasing number of providers, as well as an increasing number of retail 'plans' for consumers to choose between. The Committee considers that these plans can be confusing to consumers, because:

- consumers' future consumption may depend largely on unknown factors such as future weather patterns and competitors' offers
- researching the large number of plans from retailers takes a large amount of time.

The Independent Review into the Electricity and Gas Retail Markets in Victoria[385] noted the common argument that 'the more consumers understand and engage with the competitive energy market, the more likely they will get a better deal'.[386] However, the review also noted that, while there are drivers of

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381 Brotherhood of St Lawrence, *Submission to the Review of Electricity and Gas Retail Markets in Victoria (2017)*, p.12

382 The change in tariff can preserve overall 'revenue neutrality', meaning the total revenue to the provider remains, at least initially, unchanged. Effects on consumers are more complex, and concessions and other schemes can be used to prevent disadvantage to individuals.

383 Hon. Lisa Neville MP, Minister for Water, *2017-18 Budget Estimates Transcript of Evidence*, 1 June 2017, p.13

384 Hon. Lisa Neville MP, Minister for Water, *Summer's Here: It's Time to Target 155* (Media release, 1 December 2016)

385 In November 2016, the Government announced an independent and bi-partisan review of Victoria's electricity and gas retail markets. The purpose of the review is to examine the operation of the current markets and suggest options for improving outcomes for consumers in the future. The final review was released in August 2017, containing 11 recommendations that are 'aimed at getting a better deal for Victorians'.

386 Professor John Thwaites, Ms Patricia Faulkner and Mr Terry Mulder, *Independent Review into the Electricity and Gas Retail Markets in Victoria* (2017), p.36

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consumer engagement in energy markets, there are also a number of barriers to engagement. These include what the Review described as 'high perceived complexity' and 'low energy literacy'. These combine so that:

> … in the energy market, many consumers do not understand the costs of different energy contracts – they have little knowledge of what actual 'price' they will pay …
>
> Many consumers want to save money on their bills, but find it complex and difficult to understand the different offers in the market. They conclude that it's safer to stay with their current energy retailer – even if that means potentially missing out on a better deal.[387]

The *Independent Review into the Electricity and Gas Retail Markets in Victoria* recommended a 'Basic Service Offer', which would charge a price no greater than the regulated price. This would:

> … represent a reasonable price of energy in the market. It would provide an option for consumers who just want affordable energy without the fuss.[388]

The 2017-18 Budget includes the $10.7 million *Energy Affordability – Putting Consumers First* initiative, which funds the development and promotion of the Victorian Energy Compare website.[389] The Government intends that this will enable domestic and small business consumers to manage energy usage counted by smart meters (by adjusting overall energy use as well as when the energy is used) to lower bills. The Minister for Energy, Environment and Climate Change told the Committee at the public hearings that 'seven out of every ten users are able to save $220 or more just on electricity alone'.[390]

The Victorian Energy Compare website is also intended to promote competition amongst providers as it allows consumers to compare offers from energy retainers.[391]

In the water sector, the 2017-18 Budget included the $12.4 million *Water for Victoria – Resilient and Liveable Cities and Towns* initiative, which is intended to improve water management and planning, and therefore allow urban water authorities to 'manage the challenges of population growth and climate change'.[392]

FINDING 81: Climate change and population growth are expected to affect energy and water markets. The Government's plans to manage these include schemes to increase supply (including the growth of renewable sources), improve system efficiency, manage the growth of demand, and enhance information to allow consumers and planners to achieve better outcomes.

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387 ibid., p.37

388 ibid., p.55

389 Department of Treasury and Finance, *Budget Paper No.3: 2017-18: Service Delivery* (2017), pp.66, 75

390 Hon. Lily D'Ambrosio MP, Minister for Energy, Environment and Climate Change, *2017-18 Budget Estimates Transcript of Evidence*, 19 May 2017, p.6

391 Department of Treasury and Finance, *Budget Paper No.3: 2017-18: Service Delivery* (2017), p.75

392 ibid., pp.66, 74

7 Asset investment

Key findings

- Direct investment (net of asset sales) by the general government sector is expected to increase to $8.3 billion in 2017-18. This is due to a combination of accelerated capital expenditure on existing projects including the *Level Crossing Removal Program*, and expenditure relating to new asset initiatives in the 2017-18 Budget. However it is forecast to decrease over the forward estimates period to $6.4 billion by 2020-21.
- One of the significant changes to government infrastructure investment is the growing reliance by government on public private partnerships as a financing mechanism for the delivery of infrastructure.
- Four public private partnership projects, with a value of over $16.7 billion, are currently under development.
- If the end of the construction phase of a public private partnership project is beyond the end of the forward estimates, the project's effects on net debt may not be reflected in the budget papers. The effect on net debt of large projects can be significant.
- A new accounting standard will require public sector entities to recognise assets and liabilities relating to public private partnership projects in the State's finances. However, challenges remain for the transparent reporting of public private partnerships projects.
- The *Level Crossing Removal Program* is estimated at $6.9 billion in the 2017-18 Budget as compared to its previous estimates of $5 to $6 billion in the 2015-16 and 2016-17 Budgets.
- A higher level of transparency regarding the *Level Crossing Removal Program* would be beneficial. The Committee commented on the late release of the project's business case, the $1.4 billion *Metropolitan Network Modernisation Program* and the desirability to have a set of rigorous and meaningful performance measures regarding the project.
- Water authorities report a series of indicators in their annual reports. None of these address asset sustainability in terms of the ratio of assets added to assets eroded. How much water corporations spend on keeping track of infrastructure assets is also not separately reported, although water authorities have extensive systems to monitor asset condition.
- Ageing infrastructure involves risks in terms of maintenance costs, operation costs, revenue and public safety. Water entities are required to manage these risks, including inter-agency and state significant risks. In annual reports for 2015-16, five of the smaller water corporations reported areas of non-conformity to the *Victorian Government Risk Management Framework.*

7.1 Introduction

Asset investment occurs when the Government purchases or constructs infrastructure or other assets that are intended to provide benefits to the community over the long-term. This is in contrast to the everyday provision of goods and services, included in the State finances under output expenditure and discussed in Chapter 6.

This chapter assesses the expected levels of infrastructure investment in terms of Government's strategy, specifically in respect to the stated goal of provision of infrastructure for a growing population. The section discusses anticipated infrastructure provision, corrected for expected inflation, per head of population.

The chapter then divides government infrastructure investment into its three major components. These are:

- direct investment (net of asset sales)
- public private partnership (PPP) investment
- net investment through other sectors.

Three aspects of asset provision outlined in the 2017-18 Budget that are of significant public interest and government investment are then examined. These are:

- the progress of the *Level Crossing Removal Program*
- investment in assets provided within the public non-financial corporations (PNFC) sector with a specific focus on water corporations
- investment in assets related to regional transport.

7.2 Government infrastructure investment

The budget papers forecast that government infrastructure investment for 2017-18 will be $10.1 billion.[393] This is a $787.1 million (8.4 per cent) increase on the revised figure for 2016-17.[394]

The historical profile for government infrastructure investment is shown in Figure 3.3 in Chapter 3 of this report. Figure 3.3 shows that the revised estimate for 2016-17 is nearly twice the amount for 2015-16. The budget papers show that this higher level is expected to be sustained over the forward estimates period, falling in 2020-21 to $8.4 billion.[395]

FINDING 82: Overall government infrastructure investment is forecast to rise to $10.1 billion in 2017-18. It is forecast to remain at a similar level before declining to $8.4 billion in 2020-21.

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393 Department of Treasury and Finance, *Budget Paper No.4: 2017-18 State Capital Program* (2017), p.19

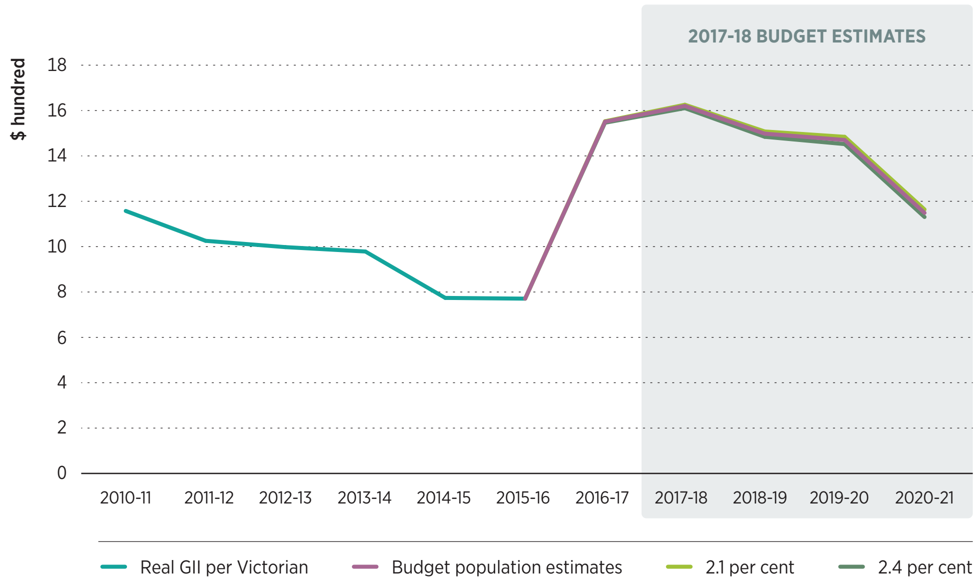
394 Committee calculation based on Department of Treasury and Finance, *Net Infrastructure Investment* (2017)

395 Department of Treasury and Finance, *Budget Paper No.4: 2017-18 State Capital Program* (2017), p.19

One of the elements of the Government's budget strategy states that 'Public infrastructure will grow steadily over time to meet the needs of a growing population'.[396]

Figure 7.1 shows the value of infrastructure provision per head of population in Victoria. It shows a similar profile to the overall profile for government infrastructure investment, with the figures adjusted for inflation and spread over the expected growing population.

Figure 7.1 **Real government infrastructure investment per Victorian,[(a)] three population growth scenarios, 2010-11 to 2020-21**



(a) 2017-18 values

Sources: Department of Treasury and Finance, *Macroeconomic Indicators* (2017); Department of Treasury and Finance, *Net Infrastructure Investment* (2017)

Figure 7.1 shows that cash spent on government infrastructure investment is expected to increase in 2017-18 to $1,605 per Victorian. However, following this, anticipated inflation is expected to erode the value of investment made later in the forward estimates period. This investment is also expected to be shared over an increasing number of Victorians.

By the end of the forward estimates period, real investment is forecast to fall to $1,174 per head. This is still slightly more in real terms per Victorian than asset investment in 2010-11, which was $1,168. This means that over the whole period from 2010-11 to 2020-21, real investment per Victorian is forecast to grow slightly.

Figure 7.1 also depicts real government infrastructure investment per Victorian given the two higher population growth scenarios discussed in Chapter 4. These project the population at growth rates of 2.1 and 2.4 per cent. Under these

396 Department of Treasury and Finance, *Budget Paper No.2: 2017-18 Strategy and Outlook* (2017), p.23

two scenarios, real government infrastructure investment per Victorian forecast by 2020-21 will be $1,160 and $1,143 respectively. In real terms, both of these are below the actual figure for 2010-11.

Overall, Figure 7.1 shows that using the population growth rates contained in the budget papers, real government infrastructure investment is expected to keep pace with the growing population over the period from 2010-11 to 2020-21. However, under both the population growth scenarios discussed in Chapter 4, real government infrastructure investment forecast at the end of the forward estimates period does not keep pace with the population growth over the same period.

FINDING 83: Using the population growth rates provided in the budget papers, real government infrastructure investment per head of population is expected to remain above the 2010-11 level for the whole of the forward estimates period. However, for both of the population growth scenarios discussed in Chapter 4, real government infrastructure investment per head of population forecast in 2020-21 is below the 2010-11 level.

7.3 Components of government infrastructure investment

Government infrastructure investment is made up of three major components:

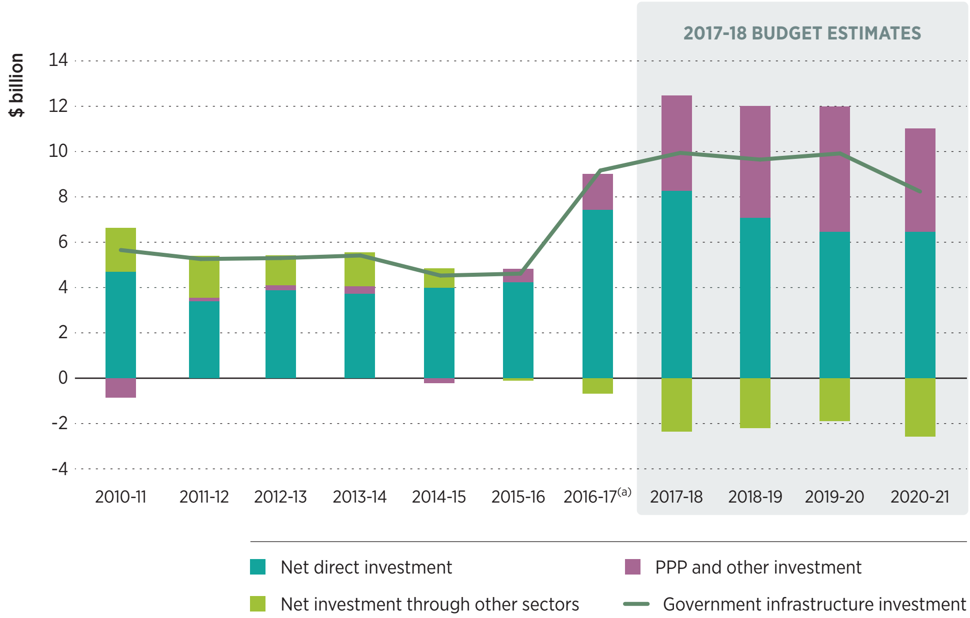
- direct investment (net of asset sales)[397]
- PPP and other investment
- net investment through other sectors.[398]

The following sections discuss the three major components of government infrastructure investment, which are shown in Figure 7.2.

397 This is known in the budget papers as 'net cash flows from investments in non-financial assets', and is further disaggregated in the budget papers into purchases and sales.

398 This is known in the budget papers as 'net cash flows from investments in financial assets for policy purposes', and is not disaggregated further in the budget papers. The combination of net direct investment and net investment through other sectors is known in the budget papers as 'total net investment in fixed assets'.

Figure 7.2 Government infrastructure investment and its components, 2010-11 to 2020-21



(a) The 2016-17 figure is a revised estimate.

Source: Department of Treasury and Finance, *Consolidated Cash Flow Statement – General Government Sector* (2017). Available at <www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Aggregate-financial-statements>, viewed 28 June 2017

7.3.1 Net direct investment

Net direct investment occurs when the Government manages the construction or purchase of the asset through a department, and the department owns the asset once it is complete. The cost of this investment is offset by asset sales for the year. An example of this type of investment is the *Mordialloc Bypass*, where the Department of Economic Development, Jobs, Transport and Resources will manage the construction of this project with some use of private subcontractors.[399]

Under previous estimates, the Government had forecast that net direct investment would decrease in 2017-18 from a peak in 2016-17.[400] However, the Government has accelerated work on a series of existing projects.[401] In addition, the Government has released a series of new asset initiatives for 2017-18 and onwards.[402] This has resulted in an upward revision of the net direct investment estimate for 2016-17, as well as an estimated growth in net direct investment for 2017-18, rather than a decline.

399 Department of Treasury and Finance, *Budget Paper No.3: 2017-18: Service Delivery* (2017), p.41

400 Department of Treasury and Finance, *Budget Paper No.5: 2016-17 Statement of Finances* (2016), p.9; Department of Treasury and Finance, *2016-17 Budget Update* (2016), p.36

401 Department of Treasury and Finance, *Budget Paper No.4: 2017-18 State Capital Program* (2017), p.9

402 Department of Treasury and Finance, *Budget Paper No.2: 2017-18 Strategy and Outlook* (2017), p.55

The budget papers discuss the accelerated capital program,[403] which is mostly driven by the *Level Crossing Removal Program* (LXRP), but also includes a number of other projects. The LXRP is discussed in greater detail later in this chapter.

The increase in direct expenditure relating to new asset initiatives is anticipated to be $1.2 billion in 2017-18.[404] As a result, total net direct expenditure is expected to reach $8.3 billion.[405] Figure 7.2 shows that after peaking in 2017-18, net direct investment is anticipated to decrease to $6.4 billion by 2020-21.

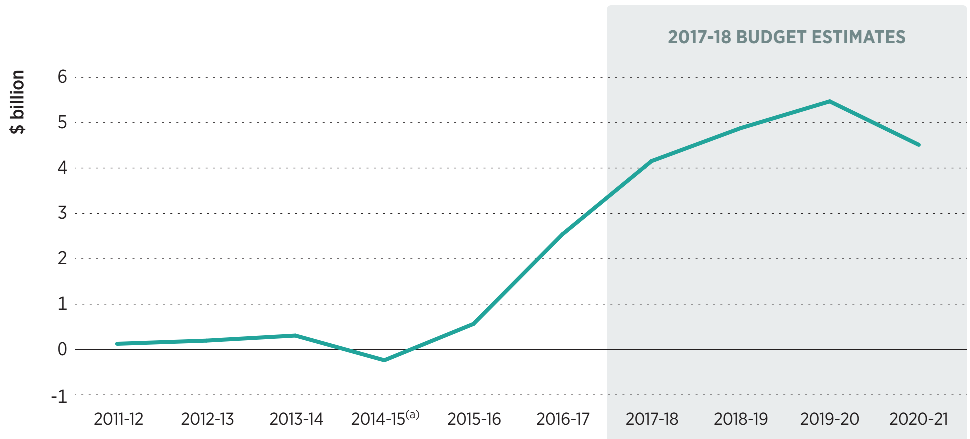
FINDING 84: Direct investment (net of asset sales) by the general government sector is expected to increase to $8.3 billion in 2017-18. This is due to a combination of accelerated capital expenditure on existing projects including the *Level Crossing Removal Program*, and expenditure relating to new asset initiatives in the 2017-18 Budget. Net direct investment is forecast to decrease over the forward estimates period, reaching $6.4 billion in 2020-21.

7.3.2 Public private partnerships and other investment

Level of government infrastructure investment provided by PPP projects

One of the significant changes to government infrastructure investment is the growing reliance by the Government on PPPs as a financing mechanism for the delivery of infrastructure (Figure 7.3). The amount of government infrastructure investment provided by PPP projects is expected to increase from $4.2 billion in 2017-18 to reach $5.5 billion in 2019-20, before falling to $4.6 billion by 2020-21.

Figure 7.3 PPP and other expenditure as a proportion of government infrastructure investment



(a) The negative figure for 2014-15 was a result of a change to the cash flow model relating to the cancellation of certain projects.

Source: Department of Treasury and Finance, *Net Infrastructure Investment* (2017)

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403 Department of Treasury and Finance, *Budget Paper No.4: 2017-18 State Capital Program* (2017), p.9

404 ibid., p.18

405 ibid., p.19

The Committee considers that this significant trend towards the provision of assets through PPP arrangements will change the overall risk profile faced by the Government. Currently, six PPP projects are under construction.[406]

FINDING 85: One of the significant changes to government infrastructure investment is the growing reliance by government on public private partnerships as a financing mechanism for the delivery of infrastructure.

As the private sector provides PPP investments, no expenditure is reflected in the estimated financial statements. However, PPP projects ultimately affect the State's finances in two ways:

- through operating payments (and interest) over the life of the project actually made to the private sector partner by the Government
- through effects on net debt resulting from commitments to make payments in future relating to the projects that are completed during the year.

These items relate to operational expenditure and not asset investment, meaning no estimate of PPP construction appears in the State's finances. The Government has estimated 'PPP and other investment' to reflect amounts spent on infrastructure projects, and included it alongside other asset expenditure in the budget papers for the information of stakeholders.

The Department of Treasury and Finance estimates PPP investment using modelled cash flow schedules relating to the construction of PPP projects. Normally, these schedules are not altered to reflect any delays or cost changes after the contract has been signed.

PPP and other investment also includes additional estimated amounts that may be invested in projects that contribute to other components of government infrastructure investment, but where the exact figure is not yet known due to other reasons, including commercial sensitivity. For 2017-18, this includes expenditure for the *West Gate Tunnel Project* (including the former *Western Distributor* project),[407] the *Port Rail Shuttle*[408] and the *Western Suburbs Roads Package*,[409] all managed by the Department of Economic Development, Jobs, Transport and Resources, and the *Pride Centre*, managed by the Department of Premier and Cabinet.[410]

FINDING 86: Public private partnerships and other investment for 2017-18 is estimated to be $4.2 billion. Public private partnerships investment is anticipated to peak in 2019-20 at $5.5 billion before falling slightly in 2020-21.

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406 ibid., p.12
407 ibid., p.29
408 ibid., p.28
409 ibid., p.29
410 ibid., p.63

PPP projects being negotiated

The increasing importance of PPP projects in the Government's infrastructure provision is underpinned by a series of PPPs that are still 'in procurement'. Negotiations on the following four projects have yet to be finalised, although the Government anticipates that construction will start during the forward estimates period.

The *Casey Hospital Expansion* is expected to add 128 beds and four new operating theatres and a central sterile services department to the existing facilities in Berwick.[411] The Minister for Health confirmed that the scope of the project had recently been expanded 'because a nursing school is being built in the expanded scope of Casey Hospital'.[412] The scope change brings the project size to $139.9 million,[413] and the Government anticipates the centre to be in operation in 2019.[414]

The $11.0 billion *Metro Tunnel* project will construct a rail tunnel from North Melbourne to South Yarra, enabling the Sunbury to Cranbourne and Pakenham line to be run as a separate operation. The PPP components of the overall project will cover the construction and maintenance of the tunnels and the five associated stations. The private operator will be paid through 'availability payments',[415] which flow directly from the Government to the operator rather than from users. In July 2017, the Premier and the Minister for Public Transport announced that Cross Yarra Partnership consortium had been successful in its bid.[416] Construction has already begun.[417]

The *Western Suburbs Roads Package* is a program of upgrades to main roads in Melbourne's west, involving both duplication and widening of existing arterial roads. The Minister for Roads and Road Safety described this PPP as 'an Australian first', which:

> … combines eight high-priority road upgrades with maintenance on more than 700 kilometres of road stretching from Werribee to Footscray, delivering new high-quality roads and maintenance of the existing network for years to come.[418]

The construction phase of the program is intended to be complete in early 2023, but maintenance for the roads will continue over the following 20 years. This project is also known as the western package of the *Outer Suburban Arterial*

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411 ibid., p.14

412 Hon. Jill Hennessy MP, Minister for Health, *2017-18 Budget Estimates Transcript of Evidence*, 17 May 2017, p.21

413 The Committee understands that project costs discussed here are based on the 'public sector comparator', which is the estimated cost should the project be constructed by the Government rather than under PPP arrangements.

414 Department of Treasury and Finance, *Budget Paper No.4: 2017-18 State Capital Program* (2017), p.14

415 ibid., p.13

416 Hon. Daniel Andrews MP, Premier, and Hon. Jacinta Allan MP, Minister for Public Transport, *The Metro Tunnel: More Jobs, More Stations, More Trains* (Media release, 16 July 2017)

417 ibid.

418 Hon. Luke Donnellan MP, Minister for Roads and Road Safety, *2017-18 Budget Estimates Transcript of Evidence*, 18 May 2017, p.3

Roads (OSARs) Program,[419] indicating it may be expanded to upgrade roads in other parts of Melbourne.[420] The estimated value of the project has yet to be released.[421]

The $5.5 billion *West Gate Tunnel Project* is intended to provide a freeway link between the West Gate Freeway and the Port of Melbourne, including widening the West Gate Freeway east of Williamstown Road, a tunnel and a bridge over the Maribyrnong River. The intended benefits of the project include traffic management, especially heavy traffic to and from the Port of Melbourne. The Minister noted that:

> In terms of travel times, we expect 50 per cent savings approximately for freight and related vehicles in terms of getting into the ports from the Western Ring Road ...[422]

This project is the result of a market-led proposal from Transurban, and is being evaluated under the market-led proposals guidelines. The project is expected to be completed by 2022.[423] The Government anticipates that the private sector operator will receive payment for the project through a combination of tolls on the West Gate tunnel, an extension of the tolling regime on other road infrastructure, and some availability payments from the Government.[424]

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FINDING 87: Four public private partnership projects, with a value of over $16.7 billion, are currently under development.

Debt effects of large public private partnership commitments

PPP agreements that include availability payments entail long periods[425] of payment commitments by the Government. These commitments are a financial liability which is reflected in increases in net debt on the State's finances. However, the increase in net debt only occurs on 'commissioning' of the project – that is, at the end of the construction phase, when the availability payments begin. By contrast, for a traditional debt-funded project, effects on net debt are evident throughout the construction phase of the project.

For large projects, where the construction phase lasts beyond the end of the forward estimates period, the effect on net debt will not appear in the budget papers.

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419 Hon. Daniel Andrews MP, Premier, *Major Works Set to Transform Outer-Western Roads* (Media release, 8 November 2016)

420 Department of Treasury and Finance, *Budget Paper No.4: 2017-18 State Capital Program* (2017), p.13

421 ibid., p.29

422 Hon. Luke Donnellan MP, Minister for Roads and Road Safety, *2017-18 Budget Estimates Transcript of Evidence*, 18 May 2017, p.4

423 Department of Treasury and Finance, *Budget Paper No.4: 2017-18 State Capital Program* (2017), p.15

424 Transurban, *West Gate Tunnel Project* <www.transurban.com/our-operations/out-projects/west-gate-tunnel>, viewed 20 September 2017

425 In the case of the *Metro Tunnel*, this period is 20 years.

For example, on commissioning, the *Metro Tunnel* (due in 2025-26) project is likely to add over $11 billion to net debt.[426] The Committee considers that this amount is significant, in comparison to an estimated debt of $28.9 billion in June 2021.[427] However, as the project is not expected to be commissioned until after the forward estimates period, the additional net debt the Government has committed for the State is not shown in the budget papers. The Committee considers the Government should discuss its estimates for this commitment, even though it is beyond the forward estimates period. In its *Report on 2015-16 Financial and Performance Outcomes*, the Committee recommended that a global figure of PPP payment commitments for the next 30 years be contained in the budget papers.[428]

The impact of PPP projects is intergenerational in nature, as they lock both future Victorian Governments and the community into long-term financial commitments. Infrastructure created by current PPP projects, particularly road infrastructure, may not meet the community's future needs. Such projects also narrow government choice in investing in sectors other than roads and transport, such as health, education, security and the environment.

FINDING 88: If the end of the construction phase of a public private partnership project is beyond the end of the forward estimates, the project's effects on net debt may not be reflected in the budget papers. The effect on net debt of large projects can be significant.

RECOMMENDATION 8: Where a large public private partnerships project is announced in a budget which is expected to be commissioned beyond the forward estimates period, the budget papers in which it is announced should detail the expected impact of the project on net debt and how the Government intends to manage the debt.

New accounting standard regarding public private partnerships arrangements

In June 2017, the Australian Accounting Standards Board (AASB) released a new standard, *AASB 1059 Service Concession Arrangements: Grantors*. Under this standard, public sector entities will 'be required to recognise assets and liabilities that relate to their public private partnerships'. The AASB noted that the current standards allow 'diversity in how governments have communicated their obligations and rights relating to infrastructure projects to the public'. It also noted that 'more infrastructure projects will be recognised on balance sheets, with a consequential increase in both assets and liabilities'.[429] The AASB Chair has described the accounting treatment by governments of PPPs as 'one of the black holes of accounting'.[430]

426 Department of Treasury and Finance, *Budget Paper No.4: 2017-18 State Capital Program* (2017), p.122

427 Department of Treasury and Finance, *Budget Paper No.5: 2017-18 Statement of Finances* (2017), p.9

428 Public Accounts and Estimates Committee, *Report on the 2015-16 Financial and Performance Outcomes* (2017), Recommendation 20, p.149

429 Australian Accounting Standards Board, Better Infrastructure Transparency for Taxpayers (Media release, 20 July 2017)

430 Wiggins, J. 'New rules wreck "black hole" in PPP accounting', *Australian Financial Review*, 20 July 2017

The Committee considers that the new standard is a positive development in transparency with respect to PPP arrangements. The standard will relate to reporting periods that begin after 1 January 2019, which means that, unless the Government adopts the standard early, it will first be evident in reports for 2019-20.

The Committee has long held concerns regarding transparency of PPP projects and protection of the public interest. The Public Accounts and Estimates Committee reported to the Parliament over 10 years ago setting out its concerns and recommendations regarding such financing arrangements.[431]

The new accounting standard will assist by clarifying whether to include assets and liabilities on the State's finances, but other challenges remain. The AASB Chair notes that some governments will be able to avoid reporting against the new standards by forming joint ventures to build new infrastructure or by creating special purpose entities.[432]

FINDING 89: A new accounting standard will apply to public sector entities for accounting periods beginning after January 2019. This is intended to require public sector entities to recognise assets and liabilities relating to public private partnership projects in the State's finances. However, challenges remain for the transparent reporting of public private partnerships projects.

7.3.3 Net investment through other sectors

Investment through other sectors[433] occurs when the Government decides that the asset will be owned by a government business enterprise rather than a department. The Government invests in the business, rather than the asset, before instructing the business to invest in the asset directly. An example of this type of investment is the ongoing *Connections Project*, where the Government invests in Goulburn Murray Rural Water Corporation, which then invests in the pipeline infrastructure.[434]

Net investment through other sectors is also set out in Figure 7.2, showing more funds are expected to flow from investments in other sectors than are expected to flow out from 2015-16 onwards. Because of this, net investment through other sectors will become a source of funds for other areas of asset investment. For 2017-18, the net cash inflow is expected to be $2.3 billion. Similar cash inflows are expected in each year of the forward estimates period.[435]

The budget papers do not separately specify cash inflows and outflows for net investment through other sectors, combining these into a net cash flow figure. The Committee notes that these two items are listed separately in the Annual Financial Report.

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431 Public Accounts and Estimates Committee, October 2006, *Report on Private Investment in Public Infrastructure*

432 Wiggins, J. 'New rules wreck "black hole" in PPP accounting', *Australian Financial Review*, 20 July 2017

433 referred to in the budget papers as 'net cash flows from investments in financial assets for policy purposes'

434 Department of Treasury and Finance, *Budget Paper No.4: 2017-18 State Capital Program* (2017), p.97

435 Department of Treasury and Finance, *Budget Paper No.5: 2017-18 Statement of Finances* (2017), p.10

The Department of Treasury and Finance advised the Committee that the most significant contribution[436] to funds flowing in from investments in other sectors is:

> … the repayment of the advances into the Victorian Transport Fund from Port Lessor as part of the financing structure put in place to manage the proceeds received from the Port Lease transaction.[437]

The Committee discussed this series of transactions in its *Report on the 2016-17 Budget Estimates*.[438]

7.4 Asset investment projects in the 2017-18 Budget

The following sections examine three aspects of asset provision outlined in the 2017-18 Budget in detail. These are:

- the progress of the *Level Crossing Removal Program*
- investment in assets provided within the public non-financial corporations (PNFC) sector with a specific focus on water corporations
- investment in asset infrastructure projects related to regional transport.

7.5 *Level Crossing Removal Program*

The *Level Crossing Removal Program* is intended to remove 50 level crossings in Melbourne.[439]

The Level Crossing Removal Authority (LXRA) was established in 2015 as an administrative office of the Department of Economic Development, Jobs, Transport and Resources.[440] The LXRA's role is to:

- manage and oversee the delivery of the *Level Crossing Removal Program*, ensuring that level crossings are removed in a coordinated and efficient manner
- be responsible for all aspects of the *Level Crossing Removal Program* including planning and development, stakeholder engagement, procurement, through to construction and delivery.[441]

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436 Specifically, $2,649 million out of a total net inflow of $2,710 million (Department of Treasury and Finance, *Response to the Committee's 2017-18 Budget Estimates General Questionnaire*, received 8 May 2017, p.60)

437 Department of Treasury and Finance, *Response to the Committee's 2017-18 Budget Estimates Entity-specific Questionnaire*, received 12 July 2017, p.17

438 Public Accounts and Estimates Committee, *Report on the 2016-17 Budget Estimates* (2016), pp.167-9

439 Department of Treasury and Finance, *Budget Paper No.3: 2015-16 Service Delivery* (2015), p.41

440 Level Crossing Removal Authority, *About the Authority*, Available at <levelcrossings.vic.gov.au/about/about-the-authority>, viewed 24 July 2017

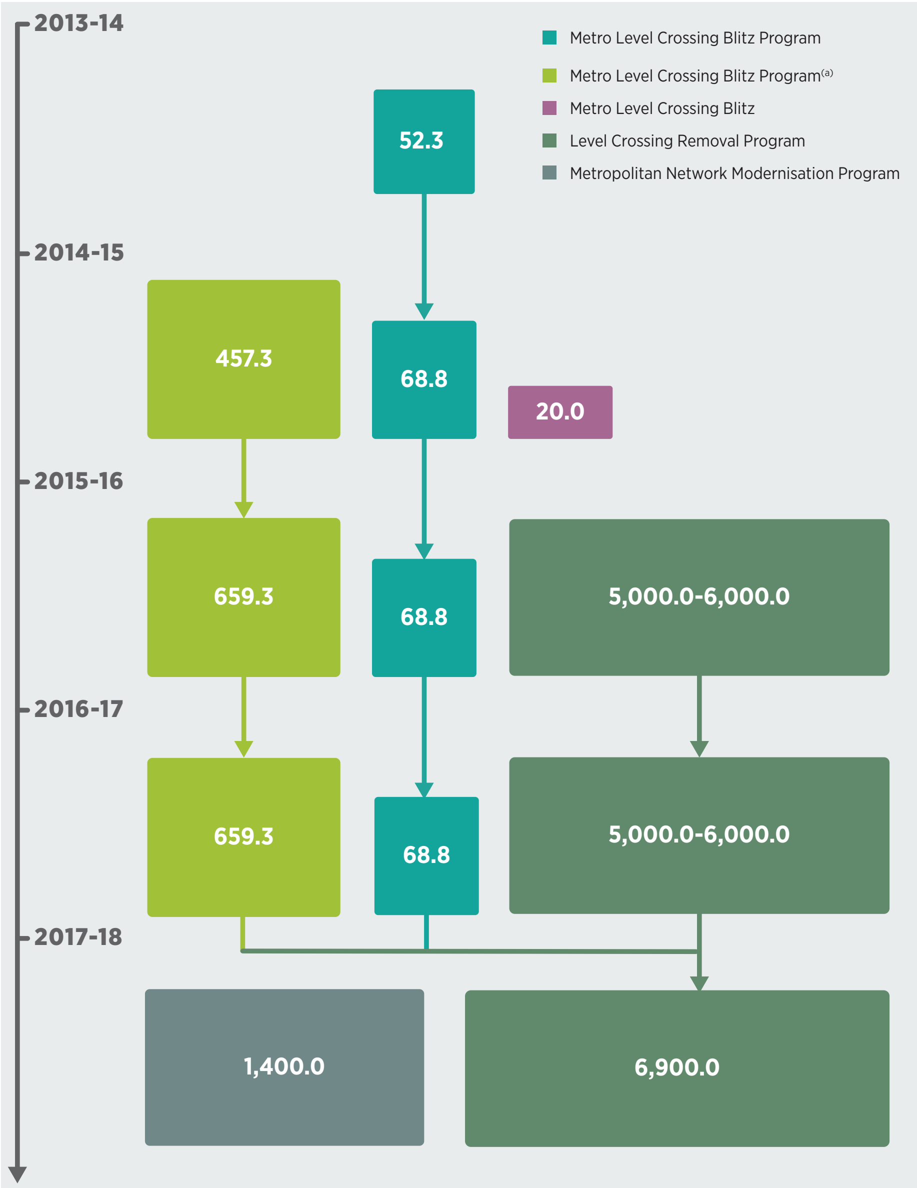
441 ibid.

7.5.1 Estimated cost of the *Level Crossing Removal Program*

In terms of the project expenditure, the Department of Economic Development, Jobs, Transport and Resources informed the Committee:

> … the Government has spent nearly $2 billion ($1.94 billion) to date on removing dangerous and congested level crossings. This is the result of decisions throughout the year to fast-track the removal of level crossings across Melbourne, with ten crossings now removed and a further 13 currently under major construction.[442]

Figure 7.4 Level crossing removal asset investment projects by total estimated investment (TEI) ($ million) and year, 2013-14 to 2017-18



Sources: Department of Treasury and Finance, *Budget Paper No.4: 2017-18 State Capital Program* (2017), p.27; Department of Treasury and Finance, *Budget Paper No.4: 2016-17 State Capital Program* (2016), p.24; Department of Treasury and Finance, *Budget Paper No.4: 2015-16 State Capital Program* (2015), pp.17, 19

442 Department of Economic Development, Jobs, Transport and Resources, *Response to the Committee's 2017-18 Budget Estimates Entity-specific Questionnaire*, received 20 July 2017, p.11

Figure 7.4 shows the total estimated investment (TEI) for the various *Level Crossing Removal Programs* that have been listed in budget papers since 2013-14.

The figure also shows the convergence of the smaller *TEI Metro Level Crossing Blitz* programs over 2013-14 to 2016-17 into the *Level Crossing Removal Program*, first announced in 2015-16.[443]

The large scale *Level Crossing Removal Program* was initially announced in the 2015-16 Budget with a TEI of $5 to $6 billion.[444] The 2015-16 budget papers did not contain a breakdown of the estimated expenditure for the project across the forwards estimates period (at the time, this was from 2015-16 to 2019-20), with the term 'to be confirmed' (tbc) listed across the forward estimate years.[445] The 2015-16 budget papers noted '[the] TEI relates to funding for the full eight year program. Funding will be released progressively as planning for packages of work is completed and projects are released to market for tender'.[446] While the annual costs for projects are published every year in *Budget Paper No.4: State Capital Program*, the 'tbc' listing in *Budget Paper No.3: 2015-16 Service Delivery* when the *Level Crossing Removal Program* was first announced means the wider community has never seen an annual forward costing (that is, an estimate of expenditure) for the project over a four year timeframe.

In the *Report on the 2015-16 Budget Estimates*, the Committee discussed the treatment of the *Level Crossing Removal Program* forward estimates and recommended that future budget papers:

> At the earliest opportunity, provide details of the anticipated expenditure over the forward estimates period for any asset initiative from a previous budget where the anticipated expenditure in some future years was listed as 'tbc'.[447]

This recommendation was not supported by the Government.[448]

The TEI of the project remained between $5 to $6 billion throughout 2015-16 and 2016-17, however the TEI for the project has increased to $6.9 billion in the 2017-18 budget papers.[449] The Department of Economic Development, Jobs, Transport and Resources informed the Committee:

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443 The projects funded under the *Metro Level Crossing Blitz* programs are now complete (as at 8 September, 2017). These are: Mountain Hwy, Bayswater; Scoresby Rd, Bayswater; Centre Rd, Bentleigh; McKinnon Rd, McKinnon; North Rd, Ormond; Burke Rd, Glen Iris; Blackburn Rd, Blackburn; Heatherdale Rd, Mitcham; Furlong Rd, St Albans; Main Rd, St Albans. Source: Level Crossing Removal Authority, *Crossings*

444 Department of Treasury and Finance, *Budget Paper No.3: 2015-16 Service Delivery* (2015), p.36

445 ibid.

446 ibid., p.37

447 Public Accounts and Estimates Committee, *Report on the 2015-16 Budget Estimates (*2015), Recommendation 57, p.181

448 Victorian Government, *Government Response to the Recommendations of the Public Accounts and Estimates Committee's Report on the 2015-16 Budget Estimates*, tabled 4 May 2016, p.19

449 Department of Treasury and Finance, *Budget Paper No.4: 2016-17 State Capital Program* (2016), p.24; Department of Treasury and Finance, *Budget Paper No.4: 2015-16 State Capital Program* (2016), p.17; Department of Treasury and Finance, *Budget Paper No.4: 2017-18 State Capital Program* (2017), p.27

> The 2017-18 State Budget also brings forward $846 million across the forward estimates that will be spent to speed up level crossing removals. As a result of this funding, the Government is set to exceed the promise to remove 20 level crossings up to 28 by the end of 2018.[450]

In addition to the *Level Crossing Removal Program*, the *Metropolitan Network Modernisation Program* was listed in the 2017-18 budget papers as a separate project, administered by the Level Crossing Removal Authority at an estimated cost of $1.4 billion.[451] The project will deliver road and railway station improvements, improved public transport access and improved pedestrian and bicycle facilities.[452] The Committee notes that details of the *Metropolitan Network Modernisation Program* have not appeared previously in a Budget Paper No.3, and so there are no forward costs presented for the project over a four year timeframe.

FINDING 90: The estimated cost of the *Level Crossing Removal Program* in the 2017-18 Budget is expected to be $6.9 billion as compared to its previous estimates of $5 to $6 billion in the 2015-16 and 2016-17 Budgets.

FINDING 91: The *Metropolitan Network Modernisation Program* listed in the 2017-18 is an additional project to be administered by the Level Crossing Removal Authority at an estimated cost of $1.4 billion.

FINDING 92: There are no forward estimates of expenditure over a four year timeframe for either the *Level Crossing Removal Program* or the *Metropolitan Network Modernisation Program*.

The Committee notes that the rapid expansion of the *Level Crossing Removal Program* has seen project costs increase, together with project scope changes made, with little opportunity for public scrutiny. For example, the Department of Economic Development, Jobs, Transport and Resources informed the Committee via the entity-specific questionnaire:

> In addition to the 50 grade separations in the original commitment, the Government has expanded the project scope of the LCRP to include an additional level crossing removal at Park Street in Cheltenham and an additional level crossing closure at Mascot Street, Carrum.[453]

The Mascot Street Carrum and Park Street Cheltenham projects are in addition to the 50 *Level Crossing Removal Program* removal and upgrade projects announced in 2015-16. Further information on these projects is not yet available on the Level Crossing Removal Authority's website.[454]

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450 Department of Economic Development, Jobs, Transport and Resources, *Response to the Committee's 2017-18 Budget Estimates Entity-specific Questionnaire*, received 20 July 2017, p.11

451 Department of Treasury and Finance, *Budget Paper No.4: 2017-18 State Capital Program* (2017), p.27

452 Level Crossing Removal Authority, *Level Crossing Removal Project: Program Business Case* (2017), p.96; Department of Treasury and Finance, *Budget Paper No.4: 2017-18 State Capital Program* (2017), p.30

453 Department of Economic Development, Jobs, Transport and Resources, *Response to the Committee's 2017-18 Budget Estimates Entity-specific Questionnaire*, received 20 July 2017, p.11

454 As at 11 September 2017.

7.5.2 Other issues

The transparency of the *Level Crossing Removal Project* has also been inhibited by:

- the release of the program business case in May 2017, 15 months after its production and two years after the *Level Crossing Removal Program* was announced in the 2015-16 Budget. Sections of the report have been redacted on the basis of 'commercial sensitivity' including details of transport modelling, the strategic communications approach and Council consultation summary and the Gateway Review Report.
- absence of contemporary Australian Level Crossing Assessment Model (ALCAM) data on key potential risks at individual level crossings in the public domain. The release and periodic update of such data would assist the community in understanding the crossings selected as priorities for removal. The business case presents the risk score for the level crossings to be removed stating that 'the risk of a serious incident is present at all 50 level crossings to varying degrees'.[455] It does not reconcile the crossings being removed with the last available set of ALCAM data.
- the absence of a comprehensive set of performance measures in the budget papers. Currently there is only the one measure – 'Milestones delivered in accordance with agreed budget and timelines'. This issue is discussed in further detail in Chapter 8.
- the lack of detail regarding the $1.4 billion package of additional funding. The funding appears to include infrastructure that should have been originally costed in the *Level Crossing Removal Program*, such as funding for 'railway station improvements'.

FINDING 93: A higher level of transparency regarding the *Level Crossing Removal Program* would be beneficial. The Committee commented on the late release of the project's business case, the $1.4 billion *Metropolitan Network Modernisation Program* and the desirability to have a set of rigorous and meaningful performance measures regarding the project.

RECOMMENDATION 9: The transparency of the *Level Crossing Removal Program* be enhanced with the regular publication of the latest Australian Level Crossing Assessment Model data on risks by individual level crossings and details of the $1.4 billion *Metropolitan Network Modernisation Program.*

455 Level Crossing Removal Authority, *Level Crossing Removal Project: Program Business Case* (2017), p.48

7.6 Investment by the water sector

In the past, the Auditor-General has raised concerns about the ability of a group of PNFC entities, namely the water corporations, to service and repay debt.[456] The Committee considers that unsustainable debt levels and the costs associated with maintaining them would constitute a significant constraint on the ability of entities to maintain their assets.

In 2016, concerning the water sector, the Auditor-General commented that:

> Capital replacement remains a moderately rated financial sustainability risk indicator for the sector, particularly for the regional urban cohort. This indicator is likely to deteriorate in future periods as a result of the 2015-16 valuation, which increased the reported value of the sector's assets by $2.4 billion.[457]

In this section, the Committee explores the levels of investment by water corporations in its infrastructure. Specifically, while the Auditor-General recently assessed the water sector as 'financially sustainable',[458] the Committee investigated the extent to which asset sustainability is forecast in the budget papers and reported at the end of each year.

7

7.6.1 Water corporations

In terms of total revenue, 19 water businesses made up 58.2 per cent of the PNFC sector in 2015-16 (Appendix A3.1). However, annual reports show that net infrastructure investment[459] for the water sector businesses was $1.4 billion in 2015-16, or 64.9 per cent of the sector as a whole. This suggests that the water sector invests more heavily in assets than other entities in the PNFC sector.[460]

The Committee notes that while Goulburn-Murray Water (GMW) is fifth-largest by total income, it is fourth-largest by net infrastructure investment. As noted by the Minster for Water below, GMW has been the subject of a separate determination on pricing by the Essential Services Commission (ESC).[461]

FINDING 94: The water sector invests more heavily in assets than other entities in the public non-financial corporations sector. The State's 19 water corporations received 58.2 per cent of the sector's total revenue, but provided 64.9 per cent of the sector's net infrastructure investment.

456 Victorian Auditor-General's Office, *Water Entities: Results of the 2012-13 Audits* (2013), p.ix

457 Victorian Auditor-General's Office, *Water Entities: 2015-16 Audit Snapshot* (2016), p.viii

458 ibid. p.vii

459 That is, purchases of non-financial assets net of asset sales

460 These entities include VicTrack, the Director of Housing, and V/Line Passenger Corporation

461 Essential Services Commission, *Goulburn-Murray Water Price Review 2016: Final decision* (2016)

7.6.2 Water asset sustainability and condition

Water corporations are commercial operations, and it is intended that they fund the majority of their operations by charging their customers for their services.

Continued capital investment in infrastructure results in upward pressure on prices for customers. This is because a higher value of assets increases the depreciation component of recurrent costs, putting pressure on the corporations' net results.

Water corporations do not have the ability to set prices as they face a number of downward pressures on prices, including price controls set by the ESC. The Committee considers that the determinations of the ESC may pose a financial risk for water corporations. The Auditor-General has also commented on this, noting in 2015 that:

> … the benchmark revenue requirement determined by ESC, which is used to determine water prices that water corporations can charge its customers, does not cover the level of depreciation that water corporations incur. This is a contributing factor to the less than desirable results of the financial sustainability risk indicators for certain water corporations.[462]

In addition to having prices set by the ESC, further commercial pressures for the water corporations include dividends that they are instructed pay to the general government sector. Dividends paid by the water corporations for 2017-18 and over the forward estimates period are discussed in Section 4.3.3 in Chapter 4.

FINDING 95: The Essential Services Commission constrains the ability of water corporations to set prices for water consumers. The Auditor-General has commented that the Commission's pricing constraint increases financial sustainability risk for certain water corporations.

7.6.3 Keeping track of asset conditions

The Committee asked the Department of Treasury and Finance how asset sustainability in the PNFC sector (and in particular the water sector) was assessed. The Department advised the Committee that:

> PNFC entities do keep track of overall asset conditions over time. The PNFC sector encompasses a large number of individual entities. Given the large number of entities and assets in service in the sector, the Department is not in a position to provide general commentary regarding asset conditions across the sector over the past decade …
>
> Changes in asset conditions may be reflected in non-financial key performance indicators. Examples in the case of water corporations include:
>
> - the number of water quality complaints
> - unplanned water supply interruptions

462 Victorian Auditor-General's Office, *Water Entities: Results of the 2013-14 Audits* (2015), p.65

- water quality compliance
- sewer spills
- sewer blockages.

> In addition to its particular focus on financial performance, the Department also considers actual and planned non-financial performance indicators as part of the corporate planning and performance reporting framework.[463]

All water corporations include in their annual report a section called the 'performance report'. This contains a number of these indicators, which are both financial and non-financial. The indicators used for the metropolitan wholesaler (Melbourne Water) are similar, but vary slightly from the retail entities.[464]

The Committee considers that the financial indicators do not directly address asset sustainability, and that adding the ratio of assets added ('payments made for infrastructure assets' described above) to assets eroded (depreciation on infrastructure assets) would be a useful indicator.

Water corporations have detailed and physically widespread asset systems. Monitoring the condition of these systems is a significant task. The Committee asked the Department of Treasury and Finance how corporations monitor their systems and how much they spend on keeping track of their physical assets. The Department advised the Committee:

> Water corporations have extensive asset management, condition assessment, performance monitoring, and maintenance programs. Expenditure to monitor the conditions of their physical assets forms part of their operating expenditure, but is not separately identified.
>
> The water corporations' condition assessment and performance monitoring programs are complemented by statistical analysis and predictive modelling, which are used to provide estimates of the expected short, medium and long-term performance of their networks, and to prioritise investment. The programs include SCADA systems, CCTV, physical inspections, and vibration monitoring.[465]

FINDING 96: Water corporations report a series of indicators in their annual reports. None of these addresses asset sustainability in terms of the ratio of assets added to assets eroded. How much water corporations spend on keeping track of infrastructure assets is not separately reported, but water corporations have extensive systems to monitor asset condition.

RECOMMENDATION 10: The Department of Treasury and Finance require entities in the public non-financial corporations sector to include the ratio of 'payments made for infrastructure assets' to 'depreciation on infrastructure assets' as a key performance indicator in the performance report published within the annual report.

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463 Department of Treasury and Finance, *Response to the Committee's 2017-18 Budget Estimates Entity-specific Questionnaire*, received 12 July 2017, p.21

464 Melbourne Water, *Annual Report 2015-16* (2016), p.140

465 Department of Treasury and Finance, *Response to the Committee's 2017-18 Budget Estimates Entity-specific Questionnaire*, received 12 July 2017, p.21

7.6.4 Monitoring public non-financial corporations entities

With respect to its role in monitoring water corporations, the Department of Treasury and Finance advised the Committee that it:

> … monitors the strategic direction and performance (and in particular the financial performance) of the larger PNFC entities through the established corporate planning and quarterly performance reporting framework. The larger PNFC entities include the 19 water corporations, VicTrack, Director of Housing, V/Line Passenger Corporation, and Development Victoria.[466]

The Committee asked the Department whether any changes have been evident in asset conditions over the past decade. The Department responded that it:

> … has not recorded any significant concern in relation to non-financial performance indicators of the water corporations over the past decade. The Department is aware that non-financial performance indicators are influenced by a range of factors in addition to asset condition, including climatic conditions, soil type, and geography. The Department notes that the non-financial performance of the water corporations is also monitored by other agencies including the Essential Services Commission, the Department of Environment, Land Water and Planning, the Department of Health and Human Services, and the Environment Protection Authority.[467]

FINDING 97: The Department of Treasury and Finance monitors the strategic direction and performance of the larger public non-financial corporation entities, including all water corporations. The Department advised the Committee that it has had no significant concern about the non-financial performance of water corporations in recent years.

7.6.5 Risks

As part of this inquiry, the Committee has investigated risk management practices and guidance requirements for the State. The Committee considers that risks associated with ageing physical assets in the water sector may be a source of risk for the State, and so it asked the Department of Treasury and Finance about risks to maintenance costs, operations, revenue and public safety. The Department confirmed that these were risks, but that:

> PNFC entities seek to mitigate these risks, and optimise asset performance, through their extensive asset management, performance monitoring, and maintenance programs.[468]

The Department also noted that a number of government agencies monitor PNFC entities' financial, operational and service, and public safety risks.

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466 ibid.

467 ibid. pp.21-2

468 ibid., p.22

The *Victorian Government Risk Management Framework* requires all entities to 'demonstrate that they are managing risk effectively, including inter-agency and state significant risk'.[469] Entities are required to attest in their annual reports to their compliance with the Framework.[470]

For the year 2015-16, 14 of the 19 water corporations (including the four large metropolitan corporations) attested in their annual reports that they complied with the Framework, as required in Standing Direction 4.5.5 of the Minister for Finance.[471] Five entities reported areas of non-conformity in their annual reports:

- Goulburn Valley Water reported that risk management framework has not been reviewed annually[472]
- Lower Murray Water reported that it has commenced developing plans to address interagency and State significant risks[473]
- East Gippsland Water and South Gippsland Water both reported that they have yet to formalise the collaboration process with other agencies to manage interagency risks[474]
- Westernport Water reported that it had not: undertaken a review of the risk management framework and a risk improvement plan in the past 12 months; completed an annual IT system Disaster Recovery test; and formalised interagency risks and determined agency responsibilities and resources.[475]

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The State's risk management framework is described further in Chapter 10.

FINDING 98: Ageing infrastructure involves risks in terms of maintenance costs, operations costs, revenue and public safety. Water corporations are required to manage these risks, including inter-agency and state significant risks. In annual reports for 2015-16, five of the smaller water corporations reported areas of non-conformity to the *Victorian Government Risk Management Framework*.

7.7 Regional transport initiatives in the 2017-18 Budget

The 2017-18 budget papers list significant regional public transport projects, including:

- the $1.5 billion *Regional Rail Revival* plan[476]
- the *Regional Road Restoration and Road Surface Replacement* initiative, worth $215.3 million in 2017-18.[477]

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469 Department of Treasury and Finance, *Victorian Government Risk Management Framework* (2016), p.3

470 ibid., p.11

471 The relevant direction for 2016-17 annual reports will be 3.7.7

472 Goulburn Valley Water, *2015-16 Annual Report* (2016), p.48

473 Lower Murray Water, *Annual Report 2015/16* (2016), p.27

474 East Gippsland Water, *Annual Report 2015/16* (2016), p.13; South Gippsland Water, *2015/2016 Annual Report* (2016), p.13

475 Westernport Water, *Annual Report 2015/2016* (2016), p.29

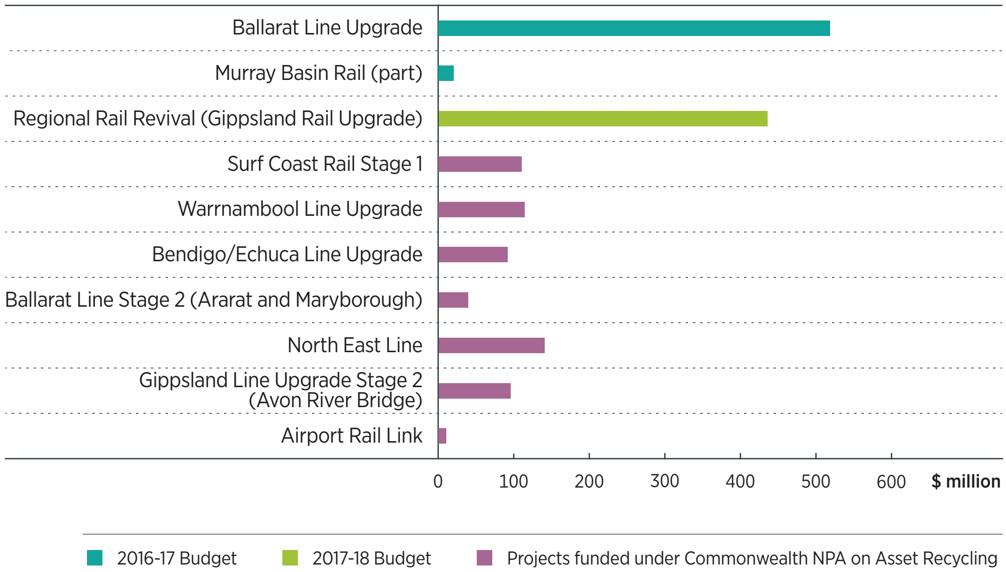
476 Department of Treasury and Finance, *Budget Paper No.3: 2017-18 Service and Delivery* (2017), p.51

477 ibid., p.28

7.7.1 The *Regional Rail Revival* plan

According to the Government, the *Regional Rail Revival* plan aims '[to] better connect communities, [which will] mean more frequent and reliable train travel for regional Victorians, and help create thousands of new jobs across regional Victoria'.[478] The plan is jointly funded by the Victorian and Commonwealth Governments. Budget and sources for the various initiatives under the plan are set out in Figure 7.5. The Minister for Transport explained to the Committee at the public hearing that under the *Regional Rail Revival* plan 'Every single regional passenger line under this package would see an upgrade'.[479]

Figure 7.5 Projects and funding sources of the *Regional Rail Revival* plan



Source: Department of Treasury and Finance, *Budget Paper No.3: 2017-18 Service and Delivery* (2017), p.51

Regional Rail Revival initiatives funded by the State Government in the 2016-17 and 2018 Budgets – the Gippsland and Ballarat Line upgrades

The two largest initiatives in the *Regional Rail Revival* package in terms of funding are the *Ballarat Line Upgrade*, worth $518.0 million, and the Gippsland rail upgrade, worth $435.0 million. These projects are to be funded wholly by the Victorian Government and do not require Commonwealth funding.

The Department of Economic Development, Jobs, Transport and Resources informed the Committee that planning for the *Ballarat Line Upgrade Stage 1* project is 'well progressed, with the preferred bidder for the main construction works contract announced on 4 July 2017. Major construction is scheduled to commence in early 2018 and be completed in late 2019'.[480]

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478 ibid., p.51

479 Hon. Jacinta Allan MP, Minister for Public Transport, *2017-18 Budget Estimates Transcript of Evidence*, 18 May 2017, p.4

480 Department of Economic Development, Jobs, Transport and Resources, *Response to the Committee's 2017-18 Budget Estimates Entity-specific Questionnaire*, received 20 July 2017, p.4

Stage 1 of this project includes track duplication work in Deer Park West to Hopkins Road and Rockbank to Melton, a replacement car park at Rockbank and new platforms and pedestrian links at Bacchus Marsh and Ballan.[481] Stage 2 includes Ararat stabling, signalling upgrades and track work 'to improve passenger and freight movements around Ballarat'.[482]

The *Regional Rail Revival – Gippsland Rail Upgrade* initiative aims 'to increase frequency, reliability, punctuality, and safety' along the Gippsland line.[483] Stage 1 will develop works related to track duplications at Bunyip – Longwarry and Traralgon, station enhancements including a second platform at Traralgon station and Level Crossing detection upgrades at Pakenham – Traralgon.[484] The Minister for Public Transport informed the Committee of the wider benefits of the project to the community:

> We would expect that $435 million of investment would see around 400 jobs during the construction phase, and we have also signalled that we intend to establish a project office for this package of works to be established in Gippsland as well. That would also bring in some additional jobs for the people overseeing the delivery of this project.[485]

Commonwealth funded initiatives in the *Regional Rail Revival* plan

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As noted earlier, the 2016-17 and 2017-18 Budgets provide funds for the two major initiatives in the *Regional Rail Revival* plan. The Government indicated that funding for the remaining projects required 'full receipt of Victoria's entitlement under the National Partnership Agreement on Asset Recycling from the Commonwealth'.[486] Under this agreement, 'Victoria is entitled to $1.5 billion from the lease of the Port of Melbourne to invest in priority infrastructure'.[487]

After the release of the 2017-18 Budget, the Government announced on 27 June 2017 it had secured Commonwealth funding for regional rail network projects as part of the *Regional Rail Revival* plan.[488] The Commonwealth Government stated that 'it will provide majority funding for these works, investing $1.42 billion to improve services on most regional lines in the

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481 Department of Economic Development, Jobs, Transport and Resources, *Regional Rail Revival*. Available at <www.economicdevelopment.vic.gov.au/transport/rail-and-roads/public-transport/regional-rail-revival>, viewed 31 July 2017

482 ibid.

483 Department of Treasury and Finance, *Budget Paper No.3: 2017-18 Service Delivery* (2017), p.50

484 Department of Economic Development, Jobs, Transport and Resources, *Regional Rail Revival*. Available at <www.economicdevelopment.vic.gov.au/transport/rail-and-roads/public-transport/regional-rail-revival>, viewed 31 July 2017

485 Hon. Jacinta Allan MP, Minister for Public Transport, *2017-18 Budget Estimates Transcript of Evidence*, 18 May 2017, p.27

486 Department of Treasury and Finance, *Budget Paper No.3: 2017-18 Service and Delivery* (2017), p.51

487 ibid.

488 Victorian Government, *Victorians Win Fight for Regional Rail Revival* (Media release, 27 June 2017); Department of Economic Development, Jobs, Transport and Resources, *Response to the Committee's 2017-18 Budget Estimates Entity-specific Questionnaire*, received 20 July 2017, p.4

State. Victoria has offered to provide $150 million towards these works'.[489] The Commonwealth also stated it will provide $30 million towards the Melbourne Airport rail link.[490]

Timelines for the *Regional Rail Revival* plan

The Committee asked the Department of Economic Development, Jobs, Transport and Resources if the Government has established specific timelines for the delivery of the various elements of the regional rail upgrade program and when commuters can expect to see the enhancements made to the regional rail network.

The Department stated that the timelines for the delivery of projects that form part of the *Regional Rail Revival* plan are dependent on 'the phasing of Commonwealth Government funding to be provided for the *Regional Rail Revival* initiative, which has not yet been finalised'.[491] The Department further explained that 'key stakeholders, including the community and users of the regional rail network, will be involved in the progression of these infrastructure initiatives and kept informed of key milestones and dates'.[492]

FINDING 99: The Government has not yet announced delivery timelines for the *Regional Rail Revival* plan as these are dependent on the receipt of the Commonwealth funding.

7.7.2 Investment in regional roads

The 2017-18 Budget contains asset and output initiatives of $305.5 million in 2017-18 and $147.9 million over the forward estimates period for regional roads upgrades.[493] The most substantial of the package is the *Regional Road Restoration and Road Surface Replacement* initiative, worth $215.3 million in 2017-18.[494] The Minister for Roads and Road Safety told the Committee at the public hearing:

> In regional Victoria we are rebuilding the state's regional road network — doubling road maintenance, upgrading bridges and constructing major new roads and bypasses as well as fixing potholes. We will invest $260 million in repairing and resurfacing works after the heaviest rainfall in a century caused widespread deterioration to parts of the network. Elsewhere we are investing, in partnership with the Commonwealth, $50 million to realign the South Gippsland Highway at Koonwarra and $7 million for a new dual lane roundabout at the intersection of Phillip Island Road and Woolamai Beach Road on Phillip Island. We will also

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489 Commonwealth Government, *Major New Investment in Victorian Roads and Rail* (Media release, 27 June 2017)

490 ibid.

491 Department of Economic Development, Jobs, Transport and Resources, *Response to the Committee's 2017-18 Budget Estimates Entity-specific Questionnaire*, received 20 July 2017, p.4

492 ibid.

493 Department of Treasury and Finance, *Budget Paper No.3: 2017-18 Service Delivery* (2017), pp.28, 41

494 ibid., p.28

> commence planning and development for future upgrades to the Princes Highway east of Sale, Hamilton Highway in western Victoria and Princes Highway West beyond Colac and the South Australian border.[495]

The investment in regional roads announced in the budget papers comes after the Auditor-General tabled the *Maintaining State-Controlled Roadways* report in June 2017. In terms of the road maintenance, the Auditor-General found real funding to VicRoads had decreased since 2010-11, including a reduction in maintenance funding of approximately 60 per cent.[496] The report also found the current approach to the road network's asset management system was reactive with a focus on treating roads in poor condition at the expense of preservation across the whole network, and VicRoads systems for prioritising road maintenance work were inconsistent across its seven regional and metropolitan areas.[497]

Country road accidents

During the public hearings, the Minister for Roads and Safety stated that 97 drivers have lost their lives on Victorian roads this year. Out of these, 50 have been driving on regional or rural high speed roads. This figure represents an increase from last year, when around 34 per cent of road fatalities were on high-speed country roads compared to 52 per cent this year.[498] In response to the number of regional road deaths, the Transport Accident Commission has committed $1 billion over 10 years to transform Victoria's highest risk roads.[499]

As part of the upgrades to rural and regional roads, barriers, tactile lines, signage and line marking are among the measures being rolled out to help make existing high-speed roads safer.[500] In addition, a trial program was conducted earlier in the year along an 11-kilometre stretch of the Melba Highway.[501]

Drug testing is another measure that has been introduced to help cut the road toll state-wide. During the hearings, the Committee asked if any research had been undertaken on the number of accidents where the driver had drugs detected in their system since the introduction of drug testing. In response, the Committee was told that a higher incidence of methamphetamines is being detected, compared to marijuana.[502]

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495 Hon. Luke Donnellan, Minister for Roads and Road Safety, *2017-18 Budget Estimates Transcript of Evidence*, 18 May 2017, p.3

496 Victorian Auditor-General's Office (VAGO), *Maintaining State-Controlled Roadways* (2017), p.viii

497 ibid., pp.ix, 27, 33

498 Hon. Luke Donnellan MP, *2017-18 Budget Estimates Transcript of Evidence*, 18 May 2017, p.14

499 ibid., p.4

500 ibid.

501 ibid., p.14

502 ibid., p.19

8 Performance measures

Key findings

- The updated *Performance Management Framework for Victorian Government Departments* by the Department of Treasury and Finance now requires departments to publish their corporate or strategic plan online, including their key initiatives. Departments must also undertake long-term planning.
- With the exception of the Department of Premier and Cabinet, all departmental corporate or strategic plans are now online.
- The number of outputs in the 2017-18 Budget is 119, an increase of five over the previous year. This reverses the longer term trend of the number of outputs decreasing while the levels of appropriation expenditure have increased.
- Four major asset investment infrastructure projects currently managed by the Department of Economic Development, Jobs, Transport and Resources *(Ballarat Line Upgrade, West Gate Tunnel, Level Crossing Removal Program and Melbourne Metro Tunnel)* with a combined worth of $23.9 billion use a single measure for performance: 'Milestones delivered in accordance with agreed budget and timelines'. The assessment of these projects would be enhanced with additional performance measures.
- Replacement performance measures proposed by the Department of Economic Development, Jobs, Transport and Resources in road resurfacing are an improvement to current measures but do not fully respond to the recommendations made by the Auditor-General.
- There were 86 proposed discontinued performance measures in the 2017-18 Budget and the Committee recommends retaining 16 of these.
- Targets across some performance measures in the 2017-18 Budget have not been adjusted to reflect increases in funding.
- Although the Government entered into a new seven-year contract in July 2016 worth $700 million for the operation of the myki system, there are currently no performance measures in the budget papers for the ticketing system.
- New initiatives such as the *Family Violence* initiative and *Safe and Strong* gender equality strategy have performance measures included in the 2017-18 budget papers, although the associated performance frameworks have yet to be finalised.

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- **Social media platforms have expanded the ways in which Tourism Victoria and Small Business Victoria communicate and engage with the public however performance measures in the budget papers do not reflect this.**
- **The Committee identified a number of shortcomings regarding many of the performance measures and targets contained in the 2017-18 budget papers.**

8.1 Introduction

This chapter discusses the departmental performance measurement system, which is essential to the Government communicating its intended policies to the community. Clear and objective performance management is critical to a transparent and accountable Government and public service.

This chapter examines changes made for 2017-18 by the Department of Treasury and Finance to the guidance document *Performance Management Framework for Victorian Government Departments*. This framework establishes the performance measurement system all departments must adhere to.

8

New performance measures announced by the departments are also discussed, along with the Committee's assessment of the proposed discontinued performance measures the departments have put forward in the 2017-18 budget papers. The chapter also discusses targets that require review and resetting.

8.2 Changes in 2017-18 to the *Performance Management Framework for Victorian Government Departments*

In June 2017 the Department of Treasury and Finance updated reporting requirements in the *Performance Management Framework for Victorian Government Departments* for 2017-18. The major changes require departments to:

- publish their corporate/strategic plan online
- include key initiatives in the corporate/strategic plan
- discontinue the (internal to government) strategic planning requirements
- undertake long-term planning.[503]

The Committee is particularly pleased that departments must now publish their corporate or strategic plans online. The Committee discussed the limitations of departmental strategic planning documents being unavailable to the public in its *Report on the 2013-14 and 2014-15 Financial and Performance Outcomes*, noting that:

503 Department of Treasury and Finance, *Fact Sheet - Updated Performance Management Framework – June 2017*

> When planning documents are not publicly available, the Committee is not able to evaluate actual achievements against what was originally planned. Furthermore, without an understanding of the department's priorities, stakeholders are unable to evaluate the relative importance of what was achieved.[504]

The Committee finds that the inclusion of online departmental strategic or corporate plans will significantly enhance public transparency and accountability, and welcomes this development.

FINDING 100: The updated *Performance Management Framework for Victorian Government Departments* by the Department of Treasury and Finance now requires departments to publish their corporate or strategic plan online, including their key initiatives. Departments must also undertake long-term planning

The updated performance measurement system, including the amendments made to the *Performance Management Framework for Victorian Government Departments* for 2017-18 is depicted in Figure 8.1.

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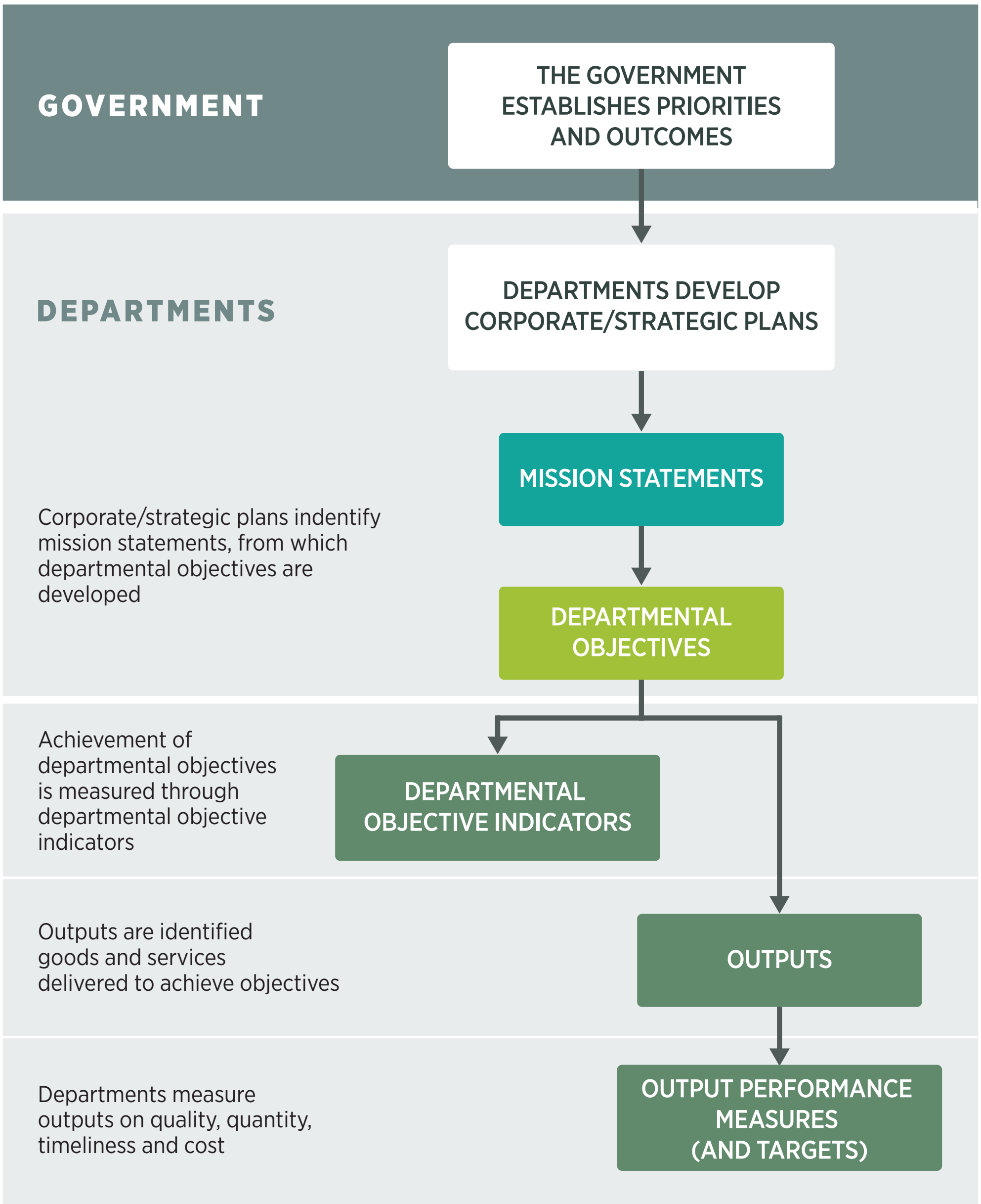
504 Public Accounts and Estimates Committee *Report on the 2013-14 and 2014-15 Financial and Performance Outcomes* (2016) p.103

Figure 8.1 Victoria's performance measurement system



Source: Based on Department of Treasury and Finance, *Performance Management Framework for Victorian Government Departments* (2017)

As part of this inquiry, the Committee requested copies of the existing strategic or corporate plans from the departments, Court Services Victoria and the Department of the Parliamentary Services. With the exception of the Department of Premier and Cabinet, the strategic or corporate plans of all departments are now available on their websites.[505] Court Services Victoria provided a Cabinet-in-confidence Corporate Plan to the Committee, while the Department of Parliamentary Services did not provide their strategic or corporate plan to the Committee, stating that 'Parliament is not a Government Department'.[506]

505 as at 28 August 2017

506 Department of Parliamentary Services, *Response to the Committee's 2017-18 Budget Estimates General Questionnaire*, received 4 May 2017, p.4

In reviewing the corporate or strategic plans, the Committee notes they are of variable quality. All departments with the exception of the Department of Treasury and Finance and the Department of Premier and Cabinet have very thorough and well presented documents explaining the departmental values, the strategic framework, together with sections on the challenges and opportunities facing the departments over various timeframes. The *DEDJTR Delivers Strategic Plan 2016*, for example, aims for ten year outcomes, while the Department of Environment, Land, Water and Planning's *Corporate Plan 2016-20* employs a five-year timeframe.

The Department of Premier and Cabinet's *Corporate Plan 2016–20* and the Department of Treasury and Finance's *Corporate Plan 2017-21* are less expansive and do not go into the same level of detail regarding departmental activities. Court Services Victoria's *Corporate Plan 2015-19,* while not publicly available, is a thorough planning document.

The Committee intends to examine the links between the strategic plans and outcomes achieved in greater detail as part of its next inquiry into the financial and performance outcomes for 2016-17.

FINDING 101: With the exception of the Department of Premier and Cabinet, all departmental corporate or strategic plans are now online.

8.3 Outputs

Outputs are:

> ... products and services delivered to the community by, or on behalf of, a department or public body (e.g. education, health services), or products and services provided to other departments (e.g. services provided by the Victorian Public Service Commission to support the public sector)...
>
> In general, an output should capture the full activities and costs that make up a service that government purchases from a department.[507]

In its *Report on the 2016-17 Budget Estimates* tabled last year, the Committee commented on a pattern of a falling number of outputs contained in State Budgets while the amount of expenditure consistently increases.[508] The Minister for Finance also noted at the 2016-17 budget estimates hearings that since the introduction of the performance management system in 1997-98, the number of outputs were reduced by more than half the initial 350, while the amount of appropriation expenditure increased almost fourfold.[509]

507 Department of Treasury and Finance, *Performance Management Framework for Victorian Government Departments* (2017), p.15

508 Public Accounts and Estimates Committee, *Report on the 2016-17 Budget Estimates* (2016), p.193

509 ibid.

The number of outputs across the departments in the 2017-18 Budget reverses the long-term trend, increasing by five from 114 to 119.[510] This was primarily due to the Department of Land, Water, Environment and Planning expanding the number of outputs from eight to 12 (due partly to a restructure and partly for added transparency) and the Department of Justice and Regulation increasing its output by two, from 12 to 14, as a result of a restructure. The Department of Treasury and Finance combined two of its output measures to reduce the number from seven to six.[511]

FINDING 102: The number of outputs in the 2016-17 Budget is 119, an increase of five over the previous year. This reverses the longer term trend of the number of outputs decreasing while the levels of appropriation expenditure have increased.

8.4 Performance measures

8.4.1 New performance measures for 2017-18 reflecting whole-of-Government initiatives

There were 99 new performance measures announced in the 2017-18 Budget across the seven major departments, Court Services Victoria and Parliament. Programs and policies connected to two major whole-of-Government initiatives; *Family Violence* and *Aboriginal Affairs* account for one third of the new measures.

As discussed in Chapter 6, output funding for the *Family Violence* initiative totals $1.6 billion from 2016-17 to 2020-21 at the end of the forward estimates period, together with $262.3 million of asset initiatives over the same timeframe.[512] There are 25 new performance measures related to this initiative announced in the 2017-18 Budget across Courts Services Victoria, the Department of Education and Training, Department of Health and Human Services and the Department of Justice and Regulation.[513] Overall, the performance measures related to the *Family Violence* initiative are a combination of quality, quantity, timeliness and cost measures, although the combinations of type of performance measures can vary between departments. The new *Family Violence* performance measures for the Department of Health and Human Services, for example, cover all four performance measure types, while the Department of Education and the Department of Justice and Regulation have only quality and quantity measures relating to family violence. The strengths and weaknesses of the new performance measures are discussed in Chapter 6.

The Government also announced output funding totalling $100.6 million for 2017-18 and over the forward estimates period for whole of Government initiatives related to *Aboriginal Affairs*.[514] Reflecting these funding initiatives, 13 performance measures have been introduced across three departments: the

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510 Department of Treasury and Finance, *Budget Paper No.3: 2017-18 Service Delivery* (2017), p.116

511 ibid.

512 ibid., pp.6, 17

513 ibid., Chapter 2

514 ibid., p.3

Department of Health and Human Services; the Department of Education and Training; and the Department of Premier and Cabinet.[515] These new performance measures cover programs and activities relating to school attendance, public health outcomes such as smoking cessation and immunisation, and self-determination and cultural strengthening programs.

FINDING 103: One-third of the 99 new performance measures introduced in the 2017-18 Budget are connected to the *Family Violence* and *Aboriginal Affairs* whole-of-Government initiatives.

8.4.2 New performance measures for the Department of Environment, Land, Water and Planning

Performance measures related to the Suburban Development portfolio

The Department of Environment, Land, Water and Planning has introduced two new initiatives connected to the new Suburban Development portfolio. The new performance measures related to the portfolio are:

- 'Annual Assemblies held for Metropolitan Partnerships'
- 'Five-Year Plans for Jobs, Services and Infrastructure endorsed'.[516]

The Minister for Suburban Development explained the purpose and function of metropolitan partnerships and five year plans to the Committee at the estimates hearings:

> … These partnerships are a way for communities to communicate their issues and priorities directly to government. This will help us to be more responsive and to target our investment. As the minister responsible for overseeing these partnerships I will coordinate the provision of their advice to government annually. The annual advice will inform budget assessment across government. In addition we are establishing five year plans for jobs, services and infrastructure for each metropolitan region. The plans will provide regions with a clear picture of what government is doing to support them, including how we are responding to priorities identified by the metropolitan partnerships.[517]

The Committee did note at the public hearings the absence of quality and timeliness measures connected to the 'annual assemblies'. The Committee was informed the assemblies would establish funding priorities for their regions, and these would enter the budget funding process. The Wimmera Southern Mallee Regional Partnership, for example, '… identified, and … confirmed through the assembly that was held in Horsham last year, five priorities, and of those

515 ibid., Chapter 2

516 ibid., p.221

517 Hon. Lily D'Ambrosio MP, Minister for Suburban Development, *2017-18 Budget Estimates Transcript of Evidence*, 19 May 2017, pp. 2-3

five priorities, four got support through the budget process'.[518] The number of successfully funded priorities put forward by the assemblies were determined to be a suitable performance measure in this instance.[519]

FINDING 104: Two new performance measures were introduced by the Department of Environment, Land, Water and Planning in the 2017-18 Budget to reflect the newly established Suburban Development portfolio, although they do not include quality or timeliness measures.

RECOMMENDATION 11: The Department of Environment, Land, Water and Planning develop appropriate timeliness and quality measures for the new Suburban Development portfolio.

Performance measures related to the Energy portfolio

There are six new performance measures relating to energy initiatives as a result of the inclusion of this portfolio in the Department arising from machinery-of-government changes announced in May 2016.[520] With the exception of the performance measure relating to the Victorian Energy Compare website, all new measures for 2017-18 under the energy output have a target of 100 per cent. The remaining five performance measures in this output, transferred directly from the 2016-17 Department of Economic Development, Jobs, Transport and Resources *Energy and Resources* output, also have targets of 100 per cent.[521]

The measures are:

- 'Delivery of a pilot independent energy brokerage service for Victorian hardship and culturally and linguistically diverse (CALD) consumers'
- 'Users of the Victorian Energy Compare website who report a better understanding of their usage costs after using the website'
- 'Victoria is represented at each COAG Energy Council meeting'
- 'Delivery of key Australian Energy Market Commission funding milestones, in line with funding agreements and agreed project deliverables'
- 'Delivery of key milestones for the Solar Trams Program'
- 'Delivery of key milestones for the Smart System, Microgrid and Storage trials program'.

FINDING 105: Ten out of the eleven performance measures listed under the Department of Environment, Land, Water and Planning's *Energy* output in the 2017-18 Budget have a target of 100 per cent.

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518 Mr Terry Garwood, Deputy Secretary, Local Infrastructure, Department of Environment, Land, Water and Planning, *2017-18 Budget Estimates Transcript of Evidence*, 19 May 2017 p.8

519 Hon. Fiona Patten MLC, Public Accounts and Estimates Committee, *2017-18 Budget Estimates Transcript of Evidence*, 19 May 2017 p.8

520 Hon. Daniel Andrews MP, Premier, *New Ministry Strengthens Focus On Jobs, Major Projects And Law And Order* (Media release, 23 May 2016)

521 Department of Treasury and Finance, *Budget Paper No.3: 2016-17 Service Delivery* (2016), pp. 208-9

The *Performance Management Framework for Victorian Government Departments* currently states:

> Targets of 0 or 100 per cent should not be used in most cases as they have no capacity to demonstrate continuous improvement from year to year and may not be sufficiently challenging.[522]

In relation to using 100 per cent as a target, the Public and Accounts and Estimates Committee has previously made the recommendation:

> When reviewing performance measures with departments, the Department of Treasury and Finance pay particular attention to measures with targets of 100 per cent, to ensure that these measures are appropriately challenging.[523]

This was supported by the then-Government.[524] In the review undertaken in 2014, the Committee found 142, or 12 per cent, of all measures had 100 per cent as the target.[525] In the 2017-18 budget papers there are 151 performance measures or 11.4 per cent which have a 100 per cent target.[526]

The Committee believes that removing the use of 100 per cent targets from the performance measurement system would be timely, given the proportion of these have not decreased in recent years, and the issues regarding whether they are sufficiently challenging remain.

FINDING 106: The proportion of performance measures in the budget papers using 100 per cent as the target has remained around 12 per cent over the last three years.

8

RECOMMENDATION 12: The Department of the Treasury and Finance reject the use of 100 per cent targets for performance measures in the next update of the *Performance Management Framework for Victorian Government Departments.*

The new 2017-18 Department of Environment, Land, Water and Planning performance measure 'Users of the Victorian Energy Compare website who report a better understanding of their usage costs after using the website' has a target of 50 per cent. When asked by the Committee if 50 per cent was a sufficiently ambitious target, the Minister explained:

> ... it is a new website, and we always want to make sure that we optimise where we can, so we are not underachieving or wishing to do that, but certainly our aim is to get the message out as strongly and broadly as we possibly can. So I will not settle on that; I will certainly aim for higher than that.[527]

522 Department of Treasury and Finance, *Performance Management Framework for Victorian Government Departments* (2017), p.56

523 Public Accounts and Estimates Committee, *Review of the Performance Measurement and Reporting System* (2014), p.56, Recommendation 25

524 *Government Responses to the Recommendations of Public Accounts and Estimates Committee's 118th Report to Parliament – Review of the Performance Measurement and Reporting System*, tabled 26 March 2014, p.12

525 Public Accounts and Estimates Committee, *Review of the Performance Measurement and Reporting System* (2014), p.55

526 This includes the proposed discontinued performance measures listed in Appendix A of *Budget Paper No.3: 2016-17 Service Delivery* (2017)

527 Hon. Lily D'Ambrosio, Minister for Energy, Environment and Climate Change, *2017-18 Budget Estimates Transcript of Evidence*, 19 May 2017 p.17

FINDING 107: The new energy-related performance measure introduced in the 2017-18 Budget, 'Users of the Victorian Energy Compare website who report a better understanding of their usage costs after using the website', has a target of 50 per cent.

Given the current context of rising energy prices, as discussed in Chapter 6, consumer understanding of energy consumption and pricing has perhaps never been more important. Therefore, the Committee recommends that:

RECOMMENDATION 13: The Department of Environment, Land, Water and Planning increase the target for the 'Users of the Victorian Energy Compare website who report a better understanding of their usage costs after using the website'.

8.4.3 New performance measures for the Department of Economic Development, Jobs, Transport and Resources

The Department of Economic Development, Jobs, Transport and Resources introduced 13 new performance measures in the 2017-18 Budget.

Performance measures related to large asset investment projects

Two new performance measures are related to large asset infrastructure projects: the *Ballarat Line Upgrade*; and the *West Gate Tunnel* initiatives. The *Ballarat Line Upgrade* was announced in the 2016-17 Budget with a project TEI of $516.7 million.[528] The *West Gate Tunnel* is a public private partnership project worth $5.5 billion.[529] Both these asset infrastructure projects are discussed in Chapter 7. The only performance measure for each of these projects is 'Milestones delivered in accordance with agreed budget and timelines' with a target of 100 per cent. The Committee discussed this performance measure in relation to the *West Gate Tunnel* project at the public hearing with the Minister for Roads and Road Safety and specifically, the lack of information regarding project budget and timelines in the budget papers.[530] The Chief Executive Officer of the Western Distributor Authority provided the following explanation regarding the milestones, budget and timelines of the project at the public hearings:

> It has been quite public, but we have said that we are anticipating to put an environment effects statement out by the middle of the year, that we would achieve planning and environmental approvals by the end of this calendar year, that we would award the contract and reach financial closure by then, that we would start construction by early 2018 and complete the project in 2022. So far we are hitting all of our milestones …
>
> The project is basically still effectively in the tender phase. I mean, we are still going through the market led proposal guidelines. It is in the stage 4 process. As the project progresses through that towards the final stage, those milestones will be set and be able to be made available in future papers.[531]

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528 Department of Treasury and Finance, *Budget Paper No.3: 2016-17 Service Delivery* (2016), p.49

529 Department of Treasury and Finance, *Budget Paper No.4: 2017-18 State Capital Program* (2017), p.15

530 Mr David Morris MP, Deputy Chair, Public Accounts and Estimates Committee, *2017-18 Budget Estimates Transcript of Evidence*, 18 May 2017 p.22

531 Mr Peter Sammut, Chief Executive Officer, Western Distributor Authority, *2017-18 Budget Estimates Transcript of Evidence*, 18 May 2017 p.22

Two other existing performance measures for the department relating to large asset investment projects, the *Level Crossing Removal Program* (TEI $6.9 billion[532]) and *Melbourne Metro Tunnel* project (TEI $11.0 billion[533]), also use the 'Milestones delivered in accordance with agreed budget and timelines' performance measure.[534]

The Committee believes the assessment of these projects would be enhanced with the inclusion of additional quantity, quality, timeliness and cost performance measures that track their rollout and implementation.

FINDING 108: Four major asset investment infrastructure projects currently managed by the Department of Economic Development, Jobs, Transport and Resources (*Ballarat Line Upgrade, West Gate Tunnel, Level Crossing Removal Program* and *Melbourne Metro Tunnel*) with a combined worth of $23.9 billion use a single measure for performance, 'Milestones delivered in accordance with agreed budget and timelines'. The assessment of these projects would be enhanced with additional performance measures.

RECOMMENDATION 14: The Department of Economic Development, Jobs, Transport and Resources discontinue using 'Milestones delivered in accordance with agreed budget and timelines' as the performance measure for asset investment infrastructure projects with a total estimated investment over $500 million, and develop a set of substantial quantity, quality, timeliness and cost measures that would inform the public as to how these projects are progressing.

Performance measures related to road surfacing

The findings made by the Victorian Auditor-General's Office (VAGO) on the Victorian road surfacing program in the *Maintaining State-Controlled Roadways* report are discussed in Chapter 7 on asset investment.

In terms of the road surfacing performance management system currently in place, the VAGO report found the information contained in the VicRoads Annual Report 'provides little insight into the effectiveness of the maintenance program' and VicRoads does not publicly report performance against the required inspection frequency and response times listed in the publicly available road maintenance plan document.[535]

In terms of the performance measures reported in the budget papers, the VAGO report noted that the 2015-16 performance measures it assessed were:

> … output-based indicators, related to timeliness and quantity. There are no measures for quality and cost-effectiveness, which would help the public to understand how the road pavement maintenance program performs in:
>
> - maximising road safety
> - minimising road pavement deterioration and reducing whole-of-life costs

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532 Department of Treasury and Finance, *Budget Paper No.4: 2017-18 State Capital Program* (2017), p.27

533 ibid., p.122

534 Department of Treasury and Finance, *Budget Paper No.3: 2017-18 Service Delivery* (2017), p.150

535 Victorian Auditor-General's Office (VAGO), *Maintaining State-Controlled Roadways* (2017), pp.45, 47

- replacing road surfaces that have reached the end of their life
- rehabilitating failed sections of pavements.[536]

In the 2017-18 budget papers, the Department proposes replacing the following performance measures relating to road and pavement surfaces:

- 'Pavement resurfaced: metropolitan'
- 'Pavement resurfaced: regional'
- 'Proportion of road pavements not distressed: metropolitan'
- 'Proportion of road pavements not distressed: regional'

with the following measures:

- 'Road area treated: high strategic priority roads'
- 'Road area treated: medium strategic priority roads'
- 'Road area treated: low strategic priority roads'.[537]

According to the Department, these proposed new measures will 'provide greater transparency of investments in road treatments to maintain or extend the useful life of a road'.[538]

For pavement resurfacing, the Department has proposed the following replacement measures:

- 'Road length meeting cracking standard: metropolitan'
- 'Road length meeting roughness standard: metropolitan'
- 'Road length meeting rutting standard: metropolitan'
- 'Road length meeting cracking standard: regional'
- 'Road length meeting roughness standard: regional'
- 'Road length meeting rutting standard: regional'.[539]

These six new replacement measures are more explicit in terms of the nature of road distress (cracking, roughness and rutting), and are quality measures. The Department says these new measures 'provide greater transparency in measuring the overall effectiveness of investment in pavements'.[540]

While the replacement measures are more explicit, they are technical in nature.[541] There are still no measures giving the public an understanding of the whole proportion of the road network that needs repair and whether this is

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536 ibid., p.46

537 Department of Treasury and Finance, *Budget Paper No.3: 2016-17 Service Delivery* (2016), p. 152

538 ibid.

539 ibid., p.153

540 ibid.

541 An explanation of road cracking, roughness and rutting can be found in the VAGO report - *Maintaining State-Controlled Roadways* (2017), pp.10-11

growing or decreasing. Also, in line with the VAGO report assessment of existing performance measures for road safety, there are no measures that link the outcomes of maintenance to road safety.

FINDING 109: The Department of Economic Development, Jobs, Transport and Resources has proposed to replace the existing four performance measures on road surfacing with nine, more detailed, performance measures.

FINDING 110: Replacement performance measures proposed by the Department of Economic Development, Jobs, Transport and Resources in road resurfacing are an improvement but do not fully respond to the recommendations made by the Auditor-General.

RECOMMENDATION 15: The Department of Economic Development, Jobs, Transport and Resources and VicRoads develop further road maintenance performance measures that fully respond to the recommendations made in the Victorian Auditor-General's Office 2017 report.

8.4.4 New performance measures reflecting the introduction of the National Disability Insurance Scheme

As a result of the introduction of the National Disability Insurance Scheme (NDIS) and the National Disability Insurance Agency (NDIA), the Department of Education and Training has introduced two new performance measures within the early childhood development output. These are:

- 'Contribution to National Disability Insurance Scheme costs paid on time'
- 'Timely transfer of client data that complies with the agreed schedule and the NDIA data standard to the NDIA'.

Both performance measures have a target of 100 per cent.[542]

At the public estimates hearing attended by the Minister for Children and Family Services, the Secretary of the Department of Education and Training provided further information regarding the progress of the transition of services from the Department funded services to the NDIS:

> So the 2017–18 budget provided additional funding of 7.2 million over two years to enable more children to benefit from early therapeutic intervention through the state government while they wait to transition to the NDIS. The government currently funds early childhood intervention services and flexible support packages for approximately 13 000 children aged nought to six with developmental delay or disability and their families. Both of these programs are in scope for the NDIS.
>
> The new funding will provide additional ECIS (Early Childhood Intervention Services) places for more than 800 children commencing in 2017 until the full transition of ECIS services to the NDIS is complete in 2019. This will have the dual benefit of enabling children to access the early childhood intervention services across

542 Department of Treasury and Finance, *Budget Paper No.3: 2016-17 Service Delivery* (2016), p.173

> the state but also enabling ongoing provision for children while their NDIS plans are being prepared. So it will also enable the early childhood intervention sector to increase its capacity to deliver services to those children with developmental delay or disability in preparation for what we anticipate, and have seen already in the Barwon area, as the increased demand for services being brought about by the NDIS.[543]

The Secretary also outlined some early changes to timelines agreed to with the Commonwealth for the transition:

> As part of the bilateral agreement the commonwealth agreed that 1800 children on the waitlist would transition to the NDIS in the first two years of the rollout, but this has been brought forward at the request of the NDIA, and the details of all of these children were provided to the NDIA by January of this year. We have recently become aware of a number of children from the waitlist — that 1800 — whose planning has not yet been undertaken by the NDIA, so we have escalated that issue. We have talked to the agency. We have asked for some more detailed information to determine exactly how many are yet to be contacted, and once that is available we will work with them on a strategy to move that more quickly.[544]

The Department of Health and Human Services has proposed discontinuing three performance measures as a result of the introduction of the NDIS. They are:

- 'Supported accommodation occupancy rate'
- 'Number of supported accommodation beds'
- 'Eligible population receiving Home and Community Care services'.[545]

The Committee has recommended to the Minister for Finance that the first two proposed discontinued performance measures relating to supported accommodation be maintained until the NDIS is fully rolled out in 2019. It is important that while the State retains responsibility for some disability services in the transition phase, there remains transparency regarding outcomes for people with a disability and departmental performance.

The following section discusses proposed discontinued performance measures in the 2017-18 Budget in greater detail.

8.5 Proposed discontinued performance measures

The budget process provides the opportunity for departments to change, discontinue or replace performance measures. The *Performance Management Framework for Victorian Government Departments* outlines the circumstances in which performance measures may be changed. These include:

- machinery of Government changes;
- a shift in focus of the service;

543 Ms Gill Callister, Secretary, Department of Education and Training, *2017-18 Budget Estimates Transcript of Evidence*, 30 May 2017, p.11

544 ibid.

545 Department of Treasury and Finance, *Budget Paper No.3: 2016-17 Service Delivery* (2016), pp.367, 369

- development of improved measures; or
- the establishment of new data sets which can collect different information.[546]

Additionally, a performance measure can be discontinued as:

- it is no longer relevant due to a change in government policy or priorities and/or departmental objectives;
- projects or programs have been completed, substantially changed, or discontinued;
- milestones have been met;
- funding is not provided in the current budget for the continuation of the initiative; or
- improved measures have been identified for replacement.[547]

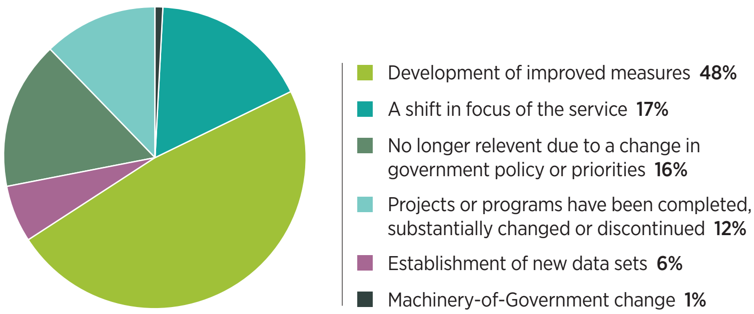
The Public Accounts and Estimates Committee plays a recognised role in this process:

> To strengthen accountability and transparency for performance management, the Public Accounts and Estimates Committee (PAEC), at the invitation of the Minister for Finance, reviews output performance measures that departments propose to discontinue or substantially change through the annual budget process.[548]

In the 2017-18 budget papers, 86 measures are proposed for discontinuation.[549]

Figure 8.2 shows that just under half (48 per cent) of the proposed discontinued performance measures in the 2017-18 budget papers are linked to the development of improved measures, followed by shifts in focus of the service (17 per cent).

Figure 8.2 **Reason for proposed discontinued performance measures in 2017-18 Budget**



Source: Public Accounts and Estimates Committee

546 Department of Treasury and Finance, *Performance Management Framework for Victorian Government Departments* (2017), p.23

547 ibid.

548 ibid., p.4

549 Department of Treasury and Finance, *Budget Paper No.3: 2017-18 Service Delivery* (2017), Appendix A – Output Performance Measures for Review by the Public Accounts and Estimates Committee

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Examples where performance measures have been proposed to be discontinued in the 2017-18 budget papers due to the *development of improved measures* include:

- the Department of Premier and Cabinet's 'Complaints or notifications assessed by IBAC within 45 days' which has been replaced by two measures for increased clarity: 'Complaints or notifications about public sector corrupt conduct (excluding police personnel conduct and police personnel corrupt conduct) assessed by IBAC within 45 days' and 'Complaints or notifications about police personnel conduct and police personnel corrupt conduct assessed by IBAC within 45 days'[550]
- the Department of Environment, Land, Water and Planning's 'Visits to Parks Victoria managed estate' which has been replaced by the two measures 'Visits to national, state, urban and other terrestrial park' and 'Visits to piers and jetties' for increased transparency and clarity[551]
- the Department of Environment, Land, Water and Planning's 'Maps generated on Land Channel' which has been replaced by 'Delivery of updated Vicmap Foundation data within one week', which 'underpins the provision of land administration and property information data and will provide for clearer monitoring of performance'.[552]

Examples of performance measures that are proposed to be discontinued as a result of the *shift in the focus of the service* include the Department of Economic Development, Jobs, Transport and Resources' 'Taxi and hire vehicle complaints assessed, investigated and closed' and 'Taxi and hire vehicle complaints investigated and closed within 45 days' which have been replaced by the measure 'Commercial passenger vehicle service complaints and intelligence reports investigated and closed within 45 days'. The replacement measure broadens the scope 'to reflect rideshare reform and to better reflect the service received by the public'.[553]

8.5.1 The Committee's recommendations on proposed discontinued performance measures in the 2017-18 Budget

The Committee recommends that 16 of the 86 proposed discontinued performance measures in the 2017-18 Budget be retained.

There are two proposed discontinued performance measures for the Department of Economic Development, Jobs, Transport and Resources that the Committee recommends be retained. These are:

- 'Delivery of key CarbonNet milestones, in line with funding agreements and agreed project deliverables'. The Committee believes the new replacement measure put forward by the Department 'Facilitate the delivery of resources

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550 Department of Treasury and Finance, *Budget Paper No.3: 2017-18 Service Delivery* (2017), p.372
551 ibid., p.364
552 ibid.
553 ibid., p.361

projects in line with grant agreements and project milestones' is too broad and believes the community has an ongoing interest in the CarbonNet project.

- 'Properties inspected for invasive plant and animal priority species'. The 2017-18 replacement measure 'Projects delivered to support community-led management of invasive plant and animal priority species' does not reflect the necessary inspection activity undertaken by the Department, nor give any indication of environmental outcomes.

There are three proposed discontinued performance measures put forward by the Department of Environment, Land, Water and Planning in the budget papers that the Committee recommends be retained. These are:

- Two performance measures relating to the Environment Protection Authority: 'Environmental condition research reports issued, improvement tools, guidelines, policies, systems and plans completed and issued' and 'EPA notices issued for illegal dumping of waste'. In light of the recent fire at a recycling facility at Coolaroo, and the subsequent announcement by the Government of a taskforce created to audit recycling activities, together with the review of the *Environment Protection Act*, the Committee feels it would be worthwhile to retain these measures.[554]
- 'Foreshore protection assets around Port Phillip and Western Port Bays rated as 'good' to 'very good' condition'. The Committee believes a quality measure regarding coastal protection activity is important, and the quantity replacement measure ('Coastal protection infrastructure projects delivered') does not give an indication of overall coastal condition.

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There are 6 proposed discontinued performance measures from the Department of Health and Human Services that the Committee recommends be retained. These are:

- The two performance measures discussed in Section 8.4.4 relating to the rollout of the NDIS.
- Two measures relating to the *Drug prevention and control* output; 'Contacts through Family Drug Help' and 'Number of telephone, email, website contacts and in person responses to queries and requests for information on alcohol and drug issues (through the Australian Drug Foundation)'. The Committee notes the new measures put forward as replacements (i.e. 'Number of telephone contacts from family members seeking support' and 'Number of telephone, email, website contacts and requests for information on Alcohol and Other Drugs') would measure different things.

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554 Hon. Lily D'Ambrosio MP, Minister for Energy, Environment and Climate Change, *Taskforce To Audit Recycling Facilities*, (Media Release), 15 July 2017

- 'Public hospitals meeting cleaning standards, as assessed by external audit'. The Committee believes this measure should be retained as the proposed replacement measure[555] does not maintain the same health and safety standard.
- 'Rate of admissions for ambulatory care sensitive chronic conditions for Aboriginal Victorians'. The Committee finds the treatment of chronic conditions for Aboriginal Victorians is not reflected in the two new performance measures relating to Aboriginal Victorians health (one on immunisation[556] and one on smoking cessation[557]) in the 2017-18 Budget.

There are three proposed discontinued performance measures made by the Department of Education and Training that the Committee recommends retaining. These are:

- 'Annual government subsidised module enrolments' and 'Government subsidised student contact hours of training and further education provided'. The Committee discussed the poor results against the targets for these measures in the *Report on the 2015-16 Financial and Performance Outcomes*.[558] As part of this inquiry, the Committee asked the Department in the general questionnaire when the impact of past policy changes to the VET sector[559] will be reflected in improving performance measurement results against the targets set across enrolments, participation and satisfaction with training. The Department responded that '*Skills First*, which commenced in January 2017, is expected to stabilise overall training demand and further improve TAFE market share from 2017'.[560] These performance measures should be maintained so the Committee has data about the impact of policy changes made to the VET system over recent years, and can see performance trends over time.
- 'Successful training completions as measured by module load completion rate'. This measure should be retained as the replacement measure, 'Number of government subsidised course completions', does not give a sense of the overall proportion of course completions resulting from module completions.

The Committee recommends that the Department of Treasury and Finance retain the measure 'Benefits delivered as a percentage of expenditure by mandated agencies under Department-managed state purchasing contracts, including reduced and avoided costs' as the Department has not put forward a replacement

555 'Patient reported hospital cleanliness', based on a recommendation of the *Review of Hospital Safety and Quality Assurance in Victoria*. Department of Treasury and Finance, *Budget Paper No.3: 2017-18 Service Delivery* (2017) p.366

556 Department of Treasury and Finance, *Budget Paper No.3: 2017-18 Service Delivery* (2017) p.247

557 ibid. p.248

558 Public Accounts and Estimates Committee, *Report on the 2015-16 Financial and Performance Outcomes* (2017) pp.117-120

559 such as tightened eligibility for subsidised training and foundation courses, and reduction in subsidies

560 Department of Education and Training, *Response to the Committee's 2017-18 Budget Estimates General Questionnaire*, received 3 May 2017, p.51

performance measure.[561] The Committee also recommends the measure proposed for discontinuation by the Victorian Parliament, 'Inquiries from Members of Parliament and the public responded to within 28 days', be retained as the replacement measure, 'Average duration taken to finalise responses to inquiries from Members of Parliament', excludes inquiries made by the public.

FINDING 111: There were 86 proposed discontinued performance measures in the 2017-18 Budget and the Committee recommends retaining 16 of these.

RECOMMENDATION 16: The Minister for Finance retain the 16 proposed discontinued performance measures identified in section 8.5.1 of this report.

8.6 Shortcomings with performance measurement

At the public hearings, Committee members asked questions about various performance measures and specifically, targets for the performance measures. The Committee found instances where:

- targets have not been adjusted to reflect significant increases in funding allocated in the budget
- performance measures are absent from the budget papers despite substantial public interest and expenditure
- the relevant performance framework associated with the performance measure is a work in progress
- targets can lack meaning
- targets are set artificially low thereby not promoting service improvement
- performance measures are not keeping pace with changes in technology and community engagement
- performance targets are under estimated over several years.

8.6.1 Targets have not been adjusted to reflect significant increases in funding allocated in the budget

This issue was raised in relation to performance measures on the time taken to solve crime in light of increasing police numbers[562] and increased funding allocated to breast screening of women.[563] With regard to the performance measures for year 7 and year 9 NAPLAN results for Aboriginal students,

561 The budget papers state 'This performance measure is proposed to be discontinued as the benefits delivered as a percentage of expenditure by mandated agencies under Department- managed state purchasing contracts, including reduced and avoided costs, better indicate progress against the objective 'Deliver efficient whole of government common services'. The Committee notes 'Deliver efficient whole of government common services' is an objective and not a performance measure.

562 Hon. Lisa Neville MP, Minister for Police, *2017-18 Budget Estimates Transcript of Evidence*, 1 June 2017 p.28

563 Hon. Jill Hennessey MP, Minister for Health, *2017-18 Budget Estimates Transcript of Evidence*, 17 May 2017 p.40

a Committee member asked the Minister for Education why the targets remained the same as last year's budget when an additional $72 million is being invested.[564] The targets specifically referred to are set out in Table 8.1.

Table 8.1 Performance targets for Aboriginal students

Performance measures	*Unit of measure*	*2017-18 target*	*2016-17 expected outcome*	*2016-17 target*	*2015-16 actual*
Average days lost due to absence for Aboriginal students in Years 7 to 12	number	35.0	nm	nm	nm
New performance measure for 2017-18 to reflect Government priorities regarding Education State, and Breaking the Link between disadvantage and achievement. This performance measure relates to the calendar year. This performance measure refers to government schools only. The 2017-18 target has been set based on trend data across the last three calendar years.					
Median VCE study score	number	29	29	29	29
This performance measure relates to the calendar year. This performance measure refers to government schools only.					
Parent satisfaction with secondary schooling on a 100-point scale	100-point scale	76	77	76	77
This performance measure relates to the calendar year. This performance measure refers to government schools only. Data is drawn from the Parent Opinion Survey, where a higher score represents a higher level of satisfaction. The 2017-18 target has been set as the average of the actual data across the last three years.					
Percentage of Aboriginal students above the bottom three bands for numeracy in Year 7 (NAPLAN testing)	per cent	29.4	29.1	26.4	24.4
This performance measure relates to the calendar year. This performance measure includes government and non-government schools. The higher 2017-18 target reflects the ambition of the Education State for excellence in reading and maths and to break the link between disadvantage and achievement. When interpreting results, a 95 per cent confidence interval of +/- 3.73 percentage points needs to be considered, as the reported number is an estimate of the student ability for which there is associated measurement error, standard to any such assessment.					
Percentage of Aboriginal students above the bottom three bands for numeracy in Year 9 (NAPLAN testing)	per cent	25.2	19.9	25.2	24.3
This performance measure relates to the calendar year. This performance measure includes government and non-government schools. When interpreting results, a 95 per cent confidence interval of +/- 3.24 percentage points needs to be considered, as the reported number is an estimate of the student ability for which there is associated measurement error, standard to any such assessment. *The 2016-17 expected outcome is lower than the 2016-17 target as NAPLAN results reflect student performance as assessed in May 2016, therefore student achievement during this reporting period does not reflect the full impact of recent Education State and Marrung initiatives.*					
Percentage of Aboriginal students above the bottom three bands for reading in Year 7 (NAPLAN testing)	per cent	29.2	28.6	29.2	28.1
This performance measure relates to the calendar year. This performance measure includes government and non-government schools. When interpreting results, a 95 per cent confidence interval of +/- 3.25 percentage points needs to be considered, as the reported number is an estimate of the student ability for which there is associated measurement error, standard to any such assessment.					
Percentage of Aboriginal students above the bottom three bands for reading in Year 9 (NAPLAN testing)	per cent	26.3	21.4	26.3	24.6
This performance measure relates to the calendar year. This performance measure includes government and non-government schools. When interpreting results, a 95 per cent confidence interval of +/- 3.45 percentage points needs to be considered, as the reported number is an estimate of the student ability for which there is associated measurement error, standard to any such assessment. *The 2016-17 expected outcome is lower than the 2016-17 target as NAPLAN results reflect student performance as assessed in May 2016, therefore student achievement during this reporting period does not reflect the full impact of recent Education State and Marrung initiatives.*					

Source: Department of Treasury and Finance, *Budget Paper No.3: Service Delivery* (2017), p.182

564 Ms Fiona Patten MLC, Public Accounts and Estimates Committee, *2017-18 Budget Estimates Transcript of Evidence*, 18 May 2017 p.17

The Committee notes that the 2017-18 targets for all Year 7 and Year 9 students across the same measures are approximately twice as high as the targets for Aboriginal students.[565]

The Minister advised that 'the targets against the measures for Koori students were informed by the Council of Australian Government's close the gap target to halve the gap in reading, writing and numeracy achievements by 2018, so these are quite ambitious stretch targets'.[566] The response to the Committee's question on notice states in part that 'the impact of *Education State* and *Marrung*[567] initiatives will not be immediately apparent in student achievement measures. It is expected that the *Education State* targets will be reached over a 5-10 year timeframe, and the Department will continue to monitor progress against the targets'.[568]

FINDING 112: Targets across some performance measures in the 2017-18 Budget have not been adjusted to reflect increases in funding.

8.6.2 Performance measures lack meaning or are absent from the budget papers despite substantial public interest and expenditure

Some of the limitations of the performance measures were examined in relation to major infrastructure investments in Section 8.4.3. The issue of absent performance measures was also raised in the budget estimates hearings with reference to the myki ticketing system and reducing drug overdoses in Victoria. The Committee asked at the budget estimates hearings why there were no performance measures in the budget papers for myki. The myki ticketing system is a stored-value smartcard system that allows passengers to pay for travel on metropolitan trains, trams and buses. The Chief Executive Officer of Public Transport Victoria (PTV) advised the Committee that:

> There are a whole range of performance measures that we have for myki. We administer that contract. That includes the availability of the myki ticketing service, the availability of individual touch points that we have, the gates that we have. It involves KPIs around the recovery of finances, it involves KPIs around customer satisfaction scores. We have a range of performance measures that we use for myki. They were reset for this new contract that we entered into last year.[569]

The Victorian Auditor-General's Office (VAGO) recently followed up on the 2014-15 audit of the myki ticketing system and performance measurement. The report found that PTV had completed actions to implement the four previous audit recommendations made. However, the Auditor-General identified the following residual risks:

565 Department of Treasury and Finance, *Budget Paper No.3: Service Delivery* (2017), p.183

566 Hon. James Merlino, Minister for Education, *2017-18 Budget Estimates Transcript of Evidence*, 16 May 2017, p.17

567 *Marrung* is the Government's 10-year Aboriginal education plan that was launched in July 2016.

568 Department of Education and Training, *2017-18 Budget Estimates hearings*, response to questions on notice, received on 23 June 2017, p.4

569 Mr Jeroen Weimar, CEO, Public Transport Victoria, *2017-18 Budget Estimates Transcript of Evidence*, 18 May 2017, p.31

> It is still too early to assess whether the new performance regime has improved the delivery of ticketing services and service provider accountability. The effectiveness and the integrity of the performance regime, and PTV's ability to determine incentive payments and penalty abatements accurately, will depend on how PTV monitors the service provider's performance, enforces the performance regime and manages the myki contract.[570]

The Government entered into a new $700 million seven-year contract in July 2016 for the operation of the myki system. The Committee believes that given the level of public interest in the operation of the system, the performance of the system should be reported in the budget papers.

FINDING 113: Although the Victorian Government entered into a new seven-year contract in July 2016 worth $700 million for the operation of the myki system, there are currently no performance measures in the budget papers for the ticketing system.

RECOMMENDATION 17: Performance measures be included in the budget papers on the myki ticketing system. The measures should capture the key elements of the new Public Transport Victoria myki performance framework.

8.6.3 The relevant performance framework is a work in progress

8

The Committee found instances where significant amounts of funding towards initiatives has been allocated and expended but the performance framework has not been determined and is not expected to be in place for another 12 months. The *Family Violence* initiative, discussed earlier in this chapter and in Chapter 6, and the gender equality strategy *Safe and Strong*[571] are such examples.

FINDING 114: New initiatives such as the *Family Violence* initiative and *Safe and Strong* gender equality strategy have performance measures included in the 2017-18 budget papers, although the associated performance frameworks have yet to be finalised.

8.6.4 Targets can lack meaning

The measure 'Practitioner medicinal cannabis authorisations processed within prescribed timeline' has a target of 95 per cent.[572] However, there are only two practitioners, so the measure relates to 95 per cent of two practitioners. The Minister for Health stated 'It is not a very insightful performance measure … because of course the scheme is not up and running at this point in time'.[573]

570 Victorian Auditor-General's Office (VAGO), *Follow up of Selected 2014-15 Performance Audits* (2017), p.30

571 Ms Sarah Gruner, Assistant Director, Office of Prevention and Women's Equality, Department of Premier and Cabinet, *2017-18 Budget Estimates Transcript of Evidence*, 30 May 2017, p.4

572 Department of Treasury and Finance, *Budget Paper No.3: Service Delivery* (2017), p.249

573 Hon. Jill Hennessy MP, Minister for Health, *2017-18 Budget Estimates Transcript of Evidence*, 17 May 2017, p.16

8.6.5 Targets are set artificially low thereby not promoting service improvement

In relation to the performance measure on safety and quality standards for taxis and hire vehicles, one Committee member noted that:

> … we are only expecting that 83 per cent of taxis and hire vehicles will conform to safety and quality standards … Also … the taxi online customer rating with an overall satisfaction in metropolitan Melbourne of 61 per cent – the target is 61 per cent. So that is a 0.6 per cent increase – not aiming too high. If that was a ride sharing app, that would be three stars and you probably would not be getting many rides at that level … I am interested in why these figures are quite low.[574]

The Minister for Public Transport responded by advising that:

> … should the legislation pass through the Parliament … that will necessitate a re-examining of all of these performance measures for the industry …
>
> Going through those performance measures, I think you have identified what also speaks to some of the policy issues that go into why there needs to be a change in this industry, and I think there are changing community expectations about the service standards that they expect from across the board, whether you are getting in a taxi, a ridesharing company …[575]

The Committee notes that the Government sets the performance targets and can reset them at any point in time. Reviewing the targets relating to services provided by taxis is not dependent on any single piece of legislation and is perhaps overdue.

Similarly, the Committee asked the Department of Health and Human Services why the Government consistently sets itself a target of 60 per cent for the proportion of Aboriginal children placed with relative or kin, other Aboriginal carers or in Aboriginal residential care.[576] The outcomes have been 64 per cent in 2013-14, 69.9 per cent in 2014-15, 72 per cent in 2015-16 and 72 percent (expected outcome) in 2016-17.[577] The Department of Health and Human Services advised that:

> In order for there to be consistent measuring for this performance measure, the Department of Health and Human Services has maintained the same performance target. This allows for a constant benchmark in understanding data and providing accurate reporting outcomes.[578]

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574 Hon. Fiona Patten MLC, Public Accounts and Estimates Committee, *2017-18 Budget Estimates Transcript of Evidence*, 18 May 2017 p.16

575 Hon. Jacinta Allan, Minister for Public Transport, *2017-18 Budget Estimates Transcript of Evidence*, 18 May 2017 p.17

576 Committee question on notice to the Department of Health and Human Services, question number 10a

577 Department of Treasury and Finance, *Budget Paper No.3: 2017-18 Service Delivery* (2017), p.254; Department of Treasury and Finance, *Budget Paper No.3: 2016-17 Service Delivery* (2016), p.250; and Department of Treasury and Finance, *Budget Paper No.3: 2015-16 Service Delivery* (2015), p.254

578 Response to Committee question on notice to the Department of Health and Human Services, received 21 August 2017, p.5

Committee notes that consistency in measurement is maintained regardless of whether targets and subsequent expectations are raised.

8.6.6 Performance measures not keeping pace with changes in technology and community engagement

The Minister for Small Business, Innovation and Trade was asked by the Committee about the relatively stagnant targets set by the Department of Economic Development, Jobs, Transport and Resources for the performance measures relating to trade, and visits to the small business website.[579] In particular the Committee noted the 'Subscriptions to Small Business Victoria E-Newsletter' performance measure's target of 38,000 for 2016-17 and 2017-18.[580] The budget papers state the expected outcome for the measure for 2016-17 is also 38,000, while the actual outcome for the measure for the previous year was 42,978.[581] The Minister explained to the Committee:

> ... there is no doubt volatility in terms of people subscribing to content. You need to make sure content is always relevant, appropriate and timely. As people develop their businesses to different degrees, they will need different support. There will be businesspeople that believe that the information has gotten them to a certain point to which point then being on the newsletter is no longer necessary. There will be other people that will come along that will be new businesses that will look to that information. It is difficult to judge a subscription based on the metric itself because people come and go of their own choosing ...
>
> ... there are many different ways that people look to engage: Twitter, Facebook, Instagram, WeChat, Weibo. There are many different social media platforms. In fact the one that I have not mentioned, of course, is our website...
>
> ... I will look to see what metrics we can gather in relation to other social media platforms in order to look at that down the line.[582]

In the budget papers this year the Department of Economic Development, Jobs, Transport and Resources also proposed to discontinue the performance measure 'Links from Tourism Victoria consumer sites' as it 'does not account for technological changes that include digital marketing and marketing through social networking sites'.[583]

FINDING 115: Social media platforms have expanded the ways in which Tourism Victoria and Small Business Victoria communicate and engage with the public however performance measures in the budget papers do not reflect this.

579 Mr David Morris MP, Deputy Chair, Public Accounts and Estimates Committee, *2017-18 Budget Estimates Transcript of Evidence*, 19 May 2017 pp.6-7

580 Hon. Fiona Patten MP, Public Accounts and Estimates Committee, *2017-18 Budget Estimates Transcript of Evidence*, 19 May 2017 p.9

581 Department of Treasury and Finance, *Budget Paper No.3: 2017-18 Service Delivery* (2017), p.141

582 Hon. Phillip Dalidakis, MP, Minister for Small Business, Innovation and Trade, *2017-18 Budget Estimates Transcript of Evidence*, 19 May 2017 pp.9-10

583 Department of Treasury and Finance, *Budget Paper No.3: 2017-18 Service Delivery* (2017), p.359

In subsequent correspondence with the Department of Economic Development, Jobs, Transport and Resources, the Committee was informed that:

> Visit Victoria currently monitor and report back to the Department on 'Total owned global customer profiles' which measures the total engaged digital audience.
>
> The total engaged digital audience is defined as a domestic or international consumer profile that can be marketed to directly via subscribed email, social media or behavioural based activity.
>
> If requested by PAEC, this measure could be added as a replacement budget number 3 (BP3) measure.[584]

The Committee welcomes the suggestion made by the Department to include this new measure. The Committee also notes that in an environment where the use of social media is expanding and website visits are not the only measure of a campaign's effectiveness, it would be worthwhile for all departments to develop performance measures encompassing the different social media platforms.

RECOMMENDATION 18: The Department of Economic Development Jobs, Transport and Resources include the new performance measure of 'total owned global customer profiles' measuring Visit Victoria's total engaged digital audience for 2017-18.

8.6.7 Performance being under estimated over several years

8

The Committee also identified an issue in the Youth Affairs portfolio where the Department of Health and Human Services has significantly under estimated performance over several years and has adjusted the target. The budget papers state the Department of Health and Human Services measure 'Participation by young people in programs that provide opportunities to be involved in social and economic life in their communities' achieved an actual figure of 292,391 in 2015-16, and has a 2016-17 target and expected outcome of 200,000, and a 2017-18 target of 235,000.[585]

The Minister explained:

> …the department's advice is that they do not expect the 2016-17 performance of any of these measures to be significantly different from 2015-16. Because we do not have this information until the end of July this year, in accordance with past practice the department has used the target for these measures as an expected outcome for the current financial year.[586]

A review of this performance measure outcome and target over the past three years indicates the Department of Health and Human Services routinely estimate a target or publish a preliminary outcome figure of 200,000 in budget papers and

584 Correspondence from the Hon. Gavin Jennings MLC, Acting Minister for Finance, to Chair, Victorian Public Accounts and Estimates Committee, received 1 August 2017

585 Department of Treasury and Finance, *Budget Paper No.3: 2017-18 Service Delivery* (2017), p.265

586 Hon. Jenny Mikakos, Minister for Youth Affairs, *2017-18 Budget Estimates Transcript of Evidence*, 30 May 2017, pp.5-6

annual reports before the actual outcome is known.[587] However, actual results for this measure over the last three years are well over the budget paper targets or preliminary estimates printed in Annual Reports.[588] The Deputy Secretary, Community Participation, Sport and Recreation, Health and Wellbeing of the Department of Health and Human Services explained further:

> The 17-18 target has been lifted, recognising that we have seen overperformance over a number of years ... we are still working on estimates because the data is collected for a calendar year, so we are yet to get all that information in.[589]

While the Committee is pleased to see the target increase to 235,000 in the latest budget papers, this is still well below recent actual outcomes for the measure and the Committee is of the view it could be increased further.

FINDING 116: The target of 200,000 for the Department of Health and Human Services measure 'Participation by young people in programs that provide opportunities to be involved in social and economic life in their communities' has been consistently underestimated in recent years, and was increased to 235,000 in 2017-18. Actual results for this measure over the last three years have been over 260,000.

RECOMMENDATION 19: The Department of Health and Human Services increase the target for the measure 'Participation by young people in programs that provide opportunities to be involved in social and economic life in their communities.

The Public Accounts and Estimates Committee undertook a detailed review of the departmental performance system in 2014. The review established that performance measures should be clear, meaningful and robust, providing an appropriate level of challenge across all of the departments' major programs and policies.[590] As part this inquiry the Committee found there remain some shortcomings in the departmental performance measures and they should be reviewed regularly to maintain their relevance.

FINDING 117: The Committee identified a number of shortcomings regarding many of the performance measures and targets contained in the 2017-18 budget papers.

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587 Department of Treasury and Finance, *Budget Paper No.3: 2017-18 Service Delivery* (2017), p.265; Department of Treasury and Finance, *Budget Paper No.3: 2016-17 Service Delivery* (2016), p.258; Department of Treasury and Finance, *Budget Paper No.3: 2015-16 Service Delivery* (2015), p.263; Department of Health and Human Services, *Annual Report 2015-16* (2016), p.56

588 Department of Treasury and Finance, *Budget Paper No.3: 2017-18 Service Delivery* (2017), p.265; Department of Treasury and Finance, *Budget Paper No.3: 2016-17 Service Delivery* (2016), p.258

589 Ms Anne Congleton, Deputy Secretary, Community Participation, Sport and Recreation, Health and Wellbeing, Department of Health and Human Services, *2017-18 Budget Estimates Transcript of Evidence*, 30 May 2017, p.6

590 Public Accounts and Estimates Committee, *Review of the Performance Measurement and Reporting System* (2014), Chapter 4

RECOMMENDATION 20: The performance measures in the budget papers be regularly reviewed to ensure measures and targets:

(a) are adjusted to reflected significant increases in funding

(b) reflect government expenditure on key services including the public transport ticketing system

(c) are formulated and embedded in the design of significant government initiatives such as the *Family Violence* initiative, rather than at the mid or post implementation stage

(d) promote service improvement and are not set artificially low

(e) are meaningful

(f) capture changes in technology and community engagement, incorporating coverage across social media platforms

(g) are adjusted in light of repeated over performance.

9 Implementation of previous recommendations

Key findings

- **The Committee revisited 81 recommendations. Of these recommendations, 60 were supported, supported in principle or placed under review by the Government. Twenty-one of the recommendations have been implemented in the areas of economic overview, asset investment, performance measurement and revenue. Twenty-one recommendations were not supported by the Government.**
- **Overall the Government has improved its transparency and accountability in financial reporting as a result of implementing the Committee's recommendations. This is reflected in key documents such as the budget papers, financial reporting guidelines and departmental annual reporting requirements.**
- **Although the Government gave in-principle support to the recommendation that it publish a detailed explanation of its dividend policy, the document containing the policy (*Corporate Planning and Performance Reporting Requirements for Government Business Enterprises*) has not been updated since 2009.**

9

9.1 Introduction

The Committee regularly assesses the Government's progress towards implementing recommendations made in previous reports. This chapter examines the Government's progress in implementing recommendations made in two previous Committee reports:

- *Report on the 2015-16 Budget Estimates* (tabled in November 2015)
- *Report on the 2016-17 Budget Estimates* (tabled in November 2016).

The Government tabled its responses to these two reports on 4 May 2016 and 24 May 2017 respectively. The Committee made a total of 95 recommendations to the Government.[591]

591 In 2015-16 the Committee made 66 recommendations and in 2016-17 it made 29 recommendations.

This chapter examines 81 recommendations across the following seven key budget and finance areas:

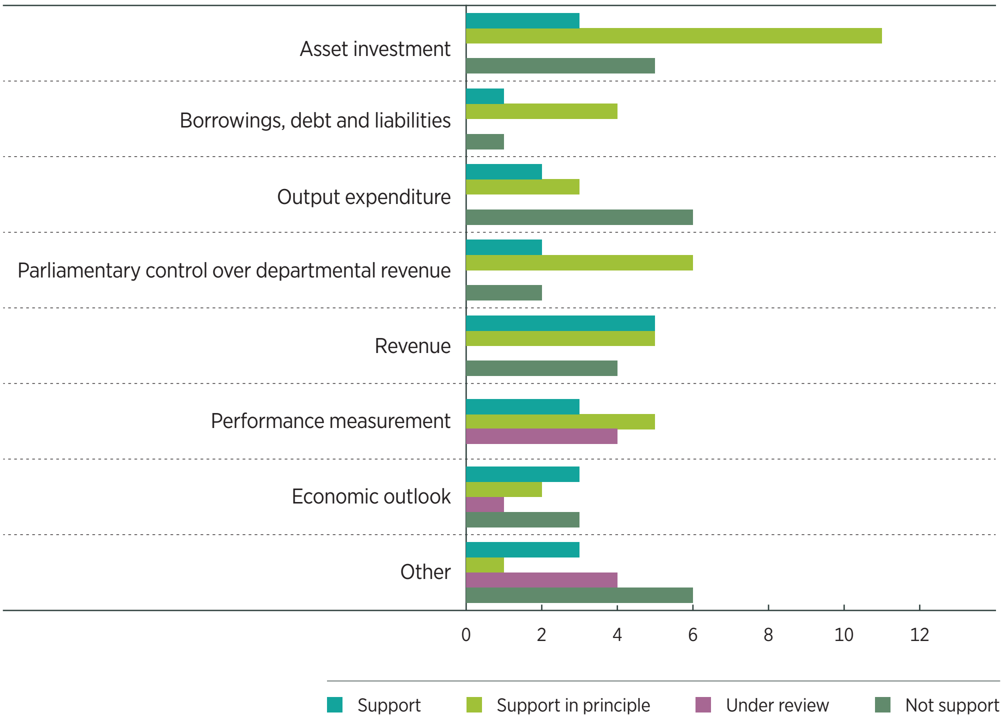
- asset investment
- borrowings, debt and liabilities
- output expenditure
- parliamentary control over departmental revenue
- revenue
- performance measurement
- economic outlook.

Of the 81 recommendations across the seven key areas:

- 60 recommendations were supported, supported in principle or placed under review by the Government. The Committee found that 21 recommendations had been implemented mainly in the areas of the economic overview, asset investment, performance measurement and revenue
- 21 recommendations were not supported by the Government, mainly in the output expenditure and asset investment categories.

The remaining 14 recommendations have been classified as 'other' in Figure 9.1. The progress of these recommendations have not been included in this chapter, but mostly relate to financial definitions and assumptions, together with issues relating to budget paper reporting formats.

Figure 9.1 **The Government's response to the Committee's recommendations: reports on the 2015-16 and 2016-17 budget estimates**



Sources: Victorian Government, *Government Response to the Recommendations of Public Accounts and Estimates Committee's Report on the 2015-16 Budget Estimates*, received 4 May 2016; Victorian Government, *Government Response to the Recommendations of Public Accounts and Estimates Committee's Report on the 2016-17 Budget Estimates*, received 24 May 2017

9

Overall, the Government has improved its transparency and accountability in financial reporting as a result of implementing the Committee's recommendations. This is reflected in key documents such as the budget papers, financial reporting guidelines and departmental annual reporting requirements.

FINDING 118: The Committee revisited 81 recommendations. Of these recommendations, 60 were supported, supported in principle or placed under review by the Government. Twenty-one of the recommendations have been implemented in the areas of economic outlook, asset investment, performance measurement and revenue. Twenty-one recommendations were not supported by the Government.

FINDING 119: Overall, the Government has improved its transparency and accountability in financial reporting as a result of implementing the Committee's recommendations. This is reflected in key documents such as the budget papers, financial reporting guidelines and departmental annual reporting requirements.

9.2 Asset investment

The Committee made 19 recommendations relating to asset investment from the previous two budget estimates inquiries.

Recommendations supported by the Government

Asset investment-related recommendations that were supported by the Government included:

- the further disclosure of information for high-value and high-risk asset projects
- the use of marking 'to be confirmed' for asset investment projects across anticipated expenditure in the budget papers.

As these disclosures can now be found in the 2017-18 budget papers, the Committee considers that these recommendations have been implemented.[592]

Another supported recommendation was for future budget papers to include all significant projects previously announced in budget updates, listing these as either completed or ongoing projects.[593] The Committee has found that the 2017-18 budget papers have included most significant projects that were originally announced in previous budget updates, with the exception of the asset initiative *Agriculture Infrastructure and Jobs Fund*, which was first announced in the *2015-16 Budget Update*.[594] Hence, this recommendation is not yet fully implemented.

Recommendations supported in principle by the Government

The Government provided in-principle support for 11 asset investment related recommendations. New information provided in the 2017-18 budget papers for two of these recommendations indicates to the Committee that they have been implemented.[595] These recommendations related to:

- the structure of the transaction and the allocation of the proceeds after the sale of the Port of Melbourne long-term lease

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592 Department of Treasury and Finance, *Budget Paper No.4: 2017-18 State Capital Programs* (2017), pp.20-21; Department of Treasury and Finance, *Budget Paper No.3: 2017-18 Service Delivery* (2017), pp.42, 57

593 Public Accounts and Estimates Committee, *Report on the 2016-17 Budget Estimates* (2016), Recommendation 16, p.150

594 Department of Treasury and Finance, *2015-16 Budget Update* (2015), p.111; Agriculture Victoria, *Agriculture Infrastructure and Jobs Fund*, Available at <www.agriculture.vic.gov.au/agriculture/food-and-fibre-industries/agriculture-infrastructure-and-jobs-fund>, viewed 21 July 2017. The *Agriculture Infrastructure and Jobs Fund* has an infrastructure stream that provides $150 million to support major capital works and $25 million to improve local roads to markets.

595 Department of Treasury and Finance, *Budget Paper No.3: 2017-18 Service Delivery* (2017), pp.9-10; Department of Treasury and Finance, *Budget Paper No.2: 2017-18 Strategy and Outlook* (2017), pp.42, 48, 57

- revisions made to government infrastructure investment estimates for both the latest completed year and the budget year.[596]

The remaining nine recommendations that received in-principle support have not been implemented as the Government has not yet provided detailed explanations for:

- variations between the individual forward estimates for direct investment ('purchases of non-financial assets') by the general government sector
- variations between budget estimate periods for net cash flows from investments in financial assets for policy purposes by the general government sector
- expected payment disclosures over the forward estimates period and beyond as well as reconciliation of estimates between the current and previous budget estimates for public private partnership infrastructure investments.

The Committee will continue to monitor the budget papers and the Annual Financial Report to assess progress in the implementation of these recommendations.

Recommendations not supported by the Government

There were 5 recommendations made regarding asset investment that did not receive support from the Government.

In 2016, the Committee recommended that the Government provide quantified targets for infrastructure investments over the medium-term.[597] The Government did not support this recommendation on the basis that it 'reserves the right to specify its own financial management targets in a manner consistent with the requirements of the *Financial Management Act 1994*'.[598]

However, the Government has provided an indicative quantified target in the 2017-18 budget papers, highlighting that its infrastructure investment is anticipated to spend an average of $9.6 billion per year across the forward estimates.[599]

596 Victorian Government, *Government Response to the Recommendations of Public Accounts and Estimates Committee's Report on the 2016-17 Budget Estimates*, received 24 May 2017, p.9; Department of Treasury and Finance, *Budget Paper No.3: 2017-18 Service Delivery* (2017), pp.9-10; Department of Treasury and Finance, *Budget Paper No.2: 2017-18 Strategy and Outlook* (2017), pp.42, 48, 57

597 Public Accounts and Estimates Committee, *Report on the 2015-16 Budget Estimates* (2015), Recommendation 47, p.161

598 Victorian Government, *Government Response to the Recommendations of Public Accounts and Estimates Committee's Report on the 2015-16 Budget Estimates*, received 4 May 2016, p.16

599 Department of Treasury and Finance, *Budget Paper No.2: 2017-18 Strategy and Outlook* (2017), p.57

As part of the *Report on the 2015-16 Budget Estimates*, the Committee found that the total estimated investment (TEI) for six previously announced asset investment projects did not have expenditure allocated for every year over the forward estimates, with the level of funding instead marked as to be confirmed (tbc).[600]

Therefore, the Committee recommended that as soon as it can be determined, future budget papers provide details of the anticipated expenditure over the forward estimates period for any asset initiative from a previous budget where the anticipated expenditure in some future years was listed as 'tbc'.[601] The Government did not support this recommendation stating:

> Once any project has been announced, the financial information reported in Budget Paper No. 4 includes the total estimated investment, the estimated expenditure to the end of the current financial year, the estimated expenditure for the budget year and the remaining expenditure at the end of the budget year.[602]

This recommendation is discussed further in Section 7.5.1 on the *Level Crossing Removal Program*.

The Committee made three other recommendations on asset investment as part of the *Report on the 2016-17 Budget Estimates* that were not supported by the Government. Two of these recommendations relate to disclosure of information and sources for cash inflows and outflows from investments in financial assets for policy purposes. The Government did not support these recommendations on the basis that:

> The Government does not support sources of cash inflows and destinations of cash outflows being itemised as this potentially prejudices the State's commercial interests where 'not for publication' numbers can be calculated using other disaggregated figures. Sources of cash inflows and the destination of cash outflows in recent years have been small relative to the Government's cash flow statement.[603]

The other recommendation was for future budget papers to include 'a discussion of the Government's strategy with respect to the proportion of asset investment provided by the private sector'.[604]

The Committee notes that the 2017-18 budget papers have provided a commentary and a reconciliation table with a breakdown of the components in Government infrastructure investment, including those from public private partnerships and other investments.[605]

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600 Department of Treasury and Finance, *Budget Paper No.3: 2014-15 Service Delivery* (2014), p.64; Department of Treasury and Finance, *Budget Paper No.3: 2013-14 Service Delivery* (2013), pp.21, 52

601 Public Accounts and Estimates Committee, *Report on the 2015-16 Budget Estimates* (2015), Recommendation 57, p.181

602 Victorian Government, *Government Response to the Recommendations of Public Accounts and Estimates Committee's Report on the 2015-16 Budget Estimates*, received 4 May 2016, p.19

603 ibid., pp.7-8

604 Public Accounts and Estimates Committee, *Report on the 2016-17 Budget Estimates* (2016), Recommendation 20, p.157

605 Victorian Government, *Government Response to the Recommendations of Public Accounts and Estimates Committee's Report on the 2016-17 Budget Estimates*, received 24 May 2017, p.8; Department of Treasury and Finance, *Budget Paper No.4: 2017-18 State Capital Program* (2017), pp.12-15, 19

9.3 Borrowings, debt and liabilities

The Committee made six recommendations regarding borrowings, debt and liabilities in the course of the 2015-16 and 2016-17 budget estimates inquiries.

Recommendation supported by the Government

As part of the *Report on the 2015-16 Budget Estimates* the Committee recommended:

> Accompanying the table reconciling estimates of net debt, the Department of Treasury and Finance provide discussion of the factors that have driven the changes between budgets. [606]

The Government supported the recommendation.[607] The Committee notes that in the 2017-18 budget papers, the Government highlights:

- the movement and application of cash resources that result in any decrease or increase in net debt[608]
- the use of debt financing, while maintaining its triple-A credit rating, to sustain sensible investment in productivity-enhancing infrastructure to grow the State's economy.[609]

While the 2017-18 budget papers provide a table reconciling estimates against the *2016-17 Budget Update* due to policy decisions and economic, demographic, Commonwealth grant-related or other administrative variations,[610] there is not a similar table reconciling net debt estimates against those in previous budgets. Hence, the Committee considers this recommendation has yet to be implemented.

However, the Government recently advised the Committee that future budget papers will discuss the factors driving the change in net debt between budget paper publications and would likely be implemented in the *2017-18 Budget Update*.[611]

Recommendations supported in principle by the Government

The Government has given in-principle support to Committee recommendations made regarding:

- disclosure of the expected level of unfunded superannuation liability in each year between the budget year and 2035

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606 Public Accounts and Estimates Committee, *Report on the 2015-16 Budget Estimates* (2015), Recommendation 37, p.127

607 Victorian Government, *Government Response to the Recommendations of Public Accounts and Estimates Committee's Report on the 2015-16 Budget Estimates*, received 4 May 2016, p.14

608 Department of Treasury and Finance, *Budget Paper No.2: 2017-18 Strategy and Outlook* (2017), p.58-9

609 ibid., pp.48-50, 57-9

610 ibid., p.54

611 Department of Treasury and Finance, *Response to the Committee's 2017-18 Budget Estimates Entity-specific Questionnaire*, received 12 July 2017, p.28

- a reconciliation of the estimates table
- the assumptions considered when making net debt to GSP forecasts beyond the end of the forward estimates period.[612]

As discussed previously in Chapter 4, the Government also gave in-principle support to the Committee's 2016 recommendation to explain its strategy for net debt in the PNFC sector.[613]

These recommendations were not implemented in the 2017-18 budget papers, and the Committee will continue to monitor future budget papers for their inclusion.

Recommendations not supported by the Government

While the Government gave in-principle support to the Committee's recommendation to explain its strategy for net debt in the PNFC sector, the Government did not support a 2015 recommendation for introducing a target for net debt in the PNFC sector. This is discussed further in Chapter 5.

9.4 Output expenditure

The Committee has made 11 recommendations regarding output expenditure in recent years.

Recommendations supported by the Government

The Government supported two of the Committee's recommendations on base funding. One of these recommendations relates to clarifying the definition of base funding and explaining the relationship between base funding, initiative funding and output prices.[614] The Committee found that the recommendation was not implemented as the 2017-18 budget papers. While the Government has defined base funding as 'existing funding levels for a department/entity in a given year'[615] the updated *Performance Management Framework for Victorian Government Departments* does not fully clarify the definition and explain this relationship.

The other recommendation related to clarifying the definition of 'base output price' and how the escalation of this relates to the budget estimates.[616] The Committee notes that the Government's updated *Performance Management*

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612 Victorian Government, *Government Response to the Recommendations of Public Accounts and Estimates Committee's Report on the 2015-16 Budget Estimates*, received 4 May 2016, p.13; Victorian Government, *Government Response to the Recommendations of Public Accounts and Estimates Committee's Report on the 2016-17 Budget Estimates*, received 24 May 2017, p.5

613 Public Accounts and Estimates Committee, *Report on the 2016-17 Budget Estimates* (2016), Recommendation 11, p.103; Victorian Government, *Government Response to the Recommendations of Public Accounts and Estimates Committee's Report on the 2016-17 Budget Estimates*, received 24 May 2017, p.5

614 Public Accounts and Estimates Committee, *Report on the 2015-16 Budget Estimates* (2015), Recommendation 40, p.145

615 Department of Treasury and Finance, *Treasury and Finance Glossary for Budget and Financial Reports*, p.4

616 Public Accounts and Estimates Committee, *Report on the 2015-16 Budget Estimates* (2015), Recommendation 41, p.15

Framework for Victorian Government Departments defined the base output price and how the escalation relates to the budget estimates.[617] Hence, the Committee concluded that this recommendation has been implemented.

Recommendations supported in-principle by the Government

Two of the output expenditure recommendations related to future budget papers giving more financial details on new budget initiatives and significant changes in estimates from one year to another according to the government purpose classification.[618] The 2017-18 budget papers did not incorporate these recommendations. The Government advised the Committee that it was still reviewing how this could occur.[619]

The third recommendation relates to the Model Report being updated to instruct departments to report any machinery-of-government costs and benefits in their annual reports.[620]

The Committee is pleased that the Government has implemented this recommendation in its *2016-17 Model Report for Victorian Government Departments* regarding costs.[621] However the Government explained that attributed benefits cannot be disclosed due to these being 'difficult to quantify and may not occur until future years, presenting a challenge to measure consistently across departments'.[622]

The Committee commends the Department of Treasury and Finance for the progress made on this issue.

Recommendations not supported by the Government

The Committee recommended that the Model Report be updated for all departments to:

- list expenditure reduction targets set for the relevant year and how these targets were met
- report and provide details on the actual amounts of money being reprioritised during the year.[623]

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617 Department of Treasury and Finance, *Performance Management Framework for Victorian Government Departments* (2017), pp. 18-20, 41

618 Public Accounts and Estimates Committee, *Report on the 2015-16 Budget Estimates* (2015), Recommendation 46, p.155; Public Accounts and Estimates Committee, *Report on the 2016-17 Budget Estimates* (2016), Recommendation 15, p.129

619 Department of Treasury and Finance, *Response to the Committee's 2017-18 Budget Estimates Entity-specific Questionnaire*, received 12 July 2017, p.29

620 Public Accounts and Estimates Committee, *Report on the 2015-16 Budget Estimates* (2015), Recommendation 39, p.142

621 Department of Treasury and Finance, *2016-17 Model Report for Victorian Government Departments* (2017), p.16

622 Victorian Government, *Government Response to the Recommendations of Public Accounts and Estimates Committee's Report on the 2015-16 Budget Estimates*, received 4 May 2016, p.14

623 Public Accounts and Estimates Committee, *Report on the 2015-16 Budget Estimates* (2015), Recommendations 43 and 45, pp.151, 153

The Government did not support these recommendations and advised that:

> ... Budget decisions which are anticipated to have a significant impact on service delivery (including savings) are disclosed in Budget Paper No. 3 through changes to performance measures or targets, with commentary in footnotes.
>
> As the annual report discloses an acquittal of the budget, it is not appropriate to require departments to report on budget decisions that were not published in the budget papers.[624]

FINDING 120: The Government did not support the Committee's recommendations for further information on expenditure reduction targets and reprioritised funding to be provided in the budget papers, as the information will ultimately be disclosed in departmental annual reports.

The Committee maintains that budget papers providing details of the programs from which funding has been reprioritised is critical for transparency and accountability purposes. In view of this, the Committee restates its recommendation:

RECOMMENDATION 21: Future budget papers include details of the programs from which funding has been reprioritised, including:

(a) the name of the program, initiative or project from which funding has been reprioritised;

(b) the amount reprioritised from each year of the forward estimates period; and

(c) the budget in which the initiative was released (where relevant).

The other four recommendations on output expenditure related to updating future budget papers to provide further disaggregated figures or breakdowns of the reconciliation of estimates table, actual amounts of money being reprioritised during the year and total output expenses by government purpose classification for each department.

The Government explained that refinements to the financial information disclosure and current requirements for subsequent budget papers would make it unnecessary to implement these recommendations.[625]

9.5 Parliamentary control over departmental revenue

In the *Report on the 2015-16 Budget*, the Committee made 10 recommendations regarding parliamentary control over departmental revenue.

624 Victorian Government, *Government Response to the Recommendations of Public Accounts and Estimates Committee's Report on the 2015-16 Budget Estimates*, received 4 May 2016, pp.15-16

625 ibid.; Victorian Government, *Government Response to the Recommendations of Public Accounts and Estimates Committee's Report on the 2016-17 Budget Estimates*, received 24 May 2017, p.6

Recommendations supported by the Government

Two of these recommendations related to the Trust Fund and funds held outside the Public Account. They were:

> Future budget papers specify the anticipated contributions from funds received and held outside the Public Account and the Trust Fund to departments' operating statements.[626]
>
> Future budget papers specify the amounts expected from each trust account for each department.[627]

The Government supported these two recommendations and the Committee is pleased to see that they have been incorporated in the 2017-18 budget papers.[628]

Recommendations supported in-principle by the Government

Two of the Committee's recommendations related to disclosing information for income expected from the Trust Fund and funds held outside the Public Account for each department into the three categories of provision of outputs, additions to the net asset base, and payments made on behalf of the State.

In supporting these recommendations the Government indicated that they will be implemented through amendments to the Model Report,[629] thereby requiring all Victorian Government departments to comply when they prepare and table their departmental annual reports in Parliament.[630] The *2017-18 Model Report for Victorian Government Departments*, updated in May 2017, refers to income and payments from trust funds or funds held outside the public account.[631]

The other four recommendations relating to parliamentary control over departmental revenue concerned the Government providing more details and explanations of significant changes to appropriations and money received by departments from trust accounts.[632] The Committee notes that the 2017-18 budget papers provide some information but do not disclose the relevant specific details and explanations.[633] As a result of this the Committee has concluded that these four recommendations have not been fully implemented.

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626 Public Accounts and Estimates Committee, *Report on the 2015-16 Budget Estimates* (2015), Recommendation 27, p.108

627 ibid., Recommendation 28, p.109

628 Victorian Government, *Government Response to the Recommendations of Public Accounts and Estimates Committee's Report on the 2015-16 Budget Estimates*, received 4 May 2016, pp.10-11; Department of Treasury and Finance, *Budget Paper No.3: 2017-18 Service Delivery* (2017), pp. 123, 168, 200, 230, 271, 301, 324, 350

629 Victorian Government, *Government Response to the Recommendations of Public Accounts and Estimates Committee's Report on the 2015-16 Budget Estimates*, received 4 May 2016, pp.11-12

630 Department of Treasury and Finance, *2017-18 Model Report for Victorian Government Departments* (2017), p.5

631 ibid., p.151

632 Public Accounts and Estimates Committee, *Report on the 2015-16 Budget Estimates* (2015), Recommendations 24, 29, 31, and 33, pp.106, 109-10, 113

633 Department of Treasury and Finance, *Budget Paper No.5: 2017-18 Statement of Finances* (2017), p.186; Department of Treasury and Finance, *Budget Paper No.3: 2017-18 Service Delivery* (2017), pp.123, 168, 200, 230, 271, 301, 324, 350

Recommendations not supported by the Government

The Government did not support two recommendations on disclosure of special appropriations for:

- future budget papers to specify how much of each special appropriation is intended to fund the provision of outputs, additions to the net asset base and payments made on behalf of the State[634]
- departments to disclose the above three disaggregated category amounts in their annual reports and explain any variances in the budget estimates and actuals.[635]

In its response, the Government highlighted that special appropriations were not part of the annual appropriations framework and did not fit into the above three categories.[636]

9.6 Revenue

The Committee has previously made 14 recommendations regarding revenue.

Recommendations supported by the Government

The Government supported four of the Committee's recommendations relating to elements of revenue reporting in the budget papers. These include:

- foregone revenue related initiatives
- disaggregation of 'provision of services' within the 'sales of goods and services' category
- background information on the major revenue components.[637]

The Committee is pleased to find the 2017-18 budget papers incorporated such information.[638]

634 Public Accounts and Estimates Committee, *Report on the 2015-16 Budget Estimates* (2015), Recommendation 31, p.110

635 ibid., Recommendation 32, p.110

636 Victorian Government, *Government Response to the Recommendations of Public Accounts and Estimates Committee's Report on the 2015-16 Budget Estimates*, received 4 May 2016, p.10

637 ibid., p.8; Victorian Government, *Government Response to the Recommendations of Public Accounts and Estimates Committee's Report on the 2016-17 Budget Estimates*, received 24 May 2017, p.2, 3

638 Department of Treasury and Finance, *Budget Paper No.3: 2017-18 Service Delivery* (2017), p.111; Department of Treasury and Finance, *Budget Paper No.4: 2017-18 State Capital Program* (2017), pp.147-67, 165-73; Department of Treasury and Finance, *Consolidated Comprehensive Operating Statement* (2017)

The Government also supported another recommendation to use a consistent time frame for calculating average annual growth rates over the forward estimates period.[639] The Committee considers that this recommendation has not been fully implemented as the 2017-18 budget papers contain inconsistent time frames for average annual growth rate over the forward estimates period.[640]

Recommendations supported in-principle by the Government

The Committee received in-principle Government support for two revenue recommendations regarding further explanation in the budget papers for significant variances in between years on any items or parts of the budget estimates, as well as how the GSP estimates have influenced the estimates of different revenue components.[641] The Committee found that these explanations were not specified in the 2017-18 budget papers.

The payment of dividends from government business enterprises in the PNFC and PFC sectors to the general government sector for 2017-18 and the forward estimates is discussed in Chapter 4 on Revenue. In 2016 the Committee recommended that the Government publish a detailed explanation of its dividend policy, identifying the factors considered in determining when it is best to leave profits with dividend paying entities and when it is best to take them as dividends.[642] While this recommendation received in-principle support from the Government, the Committee notes the dividend policy published in the 2009 *Corporate Planning and Performance Reporting Requirements for Government Business Enterprises* guidelines remains unchanged.[643]

Recommendations not supported by the Government

The Government also did not support an associated recommendation for future budget papers to provide a more detailed discussion about the estimated dividend payments included in the forward estimates. The Government stated in its response that:

> There is no significant public benefit in future budget papers including a detailed discussion on forward estimates dividend payments, as the existing dividend policy establishes the basis for setting dividends.[644]

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639 Victorian Government, *Government Response to the Recommendations of Public Accounts and Estimates Committee's Report on the 2016-17 Budget Estimates*, received 24 May 2017, p.2

640 For example, the average growth rates for total revenue, growth areas infrastructure contribution and gambling tax are calculated from 2016-17 to 2020-21 while the average growth rate for motor vehicle tax is calculated from 2017-18 to 2020-21 (Department of Treasury and Finance, *Budget Paper No.5: 2017-18 Statement of Finances* (2017), pp.147, 155, 157)

641 Victorian Government, *Government Response to the Recommendations of Public Accounts and Estimates Committee's Report on the 2015-16 Budget Estimates*, received 4 May 2016, p.7; Victorian Government, *Government Response to the Recommendations of Public Accounts and Estimates Committee's Report on the 2016-17 Budget Estimates*, received 24 May 2017, p.3

642 Public Accounts and Estimates Committee, *Report on the 2015-16 Budget Estimates* (2015), Recommendation 22, p.96

643 Department of Treasury and Finance, *Corporate Planning and Performance Reporting Requirements for Government Business Enterprises* (2009), pp.13-14

644 Victorian Government, *Government Response to the Recommendations of Public Accounts and Estimates Committee's Report on the 2015-16 Budget Estimates*, received 4 May 2016, p.9

FINDING 121: Although the Government gave in-principle support to the recommendation that it publish a detailed explanation of its dividend policy, the document containing the policy (*Corporate Planning and Performance Reporting Requirements for Government Business Enterprises*) has not been updated since 2009.

FINDING 122: The Government does not intend to provide a more detailed discussion on the estimated dividend payments in the budget papers as they are not required to under the guidance set out in the policy *Corporate Planning and Performance Reporting Requirements for Government Business Enterprises.*

The Committee considers an updated and detailed explanation of the Government's dividend policy would be timely, particularly in light of the discussion in Chapter 4 on changes made to dividends and other payments such as grants to be made by the TAC in 2017-18 and over the forward estimates.

RECOMMENDATION 22: The Government update the 2009 *Corporate Planning and Performance Reporting Requirements for Government Business Enterprises* document. The updated document should include a more detailed explanation of the Government's dividend policy.

The Government did not support three further recommendations relating to revenue. These recommendations concerned more detailed information to be provided in the budget papers for:

- the intended purpose of money received by departments from trust accounts[645]
- income expected from funds held outside the Public Account for each department[646]
- accumulated applied appropriations unspent.[647]

While the Government did not support these recommendations, the Committee notes there has been some progress on these issues. The 2017-18 budget papers provided information on the total appropriations remaining unspent but did not disclose the relevant specific details and explanations.[648] The Committee also notes that the *2016-17 Model Report for Victorian Government Departments* recommends departments, in their annual reports, disclose their income and payments from trust funds or funds held outside public account.[649]

645 Public Accounts and Estimates Committee, *Report on the 2016-17 Budget Estimates* (2015), Recommendation 6, p.97

646 Public Accounts and Estimates Committee, *Report on the 2016-17 Budget Estimates* (2015), Recommendation 8, p.97

647 Public Accounts and Estimates Committee, *Report on the 2015-16 Budget Estimates* (2015), Recommendation 10, p.97

648 Department of Treasury and Finance, *Budget Paper No.5: 2017-18 Statement of Finances* (2017), p.186

649 Department of Treasury and Finance, *2016-17 Model Report for Victorian Government Departments* (2017), p.151

9.7 Performance measurement

The Committee made 12 recommendations in relation to performance measures in its last two budget estimates reports.

Recommendations supported by the Government

The Committee made two recommendations relating to the Government providing explanations on all modifications to departmental objectives and objective indicators.[650] In reviewing the 2017-18 budget papers, the Committee noted that explanations for all modifications to both objectives and objective indicators were consistently provided by six departments.[651] The Department of Health and Human Services modified its objectives and objective indicators but did not provide further explanations on these modifications.

The Committee also recommended that the Department of Treasury and Finance update its guidance documentation to explicitly specify that departmental objective indicators must be clearly quantifiable or measurable.[652]

In supporting this recommendation, the Government advised that:

> … sections 3.1 and 4.2.3 of the Performance Management Framework require objective indicators to be quantifiable or measureable. The Department of Treasury and Finance will update the Performance Management Framework to better link these two sections.[653]

While this amendment to the *Performance Management Framework for Victorian Government Departments* had not occurred in time for the June 2017 update of the document, the Department of Treasury and Finance informed the Committee that the framework is currently undergoing further review.[654] The Committee looks forward to the next edition of the framework containing the revised framework, and expects this will take effect from 1 July 2018.[655]

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650 Public Accounts and Estimates Committee, *Report on the 2015-16 Budget Estimates* (2015), Recommendations 60 and 61, pp.221, 214

651 Department of Treasury and Finance, *Budget Paper No.3: 2017-18 Service Delivery* (2017), Chapter 2

652 Public Accounts and Estimates Committee, *Report on the 2016-17 Budget Estimates* (2016), Recommendation 25, p.189

653 Victorian Government, *Government Response to the Recommendations of Public Accounts and Estimates Committee's Report on the 2016-17 Budget Estimates*, received 24 May 2017, p.10

654 Department of Treasury and Finance, *Performance Management Framework for Victorian Government Departments* (2017), pp.14, 48; Department of Treasury and Finance, *Response to the Committee's 2017-18 Budget Estimates Entity-specific Questionnaire*, received 12 July 2017, p.30

655 Department of Treasury and Finance, *Response to the Committee's 2017-18 Budget Estimates Entity-specific Questionnaire*, received 12 July 2017, p.30

Recommendations supported in principle by the Government

Further performance measure-related recommendations made by the Committee include a requirement that the Department of Premier and Cabinet 'update its departmental objective indicators in order to make them quantifiable'.[656] The recommendation was not implemented in the 2017-18 budget papers.[657]

The Committee also recommended that the Department of Treasury and Finance establish guidelines for having an appropriate mix of quality, quantity, timeliness and cost performance output measures and ensure compliance to the guidelines.[658] The updated *Performance Management Framework for Victorian Government Departments* included these guidelines.[659]

Recommendations under review by the Government

The Committee recommended extensive updates of the Government's *Performance Management Framework for Victorian Government Departments* to enhance performance measure targets, departmental objectives and objective indicators. The Committee found that the recommendations were not implemented but noted the Government's response that it was undertaking a holistic and extensive review of the framework and planned to implement the revised framework from the 2018-19 Budget onwards.[660]

As part of the *Report on the 2016-17 Budget Estimates*, the Committee also made a recommendation in relation to the proposed discontinued performance measures put forward by the Government.[661] The Government's response is discussed in detail in Chapter 8.

9.8 Economic outlook

In recent years the Committee has made a series of recommendations regarding the economic outlook section of the budget papers. The changes made in the 2017-18 budget papers to the sensitivity analysis section on the Government economic outlook are discussed in Chapter 2 on key aspects of the budget. These changes have a significant impact on previous recommendations made

656 Public Accounts and Estimates Committee, *Report on the 2016-17 Budget Estimates* (2016), Recommendation 26, p.190

657 Department of Treasury and Finance, *Budget Paper No.3: 2017-18 Service Delivery* (2017), pp.302, 307, 312. For example, the Department listed two objective indicators: 'DPC's policy advice and its support for Cabinet, committee members and the Executive Council is valued and informs decision' and 'Quality infrastructure drives economic activity in Victoria' which have no quantifiable measures. (Department of Treasury and Finance, *Budget Paper No.3: 2017-18 Service Delivery* (2017), p.302)

658 Public Accounts and Estimates Committee, *Report on the 2016-17 Budget Estimates* (2016), Recommendations 62, 63, 64 and 65, pp.219, 221, 224

659 Department of Treasury and Finance, *Performance Management Framework for Victorian Government Departments* (2017), pp.22, 54-55

660 Victorian Government, *Government Response to the Recommendations of Public Accounts and Estimates Committee's Report on the 2016-17 Budget Estimates*, received 24 May 2017, pp.10-11

661 Public Accounts and Estimates Committee, *Report on the 2016-17 Budget Estimates* (2016), p.205

by the Committee regarding the budget paper discussion on the economy, and inform the following assessment of the Government's implementation of the Committee's previous recommendations.

Recommendations supported by the Government

The Committee made three recommendations relating to reviewing and enhancing the forecasting methodology, that were supported by the Government.[662] The Committee is pleased to note the Government recently updated its *Method for Making Forecasts of Macro-Economic Indicators* guidelines in April 2017, incorporating the Committee's recommendations.[663]

Recommendations supported in-principle by the Government

The Committee recommendation that the sensitivity analysis in future budget papers include all variables listed in the estimated financial statements as key economic assumptions was implemented as part of the revamped forecasting analysis section in the 2017-18 budget papers.[664]

Another recommendation that received in-principle support related to the Government releasing regular reports to assess the progress and efficacy of its programs to stimulate employment.[665]

However, the Committee has since made a further recommendation as part of the *Report on the 2015-16 Financial and Performance Outcomes* on regular reporting for the *Future Industries Fund*, the *Premiers Job and Investment Fund* and the *Regional Jobs Fund* labour market programs.[666] The Committee is due to receive the Government response to this recommendation later in the year.

Recommendation under review by the Government

The Committee recommended that future budget papers quantify the impact of the main risks to the Victorian economy identified in the budget papers, including all of the identified risks in the sensitivity analysis.[667]

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662 Public Accounts and Estimates Committee, *Report on the 2015-16 Budget Estimates* (2015), Recommendations 15, 16 and 17, pp.69, 71

663 Department of Treasury and Finance, *Method for Making Forecasts of Macro-Economic Indicators* (2017), p.12, Available at <www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Macroeconomic-indicators>, viewed 14 July 2017

664 Public Accounts and Estimates Committee, *Report on the 2015-16 Budget Estimates* (2015), Recommendation 11, p.59; Department of Treasury and Finance, *Budget Paper No.5: 2017-18 Statement of Finances* (2017), p.18

665 Public Accounts and Estimates Committee, *Report on the 2015-16 Budget Estimates* (2015), Recommendation 12, p.65. The Committee can see some progress in the implementation of this recommendation via the performance measures under the *Jobs and Investment* output in the 2017-18 budget papers and the quarterly statistics on the *Back to Work* scheme published by the State Revenue Office. (Department of Treasury and Finance, *Budget Paper No.3: 2017-18 Service Delivery* (2017), p.143; State Revenue Office, *Back to Work Statistics*, Available at <www.sro.vic.gov.au/back-work-statistics>, viewed 14 July 2017)

666 Public Accounts and Estimates Committee, *Report on the 2015-16 Financial and Performance Outcomes* (2017), Recommendation 1, p.27

667 Public Accounts and Estimates Committee, *Report on the 2015-16 Budget Estimates* (2015), Recommendation 12, p.61

This recommendation was implemented as the 2017-18 budget papers provided a new method for quantifying economic scenarios which included the impact of a global trade shock on the Victorian economy.[668]

Recommendations not supported by the Government

The Committee previously made three recommendations relating to further breakdown and publishing of economic forecasts and targets for the budget year and across the forward estimates period.[669] Although the Government did not support the recommendations at the time,[670] the revised sensitivity analysis section goes some way in providing the information that the Committee wished to see. For example, the Committee previously recommended:

> Future budget papers include a break-down of the forecasts of gross state product used in developing the budget estimates. This break-down should quantify the expected value of each of the main components of gross state product across the forward estimates period, including household consumption, dwelling investment, business investment and trade.[671]

The new sensitivity analysis now charts the impact of three scenarios on Victoria's GSP, together with a discussion on the impact of the scenario on other key economic indicators such as household consumption, dwelling and business investment and trade.[672]

668 Department of Treasury and Finance, *Budget Paper No.2: 2017-18 Strategy and Outlook* (2017), pp.74-7, 82

669 Public Accounts and Estimates Committee, *Report on the 2015-16 Budget Estimates* (2015), Recommendations 9, 10 and 13, pp.57, 58, 65

670 Victorian Government, *Government Response to the Recommendations of Public Accounts and Estimates Committee's Report on the 2015-16 Budget Estimates*, received 4 May 2016, pp.4, 6

671 Public Accounts and Estimates Committee, *Report on the 2015-16 Budget Estimates* (2015), p.57

672 Department of Treasury and Finance, *Budget Paper No.2: 2017-18 Strategy and Outlook* (2017), pp.74-83

10 Government Risk Management Framework

Key findings

- Maternity services are the highest insurable risk for the Victorian Managed Insurance Agency representing 35 per cent of the annual medical indemnity premium. The introduction of the PRactical Obstetric Multi-Professional Training (PrOMPT) program in 2010 has nearly halved the number of claims over the last six years.
- Updates to the *Victorian Government Risk Management Framework* have partially addressed the recommendations contained in the Auditor-General's 2013 report. However, work is still required by the Department of Treasury and Finance to clearly communicate the requirements of the Framework and its purpose and benefits to agencies.
- Not all aspects of the recommendations from the Auditor-General's 2013 audit report have been implemented in the *Victorian Government Risk Management Framework Practice Guide*.
- The Victorian Managed Insurance Authority has developed a range of learning and development tools which are offered to client agencies. Agencies have made use of these tools. However minimal data is available to drive insights into client needs for education. The current Victorian Managed Insurance Authority education curriculum is limited relative to client needs.
- Interagency and State-wide risk is a focus of the updated *Victorian Government Risk Management Framework*. The Committee was advised that the first application of the Framework has been to the family violence reform initiatives. It is unclear how other complex interagency risks such as cyber-crime and climate change are being managed.
- Only one department — the Department of Health and Human Services — has developed risk performance indicators. While other indicators are under development, the *Victorian Government Risk Management Framework Practice Guide* does not emphasise their importance nor provide guidance on their development. Such indicators would assist in measuring how effective the *Victorian Government Risk Management Framework* is and how agencies are performing in minimising risk.
- Guidance on public private partnerships and risk management is not well integrated. Similarly, documents on High-Value, High-Risk projects and the related Gateway review process refer to risk management, but do not refer users to the *Victorian Government Risk Management Framework*.

10.1 Introduction

All agencies in the Victorian public sector, including departments, business enterprises and other bodies make plans for the future. Risk management involves anticipating things that might affect planned outcomes and establishing strategies to manage the unexpected. Effective risk management involves the implementation of risk treatment options to avoid or minimise the impact of uncertainty.

In 2003, as part of a developing risk management focus, the Auditor‑General tabled a report on whether public sector agencies had risk management frameworks that enabled them to identify, assess, manage and report on risks faced by the agencies. The report found that in general, risk management was not an established discipline in the public sector.[673]

This was followed in 2007 by a second report from the Auditor‑General. The Auditor‑General concluded that while a number of improvements had been made since 2003, further work was needed, in relation to both managing risk within agencies and for managing risks faced by more than one agency, including the whole of the State.[674]

In October 2013, the Auditor‑General tabled his performance audit report titled *Implementation of the Government Risk Management Framework*. These three reports show that Victoria's approach to public sector risk management is continuing to develop and mature. Risk management has now become a key component of effective and prudent public sector governance.

In examining the current state of risk management, the Committee sought information from all departments on their current approaches to risk management, including how the recommendations in the Auditor‑General's 2013 report have been implemented.

The Committee considers that the approach to risk management in Victoria has continued to develop since the Auditor‑General's report. The Committee also expects that this evolution will need to continue, as a diverse range of risk factors affecting areas of public policy and service delivery have been recognised since 2013. These include:

- energy security and cost
- the increasing prevalence of amphetamines and other drugs
- ransomware, external interference with Government computerised processes and other cyber‑crime
- housing affordability and availability to a growing population
- the prevalence of family violence
- increasingly complex partnering arrangements with the private sector.

673 Victorian Auditor‑General's Office (VAGO), *Managing Risk Across the Public Sector* (2003), p.4

674 Victorian Auditor‑General's Office (VAGO), *Managing Risk Across the Public Sector: Toward Good Practice* (2007), p.3

Managing these risks effectively involves a co-ordinated approach from more than one agency.

In addition to these and other new sources of risk, the Committee considers that the complexity of risk management is likely to increase, due to further developments in technology, such as new ways of communicating and doing business.

In spite of the increased complexity in the risk environment, the principles of risk management remain unchanged. These are to:

- identify the risk
- evaluate the risk (likelihood and impact)
- develop strategies to manage the risk (that is, to minimise the variance from the planned outcome)
- assign responsibilities for implementation of mitigation strategies
- report to senior management and external stakeholders through government and annual reports.

Risk and risk management

Risk is defined as 'the effect of uncertainty on objectives'.[675] The Committee considers that comprehensive and proactive risk management is critical to the reputation and success of individual agencies. However, State-wide and interagency risks (such as those arising from changing demographics, security, economic outcomes and climate change impacts) usually affect more than one agency at the same time. These interagency risks require agencies to effectively co-ordinate their efforts with other affected agencies.

The Department of Treasury and Finance also has a role in risk management. This includes:

- providing guidance to agencies through the *Victorian Government Risk Management Framework* (VGRMF)
- reporting to the Minister for Finance on emerging risks and other current information
- reporting to the Minister for Finance on agencies' compliance with Standing Orders and the VGRMF.

The role of the Victorian Managed Insurance Authority (VMIA) in risk management includes:

- supporting departments and agencies in building risk management governance capabilities
- supporting clients to meet requirements of the VGRMF

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675 Australian and New Zealand Standard AS/NZS ISO 31000:2009 Risk management – Principles and guidelines

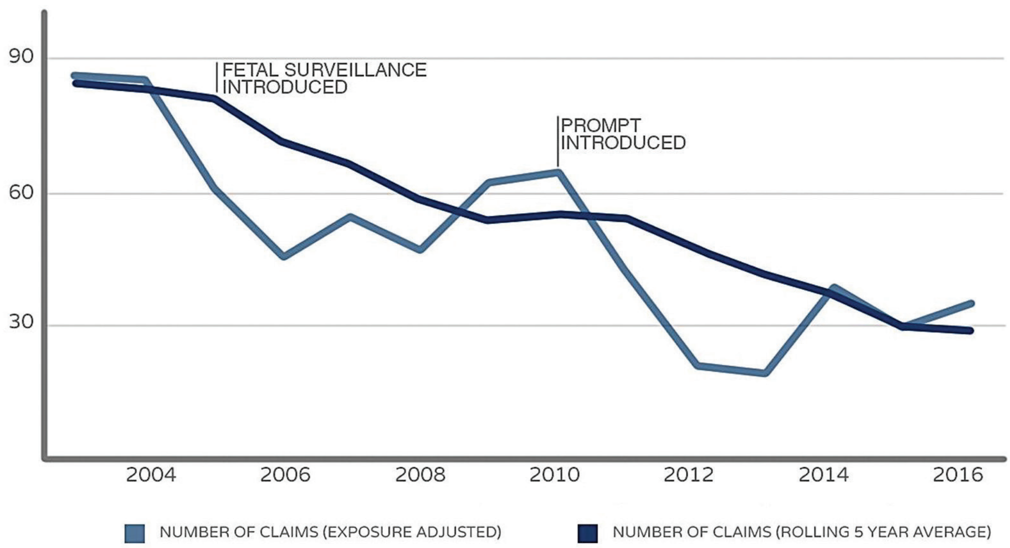
- undertaking a 'stocktake' of risk management and insurance arrangements in the public sector
- contributing to specific risk management initiatives such as PRactical Obstetric Multi-Professional Training (PROMPT), a foetal surveillance and obstetrics training program
- reporting to the Government on agencies' ability to manage risks (including interagency and State-wide risks).

The Minister for Finance advised the Committee that maternity services are the highest insurable risk for the VMIA representing 35 per cent of the annual medical indemnity premium:

> The PRactical Obstetrics Multi-Professional Training program was introduced in 2010 and improves health outcomes for mothers and their babies during birth by enhancing teamwork, communication and clinical skills. The Fetal Surveillance Education Program was introduced in 2003 and teaches clinicians to read fetal heart tracings during birth and associated impacts on wellbeing. Since the introduction of PROMPT and the Fetal Surveillance Education Program the frequency of Victorian medical indemnity claims has substantially reduced.[676]

The impact of PROMPT on medical claims is illustrated in Figure 10.1. It highlights the importance and value of training and education in managing risk.

Figure 10.1 **The impact of PROMPT on obstetrics medical indemnity claims**



Source: Presentation by Hon. Robin Scott MP, Minister for Finance, 2017-18 Budget Estimates hearings, 2 June 2017

FINDING 123: Maternity services are the highest insurable risk for the Victorian Managed Insurance Authority representing 35 per cent of the annual medical indemnity premium. The introduction of PRactical Obstetric Multi-Professional Training in 2010 has nearly halved the number of claims over the last six years.

676 Hon. Robin Scott, Minister for Finance, *2017-18 Budget Estimates Transcript of Evidence*, 2 June 2017, p.4

10.2 Auditor-General's recommendations

In *Implementation of the Government Risk Management Framework*, the Auditor-General assessed the 2011 version of the VGRMF. The report assessed the effectiveness of the support that the Department of Treasury and Finance and the VMIA provided to agencies, as well as the abilities of agencies to deal with interagency and State-wide risks.

The Auditor-General found that the introduction of the VGRMF had improved risk management and accountability across the agencies, and that it reflected the better practice principles set out in the Australian and New Zealand risk management standard. However, the Auditor-General found that the Framework was still not comprehensive, and needed to provide greater clarity to agencies.[677]

In response to these findings, the Auditor-General recommended that the Department of Treasury and Finance:

- work with the VMIA to update the VGRMF in order to:
  - clearly set minimum requirements, including avoiding ambiguous language and setting out what agencies need to do to when more than one agency is involved
  - better describe the Framework's intent and purpose
  - update the attestation requirements
  - better describe key risk concepts[678]
- address recommendations from the Auditor-General's previous report on the VGRMF[679] that had not been implemented by agencies, as only two of the recommendations in the 2007 report had been completed.[680]

With respect to the support provided to agencies, the Auditor-General found that the VMIA 'does a reasonable job helping agencies apply the … Framework', but some gaps needed to be addressed.[681] As a result, the third and fourth recommendations were that the VMIA:

- update detailed guidelines to reflect updates in the VGRMF, principally how agencies manage interagency and State-wide risks
- develop a learning and development strategy to clearly guide and focus its support and training activities for agencies, using the Department of Treasury and Finance review of agencies' compliance.[682]

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677 Victorian Auditor-General's Office, *Implementation of the Government Risk Management Framework* (2013), p.7

678 ibid., pp.9-10, 13

679 Victorian Auditor-General's Office, *Managing Risk Across the Public Sector: Toward Good Practice* (2007)

680 Victorian Auditor-General's Office, *Implementation of the Government Risk Management Framework* (2013), pp. 11-12. Note that the original recommendations in the 2007 report were made to the agencies and the follow-up recommendation in the 2013 report was made to the Department of Treasury and Finance.

681 Victorian Auditor-General's Office, *Implementation of the Government Risk Management Framework* (2013), p.15

682 ibid., p.22

Finally, the Auditor-General examined the State's vulnerability to risks that affected more than one agency, as well as the ability of agencies to communicate and co-ordinate their efforts to manage these risks. The Auditor-General found that such risks were 'poorly understood and managed in a disjointed way'.[683] However, the report also found that the Department of Treasury and Finance understood the characteristics of an effective approach. The Auditor-General's fifth recommendation was that:

- the Department of Treasury and Finance, along with the VMIA, develop, communicate and monitor a framework for managing interagency and State-wide risks.[684]

10.3 Actions following the recommendations

Since the Auditor-General's 2011 report, *Implementation of the Government Risk Management Framework*, the Department of Treasury and Finance has updated the VGRMF twice: in March 2015 and again in December 2016. When assessing the implementation of the Auditor-General's 2013 recommendations, the Committee referred to the December 2016 edition of the VGRMF.

In May 2015, the VMIA released a *Practice Guide*, which is intended to support the Framework and to help agencies meet their risk obligations and accountabilities.

During 2015, the Victorian Auditor-General's Office contacted the Department of Treasury and Finance and the VMIA to assess whether they had implemented the recommendations of the 2013 report. The agencies responses to the Auditor-General are discussed below.

The following sections address each of the Auditor-General's recommendations. In general, the Committee considers that some progress has been made in all areas, but that further work is required in order to continue improving risk management practices in response to new sources of risk and increasing complexity of risk.

10.3.1 Recommendation 1: Update the *Victorian Government Risk Management Framework*

The Auditor-General found that the March 2011 VGRMF was soundly based on the relevant Australian and New Zealand risk management standard. However, the document was not comprehensive in content and some areas were not clear.[685] As a result, the Auditor-General provided a four-part recommendation that the VGRMF be updated so that:

683 ibid., p.29
684 ibid., p.33
685 ibid., p.8

(1) the minimum requirements for agencies are clearly communicated, with:

   (a) clear descriptions of whether actions are mandatory or merely preferable

   (b) the Framework setting out what agencies are required to do in jointly managing interagency and State-wide risks

(2) the intent and purpose of the Framework is better described

(3) attestation[686] requirements are improved, with three areas for improvement highlighted

(4) risk concepts are better described.[687]

The Department of Treasury and Finance produced the initial update of the VGRMF in March 2015. A subsequent update in December 2016 added information regarding attestations for 2015-16. In its description of the document, the Department states that the update:

> … incorporates existing mandatory requirements relating to risk and insurance management practices and policies and streamlines the annual attestation requirements.[688]

In its response to the Auditor-General's recommendation, the Department advised that it:

> … worked with VMIA and completed the update of the Victorian Government Risk Management Framework (VGRMF). The updated VGRMF was signed off by the Minister for Finance in March 2015. The updated VGRMF clearly articulates minimum requirements that agencies need to meet to demonstrate that they are effectively managing risk – including improving the coverage of interagency and statewide risks. Updated attestation requirements will come into effect from 2016.[689]

The Committee notes that this response does not specifically address language, intent and purpose, or key concepts. It also notes that updated attestation requirements are yet to be implemented.

The Committee examined the 2016 edition of the VGRMF for changes relevant to the four key aspects of the Auditor-General's recommendation. These are discussed in the following sections.

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686 'Attestation' is when an authorised person assures the reader that what they are reading is prepared in accordance with the relevant guidance and procedures.

687 Victorian Auditor-General's Office, *Implementation of the Government Risk Management Framework* (2013), pp.9-11

688 Department of Treasury and Finance, *Victorian Risk Management Framework and Insurance Management Policy* (2016)

689 Victorian Auditor-General's Office, *Response to Performance Audit Recommendations: 2012-13 and 2013-14* (2015), pp.182-3

Clearly setting minimum requirements

The Auditor-General noted two ways in which clarity could be improved.

The first point related to ambiguous language and whether actions set out in the document were mandatory or simply recommended. The Committee notes that the new edition of the VGRMF still uses ambiguous language. For example, the document notes that:

> Agencies should establish and maintain effective risk governance that includes an appropriate internal management structure and oversight arrangements for managing risk.[690]

This does not clarify whether the establishment and maintenance of such a governance structure is mandatory or merely recommended by the Department of Treasury and Finance.

The updated VGRMF has sections that show which requirements are mandatory.[691] The Department of Treasury and Finance also provides additional guidance that it clearly notes are 'not mandatory requirements'.[692] These sections had not been included in the 2011 edition of the VGRMF and the Committee considers that these are a positive contribution.

The Committee considers that the 2016 edition of the VGRMF is an improvement on the previous edition. However, some opportunities for increasing clarity remain.

The second point raised in the Auditor-General's recommendation was that the documentation did not adequately describe what agencies need to do to manage interagency and State-wide risks.

The updated VGRMF has references to 'interagency and state significant risk' throughout the document. Further, the document specifies that agencies' attesters (i.e. the 'responsible bodies') must be satisfied that their agencies have identified interagency risks and state significant risks, and the agencies contribute to the management of these risks as appropriate.[693] The VGRMF recommends (non-mandatory) aspects of the agency's approach, including that agencies must have some understanding of the broader business of government.[694]

The Department of Treasury and Finance has advised the Committee that the 'Whole of Victorian Government State-wide Risks Interdepartmental Committee' (the 'Risk IDC') operates under terms of reference from the Minister for Finance. The Risk IDC:

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690 Department of Treasury and Finance, *Victorian Government Risk Management Framework* (2016), p.4
691 ibid., pp.7-7
692 ibid., pp.8-10
693 ibid., p.8
694 ibid.

- supports the identification of major interagency and state significant risks
- promotes effective interagency information sharing on risk management
- advises Government on the development, operation and effectiveness of the VGRMF.[695]

The Committee considers that the Risk IDC has an important role in managing interagency and State-wide risks. However, the VGRMF does not directly refer to the Risk IDC. The VGRMF directs that:

> If an inter-agency or state significant risk is brought to the attention of an agency, the agency is expected to work collaboratively with the identifying agency in analysing and evaluating the risk and to contribute, as appropriate, to the management of the risk.[696]

However, it is not clear whether this refers to the Risk IDC or a lower-level ad-hoc interagency forum.

Clearly defining the Framework's intent and purpose

As part of its introduction, the original VGRMF included a short section on the purpose of the document.[697] The Auditor-General provided some suggestions that would improve this section.

The updated document included a slightly lengthened 'purpose' section. This reflects the newer Australian and New Zealand Standard,[698] but it also alerts the reader that the VMIA is able to provide detailed guidance, information and support for agencies in what they need to do.[699] The Committee considers that this is an improvement.

The Auditor-General's recommendation also included a description of 'the purpose of risk management in the Victorian public sector'. The Committee considers that this would have included a discussion of the benefits that risk management can have, how agencies can contribute to these benefits, and how central agencies can benefit the State through their co-ordination of the process. The Committee considers that the updated purpose section does not provide such information.[700]

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695 Department of Treasury and Finance, *Response to the Committee's 2017-18 Budget Estimates General Questionnaire*, received 8 May 2017, p.40

696 Department of Treasury and Finance, *Victorian Government Risk Management Framework* (2016), p.8

697 ibid., p.3

698 Australian and New Zealand Standard AS/NZS ISO 31000:2009 Risk Management. The 2007 edition of the VGRMF was prepared on the basis of Australian/New Zealand Risk Management Standard AS/NZS 4360:2004.

699 Department of Treasury and Finance, *Victorian Government Risk Management Framework* (2016), p.3

700 The updated VGRMF document contains an appendix entitled 'Introduction to Risk Management' (Department of Treasury and Finance, *Victorian Government Risk Management Framework* (2016), pp.15-18). However, this simply provides definitions for types of risk, and refers to the VMIA website.

Updating the attestation process

Attestations are commonly found in annual reports and other official statements, and include auditors' statements as well as accountable officers' declarations. In this context, the authorised person assures the reader that the agency has complied with the requirements in the Standing Directions of the Minister for Finance when managing risks that the agency faces.

The Auditor-General noted that four different types of attestation are required.[701] The recommendation that the attestation process be updated was accompanied by suggestions that the Department of Treasury and Finance:

- should better define how agencies demonstrate their attestation
- review and explain specific wording used in attestations
- verify the accuracy of attestations of agencies.[702]

The updated VGRMF notes that under the Ministerial Standing Direction 3.7.1, departments and agencies must provide an annual attestation of compliance.[703] It also contains directions for what the agency must do in order to be able to provide the attestation. The updated VGRMF and *2016-17 Model Report for Victorian Government Departments*,[704] also provides recommended wording for the attestations.

The Committee asked the Department of Treasury and Finance whether it verifies attestations of agencies. The Department advised that it 'will monitor information on agency compliance risks provided by each portfolio department'.[705] During 2015, the Committee understands that the Department engaged an external consultant to assess agencies' attestation, but since the introduction of the *Standing Directions of the Minister for Finance 2016 Under the Financial Management Act 1994*, the updated procedure has not been finalised.

Providing better implementation guidance

The Auditor-General's 2013 report recommended that in order to help agencies better translate key risk concepts into successful practices, the Department of Treasury and Finance provide better explanations of these concepts. The Auditor-General provided a table demonstrating how the Department may better explain risk management.[706]

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701 Victorian Auditor-General's Office, *Implementation of the Government Risk Management Framework* (2013), p.10

702 ibid.

703 The Committee notes that Standing Direction 3.7.1 requires only that the relevant agency applies the *Victorian Government Risk Management Framework* (Department of Treasury and Finance, *Standing Directions of the Minister for Finance 2016 Under the Financial Management Act 1994* (2016), p.24).

704 Department of Treasury and Finance, *2016-17 Model Report for Victorian Government Departments* (2017), pp.64-5

705 Department of Treasury and Finance, *Response to the Committee's 2017-18 Budget Estimates General Questionnaire*, received 8 May 2017, p.39

706 Victorian Auditor-General's Office, *Implementation of the Government Risk Management Framework* (2013), pp.10-11

The Committee notes that the updated VGRMF contains an appendix that provides a definition and short discussion of four types of risk.[707] However, the appendix does not cover the concepts suggested by the Auditor-General.

The Committee notes that many of the concepts suggested by the Auditor-General are expanded on in the VMIA's *Victorian Government Risk Management Framework Practice Guide*. This document has been produced as part of the VMIA's training role, and the Committee considers that it may be viewed as a replacement for the *Risk Management: Developing and Implementing a Risk Management Framework* document, referred to in Section 10.3.3 below.

FINDING 124: Updates to the *Victorian Government Risk Management Framework* have partially addressed the recommendations contained in the Auditor-General's 2013 report. However, work is still required by the Department of Treasury and Finance to clearly communicate the requirements of the Framework and its purpose and benefits.

10.3.2 Recommendation 2: Implementation of the previous recommendations

The Auditor-General's 2013 report, *Implementation of the Government Risk Management Framework*, was a follow-up to *Managing Risk across the Public Sector: Toward Good Practice*, which was tabled in 2007. The 2007 report included eight recommendations, aimed at a range of agencies across the public sector.

In its response to the 2013 audit recommendation that the outstanding recommendations from 2007 be implemented, the Department of Treasury and Finance advised the Auditor-General:

> DTF has reviewed and addressed the 2007 audit recommendations. All recommendations are now 'fully applied' through implementation of the updated VGRMF.[708]

The Committee did not revisit this matter.

10.3.3 Recommendation 3: Victorian Managed Insurance Authority update detailed guidelines to reflect updates in the *Victorian Government Risk Management Framework*

The Auditor-General's 2013 report described the VMIA document, *Risk Management: Developing and Implementing a Risk Management Framework* as 'detailed guidelines' that were 'extremely useful for systematically managing risks'.[709] However, the Auditor-General also recommended improvements following changes made by the Department of Treasury and Finance to the VGRMF following previous recommendations from the Auditor-General.

707 Department of Treasury and Finance, *Victorian Government Risk Management Framework* (2016), pp.15-18

708 Victorian Auditor-General's Office, *Response to Performance Audit Recommendations: 2012-13 and 2013-14* (2015), p.183

709 Victorian Auditor-General's Office, *Implementation of the Government Risk Management Framework* (2013), p.17

In October 2013, the VMIA advised the Victorian Auditor-General's Office that the recommendation had been:

> ... incorporated in VMIA's Annual Business Plan 2014–15 with a specific action item to "support the update and implementation of the revised Victorian Government Risk Management Framework and Ministerial Directions". The timeliness was set by a KPI to update VGRMF guidance material and client learning strategy (target 30/09/14).[710]

The detailed guidelines subsequently developed by the VMIA are no longer distributed, replaced by the more up to date *Victorian Government Risk Management Framework Practice Guide* ('the Practice Guide'). According to the VMIA, the purpose of the Guide is 'to assist departments and agencies in meeting their risk management obligations and accountabilities'.[711]

The Committee notes that the recommendations made by the Auditor-General were to update the 'detailed guidelines' document, which has been replaced with the 'Practice Guide'. The Committee's assessment of the implementation of the recommendation is therefore made with respect to the 'Practice Guide'.

The Committee examined the Practice Guide and found that it:

- includes a section on 'interagency and state-significant' risks.[712] This includes tips and a case study on managing these types of risk, including guidance on governance arrangements. The document also contains an appendix which lists the key components in managing these risks.[713]
- refers to the updated VGRMF, including reference to the updated Australian and New Zealand Standard. Hyperlinks within the document connect to the Department of Treasury and Finance website from which the updated VGRMF is available.

However, the Practice Guide does not describe risk assessment criteria in detail. While the document refers to the speed of risk onset and vulnerability, it does so only within the context of interagency risk,[714] and not in a broader context. Further to this, the Practice Guide does not describe how to develop 'a more extensive analysis of critical risk', which was a potential improvement discussed by the Auditor-General in developing the recommendation.[715] In general, 'risk' in the Practice Guide is an abstract concept, which is to be tailored to suit the context of the agency. The Guide notes that some identified and assessed risks may be accepted and some must be avoided.[716] With management devolved to agencies, this decision is for managers within each agency. The Practice Guide notes that a risk management approach will determine how much risk can be taken and tolerated in each agency.

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710 Victorian Auditor-General's Office, *Response to Performance Audit Recommendations: 2012-13 and 2013-14* (2015), p.254

711 Victorian Managed Insurance Authority, *Annual Report 2015* (2015), p.11

712 Victorian Managed Insurance Authority, *Victorian Government Risk Management Framework Practice Guide* (2016), pp.30-2

713 ibid., p.47

714 ibid., p.31

715 Victorian Auditor-General, *Implementation of the Government Risk Management Framework* (2013), p.17

716 Victorian Managed Insurance Authority, *Victorian Government Risk Management Framework Practice Guide* (2016), p.11

FINDING 125: The Victorian Managed Insurance Authority's Practice Guide reflects the updated *Victorian Government Risk Management Framework*, including how agencies should manage interagency and State-wide risks. Not all aspects of the recommendations from the Auditor-General's 2013 audit report have been implemented in the Practice Guide. Guidance on how to develop a more extensive analysis of critical risks, for example, has not been included.

10.3.4 Recommendation 4: Victorian Managed Insurance Authority develop a learning and development strategy

In 2013, the Auditor-General recommended that the VMIA develop a learning and development strategy prioritising actions for addressing weaknesses found in current risk management practices. Improvements in the strategy should be informed by the Department of Treasury and Finance's annual review of agencies' compliance with the VGRMF.[717] In response to this recommendation, the VMIA advised the Auditor-General that this was incorporated in VMIA's *2014-15 Annual Business Plan*.[718]

The VMIA provided the Committee with a copy of its *Client Education Strategy 2016-17*. The curriculum is focused on prevention with an emphasis on the health sector. The VMIA identified several factors affecting the performance of the strategy including that minimal data is available to drive insights into client needs. A number of strategies in the 2016-17 business plan were thought to address this. The VMIA also stated that the current curriculum is limited relative to client needs.

The VMIA advised the Committee that, since 2015, it:

> … has supported agencies to improve their risk management practices by providing:
>
> - on-line risk management tools, templates and guides
> - risk management education and training programs
> - risk management forums
> - international expert workshops
> - risk identification workshops
> - risk management advice and support
> - stocktakes – risk management and insurance (for Departments).[719]

All departments have advised the Committee that they have made use of VMIA services to improve risk management. For example, the Department of Education and Training advised that 'Relevant Department of Education and Training staff attend VMIA training sessions and seminars, most recently in

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717 Victorian Auditor-General, *Implementation of the Government Risk Management Framework* (2013), p.22

718 Victorian Auditor-General's Office, *Response to Performance Audit Recommendations: 2012-13 and 2013-14* (2015), p.254

719 Department of Treasury and Finance, *Response to the Committee's 2017-18 Budget Estimates General Questionnaire*, received 8 May 2017, p.40 (response provided by VMIA)

relation to inter-agency risk, collaboration and resilience'.[720] The Department of Justice and Regulation advised that 'VMIA training sessions and seminars are promoted via email to the Risk Leader's Network on a regular basis' and that 'VMIA also coordinates the Emergency Service Organisation Risk Community of Practice, which is attended by departmental representatives and Justice Portfolio emergency service representatives'.[721]

The VMIA informed the Committee that it identifies any agencies requiring extra support with their risk management capability through information coming from training sessions, workshops and other avenues. The support program and activities themselves are assessed in a number of ways,[722] but the VMIA did not specifically note that its learning and development strategy was informed by information from agencies' compliance attestations.

FINDING 126: The Victorian Managed Insurance Authority has developed a range of learning and development tools which are offered to client agencies. Agencies have made use of these tools. However minimal data is available to drive insights into client needs for education. The current Victorian Managed Insurance Authority education curriculum is limited relative to client needs.

The Committee looks forward to reviewing the outcomes of the actions employed in 2016-17 to address the shortcomings identified by VMIA in relation to its education strategy.

10.3.5 Recommendation 5: Framework for managing interagency and State-wide risk

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In the 2013 report, the Auditor-General noted that a number of past audit reports had reviewed agency management of many significant interagency and State-wide risks. These were risks that affected more than one agency and as a result required a co-ordinated management approach. However, the Auditor-General found that these risks were not well understood or effectively managed.[723]

The VMIA advised the Committee that risks which departments find most complex to manage include:

- complex interagency risks, such as the prevention of family violence
- ageing infrastructure and population growth, which are amplified when they are interconnected
- whole of government risks, such as cyber security and cybercrime.[724]

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720 Department of Education and Training, *Response to the Committee's 2017-18 Budget Estimates General Questionnaire*, received 3 May 2017, p.61

721 Department of Justice and Regulation, *Response to the Committee's 2017-18 Budget Estimates General Questionnaire*, received 8 May 2017, p.98

722 Department of Treasury and Finance, *Response to the Committee's 2017-18 Budget Estimates General Questionnaire*, received 8 May 2017, p.41 (response provided by VMIA)

723 Victorian Auditor-General's Office, *Implementation of the Government Risk Management Framework* (2013), pp.30-31, 35-38

724 Department of Treasury and Finance, *Response to the Committee's 2017-18 Budget Estimates General Questionnaire*, received 8 May 2017, p.41 (response provided by VMIA)

The Auditor-General recommended that the Department of Treasury and Finance and the VMIA develop a whole-of-government framework for managing interagency and State-wide risk. The recommendation also included communication of the framework and monitoring its effectiveness over time.[725]

In response to this recommendation, the Department of Treasury and Finance advised the Auditor-General that the recommendation had been addressed through implementation of the updated VGRMF.[726]

The updated VGRMF has a focus on interagency and State-wide risk, as the topic is discussed in the foreword and in depth in a dedicated section.[727] In its *Annual Report 2015*, VMIA stated that:

> With an increased focus on inter-agency and state significant risks, the implementation of the updated framework will provide government with greater assurance that its risk management obligations are being met.[728]

With respect to action taken and communication with departments, the Department of Treasury and Finance advised the Committee that it has undertaken a number of programs, such as forums, education and training programs, workshops and discussions with departments.[729]

Most departments have advised the Committee that they have processes in place to identify and manage interagency and State-wide risks.[730]

The Department of Treasury and Finance chairs the Risk IDC, and reports to the Minister for Finance.[731] The purpose of the Risk IDC is to support the identification of interagency and State-wide risks, promote sharing of information on risk management between agencies and to advise the Government on the development, operation and effectiveness of the VGRMF.[732]

The Committee was advised by the Department of Premier and Cabinet that identification of the main shared risks across government to the successful delivery of family violence reform initiatives was 'a first of its kind for the Victorian Government and demonstrates the government's commitment to interagency risk management'.[733] This raises questions as to how other shared

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725 Victorian Auditor-General's Office, *Implementation of the Government Risk Management Framework* (2013), p.33

726 Victorian Auditor-General's Office, *Response to Performance Audit Recommendations: 2012-13 and 2013-14* (2015), p.183

727 Department of Treasury and Finance, *Victorian Government Risk Management Framework* (2016), pp.1, 8. The Committee considers that 'State-wide risk' and 'State significant risk' are synonymous in this context.

728 Victorian Managed Insurance Authority, *Annual Report 2015* (2015), p.11

729 Department of Treasury and Finance, *Response to the Committee's 2017-18 Budget Estimates General Questionnaire*, received 8 May 2017, p.40

730 Departmental responses to the Committee's 2017-18 Budget Estimates General Questionnaire, q.29(f). The Department of Health and Human Services advised the Committee that it 'conducts discussions with other departments to identify shared risks'.

731 Department of Treasury and Finance, *Response to the Committee's 2017-18 Budget Estimates General Questionnaire*, received 8 May 2017, p.38

732 ibid., p.40

733 Department of Premier and Cabinet, *Response to the Committee's 2017-18 Budget Estimates Entity-specific Questionnaire*, received 12 July 2017, p.2

risks across government are being assessed and actively managed. Cyber security threats and climate change are two obvious examples of complex interagency risks.

FINDING 127: Interagency and State-wide risks are a focus of the updated *Victorian Government Risk Management Framework*. The Committee was advised that the first application of the framework has been to the *Family Violence* initiatives. It is unclear how other complex interagency risks such as cyber security threats and climate change are being managed.

The VMIA's 2010 document *Risk Management: Developing and Implementing a Risk Management Framework* described the development of performance indicators related to risk.[734] The guidance document was supported by the Auditor-General.[735]

The Committee considers that the effectiveness of the VGRMF over time can be monitored using risk performance indicators, provided they are structured appropriately. However, while the VMIA's replacement guidance document, *Victorian Government Risk Management Framework Practice Guide*, lists risk indicators and/or performance measures under 'practical tips',[736] it does not provide details on how they may be developed. Further, risk performance indicators are not discussed in the VGRMF. Therefore, it is not clear whether departments are required to develop risk performance measures.

The Committee found that only one department, the Department of Health and Human Services, has developed risk performance indicators.[737] Other departments advised that such indicators are under development.[738]

The Committee considers that while such performance indicators will not comprehensively measure risks facing agencies and the State, changes in objective risk assessment will help track the effectiveness of the VGRMF over time.

FINDING 128: Only one department — the Department of Health and Human Services — has developed risk performance indicators. While other indicators are under development, the *Victorian Government Risk Management Framework Practice Guide* does not emphasise their importance nor provide guidance on their development. Such indicators would assist in measuring how effective the *Victorian Government Risk Management Framework* is and how agencies are performing in minimising risk.

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734 Victorian Managed Insurance Authority, *Risk Management: Developing and Implementing a Risk Management Framework* (2010), p.113

735 Victorian Auditor-General, *Implementation of the Government Risk Management Framework* (2013), p.17

736 Victorian Managed Insurance Authority, *Victorian Government Risk Management Framework Practice Guide* (2016), p.32

737 Department of Health and Human Services, *Response to the Committee's 2017-18 Budget Estimates General Questionnaire*, received 11 May 2017, p.79

738 Court Services Victoria, Department of Justice and Regulation, Department of Premier and Cabinet, and Department of Treasury and Finance, responses to the Committee's 2017-18 Budget Estimates General Questionnaire, q.29(g)

RECOMMENDATION 23: The Department of Treasury and Finance provide guidance to departments on developing risk management indicators that will objectively measure agencies' risk over time.

RECOMMENDATION 24: As a matter of urgency, agencies finalise the development of risk performance indicators that will objectively measure agencies' risk over time, and will also help track the effectiveness of the *Victorian Government Risk Management Framework*.

10.4 Further actions recommended by the Committee

10.4.1 Integrating risk management with existing policies

The Auditor-General has noted the increased use of 'joined-up solutions', which require inter-agency co-operation, and warns that:

> ... the increased risks of using these more complex, innovative arrangements have the potential to diminish the benefits of collaborative approaches and it is critical that they are well managed.[739]

In addition, the Committee notes that the Government has a large number of policies and frameworks that guide departments and agencies in their activities. In general, these guidance documents restrict themselves to specific subjects and do not always consider their relationship with other public sector guidance.

The Committee examined two examples of guidance related to managing significant and complex government transactions and activities: public private partnership (PPP) procurement; and High-Value, High-Risk (HVHR) projects.

Risk management and Public Private Partnerships

The Government's overview document on PPPs, *Partnerships Victoria Requirements*, discusses the allocation of risk between the public and private sector, and notes that procuring agencies will implement risk and dispute mitigation. It also specifies an inter-agency working group for each PPP project, including representatives from the Department of Treasury and Finance and Department of Premier and Cabinet as well as the procuring agency. However, the document does not discuss risk management for projects or make reference to the VGRMF.

The Committee notes that the VGRMF does not appear in the list of 'additional guidance material' included in the *Partnerships Victoria Requirements*.[740] The Committee also notes that the VGRMF does not discuss risks inherent in PPPs. The Committee assumes that risk management is already integrated into all aspects of PPP procurement. However, specifically noting that risk management

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739 Victorian Auditor-General, *Implementation of the Government Risk Management Framework* (2013), p.vii

740 Department of Treasury and Finance, *Partnerships Victoria Requirements* (2016), p.21

is essential and that the VGRMF is an important guide for managers of PPP projects would provide a more integrated guidance. Awareness of the importance of managing risk within and across government agencies would also be promoted.

Risk management and High-Value, High-Risk projects

The Government's HVHR procedures are intended to provide an enhanced level of vigilance and scrutiny over specific projects. Because of their size, riskiness or other factors, variances from planned outcomes for these projects are considered to be larger or more likely than other projects. An important part of this extra vigilance is the 'Gateway' review process, which provides an additional set of six decision points. In these reviews, a panel of independent experts assesses projects for robustness and identifies any areas for additional work.

The Department of Treasury and Finance provides a suite of guidance documents for the HVHR and Gateway review processes. The documentation notes that the Department, when assessing projects for Gateway reviews of concept and feasibility (gate 1), business case (gate 2) or readiness for market (gate 3), will examine the project's risk management approach.[741] The business case gateway report is intended to 'Ensure that the major risks (investment and project level) have been identified and outline risk management plans have been developed'.[742] Further, the readiness for market gateway report is intended to 'Confirm that there are plans for risk management, issue management (business and technical) and that these plans will be shared with suppliers and/or procurement partners'.[743]

The Committee notes that the gateway documentation advocates a risk management approach be taken. However, the documentation does not refer to the VGRMF as a resource for users.

The Committee considers that this contributes to a 'siloed' approach to risk management and may result in staff working on HVHR projects without awareness of recent improvements in the VGRMF.

FINDING 129: Guidance on public private partnerships and risk management is not well integrated. Similarly, documents on High-Value, High-Risk projects and the related gateway review process refer to risk management, but do not refer users to the *Victorian Government Risk Management Framework*.

RECOMMENDATION 25: In order to improve the integration of risk management guidance, the Department of Treasury and Finance:

(a) alter public private partnership guidance and the *Victorian Government Risk Management Framework* to emphasise the role the VGRMF has in public private partnership procurement

(b) alter High-Value, High-Risk projects and gateway review guidance documents to refer users to the *Victorian Government Risk Management Framework.*

741 Department of Treasury and Finance, *Market-led Proposals Guideline* (2015), p.34

742 Department of Treasury and Finance, *Gate 2 Report Template* (2014), Appendix A, p.11

743 Department of Treasury and Finance, *Gate 3 Report Template* (2014), Appendix A, p.8

10.4.2 Understanding the concept of 'risk'

As noted earlier, 'risk' is defined as 'the effect of uncertainty on objectives'.[744] That is, risk is a variation between the planned outcome and the actual outcome.

The Committee notes that uncertainty can arise from any number of events or scenarios, all of which can be described as risk factors. These include low-probability but high-impact scenarios such as catastrophic bushfires involving loss of life, cyber-crime or terrorist attacks, and more likely, everyday, but potentially lower-impact events. Examples of everyday risks that can prevent departments from reaching planned outcomes include project delays, policy changes, training or experience gaps, funding changes, organisational changes, or any one of a large number of external economic factors such as unexpected demand for services, and changes in interest rates or property values.

For departments, annual reports explain variances from planned outcomes. At a State level, the Annual Financial Report explains variances from planned outcomes in the State's finances. For 2015-16, these reports explained a large range of factors that caused variances from planned outcomes.[745] The Committee notes that all of these explanations could be considered as everyday risks. Low-probability, high-impact risks such as terrorism or natural disaster did not cause any variations in 2015-16.

The VMIA states that 'risk management, done well, will prevent harm and reduce its impact', and that 'Victorians expect their government to be vigilant and controlling the range of harms that could compromise either their safety, security and wellbeing'.[746]

The updated VGRMF describes risk in abstract terms, but mainly uses training and development examples of risk which are 'low-probability, high-impact'. The Framework includes an appendix on emergency management that discusses risks related to major events such as, 'bushfire, earthquake, flood, heatwave, hazardous materials emergency, storm, transport infrastructure emergency and marine pollution'.[747] The Framework also provides references to Commonwealth websites on cyber-attacks and terrorism.[748]

The Committee notes that there is limited discussion in the VGRMF about the more likely or usual, albeit lower-impact risks, which are the most likely sources of variance from planned outcomes. The Committee considers that this emphasis in the training material could result in public sector risk managers focussing on the less likely 'disaster' type risks without greater awareness of the more everyday business risks related to areas of contract management, project management and fraud or misconduct.

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744 Australian and New Zealand Standard AS/NZS ISO 31000:2009 Risk Management

745 Departmental annual reports, 2015-16; Department of Treasury and Finance, *2015-16 Financial Report* (2016), pp.114-15

746 Victorian Managed Insurance Authority, *Victorian Government Risk Management Framework Practice Guide* (2016), p.2

747 Department of Treasury and Finance, *Victorian Government Risk Management Framework* (2016), p.19

748 ibid., pp.20-1

FINDING 130: 'Risk' includes not only low-probability, high-impact events such as fire and terrorism, but also high-probability, lower-impact events at both department and State level. While risk is treated as an abstract concept in training documentation, examples emphasise low-probability events rather than the high-probability events. Participants in development courses may infer that risk is confined to the lower-probability factors and not relevant to everyday factors they have to manage.

RECOMMENDATION 26: Documentation and programs provided by the Victorian Managed Insurance Authority provide examples of a wider variety of risk types, including the risk factors that cause the most common variances from planned outcomes, and discuss ways of managing these risks.

10.4.3 Identification of the lead agency managing interagency and State-wide risks

The successful completion of major infrastructure projects across Victoria and the implementation of public sector policies relating to the management of issues such as drugs, gambling, or family violence usually requires input from more than one government department or agency. To be fully effective and achieve intended policy and project outcomes requires effective co-ordination of activity across agencies, and a co-ordinated approach to risk management.

Important elements of managing interagency or State-wide risks include efficient and timely information sharing between agencies and clear responsibilities for action following interagency meetings. Assigning responsibility for the management and oversight of these risks is critical.

For State-wide risks, where risks are faced by more than one agency, the VMIA's Practice Guide notes that:

> Coordination and management of the response may require a lead agency or a whole-of-Government initiative. Collaboration with other agencies, local, community and national bodies could be required.[749]

Elsewhere in the document, the VMIA notes that for interagency and State-wide risks, agencies that contribute to the identification and management of these risks will have agreed on the lead agency, including its roles and responsibilities.[750] The document states that identification of the lead agency is an important aspect of governance of bodies that manage interagency and State-wide risks.[751]

749 Victorian Managed Insurance Authority, *Victorian Government Risk Management Framework Practice Guide* (2016), p.32

750 ibid., p.30

751 ibid., p.47

Similarly, the updated VGRMF mentions the lead agency, noting that for interagency risks, agencies should agree on a lead agency as well as the responsibilities of other agencies involved.[752] The Committee notes that the VGRMF lists this as a non-mandatory requirement.

The Committee agrees that the identification of a lead agency and clear assignment of its risk management responsibilities is an important part of managing interagency and State-wide risks.

Subsequent to the lead agency being identified, the Committee considers that all agencies should report their involvement in managing identified interagency or State-wide risks in annual reports, together with the name of the lead agency. This will clearly identify inconsistencies between agencies' risk management information.

RECOMMENDATION 27: The Department of Treasury and Finance update the Model Report to require agencies that are involved in the management of interagency and State-wide risks to describe their contribution to the management of these risks as well as to include details of the lead agency.

752 Department of Treasury and Finance, *Victorian Government Risk Management Framework* (2016), p.8

11 Managing telecommunications usage and expenditure

Key findings

Expenditure

- With the exception of fixed voice services, telecommunications expenditure by departments over the three years 2014-15 to 2016-17 has increased in each service category, every year. The most significant increases have occurred in expenditures on data, internet and mobile services.
- The largest telecommunications costs incurred in 2016-17 relate to data services totalling $96.8 million and fixed voice services totalling $39.1 million. The Department of Education and Training accounts for nearly half of the total indicative expenditure by all departments and agencies on data services.

Governance

- Victoria Police is yet to fully implement the Auditor-General's 2013 audit recommendation that it establishes agency-wide executive oversight of fixed voice and mobile usage and expenditure. This is despite the agency advising the Auditor-General in 2015 that implementation would be completed in October 2015 and the pending proliferation of mobile devices used by police.
- Monitoring and reporting to the executive management on whole-of-organisation fixed voice and mobile usage and expenditure appears very limited across departments and agencies.
- In heavily decentralised agencies most detailed monitoring and oversight of telecommunications usage and expenditure is delegated to business unit or cost centre managers. The extent of monitoring by these managers varies across the organisation.
- Strategic reviews and regular audits of telecommunications infrastructure and arrangements have been undertaken by many departments to inform service planning.
- The Department of Economic Development, Jobs, Transport and Resources, the Department of Health and Human Services and the Department of Justice and Regulation policies on the management and use of mobile devices were all of a very high quality in terms of their clarity and comprehensiveness.

- A number of agencies perform trend analysis or run exception reports to highlight anomalies and identify items requiring further investigation. Some departments also undertake regular audit processes to identify anomalies or unusual activity.

Managing usage

- All of the departments and agencies examined, with the exception of the Melbourne Fire and Emergency Services Board, have guidelines in place governing the acceptable use of mobile phones.
- With respect to the use of mobile phones for personal reasons some agencies advised of having a zero tolerance with the costs of all personal calls refunded to the agency, while others allowed some personal usage of mobile devices.
- The parameters for the allocation and use of mobile devices by Victorian public sector employees lack standardisation, despite the Victorian Government's *Workplace Environment Statement of Direction for the Victorian Public Service*.

Cost savings

- In 2017 the Victorian Government, through the Department of Premier and Cabinet, renegotiated whole-of-government contracts for a range of telecommunications categories. The *Telecommunications Purchasing Management Strategy 2025* (TPAMS2025) is expected to save $34 million per annum compared with the 2004 TPAMS contract arrangements.
- A number of departments had implemented, or were investigating the implementation of, Voice over Internet Protocol (VoIP) technology or other technology solutions, to achieve cost savings and improve the performance of their telecommunications arrangements.
- Most departments do not set savings targets for telecommunications expenditure but look to achieve efficiencies through revised pricing arrangements wherever possible.
- The Department of Justice and Regulation and Victoria Police were the only organisations able to quantify recent savings in telecommunications. The Department advised of total savings in telecommunications expenditure from 2013-14 to March 2017 of approximately $1.5 million. Victoria Police saved $461,000 in telecommunications expenditure in the last three years.

11.1 Introduction

Telecommunication services are essential for public sector agencies carrying out their day-to-day business activities and delivering government services to their clients. Traditionally, telecommunications centred on fixed voice and facsimile transmission. The introduction of mobile phones and improvements in internet capability has made work arrangements more portable and seen a rapid expansion in the telecommunication industry in terms of service providers and continual improvement in technology capabilities.

Correspondingly, public sector usage and expenditure on mobile telecommunications and data and internet capability has increased significantly over the past ten years and it is likely that further developments in technologies allowing voice communications over the internet will see more changes in the way agencies manage their communications.

In September 2013, the Auditor-General tabled a performance audit report, *Managing Telecommunications Usage and Expenditure*, which examined the extent to which a selection of agencies (the former Department of Human Services, the former Department of Justice and Victoria Police) were effectively managing the use of, and expenditure associated with, fixed voice and mobile telecommunication services.

The audit focussed on whether the agencies were:

- minimising waste and reducing the risk of overcharging
- monitoring, detecting and managing inappropriate usage by staff
- managing contracts to ensure value for money.[753]

This chapter presents a review of the current telecommunications management practices in departments and agencies in the light of the issues highlighted in the Auditor-General's report.

11.1.1 Auditor-General's report findings

The Auditor-General found that weak central oversight in agencies together with devolved management arrangements meant that, while there were some examples of good management practice and telecommunications cost savings, these were inconsistent throughout agencies. The Auditor-General concluded that none of the three agencies examined could be confident they were effectively managing their telecommunications usage and expenditure.

The Auditor-General's analysis of telecommunications expenditure data revealed that the greatest potential savings stem from:

- monitoring bills for instances of overcharging
- monitoring and removing any redundant line services

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753 Victorian Auditor-General's Office, *Managing Telecommunications Usage and Expenditure* (2013), p.6

- accessing best call and data contract rates within whole-of-government service agreements and
- monitoring and recovering costs for excessive personal use of mobile phones.[754]

The report included nine recommendations directed at improving the oversight and management of telecommunications usage and expenditure in public sector agencies and ensuring that value for money and cost savings are maximised.[755] The Auditor-General encouraged other public sector agencies to review their individual arrangements in the light of the opportunities and issues highlighted through the audit.[756]

11.1.2 Committee review

The Committee sought information from departments in relation to their expenditure on telecommunications over the past three years and also details about the policies, procedures and systems in place to:

- ensure a consistent approach to usage and control of expenditure
- proactively monitor expenditure trends and investigate anomalies
- monitor mobile phone usage and expenditure and purchase more cost-effective service plans
- ensure the removal of redundant landlines and replace inefficient analogue lines.

The Committee received responses from the following public sector departments and agencies:

- Department of Premier and Cabinet
- Department of Treasury and Finance, including the State Revenue Office and the Essential Services Commission
- CenITex
- Department of Parliamentary Services
- Department of Education and Training
- Department of Health and Human Services
- Department of Environment, Land, Water and Planning
- Department of Economic Development, Jobs, Transport and Resources

754 ibid., p.x

755 ibid., p.xii

756 ibid., p.vii

- Department of Justice and Regulation, and accumulated telecommunications expenditure for the: Victorian Commission for Gaming and Liquor Regulation; Victorian Legal Services Board and Commissioner; Victoria State Emergency Service; Emergency Services Telecommunications Authority; Victoria Legal Aid; and Office of Public Prosecutions
- Victoria Police
- Metropolitan Fire and Emergency Services Board
- Country Fire Authority.

Many departments provided good quality responses including comprehensive information about the processes and systems used to manage telecommunications usage and expenditure within their organisations.

The Auditor‑General's report focussed on the management of fixed voice and mobile phone services. The Committee's review found that there has been a significant increase in the allocation and use of portable ICT devices to staff in departments and agencies and an integration of telecommunications management with the management of information technology generally. As such, mobile phones are now just one of the portable devices used for both communications and access to business information.

The Committee's findings in relation to the information provided by departments and agencies are presented in the following sections.

11.2 Telecommunications expenditure

The Auditor‑General's analysis of whole‑of‑government expenditure through the state purchase contracts under the Victorian Government *Telecommunications Purchasing Management Strategy* (TPAMS) on fixed voice and mobile carriage services over the period 2007‑08 to 2011‑12 indicated that expenditure on fixed voice had remained relatively stable over the five‑year period while expenditure on mobile services had risen significantly.[757]

The increase in mobile phone expenditure over the period was dramatic with the figures indicating that whole‑of‑government mobile phone expenditure had grown by almost 70 per cent between 2007‑08 and 2011‑12.[758]

11.2.1 Analysis of telecommunications expenditure 2014‑15 to 2016‑17

The Committee requested departments provide details of telecommunications expenditure over the past three years (2014‑15 to 2016‑17) spilt between the five telecommunications service categories established under the most recent TPAMS. They are:

757 ibid., p.3

758 ibid.

- fixed voice
- mobile
- data
- internet
- unified communications.[759]

The type and mix of telecommunications services purchased by each department and agency is obviously dependent upon its operational structure and the nature of the work performed by the organisation. For example, some organisations will have a stronger regional presence and some will perform duties outside the office and/or outside normal business hours. This may result in a heavier reliance on mobile telecommunications as opposed to fixed voice services.

The Committee's analysis of telecommunications expenditure is impacted by the accuracy and completeness of the figures provided by departments for each of the categories over the three years. Departments advised that the figures are affected by factors related to:

- machinery-of-government changes in 2014-15
- accounting for decentralised operations
- the timing of the request for the information (i.e. close to year-end with financials subject to finalisation)
- the fact that data and internet costs for some agencies are absorbed by CenITex and not reported separately by agencies.[760]

In some cases, the expenditure categories were unable to be separated. For instance Victoria Police advised that expenditure on data included internet costs.

Table 11.1 shows the indicative totals from the figures provided by all agencies for each of the telecommunications service categories in 2014-15, 2015-16 and 2016-17.

759 The contract for Unified Communications Services is a new category under the TPAMS2025 and includes audio, web and video conferencing services, and aims to make communications for those public servants working in regional and rural areas more cost effective and more efficient. This contract is not mandatory. Premier of Victoria, *New Tech Contract Saves Victorian Taxpayers,* (Media release, 31 January 2017)

760 For example, the Department of Premier and Cabinet (DPC) advised that their data costs in each of the three years are absorbed in the CenITex managed service and not reported separately. Similarly, the Department of Justice and Regulation advised that CenITex paid for data on behalf of the Department in 2014-15 and managed their internet charges over the three years. The Department of Justice and Regulation advised that it has a Memorandum of Understanding with CenITex for the management of the Department's data and internet services. Amounts for these are agreed at the start of each financial year with a fine-tuning process in April of each year. (Department of Justice and Regulation, *Response to the Committee's 2016-17 Budget Estimates General Questionnaire*, received 8 May 2017, p.75; Premier of Victoria, *New Tech Contract Saves Victorian Taxpayers*, (Media release, 31 January 2017); Victorian Government Purchasing Board, *Telecommunications (TPAMS2025) Services, What you can buy from this SPC, Unified Communications services* (2017))

Table 11.1 **Total indicative expenditures on telecommunications by service category**

Telecommunications service category	2014-15 ($ million)	2015-16 ($ million)	2016-17 ($ million)	Variance between 2014-15 and 2016-17 per cent
Fixed voice	36.0	40.2	39.1	8.6
Mobile	11.9	13.4	14.6	22.7
Data	69.9	93.6	96.8	38.5
Internet	12.0	15.7	15.0	25.0
Unified communications	2.8	3.1	3.0	7.1
Total	**132.6**	**166.0**	**168.5**	**27.1**

Source: Departmental responses to the Committee's 2017-18 Budget Estimates General Questionnaire, received May 2017

The table shows that there has been an increase in total expenditure with the exception of fixed voice services in each service category. The most significant increases between 2015-16 and 2016-17 are in data services (38.5 per cent), internet services (25 per cent) and mobile services (22.7 per cent). Growth in total indicative expenditure on fixed voice services and unified communications over the three years is relatively minor.

The figures also show that the largest telecommunications costs incurred relate to:

- data services totalling $96.8 million in 2016-17 and making up approximately 57 per cent of total indicative expenditure in that year
- fixed voice services totalling $39.1 million in 2016-17 and making up 23 per cent of total indicative expenditure in that year.

The Committee analysed the largest area of expenditure – data services. The Department of Education and Training had the largest expenditure totalling $44 million for data services. The Department's indicative expenditure on data services makes up approximately 45 per cent of the total indicative expenditure by all departments and agencies on these services. Other departments with large data services costs in 2016-17 are: the Department of Economic Development, Jobs, Transport and Resources with an estimated $12.3 million; the Department of the Environment, Land, Water and Planning with $7.9 million; and Victoria Police with expenditure on data and internet together totalling $7.9 million.

FINDING 131: With the exception of fixed voice services, telecommunications expenditure by departments over the three years from 2014-15 to 2016-17 increased in each service category, every year. The most significant increases have occurred in expenditures on data, internet and mobile services.

FINDING 132: The largest telecommunications costs incurred in 2016-17 relate to data services totalling $96.8 million and fixed voice services totalling $39.1 million. The Department of Education and Training accounts for nearly half of the total indicative expenditure by all departments and agencies on data services.

11.3 Establishing effective governance over telecommunications

The Auditor-General was critical of the lack of central oversight of telecommunications and the inadequacy of organisation wide controls over usage and expenditure.[761] The Auditor-General found that none of the agencies examined were monitoring nor reporting to the executive management on whole-of-organisation fixed voice and mobile usage and expenditure.[762] The Auditor-General noted that in most agencies the day-to-day management of telecommunications services is devolved to individual business units, divisions and/or regional offices.

The report stated that there is a need for agencies to implement an organisation-wide management framework to provide assurance to executive management that:

- telecommunications resources are being used appropriately throughout the whole organisation in compliance with policies and guidelines
- strong and effective expenditure control processes are in place and working effectively across the organisation to minimise the risk of overcharging and misappropriation
- all business units/divisions are actively managing their telecommunications usage and expenditure to minimise waste and optimise value.[763]

An effective governance framework clearly sets out responsibilities within individual business units and provides a system of co-ordinated reporting to the executive management. Values, codes of conduct and internal control systems must be embedded throughout the organisation and must also be:

- well communicated and understood
- consistently applied and enforced
- continuously reviewed to ensure they remain relevant and effective.

An effective system of governance also includes a strong internal control environment comprising procedures and systems to promote the careful stewardship of resources and to minimise the risk of error, waste, misuse and misappropriation.

The Auditor-General found that none of the three agencies examined in the audit monitored and reported to executive management on organisation-wide fixed voice and mobile usage and expenditure. To improve governance of telecommunications usage and expenditure, the audit report recommended that public sector agencies:

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761 Victorian Auditor-General's Office, *Managing Telecommunications Usage and Expenditure* (2013), pp.ix-x

762 ibid., p.x

763 ibid., p.5

- establish an agency-wide oversight of fixed voice and mobile usage and expenditure
- develop clear guidance on the allocation and use of mobile phones
- establish consistent, agency-wide controls for effectively managing expenditure.[764]

The Committee asked agencies to describe the management framework in place to ensure a consistent approach to the usage and control of telecommunications expenditure and the effective monitoring and oversight of organisation-wide usage and expenditure. Departments were also asked to provide details of the processes in place to assist in monitoring telecommunications usage and expenditure and any reviews undertaken to improve practices.

The following sections provide details about the governance arrangements in place in departments to manage telecommunications.

11.3.1 Oversight of telecommunications by the senior executive

A strong system of governance encompasses an effective system of monitoring and reporting at all levels of the organisation.

A review of the responses provided by departments indicate that oversight by the senior executive within agencies of telecommunications and expenditure is limited. However, most departments indicated some degree of centralised management and procurement of telecommunications services, usually by the Information Technology and Communications (ICT) area or Finance/ Budget areas, and sometimes in a specialist Telephony Unit.[765] Procurement of telecommunications is generally managed through these areas and some general oversight and review of usage and expenditure is also performed.

Most agencies advised that monitoring and review of telecommunications usage and expenditure is undertaken by the business units/cost centres and/or regional offices responsible for the expenditure. Central offices distribute reports to responsible financial delegates for review and verification.

Victoria Police indicated that regional and departmental business managers are responsible for reporting on the usage and control of telecommunications expenditure at a departmental level. However, the agency added that it is:

> ...in the process of implementing a management framework that will provide organisation wide standardised oversight of telecommunications expenditure categories to Executive level to provide further consistency and detail.[766]

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764 ibid., p.21

765 Department of Health and Human Services, *Response to the Committee's 2017-18 Budget Estimates General Questionnaire*, received 11 May 2017, p.76; Department of Environment, Land, Water and Planning, *Response to the Committee's 2017-18 Budget Estimates General Questionnaire*, received 8 May 2017, pp.31-32

766 Department of Justice and Regulation, *Response to the Committee's 2017-18 Budget Estimates General Questionnaire*, received 8 May 2017, p.81

Whilst Victoria Police's commitment to implementing the management framework is positive, the Committee notes that Victoria Police was one of the three agencies included in the Auditor-General's 2013 audit review. As such, Victoria Police would have been made aware of the audit recommendation to establish agency-wide oversight of telecommunications usage and expenditure four years ago. The Committee notes that Victoria Police responded to the Auditor-General in a follow-up of audit recommendations in 2015, and that this recommendation was 'partially completed and was due to be completed in October 2015'. As such, it is of some concern that this issue remains outstanding. Furthermore, the Minister of Police advised the Committee in the estimates hearing that the number of mobile devices including tablets and phones used by police is set to increase.[767]

FINDING 133: Victoria Police is yet to fully implement the Auditor-General's 2013 audit recommendation that it establishes agency-wide executive oversight of fixed voice and mobile usage and expenditure. This is despite the agency advising the Auditor-General in 2015 that implementation would be completed in October 2015 and the pending proliferation of mobile devices used by police.

FINDING 134: Monitoring and reporting to the executive management on whole-of-organisation fixed voice and mobile usage and expenditure appears very limited across departments and agencies.

11.3.2 Oversight by delegated cost centres and decentralised organisations

As noted above, most departments and agencies advised that business units/cost centres were largely responsible for the management and oversight of usage and costs within their areas of responsibility. The Committee also notes that many departments have decentralised operations, which means that telecommunications are managed at the local level (for example, in divisions, regional offices and schools). Consistent application of internal control processes can be more difficult in highly decentralised organisations.

The larger and more complex an organisation and its activities, the more attention must be given to designing and implementing effective control systems for the management of expenditures. In addition, effective systems of review, either through management reporting or by internal audit, are needed to ensure checks and balances are operating effectively and consistently across business units.

Responses provided to the Committee indicate that monitoring can vary within a department, particularly in organisations which are heavily decentralised. For example, the Country Fire Authority (CFA) advised that 'each business unit monitors a range of activities, although this can vary between the departments'.[768]

767 Hon. Lisa Neville MP, Minister for Police, *2017-18 Budget Estimates Transcript of Evidence*, 1 June 2017, p.24

768 Department of Justice and Regulation, *Response to the Committee's 2017-18 Budget Estimates General Questionnaire*, received 8 May 2017, p.79

The Department of Economic Development, Jobs, Transport and Resources is another decentralised organisation that advised that central business district (CBD) telecommunications are coordinated centrally while regional office telecommunications are managed by staff in each region.[769]

FINDING 135: In heavily decentralised agencies most detailed monitoring and oversight of telecommunications usage and expenditure is delegated to business unit or cost centre managers. The extent of monitoring by these managers varies across the organisation.

11.3.3 Strategic review of telecommunications

Another important role of senior management within an organisation is to initiate and oversight strategic reviews which inform decision-making around changes to resource management and future direction in workplace management. The Committee requested information from agencies about any strategic reviews of telecommunications which had been undertaken in recent years to improve practices. Examples provided are:

- Victoria Police indicated that it had undertaken a review which identified significant savings could be achieved though upgrading its existing telecommunications installation[770]
- the Department of Premier and Cabinet advised that it conducted a review of mobile carriage providers in 2015 comparing rates under the whole-of-government TPAMS arrangement. The next review is scheduled for early 2018[771]
- the Department of Treasury and Finance advised that it continues to review telecommunications usage and requirements, particularly in light of the increase in flexible and remote work arrangements.[772]

In addition to these more high-level, strategic reviews, a number of departments indicated that audit reviews are undertaken from time to time to monitor usage of both fixed and mobile services with a view to identifying any service underutilisation or wastage. For example, the Department of Justice and Regulation advised that all auditing activities undertaken to validate the accuracy of invoices are documented and recorded and audit and reporting activities had been improved over the past 24-36 months.[773] The Department states:

769 Department of Economic Development, Jobs, Transport and Resources, *Response to the Committee's 2017-18 Budget Estimates General Questionnaire*, received 5 May 2017, pp.78-9 While the Department advised that the central IT unit oversights fixed voice services monthly usage, non-usage and expenditure reports available via service provider platforms to verify that services are active, in the case of its regional offices, the Department stated that 'locations undertake this oversight in a number of cases.' The Department did not explain what it referred to as 'oversight in a number of cases'. The suggestion is that this degree of oversight may not occur across all regional offices. As such, the Committee is uncertain about the consistency of oversight practices implemented across the Department.

770 Department of Justice and Regulation, *Response to the Committee's 2017-18 Budget Estimates General Questionnaire*, received 8 May 2017, p.83

771 Department of Premier and Cabinet, *Revised response to the Committee's 2017-18 Budget Estimates General Questionnaire*, received 9 May 2017, p.27

772 Department of Treasury and Finance, *Response to the Committee's 2017-18 Budget Estimates General Questionnaire*, received 8 May 2017, p.35

773 ibid., p.82

> [The] benefits include greater identification of surplus services, and working with users to better manage data consumption with mobile devices. Monitoring and management of data usage has enabled the department to have 99 per cent of its mobile corporate fleet on the lowest data plan available whilst avoiding any excess data usage.[774]

> **FINDING 136:** Strategic reviews and regular audits of telecommunications infrastructure and arrangements have been undertaken by many departments to inform service planning.

Savings initiatives and reviews are discussed in Section 11.5 of this chapter.

11.3.4 Establishing appropriate policies and guidelines

The Auditor-General noted the importance of agencies establishing clear policies and guidance on the use of telecommunications and also procedures for the effective control of expenditure.

All departments and agencies advised that they had policies and guidelines in place to manage the purchase, support and use of telecommunications services including mobile devices.

A review of the policies and guidelines provided to the Committee indicated a range of approaches to the management of mobile devices. However, there were also some commonality around the types of devices being employed, the principles related to their allocation and use, and the information and security management aspects of these devices. The Committee found that the policies provided by the Department of Economic Development, Jobs, Transport and Resources, the Department of Health and Human Services and the Department of Justice and Regulation for the management and use of mobile devices were all of a very high quality in terms of their clarity and comprehensiveness. The Committee also noted that policies provided by the Department of Premier and Cabinet, the Department of Treasury and Finance, the Department of Education and Training and the Department of Economic Development, Jobs, Transport and Resources all included hyperlinks directing users to other relevant departmental policies and guidance.

Department of Education and Training policies governing the use of mobile devices were also very detailed, however the Committee noted that the Department's *Acceptable Use Policy* and *CoMET Mobile Devices and Overseas Travel Policy* were due for a refresh and update as they had been prepared in 2011 and 2014 respectively. The Department of Education and Training advised the Committee it is currently reviewing the *Acceptable Use Policy.*[775]

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774 ibid.

775 Department of Education and Training, *Response to the Committee's 2017-18 Budget Estimates Entity-specific Questionnaire*, received 12 July 2017, p.27

FINDING 137: The Department of Economic Development, Jobs, Transport and Resources, the Department of Health and Human Services and the Department of Justice and Regulation policies on the management and use of mobile devices were all of a very high quality in terms of their clarity and comprehensiveness.

Department of Premier and Cabinet has recently issued *Statements of Direction* which provide guidance for future procurement and provide a common view on high-level requirements for government enterprise systems.[776] The Statements seek to standardise systems and support a common approach across the Victorian public sector. The *Workplace Environment Statement of Direction* is aimed at assisting productivity of public servants, simplifying systems and reducing costs associated with machinery-of-government changes, and general movement of staff between agencies.

The Statement covers processes related to identification, access, collaboration, document management, productivity, corporate services and devices. Mobile device management is listed as one of the core 'foundational components' of the Workplace Environment with the aim being to implement a common approach to mobile device management.[777] The Department of Environment, Land, Water and Planning noted its intention to consider this Statement of Direction in evaluating the new state purchase contract offers through the TPAMS2025.

The Committee also noted that the Australian Capital Territory has an overarching policy for all government employees in receipt of a government-supplied device (including mobile phones, small hand-held devices, GPS devices, laptops and tablets) or SIM-card.[778] These devices all have access to Shared Services ICT. The policy states that while directorates may choose to augment the Policy to make it more specific to their individual circumstances, any additions or changes should not decrease the level of control or security over the devices.

Given the objectives and aims of the Statements of Directions issued by the Department of Premier and Cabinet to streamline administrative processes across the public sector and the increase in shared ICT services, the Department could give consideration to the development of a common mobile devices policy for the whole-of-government.

11.3.5 Other internal controls to manage telecommunications expenditure

The Auditor-General recommended that public sector agencies establish consistent, agency-wide controls for effectively managing expenditure. These controls include accounting controls which ensure the accurate recording of

776 Department of Premier and Cabinet, Enterprise Solutions, *Enterprise systems, Statements of direction*. Available at <www.enterprisesolutions.vic.gov.au/enterprise-systems>, viewed 19 July 2017

777 Department of Premier and Cabinet, *Workplace Environment Statement of Direction for the Victorian Public Service* (2015), pp.17-8

778 ACT Government, *Whole-of-Government Mobile Devices Policy,* 28 August 2015. Available at <www.cmd.act.gov.au/_data/assets/pdf_file/0007/807136/Mobile-Devices-Policy.pdf > viewed 19 July 2017

financial transactions in the accounting system and include internal procedures aimed at detecting and reporting any anomalies in those transactions. In the case of telecommunications expenditure, for example, monitoring trends in usage and expenditure, and comparisons of expenditure against budget or against authorised limits, can identify issues warranting investigation.

Other internal controls include process controls which are designed to ensure that proper authorisation is obtained before a transaction or action takes place. Examples include:

- the requirement that only authorised staff receive a mobile phone for use
- limits or thresholds set for personal use
- certification of accounts prior to payment
- authorisation for the use of an agency-issued mobile phone whilst overseas.

The Committee requested departments provide details of the procedures and systems used to monitor telecommunications usage and expenditure including details of the specific aspects monitored and the use of management tools to review trends and identify any anomalies in expenditure.

Departments and agencies provided very detailed information about the management and reporting systems in place to monitor and control telecommunications usage and expenditure, including central review of monthly statements and distribution of reports to cost centres for review and verification.

Monitoring and review processes varied but most departments and agencies indicated the use of on-line carrier-provided 'portal tools' to provide information and reports on telecommunications usage and expenditure.[779]

The Committee considers that in utilising these systems, it is important that departmental and agency personnel validate the accuracy of the data being reported by the carrier and not assume that all details in the billing are accurate.

The Committee noted the following checks and systems used by agencies to verify the accuracy of charges and identify any anomalies and/or errors:

- The Department of Environment, Land, Water and Planning advised that the quarterly consumption reports distributed to business groups for review highlight anomalies in charges (e.g. low or high usage) and include detailed account information for business groups to substantiate the charges. The report also identifies any appropriate changes to telecommunications services.[780] The Department indicated that charges

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779 Telstra provided Managed Billing Reporting System (MBRS); Optus provided eFrams; NEC portal. These portals are generally accessed by staff within individual business units/cost centres, responsible for managing the centre expenditures against budget and identifying any errors or inconsistencies.

780 Department of Environment, Land, Water and Planning, *Response to the Committee's 2017-18 Budget Estimates General Questionnaire*, received 8 May 2017, p.31

greater than $30 are highlighted for attention and any costs greater than $100 are flagged as excessive cost and identified for 'potential investigation' by the local manager.[781]

- The Department of Health and Human Services advised that it uses the Telstra monthly business reporting system to perform monthly reviews on the appropriateness of data plans, correct accounting for data services, unusual charges, etc. A report is produced for the Assistant Director (Service Delivery) for review before payment is authorised.[782]
- The Department of Economic Development, Jobs, Transport and Resources advised that service provider system reports detail information about usage, costs and inactivity of fixed voice services. For mobile devices, the Department monitors calls, data and SMS usage. Any services which have not been used for a period of time (approximately six months) are also reported. The Department advised that the central IT unit reviews monthly fixed voice invoices for any 'abnormal usage or billing outside historical trends'.[783] For mobile devices, invoices are validated and verified through the service provider's expenditure management system which uses information from the Department's Human Resources and Finance systems to check accuracy.[784]

The Committee notes that internal control procedures established by agencies are only effective if managers and supervisors promote and ensure compliance. Any departures from expected practice or from the usual trend must be reported and responded to by management. Internal and external audit also play an important role in testing internal controls by reviewing control systems and procedures and compliance of staff with those procedures.

The Committee noted that a number of departments advised that they undertake regular audits of telecommunications usage and expenditure. For example, the Department of Justice and Regulation provided the Committee with extensive details of its monitoring and audit activities. These included monitoring data usage and analysis of trends in data usage, auditing all pay as you go data charges and monitoring mobile expenditure trends and investigating any unusual usage profile or spikes.[785]

The Metropolitan Fire and Emergency Services Board (MFB) was the only agency to advise that its monitoring and management reporting of its mobile telephony services has been effectively "outsourced" to an 'external consultant (delivery partner)'.[786]

781 ibid., p.32

782 Department of Health and Human Services, *Response to the Committee's 2017-18 Budget Estimates General Questionnaire*, received 11 May 2017, p.76

783 Department of Economic Development, Jobs, Transport and Resources, *Response to the Committee's 2017-18 Budget Estimates General Questionnaire*, received 5 May 2017, p.79

784 ibid., pp.78-9

785 Department of Justice and Regulation, *Response to the Committee's 2017-18 Budget Estimates General Questionnaire*, received 8 May 2017, p.77

786 This covers all mobile devices and the consultant provides a monthly report analysing mobile usage and costs. MFB advised that fixed line telephony is managed through the Board's ICT area which uses service provider portals to review costs. (Department of Justice and Regulation, *Response to the Committee's 2017-18 Budget Estimates General Questionnaire*, received 8 May 2017, p.77)

Controls over mobile phone usage and expenditure are discussed in more detail in section 11.4 of this chapter.

FINDING 138: Departments and agencies generally use on-line carrier-provided monitoring and reporting tools to manage their telecommunications usage and expenditure.

FINDING 139: A number of agencies perform trend analysis or run exception reports to highlight anomalies and identify items requiring further investigation. Some departments also undertake regular audit processes to identify anomalies or unusual activity.

RECOMMENDATION 28: All departments and public sector entities strengthen their governance over telecommunications by:

(a) regularly undertaking internal checks and audits to confirm that their procedures established to manage telecommunications usage and costs are being applied consistently across the organisation

(b) monitoring and reporting to their executive management on organisation wide telecommunications use and expenditure.

RECOMMENDATION 29: In heavily decentralised agencies, monitoring and oversight of telecommunications usage and expenditure across the various business units be centralised.

11.4 Managing mobile phone usage

The Auditor-General's report in 2013 made a number of recommendations directed at the management of mobile phone services, in particular the management of the key cost drivers: the number of calls and the use of data.

The Auditor-General recommended that public sector agencies:

- develop clear guidance on the allocation and use of mobile phones
- review thresholds for allowable personal usage and implement timeframes for recovering associated costs
- systematically verify the accuracy of mobile invoices
- regularly monitor mobile usage
- actively enforce compliance with policies on personal usage.[787]

Each of these recommendations are discussed below.

787 Victorian Auditor-General's Office, *Managing Telecommunications Usage and Expenditure* (2013), p.xi

11.4.1 Authorised allocation and guidelines for use of mobile devices

The Committee requested details of the policies and guidelines in place for the allocation and use of mobile phones including for their use overseas. The Committee also asked departments to provide copies of their mobile device policies and guidelines.

Responses indicated that all of the departments and agencies examined, with the exception of MFB, have guidelines in place governing the use of mobile phones. MFB advised that all requests for mobile telephony require three levels of approval and authorisation.[788] However, the agency stated that it did 'not have a policy or guidelines in place for the allocation and use of mobile phones'.[789] The Committee also noted that the Department of Parliamentary Services advised that the its *Mobile Phone Policy* only applies to Parliamentary Officers and not to Members of Parliament and Electorate Officers while the *ICT-Conditions of Use Policy* applies to all users.[790]

The Committee found that in many departments, the 'Acceptable Use' of mobile phones was included in guidelines covering mobile devices more broadly (i.e. smartphones and tablet-based computing platforms). Some of these policies also extended to the use of other equipment, such as video-conferencing equipment and the use of the department network and internet.

Some mobile device policies referred users to related policies, legislation and standards such as:

- the *Privacy and Data Protection Act 2014*
- *Public Records Act 1973*
- a range of anti-discrimination legislation
- the Victorian Protective Data Security Standards
- the Victorian Public Sector Code of Conduct.

FINDING 140: All of the departments and agencies examined, with the exception of the Melbourne Fire and Emergency Services Board, have guidelines in place governing the acceptable use of mobile phones.

Most departments and agencies also noted that a request for a department provided mobile device required a formal application and approval process. A number of departments stressed that requests for the provision of a mobile device must be adequately justified.

788 Department of Justice and Regulation, *Response to the Committee's 2017-18 Budget Estimates General Questionnaire*, received 8 May 2017, p.75

789 ibid., p.84

790 Department of Parliamentary Services, *Response to the Committee's 2017-18 Budget Estimates Entity Specific Questionnaire*, received 12 July 2017, p.27

The Committee asked departments to advise whether staff in receipt of a mobile device are required to formally agree to the terms and conditions of its usage. In most cases departments indicated that staff must agree to the terms and conditions of use as part of their request for a mobile device.[791] In some cases, departments required that staff formally sign an agreement accepting the terms and conditions of use.[792] In other cases, this agreement was 'implicit'.[793]

FINDING 141: Most departments indicated that staff must agree to the terms and conditions of use as part of their request for a mobile device. Some departments require staff to formally sign an agreement acknowledging their responsibilities and accepting the terms and conditions of use. In other cases, this acknowledgement is implicit.

11.4.2 Personal use of mobile devices

The Auditor-General stated in his report that 'the need to control inappropriate or excessive personal usage is more important for mobile phones than it is for fixed voice services'.[794] The audit report also reinforced that usage of mobile devices should be predominantly for business use with minor personal use.[795]

Thresholds for personal use of mobile devices

The Committee asked departments to advise whether limits are set for allowable personal use of mobile phones provided to staff and whether there are procedures in place to implement cost recovery if necessary.

The responses provided indicated differing levels of tolerance with respect to the use of mobile phones for personal reasons. Some agencies advised of having a zero tolerance with the cost of all personal calls refunded to the agency. The Department of Education and Training advised that all personal costs associated with identified personal use were required to be refunded. Mobile users receive an email each month directing them to complete a reconciliation of their monthly mobile phone statement. The Department advised:

> As part of this process, the mobile phone user identifies personal calls. The identified personal calls are automatically recovered through the payroll system.[796]

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791 Department of Premier and Cabinet, *Response to the Committee's 2017-18 Budget Estimates General Questionnaire*, received 9 May 2017, p.27; Department of Environment, Land, Water and Planning, *Response to the Committee's 2017-18 Budget Estimates General Questionnaire*, received 8 May 2017, p.31; Department of Education and Training, *Response to the Committee's 2017-18 Budget Estimates General Questionnaire*, received 3 May 2017, p.54,57

792 Department of Economic Development, Jobs, Transport and Resources, *Response to the Committee's 2017-18 Budget Estimates General Questionnaire*, received 5 May 2017, p.79. The Committee notes that the Department of Economic Development, Jobs, Transport and Resources form contains a section on 'business justification' which must be completed in support of the request; Department of Health and Human Services, *Response to the Committee's 2017-18 Budget Estimates General Questionnaire*, received 11 May 2017, p.77

793 Department of Treasury and Finance, *Response to the Committee's 2017-18 Budget Estimates General Questionnaire*, received 8 May 2017, p.36; Court Services Victoria, *Response to the Committee's 2017-18 Budget Estimates General Questionnaire*, received 17 May 2017, pp.27-8

794 Victorian Auditor-General's Office, *Managing Telecommunications Usage and Expenditure*, (2013), p.22

795 ibid., p.11

796 Department of Education and Training, *Response to the Committee's 2017-18 Budget Estimates General Questionnaire*, received 3 May 2017, p.57

The Committee found that some agencies had a less stringent approach to personal use of mobile devices with discretion left to local managers to establish parameters for personal use and also timeframes for any reimbursement of costs. These agencies included the Department of Environment, Land, Water and Planning, the Department of Premier and Cabinet, the Department of Health and Human Services and the Department of Justice and Regulation.[797] The Committee notes that the Department of Treasury and Finance, the Department of Economic Development, Jobs, Transport and Resources and Court Services Victoria had established a $15-20 limit per month for allowable personal usage of mobile phones by staff.[798]

FINDING 142: With respect to the use of mobile phones for personal reasons some agencies advised of having a zero tolerance with the costs of all personal calls refunded to the agency, while others allowed some personal usage of mobile devices.

Use of mobile devices overseas

Most departments advised the Committee that global roaming is disabled on mobile devices by default and use of a device overseas requires a separate approval process. Some agencies indicated that they had developed guidelines for the use of devices overseas, whilst others directed mobile users to seek advice from the central IT or Telephony area on the use of their devices overseas. Specific details about what was expected in terms of managing costs overseas was not always stipulated in departmental guidelines.

The Department of Education and Training advised that the use of a mobile phone overseas is subject to a separate approval process by the user's financial delegate and the Executive Director, Information Technology division. Global roaming is only enabled for the approved period and the business unit is advised of the appropriate overseas plan for the locations being visited. In addition, users are also 'strongly encouraged' to make use of WiFi and/or purchase a local SIM card to manage their exposure to global roaming costs.[799]

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797 For example, the Department of Environment, Land, Water and Planning advised that it employs a model of 'self-regulation and discretional judgement by the local manager' to the use of mobile devices for personal use. The Department's policy states that devices must be used principally for business purposes, however 'some limited personal use is permitted, for example, use of mobile phones for family contact and in emergencies.' The Department states that there is no threshold set for personal use or timeframe specified in the Mobile Device Usage Policy for cost recovery of personal use. Where 'excess personal use is identified or suspected, reports can be requested from the service providers by the relevant line manager. It is then the manager's responsibility to address the matter with the relevant staff member for any further action'. (Department of Environment, Land, Water and Planning, *Response to the Committee's 2017-18 Budget Estimates General Questionnaire*, received 8 May 2017, p.33; Also refer to each department's *Response to the Committee's 2017-18 Budget Estimates General Questionnaire*, question 27 posted on the Committee's website).

798 Department of Treasury and Finance, *Response to the Committee's 2017-18 Budget Estimates General Questionnaire*, received 8 May 2017, p.36; Department of Economic Development, Jobs, Transport and Resources, *Response to the Committee's 2017-18 Budget Estimates General Questionnaire*, received 5 May 2017, p.80; Court Services Victoria, *Response to the Committee's 2017-18 Budget Estimates General Questionnaire*, received 17 May 2017, p.28

799 Department of Education and Training, *Response to the Committee's 2017-18 Budget Estimates General Questionnaire*, received 3 May 2017, p.56

The Committee considers that while departments and agencies are autonomous bodies, the allocation and guidelines for the use of publicly funded mobile devices by Victorian public sector employees should be controlled and managed in a similar way across agencies. It is unclear why there is a lack of standardisation or commonality of the parameters established for the allocation and use of mobile devices across the Victorian public sector. Such standardisation is supported by the Victorian Government's *Workplace Environment Statement of Direction for the Victorian Public Service* (also referred to in Section 11.3.4 of this chapter).

FINDING 143: The parameters for the allocation and use of mobile devices by Victorian public sector employees lack standardisation, despite the Victorian Government's *Workplace Environment Statement of Direction for the Victorian Public Service*.

11.4.3 Verification of mobile phone usage and costs

Departments indicated that, in general, line managers receive monthly statements which detail mobile calls and data usage for staff within their area of responsibility. Each month, individual staff are requested to review their usage and check the accuracy of invoices, in some cases identifying any personal usage.

The controls implemented to review the usage of mobile telecommunications varied across departments and agencies. Examples of the controls used include:

- usage exceeding an agreed monthly benchmark triggers an email to the manager
- unsubmitted monthly mobile statements are automatically escalated for follow-up by the relevant financial delegate
- emails to users with consistently high data usage with the request to review usage and ensure it is for work purposes only.

The Department of Treasury and Finance advised that as a result of ongoing reviews of usage patterns and trial programs, a significant majority of its mobile phones have been moved to fixed price unlimited calls plans which include 1GB of data per plan. This data is then pooled together for all mobile users to share and access. The Department advised that usage and expenditure of remaining mobile plans are monitored to assess whether they remain appropriate, and 'the move to fixed price unlimited plans for most mobile users negates for most the need to verify usage'.[800]

The Department of Premier and Cabinet also advised that new phone plans negotiated as part of the TPAMS2025 agreement provide 'unlimited' calls within Australia which will reduce costs and the need for individuals to review and differentiate between personal and work-related calls.

800 Department of Treasury and Finance, *Response to the Committee's 2017-18 Budget Estimates General Questionnaire*, received 8 May 2017, p.35

The Committee also notes the advice from the Department of Treasury and Finance and the Department of Premier and Cabinet that new mobile phone plans offering 'unlimited calls' will negate the need for staff to verify the purposes of their calls between business and personal, thereby reducing administrative overheads related to managing mobile phones.

However, it is the Committee's view that departments will still need to be vigilant in monitoring the use of data via mobile devices as an important component of cost control. There is also a risk that the availability of 'unlimited calls' to users of publicly funded devices could result in a lax attitude to the use of devices which should be applied for work purposes only and not treated as personal property.

FINDING 144: In most cases, individual employees in receipt of a department-funded mobile phone are responsible for validating their own usage, together with some processes for review by their direct manager.

RECOMMENDATION 30: The Department of Premier and Cabinet work with departments and public sector entities, including the Metropolitan and Fire Emergency Service Board, to standardise the policies and guidelines governing the allocation and acceptable use of mobile devices and data, in line with the *Government's Workplace Environment Statement of Direction for the Victorian Public Service*. The policies and guidelines would include the purchase of approved devices, allocation, usage, international roaming rules, security, monitoring and compliance arrangements.

The policies and guidelines should ensure that:

- mobile devices are only allocated to staff where a reasonable requirement exists to support their provision
- staff are required to formally acknowledge and agree to the prescribed terms and conditions of use for mobile devices and data.

11.5 Identifying cost savings in telecommunications

Pressure on agency operating budgets means that agencies need to be vigilant about monitoring administrative costs in an effort to minimise waste and achieve savings.

The 2017-18 Budget announced significant new investments in infrastructure and initiatives to address family violence. To enable this additional investment, the Treasurer stated that 'public sector departments will deliver efficiencies and savings in areas of administration, procurement, communications, consultancies and staffing'.[801] Total whole-of-government efficiencies to be found in 2017-18 are estimated to be $196.6 million growing to $296.3 million the following year.[802]

801 Department of Treasury and Finance, *Budget Paper No.3: 2017-18 Service Delivery* (2017), p.114

802 ibid.

While no specific savings or efficiency targets have been established by the Government in relation to telecommunications, the onus is on departments and agencies to identify areas where savings can be achieved.

In the 2013 audit, the Auditor-General reported that agency analysis of telecommunications expenditure and usage can provide valuable insight to actions necessary to minimise waste and maximise value for money. Essentially achieving savings in telecommunications expenditures comes down to three key areas of activity of controlling costs, reducing waste and accessing the best price.

The previous sections provided some discussion on controlling costs through the use of management oversight and internal control systems and procedures. The following sections discuss accessing the best pricing arrangements on offer and identifying areas of waste or inefficiency in purchased services.

11.5.1 Accessing the best price on offer

Victorian Government Telecommunications Purchasing Management Strategy

In 2004, the Victorian Government, through the Department of Premier and Cabinet, executed contracts for the Telecommunications Purchasing Management Strategy (TPAMS) comprising carriage service agreements with approved providers. The objective of these agreements is to provide the best value to public sector agencies for various categories of telecommunications services.

In the 2013 audit report, the Auditor-General found delays in accessing improved rates and services available through these whole-of-government contracts.[803] The Auditor-General recommended that public sector agencies ensure prompt adoption of variations to the whole-of-government agreements to optimise savings.[804]

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The Committee notes that in 2017, these whole-of-government contracts were re-negotiated by the Victorian Government. The new purchasing arrangement, known as TPAMS2025, covers five areas. These are:

- data services
- voice services
- mobile services
- internet services
- unified communications services.[805]

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803 Victorian Auditor-General's Office, *Managing Telecommunications Usage and Expenditure* (2013), pp.x-xi

804 ibid., p.29

805 Victorian Government Purchasing Board, *Telecommunications (TPAMS2025) Services* (2017)

The data services contract will have an initial term of four years from 1 February 2017 and the remaining contracts will all operate for an initial term of three years each. Each area has at least two available suppliers for agencies to evaluate and agencies can have customer contracts with more than one supplier in each service tower if they choose.

The Government estimates that the five new contracts under the TPAMS2025 will save $34 million per annum compared with the 2004 TPAMS contract arrangements.[806]

While the previous contracts were non-mandatory, the new contracts for data, voice, mobile and internet services are compulsory for all agencies mandated by the Victorian Government Purchasing Board (VGPB).[807]

The contract for unified communications services is a new category under the TPAMS2025 which includes audio, web and video conferencing services and is aimed at making communications for those public servants working in regional and rural areas more cost effective and more efficient. This contract is not mandatory.

The telecommunications state purchase contracts provide opportunities for agencies to leverage the most economic plans based on their individual usage of various telecommunications services and to take prompt action on any improved rates offered by service providers via these contracts.

FINDING 145: In 2017 the Victorian Government, through the Department of Premier and Cabinet, renegotiated whole-of-government contracts for a range of telecommunications categories. The *Telecommunications Purchasing Management Strategy 2025* (TPAMS2025), is expected to save $34 million per annum compared with the 2004 TPAMS contract.

The Committee sought information from departments about the extent to which they utilise and capture savings available through the TPAMS state purchase arrangements and their plans for reviewing service offerings under TPAMS2025.

806 Premier of Victoria, *New Tech Contract Saves Victorian Taxpayers* (Media release, 31 January 2017)

807 These agencies include all government departments, the Victorian Public Sector Commission, VicRoads, Public Transport Victoria and offices and bodies specified in Section 16(1) of the *Public Administration Act (2004)*.

Most departments and agencies advised that they were currently in the process of reviewing their telecommunications services in the light of the new contract arrangements with many stating that they were looking forward to realising savings possible under the new TPAMS2025 in future years.[808] The Department of Education and Training advised that:

> … the opportunity for a quantum leap in services, especially in centralised data and internet services provided to schools, is expected to be achievable with considerably less budget supplementation that would otherwise be required if this whole-of-Victorian-government arrangement were not available.[809]

The Committee considers that it would be worthwhile for departments and agencies to record the savings and benefits achieved through the new TPAMS2025 contract arrangements and for the Department of Premier and Cabinet or the Victorian Government Purchasing Board to monitor and report on the cost savings achieved across the Victorian public sector. Such information would assist in verifying whether savings estimates are realised and evaluating the productivity improvements provided to the Victorian public sector through the new whole-of-government contract arrangements.

11.5.2 Reviews undertaken by agencies to identify potential savings in data services

The Auditor-General found that data usage is a major component of mobile service expenditure.[810] Therefore, controlling data costs is generally the main focus for departments managing their expenditure on mobile services.

Internal control processes which flag high or excessive data usage, were discussed in Section 11.4.3. A number of departments also indicated that reviews of mobile data usage are undertaken to assess the appropriateness of the data plans purchased for staff and identify any potential savings through changes to service arrangements. For example, the Department of Justice and Regulation advised that it aims to purchase mobile data in the most cost-effective way and service aggregation is a primary strategy wherever possible. The Department states that:

> As of the last reporting period, the department has 3,492 mobile data services (standard business usage). Of these, 3,374 are on the lowest cost data plan available.[811]

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808 Department of Justice and Regulation, *Response to the Committee's 2017-18 Budget Estimates General Questionnaire*, received 8 May 2017, p.84; Department of Premier and Cabinet, *Response to the Committee's 2017-18 Budget Estimates General Questionnaire*, received 9 May 2017, pp.26-8; Department of Environment, Land, Water and Planning, *Response to the Committee's 2017-18 Budget Estimates General Questionnaire*, received 8 May 2017, pp.33-4; Department of Environment, Land, Water and Planning, *Response to the Committee's 2017-18 Budget Estimates Entity Specific Questionnaire*, received 17 July 2017; Department of Treasury and Finance, *Response to the Committee's 2017-18 Budget Estimates General Questionnaire*, received 8 May 2017, p.36; Department of Justice and Regulation, *Response to the Committee's 2017-18 Budget Estimates Entity-Specific Questionnaire*, received 19 July 2017; Department of Economic Development, Jobs, Transport and Resources, *Response to the Committee's 2017-18 Budget Estimates General Questionnaire*, received 5 May 2017, p.80; Court Services Victoria, *Response to the Committee's 2017-18 Budget Estimates General Questionnaire*, received 17 May 2017, p.29

809 Department of Education and Training, *Response to the Committee's 2017-18 Budget Estimates General Questionnaire*, received 3 May 2017, p.57

810 Victorian Auditor-General's Office, *Managing Telecommunications Usage and Expenditure* (2013), p.19

811 Department of Justice and Regulation, *Response to the Committee's 2017-18 Budget Estimates General Questionnaire*, received 8 May 2017, p.88

The Department of Health and Human Services advised that all data services are on one account 'with a medium data plan' which means that aggregated data can be shared. Data usage is monitored every month to ensure the Department does not reach its allowable threshold. The Department advised that audits are conducted to identify any services with no data usage. These services are reviewed and cancelled where appropriate.[812]

FINDING 146: A number of departments indicated that regularly monitoring data usage and ensuring the most appropriate data plans are purchased is the key to effective control of mobile telecommunications costs and identification of potential cost savings.

11.5.3 Identifying waste in redundant services

The Auditor-General recommended that public sector agencies monitor fixed voice and mobile usage and cancel any unused services.[813] The Committee requested departments provide information about the processes in place to enable the identification and cancellation of any fixed voice and/or mobile services which were not being fully utilised.

A number of departments indicated that regular reviews[814] and audit checks of services are undertaken to identify underutilised services with the aim of minimising waste.

The Country Fire Authority was the only agency to indicate that it needed to retain some 'redundant capability' and explained that as an emergency agency, some additional services will be only utilised during an emergency for the use of an Incident Control Centre or Local Command Facility.[815]

A number of departments indicated reliance on local managers to identify surplus fixed voice lines including the Department of Education and Training, the Department of Environment, Land, Water and Planning and the Department of Economic Development, Jobs, Transport and Resources.[816]

The Committee considers that the identification and decommissioning of excess or surplus telecommunications services should be undertaken regularly and where excess services are identified these should be decommissioned as soon as possible to realise cost savings. In a delegated environment, departments and

812 Department of Health and Human Services, *Response to the Committee's 2017-18 Budget Estimates General Questionnaire*, received 11 May 2017, p.77

813 Victorian Auditor-General's Office, *Managing Telecommunications Usage and Expenditure* (2013), p.42

814 These reviews include nil data usage reviews to identify mobile services with nil data recorded, multiline trunk utilisation reviews to identify surplus or insufficient digital trunk line allocation, extensions not making billable calls to flag extensions for review of requirement and billing accuracy, and enterprise level usage reports to identify underutilised services.

815 Department of Justice and Regulation, *Response to the Committee's 2017-18 Budget Estimates General Questionnaire*, received 8 May 2017, p.90

816 Department of Education and Training, *Response to the Committee's 2017-18 Budget Estimates General Questionnaire*, received 3 May 2017, p.58; Department of Environment, Land, Water and Planning, *Response to the Committee's 2017-18 Budget Estimates General Questionnaire*, received 8 May 2017, p.34; Department of Economic Development, Jobs, Transport and Resources, *Response to the Committee's 2017-18 Budget Estimates General Questionnaire*, received 5 May 2017, pp.79-80

agencies must ensure that line managers responsible for telecommunications expenditure are adequately trained in the use of tools available to effectively monitor usage and minimise waste in telecommunications resources.

A number of departments identified 'on-boarding' and 'off-boarding' systems to flag changes in line requirements. The Department of Treasury and Finance advised that it has linked the 'Government Identity Provisioning System (GIPS)' to the process for removal of redundant phone services. Thus when an employee is 'off-boarded in GIPS', telecommunications and business unit staff are notified. Any services linked to the user identity are either, cancelled or re-allocated, to another staff member.[817]

The Department of Environment, Land, Water and Planning advised that reviews are periodically undertaken to identify inactive services. The Department advised the most recent review was initiated in late 2016 and is currently progressing with outcomes to be actioned by the end of the 2016-17 financial year.[818] The Department also advised that it also has an on-boarding and off-boarding process triggered by human resourcing movements, which adjust fixed voice and mobile services accordingly.[819]

FINDING 147: A number of departments noted the use of administrative systems, such as human resource systems, to link to the provision, reallocation or decommissioning of telecommunications services. Many departments rely on local cost centre or business unit managers to identify surplus fixed voice lines.

11.5.4 Updates in technology to improve economy and efficiency

The Committee notes that telecommunications is subject to developments in technology which can improve service performance and reduce costs. The Committee requested departments provide advice on actions taken to replace inefficient analogue fixed line technology with more up to date infrastructure.

Many departments noted that fixed voice analogue lines had already been replaced or were being replaced with more modern and more cost-effective technology systems such as integrated services digital network (ISDN). Victoria Police advised that its Telecommunications Services Unit had undertaken an organisation-wide review of inefficient analogue systems with the following outcome:

> To date, 1,082 analogue (public switched telephone network or PSTN) services have been cancelled and replaced with ISDN services. This has resulted in a 52 per cent cost reduction from the annual cost of the analogue lines, to an annual costs savings of $461,000.[820]

817 Department of Treasury and Finance, *Response to the Committee's 2017-18 Budget Estimates General Questionnaire*, received 8 May 2017, p.37

818 Department of Environment, Land, Water and Planning, *Response to the Committee's 2017-18 Budget Estimates General Questionnaire*, received 8 May 2017, p.32

819 ibid. p.34

820 Department of Justice and Regulation, *Response to the Committee's 2017-18 Budget Estimates General Questionnaire*, received 8 May 2017, p.90

A number of departments noted that they were investigating the use of VoIP (Voice over Internet Protocol) technology. The Country Fire Authority indicated that the majority of its high volume sites utilise this technology. While not possible in all areas, the Country Fire Authority is planning to undertake a 'wholesale review' of these types of connections over the 2017-18 year.[821] Other examples noted by the Committee are set out in Appendix A4.1.

FINDING 148: A number of departments had implemented, or were investigating the implementation of, Voice over Internet Protocol (VoIP) technology or other technology solutions, to achieve cost savings and improve the performance of their telecommunications arrangements.

11.5.5 Savings targets established and savings recorded

The Committee requested information from departments about savings targets established for telecommunications expenditure, including the quantification of any savings achieved over the last three years.

The Committee found that Victoria Police, the Metropolitan Fire and Emergency Services Board and the Department of Education and Training set savings targets. Most departments however do not set savings targets for telecommunications expenditure but look to achieve efficiencies through revised pricing arrangements wherever possible.

The Department of Justice and Regulation and Victoria Police were the only organisations able to provide figures of quantified savings in telecommunications in recent years. The Department of Justice and Regulation advised that it recorded and reported all savings achieved through audit activities and adoption of new technologies or price offerings. The Department advised savings in telecommunications expenditure from 2013-14 to March 2017 totalled approximately $1.5 million.

Victoria Police advised the Committee that the agency had realised a saving of $461,000 in the annual cost of its analogue lines by optimising the existing Integrated Services Digital Network (ISDN) and decommissioning 1,082 analogue exchange lines across the organisation.[822]

Victoria Police advised that each financial year, the Police Procurement Board (PPB) develops a 'Category Plan' for communications which provides a detailed breakdown of expenditure and includes savings methodology and targets for the following financial year. The Committee was advised that, over past years, the Communications Category Plans have highlighted reductions through the application of savings methodologies and market testing.[823]

821 ibid.
822 ibid., p.83
823 ibid., p.89

The Department of Education and Training and the Melbourne Fire and Emergency Services Board advised that either modest savings targets had been established or targets for no net increases had been established.

Some of the responses suggest that departments and agencies have difficulties achieving cost savings in telecommunications due to increasing demand for mobile communications and data, and expansion in the size of their organisations. For example, the Department of Education and Training advised that modest savings had been established at the corporate level for 2017-18. However, taking the whole of the Department into account, together with the growth in student numbers and support services, significant pressure has been placed on the provision of telecommunications services.[824] The Department advised:

> The opportunities afforded through telecommunications product and pricing improvements have allowed, to-date, demand to be addressed without requiring significant budget supplementation.
>
> Product and pricing improvements in the Data Services agreement have allowed DET, within a flat budget environment, to deliver multiple bandwidth initiatives over the past ten years.[825]

Victoria Police also indicated that the most recent Communications Category Plan developed by the Police Procurement Board notes an increase in organisational demand due to increased staffing and a greater reliance on telecommunications.[826]

The Department of Health and Human Services stated that while savings targets for telecommunications are not established, in general the department has been able to achieve a better deal on mobile costs although there has been an increase in data demand and data thresholds. The Department advised that increased demand across the department for mobile services through iPhones, iPads, Ultrabooks and modems has seen expenditure on mobile services continue to rise while fixed line charges have decreased.[827]

The Department of Parliamentary Services indicated that savings targets were not possible due to the variation in usage between departmental staff, electorate offices and members.

FINDING 149: Most departments do not set savings targets for telecommunications expenditure but look to achieve efficiencies through revised pricing arrangements wherever possible.

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824 Department of Education and Training, *Response to the Committee's 2017-18 Budget Estimates General Questionnaire*, received 3 May 2017, p.58

825 ibid.

826 Department of Justice and Regulation, *Response to the Committee's 2017-18 Budget Estimates General Questionnaire*, received 8 May 2017, p.89

827 Department of Health and Human Services, *Response to the Committee's 2017-18 Budget Estimates General Questionnaire*, received 11 May 2017, p.78

FINDING 150: The Department of Justice and Regulation and Victoria Police were the only organisations able to quantify recent savings in telecommunications. The Department of Justice and Regulation advised of total savings in telecommunications expenditure from 2013-14 to March 2017 of approximately $1.5 million. While Victoria Police saved $461,000 in telecommunications expenditure in the last three years.

FINDING 151: Some departments and agencies advised of difficulties in achieving cost savings in telecommunications due to increasing demand for mobile communications and data, and an expansion in the size of their organisations.

RECOMMENDATION 31: In relation to cost savings in telecommunications, the Committee recommends that:

(a) departments and agencies establish savings targets across specific areas of telecommunications categories and/or within various parts of the organisation and record savings achieved through the application of new technologies and the re-negotiation of telecommunication service arrangements.

(b) the Department of Premier and Cabinet monitor and report on the savings and benefits achieved by departments and agencies accessing telecommunications services through the state purchase contracts negotiated under the Victorian Government Telecommunications Purchasing Management Strategy 2025 in its annual report.

12 Environmental Contribution Levy

Key Findings

- The Department indicated that the 2016-17 and 2017-18 Budgets allocate Environmental Contribution Levy funding for projects delivered through *Water for Victoria*. The 2016-17 budget papers did not identify which projects were Environmental Contribution Levy funded. In the 2017-18 budget papers projects totalling approximately $116 million were earmarked as Environmental Contribution Levy funded.
- The Department of Environment, Land, Water and Planning has clarified its interpretation of the Environmental Contribution Levy objectives and established a methodology to select and prioritise projects in response to the Auditor-General's recommendations.
- The Environmental Contribution Levy rate is expected to remain at five per cent of revenue for urban water corporations and two per cent of revenue for rural water corporations until the end of tranche 4 (2019-20).
- The Auditor-General estimated that the annual cost of the levy for water users in Victoria was forecast to be $45 in 2014. Revenue collected through the levy is expected to increase by over 30 per cent between the end of the third and fourth tranche so the Committee estimates that the levy for water users could be expected to increase to $60 annually.
- The information provided in the Department's annual reports (2014-15 and 2015-16) does not fulfil the Auditor-General's recommendations on public reporting of the activities funded by the Environmental Contribution Levy.
- The Department has established a sound evaluation framework to assess the effectiveness of projects over the next three years, as part of tranche 4 of the Environmental Contribution Levy. An evaluation framework assessing the effectiveness of the Environmental Contribution Levy was not established prior to the implementation of tranches 1-3.

12.1 Introduction

The Environmental Contribution Levy (ECL) was established in 2004 as part of a reform agenda designed 'to safeguard and support sustainable management of Victoria's water resources'.[829]

This reform came as a response to water consumption that was considered unsustainable in the early 2000s.[830] In addition, the prolonged period of dry conditions known as the Millennium Drought (1996 to mid-2010) severely affected water reserves and cropping zones.[831] The Government of the time also claimed that there were insufficient funds to develop more sustainable water regimes and tackle overuse.[832]

The 2004 amendment to the *Water Industry Act 1994* states that contributions paid to the ECL are collected to fund initiatives that seek to:

- promote the sustainable management of water; or
- address adverse water-related environmental impacts.[833]

The ECL is collected from water corporations based on their revenue. It is calculated on five per cent of the total revenue for urban water corporations and two per cent for rural water corporations. Water corporations pass on the cost of the ECL to water customers through their bills.[834] Overall the ECL was established to encourage more efficient water use and operate as a funding mechanism to improve water management and reduce the environmental impact of overuse.[835]

Funds collected from the ECL are held by the Department of Treasury and Finance in consolidated revenue and then allocated to the Department of Environment, Land, Water and Planning[836] for specific projects as part of the annual budget process.[837] The Department is responsible for:

- providing advice to the government on the rate of the levy and projects proposed for funding
- overseeing the delivery of ECL-funded initiatives that are approved by government

829 Victorian Auditor-General's Office, *Administration and Effectiveness of the Environmental Contribution Levy* (2014), p.1

830 Aither, *10-year evaluation of the Environment Contribution* (2015), p.4

831 Bureau of Meteorology, Commonwealth Government, *Recent Rainfall, Drought and Southern Australia's Long-term Rainfall Decline* (2015), viewed 19 July 2017. Available at <www.bom.gov.au/climate/updates/articles/a010-southern-rainfall-decline.shtml>

832 Aither, *10-year evaluation of the Environment Contribution* (2015), p.4

833 *Water Industry (Environmental Contributions) Act 2004*, s.194

834 Aither, *10-year evaluation of the Environment Contribution* (2015), p.27

835 ibid., p.4

836 Formerly the Department of Sustainability and Environment (DSE) and the Department of Environment and Primary Industries (DEPI)

837 Victorian Auditor-General's Office, *Administration and Effectiveness of the Environmental Contribution Levy* (2014), p.ix

- annually reporting details of the levy's expenditure
- undertaking a review of the ECL at the end of each tranche.[838]

12.1.1 The 2014 Auditor-General's report on the Environmental Contribution levy

The Auditor-General conducted an audit in June 2014 to determine the effectiveness of the Department's administration of the ECL and the funding of its initiatives, including the Department's arrangements in relation to project selection and implementation. Further, the Auditor-General's report examined the extent to which the Department has reviewed, evaluated and reported on the ECL.[839]

The Auditor-General stated that 'the establishment of the levy was part of a progressive – and continuing – move towards full recovery for water planning and management activities of the National Water Initiative ... [its objective] was to achieve a nationally compatible market, regulatory and planning system to manage surface and groundwater resources for rural and urban use and optimise economic, social and environmental benefits'.[840]

However, the Auditor-General raised some concerns as to whether the Department had optimised the use of the ECL funds. The Auditor-General stated:

> Increasingly, it appears that the ECL has been used to fund a disparate range of projects and what might be perceived to be core business of government, including administrative costs and salaries, rather than specific initiatives designed to achieve the objectives of the Act ...
>
> While the projects and initiatives that have been funded through the levy appear to have been managed soundly and achieved a range of environmental benefits, it is not clear whether the projects and initiatives that have been funded are the ones that maximise the achievement of the ECL's objectives. This is because the Department of Environment and Primary Industries (DEPI) has not applied a clear and consistent framework for selecting and prioritising the initiatives to be funded.[841]

Since its implementation, the ECL was expected to collect revenue and fund projects over four tranches.[842] At the time of the Auditor-General's report, it was estimated that the first three tranches would have collected around $912 million of revenue, with expenditure of $536 million and have funded 99 projects.[843]

The revenue and expenses for each tranche of the ECL is shown in Figure 12.1. A detailed break-down of these figures is provided in Table 12.2 later in this chapter.

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838 ibid.

839 ibid., p.x

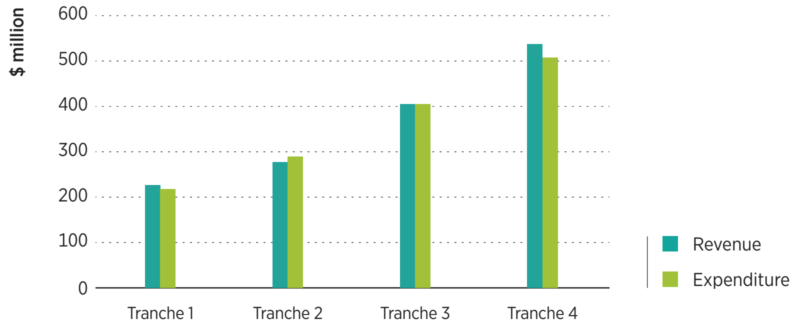
840 ibid., p.1

841 ibid., p.vii

842 These were: tranche 1 from 2004-05 to 2007-08; tranche 2 from 2008-09 to 2011-12; tranche 3 from 2012-13 to 2015-16; and tranche 4 from 2016-17 to 2019-20.

843 Victorian Auditor-General's Office, *Administration and Effectiveness of the Environmental Contribution Levy* (2014), p.3

Figure 12.1 Environmental Contribution Levy, total revenue and expenses



Source: Department of Environment, Land, Water and Planning, *Response to the Committee's 2017-18 Budget Estimates Entity-specific Questionnaire*, received 17 July 2017, p.5

This chapter examines the actions taken by the Department of Environment, Land, Water and Planning in response to the recommendations made by the Auditor-General.

12.2 The Victorian Auditor-General's report

The focus of the audit was on the Department's management of the levy and its initiatives since its establishment in 2004.

The audit objectives were defined by the Auditor-General as the extent to which:

- [the Department's] role in the administration and governance of the ECL is effective
- initiatives funded by the levy have achieved their intended outcomes
- there is sufficient transparency around the administration and achievements of the ECL and the initiatives funded.[844]

12.2.1 Audit findings, recommendations and their implementation

Environmental Contribution Levy project selection and implementation

As stated in Section 12.1, projects funded by the ECL must meet the *Water Industry Act 1994* objectives to promote the sustainable management of water or address adverse water-related environmental impacts.

In the June 2014 audit, the Auditor-General found that it was not always clear whether the ECL projects funded met the ECL's objectives stated in the legislation[845] and noted that there was evidence that 'at times, there have been differing views across government about what constitutes appropriate use of ECL funding'.[846]

844 ibid., p.4

845 ibid. pp.x, 5

846 ibid.

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In relation to the project's selection process, the Auditor-General noted that the process was not adequately documented and that the Department had neither established criteria nor guidelines to select and prioritise projects to be funded.[847]

The Auditor-General acknowledged that ECL projects were subject to the Department's project management processes, 'which have generally improved over time'.[848]

In response to these findings, the Auditor-General made one recommendation:

> That as a priority the Department of Environment and Primary Industries establishes guidelines to inform the selection and prioritisation of initiatives funded under the Environmental Contribution Levy. These should include:
>
> - an interpretation of the scope and intent of the levy's two objectives under the *Water Industry Act 1994*
> - criteria to assist in selection and prioritisation of projects and/or initiatives to be put forward for future Environmental Contribution Levy budget bids
> - a requirement that decisions made under these guidelines are clearly documented and include the rationale for each decision.
>
> These should be in place before any further funds are approved.[849]

The Department indicated it supported the recommendation and that it would commit to:

- establishing a definition and criteria around the Environmental Contribution Levy legislative objectives related to sustainable management of water and addressing adverse environmental impacts
- preparing a set of guidelines and process steps for ranking priorities of proposals against set criteria
- documenting decisions including a rationale for each decision.[850]

The Department also indicated that these actions would be implemented by September 2014 as part of the preparation of the 2015-16 Budget.[851]

Actions implemented to date

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The Committee requested information from the Department on how the policy objectives of the ECL have been clarified and tightened since the Auditor-General's audit in June 2014. Furthermore, the Committee also inquired about the definition of the ECL's specific objectives.

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847 ibid.

848 ibid.

849 ibid., p.14

850 ibid., p.32

851 ibid.

The Department advised that the ECL's policy objectives had been tightened through:

- clarifying the purpose, intent and objectives of the EC [Environment Contribution] in the legislation
- development of a renewed strategic policy platform through Water for Victoria.[852]

The Department indicated that, in accordance with the Auditor-General's recommendation, it has put in place an internal Environmental Contribution Definition Statement, which provides more specific guidance on the ECL's legislative objectives.[853] Further, according to the Department, this statement has been used internally for the Department's planning, prioritisation and selection of ECL proposals put to the Government as part of the budgetary process.[854]

The Department also informed the Committee that proposals that form part of the ECL funding 'must demonstrate their alignment with the objectives and their merit against a set of standardised investment criteria' before these are presented for Government consideration towards the budgetary process.[855]

As part of its response to the Committee's inquiries, the Department provided a copy of the Environmental Contribution Definition Statement and the endorsed definition of the ECL's legislative objectives.[856]

In relation to 'promoting the sustainable management of water', the Department indicated that it seeks to promote:

- improved understanding of Victoria's water systems[857] to inform their effective management in the long-term
- efficient and effective use of Victoria's water systems, to better manage within the known limits of the resource
- the long-term resilience and security of Victoria's water systems.[858]

Regarding the objective '[to] address adverse water-related environmental impacts', the Department specified that it intends to 'remediate or offset':

852 Department of Environment, Land, Water and Planning, *Response to the Committee's 2017-18 Budget General Estimates Questionnaire*, received 8 May 2017, p.38

853 Department of Environment, Land, Water and Planning, *Response to the Committee's 2017-18 Budget Estimates General Questionnaire*, received 8 May 2017, p.38; Department of Environment, Land, Water and Planning, *Response to the Committee's 2017-18 Budget Estimates Entity-specific Questionnaire*, received 17 July 2017, p.3

854 Department of Environment, Land, Water and Planning, *Response to the Committee's 2017-18 Budget Estimates General Questionnaire*, received 8 May 2017, p.38

855 ibid.

856 Department of Environment, Land, Water and Planning, *Response to the Committee's 2017-18 Budget Estimates Entity-specific Questionnaire*, received 17 July 2017, p.3

857 The Department specified that water systems refer to 'the interrelated elements and processes that are part of whole natural and artificial water cycles and can be demonstrated to have a determinant influence on water resources and their environmental condition, quality, demand, supply, and use. (See Department of Environment, Land, Water and Planning, *Response to the Committee's 2017-18 Budget Estimates General Questionnaire*, received 8 May 2017, p.38)

858 Department of Environment, Land, Water and Planning, *Response to the Committee's 2017-18 Budget Estimates General Questionnaire*, received 8 May 2017, p.38

- adverse impacts on water-related environments arising from water extraction and associated infrastructure
- processes that adversely impact on the health of water-related environments.[859]

Water for Victoria plan

The Government released *Water for Victoria* in October 2016. This water plan was presented as 'a framework to guide smarter water management, bolster the water grid and support more liveable Victorian communities'.[860]

At the public hearings, the Minister for Water further explained the rationale behind the water plan to the Committee:

> … we put in place the water plan in order to deal with some real challenges. The reality being that we are going to have more people, less water because of climate change and greater demand for that water. So what did we need to do to be able to tackle that and position Victoria to continue to have a strong economy, strong agricultural industry and a healthy community. That is really the focus of the water plan.[861]

According to the Government, the fourth tranche of the ECL would support the delivery of *Water for Victoria* with funding of $537 million over four years for projects related to water services delivery, including the expansion of the water grid, the modernisation of existing water infrastructure and the improvement of water delivery efficiency across regions.[862]

The Committee also asked the Department how the *Water for Victoria* plan informs ECL projects and the relationship between the plan and the ECL's projects and strategic priorities. The Department advised that *Water for Victoria* provides 'the strategic platform and priorities for delivering and implementing the EC [Environmental Contribution]'[863] and that the ECL legislative objectives provide the basis for the preparation, planning and suitability of funding proposals.[864] In addition, the Department explained that the projects presented as part of the fourth tranche followed the strategic planning and consultation process designed for *Water for Victoria*.[865]

Further, the Department indicated that the 2016-17 and 2017-18 Budgets allocate ECL funding for projects delivered through *Water for Victoria*.[866] The 2016-17 budget papers did not identify which projects were ECL funded.

In the 2017-18 budget papers projects totalling approximately $116 million were earmarked as ECL funded, as set out in Table 12.1.

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859 ibid.

860 Victorian Government, *Water for Victoria: A Blueprint for The Future* (Media release), 19 October 2016

861 Hon. Lisa Neville MP, Minister for Water, *2017-18 Budget Estimates Transcript of Evidence*, 1 June 2017, p.2

862 Victorian Government, *Water For Victoria: Water Plan* (2016), p.12

863 Department of Environment, Land, Water and Planning, *Response to the Committee's 2017-18 Budget Estimates General Questionnaire*, received 8 May 2017, p.39

864 ibid.

865 ibid.

866 ibid.

Table 12.1 **Environmental Contribution Levy funded initiatives, 2017-18 Budget**

	2017-18 ($ million)	2018-19 ($ million)	2019-20 ($ million)	2020-21 ($ million)	Total 4-year cost ($ million)
Protecting the Yarra River and Other Environmental Assets in Melbourne[(a)]	3.6	2.3	0.4	0.4	**6.7**
The Victorian Government's Contribution to the Murray-Darling Basin Authority	5.2	-	-	-	**5.2**
Water for Victoria – Climate Change	1.8	1.9	2.1	-	**5.8**
Water for Victoria – Develop a Rural Drainage Strategy	0.3	0.5	0.3	-	**1.1**
Water for Victoria – Entitlements and Planning	16.8	17.7	17.9	-	**52.4**
Water for Victoria – Promote Innovation through the Cooperative Research Centre for Water Sensitive Cities	0.5	0.5	0.5	-	**1.5**
Water for Victoria – Protecting Ramsar Wetlands	1.0	0.5	0.5	-	**2.0**
Water for Victoria – Recognising Recreational Values	1.5	1.1	0.9	-	**3.5**
Water for Victoria – Resilient and Liveable Cities and Towns	4.0	4.6	3.8	-	**12.4**
Water for Victoria – Water Grid and Markets	4.7	4.5	4.7	-	**13.9**
Non-potable Irrigation Water for Melbourne Gardens[(b)]	0.5	0.8	2.3	-	**3.6**
Recycled Irrigation Water for Cranbourne Gardens[(b)]	1.2	4.0	3.0	-	**8.2**

(a) Partially funded by the ECL

(b) Asset initiative

Source: Department of Treasury and Finance, *Budget Paper No.3: 2016-17 Service Delivery* (2017), pp. 65-6, 71-4, 76-7

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FINDING 152: The Department indicated that the 2016-17 and 2017-18 budgets allocate Environmental Contribution Levy funding for projects delivered through *Water for Victoria*. The 2016-17 budget papers did not identify which projects were Environmental Contribution Levy funded. In the 2017-18 budget papers projects totalling approximately $116 million were earmarked as Environmental Contribution Levy funded.

Selection criteria for projects

The Committee queried if the Department undertakes a cost-benefit analysis of proposed projects. The Department explained that, 'as part of the State Budget process, all proposals must adhere to DTF business case requirements, which includes demonstrating strong value for money and return on investment'.[867]

Further, the Department indicated that, to address concerns raised by the Auditor-General, it has a methodology in place to select and prioritise ECL funded projects.[868] As part of the initial planning (that is, before it is put to consideration for the budget process), this includes:

- the alignment of the proposed investment with the EC's legislative objectives, which incorporates an assessment of the strength of this alignment (strong, moderate or weak)
- a scoresheet comparing each proposal's rationale against 'a set of defined standardised broader investment criteria used to prioritise investments',[869] in line with the Department of Treasury and Finance's business case requirements[870]
- approval of the documentation by the Executive Director responsible for each proposal
- review and agreement by the broader Water and Catchments Executive team, 'with agreed prioritisation determined prior to development of business cases for the State Budget process'.[871]

The Committee also enquired if there was any relationship between the area or region where the ECL is levied and the projects funded in those particular areas. The Department explained that:

> … given that many environmental issues are the legacy of historical conditions, it may not be appropriate for users in a particular area to pay for all the damage caused by previous generations. In addition, given the population variation across the state, levying the EC according to the costs for individual areas could result in unacceptable price impacts for some regional water users.[872]

Overall, the Committee notes that the Department has improved the definition of the ECL's objectives and has provided evidence that a process for ranking proposals against selection criteria and documenting those decisions has been established.

867 ibid. p.40

868 Department of Environment, Land, Water and Planning, *Response to the Committee's 2017-18 Budget Estimates Entity-specific Questionnaire*, received 17 July 2017, p.4

869 ibid.

870 The Department indicated that this includes: alignment with state-endorsed policy commitments; a response to a problem that is clearly defined; demonstrated public benefit and need; demonstrated value for money; feasibility of implementation; and capacity to effect transformational and enduring outcomes and improvements in water system management. (Department of Environment, Land, Water and Planning, *Response to the Committee's 2017-18 Budget Estimates Entity-specific Questionnaire*, received 17 July 2017, p.4)

871 Department of Environment, Land, Water and Planning, *Response to the Committee's 2017-18 Budget Estimates Entity-specific Questionnaire*, received 17 July 2017, p.4

872 Department of Environment, Land, Water and Planning, *Response to the Committee's 2017-18 Budget Estimates General Questionnaire*, received 8 May 2017, p.41

FINDING 153: The Department of Environment, Land, Water and Planning has clarified its interpretation of the Environmental Contribution Levy objectives and established a methodology to select and prioritise projects in response to the Auditor-General's recommendations.

12.2.2 Environmental Contribution Levy review, evaluation and reporting

The Auditor-General noted that the reviews undertaken by the Department at the end of each tranche did not assess the effectiveness of the levy.[873] This means that the Department had not established a formal evaluation framework to determine the impact of the ECL. According to the Auditor-General:

> Although the department has complied with the legislative requirement to undertake end of tranche reviews, these have not addressed the question of whether the ECL has been effectively administered or whether it is still the best tool to fund water-related projects and initiatives.[874]

The Auditor-General found that no significant changes were undertaken as a result of the reviews at the end of each tranche.[875] Further, the audit noted that the absence of an evaluation framework 'has meant that evaluations for ECL projects have been patchy and of variable quality, ranging from comprehensive and rigorous to poor and deficient'.[876] Additionally, it was found that, in tranche 2, only 11 of the 27 projects underwent an evaluation.[877]

The Auditor-General's report also noted that the ECL rate has not changed since its implementation in 2014 in tranche 1 (that is, five per cent of revenue for urban water corporations and two per cent of revenue for rural water corporations).[878] However, it was also noted that the Department did not provide a rationale to justify the ECL rate for tranche 3. According to the Auditor-General, the advice and justification provided to the Government by the Department for tranche 3 projects 'did not articulate the policy needs and associated costing to justify the quantum of levy revenue'.[879]

In response to these findings, the Auditor-General made two recommendations to the Department. The first of these was:

> That the Department of Environment and Primary Industries documents the strategic priorities and cost of addressing water policy needs to inform the determination of the total revenue that the Environmental Contribution Levy is being used to recover.[880]

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873 Victorian Auditor-General's Office, *Administration and Effectiveness of the Environmental Contribution Levy* (2014), p.15

874 ibid., p.16

875 ibid., p.17

876 ibid., p.19

877 ibid.

878 ibid., p.18

879 ibid.

880 ibid., p.22

The Department indicated that it supported the recommendation and that it committed 'to develop a framework for consideration by government to improve and systematise the linkage between the Environmental Contribution Levy and the Water and Natural Resources group's strategic objectives, policy drivers and priority directions with analysis of the level of investment needed to address these'.[881] The Department further stated that 'a draft framework will be prepared with adequate timing to allow government to consider the continuation of the Environmental Contribution Levy for a fourth tranche'.[882]

The second recommendation made by the Auditor-General in relation to the evaluation of the ECL was:

> That the Department of Environment and Primary Industries:
>
> - develops an evaluation framework for the Environmental Contribution Levy that measures the effectiveness of both the levy and the projects and/or initiatives it has funded
> - evaluates the effectiveness of the Environmental Contribution Levy as part of each end of tranche review
> - undertakes an evaluation of the overall effectiveness of the Environmental Contribution Levy over the past 10 years
> - reports the outcomes of this work publicly.[883]

The Department also supported this recommendation and committed 'to develop an evaluation framework and progress steps to measure the effectiveness of the levy and individual initiatives funded by it. The framework will include a more systematic and consistent approach to each end of tranche review process, and will include a whole of program review of the effectiveness of the ECL'.[884]

In relation to public reporting and informing the community on the need and use of the ECL, the Auditor-General noted that the Department 'has provided minimal ECL project details in its annual reports'.[885]

The audit indicated that the Department has only met the basic reporting requirements by including project names and their associated expenditure as part of an appendix in its annual report.[886] The Auditor-General noted that 'this approach provides neither the community nor Parliament with any meaningful information about what exactly the money is used for, how it achieves legislative objectives and the outcomes of the funded initiatives'.[887]

The Auditor-General highlighted the importance of public reporting as an important feature to promote transparency and accountability. Therefore, the Auditor-General made the following recommendation:

881 ibid., p.xii
882 ibid., p.xii
883 ibid., p.22
884 ibid., p.xiii
885 ibid., p.20
886 ibid.
887 ibid.

> That as a priority the Department of Environment and Primary Industries enhances public reporting of the Environmental Contribution Levy in annual reports and other mechanisms. This should clearly describe the purpose, benefits and achievements of the Environmental Contribution Levy and its funded projects and/or initiatives.[888]

The Department supported this recommendation and committed to:

> … providing enhanced public reporting on Environmental Contribution Levy-funded projects, including descriptions of the purpose, benefits, progress and achievements for each project, in addition to the information that it is required to publish on Environmental Contribution Levy expenditure to meet the requirements of the Water Industry Act 1994. This information will be published through Annual Reports and other mechanisms such as the Department of Environment and Primary Industries' website and will be available when the Annual Report is published. This will align with the 2013-14 annual reporting time line. The Department of Environment and Primary Industries will commence this format of reporting from 2013-14 onwards.[889]

12.2.3 Actions implemented to date

Environmental Contribution Levy rate

As discussed earlier, at the time of the Auditor-General's report it was expected that the ECL, during its first three tranches, had funded 99 projects and collected approximately $912 million of revenue.

As part of this inquiry, the Committee requested an update of the ECL rates, revenue collected, funds spent and committed (see Table 12.2). The overlap in years between tranches is as a result of ECL funded initiatives released in past budgets not necessarily being in line with the ECL tranches time period. Further, there can be changes including delays to completion dates, which might result in expenditure from one year to another being carried over.

Table 12.2 Environmental Contribution Levy, revenue and expenditure, 2004-05 to 2019-20[(a)]

	Revenue ($ million)	Expenditure ($ million)
TRANCHE 1		
2004-05	44.6	44.6
2005-06	60.2	48.6
2006-07	60.2	44.1
2007-08	61.5	69.9
2008-09	-	10.2
Tranche 1 total	**226.5**	**217.4**

888 ibid., p.22

889 ibid., p.xiii

	Revenue ($ million)	Expenditure ($ million)
TRANCHE 2		
2007-08	-	60.9
2008-09	69.4	68.9
2009-10	69.4	68.2
2010-11	69.4	47.0
2011-12	69.4	41.9
2012-13	-	2.2
Tranche 2 total	**277.6**	**289.1**
TRANCHE 3		
2012-13	69.4	29.6
2013-14	112.0	68.7
2014-15	111.9	99.8
2015-16	112.0	129.8
2016-17	-	44.7
2017-18	-	21.2
2018-19	-	9.4
2019-20	-	2.3
Tranche 3 total	**405.3**	**405.5**
TRANCHE 4		
2016-17	112.0	112.0
2017-18	112.0	145.1
2018-19	156.6	134.5
2019-20	156.6	116.4
Tranche 4 total[(b)]	**537.2**	**508.0**
UNALLOCATED TRANCHE 4		
2018-19	-	14.6
2019-20	-	14.6
Total unallocated Tranche 4	**-**	**29.2**

(a) Figures from 2004-05 are actuals, while figures from 2016-17 to 2019-20 are estimates.

(b) *Water for Victoria* has committed $537.1 million to deliver (with $508.0 million allocated to initiatives so far).

Sources: Department of Environment, Land, Water and Planning, *Response to the Committee's 2017-18 Budget Estimates Entity-specific Questionnaire*, received 17 July 2017, p.5; Department of Environment, Land, Water and Planning, *Response to the Committee's 2017-18 Budget Estimates General Questionnaire*, received 8 May 2017, pp.39-40

The Committee notes that the information provided by the Department is consistent with the information found by the Auditor-General in his report.[890]

890 ibid., p.3

It is also noted that the Department, despite the Auditor-General's observation regarding the absence of an adequate economic justification of the ECL rate, does not expect to change the levy rate.

As part of their response to the Committee, the Department indicated that the ECL rate is a result of settings achieved by 'a public consultation through *Our Water Our Future* process on the community's willingness to pay for investment in more sustainable water management'.[891] The Department explained that the Government has reviewed these settings at the beginning of each tranche (that is, every four years), including 'the rates, revenue base and applicable revenue classes, and likely customer impact'.[892] However the findings have not been made public.

When asked if the Department has considered incorporating the ECL as a separate line item on customers' invoices as a way of improving transparency, the Department explained that it would not be appropriate because the ECL is charged based on water entities' revenue and not on a customer basis. The Department further stated that:

> … the cost for any particular authority is spread across their revenue base as a whole rather than attributed to individual customers. While an average cost can be estimated by assuming an average consumer and a range of assumptions, it is not possible to attribute an amount to a particular bill. Transparency on the EC is provided by publicly gazetting the ministerial order that establishes revenue collection, public dissemination through water corporation annual reports and the Essential Services Commission's price review process, reporting to the Australian Competition and Consumer Commission (ACCC), and through DELWP's website and annual reports.[893]

The Auditor-General estimated that the annual cost of the levy for water users in Victoria would to be $45 in 2014.[894] Revenue collected through the levy is expected to increase by over 30 per cent between the end of the third and fourth tranche so the Committee estimates that the levy for water users could be expected to increase to $60 annually.

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The Committee is aware that the ECL is charged on the basis of water entities' revenue. However, the impact of the levy on individual customers is calculated by the Department of Environment, Land, Water and Planning. The transparency of the levy to water consumers would be enhanced with its inclusion on customer water bills as a separate item.

FINDING 154: The Environmental Contribution Levy rate is expected to remain at five per cent of revenue for urban water corporations and two per cent of revenue for rural water corporations until the end of tranche 4 (2019-20).

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891 Department of Environment, Land, Water and Planning, *Response to the Committee's 2017-18 Budget Estimates General Questionnaire*, received 8 May 2017, p.40

892 ibid.

893 ibid., p.42

894 Victorian Auditor-General's Office, *Administration and Effectiveness of the Environmental Contribution Levy* (2014), p.2

FINDING 155: The Auditor-General estimated that the annual cost of the levy for water users in Victoria would be $45 in 2014. Revenue collected through the levy is expected to increase by over 30 per cent between the end of the third and fourth tranche so the Committee estimates that the levy for water users could be expected to increase to $60 annually.

RECOMMENDATION 32: The Department of Environment, Land, Water and Planning make the findings from the review undertaken at the beginning of Environmental Contribution Levy tranche 4 of including the rates, revenue base and applicable revenue classes, and likely customer impact publicly available.

RECOMMENDATION 33: The cost of the Environmental Contribution Levy to customers be itemised in water bills.

Public reporting

Following the Auditor-General's recommendation, the Committee queried how the Department has improved transparency and public reporting in relation to the ECL revenues collected, projects funded and outcomes achieved.

In response, the Department explained that it publishes information on the ECL website and additionally in the Department's annual report. The Department further indicated that 'this information includes broad information on the Environmental Contribution and information on the expenditure, progress, benefits and achievements of EC [Environmental Contribution] initiatives'.[895]

Additionally, the Department has referred to the ECL's 10-year evaluation report undertaken by the consultant Aither.[896]

The Committee considers that, in terms of public reporting, the document produced by the firm Aither fulfils in part the recommendation made by the Auditor-General. However, the information contained in the Department's annual report is minimal and does not provide specific information on the achievements made through ECL projects. In the Department's *2014-15 Annual Report*, there was no specific mention of the ECL, while the *2015-16 Annual Report* only provides information regarding the ECL's expenditure by output.

Further, the information contained in the Department's website can also be improved by providing information on the expected and actual outcomes for each initiative including environmental outcomes.

FINDING 156: The information provided in the Department's annual reports (2014-15 and 2015-16) does not fulfil the Auditor-General's recommendations on public reporting of the activities funded by the Environmental Contribution Levy.

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895 Department of Environment, Land, Water and Planning, *Response to the Committee's 2017-18 Budget Estimates General Questionnaire*, received 8 May 2017, p.41

896 Aither, *10-Year Evaluation of the Environmental Contribution* (2015)

RECOMMENDATION 34: The Department of Environment, Land, Water and Planning, as part of its annual report, incorporate a section providing details on the activities undertaken, revenue collected, expenditure made, the projects funded and outcomes, including environmental outcomes, achieved during the year through Environmental Contribution Levy funded projects.

RECOMMENDATION 35: The Department of Environment, Land, Water and Planning publish on its website detailed information on the expected and actual outcomes for each of the Environmental Contribution Levy initiatives.

Project Office

The Department advised the Committee that, in addition to existing departmental controls, a Project Office was established in 2016 'to implement stronger governance, monitoring and reporting of the fourth tranche of EC funding and the delivery of *Water for Victoria*'.[897]

This Project Office consists of a team of two staff members, located within the Water and Catchments area of the Department, and provides support, reporting and advice to a formal Environmental Contribution Project Control Board that has been established.

According to the Department, meetings between the Project Office and the Board are held bi-monthly, 'and provide an additional forum to the ongoing oversight and management of delivery of EC initiatives through DELWP's existing reporting structures'.[898]

Evaluation framework

Following up on the implementation of the Auditor-General's recommendation, the Committee queried the Department as to any actions it has taken to develop a monitoring, evaluation and reporting framework for the management of the ECL.

In response, the Department indicated that it has developed an evaluation framework that requires all initiatives to:

- outline a program logic outlining the goals, end of program and intermediate outcomes, outputs and activities for each; and
- an evaluation plan setting out what questions will need to be addressed to demonstrate the impacts, effectiveness, legacy, efficiency and appropriateness of the initiative.[899]

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897 Department of Environment, Land, Water and Planning, *Response to the Committee's 2017-18 Budget Estimates Entity-specific Questionnaire*, received 17 July 2017, p.6

898 ibid.

899 Department of Environment, Land, Water and Planning, *Response to the Committee's 2017-18 Budget Estimates General Questionnaire*, received 8 May 2017, p.41

The Department provided the Committee with a copy of the evaluation framework, indicating that this guidance 'aims to establish a consistent basis on which the effectiveness of the fourth tranche of the EC can be evaluated over the next three years … The framework requires the completion of evaluation plans to cover all EC investment'.[900]

Further, the Department indicated that:

> All plans are required to be approved and monitored by the Environmental Contribution Project Control Board.
>
> Since these standards were established, work has focussed on continuing to implement and improve the framework and DELWP is currently conducting a quality review of evaluation plans and the framework as a whole for the fourth tranche, using external evaluation expertise, to ensure that plans are consistent, reasonable and robust, and to ensure that the framework as a whole is robust.[901]

The Committee reviewed the evaluation framework provided by the Department and considers it meets better-practice standards for accurately assessing the planning, delivery and reporting of ECL-funded initiatives.

FINDING 157: The Department has established a sound evaluation framework to assess the effectiveness of projects over the next three years, as part of tranche 4 of the Environmental Contribution Levy. An evaluation framework assessing the effectiveness of the Environmental Contribution Levy was not established prior to the implementation of tranches 1-3.

This report was adopted by the Public Accounts and Estimates Committee at its meeting held on 16 October 2017 at Parliament of Victoria, 55 St Andrew's Place, East Melbourne.

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900 Department of Environment, Land, Water and Planning, *Response to the Committee's 2017-18 Budget Estimates Entity-specific Questionnaire*, received 17 July 2017, p.4

901 ibid., p.5

Appendix 1
Key aspects of the 2017-18 Budget

A1.1 Key components of the 2017-18 Budget for the general government sector, growth over revised estimates for 2017-18

	2016-17 revised estimate ($ million)	2017-18 Budget ($ million)	Growth ($ million)	Growth (per cent)
REVENUE				
State-sourced	33,458.9	34,400.8	941.9	2.8
Commonwealth grants	27,251.7	29,003.9	1,752.2	6.4
Total revenue	**60,710.6**	**63,404.7**	**2,694.1**	**4.4**
EXPENSES				
Output expenses	59,366.7	62,251.7	2,885.0	4.9
CASH RESOURCES				
Operating surplus	1,343.9	1,153.0	-190.9	-14.2
Depreciation and similar[(a)]	2,300.3	2,448.3	148.0	6.4
Returns from investments in other sectors (net)	679.6	2,347.8	1,668.2	245.5
Asset sales	392.1	502.6	110.5	28.2
Increase in net debt	-4,184.5[(b)]	5,672.9	9,857.4	-235.6
ANNUAL ASSET INVESTMENT				
Direct investment	7,834.2	8,780.0	945.8	12.1
PPP and other investment	2,576.5	4,196.6	1,620.1	62.9
Government infrastructure investment[(c)]	9,339.0	10,126.1	787.1	8.4

(a) Difference between the net cash flows from operating activities from the cash flow statement and the net operating surplus from the operating statement.

(b) A negative number indicates that net debt decreased for the year.

(c) Government infrastructure investment is the sum of direct investment and PPP and other investment less returns from investments in other sectors and asset sales.

Sources: Committee calculations based on: Department of Treasury and Finance, *Consolidated Comprehensive Operating Statement – General Government Sector* (2017); Department of Treasury and Finance, *Net Infrastructure Investment* (2017); Department of Treasury and Finance, *Consolidated Cash Flow Statement – General Government Sector* (2017); Department of Treasury and Finance, *Consolidated Balance Sheet – General Government Sector* (2017); Department of Treasury and Finance, *Budget Paper No.5: 2017-18 Statement of Finances* (2017), p.22

Appendix 2
Revenue

A2

A2.1 Letter from the Auditor-General to Chair, Public Accounts and Estimates Committee

VAGO

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29 August 2017

Mr Danny Pearson
Chair
Public Accounts and Estimates Committee
Parliament House
Spring Street
East Melbourne VIC 3002

File No: 017/850

Dear Mr Pearson

Transport Accident Commission (TAC) dividends and grants in the 2017-18 Budget

I refer to your letter dated 23 August 2017 requesting clarification as to:

- why a dividend payment by TAC was not possible under Financial Reporting Direction 119A and accounting standard AASB 1023
- financial circumstances particular to the TAC that make the dividend payment unfeasible.

The budget treatment through to 2019-20 is based on a precedent established during the 2015-16 audit of the TAC, whereby a repayment of capital of $78 million—requested by the Treasurer In accordance with section 29A of the *Transport Accident Act 1986*—was recognised in their Comprehensive Income Statement as an expense (page 28 of the TAC 2015-16 Annual Report refers). This repayment was in addition to interim and final dividend payments disclosed in their Statement of Changes in Equity.

The particular financial circumstances that led to this treatment were that TAC had:

- already incurred a current year loss before the capital repayment was taken into account
- carried forward accumulated deficits from the previous year which were increased by the current year loss
- no contributed capital or other equity from which to draw.

The current year operating loss precluded the payment of a further dividend by TAC because the established dividend policy of the State sets dividends at 50 per cent of net profit after tax. All other public financial corporations that paid dividends generated a profit that year.

FRD 119A, paragraph 9.1 provides that where there is insufficient contributed capital the balance must be recognised as an expense. The accumulated losses meant that there was no operating surplus which could be converted into contributed capital.

The 2017-18 to 2019-20 budget estimates reflect a similar accounting treatment as that adopted in 2015-16. The actual treatments in the forward estimates will depend on decisions taken about capital transfers and whether TAC generates sufficient operating surpluses to be able to convert these into contributed capital.

A2

The main purposes of the accounting standard AASB 1023 *General Insurance Contracts* are to specify the manner of accounting for general insurance contracts and certain aspects of accounting for the assets backing general insurance liabilities. It is relevant in the context of this issue only to the extent that it determines how the annual accounting profit is determined, from which a dividend can be paid. This standard will be replaced by AASB 17 *Insurance Contracts* from 2021-22. We have yet to analyse the impact of this new standard but it may affect how future accounting profits are determined.

Please contact [redacted] on [redacted] at [redacted] if you wish to discuss this further.

Yours sincerely

Andrew Greaves
Auditor-General

Appendix 3
Asset investment

A3.1 Selected financial information, water entities, 2015-16

	Total revenue ($ million)	Net purchases of non-financial assets[(a)] ($ million)	Payments for infrastructure, property, plant and equipment[(b)] ($ million)	Depreciation on infrastructure[(c)] ($ million)
Melbourne Water Corporation	1,871.6	357.7	388.9	274.7
Yarra Valley Water Corporation	1,019.0	252.3	247.1	68.5
South East Water Corporation	1,038.9	153.4	155.1	72.4
Goulburn Murray Rural Water Corporation	259.6	132.3	132.6	64.7
City West Water Corporation	670.1	82.5	82.9	33.1
Barwon Region Water Corporation	218.0	79.3	81.0	59.8
Lower Murray Water	68.4	65.6	67.3	26.3
Central Gippsland Regional Water Corporation	142.2	50.3[(d)]	52.3	32.7
Coliban Region Water Corporation	134.4	43.2	46.3	25.6
Western Region Water Corporation	101.9	31.8	30.9	16.2
Goulburn Valley Region Water Corporation	82.0	24.1	25.0	22.8
Grampians - Wimmera Mallee Water Corporation	67.0	21.0	22.9	30.1
Central Highlands Region Water Corporation	99.5	17.9	15.2	17.3
Wannon Water	77.0	16.7	17.2	17.8
North East Water	65.7	15.7	15.6	18.6
Southern Rural Water	34.3	12.9	13.6	10.2
East Gippsland Water	32.2	7.5	7.3	9.3
South Gippsland Water	29.0	7.0	8.2	7.7
Westernport Water	21.2	4.3	4.7	5.0
Total water sector	**6,032.2**	**1,375.4**	**1,414.0**	**812.9**

A3

	Total revenue ($ million)	Net purchases of non-financial assets(a) ($ million)	Payments for infrastructure, property, plant and equipment(b) ($ million)	Depreciation on infrastructure(c) ($ million)
Other PNFC entities(e)	4,340.8	742.6	-	-
Total PNFC sector(f)	**10,373**	**2,118**	**-**	**-**

(a) Known in annual reports as 'net cash outflow from investing activities' or similar.

(b) Some entities have included payments for intangible assets such as software in this figure.

(c) This is reported in annual reports as depreciation on a number of asset types, and entities are able to choose the specific types of asset.

(d) Includes a $0.8 million offset for 'proceeds from investments'.

(e) Calculated by elimination.

(f) Reported to the nearest million in the *2015-16 Financial Report.*

Sources: Entity Annual Reports 2015-16; Department of Treasury and Finance, *2015-16 Financial Report* (2016), pp.136, 140

Appendix 4
Managing telecommunications usage and expenditure

A4

A4.1 Agencies uptake of changes in technology to improve economy and efficiency

- The Department of Education and Training advised that its corporate-CBD based fixed voice services are predominantly analogue PABX (Private Automatic Branch Exchange) lines and regional offices currently operate under local procurement arrangements for fixed voice services. A number of regional offices have transitioned from legacy PABX to the VoIP offering available through the VOTS (Victorian Office Telephony Service).[902] The Department states that it is piloting an 'enterprise voice solution' based on Microsoft Skype for Business (VoIP technology) with the intention of moving away from analogue services to a 'standardised contemporary digital telephony solution' across Corporate CBD and regional offices.[903] The anticipated benefits of this technology are improved productivity through new features of the technology; cost avoidance through accommodation changes; enhanced mobility/interface features for staff; and leverages in the Department's IT investment in infrastructure.[904]
- The Department for Health and Human Services advised that its ISDN lines are validated when upgrading legacy sites to VoIP solutions.[905]
- The Department of Environment, Land, Water and Planning advised that VoIP phones are being deployed to replace analogue lines as sites are refurbished.[906] The Department anticipates internal communication costs will be reduced although savings are yet to be quantified. The refurbishment of CBD sites is expected to be carried out in 2017-18 with remaining services migrated by June 2019. [907]
- The Department of Treasury and Finance advised that the Department has a small number of analogue lines which are used for conference call devices and fax machines. Recent changes to the network mean that the

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902 Department of Education and Training, *Response to the Committee's 2016-17 Budget Estimates General Questionnaire*, received 3 May 2017, p.54

903 ibid., p.58

904 Department of Education and Training, *Response to the Committee's 2016-17 Budget Estimates Entity-specific Questionnaire*, (Question 8), received 12 July 2017

905 Department of Health and Human Services, *Response to the Committee's 2016-17 Budget Estimates General Questionnaire*, received 11 May 2017, p.78

906 Department of Environment, Land, Water and Planning, *Response to the Committee's 2016-17 Budget Estimates General Questionnaire*, received 8 May 2017, p.34

907 Department of Environment, Land, Water and Planning, *Response to the Committee's 2016-17 Budget Estimates Entity-specific Questionnaire*, (Question 7), received 17 July 2017

Department is trialling a VoIP conference phone. Also, as the number of fax machines are reduced across the Department the corresponding analogue lines are removed.[908]

- The Department of Economic Development, Jobs, Transport and Resources advised that it is currently in the process of replacing all CBD based analogue and digital PABX infrastructure with a VoIP telephony system. In addition, a project has commenced to assess the feasibility of extending VoIP telephony functionality to a number of key regional locations depending on anticipated savings.[909]
- The Department of Parliamentary Services advised that internal VoIP was implemented across all electorate offices and the parliament precinct in 2012-13. The use of SIP (Session Initiation Protocol) is currently being explored as part of VoIP communications to improve cost effectiveness and efficiencies in maintaining line information despite changes in office location.[910]

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908 Department of Treasury and Finance, *Response to the Committee's 2016-17 Budget Estimates General Questionnaire*, received 8 May 2017, p.37

909 Department of Economic Development, Jobs, Transport and Resources, *Response to the Committee's 2016-17 Budget Estimates General Questionnaire*, received 5 May 2017, p.81

910 Department of Parliamentary Services, *Response to the Committee's 2016-17 Budget Estimates Entity-pecific Questionnaire*, (Question 4), received 12 July 2017

Extract of proceedings

The Committee divided on the following questions during consideration of this report. Questions agreed to without division are not recorded in these extracts.

Committee Meeting – 16 October 2017

That the Draft Final Report (Chapters 1 to 12, and 4 Appendices), as amended be the final report of the Committee and that it be tabled on 31 October 2017.

Moved: Danny Pearson MP

The Committee divided.

Ayes 4	Noes 2
Danny Pearson MP	David Morris MP
Vicki Ward MP	Danny O'Brien MP
Steve Dimopoulos MP	
Sue Pennicuik MLC	

Resolved in the affirmative.