

# DTF Response to the PAEC 2017-18 Budget Estimates Specific Questionnaire

## 1. PPPs and Finance leases

Please disaggregate the \$647 million figure given in Table 4.5 of Budget Paper No.2, p.59 for finance leases for 2017-18 into components for:

- a. Ravenhall Prison
- b. New Bendigo Hospital project Stage 2
- c. New Schools PPP project Stage 2
- d. Other (if applicable)

The finance lease figure in table 4.5 consists of Ravenhall Prison (\$477 million), Bendigo Hospital Stage 2 (\$18 million) and New Schools PPP Stage 2 (\$152 million).

## 2. Victorian Managed Insurance Authority

With respect to the Victorian Managed Insurance Authority's learning and development strategy:

- a. Please provide the Committee with a copy of this document.

A copy of VMIA's Client Education Strategy 2016-17 is attached.

- b. What role does DTF's review of agencies' compliance with the Victorian Government Risk Management Framework have in the evolution of the VMIA learning and development strategy?

The strategy was developed based on inputs from clients and VMIA staff. VMIA staff inputs came from their experience of agencies' alignment with the VGRMF amongst other things.

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- c. DTF have advised the Committee that 'DTF will monitor information on agency compliance risks provided by each portfolio department'. What information does the DTF monitor in order to review agencies' compliance with the Victorian Government Risk Management Framework?

DTF will undertake whole of government analysis of the portfolio department reports received (and in future public attestations) to identify trends and treatment strategies for material compliance matters across government. This information will form the basis of a report to the Minister for Finance as required under the Standing Directions of the Minister for Finance. As part of this role, respective policy areas across DTF will continue to deal with specific material compliance issues as they arise.

- d. Does DTF check or verify agencies' compliance with the Victorian Government Risk Management Framework apart from reviewing compliance attestations provided in agencies' annual reports?

DTF does not check or verify agencies' attestations in agencies' annual reports regarding compliance with the Victorian Government Risk Management Framework. DTF focuses on identifying trends and treatment strategies for whole of government approach to risk management in collaboration with the VMIA.

VMIA launched Risk Maturity Assessment (RMA) Online on 27 June 2017. RMA Online:

- Assesses how well current risk management practices are working for agencies.
- Provides a confidence level which indicates how well the agency's risk management framework is aligned against the Victorian Government Risk Management Framework.
- VMIA encourage agencies to use RMA Online as part of their continuous improvement cycle and to support efforts to meet the mandatory requirements of the Victorian Government Risk Management Framework.

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### 3. General government sector (GGS) net debt

Projections for general government sector net debt have been increased in comparison to estimates in the 2016-17 Budget, with estimates for the common years 2017-18, 2018-19 and 2019-20 all rising as a proportion of GSP.<sup>1</sup>

- a) What level of net debt (as a proportion of GSP) would be problematic for the State?

As outlined in Budget Paper No. 2, one of the Government's key financial targets is to ensure that net debt as a percentage of GSP is maintained at a sustainable level over the medium term. Under these settings, net debt peaks at 6.0% of GSP in 2020-21 and both Standard & Poor's and Moody's have confirmed that State's AAA credit rating at that level.

- b) What proportion of GGS net debt would be attributable to Public Private Partnerships for 2017-18 and over the forward estimates period?

Consistent with the Victorian public sector governance model, individual Public Private Partnerships (PPP) projects are contracted and managed by each department and/or agency that has entered into a PPP arrangement. The relevant departments and agencies maintain the detailed records of these arrangements, but provide summary information to DTF for the purposes of consolidated financial reporting by the Government. This process is consistent with the relevant Australian accounting standards and related reporting practices and requirements.

As a result of the current consolidated financial reporting process, finance lease information collected for consolidated financial reporting purposes is not split between PPPs and non-PPPs. Thus an estimation of the specific proportion of the 'Net Debt' relating to PPPs is not available.

For the contribution of new PPPs to increases in net debt over the budget and forward estimates, Table 4.5 of Budget Paper No. 2 (page 59) contains the impact of new PPP finance leases to the changes in net debt for the General Government Sector. An extract of this table is below.

**Table 4.5: Application of cash resources for the general government sector (Extract)**

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
	actual	revised	budget	estimate	estimate	estimate
Finance leases (\$ million)	1 050	517	647	415	312	964

<sup>1</sup> Department of Treasury and Finance, *Budget Paper No.2: 2017-18 Strategy and Outlook* (2017), p.22; c.f. Department of Treasury and Finance, *Budget Paper No.2: 2016-17 Strategy and Outlook* (2016), p.13  
**Unofficial**

In addition, the table below shows the total commitments for all PPP projects for the general Government Sector as at the end of June 2016 (page 69 of the 2015-16 AFR):

<i>Finance lease liabilities payable</i>	<i>General government sector</i>	
	<i>2016</i>	<i>2015</i>
Less than 1 year	476	871
1 year but less than 5 years	2 103	3 477
5 years or more	17 627	15 427
<b>Minimum lease payments</b>	<b>20 206</b>	<b>19 775</b>
Future finance charges	11 197	11 717
<b>Total finance lease liabilities</b>	<b>9 009</b>	<b>8 059</b>

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#### 4. Money held centrally for major events

The cost for the Department of Economic Development, Jobs, Transport and Resources output 'Tourism, Major Events and International Education' output is under-estimated as funds are 'held centrally until contractual arrangements are finalised'.<sup>2</sup>

- a) Funding for which major events is being held centrally and not reported in the 2017-18 budget papers?

Funding for eight announced events is being held centrally in 2017-18.

The announced events include:

- Superbike World Championship;
- The House of Dior: Seventy Years of Haute Couture;
- Rugby League Events Package;
- Fast5 Netball World Series;
- Nitro Athletics;
- Australian Open Tennis;
- Gymnastics Individual Apparatus World Cup Series; and
- Volvo Ocean Race Melbourne Stopover.

- b) How much funding is being held centrally for these events?

State funding support for individual major events is not disclosed publically as this is commercial-in-confidence information.

- c) The budget for Tourism, Major Events and International Education is given in the budget papers as \$142.9 million.<sup>3</sup> Including funds held centrally, what is the anticipated expenditure for the output?

This information is not available to DTF. It would need to be requested from DEDJTR.

- d) What is the purpose of this practice?

The practice ensures that funding is only provided to DEDJTR for events approved by Government and where offers of support have been accepted by the promoters of events.

<sup>2</sup> Department of Treasury and Finance, *Budget Paper No.3: 2017-18 Service Delivery* (2017), p.138

<sup>3</sup> Department of Treasury and Finance, *Budget Paper No.3: 2017-18 Service Delivery* (2017), p.138

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## 5. Commercial and Infrastructure Advice output

The funding for the *Commercial and Infrastructure Advice* output has been increased in the 2017-18 Budget to \$70.9 million, 47.1 per cent greater than the 2016-17 Budget figure of \$48.2 million and 'includes additional funding for the *West Gate Tunnel* and *Asset Reform* projects'.<sup>4</sup> Please provide further information regarding the *West Gate Tunnel* and *Asset Reform* projects, including a funding breakdown of each of these for 2017-18 and across the forward estimates period.

### West Gate Tunnel Project

The West Gate Tunnel Project (Project) is being procured by the Victorian Government in partnership with Transurban as an economic public private partnership (PPP). Transurban is anticipated to design, build, operate and take traffic demand risk on the new toll road under a concession arrangement.

The Project is a Transurban market-led proposal, which is currently being assessed under the Government's Market-led Proposals Guideline (the Guideline) to ensure the procurement approach delivers value for money to Victorians.

Transurban's proposal will continue to be evaluated under the Guideline until the project achieves contract close (representing Stage Five under the Guideline). This is anticipated to occur in December 2017.

In the 2017-18 Budget Papers, the West Gate Tunnel project has a budget of \$21.6 million in 2017-18 financial year only. The budget is to be used for professional services.

### Asset Reform Projects

The Government announced in the 2017-18 Budget that it will commission a scoping study to examine options to better commercialise land titles and registry functions within Land Use Victoria. The Treasurer has also reiterated the need for the State to periodically review its Balance Sheet and opportunities to recycle assets for reinvestment in productive infrastructure.

The Asset Reform project has a budget of \$3.4 million in the 2017-18 financial year only to fund employee expenses and supplies and services.

<sup>4</sup> Department of Treasury and Finance, *Budget Paper No.3: Service Delivery* (2017), p.322

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## 6. Dividends

The Department's guidance states that, when negotiating dividends, the Department will consider a number of financial aspects of the GBEs in addition to the State's budget position.<sup>5</sup> In the recent negotiations for dividends, please indicate: how much weight was placed on the financial performance of the GBEs and how much was placed on the State's budgetary position?

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.

## 7. Dividends from the Transport Accident Commission

In the 2016-17 Budget the TAC was forecast to pay \$1.1 billion in dividends between 2017-18 and 2019-20.<sup>6</sup> These figures are revised to zero in the 2017-18 Budget. What is the rationale for this downward revision?

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*).

<sup>5</sup> Department of Treasury and Finance, *Corporate Planning and Performance Reporting Requirements: Government Business Enterprises* (2009), p.13

<sup>6</sup> Department of Treasury and Finance, *Budget Paper No.5: 2016-17 Statement of Finances* (2016), p.26

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## 8. Asset Recycling Initiative

- a) Could a non-payment cause a delay to the *Regional Rail Revival* package?<sup>7</sup>

The Commonwealth advised the Victorian Government on 26 June 2017 that it would provide \$1.42 billion towards projects identified in the Government's Regional Rail Revival package.

- b) Do the financial statements include (as a contingency) an estimate of funds that were expected to be received from the Commonwealth under the Asset Recycling Scheme following the lease of the Port of Melbourne's operations?

Under the National Partnership Agreement on Asset Recycling, Victoria was entitled to a \$1.5 billion payment from the Commonwealth to invest in priority infrastructure. The 2017-18 Budget includes an estimate of the expected payment based on the latest formal correspondence at the time from the Commonwealth on this issue, amounting to \$877 million.

## 9. Property tax

The 2017-18 budget papers forecasts property taxes will result in \$9.8 billion of revenue in 2017-18, an increase of 2.4 per cent from 2016-17, with about 63 per cent (\$6.2 billion) of that coming from land transfer duties.<sup>8</sup>

- a) Does this forecast take into account any property-related measures imposed or yet to be imposed by the Federal Government and financial regulators?

In preparing the 2017-18 Budget, DTF considered recent policy developments by financial regulators. The macroprudential regulatory measures implemented by APRA and the risk these impose on land transfer duty from investor purchases of property are discussed in Box 4.2 of Budget Paper 5 (2017-18 Budget Paper No. 5, 2017, pp.153-154). Federal Budget measures, such as the foreign owner vacancy tax, changes to allowed rental business deductions and the First Home Super Savers Scheme, announced after the 2017-18 State Budget release were not directly included, but are unlikely to have a material effect on the estimates.

<sup>7</sup> Department of Treasury and Finance, *Budget Paper No.3: 2017-18 Service Delivery* (2017), p.42

<sup>8</sup> Department of Treasury and Finance, *Budget Paper No.5: 2017-18 Statement of Finances* (2017), p.150



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- b) What contingencies are in place in the event of any economic change or property market 'correction' that results in a drop in land transfer duties?

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 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. Box 4.1 of Budget Paper 5 outlines the consideration given to these factors and their contribution to DTF's conservative, below-trend forecast (2017-18 Budget Paper No. 5, 2017, pp. 151-152).

## 10. Off the plan (i.e. new property) stamp duty concessions

- a) Can the Department please describe the modelling and assumptions behind the numbers given in the budget papers for reducing or ceasing off-the-plan stamp duty concessions?

The revenue impact was estimated based on actual off-the-plan stamp duty concession claims, and other stamp duty data. The investor/principal place of residence/first home buyer splits are based on the current split of buyers who claim these stamp duty concessions as well as the off-the-plan stamp duty concession. The cost estimates over the forward estimates period are indexed to expected growth in the property market and historical contract-settlement lag periods.

- b) Has the Department made an estimate of how many sales of properties are made to owners who will live in the new home (thus attract the OTP concession) but who also own other properties?

Privacy provisions in the Tax Administration Act prevent DTF from accessing information that identify specific buyers. Therefore, we cannot track which other properties a certain buyer owns.

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## 11. First home buyer stamp duty abolition

The revenue foregone initiative *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* is expected to reduce revenue by \$851.0 million over the next four years.<sup>9</sup> What is the Department's estimate of the effect the first home buyer stamp duty abolition will have on property prices?

A range of macroeconomic factors drive house prices and land transfer duty revenues. The 2017-18 Budget particularly noted the impact of the low interest rate environment and strong population growth supporting the property market. The Victorian Government's housing strategy, *Homes for Victorians*, 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. 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.

## 12. Vacant residential property tax

The budget papers include a new 1 per cent tax on vacant residential properties.<sup>10</sup>

- a) Will this result in additional land sales with absentee landowners selling untenanted land? If so, how many sales does the Treasury expect?

The Vacant Residential Property Tax is intended to encourage these owners to make their property available for purchase or rent, allowing Melbourne's current housing stock to be used as efficiently as possible.

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.

The tax is designed to encourage owners to make their property available to the rental or sale market, thereby avoiding the tax.

While the overall *Homes for Victorians* package of tax and grant initiatives will be broadly revenue neutral, revenue estimates for initiatives such as this do not take into account the behavioural change that may occur as a result of the tax – this is standard tax policy costings practice. However, in reality, as more property owners are incentivised by the tax to put their properties on the market, this may result in increased land sales and may reduce the expected revenue generated from the Vacant Residential Property Tax.

<sup>9</sup> Department of Treasury and Finance, *Budget Paper No.3: 2017-18 Service Delivery* (2017), p.111

<sup>10</sup> Department of Treasury and Finance, *Budget Paper No.3: 2017-18 Service Delivery* (2017), pp.111, 113

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b) Has the Treasury estimated the effect this will have on house prices and affordability?

Refer to response to Question 11.

c) How will this tax interact with the *Absentee Landowner Surcharge* that was introduced in the 2016-17 Budget?<sup>11</sup>

The Absentee Landowner Surcharge applies as a surcharge based on the total taxable value of Victorian land owned. The surcharge applies to individuals who:

1. are not an Australian citizen or permanent resident,
2. do not ordinarily reside in Australia, and
3. were absent from Australia:
  - on 31 December of the year prior to the tax year, or
  - for more than six months in total in the calendar year prior to the tax year

It is specifically targeted at absentee owners, regardless of the occupancy status of their investment. 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.

d) What is the Department's estimate of the current number of vacant properties? What proportion of these does the Department estimate will be sold and made available for occupying?

Water usage data indicates that there may be up to 20,000 empty residential properties in Melbourne. However, it is likely that a number of these properties are empty for legitimate reasons. The Department did not take into account the behavioural change that may occur as a result of the tax – this is standard tax policy costings practice.

<sup>11</sup> Department of Treasury and Finance, *Budget Paper No.3: 2016-17 Service Delivery* (2016), p.116

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### 13. Gateway review process

The Committee recently asked departments about gateway reviews done for High-Value, High-Risk projects during 2015-16.<sup>12</sup> Of the 34 projects reported, there were 113 gates passed, but this included no Benefits Evaluation (Gate 6) reviews.

- a) Are all 'High-Value, High-Risk' projects still required to pass all gates?

All projects classified as high value high risk (HVHR) are required to undergo Gateway Reviews. A project can be classified as HVHR at any point in the project lifecycle, and it is from that point forward that the gateway process applies. Projects that are classified as HVHR during delivery are not subject to retrospective gateway reviews.

- b) Why were no 'Benefits Evaluation' reviews done in 2015-16?

In 2015-16, DTF commissioned two Gate 6 Benefits Realisation reviews.

- c) How does the count of 113 gateway reviews done during 2015-16 reconcile with the DTF 'Gateway reviews undertaken' performance measure, which reported 70 reviews during 2015-16?<sup>13</sup>

As reported by DTF there were 70 gateway reviews done in 2015-16. DTF holds a complete record of all gateway reviews commissioned through the Gateway unit. DTF is not aware of how the number of 113 reviews was derived, and does not have access to the source documentation underpinning this number.

- d) How many 'Benefits Evaluation' reviews and for which projects are expected to be carried out during 2017-18?

At this stage, it is forecast that between three and six Gate 6 Benefits Realisation reviews will be undertaken in 2017-18. DTF expects the number of Gate 6 reviews to increase over the next few years as initial HVHR projects are delivered and have been in service long enough for a Gate 6 review to sufficiently assess benefits delivered through the project.

<sup>12</sup> Departmental responses to the Committee's *2015-16 Financial and Performance Outcomes General Questionnaire*, q.6(b)

<sup>13</sup> Department of Treasury and Finance, *Annual Report 2015-16* (2016), p.32

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## 14. Sales of assets

The Budget estimates that sales of surplus public assets will be \$503 million during 2017-18, rising to \$789 million in 2018-19.<sup>14</sup> What are these assets?

Sales of non-financial assets consist of sales of land, buildings, property plant and equipment and non-produced intangibles. The figures in the budget papers are the aggregation of over one hundred general government sector entities.

The \$503 million in 2017-18 consists of:

- \$353 million in land and property sales; and
- \$150 million in plant, equipment, motor vehicle non-produced intangibles and other non-financial assets.

The \$789 million in 2018-19 consists of:

- \$548 million in land and property sales; and
- \$240 million in plant, equipment, motor vehicle non-produced intangibles and other non-financial assets.

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<sup>14</sup> Department of Treasury and Finance, *Budget Paper No.5: 2017-18 Statement of Finances* (2017), p.10  
**Unofficial**

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## 15. Public Private Partnerships

PPPs provide an obligation for the Government in various ways over periods well in excess of the forward estimates.

- a) Without identifying individual payments, please advise the total commitment for PPPs in each of the next 30 years?

Consistent with the Victorian public sector governance model, individual PPP projects are contracted and managed by each department and/or agency that has entered into a PPP arrangement. The relevant departments and agencies maintain the detailed records around these arrangement, but provide summary information to DTF for the purposes of consolidated financial reporting by the government, consistent with the relevant Australian accounting standards and related reporting practices and requirements.

As such, a breakdown of the value of aggregate PPP commitments for each of the next 30 years is not available at DTF. However, the total value of the State's commitments for currently contracted PPP arrangements, for both the finance lease and the operating and maintenance component is disclosed each year in the Annual Financial Report (AFR). For your reference, this information was disclosed and can be referenced on pages 66, 67 and 69 of the 2015-16 AFR as well as page 91 for those PPP finance leases already commissioned and recorded on the State's balance sheet.

A breakdown of the total PPP commitments by individual PPP is disclosed on pages 66 and 67 of the AFR.

The table below shows the total commitments for all PPP projects (page 69 of the 2015-16 AFR):

<i>Commitment payables</i>	<i>State of Victoria</i>	<i>General government sector</i>	<i>State of Victoria</i>	<i>General government sector</i>
	<i>2016</i>	<i>2016</i>	<i>2015</i>	<i>2015</i>
	<i>Nominal value</i>	<i>Nominal value</i>	<i>Nominal value</i>	<i>Nominal value</i>
<b>Public private partnership commitments</b>				
Less than 1 year	1 166	1 144	489	464
1 year but less than 5 years	3 679	3 583	4 105	4 011
5 years or more	19 283	19 087	20 049	19 826
<b>Total public private partnership commitments</b>	<b>24 128</b>	<b>23 814</b>	<b>24 642</b>	<b>24 302</b>

The total PPP finance lease liabilities are included in the table below (page 91 of the 2015-16 AFR):

<i>Finance lease liabilities payable</i>	<i>State of Victoria</i>		<i>General government sector</i>	
	<i>2016</i>	<i>2015</i>	<i>2016</i>	<i>2015</i>
Less than 1 year	546	942	476	871
1 year but less than 5 years	2 533	3 972	2 103	3 477
5 years or more	17 758	15 563	17 627	15 427
<b>Minimum lease payments</b>	<b>20 837</b>	<b>20 477</b>	<b>20 206</b>	<b>19 775</b>
Future finance charges	11 197	11 717	11 197	11 717
<b>Total finance lease liabilities</b>	<b>9 640</b>	<b>8 760</b>	<b>9 009</b>	<b>8 059</b>

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- b) What proportion of 'finance charges on finance leases'<sup>15</sup> are related to PPPs for the next four years?

Similarly, the specific proportion of the 'finance charges on finance leases' relating to PPPs is not available as the data is not collected at that detailed level for consolidated reporting purposes.

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<sup>15</sup> Department of Treasury and Finance, *Budget Paper No.5: 2017-18 Statement of Finances* (2017), p.36  
**Unofficial**

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## 16.Grants for specific purposes

Grants for specific purposes show an overall fall over the forward estimates period,<sup>16</sup> largely due to lapsing of various agreements with the Commonwealth. Past results for this group of grants has shown a consistent rise over time, due to the extension of lapsing agreements or creation of new grants programs.

a) Does the Department expect that funds received from the Commonwealth will decrease over the next four years?

While grants for specific purposes have risen over time, in at least the last four Victorian budgets there has been a drop in the estimates for specific purpose grants from the Budget year to the final year of the forward estimates. This is mostly due to lapsing agreements with the Commonwealth across the forward estimates that are not confirmed to be renewed or replaced at the time of the Budget. 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.

b) If so, by how much?

Not applicable

<sup>16</sup> Department of Treasury and Finance, *Budget Paper No.5: 2017-18 Statement of Finances* (2017), p.22  
**Unofficial**



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## 17. Capital repatriations

The cash flow item 'net cash flows from investments in financial assets for policy purposes' tracks capital (as against operating) payments into and out of investments the Government has in other sectors. Over the forward estimates, the Government expects investments to provide \$9.0 billion in 'capital repatriations'.<sup>17</sup> Can the Treasurer please inform the Committee:

- a) Which investments are providing these funds?
- b) Under which policies is the Government withdrawing capital from these other sectors?

The overwhelming majority of 'Net cash flows from investments in financial assets for policy purposes' for the period 2017-18 to 2020-21, are 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.

The balance reported in this line relates to capital repatriations from entities within the Public Financial Corporation (PFC) and Public Non-Financial Corporation (PNFC) sectors.

Capital is withdrawn from PFCs and PNFCs in accordance with the enabling legislation of the individual entity after consideration of the financial position of that organisation.

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<sup>17</sup> Department of Treasury and Finance, *Budget Paper No.5: 2017-18 Statement of Finances* (2017), p.10  
**Unofficial**

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**18. Telecommunications expenditure figures for 2016-17 financial year**

The figures provided in DTF's response to the general questionnaire (ref: Q25) are presented below.

Please provide updated figures for the 2016-17 financial year (or best estimate of the full year costs).

Year	Data (\$)	Fixed Voice (\$)	Mobile (\$)	Internet (\$)	Unified Communications (\$)
2016-17 (a)	847 492	407 517	280 310	188 100	72 506

(a) DTF actuals for 2016-17 are Actuals to Feb-17 and estimates only from March to June 2017.

**Updated figures:**

Year	Data (\$)	Fixed Voice (\$)	Mobile (\$)	Internet (\$)	Unified Communications (\$)
2016-17 (b)	843 420	434 581	272 173	192 691	72 506

(a) DTF actuals for 2016-17 are Actuals to May-2017 and estimates only for June 2017.

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## 19. Managing telecommunications usage and expenditure

(a) Please provide copies of the Department's policies and guidelines used to manage telecommunications usage and expenditure (referred to in the response to Q27(a) of the general questionnaire):

- *Acceptable use of DTF Information and Communications Technology (ICT) Policy*
- *Telephony Services: guide to telephone services at DTF*
- *Travelling overseas with an electronic device guidelines*

See attachments.

(b) To what extent are the Executive/Senior management of the Department apprised of telecommunications expenditure and at what intervals this information is reported to the Department's Executive? (Ref: Response to Q26(a))

Cost centre managers are provided with a monthly finance report which includes a line item for telecommunications expenditure. A more detailed breakdown of expenditure can be provided to cost centre managers if requested.

DTF intends to implement a billing tool for cost and consumption breakdown once it transitions to TPAMS2025, which will enable improved reporting capabilities.

(c) What was the rationale/impetus for the Department's decision to move to fixed price, unlimited plans for most mobile users? Has this resulted in any cost savings? Do the plans cover unlimited calls and data or just calls? (Ref: Response to Q26(f))

The plan includes unlimited calls and 1 GB of data which is 'pooled' for all mobile users.

After analysis of the available applicable data, it was determined that moving to a fixed price, unlimited plan would:

- lower the overall cost of mobile voice across the department
- lower the administrative costs in managing the service
- increase the mobile data pool to allow for growth and to give a buffer for unplanned levels of usage.

It is not possible to accurately calculate the cost savings as a result of the move to unlimited plans, due to a number of variables including changes in the numbers of phones and usage.

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## 20. Managing the use of Mobile phones

DTF advises that *'staff are deemed to accept and adhere to the Acceptable use of DTF Information and Communications (ICT) Policy when logging on the network.'*

- (a) Please advise if DTF staff are required to formally agree to the terms and conditions of usage of a mobile phone? (Ref: response to Q27(b))

Each time a DTF staff member logs in to the DTF network via their PC or laptop, the following message is presented. DTF staff cannot continue to log in without acknowledging the message:

### **Usage Policy Acceptance**

This computer system is the property of the Victorian Government and is for authorised use only. Unauthorised or improper use of the system may result in disciplinary action up to and including dismissal. By continuing to use this computer system you indicate your awareness of your department or agency Internet Usage Policy or Acceptable Usage Policy and agree to abide by the terms and conditions of use contained therein.

The *Acceptable Use of DTF Information and Communications Technology (ICT) Policy* is made available on the staff Intranet (TreasuryNet). The Policy states that it "includes, but is not limited to , mobile and smart phones, PCs, laptops, photocopiers and printers".

- (b) If so, please provide a copy of the agreement/acknowledgement form which DTF staff are required to complete.

DTF mobile phone users are not currently required to complete a separate agreement/acknowledgement form.

## 21. Identifying cost savings in telecommunications

Has DTF considered or investigated savings in telecommunications expenditure which may be available through transition of fixed voice landlines to VoIP (Voice over Internet Protocol) technology?

DTF uses VOIP technology for all fixed line handset phones. Analogue lines are only used for fax machines and for meeting room conference phones. Fax machines need to remain as analogue lines, although they are gradually being phased out. DTF will be moving to VOIP conference phones as part of a meeting room upgrade project planned for the 2017-18 financial year.

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## 22. Asset investment, condition and risk in the PNFC sector

The bulk of debt in the PNFC sector is held by water authorities, both metropolitan and non-metropolitan. These water authorities have significant water storage and reticulation systems, which have finite lives. However, asset investment in the PNFC sector ('net cash flows from investments in non-financial assets') has decreased over time, and is expected to be less than depreciation in 2016-17 (revised) and the last three years of the forward estimates period.<sup>18</sup> This has been noted by the Committee in previous reports and by the Auditor-General. Please advise:

- a) How much do water authorities spend on keeping track of the conditions of their physical assets?

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.

- b) Do PNFC entities keep track of overall asset conditions over time? If so, what changes have been evident in asset conditions over the past decade?

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.

The Department 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.

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, water quality compliance, sewer spills, and 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. The Department has not recorded any significant concern in relation to non-financial

<sup>18</sup> Department of Treasury and Finance, *Budget Paper No.5: 2017-18 Statement of Finances* (2017), pp.47, 50  
**Unofficial**

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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.

- c) Apart from the cash flow line item 'net cash flows from investments in non-financial assets', what investments are made by PNFC entities in renewing physical assets?

Apart from the cash flow item "Net Cash Flows from Investments in Non-financial Assets", PNFC entities also invest in planned and unplanned asset maintenance, as part of their operating expenditure. Assets can also be provided in the PNFC sector through asset transfers from other entities (e.g. from other Government departments or entities, or in the case of the water corporations, from developers. Developers are required to provide water supply and sewerage facilities and in some cases recycling facilities to new subdivisions, which are subsequently gifted to and maintained by the water corporations). The fair value of these assets is reported in the Operating Statement as part of "Other Revenue" in accordance with Accounting Standards.

- d) What are the risks inherent in not replacing ageing storage or reticulation assets, in terms of:
- Maintenance costs
  - Risks to operations
  - Risks to revenue
  - Public safety risks

The risks inherent in not replacing ageing storage or reticulation assets include higher maintenance costs, operational and service risks, risks to revenue, and public safety risks. PNFC entities seek to mitigate these risks, and optimise asset performance, through their extensive asset management, performance monitoring, and maintenance programs. As noted above, a number of Government agencies monitor the performance of PNFC entities from a range of risk perspectives, including financial (Department of Treasury and Finance and Department of Environment, Land Water and Planning), operational and service (Essential Services Commission, the Department of Environment, Land Water and Planning), and public safety (the Department of Health and Human Services, and the Environment Protection Authority).

- e) How do PNFC entities report asset system sustainability?

Asset system sustainability is reflected in a range of non-financial performance indicators, as noted above.

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## 23. Debt levels in the water sector

The DTF General questionnaire reports that metropolitan water authorities are expected to have \$13.1 billion in net debt, and this is projected over the forward estimates period to rise to \$14.6 billion.<sup>19</sup>

- a) What are the challenges and risks of having this level of debt in the sector, given its asset maintenance and replacement requirements?

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.

- b) Is debt raised for water authorities considered by the market to be of the same risk as other debt raised by the Government?

All State Government debt is raised centrally through TCV, which includes debt raised for the General Government Sector and Government business enterprises such as water corporations. There is no risk differential between State Government debt raised for water corporations and State Government debt raised for other entities and purposes.

- c) Somewhat against the trend, Melbourne Water Corporation is expecting its net debt to fall in the last year of the forward estimates (June 2021). What is the reason for this?

This reflects Melbourne Water Corporation's projected operating cash flow, and the timing of its proposed capital investments. Melbourne Water Corporation is forecasting Cash Flow from Operations that will fully fund its planned capital investment in 2020-21, and allow for a reduction in its net debt.

<sup>19</sup> Department of Treasury and Finance, *Response to the Committee's 2017-18 Budget Estimates General Questionnaire*, received 8 May 2017, p.59

24. For each recommendation in the Committee's *Report on the 2015-16 Budget Estimates* that relates to an area relevant to your department or one of its portfolio agencies, please indicate:

- (a) whether or not the action specified in the recommendation has been implemented
- (b) if so, how it has been implemented and what publicly available information (if any) demonstrates the implementation of the recommendation
- (c) if not, why the recommendation has not been implemented, or the intended date of implementation.

Recommendation		Government's response	Has the action specified in the recommendation been implemented?	If yes:		If no:	
				How has it been implemented?	What publicly available information, if any, shows the implementation?	Why not?	When is the intended date of implementation?
3	The Department of Treasury and Finance consider including 'fan charts' in the budget papers, showing the likelihood of different outcomes for key budget estimates based on past variances between forecasts and actual results.	Under review	No			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.	N/A



Recommendation		Government's response	Has the action specified in the recommendation been implemented?	If yes:		If no:	
				How has it been implemented?	What publicly available information, if any, shows the implementation?	Why not?	When is the intended date of implementation?
8	The Department of Treasury and Finance include in future budget papers a chart indicating the proportion of each year's infrastructure investment expected to be funded by cash and the proportion expected to be funded by debt in recent years and across the forward estimates period.	Under review	No			This recommendation has been reviewed but not adopted, as the application of cash resources table in Budget Paper No.2 Chapter 4 (table 4.5) already provides this detail.	N/A

Recommendation		Government's response	Has the action specified in the recommendation been implemented?	If yes:		If no:	
				How has it been implemented?	What publicly available information, if any, shows the implementation?	Why not?	When is the intended date of implementation?
14	The Government release regular reports to assess the progress and efficacy of the Government's programs to stimulate employment.	Support in principle	Yes	<p>The Government provides regular reports of the progress and efficacy of programs to stimulate employment through Budget Paper No. 3.</p> <p>The State Revenue Office also provides quarterly statistics on the Back to Work Scheme on its website.</p>	<p>2017-18 Budget Paper 3 reports output measures under the Jobs and Investment output on page 143.</p> <p>The State Revenue Office statistics on the Back to Work Scheme are available at <a href="http://www.sro.vic.gov.au">www.sro.vic.gov.au</a>.</p>		

18	Future budget papers include an explanation of how the estimates for GSP have influenced the estimates of different components of revenue. In cases where GSP growth rates differ significantly from revenue growth rates, these explanations should identify the factors which have caused the difference in growth rates, and discuss how each factor has influenced the estimate.	Support in principle	Yes	BP5 Chapter 4 discusses in detail the drivers of state taxation revenue forecasts and their relation to the broader economic outlook including growth in GSP. BP2 Appendix A (Sensitivity Analysis) provides additional detail on how economic shocks that affect GSP growth are likely to influence revenue forecasts.	BP5 Chapter 4 BP2 Appendix A		
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37	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.	Support	In progress			Budget Paper No. 2 Chapter 4 provides high level commentary on the trends in net debt over the budget and forward estimates. Specifically, the chapter notes that the increase in net debt reflects the Government's <i>'position on the use of debt financing to sustain sensible investment in productivity-enhancing infrastructure that grows the State's economy'</i> . Future budget papers will include more detailed discussion of the factors that have driven a change in net debt between publications.	2017-18 Budget Update
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Recommendation		Government's response	Has the action specified in the recommendation been implemented?	If yes:		If no:	
				How has it been implemented?	What publicly available information, if any, shows the implementation?	Why not?	When is the intended date of implementation?
46	Future budget papers clearly state in the description of a new initiative if the initiative: (a) provides ongoing funding; and (b) provides additional funding for a previously released initiative.	Support in principle	Action still under review.			The Government supports in principle future budget papers identifying new initiatives with ongoing funding or supplement a lapsing initiatives. Consideration is being given on how it could best be implemented.	Future Budget Papers

25. For each recommendation in the Committee's *Report on the 2016-17 Budget Estimates* that relates to an area relevant to your department or one of its portfolio agencies, please indicate:

- (a) whether or not the action specified in the recommendation has been implemented
- (b) if so, how it has been implemented and what publicly available information (if any) demonstrates the implementation of the recommendation
- (c) if not, why the recommendation has not been implemented, or the intended date of implementation.

Recommendation		Government's response	Has the action specified in the recommendation been implemented?	If yes:		If no:	
				How has it been implemented?	What publicly available information, if any, shows the implementation?	Why not?	When is the intended date of implementation?
24	In future versions of the Performance Management Framework for Victorian Government Departments, the Department of Treasury and Finance include a description of circumstances under which changes to departmental objectives or objective indicators are required.	Under review	No			DTF's review of the Performance Management Framework has not yet been completed.  The recommendation will be revisited once the review is completed.	It is expected a revised Framework that addresses this recommendation will be issued to come into effect from 1 July 2018.

28	Future versions of the Performance Management Framework for Victorian Government Departments contain specific guidance as to what constitutes a 'wide' range when referring to performance measure targets.	Under review	No			DTF's review of the Performance Management Framework has not yet been completed.  The recommendation will be revisited once the review is completed.	It is expected a revised Framework that addresses this recommendation will be issued to come into effect from 1 July 2018.
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