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Budget Estimates – Part Two**

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Public Accounts and Estimates Committee

Report on the 2013-14 Budget Estimates – Part Two

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DUTIES OF THE COMMITTEE

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

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

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

- recommend the appointment of the Auditor-General and the independent performance and financial auditors to review the Victorian Auditor-General's Office;
- consider the budget estimates for the Victorian Auditor-General's Office;
- review the Auditor-General's draft annual plan and, if necessary, provide comments on the plan to the Auditor-General prior to its finalisation and tabling in Parliament;
- have a consultative role in determining the objectives and scope of performance audits by the Auditor-General and identifying any other particular issues that need to be addressed;
- have a consultative role in determining performance audit priorities; and
- exempt, if ever deemed necessary, the Auditor-General from legislative requirements applicable to government agencies on staff employment conditions and financial reporting practices.

ACRONYMS AND TERMS

AASB	Australian Accounting Standards Board
(Asset) investment through other sectors	Funding for 'asset investment' provided by the 'general government sector' to an 'agency' within the 'public non-financial corporations sector' for an asset that becomes part of the 'public non-financial corporations sector'.
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.
AIHW	Australian Institute of Health and Welfare
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 income, expenditure, assets, liabilities and goods and services to be delivered.
Contingencies/contingency provisions	Amounts included in a budget for expenses that have not been determined at the time of the budget. These provisions are for both predictable expenditure (such as dealing with population growth and initiatives to be released in future budgets) and unpredictable expenditure (such as unforeseen natural disasters).
Department	Large government entities. In 2013-14 there are 9 departments in Victoria, plus the Parliamentary Departments. 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.
Depreciation	The amount of money it would require to keep the State's assets in the same condition as they were in last year. This amount is listed as an expense on the operating statement, and the cash equivalent to that amount is usually used to partially fund 'asset investment'.
Direct (asset) investment	'Asset investment' by the 'general government sector' managed by an 'entity' within that sector for an asset that becomes part of that sector.
DTF	Department of Treasury and Finance
Entity	Either a 'department' or an 'agency'.

Forward estimates period	The period for which estimates are made in the budget papers. This includes the budget year and the following three financial years. The forward estimates period for the 2013-14 Budget is 2013-14 to 2016-17 inclusive.
General government sector	Government 'entities' which provide services either with no charge to the user or with charges significantly below the cost of providing the services. This includes all 'departments' and many 'agencies'.
General-purpose (GST) grants	Grants from the Commonwealth Government to the State Government sourced from GST revenue. There are no restrictions imposed by the Commonwealth Government on how the funding can be spent.
GFC	Global Financial Crisis
Government infrastructure investment	A measure of 'general government sector' expenditure on infrastructure which includes 'direct asset investment', 'asset investment through other sectors' and some payments for 'public private partnerships' less proceeds from asset sales. Some Commonwealth-funded expenditure is excluded.
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
ICT	Information and Communications Technology
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 'savings initiatives'.
MICA	Mobile Intensive Care Ambulance
MOG	Machinery-of-government
NDIS	National Disability Insurance Scheme
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 result from transactions	See 'operating balance'.
NHR	National Health Reform Agreement
Operating balance/surplus	A measure of a body's financial performance in a year which is calculated by subtracting an entity's expenses in the year from its income. Also known as the 'net result from transactions' or 'net operating balance'. 'Asset investment' is not included in the operating balance.

Output	An aggregate of goods and services (such as health care or policing services) delivered by a 'department' or its 'agencies'. Outputs are identified in the budget papers.
Output expenditure	Expenditure on 'outputs' (that is, goods and services). This is distinct from 'asset investment', although it includes some expenditure on 'public private partnerships'.
Output initiative	A new program or project ('initiative') that delivers goods and services (part of a department's 'outputs'). Output initiatives are usually for a limited period of time, although they are sometimes perpetual.
PAEC	Public Accounts and Estimates Committee
PNFC	Public non-financial corporation - see 'public non-financial corporations sector'.
PPP/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.
PTV	Public Transport Victoria
Public financial corporations sector	Government 'agencies' which provide financial services, such as the Treasury Corporation of Victoria or the Transport Accident Commission.
Public non-financial corporations sector	Government 'agencies' which provide goods or services with charges that recover most of the cost of producing them, such as water authorities and trusts administering certain facilities. Does not include 'agencies' providing financial services (see 'public financial corporations sector').
Public sector as a whole	The 'general government sector', 'public non-financial corporations sector' and 'public financial corporations sector' consolidated together. Referred to in the budget papers and Annual Financial Report as the 'State of Victoria'.
Revenue	Income received by the Government, mostly from State taxes and grants from the Commonwealth Government.
Revenue foregone initiative	Changes in policy which result in a decrease in 'revenue'. Examples include reducing a tax rate or increasing the number of people exempted from a tax. Like 'revenue initiatives', revenue foregone initiatives are usually perpetual.
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.

Savings initiative	Changes in the provision of ‘outputs’ that result in reductions to the cost of the ‘output’. This may be done by reducing the services provided or providing the same services more efficiently. Savings initiatives are only one factor affecting ‘output expenditure’. Thus, they may not reduce a department’s total ‘output expenditure’ compared to the previous year if other factors (such as ‘output initiatives’) are greater in value. Savings initiatives are usually perpetual.
Specific-purpose grants	Grants from the Commonwealth Government to the State Government with restrictions on how the funding can be spent.
State of Victoria	See ‘public sector as a whole’.
TAFE	Technical and Further Education
TEI/Total estimated investment	An estimate of the total amount of expenditure required to deliver an ‘asset investment’ project.
VHPF	Victorian Health Priorities Framework

CHAIR'S FOREWORD

It is my pleasure to table this second part of the *Report on the 2013-14 Budget Estimates*. This report provides a detailed analysis of the 2013-14 Budget, including the estimates and assumptions within it, the Government's plans and what they mean for Victorians.

Of particular interest to myself and the Committee is the clarity and transparency of information within the budget papers. I consider Victoria's budget papers to be of a high standard. As part of this inquiry, the Committee has identified a number of areas where additional information could raise that standard further. Most of the recommendations in this report relate to these areas.

In particular, the Committee identified three themes that underpin a number of recommendations:

- the importance of providing information about significant risks;
- the need to explain substantial changes from one year to another; and
- the value of defining key terms.

In addition to detailing potential improvements to the budget papers, this report provides a wealth of information and analysis of the Government's intentions in 2013-14 and beyond. This analysis brings together data from the budget estimates hearings, the questionnaires distributed by the Committee and the budget papers, making it a unique resource. On this basis, I commend the report to the Parliament.

A large amount of time and effort from a considerable number of people has been necessary to undertake this inquiry and produce this report. I would like to express my gratitude to the Presiding Officers, Premier, Deputy Premier, Treasurer, Assistant Treasurer, Attorney-General, ministers, departmental secretaries, heads of agencies and the many support staff who attended our public hearings and provided detailed responses to our questionnaires.

The Committee's secretariat has also put considerable work into this inquiry and the production of this report. Their professionalism, and the high quality of their work, have been greatly appreciated by myself and the Committee.

From a personal perspective, I would also like to thank my fellow committee members for their collegiate and supportive approach.

DAVID MORRIS MP

Chair

FINDINGS AND RECOMMENDATIONS

CHAPTER 1 Introduction

1.2 Key findings and recommendations

FINDING: The Government has identified a number of risks to the current budget estimates. Many of these elements are discussed in the budget papers. The Committee considers that some additional information would assist readers to understand the potential impact of these risks. *page 2*

RECOMMENDATION 1: Future budget papers provide more information about the potential impacts of key risks and the measures included in the budget papers to mitigate them, including quantifying the risks and measures where possible. *page 2*

FINDING: The budget papers provide explanations for the movements in key items of the operating statement across the forward estimates period. The Committee considers that this should be extended to additional areas with substantial changes from one year to another. *page 3*

RECOMMENDATION 2: Future budget papers explain variations for any component of the budget estimates from one year to the next (including the previous year, budget year and each year of the forward estimates period) where the variation is:

- (a) close to or over \$1.0 billion; or
- (b) more than 50 per cent for any item with a value over \$200.0 million. *page 3*

FINDING: The 2013-14 budget papers have expanded the number of terms in the asset investment glossary compared to previous years. The Committee has identified some additional key terms that it would be helpful to define in the budget papers. *page 3*

RECOMMENDATION 3: The Department of Treasury and Finance undertake a review of the budget papers to ensure that all key terms are clearly defined. *page 3*

CHAPTER 2 Key Aspects of the 2013-14 Budget

2.3 Structure of the 2013-14 budget papers

FINDING: The 2013-14 budget papers generally follow the same structure as the 2012-13 budget papers. New information has been added in a number of areas throughout. An information paper on infrastructure investment has replaced the 2012-13 information paper on Victorian families. *page 15*

2.4 Budget setting and strategic directions

FINDING: The Treasurer, in his budget speech, noted the positive economic forecasts supporting the Government's 2013-14 budget strategies. *page 16*

FINDING: The Government has revised the 'economic reform strategy' it developed in 2012-13. The four pillars of the strategy have been condensed into three elements as an 'economic and fiscal strategy'. The Government's medium-term fiscal strategy is unchanged. *page 18*

FINDING: The 2013-14 Budget proposes \$3.5 billion worth of new output initiatives (additional goods and services to be delivered) and between \$8.5 and \$10.5 billion of new asset investments (infrastructure and other physical assets). *page 19*

FINDING: Most of the cost for the new output initiatives announced in the 2013-14 Budget will be met through reprioritisation and adjustment of previous funding, savings initiatives and the release of contingency provisions. *page 22*

FINDING: With the 2013-14 Budget, the Government has provided further funding for the commitments it announced prior to its election in 2010. The total funding provided now exceeds the election estimates, especially for asset initiatives. *page 23*

2.5 Operating surplus

FINDING: The Budget forecasts a surplus of \$224.5 million in 2013-14, which is in line with the Government's medium-term target of at least \$100 million. *page 24*

FINDING: The Government forecasts that its operating surplus will increase substantially in 2015-16 and 2016-17. It plans for the surplus to rise by over 380 per cent between 2014-15 and 2015-16, to \$1.9 billion. It expects the surplus to further increase to over \$2.5 billion in 2016-17.

page 25

2.6 Asset investment

FINDING: The Government is planning to spend \$6.1 billion on infrastructure and other physical assets in 2013-14, rising to \$6.6 billion in 2014-15.

page 26

FINDING: The Government expects an increasing proportion of the asset investment program to be funded without borrowing in future years. The Government anticipates that asset investment will be fully funded without borrowing in both 2015-16 and 2016-17.

page 27

FINDING: Information about asset investment is presented in a variety of ways across the budget papers. A number of changes have been introduced in the 2013-14 budget papers that enhance the standard of disclosure on asset-related material.

page 28

FINDING: The Government has five projects in delivery as public private partnerships, being tendered or about to go to market. The Victorian Comprehensive Cancer Centre is expected to be commissioned in 2015-16, adding \$1.1 billion to borrowings and net debt. The impact of the other projects on borrowings and net debt has not yet been factored into the budget estimates.

page 29

FINDING: The Government expects net debt to increase from 5.8 per cent of gross state product in June 2013 to 6.6 per cent by June 2015, before declining to 5.4 per cent by June 2017.

page 30

2.7 Victoria's credit rating

FINDING: Two rating agencies have issued assessments of the Budget. Neither agency indicated that Victoria's credit rating has been adversely impacted following the 2013-14 Budget.

page 31

2.9 Contingency provisions

FINDING: The 2013-14 Budget includes contingency provisions totalling \$4.2 billion for outputs and \$2.6 billion for asset investment over the four years to 2016-17. For 2013-14, the Government has set negative contingencies of \$88.4 million for outputs and \$500.3 million for asset spending. page 35

CHAPTER 3 Revenue

3.2 The Government's strategy

FINDING: Since the 2011-12 Budget, revenue initiatives estimated by the Government to be worth \$5.0 billion (five-year totals) have been released. Revenue initiatives have been released in the 2013-14 Budget which the Government estimates to be worth \$627.2 million (over five years). page 41

FINDING: The change from previous arrangements to the *Fire Services Property Levy* is expected by the Government to deliver total savings of over \$100 million to businesses and individuals annually. This will be achieved through the levy not being subject to GST or stamp duty and through concessions for pensioners and veterans. page 43

FINDING: The 2013-14 Budget revenue estimate from the *Fire Services Property Levy* in 2013-14 has been revised upwards by \$23.6 million. page 44

3.3 Revenue trends over the forward estimates period

FINDING: The Government's forecast for revenue in 2013-14 is \$50.3 billion. The Government projects an average annual growth rate of 4.0 per cent over the forward estimates period. page 45

FINDING: Real revenue per Victorian is expected to decline marginally over the forward estimates period, but will remain above the pre-Global Financial Crisis level. page 46

FINDING: Revenue as a share of GSP has been decreasing since the Commonwealth economic stimulus funding period and is expected to continue decreasing over the forward estimates period. The Government expects revenue to reduce from 14.0 per cent to 13.4 per cent of GSP between 2013-14 and 2016-17. page 46

FINDING: The Government has been revising its revenue forecasts downwards compared to its previous budget estimates. Since the 2012-13 Budget, revenue estimates have been reduced by \$131.2 million in 2013-14, \$410.2 million in 2014-15 and \$527.3 million in 2015-16.

page 47

FINDING: Variations in revenue over the forward estimates period, compared to the 2012-13 budget estimates, are expected to be driven primarily by less revenue from Commonwealth grants and economic and demographic variations. This negative impact is partially offset by revenue initiatives and own-source revenue.

page 48

RECOMMENDATION 4: Future budget papers include a discussion of the size of variances from previous forecasts (including those made four years in advance) in discussing forward estimates.

page 50

FINDING: The Government expects State-sourced revenue to grow by an average of 3.9 per cent over the forward estimates period. Commonwealth grants are estimated to increase by an average of 4.1 per cent over the same period.

page 50

FINDING: The two largest components of State taxation are payroll and property taxes. The Government expects that both components will steadily increase over the forward estimates period. Payroll tax revenue is expected to grow due to anticipated acceleration in employment growth, while taxes on property revenue are expected to increase as a result of an expected recovery in the property market.

page 52

FINDING: The Government expects that revenue from sales of goods and services will increase by an average of 2.2 per cent per year over the forward estimates period. This is lower than the 7.6 per cent average annual growth between 2007-08 and 2013-14.

page 53

FINDING: After increasing in 2013-14 due to arrangements associated with the Victorian Desalination Plant, the Government expects interest revenue to remain steady over the forward estimates period.

page 53

FINDING: The Government expects that dividends revenue will increase to \$1.1 billion in 2012-13 before decreasing by \$645.5 million in 2013-14. Following this fall, the level of dividends revenue is expected to remain steady across the forward estimates period.

page 54

3.4 Revenue risks and assumptions

FINDING: The Government’s budget estimates assume a positive outlook for the State and reduced global risks. *page 55*

FINDING: The 2013-14 budget papers provide an analysis which illustrates the sensitivity of revenue and expenses to an increase of 1 per cent in selected macroeconomic variables. *page 56*

RECOMMENDATION 5: Future budget papers include a discussion of the impact on revenue and expenditure when macroeconomic indicators are 1 per cent lower than expected. *page 56*

FINDING: The budget estimates assume a recovery in the property market (in volumes and prices) as a result of anticipated lower interest rates, higher levels of housing affordability and improving consumer confidence. *page 57*

FINDING: The Government expects that risks for payroll tax will reduce as a result of anticipated steady growth in GSP and employment across the forward estimates period. *page 57*

FINDING: The Government has a positive outlook for Commonwealth grants. However, it also recognises that some grants are subject to a high level of volatility, which might result in a negative impact for Victoria. *page 58*

3.5 Victoria’s tax competitiveness

FINDING: The Government has identified making Victoria tax competitive as part of its economic and fiscal strategy. *page 59*

RECOMMENDATION 6: Future budget papers include an analysis of the competitiveness of Victoria’s taxation compared to other states. *page 59*

FINDING: Victoria's taxation revenue in 2011-12 was equivalent to \$2,670 per person. The average of the Australian states' revenue per person in the same year was \$2,464. *page 60*

FINDING: In 2011-12, Victoria ranked third among states with respect to the assessed revenue raising effort ratio, and slightly above the average. *page 61*

CHAPTER 4 Commonwealth Funding

4.2 Recent developments at the Commonwealth level

FINDING: DisabilityCare Australia will commence operations in the Barwon region in 2013-14, with rollout to the whole of Victoria expected by 2019. DisabilityCare will be jointly funded by the Commonwealth, states and territories, although funding arrangements have not yet been finalised. The State Government has identified this as a potential risk to its forecast budget outcomes. *page 66*

RECOMMENDATION 7: Once funding arrangements between Victoria and the Commonwealth for the National Disability Insurance Scheme have been finalised, future budget papers clearly specify the impact on the budget. *page 66*

FINDING: In the 2013-14 Commonwealth Budget, the Commonwealth Government announced six projects for Victoria as part of the next phase of the Nation Building Program between 2014-15 and 2018-19. This included a commitment of \$1.0 billion for the Melbourne Metropolitan Rail Tunnel during that phase. The State Minister for Public Transport informed the Committee that only \$75.0 million of that was expected at that time to be provided during the forward estimates period. *page 67*

FINDING: In August 2013, the State Government signed an agreement to replace the *National Education Agreement* with a new needs-based funding model from January 2014. *page 67*

4.3 Commonwealth funding over the forward estimates period

FINDING: The budget estimates have been prepared on the basis of Commonwealth grants remaining a similar proportion of State revenue (around 46 per cent) across the forward estimates period. However, the State Government is expecting the mix of grant types to change, with general-purpose (untied) grants increasing at a faster rate than specific-purpose (tied) grants. General-purpose grants are forecast to change from 49 to 52 per cent of all Commonwealth funding to Victoria between 2013-14 and 2016-17. *page 69*

4.4 General-purpose (GST) grants

FINDING: The Government expects general-purpose grants to increase in real terms from \$1,977 per Victorian in 2012-13 to \$2,068 per Victorian in 2016-17. *page 70*

FINDING: The Government's estimated increase in general-purpose (GST) grants over the forward estimates period is based on its expectations that the population will grow, the GST pool will increase and Victoria's relativity will be increased in 2015-16 and 2016-17. The Government has noted that some of the assumptions about the GST relativity are '*subject to considerable uncertainty*'. *page 72*

FINDING: The unpredictable nature of the GST distribution mechanism has resulted in earlier estimates of general-purpose grants being repeatedly reduced. The Department of Treasury and Finance has indicated that this has contributed to net debt increasing by more than previously anticipated. *page 73*

FINDING: The State Government intends to advocate for a number of changes to the distribution of GST which it believes will increase Victoria's share. *page 74*

4.5 Specific-purpose grants

FINDING: Over the forward estimates period, new agreements in the health and education areas will replace funding previously provided through National Agreements. The proportion of funding provided through National Partnerships may decline. *page 76*

FINDING: Funding will be provided through four National Agreements in 2013-14 and three agreements for the remainder of the forward estimates period. All three are forecast by the Commonwealth Government to increase over the forward estimates period. *page 77*

FINDING: The Victorian budget papers describe \$905.9 million of Commonwealth funding in 2013-14 simply as 'other'. No definition of this category is provided. *page 79*

RECOMMENDATION 8: Future budget papers identify the grants included in the line items labelled 'other' in the break-down of Commonwealth grants for specific purposes. *page 79*

FINDING: Revisions to data used to calculate Commonwealth funding during 2012 resulted in a significant reduction in health funding to Victoria. The Department of Health has indicated that this resulted in a reduction to the number of elective surgeries. page 82

FINDING: The Commonwealth's forward estimates show National Partnership funding to Victoria declining over the forward estimates period. This is partially due to some partnerships ceasing in the forward estimates period, especially Regional Rail Link and some health infrastructure funding. page 83

FINDING: The Victorian budget papers identify nine National Partnerships for which Victoria received funding in 2012-13 but for which the State Government does not expect to receive funding in 2013-14. The Commonwealth budget papers identify two new partnerships to start during the forward estimates period and another two new partnerships currently being negotiated. page 85

FINDING: Grants for on-passing to non-government schools and local governments are expected to rise from \$3.0 billion in 2013-14 to \$3.7 billion in 2016-17, an average growth of 7 per cent per year. page 86

FINDING: Although the non-government schools component of the *National Education Agreement* is included in the line item 'specific purpose grants for on-passing', the non-government schools component of National Partnerships is not. The budget papers do not elaborate on the distinction. page 86

RECOMMENDATION 9: In discussing 'specific purpose grants for on-passing' in future budget papers, the Department of Treasury and Finance identify any Commonwealth grants passed on to bodies outside the state public sector that are not included in 'specific purpose grants for on-passing', and indicate why these amounts have not been included. page 86

CHAPTER 5 Borrowings, Debt and Liabilities

5.2 The Government's strategy

FINDING: The Government plans to reduce net debt as a percentage of GSP by 2022. The 2013-14 budget papers estimate that net debt will increase to 2015 and then start reducing. The Government plans to make this reduction through increasing operating surpluses. page 88

FINDING: The Government has maintained its target to fully fund the unfunded superannuation liabilities by 2035. *page 89*

FINDING: The Government has highlighted the importance of maintaining the State's triple-A credit rating. The rating and outlook were not altered after the release of the 2013-14 Budget. *page 90*

5.3 Borrowings and net debt over the forward estimates period

FINDING: The Government anticipates that net debt for the general government sector will reach its highest level in 2015 at \$25.1 billion (6.6 per cent of GSP) and decrease to \$22.7 billion (5.4 per cent of GSP) in 2017. The expected change is primarily driven by a planned reduction in cash borrowings, while one PPP project has been factored into the forward estimates. *page 92*

FINDING: PNFC sector borrowings and net debt are expected to increase over the forward estimates period in dollar terms, though they will reduce as a percentage of GSP after 2015. Net debt is estimated to increase by an average of 3.5 per cent per year, reaching \$18.0 billion in 2017. *page 94*

FINDING: The Government plans to increase its participation in managing public commercial entities to ensure they provide value to Victorians. This may include improving their financial position. *page 95*

5.4 Comparison to previous estimates

FINDING: In the last three budgets, the Government has generally revised its net debt and borrowing estimates upwards compared to previous budget estimates. *page 96*

5.5 Superannuation liability

FINDING: The unfunded superannuation liability accounts for 49 per cent of the general government sector's net financial liabilities. The unfunded liability is expected to reduce from \$28.7 billion to \$27.7 billion between 2014 and 2017. *page 98*

RECOMMENDATION 10: Future budget papers include, when explaining superannuation liability assumptions, information on the estimated numbers of eligible superannuation beneficiaries over the forward estimates period.

page 98

CHAPTER 6 Output Expenditure

6.2 The Government's strategy

FINDING: The Government intends to increase the operating surplus over the forward estimates period. One of the methods the Government intends using to achieve this is to constrain the growth of output expenditure.

page 100

6.3 Output expenditure over the forward estimates period

FINDING: The budget estimates predict a slower growth rate for expenditure over the four years to 2016-17 than for the previous four years.

page 101

FINDING: A changed accounting standard (AASB 119) is expected to raise the apparent expenditure growth rate for 2013-14. After 2013-14, the change has little effect on growth rates.

page 101

FINDING: Excluding the effect of the change to AASB 119, the Government has reduced the forecasts for expenditure over the forward estimates period.

page 102

FINDING: The change to AASB 119 has increased 'net superannuation interest expense' and consequently the total expenditure for 2013-14 onwards. This has lowered the operating surplus by the same amount. The Government fiscal result reports the operating surplus excluding this change in accounting methodology.

page 104

FINDING: Excluding the effect of the change to AASB 119, the overall forecast for the operating surplus over the forward estimates has not changed since the 2012-13 budget papers.

page 104

6.4 Impact of the total expenditure on the State

FINDING: Expenditure, both as a proportion of GSP and in terms of real expenditure per Victorian, is forecast by the Government to decline over the forward estimates period. This is consistent with the Government's strategy of expenditure constraint. *page 105*

FINDING: Between the 2012-13 and 2013-14 budgets, more targets for non-cost performance measures have been increased than decreased. However, further improvements to the performance measurement system will be required to enable a clear picture of whether changes in output funding have led to changes in service delivery or community outcomes. *page 107*

6.5 What the expenditure pays for

FINDING: Initiative (non-base) funding for departments in 2013-14 is expected to be \$2.2 billion. This is a \$0.8 billion (27 per cent) decrease from 2012-13. Base funding reported by departments increased by \$1.8 billion (4.4 per cent) to \$41.8 billion. *page 108*

FINDING: Some information was provided to the Committee about base funding by departments. Changes to base funding have not been discussed or explained in the budget papers. *page 108*

RECOMMENDATION 11: The budget papers include a discussion and explanation of changes in base funding for departments. *page 108*

FINDING: The largest areas of Government expenditure are, and will continue to be, health and education. Expenditure on housing and community amenities is expected to increase by 9 per cent in 2013-14. *page 111*

FINDING: Expenditure in the 'other purposes' classification is expected to increase by \$926.8 million in 2013-14. The forecast for 'other purposes' has also changed since the 2012-13 Budget. These movements have not been discussed in the budget papers. *page 111*

RECOMMENDATION 12: Consistent with other forecasts, significant variations in forecasts for government purpose expenditure classifications from one year to another be discussed and explained in the budget papers. *page 112*

FINDING: Employee expenses are the largest component of output expenditure, accounting for \$17.9 billion in 2013-14. The rate of growth for employee expenses across the forward estimates varies from 2.3 per cent to 4.0 per cent. The causes of the changing growth rate are not detailed.

page 114

RECOMMENDATION 13: In future budget papers, the Department of Treasury and Finance explain variations in the growth rate between individual years within the forward estimates period for employee expenses and other significant line items.

page 114

FINDING: The budget papers show a \$1.4 billion difference between total expenses from transactions for departments and their total output costs. Past budgets have included explanations for such variances in online datasets, but this practice has not been continued in 2013-14.

page 116

RECOMMENDATION 14: The Government reinstate the practice of explaining variances between total expenses from transactions for departments and departmental total output costs.

page 116

6.6 New initiatives for 2013-14

FINDING: The four largest output initiatives from the 2013-14 Budget are delivered through the Department of Health. Other large initiatives are for road safety and disability support.

page 119

6.7 Funding new initiatives

FINDING: In the 2012-13 Budget Update, the Government introduced an efficiency dividend to be applied to non-frontline wage and non-wage costs. In the 2013-14 Budget, this dividend was increased from 2.0 to 2.5 per cent.

page 122

FINDING: The basis of the calculation of the amounts saved through the 'efficiency dividend' initiatives has not been made clear in the budget papers.

page 122

RECOMMENDATION 15: When one savings initiative partially or fully replaces an earlier savings initiative, the description given in the budget papers for the new initiative include a statement quantifying relevant savings already made and savings yet to be made in the old initiative. *page 122*

FINDING: Departments have indicated a range of methods intended to achieve the savings targets for 2013-14. *page 124*

RECOMMENDATION 16: The Department of Treasury and Finance update the model report to require departments to list expenditure reduction methods along with data indicating whether expenditure reductions have been achieved through efficiency gains or reductions in service delivery. *page 124*

FINDING: Efficiency and expenditure reduction measures included in the 2013-14 budget papers have been presented as programs, and aggregated to a whole-of-government level. The effects of these programs on specific departments have not been set out. *page 124*

RECOMMENDATION 17: Future budget papers indicate both the total impact of savings measures and the impact of each measure on each department. *page 125*

FINDING: Reprioritisation and adjustments are highly variable over time. Amounts reprioritised can be sourced from base or initiative funding. Responses from departments did not provide sufficient detail to fully identify what projects or programs had been reduced in order to provide funds for higher priority projects or programs. *page 126*

FINDING: The new line item 'existing resources' details departmental shares of a portion of the funding reprioritised and adjusted from existing resources. The Treasurer has indicated that the remaining portion relates to adjustments to depreciation and Capital Assets Charges for asset initiatives, as well as a range of other minor adjustments. *page 126*

RECOMMENDATION 18: Future budget papers include a reconciliation between reprioritisation and adjustments and departmental 'existing resources' line items. *page 127*

FINDING: Total contingencies set aside for future output initiatives have been declining over the past four budgets. *page 128*

FINDING: The Government has supported a previous recommendation to provide a more detailed explanation for its contingency calculations. However, this has not yet been implemented. *page 128*

RECOMMENDATION 19: In future budget papers, the Department of Treasury and Finance improve its discussion of the basis, role and calculation of output contingencies, including a discussion of the reasons for and implications of fluctuations in amounts set aside for future expenditure. *page 128*

CHAPTER 7 Performance Measurement

7.3 Departmental objectives

FINDING: Most departments modified their objectives between the 2012-13 and 2013-14 budget papers. Particularly substantial changes were made to three departments. The rationale or impact of these changes is not currently discussed in the budget papers. *page 133*

RECOMMENDATION 20: The Department of Treasury and Finance, through its guidance materials, require changes to departmental objectives made in the budget papers to be supported by text that provides the rationale for the change and indicates any impacts on departmental service delivery. *page 134*

RECOMMENDATION 21: The Department of Health incorporate its focus areas into its list of objectives in the 2014-15 budget papers, increasing its number of objectives from three. *page 134*

7.4 Departmental objective indicators

FINDING: All government departments have provided departmental objective indicators in the 2013-14 budget papers to measure progress toward meeting their objectives. *page 135*

FINDING: Objective indicators are intended to demonstrate progress towards objectives by demonstrating the impact on the community of departments' activities. While many indicators have been provided in an appropriate form, some indicators are focused on outputs and processes instead of impacts on the community. *page 135*

RECOMMENDATION 22: The Department of Treasury and Finance work with departments to ensure that all objective indicators included in the budget papers clearly identify and measure impacts on the community rather than outputs or processes. *page 135*

FINDING: Objective indicators are intended to be measurable and quantifiable. Some clearly state how they will be measured, a small number of measures do not. *page 136*

RECOMMENDATION 23: Departments in future budget papers ensure that all objective indicators are clearly quantifiable or measurable. *page 136*

FINDING: One of the intended purposes of objective indicators is tracking departments' performance over time. The Committee considers that this would be facilitated by providing data about past performance. *page 136*

RECOMMENDATION 24: Future budget papers and annual reports include at least five years' past performance data for each objective indicator, where possible. *page 137*

FINDING: The 2013-14 budget papers include a commitment that departments will report on objective indicators in their 2012-13 annual reports. However, this requirement has not been reflected in the 2012-13 Model Report for Victorian Government Departments. *page 137*

RECOMMENDATION 25: The Department of Treasury and Finance update the Model Report for Victorian Government Departments to require departments to report on their actual results for all objective indicators stated in the budget papers. The model report should also include a recommended format for presenting this information. *page 137*

7.5 Outputs

FINDING: In 2013-14, there was a significant movement in the arrangement and number of outputs as a result of both machinery-of-government changes and unrelated departmental decisions. *page 138*

FINDING: The Department of Environment and Primary Industries has not included descriptions for any of its outputs, despite making significant changes to them. *page 139*

RECOMMENDATION 26: The Department of Environment and Primary Industries provide descriptions for all its outputs in future budget papers. *page 139*

FINDING: Many output titles clearly communicate the types of the goods and services delivered and distinguish the output from others. Some titles could be improved to allow the reader to more easily understand the nature of the deliverables. *page 140*

RECOMMENDATION 27: The Department of Treasury and Finance assist departments to review their output titles to ensure they are clear. *page 141*

7.6 Performance measures

FINDING: The number of performance measures has reduced from 1,215 in 2012-13 to 1,186 in 2013-14. This has been largely driven by 18 measures from the former Department of Planning and Community Development not being continued in 2013-14 following the machinery-of-government changes. *page 142*

FINDING: The number of departmental outputs without any quality-based output measures has reduced from 12 to seven. The remaining seven outputs represent \$799.5 million of funding in the 2013-14 Budget. *page 144*

FINDING: Although the Department of Treasury and Finance's guidance requires performance measures for every major initiative in the 2013-14 Budget, departments indicated that some initiatives have no performance measures associated with them other than output costs. *page 145*

RECOMMENDATION 28: The Department of Treasury and Finance work with departments to ensure that they follow the guidance requiring them to have performance measures reflecting all major initiatives released in future budgets. *page 145*

7.7 Discontinued performance measures

FINDING: The Government identified 106 performance measures which it proposed discontinuing with the 2013-14 Budget. After reviewing these measures, the Committee considers that 102 of these measures should be discontinued, but four measures should be retained. *page 146*

RECOMMENDATION 29: The Government not discontinue the measures listed in Table 7.6 of this report. *page 146*

FINDING: The relationship between new and discontinued performance measures requires clarification. *page 148*

RECOMMENDATION 30: The Department of Treasury and Finance continue to review its quality assurance processes to ensure clarity in the relationship between new and discontinued performance measures. *page 148*

FINDING: Following advice from the Committee, the Government has indicated that it intends to introduce a new measure to replace one discontinued with the 2012-13 Budget and re-instate a further two measures discontinued with the 2012-13 Budget. *page 149*

CHAPTER 8 Asset Investment

8.3 Expenditure over the forward estimates period

FINDING: The Government expects infrastructure investment to rise in 2013-14 and 2014-15 and then reduce in 2015-16 and 2016-17. Not all of the major factors causing this pattern are detailed in the budget papers. *page 153*

FINDING: Direct investment is expected to decline each year between 2013-14 and 2015-16 and then increase in 2016-17 compared to the previous year. *page 154*

FINDING: Asset investment through other sectors is expected to be \$1.4 billion in 2013-14 and 2014-15, largely reflecting the *Regional Rail Link* project. As this project reaches completion, investment through other sectors is expected to reduce to \$47.2 million and \$112.8 million in the final two years of the forward estimates period. *page 155*

FINDING: The 2012-13 budget papers disclose figures for PPP payments for the first time. According to the measure used in the budget papers, PPP payments are expected to rise significantly by over \$1 billion in 2014-15 before reducing to zero in 2016-17. The budget papers do not currently include an explanation of the components of this item, or an indication of the factors contributing to the year-to-year variations. *page 156*

RECOMMENDATION 31: Future budget papers include an explanation of how the ‘cash flows from PPP payments’ item is calculated, including whether amounts included in that figure are also included in line items of the financial statements and, if so, which ones. *page 156*

RECOMMENDATION 32: The causes of variations in the value of ‘cash flows from PPP payments’ from one year to the next be explained in future budget papers. *page 156*

8.4 Understanding the level of expenditure

FINDING: The Government expects to meet its infrastructure investment target throughout the forward estimates period, based on its new ‘Government infrastructure investment’ measure. *page 158*

FINDING: The ‘Government infrastructure investment’ measure is broken down into its high-level components for 2013-14 and these components are generally reconciled with other related figures. *page 159*

RECOMMENDATION 33: To enable an understanding of how the Government is achieving its infrastructure investment target, future budget papers disclose the individual components used in calculating the ‘Government infrastructure investment’ measure across the forward estimates period. *page 159*

RECOMMENDATION 34: Future Annual Financial Reports for the State disclose actual figures for all components of the ‘Government infrastructure investment’ measure in the reporting year and compare these to forecasts in the budget papers and the previous year’s actual results.

page 159

FINDING: When adjusted for population growth and inflation, infrastructure investment is expected to peak at \$1,082 per Victorian in 2014-15 before reducing to \$534 in 2016-17 (in 2013-14 dollars).

page 160

FINDING: The level of direct asset investment planned for the general government sector is estimated to be greater than the level at which existing assets depreciate across the forward estimates period. The level of direct asset investment for the PNFC sector is expected to exceed depreciation in all years except 2016-17.

page 161

8.5 New initiatives for 2013-14

FINDING: The 2013-14 Budget released new asset initiatives with a combined estimated expenditure of \$8.5-10.5 billion. This is largely a result of the *East West Link – Stage 1* project, which accounts for \$6.0-8.0 billion of that amount.

page 163

FINDING: The Government has identified three key asset investment projects – East West Link, the Melbourne Metro Rail Tunnel and the Port of Hastings development. Funding has been provided for planning of all three projects.

page 166

8.6 New disclosures in the budget papers

FINDING: The budget papers have newly included a table that lists the major projects funded by investment through other sectors. The relationship between the table and information elsewhere in the budget papers could be clarified in some cases.

page 171

RECOMMENDATION 35: In future budget papers, the Department of Treasury and Finance build on the list of projects funded by investment through other sectors (‘investments in financial assets for policy purposes’), by ensuring that:

- (a) line items in that list can be readily connected to projects listed in Chapter 3 of Budget Paper No.4; and
- (b) any differences between the estimated expenditure in the list and the estimated expenditure in Chapter 3 are explained.

page 171

FINDING: The 2013-14 budget papers include, for the first time, estimated completion dates for all projects listed in Budget Paper No.4. This is an important improvement to the transparency of asset delivery. *page 171*

RECOMMENDATION 36: Estimated completion dates for projects in future budget papers be aligned with financial years, so that it is clear to the reader which financial year a project is expected to be completed in. *page 171*

FINDING: The Department of Treasury and Finance expanded the glossary in Budget Paper No.4 in 2013-14, adding a substantial number of terms. In some cases, terms which are used interchangeably have different definitions, which may suggest to readers that there are differences. There are also a number of key terms which could be added to the glossary in future years. *page 173*

RECOMMENDATION 37: The Department of Treasury and Finance revise its definitions in Budget Paper No.4 to explicitly identify terms that are used interchangeably and avoid the potential confusions noted in this report. *page 173*

RECOMMENDATION 38: The Department of Treasury and Finance continue to expand the definitions in Budget Paper No.4, including adding definitions of 'Government infrastructure investment' and 'cash flows from PPP payments'. *page 173*

CHAPTER 9 The Government's Responses to the Committee's Report on the 2012-13 Budget Estimates

9.2 Responses to recommendations

FINDING: Of the 59 recommendations made by the Committee in its *Report on the 2012-13 Budget Estimates*, 32 (54 per cent) were supported (including 'support in principle' and 'support in part'). The proportion of recommendations receiving a positive response has fallen since the *Report on the 2010-11 Budget Estimates*. This may be partly a result of changing practices in classifying responses. *page 177*

9.3 Implementation of recommendations from the *Report on the 2012-13 Budget Estimates*

FINDING: Of the 32 recommendations in the Committee's *Report on the 2012-13 Budget Estimates* which were supported, the Committee considers that:

- 13 (41 per cent) have been fully or partially implemented to date;
- nine (28 per cent) have not yet been implemented;
- the Committee was not yet able to assess the implementation of nine recommendations (28 per cent) at this time; and
- one recommendation was resolved prior to the Government's response. *page 178*

FINDING: Of the five recommendations from the *Report on the 2012-13 Budget Estimates* which were under review at the time of the Government's initial response, four are still being considered and one is not supported. *page 178*

9.4 Implementation of recommendations from the *Report on the 2011-12 Budget Estimates*

FINDING: The Government expressed support for 92 of the recommendations from the Committee's *Report on the 2011-12 Budget Estimates*. After one year, the Committee considered that 42 recommendations had been fully or partially implemented. After a second year, eight additional recommendations have been implemented. *page 179*

FINDING: The Government indicated that 18 of the Committee's recommendations from the *Report on the 2011-12 Budget Estimates* were under review in the initial Government responses. Four of these had been fully or partially implemented after one year. One additional recommendation has been implemented subsequently. *page 180*

9.5 The Government's review of processes for responding to and implementing recommendations

FINDING: In some instances, departments have considered that recommendations have been implemented where the Committee considers that the actions taken have not fully addressed the issues. *page 181*

RECOMMENDATION 39: As part of its review of guidelines for responding to inquiries, the Department of Premier and Cabinet provide a clear definition of the conditions under which a recommendation should be considered to be implemented. *page 181*

FINDING: Currently the Committee is not informed when the Government has come to a position on recommendations which are initially responded to as 'under review'. The Department of Treasury and Finance is examining options to address this. *page 181*

RECOMMENDATION 40: Following its investigation, the Department of Treasury and Finance implement a system to inform committees about the ultimate decisions on all recommendations initially classified as 'under review'. *page 181*

RECOMMENDATION 41: The Department of Premier and Cabinet liaise with the Department of Treasury and Finance to ensure that any new guidelines for responding to inquiries incorporate any system developed by the Department of Treasury and Finance to inform the Committee about recommendations initially responded to as 'under review'. *page 182*

FINDING: Currently there is no procedure that ensures that the Committee is informed when the Government changes its response to a recommendation. *page 182*

RECOMMENDATION 42: As part of its review of guidelines for responding to inquiries, the Department of Premier and Cabinet develop a procedure to inform committees when the Government changes its response to a recommendation prior to implementation. *page 182*

1.1 Background

Each May, the Government introduces appropriation bills into Parliament to authorise the release of money during the next financial year. The appropriation bills for 2013-14 were passed by the Legislative Council on 27 June 2013.

The appropriation bills were accompanied by a series of five budget papers, three budget information papers, an overview document and several online data sets. These documents detail the estimates, assumptions, strategies and aims underpinning the appropriations.

The *Parliamentary Committees Act 2003* requires the Public Accounts and Estimates Committee to inquire into the budget estimates and budget papers each year.¹ This report, in two parts, presents the Committee's findings and recommendations resulting from the inquiry.

The primary aims of the inquiry are to:

- assist members of Parliament in their deliberation on the appropriation bills;
- provide feedback on the performance measures that the Government has proposed discontinuing with the 2013-14 Budget;
- give members of Parliament and the community a better understanding of the budget estimates;
- promote clear, full and precise disclosure in the budget papers of the Government's objectives and intended results; and
- encourage efficient and effective government administration.

The first part of the report was tabled in June, prior to the passing of the appropriation bills, to assist members in their deliberations.

This second part has been produced following further analysis. It seeks to achieve the remainder of the aims as set out above.

1.2 Key findings and recommendations

The Government has made a number of changes to the budget papers in 2013-14 which provide information not previously disclosed. Of particular importance, the Committee notes the introduction of objective indicators for government departments (see Section 7.4 of this report) and the inclusion of additional details for asset investment projects (see Section 8.6). Other key changes are listed in Section 2.3.1 of this report.

As part of this inquiry, the Committee has identified a number of areas where further improvement in disclosure would be valuable. Relevant recommendations have been made throughout this report.

Sections 1.2.1-1.2.3 identify three themes that underpin a number of the findings and recommendations in later chapters.

¹ *Parliamentary Committee Act 2003*, s.14

1.2.1 Information about significant risks

The Treasurer began his Budget Speech by describing the present as ‘*a time marked by global economic insecurity and increasing uncertainty from Canberra*’.² These factors have affected recent budgets significantly, with a number of estimates having to be revised. In this context, the Committee considers that some further discussion of key risks would be of interest to members of Parliament and the community.

The Committee notes that Budget Paper No.2 discusses a number of key risks³ and also includes a sensitivity analysis quantifying the impact of a 1 per cent increase in key economic indicators.⁴ The Committee also notes that some new discussion was added to the sensitivity analysis in 2013-14.⁵

The Committee considers that this could be further enhanced by also:

- discussing the size of variances between previous forecasts and actuals when discussing forward estimates (see Section 3.3.3);
- modelling the impact of decreases in the key macroeconomic indicators (see Section 3.4.2); and
- discussing contingency provisions in the forward estimates (see Sections 2.9 and 6.7.3).

Providing this sort of additional information would assist readers to better understand the possible impacts of the identified risks. Where possible, the Committee considers that the risks and the strategies to mitigate them should be both discussed and quantified.

FINDING: The Government has identified a number of risks to the current budget estimates. Many of these elements are discussed in the budget papers. The Committee considers that some additional information would assist readers to understand the potential impact of these risks.

RECOMMENDATION 1: Future budget papers provide more information about the potential impacts of key risks and the measures included in the budget papers to mitigate them, including quantifying the risks and measures where possible.

1.2.2 Explaining substantial changes from one year to another

The budget papers discuss the anticipated changes to key revenue and expense items included within the operating statement. This often includes an explanation of what is driving the overall change across the forward estimates period.⁶

2 Budget Paper No.1, *2013-14 Treasurer’s Speech*, May 2013, p.1

3 Budget Paper No.2, *2013-14 Strategy and Outlook*, May 2013, pp.58-61

4 *ibid.*, Appendix A

5 *ibid.*, pp.79-82

6 *ibid.*, pp.46-8

The Committee considers that this practice could be further extended to areas of expenditure which may not be included within the operating statement. For example, expenditure classified as ‘other purposes’ in the government purpose classifications increased by \$926.8 million between 2012-13 and 2013-14 (see Section 6.5.2).

As a general principle, the Committee considers that budget papers should explain any change from one year to the next that has an impact on the budget of close to or over \$1.0 billion or any variation greater than 50 per cent between one year and the next for any item with a value over \$200.0 million.

FINDING: The budget papers provide explanations for the movements in key items of the operating statement across the forward estimates period. The Committee considers that this should be extended to additional areas with substantial changes from one year to another.

RECOMMENDATION 2: Future budget papers explain variations for any component of the budget estimates from one year to the next (including the previous year, budget year and each year of the forward estimates period) where the variation is:

- (a) close to or over \$1.0 billion; or
- (b) more than 50 per cent for any item with a value over \$200.0 million.

1.2.3 Defining key terms

The Department of Treasury and Finance substantially increased the size of the glossary in Budget Paper No.4 in 2013-14. The Committee has identified some further improvements that could be made to this glossary (see Section 8.6.3) and has also identified other key terms that it would be helpful for the Department to explain in the budget papers, including:

- ‘cash flows from PPP [public private partnership] payments’ (see Section 8.3.2);
- the ‘existing resources’ expenditure reduction line item (see Section 6.7.2); and
- Commonwealth grants described as ‘other’ (see Section 4.5.2).

FINDING: The 2013-14 budget papers have expanded the number of terms in the asset investment glossary compared to previous years. The Committee has identified some additional key terms that it would be helpful to define in the budget papers.

RECOMMENDATION 3: The Department of Treasury and Finance undertake a review of the budget papers to ensure that all key terms are clearly defined.

1.3 The inquiry process

1.3.1 Questionnaire

A questionnaire was sent to all departments in March 2013 seeking details of the budget estimates and underlying assumptions relating to each department. The questions focused on:

- departmental strategic priorities;
- the bases on which the budget was prepared;
- spending, including new initiatives;
- efficiencies and savings;
- revenue, including Commonwealth grants;
- net debt;
- geographic considerations;
- performance measures;
- staffing matters; and
- progress at the implementation of previous recommendations.

The responses to the questionnaire can be found on the Committee's website (www.parliament.vic.gov.au/paec).

1.3.2 Public hearings

From 10-24 May 2013, the Committee held public hearings with each minister and the Parliament's Presiding Officers. These hearings provided ministers with an opportunity to give presentations on their portfolios to the Committee. The hearings also enabled the Committee to ask questions on any aspects of the budget estimates related to each portfolio.

In total, there were 50 hearings, lasting over 53 hours.

Slide shows of ministers' presentations and documents tabled in the hearings can be downloaded from the Committee's website (www.parliament.vic.gov.au/paec). Transcripts of the hearings are also available on the website. Part One of this report provides summaries of the issues raised at each hearing.

1.3.3 Questions on notice

Ministers took questions on notice at the hearings for 30 portfolios (see Appendix A1.2). Ministers' responses have been published on the Committee's website (www.parliament.vic.gov.au/paec).

1.3.4 Report

The Committee has produced this report, including findings and recommendations, based on the questionnaires, public hearings and other research undertaken by the Committee.

1.3.5 Timeliness of responses

Departments' responses to the Budget Estimates Questionnaire are key sources of information for the Committee in developing questions at the public hearings. It is therefore important for the responses to be received early enough for the Committee to consider the content before the hearings with relevant ministers.

Appendix A1.1 lists the dates on which responses to the questionnaire were received.

Appendix A1.2 lists the date on which each response to questions on notice was received.

1.4 Structure

Part One of the report contains an overview of the budget papers and budget estimates, along with summaries of the issues raised in the public hearings.

Part Two repeats the overview (Chapter 2) and adds more detailed analyses of the budget estimates and budget papers, broken down by the following themes:

- revenue (Chapter 3);
- Commonwealth funding (Chapter 4);
- borrowings, debt and liabilities (Chapter 5);
- output expenditure (Chapter 6);
- performance measurement (Chapter 7); and
- asset investment (Chapter 8).

In addition, this report includes a discussion of the Government's responses to the recommendations in last year's report on the budget estimates (Chapter 9). The chapter also examines the extent to which previous recommendations have been implemented to date.

1.5 Machinery-of-government and other changes in 2013

A number of significant changes took place in the months before the Budget. These include the Hon. Dr Denis Napthine MP becoming Premier and the Hon. Michael O'Brien MP being appointed Treasurer. Changes were made to some ministerial portfolios, some were discontinued and some new portfolios were created. Machinery-of-government changes were also announced, which changed the structures and responsibilities of government departments from 1 July 2013.

1.5.1 Changes to portfolios

In March and April 2013, a number of changes were made to the ministerial portfolios of the Victorian Government.⁷ These included changes to some existing portfolios, the addition of two new portfolios and the discontinuation of one portfolio (see Table 1.1 below).

⁷ *Victoria Government Gazette*, No.S89, 13 March 2013; No.S155, 22 April 2013

Table 1.1 Changes to portfolios

Portfolios at the time of the 2012-13 Budget	Portfolios at the time of the 2013-14 Budget
Minister for Employment and Industrial Relations	Minister for Industrial Relations
	Minister for Employment and Trade
Minister for Manufacturing, Exports and Trade	Minister for Manufacturing
Minister responsible for the establishment of an anti-corruption commission	–
Minister for Gaming	Minister for Liquor and Gaming Regulation
–	Minister for State Development
–	Minister for Disability Services and Reform

Source: Public Accounts and Estimates Committee

A number of changes were also made to the individual ministers holding some portfolios.

1.5.2 Changes to departments

Machinery-of-government changes were announced in April 2013, impacting on many Victorian departments. The Premier indicated that these changes were designed to *'sharpen the focus of the public service on securing investment and jobs, delivering responsible financial management, and providing better frontline services to all Victorians.'*⁸

The changes are summarised in Figure 1.1, which shows that three departments were formed in 2013-14 from five previous departments. The Department of Treasury and Finance and Department of Premier and Cabinet also received some additional portfolios as part of the machinery-of-government changes.

1.6 Acknowledgement

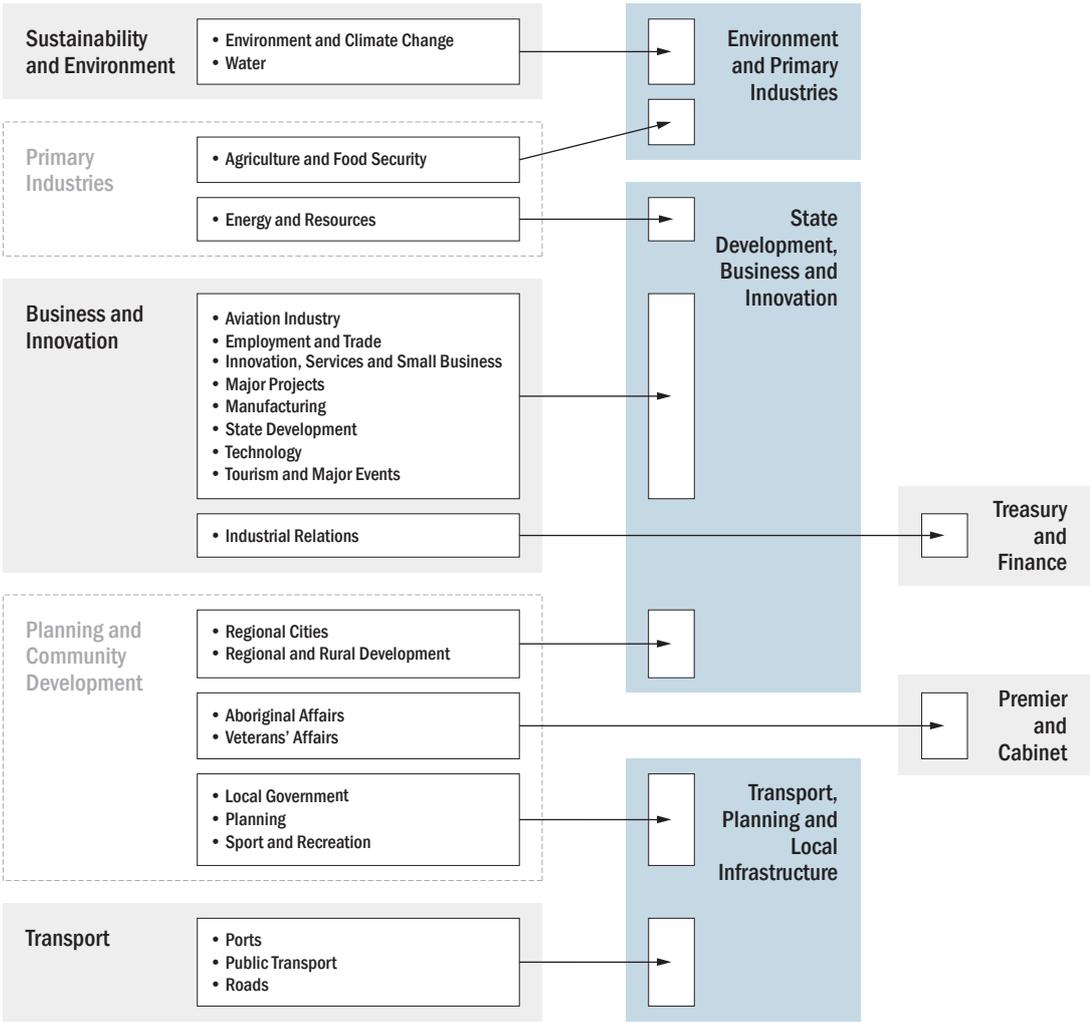
The Committee acknowledges the substantial contribution to this inquiry made by the Presiding Officers, Premier, Deputy Premier, Treasurer, Assistant Treasurer, Attorney-General, ministers, departmental secretaries, deputy secretaries, heads of agencies and staff. The Committee thanks everyone involved for their time and effort in preparing responses to the questionnaires, attending the public hearings and (where requested) responding to questions on notice and requests for further information.

1.7 Cost

The cost of this inquiry was approximately \$90,800.

8 Hon. Dr D. Napthine MP, Premier, 'A Stronger Focus on Jobs and Investment', media release, 9 April 2013

Figure 1.1 Movements of portfolios, 2012-13 Budget to 2013-14 Budget



Source: Public Accounts and Estimates Committee

CHAPTER 2 KEY ASPECTS OF THE 2013-14 BUDGET

2.1 Introduction

This chapter presents the Committee's overview of the 2013-14 Budget. It is the Government's third budget and the first of the Hon. Michael O'Brien MP as the Treasurer.

The chapter starts with a discussion of the key components of a budget. These components and their relationship to each other are briefly described and identified diagrammatically in Section 2.2.

The chapter then seeks to answer the following key questions about the Budget:

- How are the budget papers structured? (Section 2.3)
- What is the setting in which the Budget was released? This includes the challenges facing the Government, its strategic directions and the new initiatives it has announced. (Section 2.4)
- What will the operating surplus be, and how will it be achieved? (Section 2.5)
- What are the Government's plans for asset investment? (Section 2.6)
- How did the 2013-14 Budget impact on the State's credit rating? (Section 2.7)
- How is the sustainability of the Government's finances expected to change over the forward estimates? (Section 2.8)
- What contingencies has the Government built into the Budget? (Section 2.9)

Many of the topics discussed in this chapter are analysed in more detail in the other chapters of this report.

2.2 Key components of the State Budget

Figure 2.1 illustrates the key components of the Budget. Its purpose is to provide an overall understanding of how the components of a budget are connected to each other and how money flows from one area to another.

The amounts used in the diagram relate specifically to the Government's estimates for 2013-14. The amounts are detailed and compared to the previous year in Table 2.1. Table 2.2 indicates where in the budget papers these items can be found and the terms used in the budget papers, which differ in some cases from the terms used in this report.

The first component of the diagram is **revenue**. Slightly over half of this (54 per cent) is **State-sourced revenue**. The remainder is **Commonwealth-sourced**.

The bulk of the revenue funds the Government's **output expenditure**. This expenditure primarily covers the goods and services delivered by the Government.

The amount of revenue that remains after output expenditure has been funded is the **operating surplus**. Achieving a surplus of at least \$100 million is one of the Government's targets in its medium-term fiscal strategy (see Section 2.4.2 of this report). The Government expects to achieve a surplus of \$224.5 million in 2013-14, and plans to increase the surplus substantially in 2015-16 and 2016-17 (see Section 2.5.2).

Costs such as **depreciation and similar** are also included in output expenditure. These costs are included in the operating statements in line with accounting standards, but do not actually involve any transfer of cash. As a result, the cash equivalent to these costs is still available from revenue to be used by the Government as it sees fit.

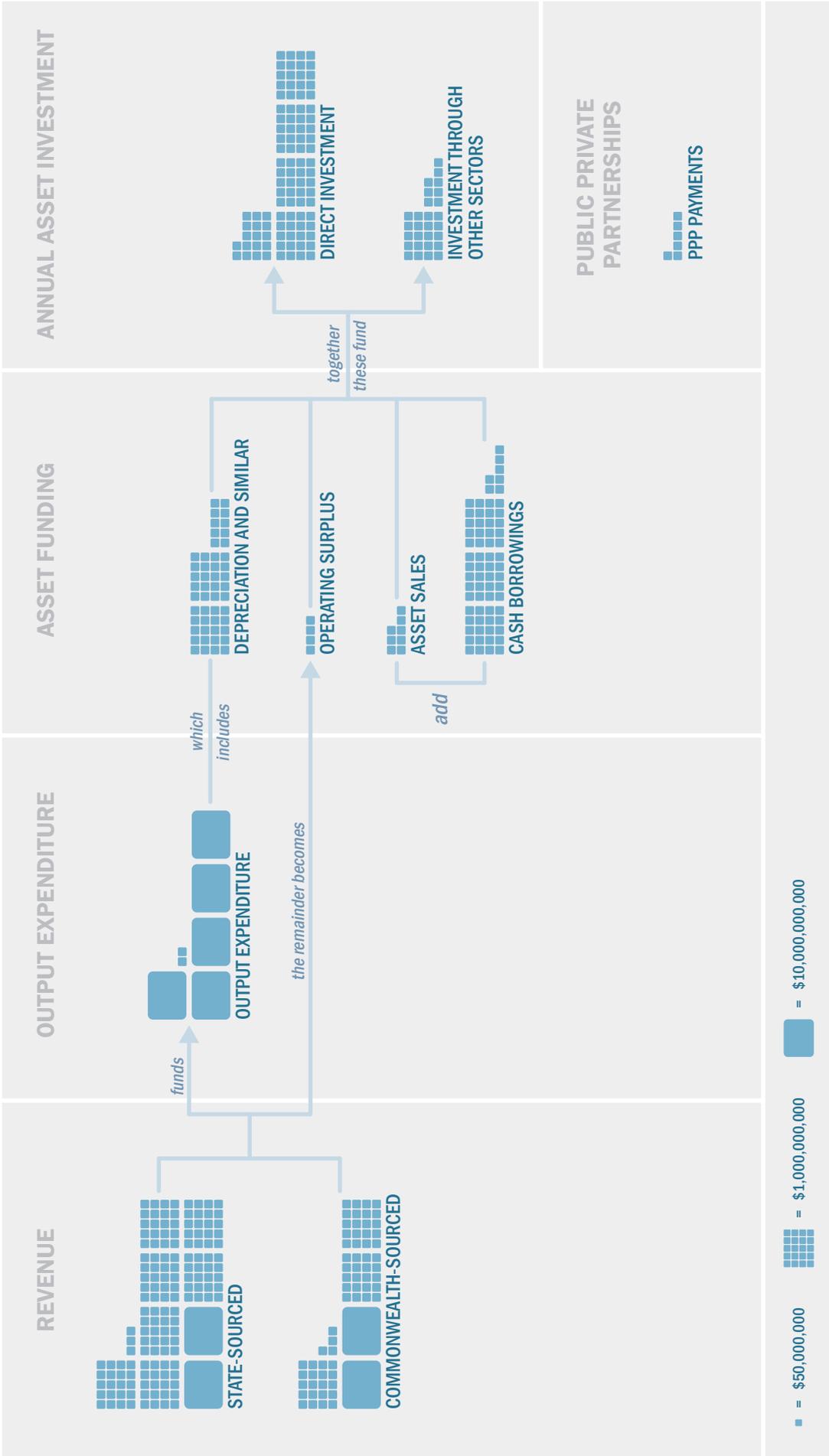
Usually, the cash equivalent to depreciation and similar is used to fund asset investment (that is, infrastructure and other physical assets). Some or all of the operating surplus is also normally used for this purpose. Where the amounts from these two sources are not enough, the Government will usually use proceeds from **asset sales** and **cash borrowings**. The amount of cash borrowings expected to be made in 2013-14 is substantial (\$3.4 billion). However, the Government expects not to require cash borrowings in 2015-16 and 2016-17, as surpluses are predicted to increase and asset investment expected to decrease (see Section 2.6.2 of this report).

The **annual asset investment** funded by these amounts is delivered through two avenues. **Direct investment** covers projects directly delivered by the general government sector (that is, the departments and agencies that do not generally charge for their services). **Investment through other sectors** covers those projects which are funded by the general government sector, but where the assets are delivered by the public non-financial corporations sector (that is, Government agencies which charge for their services, such as water corporations). In 2013-14, these projects include investment in public transport infrastructure (such as rolling stock and other rail infrastructure projects) and investment in public housing, community housing and disability supported accommodation.⁹

Payments are also made each year for public private partnerships (PPPs). For the first time, the Government has quantified its **PPP payments** in the 2013-14 budget papers (referred to in the budget papers as ‘cash flows from PPP payments’).

⁹ Budget Paper No.4, *2013-14 State Capital Program*, May 2013, p.12

Figure 2.1 Key components of the 2013-14 Budget



Source: Public Accounts and Estimates Committee

Table 2.1 Key components of the Budget, 2012-13 and 2013-14

Term used in this report	2012-13 revised estimate (\$ million)	2013-14 Budget (\$ million)	Variance	
			(\$ million)	(per cent)
Revenue	48,105.6	50,327.5	2,221.9	4.6
• State-sourced ^(a)	26,540.0	27,147.7	607.7	2.3
• Commonwealth-sourced ^(a)	21,565.6	23,179.8	1,614.2	7.5
Output expenditure	47,928.6	50,103.0	2,174.4	4.5
• Depreciation and similar	1,548.6	2,507.1	958.5	61.9
Operating surplus	177.0	224.5	47.5	26.8
Asset sales	405.7	420.2	14.5	3.6
Cash borrowings	3,603.5	3,359.0	-244.5	-6.8
Annual asset investment	5,610.2	6,246.2	636.0	11.3
• Direct investment	4,088.5	4,868.9	780.4	19.1
• Investment through other sectors	1,521.7	1,377.3	-144.4	-9.5
PPP payments	n/a	310.1	n/a	n/a

(a) Due to a change in methodology, these numbers vary marginally from the numbers included in the *Report on the 2013-14 Budget Estimates – Part One*.

Sources: Budget Paper No.2, *2013-14 Strategy and Outlook*, May 2013, p.55; Budget Paper No.4, *2013-14 State Capital Program*, May 2013, p.11; Budget Paper No.5, *2013-14 Statement of Finances*, May 2013, pp.5, 8, 233, 236, 252

Table 2.2 Comparison of terms used in this report and terms in the budget papers

Term used in this report	Term used in budget papers	Reference ^(a)
Revenue	Total revenue from transactions	BP5, p.5
State-sourced ^(b)	(All revenue line items except Commonwealth-sourced grants)	BP5, pp.5, 182
Commonwealth-sourced ^(b)	Grants excluding 'other contributions and grants'	BP5, p.182
Output expenditure	Expenses from transactions	BP5, p.5
Depreciation and similar	Non-cash income and expenses (net)	BP2, p.55
Operating surplus	Net result from transactions	BP5, p.5
Asset sales	Sales of non-financial assets	BP5, p.8
Cash borrowings	Net borrowings	BP5, p.8
Annual asset investment	(The sum of the next two items)	-
Direct investment	Purchases of non-financial assets	BP5, p.8
Investment through other sectors	Net cash flows from investments in financial assets for policy purposes	BP5, p.8
PPP payments	Cash flows from PPP payments	BP4, p.11

(a) 'BP2' = Budget Paper No.2, *2013-14 Strategy and Outlook*, May 2013
 'BP4' = Budget Paper No.4, *2013-14 State Capital Program*, May 2013
 'BP5' = Budget Paper No.5, *2013-14 Statement of Finances*, May 2013

(b) Due to a change in methodology, these numbers vary marginally from the numbers included in the *Report on the 2013-14 Budget Estimates – Part One*.

2.3 Structure of the 2013-14 budget papers

The 2013-14 budget papers consist primarily of five documents:

- the Treasurer's speech (Budget Paper No.1);
- a paper on the budget strategy and outlook (Budget Paper No.2);
- details of the Government's new output and asset initiatives, departmental performance statements (including performance measures) and local government financial relations (Budget Paper No.3);
- details of expenditure on new and existing asset investments (Budget Paper No.4); and
- the estimated financial statements of the general government sector (reviewed by the Auditor-General), financial statements for other sectors, departmental estimated financial statements and other financial details (Budget Paper No.5).

This repeats the structure of the 2012-13 budget papers. As in 2012-13, the 2013-14 budget papers are also accompanied by:

- a budget overview document;
- various online data sets; and
- three budget information papers.

The budget information papers address the Government's budget strategies in:

- regional and rural Victoria (Budget Information Paper No.1), published also in 2012-13;
- infrastructure investment (Budget Information Paper No.2), which replaces an information paper on Victorian families published in 2012-13 – the *2013-14 Budget Overview* includes a section on 'delivering for Victorian families'; and
- Federal financial relations (Budget Information Paper No.3), published also in 2012-13.

All three budget information papers supplement the budget papers and bring together specific information on their topics. This information helps readers particularly interested in those topics to better understand the context of the Budget.

Budget Information Papers Nos.1 and 2 principally cover the Government's priorities and actions in the 2013-14 Budget in the subject areas. Much of Budget Information Paper No.3 discusses what the Government considers to be the challenges and expectations arising from the current Commonwealth funding framework, including the system of GST distribution.

2.3.1 Changes in the 2013-14 budget papers

The details of the machinery-of-government changes which took effect from 1 July 2013 (see Section 1.5.2) are discussed in a number of places in the budget papers. Forward estimates have been provided on the basis of the future departmental structures. However, information has also been supplied for the 2012-13 financial performance of the two departments whose responsibilities will be transferred to other departments (the Department of Planning and Community Development and Department of Primary Industries).

Other major changes are detailed in Table 2.3. Most of these are additional information that has been added for the first time in 2013-14.

Table 2.3 Key changes between the 2012-13 and the 2013-14 budget papers

Budget paper	Chapter	Type of change	Details
Budget Paper No.2 (2013-14 Strategy and Outlook)	Chapter 3	Addition	A section has been added discussing changes in the revenue base (i.e. state taxation, GST and other Commonwealth funding).
		Restructure	The previous discussion of the Government's 'economic reform strategy' has been replaced by an 'economic and fiscal strategy', which is largely overlapping but with some differences.
	Chapters 4 & 5	Addition	The impact of revisions to accounting standard AASB 119 has been discussed, including a new indicator, the 'Government fiscal result'.
	Chapter 5	Restructure	Last year's discussion of the State's triple-A credit rating has been replaced with other measures of financial sustainability this year.
	Appendix A	Addition	A new section has been added about the interactions of variations in the economic outlook.
Budget Paper No.3 (2013-14 Service Delivery)	Chapter 1	Restructure	In 2012-13, 'savings' were detailed for each department. In 2013-14, an 'efficiency and expenditure reduction measures' section describes initiatives on a whole-of-government level.
		Addition	A new line item details funding from existing resources in each department's list of output initiatives.
	Chapter 2	Addition	'Objective indicators' have been introduced for departmental objectives.
Budget Paper No.4 (2013-14 State Capital Program)	Chapter 1	Addition	A reconciliation of the components of general government sector capital expenditure has been added.
		Addition	A list of the major projects funded by asset investment through other sectors has been added.
	Chapter 2	Addition	Information has been added for each department quantifying and describing the capital expenditure on projects not separately listed in Budget Paper No.4.
	Chapters 2 & 3	Addition	Estimated completion dates are now included for all new and existing projects.
	Definition and Style Conventions	Addition	The glossary has been expanded.

Budget paper	Chapter	Type of change	Details
Budget Paper No.5 (2013-14 Statement of Finances)	Chapters 1 & 2	Addition	Discussion has been included about the revisions to accounting standard AASB 119 and a new indicator, the 'Government fiscal result', has been added to show the impact.
	Chapter 4	Addition	More discussion has been provided about the main components of revenue, including: <ul style="list-style-type: none"> • details of forward estimates (previously just prior years and the budget year were detailed); • discussion of the key drivers of major components; and • GST relativities assumed in the estimates.
		Restructure	Grants for specific purposes have been grouped into broad expenditure categories.
Budget Information Papers No.1 & 3, Budget Overview	All	Restructure	The structure and content of these documents have been modified to reflect changes in Government programs, projects and priorities.
Budget Information Paper No.2	All	Restructure	This information paper provided the 2012-13 Victorian Families Statement last year. This year, it provides details of the Government's infrastructure program.
Online financial data sets	-	Addition	Break downs by department have been added of the line items 'purchase of services' and 'purchase of supplies and consumables'.

Source: Public Accounts and Estimates Committee

FINDING: The 2013-14 budget papers generally follow the same structure as the 2012-13 budget papers. New information has been added in a number of areas throughout. An information paper on infrastructure investment has replaced the 2012-13 information paper on Victorian families.

2.4 Budget setting and strategic directions

2.4.1 Budget setting

The key theme underpinning the Government's assessment of the 2013-14 budget setting is 'building for growth'.

In his concluding comments to his budget speech, the Treasurer described the Budget as:¹⁰

- *A budget with sound financial management at its heart that, almost alone across Australia, consistently delivers surpluses.*
- *A budget that sees a growing economy, growing job creation and falling unemployment.*

¹⁰ Budget Paper No.1, 2013-14 Treasurer's Speech, May 2013, p.16

- *A budget that sees debt managed prudently and falling significantly over the forward estimates.*
- *A budget that strengthens our society by increasing support for vulnerable Victorians and those with a disability.*
- *A budget that invests a record \$6.1 billion in infrastructure ...*
- *A budget that invests in our roads, our public transport, our regions and our schools.*
- *And a budget that delivers the next transformational infrastructure project for Victoria, Stage 1 of the East West Link. ...*
- *This budget is building for growth.*

The *East West Link – Stage 1* project referred to by the Treasurer is described in the budget papers as ‘*the centrepiece of the 2013-14 Budget infrastructure program.*’¹¹

The budget papers include commentary on Victoria’s short-term and long-term economic outlook.¹² Positive messages are conveyed in both cases with:

- the Victorian economy viewed as performing solidly and expected by the Government to significantly strengthen in 2013-14;¹³ and
- Victoria’s long-term economic outlook regarded as strong but not expected to return to levels seen prior to the global financial crisis.¹⁴

The commentaries outline the risks to the short-term and long-term outlooks such as global economic factors, movements in the Australian dollar and changes in the revenue base.

In evidence to the Committee, the Treasurer reinforced the Government’s positive economic outlook for Victoria. The Treasurer’s comments to the Committee included:¹⁵

... this budget forecasts a growing economy, growing employment, growing surpluses and major new infrastructure for Victoria. ... We are forecasting the unemployment rate to fall from the 2012-13 estimate of 5.75 per cent to 5.5 per cent in 2013-14 and then further to 5 per cent towards the end of the forward estimates.

... we do think there are some strong signs the economy is starting to return in terms of its strength, and that will obviously flow through to revenue.

FINDING: The Treasurer, in his budget speech, noted the positive economic forecasts supporting the Government’s 2013-14 budget strategies.

11 Budget Paper No.2, *2013-14 Strategy and Outlook*, May 2013, p.1

12 *ibid.*, pp.11-42

13 *ibid.*, p.11

14 *ibid.*, p.25

15 Hon. M. O’Brien, Treasurer, 2013-14 budget estimates hearing, transcript of evidence, 10 May 2013, pp.2-3

2.4.2 Strategic directions

The Government's 2012-13 budget papers outlined two key economic and fiscal strategies,¹⁶ namely:

- an economic reform strategy; and
- a medium-term fiscal strategy.

The 2013-14 budget papers address these two strategies in the latest budget setting. The medium-term fiscal strategy was not modified from last year. However, the economic reform strategy is now titled an 'economic and fiscal strategy' and has been refocused.

The economic and fiscal strategy

This strategy condenses the previous economic and reform strategy's four 'pillars' into three elements:¹⁷

- *rebuilding budget capacity;*
- *improving productivity, including through the provision of major infrastructure, more responsive and productive service delivery and continuing to build the skills and capabilities of the Victorian workforce; and*
- *ensuring Victoria is a competitive and low-cost place to do business.*

The former strategy had two separate 'pillars' relating to: supporting Victorian businesses through growing export markets; and supporting businesses and employees in transition. The focus in the revised strategy is on making Victoria attractive as a place to do business.

The budget papers describe the impetus for each element of the economic and fiscal strategy, incorporating reference to some key related budget initiatives.¹⁸

The medium-term fiscal strategy

The Government's medium-term fiscal strategy (see Table 2.4) is unchanged from the previous year.

The budget papers state that the Government's medium-term fiscal strategy means '*it can advance transformational infrastructure projects and improve the capacity and quality of transport and other key economic and social infrastructure.*'¹⁹ The papers indicate that the projected infrastructure investment of \$6.1 billion in the 2013-14 Budget aligns with the Government's target of infrastructure investment being 1.3 per cent of gross state product (GSP), calculated as a five-year rolling average.²⁰

16 A fiscal strategy generally deals with the financial aspects of government activities, such as raising taxes and government expenditure. In contrast, an economic strategy generally seeks to bring about changes in the broader economy as well.

17 Budget Paper No.2, *2013-14 Strategy and Outlook*, May 2013, p.31

18 *ibid.*, pp.31-42

19 *ibid.*, p.8

20 *ibid.*

Table 2.4 Medium-term fiscal strategy

Financial measures	Target ^(a)
Infrastructure investment	Infrastructure investment of 1.3 per cent of GSP (calculated as a rolling five-year average)
Net debt	General government net debt reduced as a percentage of GSP over the decade to 2022
Superannuation liabilities	Fully fund the unfunded superannuation liability by 2035
Operating surplus	A net operating surplus of at least \$100 million and consistent with the infrastructure and debt parameters

(a) The targets are described in the budget papers as 'parameters' rather than as 'targets'. The previous year's papers indicated they would be used as the basis for measuring progress. It is not clear to the Committee whether the Government has used the word 'parameter' rather than 'target' to indicate a difference in meaning.

Source: Budget Paper No.2, *2013-14 Strategy and Outlook*, May 2013, p.8

The budget papers also reiterate the Government's long-term financial management objectives. These long-term objectives are described as:²¹

- managing responsibly;
- looking after the future;
- managing the unexpected;
- improving services; and
- maximising community benefit.

Each long-term financial management objective is briefly explained in the budget papers.

FINDING: The Government has revised the 'economic reform strategy' it developed in 2012-13. The four pillars of the strategy have been condensed into three elements as an 'economic and fiscal strategy'. The Government's medium-term fiscal strategy is unchanged.

2.4.3 New output and asset initiatives

Information published by the government of the day on new output and asset funding initiatives is a core and usually much-awaited feature of each year's State Budget. The information details a government's intended allocation of new funds over the next four years for specific service delivery purposes and infrastructure investments. Decisions reached by a government on these new funding allocations normally reflect the strategies underpinning the direction of the budget.

The 2013-14 Budget proposes new output initiatives with an estimated cost of \$3.5 billion between 2013-14 and 2016-17.²² This compares to \$4.1 billion in the 2012-13 Budget.²³ The Budget also proposes new asset initiatives with a total estimated investment (over the life of the

21 *ibid.*, p.7

22 *ibid.*, pp.53-4

23 Budget Paper No.3, *2012-13 Service Delivery*, May 2012, Chapter 1

projects²⁴) of around \$8.5-10.5 billion.²⁵ The equivalent new asset funding figure for 2012-13 was \$2.7 billion.²⁶

This sharp increase in asset investment in 2013-14 and the use of a range for the estimated funding reflect the *East West Link – Stage 1* initiative. The Government currently estimates the cost of this major project to be approximately \$6-8 billion. The Government has indicated that a cost of this magnitude will require funding from a range of additional sources such as the Commonwealth Government and the private sector.²⁷ The Government anticipates delivering this project through a public private partnership.²⁸ The Government has allocated \$294.0 million over 2013-14 and 2014-15 in the 2013-14 Budget for the initial phase of this project, with construction works expected to commence late in 2014.²⁹

Information on the new output and asset initiatives is presented in several sections of the 2013-14 budget papers:

- the *2013-14 Budget Overview* describes the Government's main new funding decisions (including major new initiatives) under 24 headings;
- Budget Paper No.2 (*2013-14 Strategy and Outlook*) provides tables disclosing the aggregate value of new output and asset initiatives for each department. It also details the financial impact of the new output initiatives on the Budget;³⁰
- Budget Paper No.3 (*2013-14 Service Delivery*) lists all new output and asset initiatives announced in the budget under departmental headings. Descriptions of each initiative, details of funding and links to the departments' outputs are provided;
- Budget Paper No.4 (*2013-14 State Capital Program*) lists both new and existing asset projects. Details provided include the total estimated investment, the estimated expenditure for 2013-14 and the estimated completion date; and
- Budget Information Papers No.1 and No.2 include details of new and existing initiatives relevant to their subjects ('regional and rural Victoria' and 'infrastructure investment').

Further discussion of new output and asset initiatives can be found in Sections 6.6 and 8.5 of this report.

FINDING: The 2013-14 Budget proposes \$3.5 billion worth of new output initiatives (additional goods and services to be delivered) and between \$8.5 and \$10.5 billion of new asset investments (infrastructure and other physical assets).

24 This includes some expenditure beyond the forward estimates period.

25 Budget Paper No.2, *2013-14 Strategy and Outlook*, May 2013, p.56

26 Budget Paper No.2, *2012-13 Strategy and Outlook*, May 2012, p.49

27 Hon. Dr D. Napthine, Premier of Victoria, 'Coalition Government to Build the East West Link', media release, 7 May 2013

28 Budget Paper No.4, *2013-14 State Capital Program*, May 2013, p.7

29 Budget Paper No.2, *2013-14 Strategy and Outlook*, May 2013, p.34

30 *ibid.*, pp.54, 56

2.4.4 Meeting the cost of the new output initiatives

The total cost of the new output initiatives announced in the 2013-14 Budget will be \$3.5 billion over the four years to 2016-17. The budget papers show that the Government plans to fund the bulk of this cost for 2013-14 and 2014-15, and all of the cost in 2015-16 and 2016-17, through:³¹

- ‘reprioritisation and adjustments’ of funding previously allocated to departments (see discussion below on the meaning of this phrase);
- savings initiatives; and
- the release of contingency provisions.

Table 2.5 illustrates this position. It shows that the estimated net impact of the new output initiatives in 2013-14 is that expenditure will increase by \$131.9 million (14 per cent of the gross cost of delivering the initiatives). The net figure drops to only \$65.7 million (7 per cent of the gross cost) in 2014-15. For 2015-16 and 2016-17, the estimated funding released from these three sources will be substantially greater than the cost of the announced initiatives. In other words, no new outlays will be required for these latter two years to fund the initiatives from the 2013-14 Budget.

Table 2.5 Net financial impact of the new output initiatives in the 2013-14 Budget

	2013-14 Budget	2014-15 estimate	2015-16 estimate	2016-17 estimate
	(\$ million)	(\$ million)	(\$ million)	(\$ million)
Output initiative costs (gross)	950.6	960.7	811.1	795.2
Less:				
– Funding from reprioritisation and adjustments	192.6	160.8	114.6	98.7
– Savings	138.1	239.6	295.9	345.6
– Release of contingency provisions	488.0	494.6	508.4	479.0
Total deductions	818.7	895.0	918.9	923.3
Net financial impact	131.9	65.7	-107.7	-128.1

Source: Budget Paper No.2, *2013-14 Strategy and Outlook*, May 2013, p.54

A new line item has been added to each department’s table of new output initiatives in 2013-14 labelled ‘existing resources’. It is a negative number, indicating that it represents funding from existing sources to offset new initiatives. The Committee notes that the total of funds from ‘existing resources’ is less than the total ‘reprioritisation and adjustments’ (see further discussion in Section 6.7.2 of this report). The Committee welcomes this additional disclosure.

Funding from reprioritisation and adjustments

As with the previous year, the only discussion of the item ‘funding from reprioritisation and adjustments’ in the budget papers is by way of an explanatory note. This note states, ‘*This includes the reprioritisation of resources previously allocated to departments.*’³²

31 *ibid.*, p.54

32 *ibid.*

The Committee has recommended in previous reports to Parliament that the budget papers provide additional information on this particular item, including identification of the affected programs or services.³³ This has not been supported by the Government.³⁴ However, the new 'existing resources' line (in the tables of new output initiatives) provides a departmental break-down of some of the funding from reprioritisation and adjustments.

Savings initiatives

The 'savings' item in Table 2.5 relates to the initiatives announced in the 2013-14 Budget to reduce spending. These savings, which have an estimated value of \$1.0 billion between 2013-14 and 2016-17, are described as '*efficiency and expenditure reduction measures*' in the budget papers. Table 2.6 shows the composition of these measures, as disclosed in the budget papers.

Table 2.6 Efficiency and expenditure reduction measures in the 2013-14 Budget

	2013-14 Budget (\$ million)	2014-15 estimate (\$ million)	2015-16 estimate (\$ million)	2016-17 estimate (\$ million)
Adjusting the Efficiency Dividend to Non-Frontline Departmental Expenditure	25.0	75.0	125.0	175.0
Ceasing the Trade Bonus	3.0	5.0	6.0	6.0
Electricity and Gas Concession Changes	9.0	10.3	11.7	13.3
Refocusing the Public Service	14.0	24.1	24.2	24.3
Retargeting the First Home Owner Grant	74.6	111.9	114.8	111.9
Retrospective Eligibility for Concessions	12.4	13.3	14.2	15.1
Total efficiency and reduction measures	138.1	239.6	295.9	345.6

Source: Budget Paper No.3, 2013-14 Service Delivery, May 2013, p.62

The 2013-14 service delivery budget paper briefly outlines the nature of these six initiatives. They add to a range of initiatives announced in the 2012-13 Budget Update that were expected to reduce spending by \$639.1 million between 2012-13 and 2015-16.³⁵

The 2012-13 budget papers identify savings initiatives on a departmental basis, with a description of how each department intended to reduce its spending. In the 2012-13 Budget Update and the 2013-14 budget papers, the savings initiatives are identified on a whole-of-government level, with a description of each initiative. The impact of these initiatives is not broken down by department.

33 Public Accounts and Estimates Committee, *Report on the 2011-12 Budget Estimates — Part Three*, September 2011, Recommendation 24, p.95 and the Committee's *Report on the 2012-13 Budget Estimates — Part Two*, September 2012, Recommendation 23, p.90

34 Victorian Government, Government Responses to the Recommendations of Public Accounts and Estimates Committee's 102nd Report on the 2011-12 Budget Estimates — Part Three, tabled 14 March 2012, p.14 and Government Responses to the Recommendations of Public Accounts and Estimates Committee's 111th Report to Parliament — *Report on the 2012-13 Budget Estimates — Part Two*, tabled out of session on 12 March 2013, p.13

35 Department of Treasury and Finance, *2012-13 Victorian Budget Update*, December 2012, pp.124-5

Release of contingency provisions

The third cost-reducing item, ‘release of contingency provisions’, indicates how much the Government expects to draw on the contingency provisions built into the estimates in previous budgets. In total, the Government plans to draw down \$2.0 billion from contingency reserves over the four years to 2016-17.³⁶

The Committee has previously recommended that the Government present expanded information about contingencies in future budget papers, including their role in the budgetary process and the methodology employed for determining their quantification.³⁷ In supporting this recommendation, the Government indicated in November 2011 that the Department of Treasury and Finance ‘will explore opportunities to enhance discussion around the basis and role of contingencies.’³⁸

There has been no change to the presentation of contingencies in subsequent budgets.

Further comment on contingencies is provided in Section 2.9 of this report.

FINDING: Most of the cost for the new output initiatives announced in the 2013-14 Budget will be met through reprioritisation and adjustment of previous funding, savings initiatives and the release of contingency provisions.

Additional discussion of all three of these funding sources can be found in Section 6.7 of this report.

2.4.5 The Government’s election commitments

Funding status of planned election commitments

Prior to its election in 2010, the Government made a series of commitments to be funded over the next four years. The 2011-12 budget papers disclosed that the Government’s election commitments had been costed at:³⁹

- \$5.2 billion for output and revenue commitments; and
- \$2.4 billion for asset commitments.

The 2011-12 Budget funded \$5.1 billion of the output and revenue commitments and \$1.1 billion of the asset commitments.⁴⁰ The 2011-12 budget papers indicated that the remaining commitments ‘will be fully funded in future budgets during this term of government.’⁴¹

The 2013-14 budget papers summarise the Government’s progress at funding its election commitments, as presented in Table 2.7.

36 Budget Paper No.2, *2013-14 Strategy and Outlook*, May 2013, p.54

37 Public Accounts and Estimates Committee, *Report on the 2011-12 Budget Estimates — Part One*, June 2011, Recommendation 8, p.31

38 Victorian Government, Government Responses to the Recommendations of Public Accounts and Estimates Committee’s 102nd Report on the 2011-12 Budget Estimates — Part One, tabled 24 November 2011, p.5

39 Budget Paper No.3, *2011-12 Service Delivery*, May 2011, p.13

40 *ibid.*

41 *ibid.*

Table 2.7 Progress at funding the Government's election commitments

	Government election commitments ^(a) (\$ million)	Funding provided up to 2013-14 Budget ^(b) (\$ million)	Funding provided in 2013-14 Budget ^(c) (\$ million)	Progress as at 2013-14 Budget ^(d) (\$ million)
Output and revenue initiatives ^(e)	5,213.1	5,194.5	35.7	5,230.2
Asset initiatives ^(f)	2,403.6	2,529.8	728.8	3,258.6

Notes (as supplied by the Department of Treasury and Finance):

- (a) Government Election Commitments refers to the Liberal Nationals Coalition 2010 Election Commitments document.
- (b) Total includes estimated funding for asset election commitments announced up to and including the 2012-13 Budget Update. The funding estimates for some initiatives may be updated on completion of the tendering process.
- (c) Asset initiatives total exclude funding commitment for Southland Station and Box Hill to Ringwood Bikeway. The total estimated investment (TEI) for each of these projects have not been announced at this time.
- (d) Total includes adjustments to funding as a result of changes to policy parameters, such as bringing forward the timing of election commitments and delivery of services beyond the scope of the Government Election Commitments.
- (e) Includes revenue and savings initiatives.
- (f) Includes relevant savings as specified within the Government Election Commitments.

Source: Budget Paper No.3, 2013-14 Service Delivery, May 2013, p.65

Table 2.7 indicates that the 2013-14 Budget funds an additional \$35.7 million of output and revenue initiatives and an additional \$728.8 million of asset initiatives (plus the Southland Station and Box Hill to Ringwood Bikeway, whose total estimated investments have not yet been released). The budget papers state that the further asset investment 'includes school capital, hospitals, public transport and road infrastructure'.⁴² These planned allocations mean that the Government will have exceeded its original estimates of election commitments for each initiative category. The Government stated, 'Careful management of the State's budget has allowed the Government to upgrade and expand the scope of some projects and programs and to bring forward the delivery of others.'⁴³

FINDING: With the 2013-14 Budget, the Government has provided further funding for the commitments it announced prior to its election in 2010. The total funding provided now exceeds the election estimates, especially for asset initiatives.

2.5 Operating surplus

2.5.1 Budgeted surplus for 2013-14

The difference between the total revenue received and the total output expenditure is referred to as the 'operating surplus', 'net operating balance' or 'net result from transactions'. This operating surplus, when added to non-cash items such as depreciation, is typically used to fund infrastructure spending (which is not included in output expenditure) or pay off debt.

⁴² Budget Paper No.3, 2013-14 Service Delivery, May 2013, p.64

⁴³ *ibid.*

In the 2013-14 Budget, the Government has reiterated its medium-term fiscal strategy of a ‘net operating surplus of at least \$100 million and consistent with the infrastructure and debt parameters.’⁴⁴

Consistent with this target, the Government is forecasting a surplus of \$224.5 million in 2013-14.

Table 2.8 shows the revenue and expense projections for 2013-14 together with the original budget and the latest estimate for 2012-13 (referred to as the ‘revised estimate’).

Table 2.8 Revenue and expense estimates for 2012-13 and 2013-14

Operating item	2012-13 Budget	2012-13 revised estimate	2013-14 Budget
	(\$ million)	(\$ million)	(\$ million)
Revenue	48,356.7	48,105.6	50,327.5
Output expenditure	48,201.8	47,928.6	50,103.0
Operating surplus	154.9	177.0	224.5

Sources: Budget Paper No.2, *2012-13 Strategy and Outlook*, May 2012, p.38; Budget Paper No.2, *2013-14 Strategy and Outlook*, May 2013, p.45

Table 2.8 identifies that the operating surplus for 2013-14 is expected to be \$47.5 million (27 per cent) higher than the latest estimate for 2012-13. This is expected to be achieved by increasing revenue by \$2,221.9 million compared to last year, but increasing expenditure by only \$2,174.4 million.

Revenue projections for 2013-14 are 4.6 per cent higher than the revised estimate for 2012-13 (the equivalent rise for the previous year’s budget was 3.2 per cent).⁴⁵ On the expenditure side, 2013-14 projections are 4.5 per cent higher than the revised figure for 2012-13. However, part of this is a result of changes to accounting standard AASB 119 *Employee Benefits*. These changes have impacted on the amount included as expenditure in 2013-14 but not in 2012-13. Correcting for that change, the growth in expenditure is 3.3 per cent.⁴⁶ The equivalent increase last year was 3.1 per cent.⁴⁷

FINDING: The Budget forecasts a surplus of \$224.5 million in 2013-14, which is in line with the Government’s medium-term target of at least \$100 million.

2.5.2 Projected future operating surpluses

The Government anticipates that revenue will grow at a faster rate than expenses over the forward estimates period. The Government expects average annual revenue growth over the forward estimates to be 4.0 per cent and average expenditure growth to be 2.5 per cent.⁴⁸

44 Budget Paper No.2, *2013-14 Strategy and Outlook*, May 2013, p.8

45 Budget Paper No.2, *2012-13 Strategy and Outlook*, May 2012, p.38

46 Budget Paper No.2, *2013-14 Strategy and Outlook*, May 2013, p.45; further details of the impact of the change to the accounting standard can be seen in Budget Paper No.5, *2013-14 Statement of Finances*, May 2013, pp.19-20

47 Budget Paper No.2, *2012-13 Strategy and Outlook*, May 2012, p.38

48 Budget Paper No.2, *2013-14 Strategy and Outlook*, May 2013, p.4

The 2013-14 Budget shows that the operating surplus is projected to grow markedly in 2015-16 and 2016-17, reaching an estimated surplus in excess of \$2.5 billion in 2016-17 (see Table 2.9).⁴⁹ The Treasurer explained that:⁵⁰

These growing surpluses go beyond responsible budget policy – this year they are enabling the Government to deliver a record \$6.1 billion in infrastructure.

Table 2.9 Revenue and expense estimates, 2013-14 to 2016-17

Operating item	2013-14 Budget	2014-15 estimate	2015-16 estimate	2016-17 estimate
	(\$ million)	(\$ million)	(\$ million)	(\$ million)
Revenue	50,327.5	51,974.7	54,474.3	56,543.4
Output expenditure	50,103.0	51,576.0	52,546.6	53,996.0
Operating surplus	224.5	398.7	1,927.7	2,547.4

Source: Budget Paper No.2, 2013-14 Strategy and Outlook, May 2013, p.45

The table above shows that 2015-16 is projected by the Government to provide a major increase in Victoria's budget surplus. In that year, the surplus is expected to rise by \$1.5 billion or over 380 per cent to \$1.9 billion. The Government anticipates revenue growth of 4.8 per cent in that year, the highest of the forward estimates period, and expenditure growth of just 1.9 per cent, the smallest for the period.⁵¹ The Government expects to build on this in the following year, 2016-17, and attain a further increase in surplus of \$619.7 million or 32 per cent.

Some of the key assumptions made by the Government underlying this growth in the last two years include:

- an increase in Victoria's share of the GST pool from 2015-16 onwards due to increased mining royalties in Queensland and Western Australia decreasing those states' share of the GST pool;⁵²
- steady growth in payroll tax throughout the forward estimates period as employment growth accelerates;⁵³ and
- increased taxes on property through the forward estimates period as a result of recovery in the property market.⁵⁴

FINDING: The Government forecasts that its operating surplus will increase substantially in 2015-16 and 2016-17. It plans for the surplus to rise by over 380 per cent between 2014-15 and 2015-16, to \$1.9 billion. It expects the surplus to further increase to over \$2.5 billion in 2016-17.

49 *ibid.*, pp.45, 55

50 Budget Paper No.1, 2013-14 Treasurer's Speech, May 2013, p.4

51 Budget Paper No.2, 2013-14 Strategy and Outlook, May 2013, p.45

52 Budget Paper No.5, 2013-14 Statement of Finances, May 2013, p.184

53 *ibid.*, pp.172-3

54 *ibid.*, pp.174-5

2.6 Asset investment

2.6.1 Level of Government infrastructure investment

The Government has introduced a new measure called ‘Government infrastructure investment’ in 2013-14. This measure includes direct investment, investment through other sectors and PPP payments (less proceeds from asset sales).⁵⁵

In 2013-14, the Government is expecting Government infrastructure investment to total \$6.1 billion.⁵⁶ The Government expects this to increase to \$6.6 billion in 2014-15.⁵⁷

The 2013-14 budget estimates include the commencement of funding for the *East West Link – Stage 1* initiative which has an estimated total capital cost of \$6-8 billion. As mentioned earlier, this project is referred to in the budget papers as the centrepiece of the Government’s 2013-14 infrastructure program.⁵⁸ The Government has also identified the development of the Port of Hastings and the Melbourne Metro Rail Tunnel as major projects.⁵⁹

More details of the Government’s asset investment program can be found in Chapter 8 of this report.

FINDING: The Government is planning to spend \$6.1 billion on infrastructure and other physical assets in 2013-14, rising to \$6.6 billion in 2014-15.

2.6.2 Funding asset investment

As mentioned in Section 2.2 above, funding for the Government’s infrastructure program comes primarily from four sources:

- the operating surplus – that is, the money left over after output expenditure has been deducted from the revenue;
- depreciation and similar – these are included in the output expenditure for accounting reasons but do not actually involve any cash outflows, so the cash equivalent to these amounts is still available;
- proceeds from asset sales; and
- cash borrowings.

Table 2.10 shows the estimated proportion of the Government’s asset investment that could be funded from the first three of these sources between 2013-14 and 2016-17. This includes direct investment and investment through other sectors, but does not include PPP payments.

As shown in Table 2.10, over the four years from 2013-14 to 2016-17, it is expected that the proportion of the Government’s asset investment that can be funded from sources other than borrowings will increase from 50 per cent to the full amount. This change reflects the

55 Budget Paper No.4, *2013-14 State Capital Program*, May 2013, p.11

56 Budget Paper No.1, *2013-14 Treasurer’s Speech*, May 2013, p.4; Budget Paper No.2, *2013-14 Strategy and Outlook*, May 2013, p.44

57 Budget Paper No.2, *2013-14 Strategy and Outlook*, May 2013, p.44

58 *ibid.*, p.1

59 *ibid.*, p.8

Government's expectation of higher operating surpluses and reduced asset investment over the forward estimates.

Table 2.10 Projected asset investment, 2013-14 to 2016-17

Item	2013-14 Budget (\$ million)	2014-15 estimate (\$ million)	2015-16 estimate (\$ million)	2016-17 estimate (\$ million)
Funding from the operating surplus, depreciation and similar, and asset sales [A]	3,151.8	3,521.2	5,171.8	5,715.8
Asset investment ^(a) [B]	6,246.2	5,536.1	3,391.9	3,964.8
Proportion of asset investment [B] that could be funded by [A] (per cent)	50.5	63.6	152.4	144.1

(a) Includes direct investment and investment through other sectors, but does not include PPP payments. This is different to the Government's 'Government infrastructure investment' figure.

Source: Calculated by the Committee based on Budget Paper No.2, *2013-14 Strategy and Outlook*, May 2013, p.55

FINDING: The Government expects an increasing proportion of the asset investment program to be funded without borrowing in future years. The Government anticipates that asset investment will be fully funded without borrowing in both 2015-16 and 2016-17.

2.6.3 Disclosure in the budget papers

Details of the Government's asset investment program are spread across the various 2013-14 budget papers. For example:

- Budget Paper No.2 (*2013-14 Strategy and Outlook*) provides details of the aggregate expenditure on asset investment over the forward estimates and shows the allocation of new asset spending across departments;⁶⁰
- Budget Paper No.3 (*2013-14 Service Delivery*) details each new asset initiative announced in the 2013-14 Budget. Initiatives are listed by department. Details include a description of each project, the total estimated investment, estimated expenditure for each year to 2016-17 and the relevant output to which the initiative contributes;⁶¹
- Budget Paper No.4 (*2013-14 State Capital Program*) lists new and existing asset initiatives under departmental and agency headings. It shows each project's total estimated investment, estimated expenditure to 30 June 2013, estimated expenditure in 2013-14, projected remaining expenditure and estimated completion date;⁶²
- Budget Paper No.5 (*2013-14 Statement of Finances*) identifies (within each department's projected financial statements) the expected cash outlays on asset investment.⁶³ It also identifies, in a consolidated table, the total estimated asset purchases from 2013-14 to 2016-17 by department and government purpose;⁶⁴

60 *ibid.*, pp.55-6

61 Budget Paper No.3, *2013-14 Service Delivery*, May 2013, Chapter 1

62 Budget Paper No.4, *2013-14 State Capital Program*, May 2013, Chapter 2

63 Budget Paper No.5, *2013-14 Statement of Finances*, May 2013, Chapter 3

64 *ibid.*, pp. 36-7

- Budget Information Paper No.2 (*Infrastructure Investment*) provides an overview of the infrastructure program, with details of key projects and programs; and
- Budget Information Paper No.1 (*Regional and Rural Victoria*) repeats some information from Budget Information Paper No.2 and discusses asset investment related to regional and rural Victoria.

The Committee has previously raised concerns about this segmented approach to presenting asset investment information⁶⁵ and the fact that data in one budget paper could not always be reconciled with related material in other budget papers (due to factors such as threshold conventions, varying accounting bases and different inclusions or exclusions).⁶⁶

The Government has implemented a number of positive changes to the 2013-14 budget papers to address matters that have been previously raised by the Committee. These changes include, within Budget Paper No.4 (*2013-14 State Capital Program*):⁶⁷

- a new column listing the estimated completion date for each project;
- a table which reconciles, through a series of steps, asset investment aggregates with financial data on asset spending presented in other budget papers; and
- an expanded glossary of asset-related terms.

The Committee welcomes these enhancements. These and other additions to the level of disclosure about asset investment are discussed in Section 8.6 of this report.

The Government has also signalled in the budget papers that it intends to publish online, by mid-2013, further information for major projects funded through the budget, including procurement method, expected tender release dates and project status. It has stated that *'data will be regularly updated to provide the construction industry and the community with important information on how major projects are progressing and will be of great value to the construction industry in planning for upcoming public sector tendering processes.'*⁶⁸

FINDING: Information about asset investment is presented in a variety of ways across the budget papers. A number of changes have been introduced in the 2013-14 budget papers that enhance the standard of disclosure on asset-related material.

2.6.4 Public private partnerships

The budget papers indicate that 20 public private partnership projects are now operational. In addition, five further projects may impact on the budget during the forward estimates period.⁶⁹

65 Public Accounts and Estimates Committee, *Report on the 2011-12 Budget Estimates — Part One*, June 2011, p.26

66 Public Accounts and Estimates Committee, *Report on the 2012-13 Budget Estimates — Part Two*, September 2012, pp.19-23

67 Budget Paper No.4, *2013-14 State Capital Program*, May 2013, Chapters 2 and 3, pp.11 and 145-6

68 *ibid.*, p.8

69 *ibid.*, pp.7-8

The Victorian Comprehensive Cancer Centre is expected to be commissioned in 2015-16, at which time a liability of \$1.1 billion will be recognised on the balance sheet (increasing net debt, among other items).⁷⁰ The Ararat Prison has been listed in the budget papers as a PPP project in delivery.⁷¹

The budget papers also indicate that the new Bendigo Hospital is currently being tendered and two projects (a new male prison and *East West Link – Stage 1*) are expected to go to market in 2013.⁷² These three projects are currently funded in the budget papers as direct asset investment, as is the usual process for PPP projects prior to going to market.

The Committee notes that the Government has announced a number of reforms recently to the PPP framework designed to ‘*reduce bidding costs and drive greater efficiencies and service outcomes.*’⁷³

FINDING: The Government has five projects in delivery as public private partnerships, being tendered or about to go to market. The Victorian Comprehensive Cancer Centre is expected to be commissioned in 2015-16, adding \$1.1 billion to borrowings and net debt. The impact of the other projects on borrowings and net debt has not yet been factored into the budget estimates.

2.6.5 Net debt

As noted in Section 2.6.2, where the level of asset investment exceeds the funding available, additional borrowings are required. The Government’s liability for PPP projects is also included within the borrowings line item. These additional borrowings contribute to the Government’s level of net debt, which is essentially a measure of the difference between what the Government owes and its cash (and assets that it could easily convert into cash).

The Government’s expected changes in net debt from 30 June 2013 to 30 June 2017 can be seen in Table 2.11. In dollar terms, net debt is expected to increase to 2015, before reducing marginally to June 2016 and then by a much greater degree by June 2017. The Government expects net debt as a proportion of gross state revenue to follow a similar pattern. The following comment is included in the budget papers on these reductions:⁷⁴

From 2015-16 onwards the Government’s continued expenditure constraint will drive sharp reductions to forecast net debt (both in nominal dollars and as a proportion of GSP).

70 Budget Paper No.2, *2013-14 Strategy and Outlook*, May 2013, p.55; Department of Treasury and Finance, response to the Committee’s 2013-14 Budget Estimates Questionnaire, received 9 May 2013, p.18

71 Budget Paper No.4, *2013-14 State Capital Program*, May 2013, p.8

72 *ibid.*, p.7

73 Hon. M. O’Brien MP, Treasurer, ‘Coalition Government Reforms PPP Policy to Support Infrastructure Growth’, media release, 2 May 2013

74 Budget Paper No.2, *2013-14 Strategy and Outlook*, May 2013, p.57

Table 2.11 Net debt as at 30 June, 2013 to 2017

	2013 revised estimate	2014 Budget	2015 estimate	2016 estimate	2017 estimate
Net debt (\$ billion)	19.8	23.0	25.1	24.4	22.7
Net debt (per cent of gross state product)	5.8	6.4	6.6	6.1	5.4

Source: Budget Paper No.2, 2013-14 Strategy and Outlook, May 2013, p.58

Net debt is discussed in more detail in Chapter 5 of this report.

FINDING: The Government expects net debt to increase from 5.8 per cent of gross state product in June 2013 to 6.6 per cent by June 2015, before declining to 5.4 per cent by June 2017.

2.7 Victoria's credit rating

Two international rating agencies periodically assess Victoria's credit rating. As a matter of practice, both agencies publish a bulletin at the time of the State Budget, outlining their assessment of the latest budget's impact on the State's credit rating. The bulletins do not constitute a credit rating.

Standard & Poor's stated in its budget bulletin that Victoria's credit ratings (AAA/Stable) 'are not immediately affected by the Victorian government's announcement of its 2013-14 budget.'⁷⁵ The agency also commented that:⁷⁶

In our opinion, despite further downward revisions of its revenues (from both its own-sources and GST transfers from the Commonwealth of Australia), the Victorian government's budgetary performance remains solid. The government has responded to these revenue pressures by constraining expenditure and introducing a number of revenue measures. We expect that these policies will ensure the general government accrual operating position remains in surplus over the forecast period ...

... today's budget is consistent with our expectation that the government will continue to deliver on its fiscal strategy, which targets operating surpluses and fully cash funding future infrastructure. Providing the state continues to demonstrate a high level of fiscal discipline, downside pressure to the rating is low.

Moody's Investors Service included the following comments in its assessment:⁷⁷

... the government's ongoing resolve to exert strong controls over both current and capital expenditures will be critical to achieving the balanced budget target. In this context, the state has made progress in slowing its rate of expenditure growth in recent years, but reducing annual increases further to a very low 2.7% over the next four years – as is currently forecast – is likely to be challenging.

75 Standard & Poor's, 'Ratings on the Australian State of Victoria Unchanged after State Budget Announcement', 7 May 2013

76 *ibid.*

77 Moody's Investors Service, 'Announcement: Moody's Comments on Victoria's 2013/14 Budget', 7 May 2013

As part of Moody's normal monitoring process, Moody's intends to conduct an in-depth analysis of the budget and its medium-term impact on the state's financial and debt profile.

Neither agency indicated that the credit rating has been negatively impacted by the 2013-14 Budget.

FINDING: Two rating agencies have issued assessments of the Budget. Neither agency indicated that Victoria's credit rating has been adversely impacted following the 2013-14 Budget.

2.8 Sustainability of finances

The Government has indicated that it is committed to funding services and infrastructure sustainably⁷⁸ and considers that its savings measures '*return expenditure growth to more sustainable levels consistent with the more modest revenue outlook.*'⁷⁹

One key indicator of sustainability is the operating result (surplus), which the Government has identified as one of the four measures of its medium-term fiscal strategy (see Section 2.4.2 of this report). Another measure from that strategy, net debt as a proportion of gross state product, can also be used as an indicator of sustainability. The operating surplus is discussed above in Section 2.5. Net debt is discussed in Section 2.6.5 of this report.

In addition, the Australian Bureau of Statistics has developed an indicator called 'net lending/borrowing' which can be useful for understanding the sustainability of the State's finances. The Australian Accounting Standards Board requires this indicator to be disclosed as a 'key fiscal aggregate' in public sector reporting,⁸⁰ and it is used by Moody's Investors Service in analysing the Budget.⁸¹ The Committee considers that it would be helpful for the Government to include discussion of this measure in future budget papers.

Each of these three indicators has advantages and limitations (see Table 2.12). However, the three together can be used to provide a picture of the sustainability of the finances across the forward estimates.

78 Budget Paper No.2, *2013-14 Strategy and Outlook*, May 2013, pp.1, 31

79 *ibid.*, p.4

80 Australian Accounting Standards Board, *AASB 1049: Whole of Government and General Government Sector Financial Reporting*, June 2012, p.21

81 Moody's Investors Service, 'Announcement: Moody's Comments on Victoria's 2013/14 Budget', 7 May 2013

Table 2.12 Financial sustainability indicators

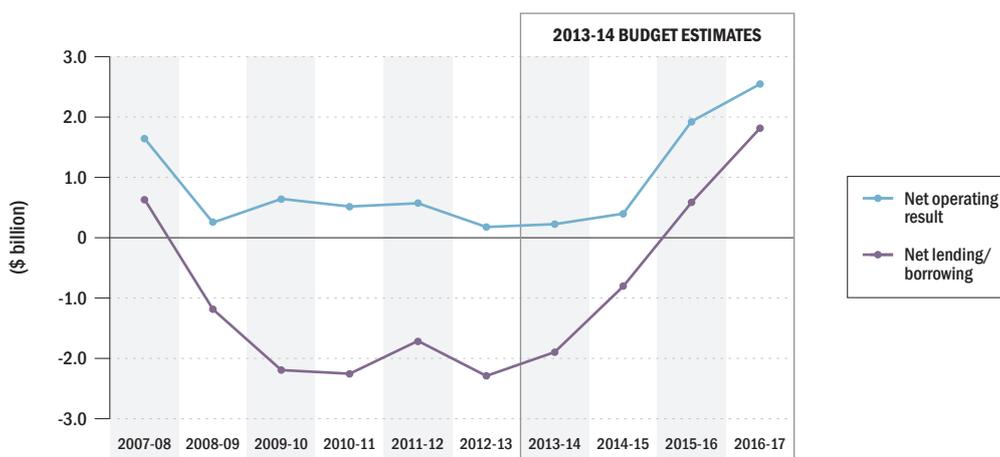
Indicator	Description
Operating result (surplus)	This indicates the difference between revenue and output expenditure, but does not include all of the Government’s spending on asset investment.
Net lending/borrowing	This indicator is similar to the operating result, but also includes some money spent and received in relation to asset investment (including public private partnership liabilities). ⁸² A net lending position means that the Government has more revenue than it spends, and net borrowing means that it does not have enough.
Net debt as a percentage of Gross State Product	Net debt is a measure of the total amount owed as a result of borrowings and other debt, less cash and assets that can easily be converted into cash. This indicator compares net debt to GSP, which reflects Victoria’s total productive capacity (that is, its ability to repay debt).

Source: Public Accounts and Estimates Committee

2.8.1 General government sector

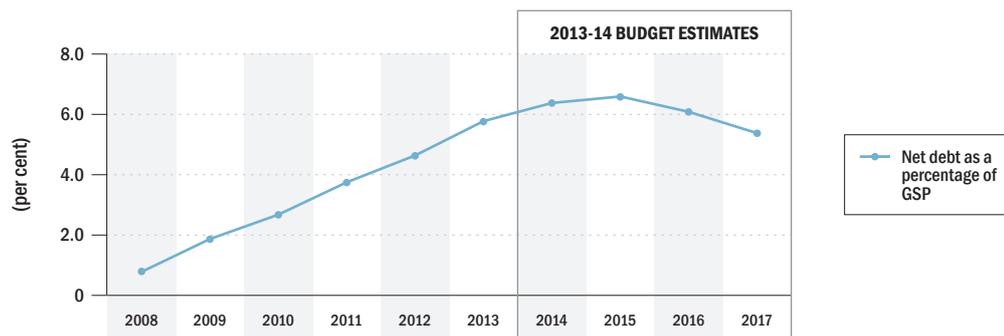
The Government’s projections for these three indicators for the general government sector can be seen in Figures 2.2 and 2.3. The general government sector includes all government departments and agencies which provide services for free or well below cost.

Figure 2.2 Operating result and net lending/borrowing (general government sector)



Source: Department of Treasury and Finance, ‘Consolidated Comprehensive Operating Statement 2013-14’ data set, <[www.budget.vic.gov.au/CA257B16002775DE/WebObj/OperatingStatementGG2013-14Budget7May2013/\\$File/OperatingStatementGG2013-14Budget7May2013.XLS](http://www.budget.vic.gov.au/CA257B16002775DE/WebObj/OperatingStatementGG2013-14Budget7May2013/$File/OperatingStatementGG2013-14Budget7May2013.XLS)>, accessed 8 May 2013

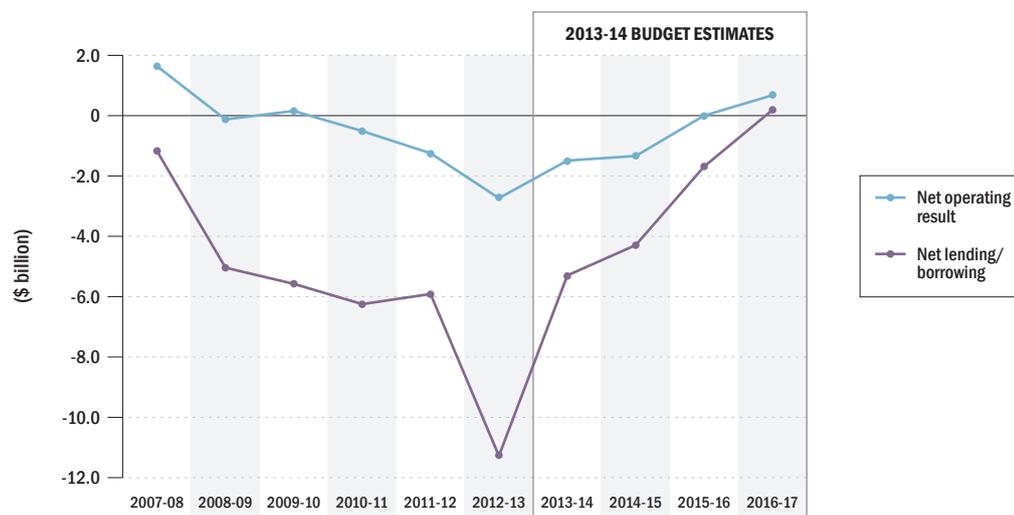
82 The indicator includes proceeds from asset sales and direct asset investment but not investment through other sectors. It also includes public private partnerships commitments, although it recognises the total value of a project in the year in which it is commissioned, even though actual payments for a public private partnership occur over a number of years.

Figure 2.3 Net debt as a percentage of GDP (general government sector)

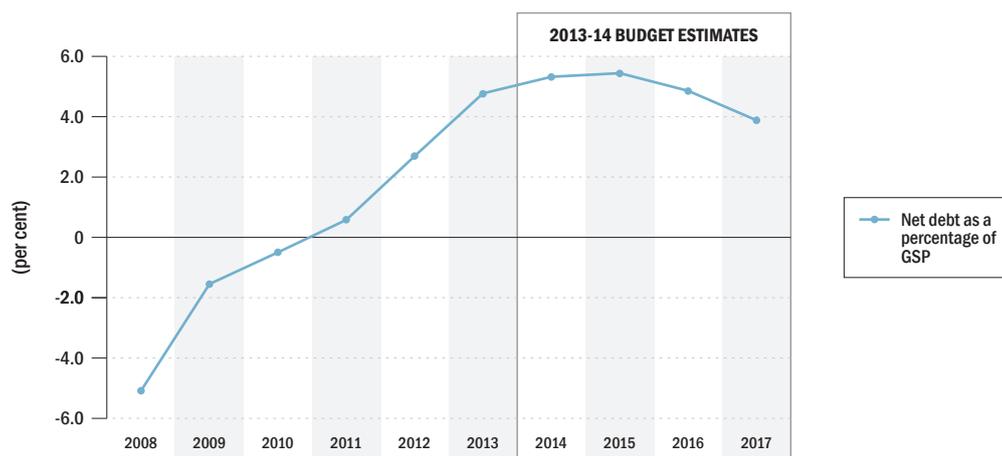
Sources: Budget Paper No.2, *2013-14 Strategy and Outlook*, May 2013, p.58; Department of Treasury and Finance, 'Consolidated Balance Sheet 2013-14' data set, <[www.budget.vic.gov.au/CA257B16002775DE/WebObj/BalanceSheetGG2013-14Budget7May2013/\\$File/BalanceSheetGG2013-14Budget7May2013.XLS](http://www.budget.vic.gov.au/CA257B16002775DE/WebObj/BalanceSheetGG2013-14Budget7May2013/$File/BalanceSheetGG2013-14Budget7May2013.XLS)>, accessed 8 May 2013; Department of Treasury and Finance, 'Macroeconomic Indicators 2013-14' data set, <www.budget.vic.gov.au/CA257B16002775DE/pages/financial-data-sets-macroeconomic-indicators>, accessed 8 May 2013

2.8.2 Public sector as a whole

The Government's projections for these three indicators for the public sector as a whole (referred to in the budget papers as the 'State of Victoria') can be seen in Figures 2.4 and 2.5. The public sector as a whole includes the general government sector, along with government entities that charge for services (such as water corporations) and government entities offering financial services.

Figure 2.4 Operating result and net lending/borrowing (public sector as a whole)

Sources: Department of Treasury and Finance, 'Consolidated Comprehensive Operating Statement' data set, <[www.budget.vic.gov.au/CA257B16002775DE/WebObj/ConsolidatedComprehensiveOperatingStatementWOSAFROct2012/\\$File/ConsolidatedComprehensiveOperatingStatementWOSAFROct2012.xls](http://www.budget.vic.gov.au/CA257B16002775DE/WebObj/ConsolidatedComprehensiveOperatingStatementWOSAFROct2012/$File/ConsolidatedComprehensiveOperatingStatementWOSAFROct2012.xls)>, accessed 8 May 2013; Budget Paper No.5, *Statement of Finances*, May 2013, pp.69-70

Figure 2.5 Net debt as a percentage of GDP (public sector as a whole)

Sources: Department of Treasury and Finance, 'Consolidated Balance Sheet' data set, <[www.budget.vic.gov.au/CA257B16002775DE/WebObj/ConsolidatedBalanceSheetWOSAFROct2012/\\$File/ConsolidatedBalanceSheetWOSAFROct2012.xls](http://www.budget.vic.gov.au/CA257B16002775DE/WebObj/ConsolidatedBalanceSheetWOSAFROct2012/$File/ConsolidatedBalanceSheetWOSAFROct2012.xls)>, accessed 8 May 2013; Department of Treasury and Finance, 'Macroeconomic Indicators 2013-14' data set, <www.budget.vic.gov.au/CA257B16002775DE/pages/financial-data-sets-macroeconomic-indicators>, accessed 8 May 2013; Budget Paper No.5, *Statement of Finances*, May 2013, p.71

2.9 Contingency provisions

In each budget, contingency provisions are made for both operating and asset purposes. These provisions are for expenditure that has not been determined when the Budget is prepared, including for:⁸³

- unforeseen events, such as natural disasters (including bushfires and floods);
- likely growth in Victoria's population and consequent increased demand for government services; and
- projects that have not been determined at the time of the Budget.

Three types of contingency provision are made, as indicated in Table 2.13.

Table 2.13 Contingency items within the 2013-14 Budget and Appropriation Bill

Contingency item	2013-14 Budget (\$ million)	2014-15 estimate (\$ million)	2015-16 estimate (\$ million)	2016-17 estimate (\$ million)	Total (\$ million)
Output contingencies ^(a)	-88.4	834.4	1,385.4	2,108.2	4,239.6
Asset contingencies ^(b)	-500.3	301.0	819.1	2,022.7	2,642.5
Advance to the Treasurer to meet urgent claims ^(c)	378.2	-	-	-	378.2

(a) Budget Paper No.5, *2013-14 Statement of Finances*, May 2013, p.32

(b) Budget Paper No.5, *2013-14 Statement of Finances*, May 2013, p.37

(c) Appropriation (2013-2014) Bill 2013, page 14 of Schedule 1. The Advance to the Treasurer is released on a yearly basis. It is expected that broadly similar figures would also be made available in future years.

The Government has put sizeable contingency provisions aside over the four years to 30 June 2017, with \$4.2 billion set aside for outputs and \$2.6 billion for asset investment, in addition to the Advance to the Treasurer.

83 Budget Paper No.2, *2013-14 Strategy and Outlook*, May 2013, p.60

The value of contingency provisions within budgets varies significantly from one year to another. The 2013-14 provisions to the end of the forward estimates period are similar, for both output and asset purposes, to those made in the previous year.

Similar to the approach taken last year, the 2013-14 output and asset contingency provisions are negative amounts (\$-88.4 million and \$-500.3 million respectively).

The budget papers indicate that the output contingency provision includes '*provisions available to be allocated to specific departments and projects, future demand growth, departmental underspending and items not yet formalised at the time of publication.*'⁸⁴ The budget papers also identify that the asset contingency provision includes '*departmental underspending, which may be subject to carryover*'.⁸⁵

The Committee notes that one impact of the negative output contingency in 2013-14 is that output expenditure is reduced by this amount.

The Committee has previously advised the Parliament that it does not have a view on the appropriate level of contingency provisions. It can be argued that a large contingency is important for risk management. It can also be argued that excess provisions should be avoided so that funds can be used to deliver services.⁸⁶

The Committee has previously recommended that the Government present expanded information about contingencies in future years, including their role in the budgetary process and the methodology employed for determining their quantification.⁸⁷

The Government supported that recommendation, indicating that the Department of Treasury and Finance '*will explore opportunities to enhance discussion around the basis and role of contingencies.*'⁸⁸

The presentation of material on contingencies in the 2013-14 Budget continues to be essentially unchanged from the time of the above response. The Committee therefore reiterates its view that the Government should expand disclosure in future budget papers. This is discussed further in Section 6.7.3 of this report.

The Committee also notes that a line item, 'capital provision approved but not yet allocated', is identified in the budget papers as forming part of projected infrastructure spending.⁸⁹ However, it is not clear how this line item relates to the above asset contingency. This item is described in the budget papers as the '*amount available to be allocated to specific departments and projects in future budgets, including contributions to other sectors.*'⁹⁰ The estimates shown for this item are lower than the asset contingencies shown in Table 2.13.

FINDING: The 2013-14 Budget includes contingency provisions totalling \$4.2 billion for outputs and \$2.6 billion for asset investment over the four years to 2016-17. For 2013-14, the Government has set negative contingencies of \$88.4 million for outputs and \$500.3 million for asset spending.

84 Budget Paper No.5, *2013-14 Statement of Finances*, May 2013, p.32

85 *ibid.*, p.37

86 Public Accounts and Estimates Committee, *Report on the 2011-12 Budget Estimates — Part One*, June 2011, p.30

87 *ibid.*, Recommendation 8, p.31

88 Victorian Government, Government Responses to the Recommendations of Public Accounts and Estimates Committee's 102nd Report on the 2011-12 Budget Estimates — Part One, tabled 24 November 2011, p.5

89 Budget Paper No.2, *2013-14 Strategy and Outlook*, May 2013, p.55

90 *ibid.*

CHAPTER 3 REVENUE

3.1 Introduction

The Government’s operating revenue comes mostly from State taxes and grants from the Commonwealth. As seen in Figure 2.1, revenue is the primary source of funding for the State’s output expenditure and much of its asset investment.

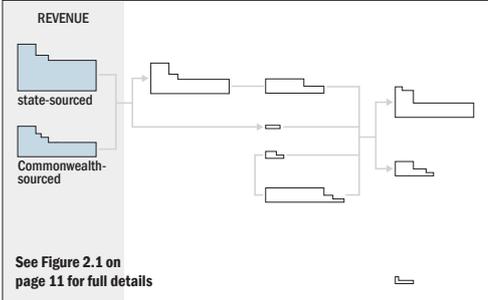


Table 3.1 shows that total revenue is projected to rise by 4.6 per cent in 2013-14 (compared to the revised estimate for 2012-13) and by an average of 4.0 per cent between 2013-14 and 2016-17.

Table 3.1 Revenue and revenue growth rate, 2013-14 to 2016-17

	2013-14 Budget	2014-15 estimate	2015-16 estimate	2016-17 estimate
Total revenue (\$ million)	50,327.5	51,974.9	54,474.3	56,543.4
Total revenue annual growth rate (per cent)	4.6	3.3	4.8	3.8
Average annual growth rate (2013-14 to 2016-17)^(a) (per cent)	4.0			

(a) Compound annual growth rate
Source: Budget Paper No.5, 2013-14 Statement of Finances, May 2013, p.169

While Government decisions can influence the amount of revenue received, the amount of revenue received by the Government is strongly affected by activity in the broader economy of Victoria.⁹¹ The budget papers predict an economic environment in Victoria over the forward estimates period which the Government describes as ‘favourable’, with predictions for decreasing unemployment, low inflation rates and economic growth.⁹² The budget papers also identify two main revenue challenges for the next four years:⁹³

- more modest economic growth compared to the years prior to the Global Financial Crisis (GFC), affecting revenue from the Goods and Services Tax (GST) and State taxation; and
- a decreasing share in the national GST pool (from 22.9 per cent in 2012-13 to 22.6 per cent in 2013-14, though rising to 23.3 per cent in 2016-17).⁹⁴

In analysing revenue estimates for the next four years, this chapter will explain and discuss the following:

- Where does the Government’s revenue come from? (Section 3.1.1)
- What is the Government’s strategy for revenue? (Section 3.2)

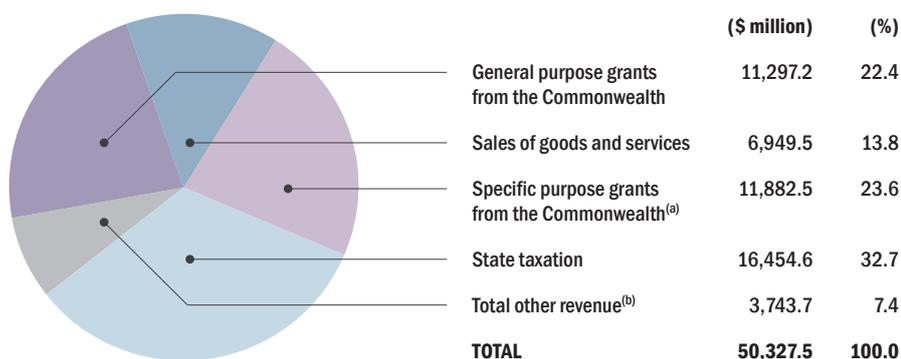
91 Income revenue relative to Gross State Product (GSP) is discussed in Section 3.3.2.
92 Budget Paper No.2, 2013-14 Strategy and Outlook, May 2013, p.11
93 ibid., pp.27-30
94 Budget Paper No.5, 2013-14 Statement of Finances, May 2013, p.184

- How much revenue is the Government expecting over the next four years? How have different components changed in recent years and how will they change over the next four years? (Section 3.3)
- What are the main risks to the Government’s revenue? (Section 3.4)
- How does Victoria’s taxation policy compare to other states? (Section 3.5)

3.1.1 Components of revenue

Figure 3.1 shows the major components of revenue as a percentage of the total revenue for 2013-14. A more detailed break-down of revenue components can be found in Appendix A3.1.

Figure 3.1 Major components of revenue, 2013-14



(a) Includes 'specific purpose grants for on-passing'; and 'grants for specific purposes'.

(b) Includes 'interest'; 'dividends and income tax equivalent and rate equivalent revenue'; 'other contributions and grants'; and 'other revenue'.

Source: Budget Paper No.5, 2013-14 Statement of Finances, May 2013, pp.169, 182

The largest component is the grants received from the Commonwealth, accounting for 46 per cent of the Government’s revenue in 2013-14. Commonwealth grants are comprised mainly of:

- general-purpose grants, which the State Government can spend however it sees fit, and which are expected to be \$11.3 billion in 2013-14;⁹⁵ and
- specific-purpose grants, which the State Government is restricted to spend either in particular areas or on particular programs or projects, estimated to be \$11.9 billion in 2013-14 (of which \$3.0 billion is expected to be passed on to local government or non-government schools).⁹⁶

Commonwealth grants are discussed in more detail in Chapter 4 of this report.

State taxation revenue accounts for 33 per cent of total revenue. It is mainly driven by the State’s broader economic activity, especially salaries and wages, the property market, insurance and the motor vehicle sector.⁹⁷ Government actions, such as changes to tax rates or exemptions, also influence the amount of revenue from State taxation.

95 *ibid.*, p.182

96 *ibid.*

97 *ibid.*, pp.171-9

Sales of goods and services represent 14 per cent of the Government's revenue. This component includes revenue from the provision of services such as motor vehicle regulatory fees.⁹⁸

Other revenue includes:

- interest;
- fines;
- dividends, income tax and rate equivalent revenue;
- royalties;
- non-Commonwealth grants; and
- donations and gifts.

Expected changes to the various components of revenue are discussed in Section 3.3.4 of this report.

3.2 The Government's strategy

As seen in Section 3.1.1, a large portion of the Government's revenue comes from Commonwealth grants, which the Government has limited ability to influence. General economic conditions can also considerably alter the amount of revenue received by the Government from both Commonwealth and State sources. A government can alter its revenue streams by means such as the introduction of new fee schemes for the services it provides, modifying the eligibility criteria for concessions, improving its tax compliance procedures and modifying tax rates.

Referring to the revenue challenges facing the Government, the Treasurer explained that:⁹⁹

Revenue growth has certainly been hit since the coalition came to office. We have had significant GST write-downs, including around \$7.5 billion worth of GST write-downs since the coalition came to office, which is an exceptional amount in any circumstances. In terms of the 2013-14 Budget, we are predicting a slight strengthening of revenue – certainly nowhere near pre-GFC days. We are expecting an average revenue growth of about 4.1 per cent over the forward estimates [between 2012-13 and 2016-17], so very much lower than the 7.3 per cent that was the average under our predecessors, but we do think there are some strong signs the economy is starting to return in terms of its strength, and that will obviously flow through to revenue.

As discussed in Section 2.4.2, as part of its economic and fiscal strategy, the Government plans 'a net operating surplus of at least \$100 million [per annum] and consistent with infrastructure and debt parameters'.¹⁰⁰ The budget estimates indicate that revenue will increase by an average of 4.0 per cent per year over the forward estimates period (between 2013-14 and 2016-17), as shown in Table 3.1. As part of accomplishing the net operating surplus target, it is Government policy that expenditure growth not exceed growth in revenue:¹⁰¹

98 *ibid.*, pp.180-1

99 Hon. M. O'Brien MP, Treasurer, 2013-14 budget estimates hearing, transcript of evidence, 10 May 2013, p.3

100 Budget Paper No.2, *2013-14 Strategy and Outlook*, May 2013, p.8

101 Hon. M. O'Brien MP, Treasurer, 2013-14 budget estimates hearing, transcript of evidence, 10 May 2013, p.3

One of the keys to the Government's approach to financial management has been to try to constrain expenses growth and make sure that our expenses growth does not exceed our revenue growth.

To achieve this, the Government has introduced a number of measures to grow revenue while restraining expenditure growth:¹⁰²

Since the 2011-12 Budget, the Government has implemented savings and targeted revenue-raising initiatives averaging around \$3 billion a year over the budget and forward estimates to improve the State's Finances.

The measures to restrain expenditure growth are discussed in Chapter 6 of this report.

3.2.1 Revenue initiatives

Table 3.2 shows the Government's initial estimates of the impact on the State's revenue in 2013-14 of revenue and revenue foregone initiatives since the 2011-12 Budget. Details of revenue initiatives and revenue foregone are given in Appendix A3.2.

Table 3.2 Estimated impact of revenue initiatives and revenue foregone initiatives from the 2011-12 to 2013-14 budgets

		Estimated impact in 2013-14 (\$ million)
2011- 12 Budget	Revenue initiatives	153.0
	Revenue foregone initiatives	-201.5
2011-12 Budget Update	Revenue initiatives	288.5
	Revenue foregone initiatives	0.0
2012-13 Budget	Revenue initiatives	212.3
	Revenue foregone initiatives	-0.2
2012-13 Budget Update	Revenue initiatives	620.9 ^(a)
	Revenue foregone initiatives	-599.2 ^(a)
2013-14 Budget	Revenue initiatives	130.8
	Revenue foregone initiatives	-10.8
Total net impact		593.8

(a) These large amounts reflect primarily the discontinuation of previous mechanisms for gathering fire-related contributions and their replacement by the *Fire Services Property Levy*.

Note: The above figures are based on original budget estimates. The Treasurer provided to the Committee adjusted figures for some of these initiatives (Hon. M. O'Brien MP, Treasurer, response to questions on notice, received 9 July 2013).

Sources: Budget Paper No.3, *2011-12 Service Delivery*, May 2011, pp.91, 148; *2011-12 Victorian Budget Update*, December 2011, p.114; Budget Paper No.3, *2012-13 Service Delivery*, May 2012, p.79; *2012-13 Victorian Budget Update*, December 2012, p.126; Budget Paper No.3, *2013-14 Service Delivery*, May 2013, p.61

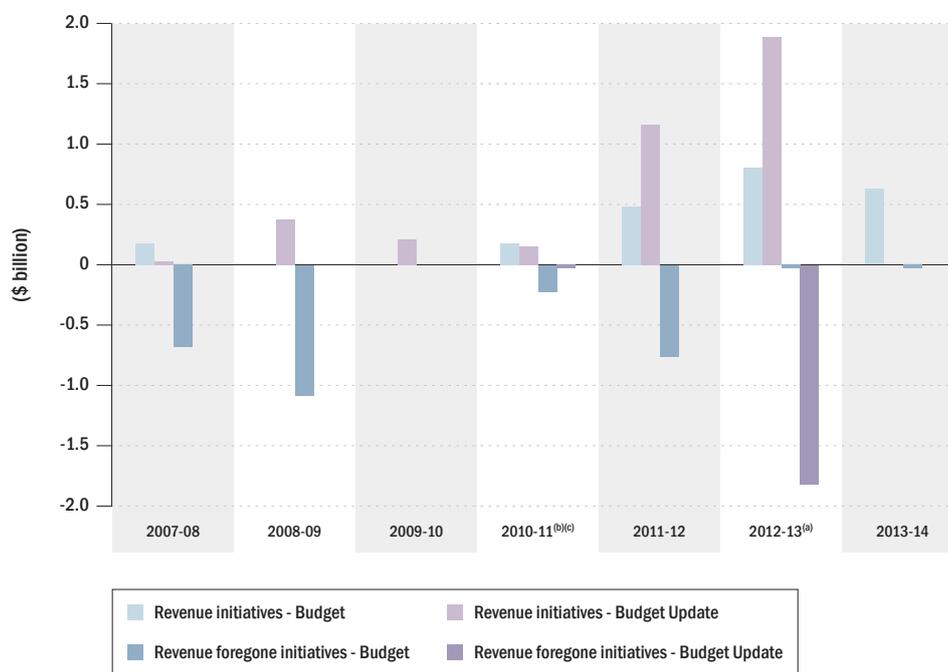
The 2013-14 Budget announces revenue initiatives worth \$130.8 million in 2013-14 and \$627.2 million over five years. There is one revenue foregone initiative in the Budget, worth \$10.8 million (*Accelerating First Home Buyer Stamp Duty Concessions*).¹⁰³

102 Budget Paper No.2, *2013-14 Strategy and Outlook*, May 2013, p.4

103 Budget Paper No.3, *2013-14 Service Delivery*, May 2013, p.61

Figure 3.2 compares the value of revenue and revenue foregone initiatives in each budget since 2007-08.

Figure 3.2 Revenue initiatives and revenue foregone initiatives (five-year totals), 2007-08 to 2013-14 budgets



- (a) These large amounts reflect the discontinuation of previous mechanisms for gathering fire-related contributions and their replacement by the *Fire Services Property Levy*.
- (b) The Budget Update initiatives for this year are from the Pre-Election Budget Update rather than in the 2010-11 Budget Update.
- (c) Initiatives included in previous budget updates have been removed from the totals given in Budget Paper No.3 for 2007-08 to 2010-11 to avoid double counting.

Sources: Committee calculations based on: Budget Paper No.3, *2007-08 Service Delivery*, May 2007, p.345; *Victorian Budget Update 2007-08*, December 2007, p.131; Budget Paper No.3, *2008-09 Service Delivery*, May 2008, p.358; *Victorian Budget Update 2008-09*, December 2008, p.148; Budget Paper No.3, *2009-10 Service Delivery*, May 2009, p.369; *Victorian Budget Update 2009-10*, December 2009, p.156; Budget Paper No.3, *2010-11 Service Delivery*, May 2010, p.360; *Victorian Pre-Election Budget Update 2010-11*, November 2010, p.156; Budget Paper No.3, *2011-12 Service Delivery*, May 2011, pp.148, 91; *Victorian Budget Update 2011-12*, December 2011, p.114; Budget Paper No.3, *2012-13 Service Delivery*, May 2012, p.79; *Victorian Budget Update 2012-13*, December 2012, p.126; and Budget Paper No.3, *2013-14 Service Delivery*, May 2013, p.61

The Committee notes that the value of revenue initiatives released, in terms of additional revenue estimated over five years, have notably increased since 2011-12, in accordance with the Government's plans to increase revenue faster than output expenditure.

Revenue initiatives released since 2011-12 total \$5.0 billion (over five years). In contrast, revenue foregone initiatives are estimated at \$2.6 billion (over five years). The net impact of the Government's initiatives has therefore been to increase revenue.

FINDING: Since the 2011-12 Budget, revenue initiatives estimated by the Government to be worth \$5.0 billion (five-year totals) have been released. Revenue initiatives have been released in the 2013-14 Budget which the Government estimates to be worth \$627.2 million (over five years).

3.2.2 Fire Services Property Levy

The largest revenue and revenue foregone initiatives released in recent budgets have both related to the *Fire Services Property Levy*. The 2012-13 Budget Update released a revenue foregone initiative, worth \$599.2 million in 2013-14, to discontinue the previous insurance-based levy and local council statutory contributions. The same budget update released a new initiative, the *Fire Services Property Levy*, worth \$587.3 million in 2013-14, to replace the previous measures (see Table 3.3).

The *Fire Services Property Levy* is considered by the Government to be a prominent factor of the State's taxation reform. The Budget indicates that '*this significant tax reform will replace an inefficient and inequitable tax on insurance with an efficient and fair property levy that ensures all property owners contribute to funding Victoria's fire services*'.¹⁰⁴

According to the Treasurer:¹⁰⁵

As a result of the changes, no longer will only those people who have fully insured their buildings and contents have to pay to contribute towards the upkeep of our fire services. Those people who were fully insuring were not only paying the insurance, they were paying the fire services levy; then they were paying stamp duty on top of that; and they were paying GST on top of that.

This new levy will not be subject to GST or stamp duty, which were charged under the previous scheme. The Government has estimated that the new arrangements will provide savings of over \$100 million annually to Victorian households and businesses.¹⁰⁶ This includes a concession for 400,000 pensioners and veterans who will receive a \$50 concession each.¹⁰⁷ The Government has estimated that the concession will be worth approximately \$21 million annually.¹⁰⁸

The State Revenue Office will be responsible for supervising implementation of the initiative. Additionally, the Government has established a Fire Services Property Levy Monitor, who will provide advice and guidance to consumers and insurers in order to ensure a proper transition from the insurance-based levy.¹⁰⁹ This monitoring office will also have, through legislation, the power to endorse '*fines up to \$10 million against insurance companies that engage in price exploitation*'.¹¹⁰

According to the Treasurer:¹¹¹

There may well be, for example, companies that have been underinsuring to date. They have not been insuring the full value of their buildings or their contents. If you have been underinsuring in the past, it means you have been under-contributing to the fire services, and that is not fair. So this system is about making sure that, because every Victorian benefits from our fire services, every Victorian property owner will make a contribution. When you broaden the base of the contributors, you can lower the rate. This will deliver massive savings to many sectors of Victoria, including homes, including farming communities and including many businesses.

104 Budget Paper No.2, *2013-14 Strategy and Outlook*, May 2013, p.41

105 Hon. M. O'Brien MP, Treasurer, 2013-14 budget estimates hearing, transcript of evidence, 10 May 2013, p.23

106 Budget Paper No.2, *2013-14 Strategy and Outlook*, May 2013, p.41

107 Hon. M. O'Brien MP, Treasurer, 2013-14 budget estimates hearing, transcript of evidence, 10 May 2013, p.23

108 Hon. Dr. D. Napthine MP, Premier, 2013-14 budget estimates hearing, transcript of evidence, 10 May 2013, p.28

109 Department of Treasury and Finance, *2012-13 Victorian Budget Update*, December 2012, p.127

110 Hon. M. O'Brien MP, Treasurer, 2013-14 budget estimates hearing, transcript of evidence, 10 May 2013, p.24

111 *ibid.*, p.23

FINDING: The change from previous arrangements to the *Fire Services Property Levy* is expected by the Government to deliver total savings of over \$100 million to businesses and individuals annually. This will be achieved through the levy not being subject to GST or stamp duty and through concessions for pensioners and veterans.

Table 3.3 compares the *Fire Services Property Levy* revenue estimates from its release in the 2012-13 Budget Update to updated estimates in the 2013-14 budget papers and also the revenue foregone estimates from the *Abolished Insurance and Local Council Contributions*.

Table 3.3 Fire Services Property Levy, 2013-14 to 2016-17

		2013-14 (\$million)	2014-15 (\$million)	2015-16 (\$million)	2016-17 (\$million)
Abolished Insurance and Local Council Contributions	2012-13 Budget Update	-599.2	-604.5	-609.9	n/a
Fire Services Property Levy	2012-13 Budget Update	587.3	593.1	596.5	n/a
	2013-14 Budget	610.9	605.9	612.4	625.1

Sources: 2012-13 Victorian Budget Update, December 2012, p.126; Budget Paper No.5, 2013-14 Statement of Finances, May 2013, p.172

As the table shows, the 2013-14 Budget revised upwards the amount expected from the levy by \$23.6 million in 2013-14. The Department of Treasury and Finance explained to the Committee that:¹¹²

The Fire Services Property Levy (FSPL) rates are based on raising an amount of revenue required to fund 87.5 per cent of the MFB's [Metropolitan Fire Brigade's] 2013-14 budget and 77.5 per cent of the CFA's [Country Fire Authority's] 2013-14 budget, consistent with the Fire Services Property Levy Act 2012.

...

The upward revision in estimated FSPL revenue for 2013-14 ... primarily reflects the 2013-14 State Budget initiative "Bushfire response – emergency services".

The *Bushfire Response – Emergency Services* initiative included \$31.6 million in asset funding and \$1.0 million in output funding in 2013-14.¹¹³ However, the Department of Treasury and Finance further explained:¹¹⁴

There is not an exact correlation between the latest decision and the profile of the Fire Services Property Levy from the 2012-13 Budget Update to the 2013-14 Budget, as the published 2013-14 Budget figure reflects changes to base funding profiles as well as any additional policy decisions considered in the budget process.

The Department indicated that the abolished levy would have been increased by the same amount if it had continued.¹¹⁵

112 Department of Treasury and Finance, correspondence received 17 September 2013

113 Budget Paper No.3, 2013-14 Service Delivery, May 2013, pp.31, 35

114 Department of Treasury and Finance, correspondence received 17 September 2013

115 Department of Treasury and Finance, correspondence received 27 August 2013

FINDING: The 2013-14 Budget revenue estimate from the *Fire Services Property Levy* in 2013-14 has been revised upwards by \$23.6 million.

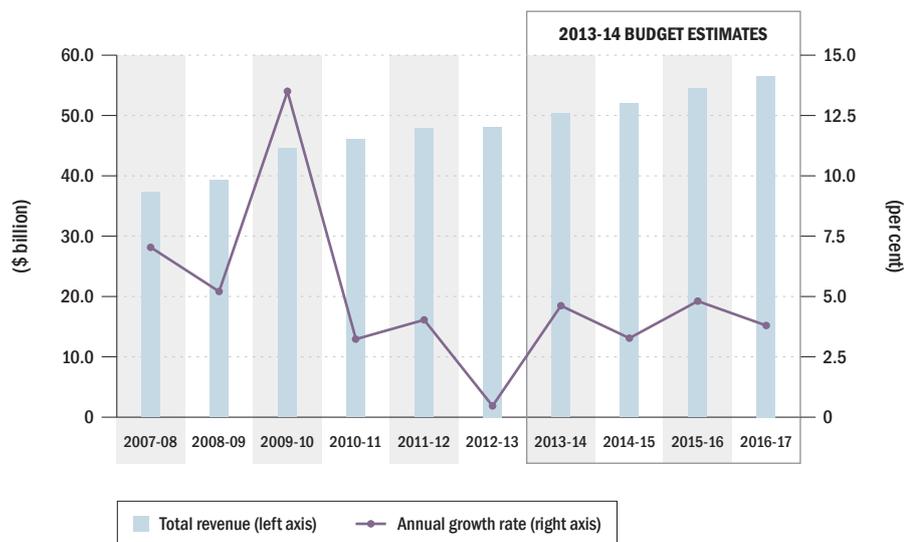
3.3 Revenue trends over the forward estimates period

3.3.1 Total revenue

Total revenue is forecast to be \$50.3 billion in 2013-14. This is an increase of 4.6 per cent compared to the latest estimate for 2012-13 (\$48.1 billion).¹¹⁶

Figure 3.3 compares the total revenue projected over the forward estimates period to revenue since 2007-08. Over the next four years, annual revenue is projected to grow by an average of 4.0 per cent per year, reaching \$56.5 billion in 2016-17. These growth rates are lower than the annual average of 5.2 per cent during 2007-08 to 2012-13. Higher annual rates between 2007-08 and 2012-13 largely reflect the extraordinary Commonwealth stimulus funding during the years 2009-10 and 2010-11, in which grants received from the Commonwealth rose by 17.2 per cent between 2008-09 and 2010-11 (see further discussion in Section 4.3 of this report).¹¹⁷

Figure 3.3 Total revenue and annual growth rates, 2007-08 to 2016-17



Source: Department of Treasury and Finance, 'Consolidated Comprehensive Operating Statement' data set, <[www.budget.vic.gov.au/CA257B16002775DE/WebObj/OperatingStatementGG2013-14 Budget7May2013/\\$File/OperatingStatementGG2013-14Budget7May2013.XLS](http://www.budget.vic.gov.au/CA257B16002775DE/WebObj/OperatingStatementGG2013-14%20Budget7May2013/$File/OperatingStatementGG2013-14Budget7May2013.XLS)>, accessed 14 June 2013

The Committee notes that revenue rates have historically been difficult to predict (see Section 3.3.3).

116 Budget Paper No.5, *2013-14 Statement of Finances*, May 2013, p.169

117 Calculated by the Committee based on the Annual Financial Reports for the State, 2008-09 to 2010-11

FINDING: The Government's forecast for revenue in 2013-14 is \$50.3 billion. The Government projects an average annual growth rate of 4.0 per cent over the forward estimates period.

3.3.2 Revenue per Victorian and revenue as a share of GSP

The Committee uses two main indicators for analysing the amount of revenue in its economic and demographic context:

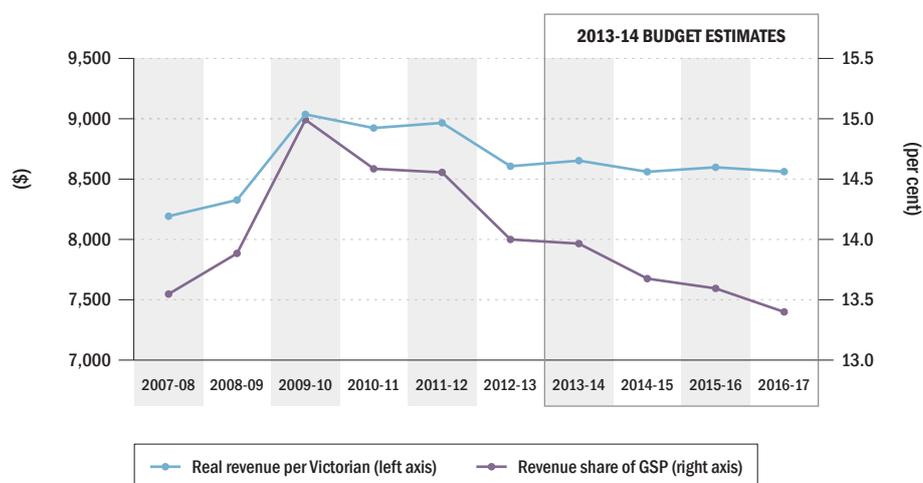
- revenue per Victorian, adjusted for price changes (that is, in real terms); and
- revenue as a share of Victoria's gross state product (GSP).

Real revenue per Victorian shows total revenue in terms of the population of the State, that is, how much money each individual pays on average. The amount is adjusted to remove the effect of inflation over time.

Revenue as a share of GSP shows the Government's income as a proportion of the State's output of goods and services.

The trends for both indicators are shown in Figure 3.4.

Figure 3.4 Real revenue per Victorian and revenue as a proportion of GSP, 2007-08 to 2016-17



Notes: Real revenue is calculated using the price deflator implicit in the Department of Treasury and Finance's calculation of real and nominal GSP. Figures are provided in 2013-14 terms.

Sources: Calculated by the Committee based on: Department of Treasury and Finance, 'Consolidated Comprehensive Operating Statement' data set, <www.budget.vic.gov.au/CA257B16002775DE/WebObj/OperatingStatementGG2013-14Budget7May2013/File/OperatingStatementGG2013-14Budget7May2013.XLS>, accessed 17 June 2013; Department of Treasury and Finance, 'Macroeconomic indicators' data set, <www.budget.vic.gov.au/CA257B16002775DE/WebObj/MacroeconomicIndicators2013-14BudgetMay2013/File/MacroeconomicIndicators2013-14BudgetMay2013.xlsx>, accessed 17 June 2013

Real revenue per Victorian increased substantially during the Global Financial Crisis period (2009-10 to 2011-12) as a result of larger Commonwealth economic stimulus transfers (see Section 3.3.1). The cessation of Commonwealth funding is expected to lead to a decrease in 2012-13, though the 2012-13 level is expected to be higher than the levels before the Global Financial Crisis. The level of real revenue per Victorian is projected to remain relatively constant across the forward estimates period, reducing by an average of \$30 per annum between 2013-14 and 2016-17.

This result contrasts with what was expected at the time of the 2012-13 Budget, when an average increase of \$37 per annum was predicted between 2012-13 and 2015-16. The main drivers causing this change are discussed in Section 3.3.3 of this report.

FINDING: Real revenue per Victorian is expected to decline marginally over the forward estimates period, but will remain above the pre-Global Financial Crisis level.

Revenue as a share of GSP also shows the effects of Commonwealth transfers between 2009-10 and 2011-12. However, this indicator shows a decrease over the forward estimates, implying that the State's economy will grow faster than Government revenue. In 2016-17, the Government estimates that revenue will be a smaller proportion of GSP than in the pre-crisis years.

In comparison to the 2012-13 budget estimates, this year's result shows a further decrease of revenue as a share of GSP to 13.6 per cent in 2015-16, compared to the previous estimate of 14.0 per cent.¹¹⁸ The reason for this is the lower forecasts for revenue in this year's budget compared to last year's estimate (see Section 3.3), in addition to the Government's prediction of higher GSP towards the final years of the forward estimates period.¹¹⁹

FINDING: Revenue as a share of GSP has been decreasing since the Commonwealth economic stimulus funding period and is expected to continue decreasing over the forward estimates period. The Government expects revenue to reduce from 14.0 per cent to 13.4 per cent of GSP between 2013-14 and 2016-17.

Overall, the data indicate that the Government expects the amount of GSP per Victorian to increase in real terms over the forward estimates period (that is, on average Victorians are expected to have higher incomes). However, at the same time, the amount that Victorians pay to the State Government is expected to decline marginally on average.

3.3.3 Revenue in comparison to previous estimates

The Government updates its budget estimates twice a year, with the release of the annual budget papers and the annual budget updates. These adjustments reflect changes in the Government's economic forecasts and policies (including both policies which increase and decrease revenue).

Figure 3.5 compares the Government's revenue estimates against previous budgets since the 2010-11 Budget Update (released shortly after the change of Government in 2010).

Overall, the Government has been revising its revenue forecasts downwards. The latest revisions, compared to the 2012-13 budget estimates, reduce revenue by \$131.2 million in 2013-14, \$410.2 million in 2014-15 and \$527.3 million in 2015-16.¹²⁰

118 Public Accounts and Estimates Committee, *Report on the 2012-13 Budget Estimates — Part Two*, September 2012, p.43

119 Department of Treasury and Finance, 'Macroeconomic indicators' data set, <[www.budget.vic.gov.au/CA257B16002775DE/WebObj/MacroeconomicIndicators2013-14BudgetMay2013/\\$File/MacroeconomicIndicators2013-14BudgetMay2013.xlsx](http://www.budget.vic.gov.au/CA257B16002775DE/WebObj/MacroeconomicIndicators2013-14BudgetMay2013/$File/MacroeconomicIndicators2013-14BudgetMay2013.xlsx)>, accessed 17 June 2013.

120 Budget Paper No.5, *2012-13 Statement of Finances*, May 2012, p.161; Budget Paper No.5, *2013-14 Statement of Finances*, May 2013, p.169

Figure 3.5 Revenue estimates in comparison to previous forward estimates, 2013-14 to 2016-17



Sources: Victorian Pre-Election Budget Update 2010-11, November 2010, p.11; Budget Paper No.5, 2011-12 Statement of Finances, May 2011, p.9; Budget Paper No.5, 2012-13 Statement of Finances, May 2012, p.5; and Budget Paper No.5, 2013-14 Statement of Finances, May 2013, p.5

FINDING: The Government has been revising its revenue forecasts downwards compared to its previous budget estimates. Since the 2012-13 Budget, revenue estimates have been reduced by \$131.2 million in 2013-14, \$410.2 million in 2014-15 and \$527.3 million in 2015-16.

Factors driving revenue revisions

The budget papers provide a reconciliation of revenue estimates against the 2012-13 Budget Update.

According to this reconciliation of estimates:¹²¹

... the net result from transactions has been revised down over the period 2013-14 to 2015-16 since the 2012-13 Budget Update was released in December 2012. The major driver of the lower operating surpluses is lower expected revenue from GST and other Commonwealth grants, partially offset by the net impact of higher investment income together with new policy initiatives announced in the 2013-14 Budget funded through new savings, the release of contingencies for policy purposes and targeted revenue measures.

Table 3.4 shows the net cumulative impact of variances since the 2012-13 Budget.

As seen in this table, overall variation in the Government's revenue is mainly attributed to changes in Commonwealth grants (that is, GST revenue and specific-purpose grants revenue), along with economic and demographic variations which mostly affect state taxation (such as taxes on property and taxes on insurance). These variations are partially offset by revenue initiatives and own-source revenue variations.

121 Budget Paper No.2, 2013-14 Strategy and Outlook, May 2013, p.48

Table 3.4 Drivers of variations in revenue between the 2012-13 and 2013-14 budgets , 2013-14 to 2015-16

	2013-14	2014-15	2015-16
Estimated revenue, 2012-13 Budget	50,458.7	52,384.9	55,001.6
<i>Add:</i>			
– Revenue initiatives	141.6	160.8	177.1
– Own-source revenue variations ^(a)	279.2	63.1	86.5
– Administrative variations	72.5	27.6	77.7
<i>Less:</i>			
– Economic and demographic variations (mostly affecting State taxation) ^(b)	-70.8	-198.3	-293.7
– Specific-purpose grants variations	-258.4	-103.1	-212.2
– General-purpose grants variations (GST revenue)	-295.2	-360.4	-362.6
Result	-131.1	-410.3	-527.2
Estimated revenue, 2013-14 Budget	50,327.5	51,974.7	54,474.3

(a) Variations in revenue received directly by departments (for example, increased revenue from fees and fines and revenue from hospital-related activities).

(b) Includes dividends, income tax and rate equivalent revenue and interest.

Sources: Budget Paper No.5, *2012-13 Statement of Finances*, May 2012, p.5; Department of Treasury and Finance, *2012-13 Budget Update*, December 2012, p.24; Budget Paper No.2, *2013-14 Strategy and Outlook*, May 2013, p.49

FINDING: Variations in revenue over the forward estimates period, compared to the 2012-13 budget estimates, are expected to be driven primarily by less revenue from Commonwealth grants and economic and demographic variations. This negative impact is partially offset by revenue initiatives and own-source revenue.

Administrative variations, according to the Budget, are ‘*largely reflecting activities in the transport and fire services sectors. These revisions are partly offset by a reduction in forecast revenue associated with the Victorian desalination plant from Melbourne Water Corporation...*’.¹²²

Revenue initiatives have been discussed in Section 3.2.1 of this report.

Trends for taxation revenue, are discussed in Section 3.3.4 of this report.

Commonwealth grants are discussed in Chapter 4 of this report.

Challenges in estimating revenue

The Committee notes that revenue growth has proven difficult to accurately estimate in previous budget papers. Table 3.5 compares the growth rates predicted in budget papers for the four years following each budget to the actual growth rates in those periods. The table shows that, in these years, the revenue forecasts varied significantly from actual revenue figures (see also Appendix A3.3).

In relation to this, the Department of Treasury and Finance (DTF) advised the following:¹²³

122 *ibid.*, p.52

123 Department of Treasury and Finances, response to the Committee’s 2011-12 Financial and Performance Outcomes Questionnaire on the Annual Financial Report, received 28 February 2013, p.14

The Estimated Financial Statements for the Victorian general government sector are prepared on the basis of the economic and fiscal information (including Commonwealth policy decisions) available to DTF and take into account Government policy decisions at the time of publication.

...

Over the period analysed, the correlation between the forward estimates and the actual outcome has been influenced by:

- *the highly volatile nature of taxes in the revenue base, particularly land transfer duty, where relatively small variations in forecasting land transfer duty can result in large dollar variances; and*
- *updated advice from the Commonwealth regarding grants revenue and its corresponding expense impact, particularly over the period 2007-08 to 2010-11.*

Table 3.5 Estimated and actual growth rates, 2004-05 to 2013-14 Budgets

Budget	Growth rate for the following four years estimated in the budget papers (per cent)	Actual growth rate over the same period (per cent)
2004-05 Budget	3.4	7.1
2005-06 Budget	3.4	7.1
2006-07 Budget	3.3	8.7
2007-08 Budget	3.1	7.2
2008-09 Budget	3.8	6.4
2009-10 Budget	3.2	n/a ^(a)
2010-11 Budget	3.6	n/a ^(a)
2011-12 Budget	3.5	n/a ^(a)
2012-13 Budget	4.1	n/a ^(a)
2013-14 Budget	4.1	n/a ^(a)

(a) Actual figures are not available as the relevant four years have not yet been completed.

Source: Budget Paper No.2, 2003-04 Budget Statement, May 2003, p.164; Budget Paper No.4, 2004-05 Statement of Finances, May 2004, p.8; Budget Paper No.4, 2005-06 Statement of Finances, May 2005, p.10; Budget Paper No.4, 2006-07 Statement of Finances, May 2006, p.9; Budget Paper No.4, 2007-08 Statement of Finances, May 2007, p.5; Budget Paper No.4, 2008-09 Statement of Finances, May 2008, p.10; Budget Paper No.4, 2009-10 Statement of Finances, May 2009, p.10; Victorian Budget Update 2010-11, December 2010, p.31; Budget Paper No.5, 2011-12 Statement of Finances, May 2011, p.9; Budget Paper No.5, 2012-13 Statement of Finances, May 2012, p.5; and Budget Paper No.5, 2013-14 Statement of Finances, May 2013, p.5

It is not possible to compare the estimates from the 2009-10 Budget and subsequent budgets to actual figures, as the relevant four years have not yet been completed. As can be seen from Appendix A3.3, the forecasts in the 2009-10 budget papers significantly underestimated growth, though it is not yet possible to quantify by how much. The latest estimates suggest that the more recent budgets may have more accurately forecast growth rates. However, it will not be possible to make an accurate assessment until the actual results for the relevant years are available.

The Committee notes a similar trend in expenditure growth across the forward estimates period of past budgets (see Appendix 3.4).

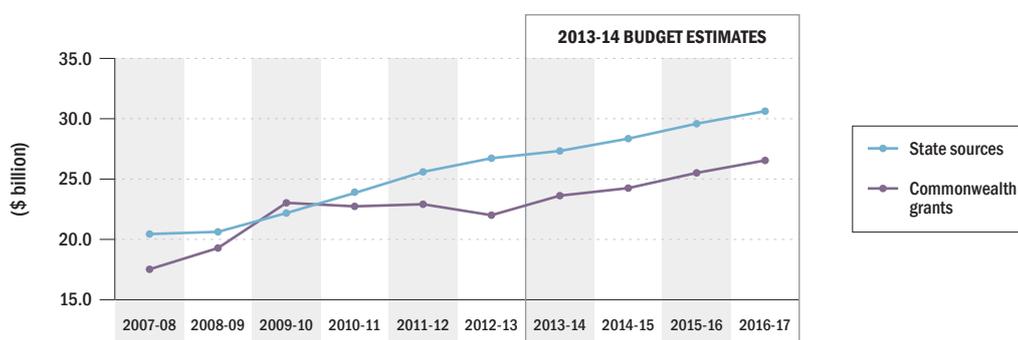
It would be illustrative if future budget papers were to include a discussion of the forecast error in the previous year's budget estimates.

RECOMMENDATION 4: Future budget papers include a discussion of the size of variances from previous forecasts (including those made four years in advance) in discussing forward estimates.

3.3.4 Components of revenue over the forward estimates period

As seen in Section 3.3.1 of this report, the Government expects total revenue to grow at an average rate of 4.0 per cent over the forward estimates period. Figure 3.6 shows the two major components of revenue: State-sourced revenue and Commonwealth grants.

Figure 3.6 State-sourced revenue^(a) and Commonwealth grants^(b), 2007-08 to 2016-17



(a) Includes 'State taxation', 'sales of goods and services', 'dividends and income tax equivalent revenue', 'other contributions and grants' and 'other revenue'.

(b) Includes 'general purpose grants', 'specific purpose grants for on-passing' and 'grants for specific purposes'.

Source: Department of Treasury and Finance, 'Consolidated Comprehensive Operating Statement' data set <[www.budget.vic.gov.au/CA257B16002775DE/WebObj/OperatingStatementGG2013-14 Budget7May2013/\\$File/OperatingStatementGG2013-14Budget7May2013.XLS](http://www.budget.vic.gov.au/CA257B16002775DE/WebObj/OperatingStatementGG2013-14%20Budget7May2013/$File/OperatingStatementGG2013-14Budget7May2013.XLS)>, accessed 14 June 2013

State-sourced revenue is projected by the Government to grow by an average of 3.9 per cent and Commonwealth grants by 4.1 per cent over the forward estimates period. This means that the gap between these two sources will remain nearly constant in the next four years, after a slight decline of Commonwealth grants in 2012-13. Commonwealth grants are discussed in detail in Chapter 4.

FINDING: The Government expects State-sourced revenue to grow by an average of 3.9 per cent over the forward estimates period. Commonwealth grants are estimated to increase by an average of 4.1 per cent over the same period.

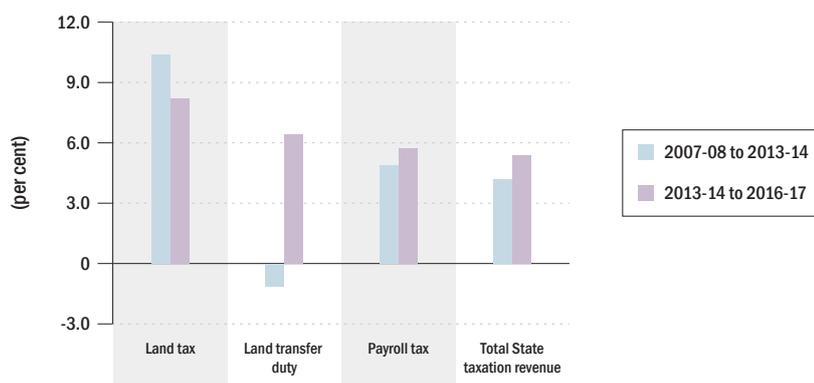
The largest components of State-sourced revenue are:

- State taxation revenue;
- sales of goods and services;
- interest revenue; and
- dividends.

State taxation revenue

Figure 3.7 compares the Government's forecast for growth of the largest State taxation components over the forward estimates period to the growth between 2007-08 and 2013-14. All components, with the exception of land tax, are expected to grow by larger rates over the forward estimates period than 2007-08 to 2013-14. A more detailed break-down, including nominal figures for each item, is provided in Appendix A3.1.

Figure 3.7 Major components of State taxation, average annual growth rates, 2007-08 to 2013-14 and 2013-14 to 2016-17



Source: Committee calculations based on: Department of Treasury and Finance. 'Consolidated Comprehensive Operating Statement' data set, <[www.budget.vic.gov.au/CA257B16002775DE/WebObj/OperatingStatementGG2013-14Budget7May2013/\\$File/OperatingStatementGG2013-14Budget7May2013.XLS](http://www.budget.vic.gov.au/CA257B16002775DE/WebObj/OperatingStatementGG2013-14Budget7May2013/$File/OperatingStatementGG2013-14Budget7May2013.XLS)>, accessed 14 June 2013

Total State taxation revenue is expected to increase by an average of 5.4 per cent over the forward estimates period, reaching \$19.3 billion in 2016-17.¹²⁴ The two largest State taxation components are payroll and property taxes.

Revenue from taxes on employers' payroll and labour force (that is, payroll tax) is expected to grow by an average of 5.7 per cent over the forward estimates period. With no changes in the payroll tax rate,¹²⁵ the increase is mostly attributed to a higher rate of employment growth in line with economic growth (see Table 3.6). The budget papers indicate that, '*recent employment growth has been skewed towards industries that are largely exempt from payroll tax*'. However, the budget papers also state that, '*these factors are expected to be transitory*'.¹²⁶

Overall, property taxes (including land transfer duty, land tax and other taxes) are expected to increase steadily by an average of 6.6 per cent over the forward estimates period, compared to the growth between 2007-08 and 2013-14 of 4.1 per cent.¹²⁷

Within property taxes, land transfer duty is expected to increase by an average of 6.4 per cent over the next four years, in contrast to the negative average rate of -1.1 per cent from 2007-08 to 2013-14. This forecast is primarily driven by an expected recovery in the property market '*with low interest rates, higher levels of housing affordability, improving consumer confidence and ongoing solid population growth*'.¹²⁸

124 Budget Paper No.5, *2013-14 Statement of Finances*, May 2013, p.172

125 4.9 per cent since July 2010

126 Budget Paper No.5, *2013-14 Statement of Finances*, May 2013, p.173

127 Committee calculation based on: Department of Treasury and Finance. 'Consolidated Comprehensive Operating Statement' data set, <[www.budget.vic.gov.au/CA257B16002775DE/WebObj/OperatingStatementGG2013-14Budget7May2013/\\$File/OperatingStatementGG2013-14Budget7May2013.XLS](http://www.budget.vic.gov.au/CA257B16002775DE/WebObj/OperatingStatementGG2013-14Budget7May2013/$File/OperatingStatementGG2013-14Budget7May2013.XLS)>, accessed 14 June 2013

128 Budget Paper No.5, *2013-14 Statement of Finances*, May 2013, p.174

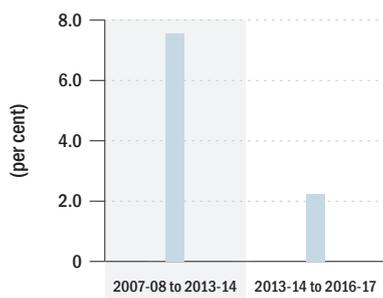
Land tax is expected to grow by an average of 8.2 per cent over the forward estimates period ‘based on increases in average land value of 11 per cent in the next two land revaluation cycles in 2014-15 and 2016-17’.¹²⁹ However, growth is below the rate prior to 2013-14.¹³⁰

FINDING: The two largest components of State taxation are payroll and property taxes. The Government expects that both components will steadily increase over the forward estimates period. Payroll tax revenue is expected to grow due to anticipated acceleration in employment growth, while taxes on property revenue are expected to increase as a result of an expected recovery in the property market.

Sales of goods and services

Figure 3.8 shows that the Government expects revenue growth from the sale of goods and services to be more modest across the forward estimates than historically. This revenue source is expected to grow by an average of 2.2 per cent per year, which is significantly lower than the average annual growth rate of 7.6 per cent during 2007-08 to 2013-14.

Figure 3.8 Revenue from sales of goods and services, average annual growth rate, 2007-08 to 2013-14 and 2013-14 to 2016-17



Source: Department of Treasury and Finance. ‘Consolidated Comprehensive Operating Statement’ data set, <[www.budget.vic.gov.au/CA257B16002775DE/WebObj/OperatingStatementGG2013-14 Budget7May2013/\\$File/OperatingStatementGG2013-14Budget7May2013.XLS](http://www.budget.vic.gov.au/CA257B16002775DE/WebObj/OperatingStatementGG2013-14%20Budget7May2013/$File/OperatingStatementGG2013-14Budget7May2013.XLS)>, accessed 14 June 2013

According to the budget papers, more modest growth in revenue from sales of goods and services across the forward estimates is due to the following:¹³¹

- the recognition of \$319 million as revenue in 2012-13 from the Melbourne Water Corporation’s payment for the acquisition of the desalination plant at the end of the concession period;
- revenue associated with the Northern Victorian Irrigation Renewal Project shifting from the general government sector to the public non-financial corporations sector; and
- lower revenue growth (compared to growth from 2007-08 to 2013-14) from motor vehicle regulatory fees as result of drivers opting for 10-year renewal licenses instead of 3-year renewals.

129 *ibid.*

130 *ibid.*

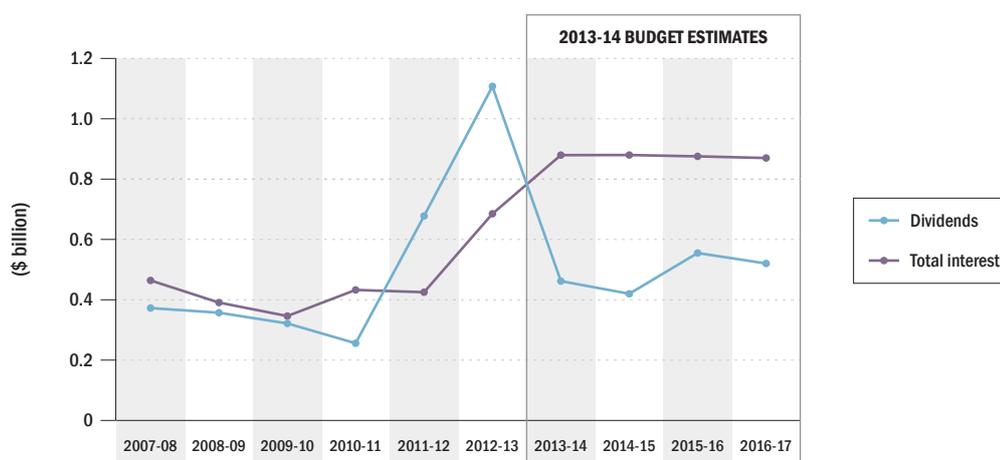
131 *ibid.*, p.181

FINDING: The Government expects that revenue from sales of goods and services will increase by an average of 2.2 per cent per year over the forward estimates period. This is lower than the 7.6 per cent average annual growth between 2007-08 and 2013-14.

Interest revenue and dividends revenue

Figure 3.9 shows interest revenue and dividends revenue from 2007-08 to 2016-17.

Figure 3.9 Interest revenue and dividends revenue, 2007-08 to 2016-17



Source: Department of Treasury and Finance. 'Consolidated Comprehensive Operating Statement' data set <[www.budget.vic.gov.au/CA257B16002775DE/WebObj/OperatingStatementGG2013-14 Budget7May2013/\\$File/OperatingStatementGG2013-14Budget7May2013.XLS](http://www.budget.vic.gov.au/CA257B16002775DE/WebObj/OperatingStatementGG2013-14%20Budget7May2013/$File/OperatingStatementGG2013-14Budget7May2013.XLS)>, accessed 14 June 2013

Interest revenue increased substantially between 2011-12 and 2013-14 due to the commissioning of the Victorian Desalination Plant. This revenue is received from the Melbourne Water Corporation but is offset by the cost of finance lease interest payments.¹³² Interest revenue is expected to remain steady from 2013-14 onwards.

FINDING: After increasing in 2013-14 due to arrangements associated with the Victorian Desalination Plant, the Government expects interest revenue to remain steady over the forward estimates period.

Dividends revenue comes from different authorities in the public non-financial corporations sector and public financial corporations sector as a result of agreements between these entities and the Department of Treasury and Finance.

Appendix A3.5 details the main entities supplying dividends revenue and the amounts supplied in recent years. The Appendix shows that the value of dividends paid by an entity is highly variable from one year to another. This is due to factors such as the profitability of the entities, the dividend rate and the timing of payments (which may be deferred into subsequent years). In 2011-12, the Government changed its policy with respect to dividends from a number of

¹³² Budget Paper No.5, *2013-14 Statement of Finances*, May 2013, p.179. Further details of this arrangement can be seen in Public Accounts and Estimates Committee, *Report on the 2011-12 Financial and Performance Outcomes*, May 2013, p.24.

agencies, substantially increasing dividends revenue. A number of water entities were required to pay larger portions of their operating surpluses than in previous years and the Victorian WorkCover Authority was required to pay dividends for the first time.¹³³

The Government expects dividends revenue to continue growing in 2012-13 to \$1.1 billion before falling by \$645.5 million, equivalent to 59 per cent, in 2013-14 due to *'the timing of dividends from the non-financial corporations sector and a reduction of profitability in the water sector'*.¹³⁴ Dividends revenue is forecast to remain relatively steady after this fall, which, according to the budget papers, *'reflects the financial performance of the metropolitan water sector and the State's insurance agencies'*.¹³⁵

FINDING: The Government expects that dividends revenue will increase to \$1.1 billion in 2012-13 before decreasing by \$645.5 million in 2013-14. Following this fall, the level of dividends revenue is expected to remain steady across the forward estimates period.

3.4 Revenue risks and assumptions

The budget estimates are the Government's framework for fiscal planning. Estimates reflect the interaction of economic variables and the State's planned revenue and expenditure decisions.

Particularly in relation to State taxation revenue, the budget papers indicate that *'the main source of risk to the taxation estimates is the economic environment'*.¹³⁶

3.4.1 Economic outlook for revenue

As noted in Section 3.1 of this report, the Government has favourable expectations for Victoria's economy over the forward estimates period. Table 3.6 shows the key macroeconomic projections for the State from 2012-13 to 2016-17.

Table 3.6 Victorian selected macroeconomic variables forecast^(a), 2012-13 to 2016-17

	2012-13	2013-14	2014-15	2015-16	2016-17
Real GSP growth	1.50	2.25	2.75	2.75	2.75
Employment growth	0.50	1.50	1.75	1.75	1.50
Consumer price index growth (Melbourne)	2.25	2.50	2.50	2.50	2.50

(a) Year-average per cent change on previous year.

Source: Budget Paper No.2, *2013-14 Strategy and Outlook*, May 2013, p.13

133 Public Accounts and Estimates Committee, *Report on the 2011-12 Financial and Performance Outcomes*, May 2013, pp.15, 27-8; Victorian Auditor-General's Office, *Auditor-General's Report on the Annual Financial Report for the State of Victoria, 2011-12*, November 2012, p.13

134 Budget Paper No.5, *2013-14 Statement of Finances*, May 2013, p.180

135 *ibid.*

136 Budget Paper No.2, *2013-14 Strategy and Outlook*, May 2013, p.59

The Committee notes that the budget papers forecast a positive economic outlook for the State, with GSP and employment growing consistently and stable inflation, although they forecast lower GSP growth rates than before the Global Financial Crisis.¹³⁷ The budget papers also indicate that the steady GSP growth across the forward estimates period is driven by the following:¹³⁸

- solid growth in household consumption;
- the property market showing signs of recovery;
- business investment growth; and
- increased net interstate trade.

On the international outlook, the Government's estimates in the budget papers have been based on the expectation that global risks are receding in comparison to previous budgets, particularly since the Global Financial Crisis. The budget papers identify the following in relation to global risks:¹³⁹

- the economies of the State's key trading partners, such as China, New Zealand and Japan, are expected to grow over the forward estimates period and will positively impact the trade flows for the State;
- economic and financial stability in the Euro-zone and in the United States remains uncertain; and
- a significant fall in the Australian dollar exchange rate would mean upward pressure on the inflation rate, though it would be a positive impact for exporters.

FINDING: The Government's budget estimates assume a positive outlook for the State and reduced global risks.

3.4.2 Revenue risks

The budget papers provide an analysis to illustrate the sensitivity of revenue to changes in different economic variables.¹⁴⁰ Figure 3.10 shows how much revenue and expenses would increase as a result of a 1 per cent change in each of the selected economic variables.

As the budget papers indicate, these sensitivities are rules of thumb which provide an illustration of the impact of changes in the economic environment. In reality, changes in macroeconomic variables have different outcomes depending on the economic sector they affect.¹⁴¹

The Committee notes that within the sensitivity analysis provided, the budget papers include a new section in 2013-14 which illustrates the impact that simultaneous changes in multiple macroeconomic indicators can have on revenue. The Committee welcomes this addition and

137 Budget Paper No.2, *2013-14 Strategy and Outlook*, May 2013, p.26

138 *ibid.*, pp.13-15

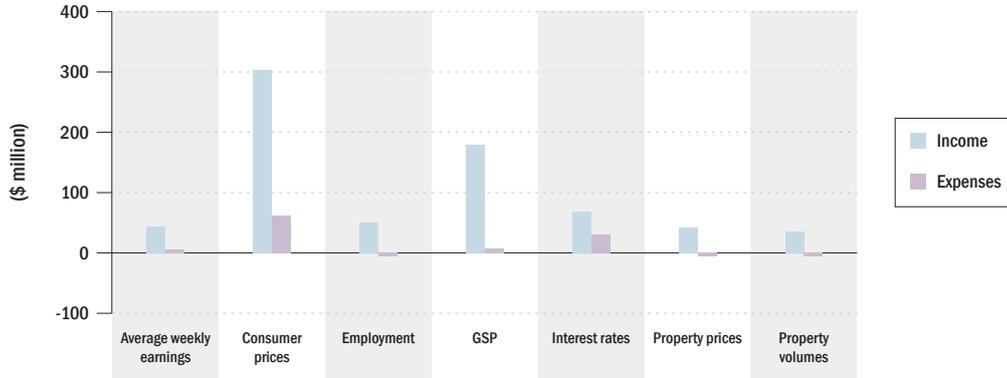
139 *ibid.*, p.22-3

140 *ibid.*, pp.75-82

141 *ibid.*, p.75

encourages the Government to include this information in future budget papers, as it provides a more meaningful exemplification of the impact of economic changes on revenue.

Figure 3.10 Sensitivity of revenue and expenses to selected economic variables, ^(a) 2013-14



(a) When the economic variable is increased by 1 per cent.

Source: Department of Treasury and Finance, Budget Paper No.2, 2013-14 Strategy and Outlook, May 2013, pp.76-7

The sensitivity analysis in the budget papers also indicates that:¹⁴²

The sensitivity from a one per cent lower than expected outcome of an economic variable would, in most instances, simply be the opposite of the impact shown in the table [that is, Figure 3.10 in this report]. However, for some results the impact of changes are not symmetrical and therefore care should be exercised when using the table to estimate the impact of lower than expected economic variables.

Given the risk and the potential importance of lower-than-expected economic outcomes, the Committee considers that it would be informative for future budgets to provide a sensitivity analysis to illustrate possible scenarios when macroeconomic indicators are 1 per cent lower than the forecast.

FINDING: The 2013-14 budget papers provide an analysis which illustrates the sensitivity of revenue and expenses to an increase of 1 per cent in selected macroeconomic variables.

RECOMMENDATION 5: Future budget papers include a discussion of the impact on revenue and expenditure when macroeconomic indicators are 1 per cent lower than expected.

142 *ibid.*, p.77

3.4.3 Risk assessment for revenue components

Taxes on the property market

Property prices and property volumes are the two main drivers of property market revenue. Both impact on land transfer duty, which is 57 per cent of total property taxes. Property prices also impact on land tax, which constitutes a further 26 per cent of property taxes.¹⁴³

The budget papers indicate that *'Risks to the [property market] outlook are evenly balanced. While the anticipated recovery may be delayed, it is equally possible that it turns out to be stronger than anticipated.'*¹⁴⁴ The Committee notes that the land transfer duty estimates are based on the assumption that *'the economic fundamentals for a recovery in the property market are in place, with low interest rates, higher levels of housing affordability, improving consumer confidence and ongoing solid population growth.'*¹⁴⁵ As seen in Section 3.3.4, land transfer duty is expected to increase by an average of 6.4 per cent per year over the forward estimates, in contrast with the negative average annual growth rate estimate of -1.1 per cent from 2007-08 to 2013-14.

The budget papers estimate, as shown in Figure 3.10, that if property sales volumes increase by 1 per cent more than estimated, an additional \$36 million of revenue would be received in 2013-14. If property prices increase by 1 per cent more than expected, that would supply a further \$42 million in revenue.

FINDING: The budget estimates assume a recovery in the property market (in volumes and prices) as a result of anticipated lower interest rates, higher levels of housing affordability and improving consumer confidence.

Payroll tax

Payroll tax is directly affected by the level of employment in the State. The Government expects that the employment rate will grow steadily over the forward estimates period (see Table 3.6), rising 0.5 per cent in 2012-13 and 1.5 per cent or more for the forward estimates period. As noted in Section 3.3.4, payroll tax is expected to increase by an average of 5.7 per cent per annum across the forward estimates period. The Committee understands that a negative shock in employment growth is usually correlated to a deceleration on GSP growth. Therefore, it is anticipated that the Government's revenue would see a significant negative impact if this were to occur.

FINDING: The Government expects that risks for payroll tax will reduce as a result of anticipated steady growth in GSP and employment across the forward estimates period.

143 Budget Paper No.5, *2013-14 Statement of Finances*, May 2013, p.172

144 *ibid.*, p.174

145 *ibid.*

Commonwealth grants

Commonwealth grants risks are mainly associated with general-purpose (GST) grants, which the Government has identified as difficult to accurately forecast.¹⁴⁶

Revenue from GST is highly correlated to GSP growth through household consumption. It is also dependent on GST relativities, which are determined each year.¹⁴⁷

These relativities are in part determined by royalties in resource-rich states. These are directly affected by commodity prices and production. The Government's outlook for the commodities market is '*positive which will benefit the resource-rich states and indirectly benefit Victoria*'.¹⁴⁸

Further discussion of risks associated with Commonwealth grants can be found in Section 4.4 of this report.

FINDING: The Government has a positive outlook for Commonwealth grants. However, it also recognises that some grants are subject to a high level of volatility, which might result in a negative impact for Victoria.

Consumer prices and GSP

Figure 3.10 shows that variations from the forecast consumer prices and GSP have the potential to significantly alter the State's revenue.

According to the analysis, changes in consumer prices increase the Government's revenue through increments in Commonwealth grants, due to indexation and higher GST, and a higher tax base for State taxation. However, this additional revenue is partially offset by increased costs of supplies and services.¹⁴⁹

Higher GSP than forecast also impacts on the Government's revenue (through channels associated with Commonwealth grants) as a result of increased household consumption leading to additional GST revenue. Higher GSP will also raise the value of the State taxation revenue base.¹⁵⁰

3.5 Victoria's tax competitiveness

Under the Government's economic and fiscal strategy (see Section 2.4.2), one of the three key elements is '*ensuring Victoria is a competitive and low-cost place to do business*'.¹⁵¹ A key element of the Government's plan for achieving this relies on making Victoria's taxation system competitive in comparison to other states in Australia.

The Government has further explained:¹⁵²

146 *ibid.*, p.184

147 *ibid.*, p.182

148 Budget Paper No.2, *2013-14 Strategy and Outlook*, May 2013, p.21

149 *ibid.*, p.77

150 *ibid.*

151 *ibid.*, p.31

152 Victorian Government, *Securing Victoria's Economy*, December 2012, p.23

The Government's strategy for the future aims to secure Victoria's position as not just a leading State, but a regional economic centre, benefiting from and contributing to the Asian century. This vision addresses the economic and fiscal challenges facing Victoria, builds on the State's existing competitive advantages and capitalises on new opportunities to drive investment and employment to benefit Victorian families.

In a previous report, the Committee recommended that 'the Department of Treasury and Finance supplement the disclosure of revenue items in the budget papers by including measures of the competitiveness of Victoria's taxation system compared to the other Australian states and territories'.¹⁵³

In response, the Government indicated that:¹⁵⁴

Measuring tax competitiveness is a difficult issue because it needs to consider the burden of taxation on various groups and the total amount collected. The Department of Treasury and Finance is assessing the merits of a suite of tax competitiveness measures, but which of these measures are preferred will not be finalised until after the 2012-13 Budget.

The Committee notes that the 2013-14 budget papers do not discuss any taxation competitiveness measures.

FINDING: The Government has identified making Victoria tax competitive as part of its economic and fiscal strategy.

RECOMMENDATION 6: Future budget papers include an analysis of the competitiveness of Victoria's taxation compared to other states.

To compare Victoria's taxation to the other Australian states, the Committee has adopted two indicators:

- taxation per capita (that is, how much tax the states charge each of their residents, on average); and
- assessed revenue raising effort ratio, a measure developed by the Commonwealth Grants Commission ('a ratio which indicates the actual effort made by a State to raise revenue relative to the average effort. It is primarily a measure of the deviation of a State's tax rates and efficiency in ensuring compliance from the average rates and compliance efficiency').¹⁵⁵

All figures are provided up to 2011-12, the last year for which actual results are available.

153 Public Accounts and Estimates Committee, *Report on the 2011-12 Budget Estimates — Part Three*, September 2011, Recommendation 56, p.156

154 Victorian Government, Government Responses to the Recommendations of Public Accounts and Estimates Committee 102nd Report on the 2011-12 Budget Estimates — Part Three, tabled September 2011, p.29. Recommendation status: under review.

155 Commonwealth Grants Commission, *Report on GST Revenue Sharing Relativities: 2013 Update*, March 2013, p.145

For 2011-12 Victoria charged on average \$2,670 to each Victorian, in the middle amongst Australian states, above their average of \$2,464. The ‘assessed revenue raising effort-ratio’ was also in the middle, slightly above the average.

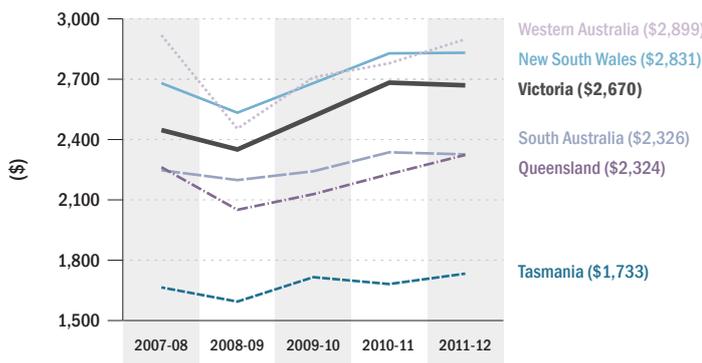
These indicators allow inter-state comparisons. However, a major limitation to these measures is that each considers only state taxation.¹⁵⁶ Some states, especially Western Australia and Queensland, receive significant amounts of revenue from mining royalties.¹⁵⁷ This enables them to raise the same amount of revenue with lower state taxation. Victoria, in contrast, has less ability to raise money through such sources, requiring it to depend more heavily on state taxation. However, this disadvantage is partly compensated by Commonwealth general-purpose grants (see Section 4.4).

3.5.1 State taxation revenue per capita

Figure 3.11 shows the level of taxation revenue collected relative to the total population in each state, that is, how much revenue each state is charging on average to each person residing in its territory.

On average, each Victorian paid \$2,670 in 2011-12. This ranks third amongst Australian states and above the average of all states of \$2,464.

Figure 3.11 Taxation revenue per capita, 2007-08 to 2011-12



Source: Committee calculations based on figures from the Australian Bureau of Statistics, Catalogue Number 5506.0

FINDING: Victoria’s taxation revenue in 2011-12 was equivalent to \$2,670 per person. The average of the Australian states’ revenue per person in the same year was \$2,464.

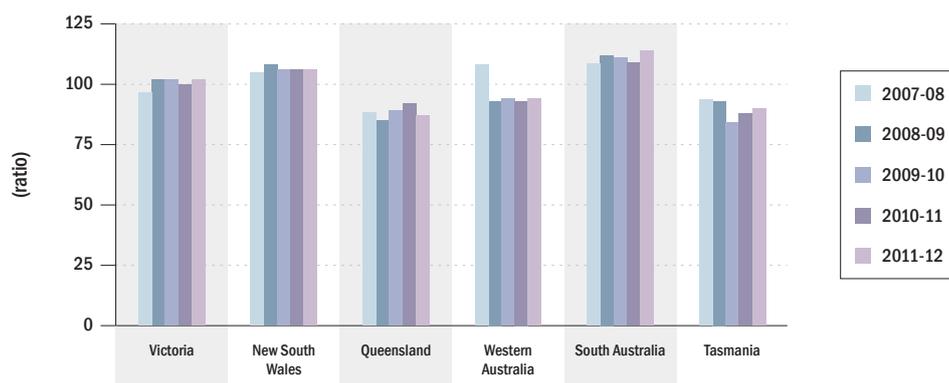
156 For the purposes of this section, state taxation includes: payroll taxes, taxes on property, stamp duties, taxes on gambling, taxes on insurance and taxes on goods and services.

157 Commonwealth Grants Commission, *Changes in State Budgets 2000-01 to 2010-11*, October 2012, p.9

3.5.2 Assessed revenue raising effort ratio

The assessed revenue raising effort ratio of a state is the ratio of the state's actual taxation revenue per capita to what it would have gained if it raised taxes at the average rate of Australian states. A ratio greater than 100 indicates the State raised more revenue than if it had applied average policies (that is, 'above average effort'). A ratio below 100 indicates 'below average effort'. As explained by the Commonwealth Grants Commission:¹⁵⁸

Greater effort may reflect a State having a higher rate of tax than average, or it may reflect the State including additional taxpayers compared with the average, for example, by having a lower than average payroll tax threshold. Lower effort may reflect the inverse situation, that is, lower than average tax rates or additional



taxpayers excluded from paying tax.

Figure 3.12 shows the comparison to other states using the assessed revenue raising effort ratio.

Figure 3.12 Assessed revenue raising effort ratio, State taxation revenue, 2007-08 to 2011-12

Source: Commonwealth Grants Commission, *Report on GST Revenue Sharing Relativities: 2013 Update*, 'Data Supporting the Calculation of the Relativities', <cgc.gov.au/index.php?option=com_content&view=category&id=63&Itemid=142>, accessed 16 July 2013

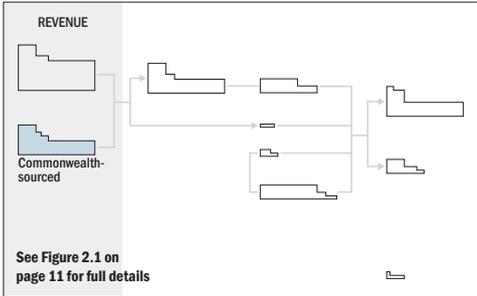
The Committee notes that assessed revenue raising effort for Victoria has been slightly above the average mark of 100 during 2008-09 to 2011-12 and below the average in 2007-08. According to this indicator, Victoria ranks as the third state, with a higher rate of tax than the average. This is consistent with the taxation per capita indicator.

FINDING: In 2011-12, Victoria ranked third among states with respect to the assessed revenue raising effort ratio, and slightly above the average.

CHAPTER 4 COMMONWEALTH FUNDING

4.1 Introduction

Grants from the Commonwealth Government are expected to provide \$23.2 billion in 2013-14.¹⁵⁹ This accounts for 46 per cent of the general government sector’s revenue. Commonwealth grants are expected to rise by an average of 4.1 per cent per year over the forward estimates period, from \$23.2 billion in 2013-14 to \$26.1 billion in 2016-17.¹⁶⁰



This chapter examines Commonwealth funding in more detail, looking at:

- What sorts of grants does the Commonwealth provide? (Section 4.1.1)
- How have recent developments at the Commonwealth level affected the 2013-14 Budget? (Section 4.2)
- What is expected to happen with Commonwealth funding as a whole over the forward estimates period? (Section 4.3)
- What is estimated to occur with general-purpose (GST) grants over the forward estimates period? (Section 4.4)
- What is anticipated with specific-purpose grants? (Section 4.5)

In contrast to the other chapters of this report, some trend analyses in this chapter start in 2009-10.

4.1.1 Types of Commonwealth grants

Commonwealth funding to the Victorian Government is provided through a variety of grants. Each different type has different restrictions as to how the money can be spent (see Table 4.1).

Table 4.1 Major types of Commonwealth grants received by Victoria

Grant	Restrictions
General-purpose (GST) grants	No restrictions on how this funding can be spent.
National Agreements	Funding must be spent in a specified sector, but the State can determine what the money is spent on within that sector.
National Partnerships	Funding must be spent on specified projects or is dependent on specified reforms.
Other agreements	Health payments delivered through the <i>National Health Reform Agreement</i> are largely activity-based. Education payments will be delivered through the needs-based <i>Better Schools Plan</i> from 2014.

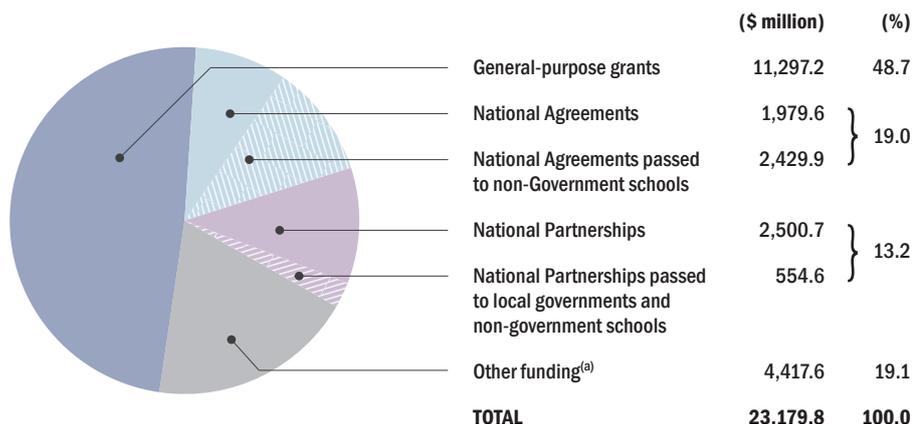
Source: Public Accounts and Estimates Committee

159 Budget Paper No.5, 2013-14 *Statement of Finances*, May 2013, p.182
 160 *ibid.*

Figure 4.1 shows the State Government’s expectations for the proportion of Commonwealth funding from each of these types of grant in 2013-14. The Committee notes that, as the State Government had not signed up to the *Better Schools Plan* at the time of the Budget, these estimates do not take into account the change in education funding from January 2014 from a National Partnership to the ‘other’ category (see Section 4.5.2 of this report for more details).

A portion of the funding provided through National Agreements and National Partnerships is passed by the State Government to non-government schools and local governments. These amounts are also indicated in Figure 4.1 and discussed further in Section 4.5.5.

Figure 4.1 Proportion of different types of Commonwealth grants, 2013-14



(a) Includes funding under the *National Health Reform Agreement*, Interstate Road Transport payments and funding identified as ‘other’ in the budget papers (some of which may relate to National Partnerships).

Source: Committee calculations based on Budget Paper No.5, *2013-14 Statement of Finances*, May 2013, pp.182-96

The different types of grants are discussed separately in Sections 4.4-4.5 of this report.

4.2 Recent developments at the Commonwealth level

A number of recent decisions by the Commonwealth Government or the Council of Australian Governments have influenced the amount of funding expected from the Commonwealth across the forward estimates period. Major developments include:

- agreement to the National Disability Insurance Scheme and the phasing-in of the scheme from 2013-14 onwards;
- announcement of the next phase of the Nation Building Program, to commence in 2014-15; and
- changes to education funding.

Departments provided details of other developments relevant to their budgets in their responses to the Committee’s questionnaire, which are available from the Committee’s website (www.parliament.vic.gov.au/paec).

4.2.1 National Disability Insurance Scheme (NDIS)

DisabilityCare Australia (the new body established to deliver the NDIS) is to be jointly funded by the Commonwealth, state and territory governments.¹⁶¹ The Commonwealth expects to provide \$19.3 billion between 2012-13 and 2018-19 to establish the new scheme across Australia (including some redirected existing funding).¹⁶² This includes some funding to states and territories to assist with their contributions to the scheme.¹⁶³

The transition to the NDIS began in 2013-14, with the commencement of service delivery to people with a disability in selected areas. A number of commitments and agreements were reached between the Commonwealth, states and territories during 2012 and 2013 to enable this change.¹⁶⁴ The *National Disability Insurance Scheme Act 2013* passed through the Commonwealth Parliament in March 2013, coming into force on 1 July 2013.¹⁶⁵

At the budget estimates hearings, the Premier explained:¹⁶⁶

The fundamentals of the NDIS in Victoria are that, first, on 1 July there will be the Barwon launch site [in Geelong], involving about 5000 people with significant and profound disability benefiting from the launch site of the NDIS. Second, I think from 2016 to 2019, there will be the transition, and there will be more people coming onto the NDIS program during that period. Third, by the middle of 2019 there will be the full rollout, which will see about 102 000 Victorians with disabilities being supported by the NDIS. I think this is a very positive outcome for people with disabilities, and it will be a great comfort to families and carers of people with disabilities to see this program rolled out across the state.

Geelong has also been announced as the national headquarters for DisabilityCare Australia. The State Government provided \$25 million of funding towards establishment costs, and has estimated that having the national headquarters in Geelong will ‘provide an economic boost to the region of up to \$34 million per annum’.¹⁶⁷

Regarding Victorian funding, the Committee was informed:¹⁶⁸

To support the Commonwealth’s National Disability Insurance Scheme, the State will contribute existing funds on top of an additional \$17 million in new funding over three years to the Commonwealth. The Commonwealth will then provide services to people with a disability who may otherwise have been clients of the Department of Human Services, Department of Health or Department of Education and Early Childhood Development.

161 Commonwealth Budget Paper No.2, 2013-14, *Budget Measures*, May 2013, p.140

162 *ibid.*

163 Commonwealth Budget Paper No.3, 2013-14, *Australia’s Federal Relations*, May 2013, pp.74-5

164 DisabilityCare Australia, ‘The Council of Australian Governments’, <www.disabilitycareaustralia.gov.au/about-us/council-australian-governments>, accessed 12 July 2013

165 DisabilityCare Australia, ‘Legislation, Rules and Government Agreements’, <www.disabilitycareaustralia.gov.au/about-us/legislation-rules-and-government-agreements>, accessed 12 July 2013

166 Hon. Dr D. Napthine MP, Premier, 2013-14 budget estimates hearings, transcript of evidence, 10 May 2013, p.20

167 Hon. Dr D. Napthine MP, Premier, ‘Coalition Delivers Major Jobs Coup for Geelong’ media release, 3 June 2013

168 Department of Human Services, response to the Committee’s 2013-14 Budget Estimates Questionnaire, received 8 May 2013, p.21

The Victorian budget papers note that the Commonwealth Government:¹⁶⁹

... is proposing that the states provide some of the additional funding required for the full NDIS implementation, contrary to the recommendations of the Productivity Commission. Discussions between the states and Commonwealth are continuing regarding appropriate funding arrangements.

The State Government has identified this as a potential risk to the State's financial performance and budget outcomes.¹⁷⁰ Once agreements have been finalised, the Committee considers that the budget papers should clearly indicate the full impact of the agreed funding arrangements.

FINDING: DisabilityCare Australia will commence operations in the Barwon region in 2013-14, with rollout to the whole of Victoria expected by 2019. DisabilityCare will be jointly funded by the Commonwealth, states and territories, although funding arrangements have not yet been finalised. The State Government has identified this as a potential risk to its forecast budget outcomes.

RECOMMENDATION 7: Once funding arrangements between Victoria and the Commonwealth for the National Disability Insurance Scheme have been finalised, future budget papers clearly specify the impact on the budget.

4.2.2 Nation Building Program

The Commonwealth's 2013-14 Budget announced the next phase of the Nation Building Program (from 2014-15 to 2018-19), which provides funding for infrastructure projects around Australia. Funding was announced for the following projects in Victoria:¹⁷¹

- \$3.0 billion for the Melbourne Metro Rail Tunnel;
- \$525.1 million for widening the M80 Ring Road and providing it with an 'Intelligent Transport System' to manage traffic flows;
- \$257.5 million to duplicate the Princes Highway West between Winchelsea and Colac (announced prior to the 2013-14 Budget);
- two projects worth a combined \$78.5 million to introduce an 'Intelligent Transport System' in two sections of the Monash Freeway; and
- \$9.1 million for the development of a Ballarat Freight Hub in the Ballarat West Employment Zone.

169 Budget Paper No.2, 2013-14 *Strategy and Outlook*, May 2013, p.61

170 *ibid.*

171 Commonwealth Budget Paper No.2, 2013-14, *Budget Measures*, May 2013, pp.225-6; Commonwealth Budget Paper No.1, 2013-14, *Budget Strategy and Outlook*, p.1-25; Department of Infrastructure and Transport, *Nation Building Infrastructure*, May 2013, pp.24, 64; Hon. A. Albanese MP, Minister for Infrastructure and Transport, 'Building and Planning for Victoria's Future' media release, 14 May 2013

Some State Government funding will also be required for these projects. The 2013-14 State Budget includes \$21.1 million for part of the Monash Freeway works.¹⁷² The State Government will need to provide additional funding in future budgets.

At the budget estimates hearings, the Minister for Public Transport stated that only \$1.0 billion of the \$3.0 billion for the Melbourne Metro Rail Tunnel has been committed by the Commonwealth Government in the next phase of the Nation Building Program, with the remainder to come after that (that is, after 2018-19). The Minister also stated that no Commonwealth funding was expected for this project until 2015-16 and only \$75.0 million was expected during the forward estimates period to 2016-17.¹⁷³

Further discussion of major infrastructure projects is in Chapter 8 of this report.

FINDING: In the 2013-14 Commonwealth Budget, the Commonwealth Government announced six projects for Victoria as part of the next phase of the Nation Building Program between 2014-15 and 2018-19. This included a commitment of \$1.0 billion for the Melbourne Metropolitan Rail Tunnel during that phase. The State Minister for Public Transport informed the Committee that only \$75.0 million of that was expected at that time to be provided during the forward estimates period.

4.2.3 Education funding

At the April 2013 meeting of the Council of Australian Governments, the Commonwealth Government proposed replacing the *National Education Agreement* with a new agreement. The new agreement will include a needs-based funding model, reforms designed to improve student performance and an increase in the amount of funding (part of which is expected to come from the states and territories).¹⁷⁴

Victoria signed an agreement in August 2013 and the new funding arrangements will apply from 2014 to 2019.¹⁷⁵

The new arrangements are discussed further in Section 4.5.2 of this report.

FINDING: In August 2013, the State Government signed an agreement to replace the *National Education Agreement* with a new needs-based funding model from January 2014.

172 \$0.8 million of output funding and \$20.3 million of asset funding – Budget Paper No.3, 2013-14 *Service Delivery*, May 2013, pp.48, 52

173 Hon. T. Mulder MP, Minister for Public Transport, 2013-14 budget estimates hearings, transcript of evidence, 15 May 2013, pp.8-9; cf. Commonwealth Budget Paper No.3, 2013-14, *Australia's Federal Relations*, May 2013, p.90

174 Council of Australian Governments Meeting Communiqué, 19 April 2013, p.1

175 Prime Minister, Premier of Victoria and Minister for Education, 'Victoria Signs up to the Better Schools Plan' media release, 4 August 2013

4.3 Commonwealth funding over the forward estimates period

The Government expects revenue from Commonwealth grants to increase across the forward estimates period, as can be seen in Figure 3.6.

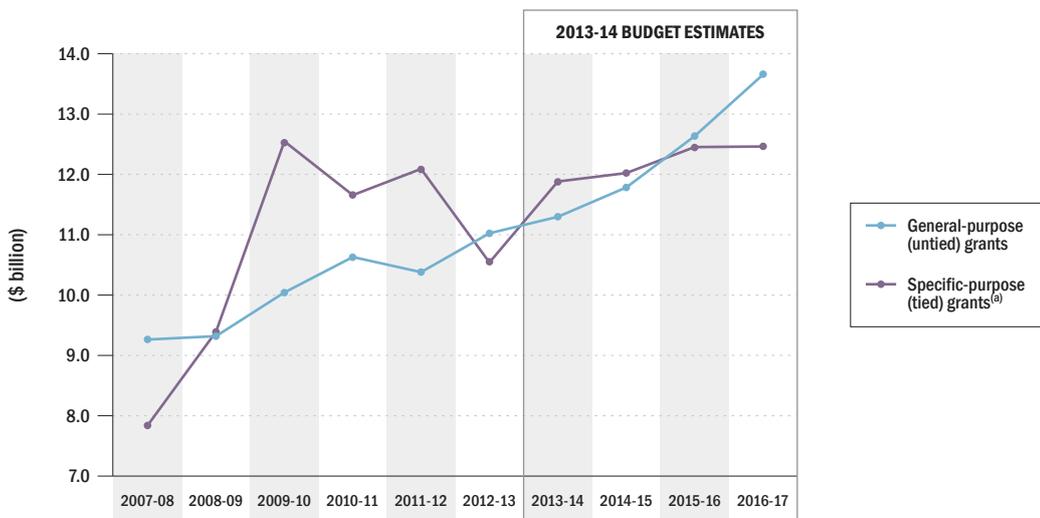
Figure 4.2 shows what proportion of total revenue is expected to come from Commonwealth grants. Figure 4.3 shows the differing growth expected for general-purpose (untied) and specific-purpose (tied) grants.

Figure 4.2 Proportion of State Government revenue from Commonwealth grants, 2007-08 to 2016-17



Source: Committee calculations based on Budget Paper No.5, 2013-14 Statement of Finances, May 2013, p.182; Annual Financial Reports for the State, 2007-08 to 2011-12

Figure 4.3 General-purpose and specific-purpose grants, 2007-08 to 2016-17



(a) Includes grants for on-passing.

Sources: Budget Paper No.5, 2013-14 Statement of Finances, May 2013, p.182; Annual Financial Reports for the State, 2007-08 to 2011-12

Figure 4.2 shows a peak in 2009-10 and an expected trough in 2012-13. As can be seen from Figure 4.3, this has been driven by changes in the amounts of specific-purpose grants. The trough in 2012-13 ‘reflects a series of decisions by the Commonwealth Government since 2011 to rephase around \$500 million of grants from 2012-13 to other years’.¹⁷⁶

176 Budget Paper No.2, 2013-14 Strategy and Outlook, May 2013, p.47

In contrast to the prior years, the forward estimates have been developed on the assumption that Commonwealth grants will remain a relatively stable proportion of Government revenue as a whole, varying between 45.8 and 46.2 per cent of revenue across the four years (see Figure 4.2).

As Figure 4.3 shows, the Government is expecting general-purpose grants to grow at a faster rate over the forward estimates period than specific-purpose grants. The value of general purpose grants is expected to rise steadily between 2013-14 and 2016-17, by an average of 5.5 per cent per year.¹⁷⁷ This is a higher rate than occurred between 2007-08 and 2012-13 (3.5 per cent on average).

The Government estimates that specific-purpose grants will increase at a slower rate, an average of 1.6 per cent per year.¹⁷⁸ The total value of specific-purpose grants is not expected to grow between 2015-16 and 2016-17 because substantial funding for Regional Rail Link is expected to cease in 2015-16.¹⁷⁹ This decline in funding will be offset by growth in other grants, leading to the amounts in the two years being similar.

Untied grants are estimated by the State Government to increase from 49 per cent of Commonwealth funding in 2013-14 to 52 per cent in 2016-17.¹⁸⁰ This effect may be further enhanced by a reduction in National Partnerships, the most restrictive type of specific-purpose grant provided by the Commonwealth (see Section 4.5.4).

The causes for the changes in the different types of grants are discussed in the following sections of this report.

FINDING: The budget estimates have been prepared on the basis of Commonwealth grants remaining a similar proportion of State revenue (around 46 per cent) across the forward estimates period. However, the State Government is expecting the mix of grant types to change, with general-purpose (untied) grants increasing at a faster rate than specific-purpose (tied) grants. General-purpose grants are forecast to change from 49 to 52 per cent of all Commonwealth funding to Victoria between 2013-14 and 2016-17.

4.4 General-purpose (GST) grants

General-purpose grants are primarily Victoria's share of revenue raised through the Commonwealth's goods and services tax (GST). The Government expects the value of general purpose grants to increase through the forward estimates period, from \$11,024.5 million in 2012-13 to \$13,655.7 million in 2016-17.¹⁸¹

177 Compound annual growth rate between 2013-14 and 2016-17.

178 Compound annual growth rate between 2013-14 and 2016-17.

179 Budget Paper No.2, *2013-14 Strategy and Outlook*, May 2013, p.47; Commonwealth Budget Paper No.3, 2013-14, *Australia's Federal Relations*, May 2013, p.87

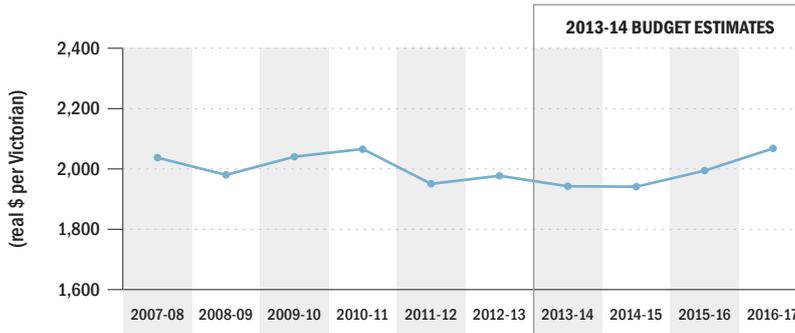
180 Committee calculations based on Budget Paper No.5, *2013-14 Statement of Finances*, May 2013, p.182

181 Budget Paper No.5, *2013-14 Statement of Finances*, May 2013, p.182

4.4.1 General-purpose grants in real terms per Victorian

Figure 4.4 adjusts the nominal value of general-purpose grants to account for population growth and inflation. The Government expects general-purpose grants to increase in real terms (that is, adjusted for inflation)¹⁸² from \$1,977 per Victorian in 2012-13 to \$2,068 per Victorian in 2016-17. This is an average growth of 1.2 per cent per year. The factors driving this growth are explained in Section 4.4.2 below.

Figure 4.4 General purpose grants per Victorian in real terms (2013-14 prices), 2007-08 to 2016-17



Notes: Real values are calculated using the price deflator implicit in the Department of Treasury and Finance’s calculation of real and nominal GSP. Figures are provided in 2013-14 terms.
 Sources: Calculated by the Committee based on: Department of Treasury and Finance, *Annual Financial Report for the State of Victoria*, 2007-08 to 2011-12; Budget Paper No.5, *2013-14 Statement of Finances*, May 2013, p.182

FINDING: The Government expects general-purpose grants to increase in real terms from \$1,977 per Victorian in 2012-13 to \$2,068 per Victorian in 2016-17.

4.4.2 Factors influencing the amount of general-purpose revenue

Three main factors influence the amount of general-purpose grants received by Victoria:

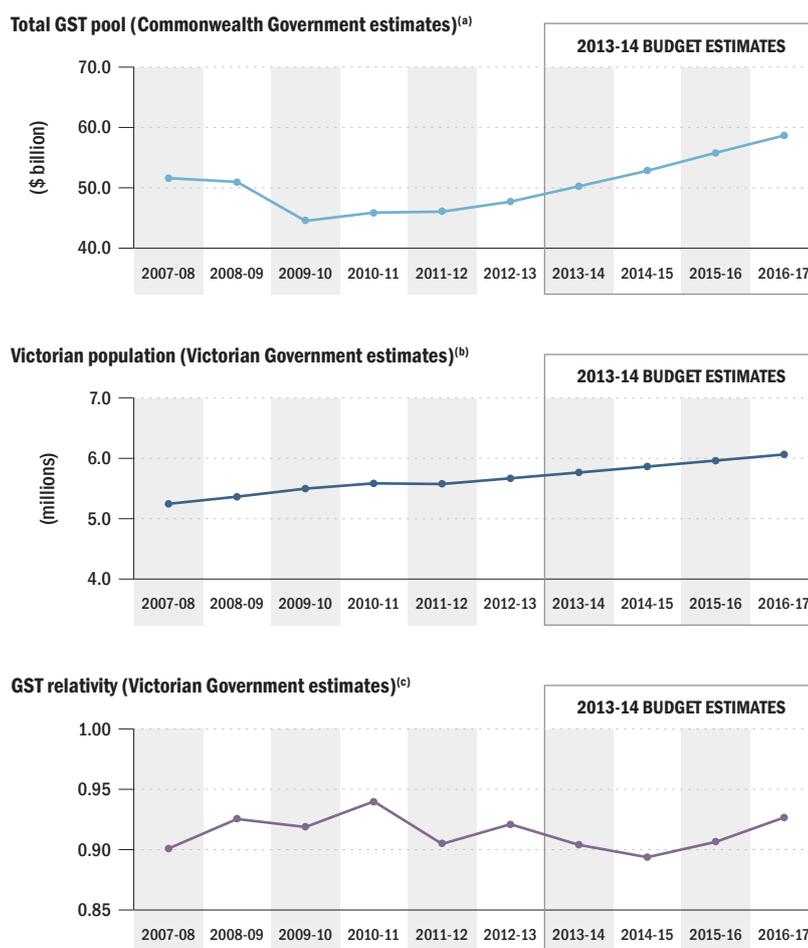
- the total GST pool (determined by the sales of good and services in the Australian economy);
- Victoria’s population as a proportion of Australia’s population; and
- a relativity which is determined each year and which increases or decreases a state’s share compared to an equal per capita distribution.

The funds in the GST pool are distributed according to the following formula:

$$\text{Victoria's share} = \text{Total GST pool} \times \frac{\text{Victoria's population}}{\text{Australia's population}} \times \text{Victoria's relativity}$$

Figure 4.5 shows the assumptions about the three main factors underpinning the forward estimates of general-purpose grants.

182 2013-14 dollars

Figure 4.5 Factors affecting general-purpose grants to Victoria, 2007-08 to 2016-17

Sources:

- (a) Commonwealth Government, Final Budget Outcomes 2007-08 to 2011-12; Commonwealth Budget Paper No.3, 2013-14, *Australia's Federal Relations*, May 2013, pp.111, 119
- (b) Department of Treasury and Finance, 'Macroeconomic Indicators 2013-14', <[www.budget.vic.gov.au/CA257B16002775DE/WebObj/MacroeconomicIndicators2013-14BudgetMay2013/\\$File/MacroeconomicIndicators2013-14BudgetMay2013.xlsx](http://www.budget.vic.gov.au/CA257B16002775DE/WebObj/MacroeconomicIndicators2013-14BudgetMay2013/$File/MacroeconomicIndicators2013-14BudgetMay2013.xlsx)>, accessed 19 June 2013
- (c) Commonwealth Government, Final Budget Outcomes 2007-08 to 2011-12; Budget Paper No.5, *2013-14 Statement of Finances*, May 2013, p.184

Figure 4.5 shows that both the GST pool and Victoria's population are expected to rise over the forward estimates period.

The pool is expected to rise by an average of 5.3 per cent per year.¹⁸³ However, the Government noted that recent growth in the GST pool is below earlier trends and less than the growth of the economy as a whole.¹⁸⁴

The relativity is expected by the Victorian Government to decrease in 2013-14 and 2014-15 and then increase in the last two years of the forward estimates period. The budget papers explain:¹⁸⁵

183 Compound annual growth rates between 2012-13 and 2016-17

184 Budget Paper No.2, *2013-14 Strategy and Outlook*, May 2013, pp.4, 29-30; Budget Paper No.5, *2013-14 Statement of Finances*, May 2013, pp.182-3

185 Budget Paper No.5, *2013-14 Statement of Finances*, May 2013, p.184

Victoria's GST relativities are expected to again decline in 2014-15, before forecast increases in mining royalties in Western Australia and Queensland lead to a recovery in Victoria's GST relativity from 2015-16 onwards. Estimates for royalties in the resource-rich states are based on assumptions about commodity prices and production, both of which are subject to considerable uncertainty. Deviations in outcomes from these assumptions will have a significant impact on the outlook for Victoria's share of the GST pool.

The recent relative weakness in land transfer duty receipts is also expected to positively impact Victoria's relativities over the forward estimates.

4

The Committee notes the budget papers' comment about the uncertainty of the assumptions underlying the general-purpose grants forecasts. Although the overall trend of general-purpose grants has been relatively stable since 2007-08 (see Figure 4.3), exact values have historically been difficult to predict precisely (see Section 4.4.3 of this report). Even small changes in percentage terms can have large impacts in dollar terms, given the size of general-purpose grants. The most extreme recent example saw Victoria's estimated revenue reduced by \$4.1 billion (over four years) in the six months between the 2010-11 Budget Update and the 2011-12 Budget due to changes to Victoria's relativity and a smaller-than-expected GST pool.¹⁸⁶

The 2013-14 budget papers state:¹⁸⁷

Victoria cannot plan and budget effectively when its largest single revenue source continues to change so significantly, and without warning, as the result of the highly complex and unpredictable formula currently used to distribute the GST.

A recent review of GST distribution by an independent panel also found, with respect to the current system, that '*its effects are hard to predict and sometimes counter-intuitive.*'¹⁸⁸ These concerns have contributed to the State Government's advocacy of a changed system of GST distribution (see Section 4.4.4 of this report).

The publication of the Victorian's Government's estimates for Victoria's GST relativity is a new feature of the budget papers in 2013-14. The Committee welcomes this new information.

FINDING: The Government's estimated increase in general-purpose (GST) grants over the forward estimates period is based on its expectations that the population will grow, the GST pool will increase and Victoria's relativity will be increased in 2015-16 and 2016-17. The Government has noted that some of the assumptions about the GST relativity are '*subject to considerable uncertainty*'.

4.4.3 Comparison to previous estimates

The budget papers point out that the amount of funding for general-purpose grants across the forward estimates period is significantly less than had been anticipated in previous budgets. Since the 2010-11 Budget Update, issued shortly after the change of government in 2010,

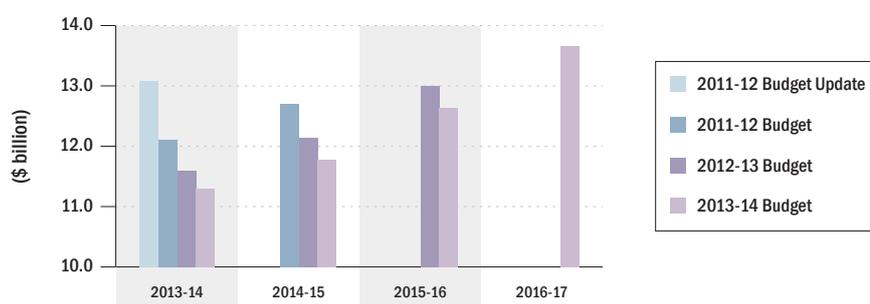
186 Budget Paper No.2, *2011-12 Strategy and Outlook*, May 2011, p.22

187 Budget Information Paper No.3, *2013-14 Federal Financial Relations*, May 2013, p.2

188 Hon. N. Greiner AC, Hon. J. Brumby and B. Carter, GST Distribution Review, *Final Report*, October 2012, Finding 2.4, p.9

the estimates for general-purpose grants have been revised downwards in each budget (see Figure 4.6).

Figure 4.6 Estimates for general-purpose grants, 2013-14 to 2016-17



Sources: Department of Treasury and Finance, *2010-11 Victorian Budget Update*, December 2010; Budget Paper No.5, *Statement of Finances, 2011-12 to 2013-14*

The Department of Treasury and Finance informed the Committee that:¹⁸⁹

Expected GST relativities from 2014-15 have declined relative to the [2012-13] Budget Update. The largest contribution to changes in Victoria's outlook for GST relativities comes from revisions to royalty revenue. Both Western Australia and Queensland's latest royalty data places upside pressure on their expected relativities, placing downside pressure on Victoria's GST relativities. This has occurred due to assumptions of average commodity prices being downgraded in their Budget Updates, incorporating sharp declines in commodity prices during the second half of 2012.

The Department of Treasury and Finance indicated to the Committee that the reduction in general-purpose grants over the forward estimates period between the 2012-13 budget estimates and 2013-14 budget estimates is one of the factors that contributed to net debt estimates being revised upwards in the 2013-14 budget papers (see Section 5.4).¹⁹⁰ The 2013-14 budget papers revise the anticipated net debt peak in 2015 up by \$1,262.1 million compared to the 2012-13 budget papers.¹⁹¹ The 2013-14 budget papers also anticipate that net debt will be \$689.5 million higher in 2016 than previously estimated.¹⁹² This compares to a cumulative write-down of general-purpose grants between 2012-13 and 2014-15 of \$672.7 million and between 2012-13 and 2015-16 of \$1,032.5 million.¹⁹³

FINDING: The unpredictable nature of the GST distribution mechanism has resulted in earlier estimates of general-purpose grants being repeatedly reduced. The Department of Treasury and Finance has indicated that this has contributed to net debt increasing by more than previously anticipated.

189 Department of Treasury and Finance, response to the Committee's 2013-14 Budget Estimates Questionnaire, received 9 May 2013, p.26

190 *ibid.*, p.28

191 Committee calculations based on Budget Paper No.5, *2013-14 Statement of Finances*, May 2013, p.7 and Budget Paper No.5, *2012-13 Statement of Finances*, May 2012, p.7

192 *ibid.*

193 Committee calculations based on Budget Paper No.5, *2013-14 Statement of Finances*, May 2013, pp.25, 245 and Budget Paper No.5, *2012-13 Statement of Finances*, May 2012, p.24

4.4.4 Possible changes to Victoria's share of the GST pool

The State Government considers that the current principles by which GST revenue is distributed to the states and territories should be changed. The budget papers discuss a number of the State Government's concerns regarding the current system.¹⁹⁴

A recent independent review of GST distribution has also made a number of recommendations to the Commonwealth Government for changes.¹⁹⁵

The Department of Treasury and Finance explained to the Committee:¹⁹⁶

The Victorian Government has and will continue to actively advocate for a more simple, transparent and less volatile system for distribution of the GST, including through participation in the development and analysis of options to implement the recommendations of the GST Distribution Review.

The State Government has advocated a system that distributes GST revenue according to State populations without any relativity. Such a system would increase Victoria's share to around 25 per cent (compared to 22.6 per cent in 2013-14).¹⁹⁷ The State Government estimates that Victoria would receive an additional \$1.2 billion in 2013-14 if the revenue were distributed in this way.¹⁹⁸

The independent GST Distribution Review Panel recently found that this may be an appropriate change in the longer-term if changes were to occur which better align states' expenditure responsibilities and revenue-raising abilities.¹⁹⁹

The State Government also noted its intention to actively support one of the Panel's recommendations relating to GST revenue,²⁰⁰ indicating that:²⁰¹

To increase the pool of GST revenue available to states, Victoria will work with other states and the Commonwealth to explore the feasibility of lowering the GST low-value threshold.

The Committee notes that changes to the GST distribution system during the forward estimates period may have significant impacts on the State's revenue.

FINDING: The State Government intends to advocate for a number of changes to the distribution of GST which it believes will increase Victoria's share.

194 Budget Information Paper No.3, *2013-14 Federal Financial Relations*, May 2013, pp.2-8

195 Hon. N. Greiner AC, Hon. J. Brumby and B. Carter, GST Distribution Review, *Final Report*, October 2012

196 Department of Treasury and Finance, response to the Committee's 2013-14 Budget Estimates Questionnaire, received 9 May 2013, p.26

197 Budget Information Paper No.3, *2013-14 Federal Financial Relations*, May 2013, p.4

198 *ibid.*, p.3

199 Hon. N. Greiner AC, Hon. J. Brumby and B. Carter, GST Distribution Review, *Final Report*, October 2012, pp.173-5

200 *ibid.*, Recommendation 11.2, p.160

201 Budget Paper No.2, *2013-14 Strategy and Outlook*, May 2013, p.41

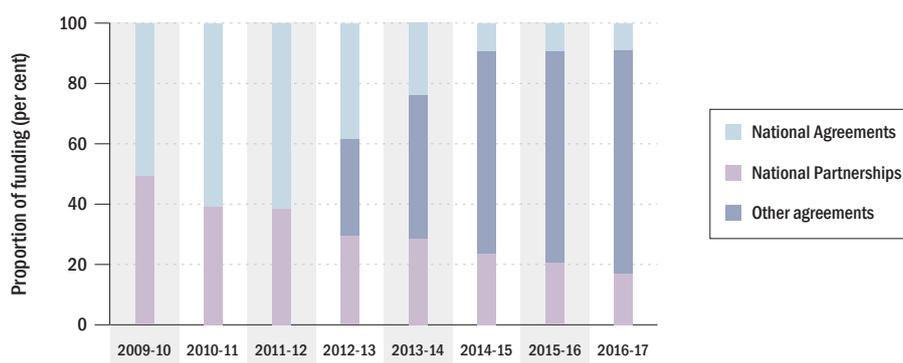
4.5 Specific-purpose grants

Specific-purpose grants are expected by the State Government to account for 51 per cent of Commonwealth funding in 2013-14, decreasing to 48 per cent in 2016-17.²⁰²

As noted in Section 4.1, there are a number of different types of grants for specific purposes.

The proportion of these different types has changed significantly since the first full year of the National Agreements (2009-10) and is expected by the Commonwealth to continue changing over the forward estimates period (see Figure 4.7).

Figure 4.7 Proportion of specific-purpose grant funding to Victoria, by type, 2009-10 to 2016-17 (Commonwealth estimates)



Note: Includes 'specific purpose grants for on-passing'.

Source: Committee calculations based on Commonwealth Government, Final Budget Outcomes, 2007-08 to 2011-12; and Commonwealth Budget Paper No.3, 2013-14, *Australia's Federal Relations*, May 2013, pp.18-19

Two main trends can be seen in Figure 4.7:

- funding previously delivered through National Agreements will be increasingly delivered through other agreements; and
- a decreasing proportion of funding will be delivered through National Partnerships.

The first trend is a result of the *National Healthcare Agreement* and the *National Education Agreement* being replaced with other agreements. In both cases, the Commonwealth Government expects funding to grow at a faster rate with these new agreements than under the previous arrangements. These changes are discussed in Section 4.5.2 of this report.

The reduction in National Partnerships between 2009-10 and 2012-13 is largely due to the winding back of the *Nation Building – Economic Stimulus Plan*, which was delivered through National Partnerships. The Commonwealth estimates show the value of National Partnerships continuing to decline through the forward estimates period. However, the actual amounts may not decline as much as Figure 4.7 suggests, as some additional expenditure can be expected which has not been included in the estimates (see Section 4.5.4).

These trends will change the nature of the constraints restricting how the State Government spends its funding.

202 Committee calculations based on Budget Paper No.5, *2013-14 Statement of Finances*, May 2013, p.182

FINDING: Over the forward estimates period, new agreements in the health and education areas will replace funding previously provided through National Agreements. The proportion of funding provided through National Partnerships may decline.

4.5.1 National Agreements

Funding will be provided to the State Government in 2013-14 through four National Agreements (see Table 4.2). This funding must be spent in the area specified by the agreement, but the State Government has discretion in how the funding is spent within that area.

Table 4.2 Funding for the State Government through National Agreements (excluding funding passed on to non-government schools), 2012-13 to 2013-14

National Agreement	2012-13 revised estimate (\$ million)	2013-14 Budget (\$ million)	Change (per cent)
Skills and Workforce Development	344.5	351.6	2.1
Education (government schools component)	917.6	980.0 ^(a)	6.8
Disability	307.3	334.9	9.0
Affordable Housing	300.3	313.1	4.3
Total	1,869.7	1,979.6	5.9

(a) This figure assumes that the agreement would operate for the entire year.

Source: Budget Paper No.5, 2013-14 Statement of Finances, May 2013, pp.190-3

In addition to the amount listed above, the Commonwealth Government also provides funding for non-government schools through the *National Education Agreement*. This funding is passed through the Victorian Government and included in 'specific purpose grants for on-passing' in the budget papers (see Section 4.5.5).

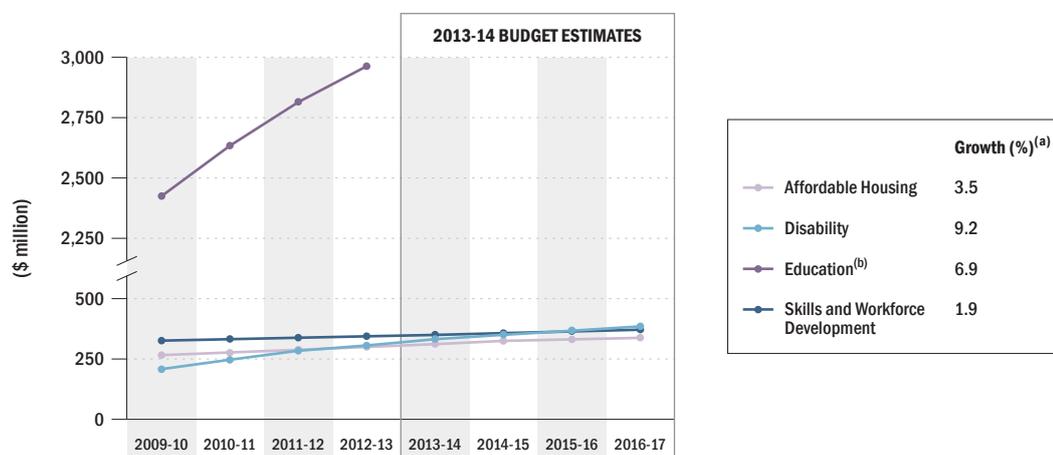
The value of grants provided through these National Agreements increases each year in accordance with criteria established in the agreements, each of which is different.²⁰³ Figure 4.8 shows the actual funding received through these agreements since the first full year of the agreements (2009-10), along with the Commonwealth Government's estimates for 2012-13 and beyond.

Funding provided through the *National Education Agreement* (including both government and non-government schools) has grown by an average of 6.9 per cent per year since 2009-10. Data for this agreement have not been supplied beyond January 2014, as the Commonwealth estimates assumed that this would be replaced by a new agreement from January 2014 (see Section 4.5.2).

203 For summaries of the growth factors for each agreement over the forward estimates, see Commonwealth Budget Paper No.3, 2013-14, *Australia's Federal Relations*, May 2013, Part 2

The Committee notes that the other agreements are all forecast by the Commonwealth Government to increase over the forward estimates period. However, the Commonwealth's assumptions lead to a decline in the rate of growth for the disability and affordable housing agreements in the forward estimates period compared to earlier trends.

Figure 4.8 Value of national agreements received by Victoria (excluding the Healthcare agreement), 2009-10 to 2016-17



(a) Compound annual growth rate over the period charted.

(b) Includes funding for both government and non-government schools; this National Agreement will be replaced by the *Better Schools Plan* from January 2014.

Sources: Commonwealth Government, Final Budget Outcomes, 2009-10 to 2011-12; Commonwealth Budget Paper No.3, 2013-14, *Australia's Federal Relations*, May 2013, Part 2

FINDING: Funding will be provided through four National Agreements in 2013-14 and three agreements for the remainder of the forward estimates period. All three are forecast by the Commonwealth Government to increase over the forward estimates period.

4.5.2 Other agreements

Other funding in 2013-14 primarily consists of health-related funding. In addition, as announced in August 2013, the National Agreement for education will be replaced by a new *National Education Reform Agreement* from January 2014.

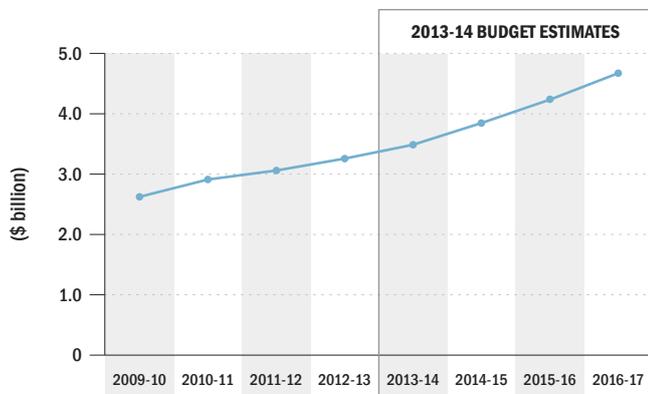
Health

In August 2011, the Commonwealth, state and territory governments agreed to the *National Health Reform Agreement*, which replaced the previous *National Healthcare Agreement*. Transitional arrangements are in place for 2012-13 and 2013-14, which mean that the funding supplied will be equivalent to what would have been received under the *National Healthcare Agreement*. New arrangements will apply from 2014-15 onwards, in which funding will be primarily activity-based.²⁰⁴

204 Commonwealth Budget Paper No.3, 2013-14, *Australia's Federal Relations*, May 2013, pp.23-5

Figure 4.9 shows the Commonwealth Government’s estimates of health funding to Victoria through the *National Healthcare Agreement* and then the *National Health Reform Agreement*.

Figure 4.9 National Healthcare Agreement and National Health Reform Agreement funding to Victoria, 2009-10 to 2016-17



Sources: Commonwealth Government, Final Budget Outcomes 2009-10 to 2011-12; Commonwealth Budget Paper No.3, 2013-14, *Australia’s Federal Relations*, May 2013, p.24

As can be seen from these estimates, the funding for Victoria is expected by the Commonwealth Government to grow at a faster rate from 2014-15 onwards, once the new funding arrangements come into effect.

Education

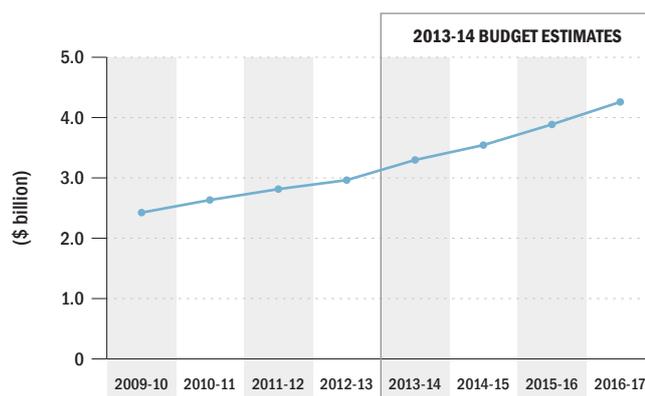
In August 2013, the Victorian Government agreed to the *Better Schools Plan*, under which the *National Education Agreement* will be replaced by the *National Education Reform Agreement* between 2014 and 2019. As explained in a joint media release from the Commonwealth and State Governments:²⁰⁵

Over the six years of the new agreement, the Commonwealth and Victorian Governments will invest more than \$12.2 billion in extra funding above 2013 levels. This equates to \$6.8 billion from the Commonwealth Government and \$5.4 billion from the Victorian Government.

Both Governments have provided funding certainty for Victorian schools for the next six years by agreeing a year-by-year transition that will see Victorian schools – Government, Independent and Catholic – receive fair funding growth each year.

The forward estimates in the 2013-14 Commonwealth Budget indicate the level of funding expected to be provided through the *National Education Reform Agreement* from 2014. This is compared to the funding provided through the previous *National Education Agreement* in Figure 4.10.

205 Prime Minister, Premier of Victoria and Minister for Education, ‘Victoria Signs up to the Better Schools Plan’ media release, 4 August 2013

Figure 4.10 National Education Agreement and National Education Reform Agreement funding to Victoria^(a)

(a) Includes both government and non-government schools; estimates from 2013-14 onwards include funding from the *Better Schools Plan*.

Sources: Commonwealth Government, Final Budget Outcomes 2009-10 to 2011-12; Commonwealth Budget Paper No.3, 2013-14, *Australia's Federal Relations*, May 2013, p.54

Other

In detailing Commonwealth grants, the Victorian budget papers separately list data for all four National Agreements, the *National Health Reform Agreement*, 45 National Partnerships and two other agreements.²⁰⁶

The budget papers also contain a series of line items simply identified as 'other'. The value of these other Commonwealth grants is \$905.9 million in 2013-14, of which \$723.6 million is included under the heading 'payment for contingent and other services'.²⁰⁷

A portion of these may be smaller National Partnerships which are identified in the Commonwealth budget papers but not listed in the State budget papers. However, other types of payment may also be included. The Committee considers that future budget papers should provide an explanation of what sorts of payments are included within this category and why they are not separately identified in the budget papers.

FINDING: The Victorian budget papers describe \$905.9 million of Commonwealth funding in 2013-14 simply as 'other'. No definition of this category is provided.

RECOMMENDATION 8: Future budget papers identify the grants included in the line items labelled 'other' in the break-down of Commonwealth grants for specific purposes.

206 That is, the Housing Affordability Fund and Federal Interstate Registration Scheme (Budget Paper No.5, *2013-14 Statement of Finances*, May 2013, pp.193-4).

207 Budget Paper No.5, *2013-14 Statement of Finances*, May 2013, pp.186-96

4.5.3 Revisions to previous amounts

National Agreement and similar payments are made in advance, based on the Commonwealth Government's estimates of the relevant factors which influence the value of the grants each year. Adjustments are made at the end of the financial year or once final data are available.²⁰⁸

In the Commonwealth's *2012-13 Mid-Year Economic and Fiscal Outlook*, the estimates for a number of key areas of funding were revised compared to the estimates in the 2012-13 Commonwealth Budget.²⁰⁹ Regarding payments under the *National Health Reform Agreement* (NHR), the Commonwealth explained:²¹⁰

The NHR funding indexation rates are derived from three factors — the independent Australian Institute of Health and Welfare (AIHW) calculations of growth rates in the cost of health services, population shifts and a technology factor of 1.2 per cent. Changes to the growth rates for NHR funding at this Mid-Year Economic and Fiscal Outlook have been influenced by changes to both the Australian Bureau of Statistics' revisions to the national population arising from the 2011 Census and the AIHW measure of growth in health costs.

Following the results of the most recent 2011 Census [released in 2012], population estimates have been revised down for 2011 and in previous years dating back to the last Census in 2006. Therefore, an adjustment is necessary to correctly assess the appropriate health funding for Australia's population under the terms agreed to by all States and the Commonwealth, given overstated population growth in previous years.

A change in the AIHW health price index has led to a further reduction in the estimates for NHR funding.

Payments under the *National Health Reform Agreement* will be more than previous years and will continue to grow over the forward estimates period (see Figure 4.9). However, the 2012-13 mid-year estimates were \$435.3 million less (over the forward estimates) than had been estimated in the 2012-13 Commonwealth Budget.²¹¹ In addition, a \$-39.7 million adjustment relating to 2011-12 was to be reclaimed by reducing payments in 2012-13. In total, the impact on 2012-13 was a reduction in funding of \$106.8 million (3 per cent of the funding under this agreement) compared to previous estimates. As a result, Commonwealth monthly payments were reduced compared to earlier estimates from December 2012 onwards.²¹²

208 Commonwealth Budget Paper No.3, 2013-14, *Australia's Federal Relations*, May 2013, p.16

209 Commonwealth Treasury, 2012-13, *Mid-Year Economic and Fiscal Outlook*, 2012, pp.75-6

210 *ibid.*, p.75

211 Commonwealth Budget Paper No.3, 2012-13, *Australia's Federal Relations*, May 2012, p.28; Commonwealth Treasury, 2012-13, *Mid-Year Economic and Fiscal Outlook*, 2012, pp.86-98; Department of Treasury and Finance, response to the Committee's 2013-14 Budget Estimates Questionnaire, received 9 May 2013, p.26; Budget Information Paper No.3, *2013-14 Federal Financial Relations*, p.12

212 Department of Health, 'Federal Government Cuts to Promised Funding', <www.health.vic.gov.au/facts>, accessed 19 July 2013; Department of Treasury and Finance, response to the Committee's 2013-14 Budget Estimates Questionnaire, received 9 May 2013, p.26

The Commonwealth Government announced in February 2013 that it would re-instate the \$106.8 million funding for 2012-13, though it would pay health services directly rather than the State Government.²¹³ Funding beyond 2012-13 remains reduced compared to the earlier estimates.²¹⁴

The Department of Treasury and Finance indicated that the re-instated 2012-13 funding was:²¹⁵

... [redirected] from reward payments which Victoria would otherwise have been eligible for under the National Partnership on a Seamless National Economy, and unspecified future projects.

That is, the Government believes that there remains an overall reduction in funding compared to the earlier estimates.

With respect to the impact of these revisions, the Department of Health stated that, ‘*The decision to pay health services directly resulted in lengthy delays in health services receiving their share of funding.*’²¹⁶ The budget papers explain that, ‘*By withdrawing funding in the current year, after the finalisation of budgets, hospitals were left with no choice but to cut services.*’²¹⁷

The Department of Health further stated:²¹⁸

The Commonwealth’s cut to hospital funding had an immediate and direct impact on health services. Wards and beds closed and elective surgery was delayed.

...

... the \$107 million Commonwealth funding cut has added 2,370 Victorians to the elective surgery wait list and over 3,000 less Victorian patients will be admitted for their elective surgery.

Data from the Department of Health show that, between the October-December 2012 quarter and the January-March 2013 quarter:²¹⁹

- the elective surgery waiting list increased; and
- the median time to treatment for elective surgery increased.

The State Government released a new initiative in the 2013-14 Budget providing an additional \$420.6 million for elective surgery between 2013-14 and 2016-17 and has increased its targets for the proportion of people expected to be admitted for elective surgeries within appropriate time frames in 2013-14.²²⁰

213 Hon. T. Plibersek MP, Minister for Health, ‘Victorian Hospital Rescue Package Helps Patients’, media release, 21 February 2013; Department of Health, response to the Committee’s 2013-14 Budget Estimates Questionnaire, received 13 May 2013, pp.16-17

214 Budget Information Paper No.3, *2013-14 Federal Financial Relations*, p.12; Commonwealth Budget Paper No.3, 2012-13, *Australia’s Federal Relations*, May 2012, p.28; Commonwealth Budget Paper No.3, 2013-14, *Australia’s Federal Relations*, May 2013, p.24

215 Department of Treasury and Finance, response to the Committee’s 2013-14 Budget Estimates Questionnaire, received 9 May 2013, p.26; Budget Information Paper No.3, *2013-14 Federal Financial Relations*, May 2013, p.12

216 Department of Health, response to the Committee’s 2013-14 Budget Estimates Questionnaire, received 13 May 2013, pp.16-17

217 Budget Information Paper No.3, *2013-14 Federal Financial Relations*, May 2013, p.12

218 Department of Health, response to the Committee’s 2013-14 Budget Estimates Questionnaire, received 13 May 2013, pp.16-17

219 Department of Health, Victorian Health Services Performance, ‘Statewide - All general surgery - Quarterly Data’, <performance.health.vic.gov.au/Home/Report.aspx?ReportKey=21> and ‘Statewide - Number of elective surgery patients on the waiting list - Quarterly Data’, <performance.health.vic.gov.au/Home/Report.aspx?ReportKey=44>, accessed 15 July 2013

220 Budget Paper No.3, *2013-14 Service Delivery*, May 2013, pp.16, 18, 124 (see Section 6.6.1 of this report)

The Committee was informed that the revised population estimates which contributed to the reduced estimates in health also affected grants in other areas, including education²²¹ and local government.²²²

The potential for revisions to Commonwealth funding (both specific-purpose grants such as these and general-purpose grants – see Section 4.4.3) are built into the funding arrangements. The Government has identified such changes as potential risks.²²³ The Government has previously indicated that its plans to increase surpluses and reduce debt have been partially motivated by a need to provide a buffer against such events.²²⁴

FINDING: Revisions to data used to calculate Commonwealth funding during 2012 resulted in a significant reduction in health funding to Victoria. The Department of Health has indicated that this resulted in a reduction to the number of elective surgeries.

4.5.4 National Partnerships

The State budget papers identify 36 specific National Partnerships through which funding will be delivered to Victoria in 2013-14, providing more than \$2.5 billion.²²⁵ Two additional partnerships provide funding which will be passed on to local governments. This does not include some smaller National Partnership payments, which may be included within the ‘other’ categories in the budget papers (see Section 4.5.2).²²⁶

Funding provided through National Partnerships is tied to particular projects or is provided to facilitate or reward states for implementing specific reforms.²²⁷

The forward estimates in the Commonwealth budget papers show funding from National Partnerships decreasing for Victoria over the forward estimates period (see Figure 4.11).

The decline over the forward estimates period is primarily a result of:

- funding for a number of partnerships ceasing over the forward estimates period (most notably Regional Rail Link and health infrastructure²²⁸); and
- no estimates being included beyond 2013-14 for a number of partnerships where negotiations are underway.

221 Department of Treasury and Finance, response to the Committee’s 2013-14 Budget Estimates Questionnaire, received 9 May 2013, p.26

222 Hon. J. Powell MP, Minister for Local Government, 2013-14 budget estimates hearings, transcript of evidence, 22 May 2013, p.4

223 e.g. Budget Paper No.2, *2012-13 Strategy and Outlook*, May 2012, pp.52-3; Budget Paper No.2, *2013-14 Strategy and Outlook*, May 2013, p.59

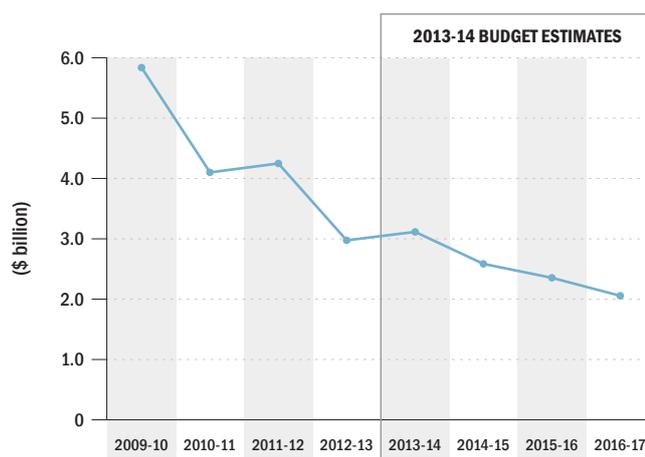
224 Budget Paper No.2, *2011-12 Strategy and Outlook*, May 2011, p.5

225 This does not include three partnerships for which the amount in 2013-14 was listed as ‘not for publication’ or ‘to be confirmed’.

226 See the larger list of partnerships in Commonwealth Budget Paper No.3, 2013-14, *Australia’s Federal Relations*, May 2013, Part 2

227 Commonwealth Budget Paper No.3, 2013-14, *Australia’s Federal Relations*, May 2013, p.17

228 *ibid.*, pp.31, 87

Figure 4.11 Victorian funding from National Partnerships, 2009-10 to 2016-17

Source: Commonwealth Government, Final Budget Outcomes 2009-10 to 2011-12; Commonwealth Budget Paper No.3, 2013-14, *Australia's Federal Relations*, May 2013, pp.18-19

When the actual funding for the agreements currently being negotiated is added, the decline may be less pronounced. Actual funding may also vary significantly from these estimates if additional National Partnerships are entered into during the forward estimates period.²²⁹

FINDING: The Commonwealth's forward estimates show National Partnership funding to Victoria declining over the forward estimates period. This is partially due to some partnerships ceasing in the forward estimates period, especially Regional Rail Link and some health infrastructure funding.

Changes to National Partnerships in 2013-14

The Department of Treasury and Finance identified the following major changes to National Partnership agreements impacting on the 2013-14 Budget:²³⁰

- *Re-phasing of reward funding for the National Partnership on Improving Teacher Quality into 2013-14 (potentially up to \$44.5 million for Victoria) at 2012-13 MYEFO [the 2012-13 Commonwealth Mid-Year Economic and Fiscal Outlook], reflecting the renegotiation of milestones for this NP [National Partnership].*
- *Signing of the Transitional National Partnership Agreement on Homelessness, to commence 1 July 2013 and operating for one year. The total value of this agreement in 2013-14, including Commonwealth funding and Victorian matching, is \$49.4 million.*
- *Signing of the extension of the National Partnership Agreement on Literacy and Numeracy. The total value of Commonwealth funding under this agreement is \$28.2 million in 2012-13 and \$14.1 million in 2013-14.*

229 The Commonwealth budget papers indicate that new National Partnerships are currently being negotiated on homelessness and natural disaster resilience – Commonwealth Budget Paper No.3, 2013-14, *Australia's Federal Relations*, May 2013, pp.81, 97

230 Department of Treasury and Finance, response to the Committee's 2013-14 Budget Estimates Questionnaire, received 9 May 2013, p.26

The Department of Human Services also informed the Committee that:²³¹

Capital funding for A Place to Call Home (\$10.2 million in 2012-13) under the current NPAH [National Partnership Agreement on Homelessness] was expended. States may however bid for funding from a new Development Fund, under the transitional agreement, for capital developments to address the housing needs of people experiencing homelessness. Approximately \$38 million is available nationally, to be matched by state funding.

The State budget papers identify nine National Partnerships for which funding was provided in 2012-13 but is not expected for 2013-14. These partnerships and their value in 2012-13 are listed in Table 4.3.

Table 4.3 National Partnerships with funding identified for 2012-13 but not 2013-14 (Victorian estimates)

National Partnership	2012-13 revised estimate (\$ million)
(Health) Activity Based Funding	14.7
Ballarat Regional Integrated Cancer Centre	10.2
Digital Mammography	7.3
Highly Specialised Drugs Program	12.0
Improving Teacher Quality ^(a)	4.6
National Solar Schools Plan ^(b)	6.1 ^(c)
Homelessness	31.2
Melbourne Metro 1	20.0
Integrated Regional Clinical Training Networks	3.3
Total	109.4

(a) As discussed above, funding relating to 2012-13 is expected to be received in 2013-14. However, no funding relating to 2013-14 is expected.

(b) The Commonwealth budget papers indicate some additional payments through this program in 2013-14 but not beyond – Commonwealth Budget Paper No.3, 2013-14, *Australia's Federal Relations*, May 2013, p.61

(c) Government schools component only.

Source: Budget Paper No.5, *2013-14 Statement of Finances*, May 2013, pp.186-96; Commonwealth Budget Paper No.3, 2013-14, *Australia's Federal Relations*, May 2013, p.57

The State budget papers do not identify any new National Partnerships in 2013-14.²³² The Commonwealth budget papers indicate that:

- new National Partnerships are currently being negotiated on homelessness and natural disaster resilience;²³³

231 Department of Human Services, response to the Committee's 2013-14 Budget Estimates Questionnaire, received 8 May 2013, p.21

232 Regarding the Victorian Comprehensive Cancer Centre, no funding was provided in 2012-13, but funding is expected in 2013-14. However, this is not a new agreement – funding was provided in previous years (see Budget Paper No.5, *2012-13 Statement of Finances*, May 2012, p.182)

233 Commonwealth Budget Paper No.3, 2013-14, *Australia's Federal Relations*, May 2013, pp.81, 97

- a new *National Partnership on Adult Public Dental Services*, designed to assist low-income adults to access dental health services, will commence in 2014-15 with an estimated \$49.6 million for Victoria in that year (expected to rise to \$96.7 million by 2016-17);²³⁴ and
- a new partnership associated with the National Disability Insurance Scheme is expected to provide funding from 2015-16 onwards if Victoria meets certain eligibility criteria (with an estimated \$21.3 million for Victoria in 2015-16 and \$44.0 million in the following year).²³⁵

FINDING: The Victorian budget papers identify nine National Partnerships for which Victoria received funding in 2012-13 but for which the State Government does not expect to receive funding in 2013-14. The Commonwealth budget papers identify two new partnerships to start during the forward estimates period and another two new partnerships currently being negotiated.

4

Reporting burden

In Budget Information Paper No.3, the Government cited work done by PricewaterhouseCoopers indicating that the number of agreements between the Commonwealth and Victoria rose between 2008-09 and 2012-13, while the average value of these agreements has declined. As the budget papers explain, the research:²³⁶

... highlights the proliferation of extremely low-value agreements, which in turn leads to more reporting for less funding.

The reporting burden on Victoria has been growing even as funding provided under national partnership agreements has declined.

The Government has indicated that it ‘*will continue to advocate for a fair, stable and sustainable system of Commonwealth–state relations to best serve Victorians into the future.*’²³⁷

4.5.5 Grants for on-passing

Almost \$3.0 billion (13 per cent of all revenue anticipated from the Commonwealth Government), is expected to be passed on to bodies outside the State Government in 2013-14.²³⁸ This consists of:²³⁹

- \$2,429.9 million to non-government schools as part of the *National Education Agreement*;
- \$6.6 million to non-government schools through National Partnerships; and
- \$548.0 million to local governments.

234 *ibid.*, p.35

235 *ibid.*, p.74

236 Budget Information Paper No.3, *2013-14 Federal Financial Relations*, May 2013, p.16

237 *ibid.*

238 Budget Paper No.5, *2013-14 Statement of Finances*, May 2013, p.182

239 *ibid.*, pp.185, 190

The amount anticipated for local government in 2013-14 is more than double the latest estimate for 2012-13 (\$263.2 million).²⁴⁰ The budget papers explain that this ‘reflects lower receipts in 2012-13, attributable to the Commonwealth Government’s decision to bring forward payments from 2012-13 to 2011-12, reducing total grants in 2012-13.’²⁴¹

The budget papers estimate that grants for on-passing²⁴² will increase across the forward estimates period by an average of 7 per cent per year,²⁴³ to \$3.7 billion in 2016-17.²⁴⁴

The Committee understands that these estimates do not include the additional funding that will be supplied to non-government schools through the *Better Schools Plan*, which was agreed after the 2013-14 Budget.

Most grants for on-passing are included in a separate line item in the notes to the comprehensive operating statement entitled ‘specific purpose grants for on-passing’.²⁴⁵ This includes the non-government school component of the *National Education Agreement*.²⁴⁶ However, the non-government school components of National Partnerships are not included in this line item.²⁴⁷ The budget papers do not explain this difference.

FINDING: Grants for on-passing to non-government schools and local governments are expected to rise from \$3.0 billion in 2013-14 to \$3.7 billion in 2016-17, an average growth of 7 per cent per year.

FINDING: Although the non-government schools component of the *National Education Agreement* is included in the line item ‘specific purpose grants for on-passing’, the non-government schools component of National Partnerships is not. The budget papers do not elaborate on the distinction.

RECOMMENDATION 9: In discussing ‘specific purpose grants for on-passing’ in future budget papers, the Department of Treasury and Finance identify any Commonwealth grants passed on to bodies outside the state public sector that are not included in ‘specific purpose grants for on-passing’, and indicate why these amounts have not been included.

240 *ibid.*, p.185

241 *ibid.*

242 Excluding funding for non-government schools through National Partnerships, which are not included in the line item ‘specific purpose grants for on-passing’.

243 Compound annual growth rate between 2013-14 and 2016-17, calculated by the Committee

244 Budget Paper No.5, *2013-14 Statement of Finances*, May 2013, p.182

245 *ibid.*, pp.25, 182

246 *ibid.*, p.185

247 *ibid.*, pp.190-1

CHAPTER 5 BORROWINGS, DEBT AND LIABILITIES

5.1 Introduction

As discussed in Section 2.2 of this report, the Government requires borrowings where the level of asset investment exceeds the funding available. Borrowings include both cash raised to fund asset projects delivered by the Government and the amount that the Government will have to pay through public private partnership (PPP) agreements (in which the private sector raises finances and delivers asset projects on behalf of the Government). Borrowings are a key component of the Government’s net debt.

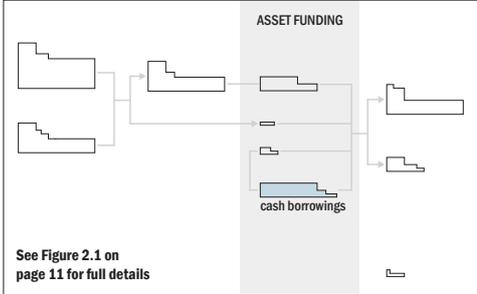


Table 5.1 shows that the Government expects borrowings in the general government sector to grow in 2013-14 and 2014-15, reaching \$37.1 billion in 2015 and then decreasing to \$35.5 billion in 2017. Similarly, net debt is projected to peak in 2015 at \$25.1 billion (6.6 per cent of gross state product (GSP)) and then decrease to \$22.7 billion (5.4 per cent of GSP).

Table 5.1 Borrowings and net debt, 30 June, 2013 to 2017

	2013	2014	2015	2016	2017
Borrowings (\$ billion)	31.5	34.8	37.1	36.8	35.5
Net debt (\$ billion)	19.8	23.0	25.1	24.4	22.7
Net debt (as a percentage of GSP)	5.8	6.4	6.6	6.1	5.4

Source: Budget Paper No.2, 2013-14 Strategy and Outlook, May 2013, p.58

Reducing net debt as a percentage of GSP is one element of the Government’s medium-term fiscal strategy (see Section 2.4.2 of this report).²⁴⁸

Money which will be required in future years to pay people on the defined benefit superannuation scheme is also recognised as a liability by the Government, and a second element of the medium-term fiscal strategy is an intention to fully fund this by 2035.²⁴⁹

In analysing the Government’s net debt, borrowings and liabilities, this chapter will explain and discuss the following:

- What is the Government’s strategy for borrowings, net debt and liabilities? (Section 5.2)
- What are the trends predicted by the Government for borrowings and net debt over the forward estimates period? (Section 5.3)
- How do current estimates for borrowings and net debt compare to previous estimates? (Section 5.4)
- What is expected to happen with the Government’s superannuation liability? (Section 5.5)

248 Budget Paper No.2, 2013-14 Strategy and Outlook, May 2013, p.8

249 ibid.

5.2 The Government's strategy

5.2.1 The strategy for net debt

As part of the Government's medium-term fiscal strategy, the budget papers state the following parameter for net debt: 'General government net debt reduced as a percentage of GSP over the decade to 2022'.²⁵⁰ Additionally, the Government plans for infrastructure investment to be 1.3 per cent of gross state product (on a five-year rolling average).²⁵¹

According to the budget papers, the focus of the medium-term fiscal strategy is therefore 'to generate the financial capacity to fund infrastructure sustainably without excessive borrowing, and rebuild the budget capacity to deal with future fiscal shocks'.²⁵²

Accordingly, the Treasurer has specified that:²⁵³

The key to this budget... is responsible financial management. Through cutting the cost of running government we have been able to invest more in services and infrastructure. You can see how the forecasted surpluses are set to rise across the out years. That is very important when it comes to our debt position; it is very important when it comes to funding future infrastructure programs. You see net debt ticking up slightly and then coming down, both in dollar terms and also in terms of debt to GSP, which is one of the key markers not only for government but also for many of the ratings agencies. We see that very significant government infrastructure investment program rising from \$5.4 billion this year to \$6.1 billion and then \$6.6 billion.

This level of infrastructure investment is discussed in detail in Chapter 8 of this report.

To achieve its net debt target, the Government expects to increase its operating surplus through increasing revenue and constraining expenditure growth over the forward estimates period. The Government expects the surplus to grow each year of the forward estimates period from \$224.5 million in 2013-14 to \$2,547.4 million in 2016-17 (see Section 2.5 of this report).²⁵⁴ As a result of these increasing surpluses, the Government expects to be able to fully fund its infrastructure program without borrowing in 2015-16 and 2016-17 and have some remaining cash to reduce its debt.

The Committee notes that, similar to previous budgets, the 2013-14 Budget does not present any interim net debt targets which could be used to assess the extent to which the current plans align with the Government's target.

FINDING: The Government plans to reduce net debt as a percentage of GSP by 2022. The 2013-14 budget papers estimate that net debt will increase to 2015 and then start reducing. The Government plans to make this reduction through increasing operating surpluses.

250 *ibid.*

251 *ibid.*

252 *ibid.*, p.43

253 Hon. M. O'Brien MP, Treasurer, 2013-14 budget estimates hearing, transcript of evidence, 10 May 2013, pp.2-3

254 Budget Paper No.5, *2013-14 Statement of Finances*, May 2013, p.5

5.2.2 The strategy for superannuation liabilities

Another element of the Government's medium-term fiscal strategy is 'to fully fund the unfunded superannuation liability by 2035'.²⁵⁵

As with net debt, the Government has not established interim parameters to evaluate its progress towards this target.

The Committee notes that changes to the accounting standard AASB 119 introduced in the 2013-14 Budget (discussed in Chapter 6 of this report) affect the way that superannuation costs are presented. However, the defined benefit superannuation liability is not affected by these changes.²⁵⁶ The Government has specified that changes in the accounting standards do not interfere with its target of fully funding the superannuation liability by 2035.²⁵⁷

The Government's progress towards this goal is discussed in Section 5.5.

FINDING: The Government has maintained its target to fully fund the unfunded superannuation liabilities by 2035.

5.2.3 Victoria's credit rating

A credit rating is an opinion of the creditworthiness of a government or a company. Two key agencies provide assessments for the State of Victoria: Standard & Poor's and Moody's Investors Service.

Overall, rating agencies evaluate historical and current information, as well as the potential impact of probable events related to:²⁵⁸

- the institutional framework;
- financial management and fiscal policy;
- budgetary flexibility; and
- the economic outlook.

Neither agency changed the triple-A credit rating and stable outlook for the State following the release of the 2013-14 Budget (see more details in Section 2.7 of this report).

The Committee notes that Victoria is the only state in Australia with both a triple-A credit rating and a stable outlook from Standard and Poor's and Moody's Investors Services. This can be seen in Table 5.2, which compares the credit rating and outlook for each Australian state.

255 Budget Paper No.2, *2013-14 Strategy and Outlook*, May 2013, p.8

256 Budget Paper No.5, *2013-14 Statement of Finances*, May 2013, p.19

257 Budget Paper No.2, *2013-14 Strategy and Outlook*, May 2013, p.57

258 Standard & Poor's, *Ratings Direct, Victoria (State of)*, November 2012; and Moody's Investors Service, *Credit Analysis, Victoria (State of) Australia*, February 2012

Table 5.2 Credit rating and outlook in Australian states

State	Standard and Poor's	Moody's Investors Service
Victoria	AAA/stable	Aaa/stable
New South Wales	AAA/negative	Aaa/stable
Queensland	AA+/stable	Aa1/negative
Western Australia	AAA/negative	Aaa/negative
South Australia	AA/stable	Aa1/stable
Tasmania	AA+/stable	Aa1/stable

Source: Latest information available on Standard and Poor's website, <www.standardandpoors.com/home/en/au>, accessed 19 August 2013; and Moody's Investors Service, <www.moodys.com>, accessed 19 August 2013

The Treasurer informed the Committee that:²⁵⁹

The important thing about maintaining AAA is that, if we were to lose the AAA rating, it would impact on our borrowing costs. It impacts on the interest payments we have to make to service our debt, and that is a year on year cost to our budget.

FINDING: The Government has highlighted the importance of maintaining the State's triple-A credit rating. The rating and outlook were not altered after the release of the 2013-14 Budget.

5.3 Borrowings and net debt over the forward estimates period

The level of borrowings contributes to the Government's net debt position, which is measured by the difference between what the Government owes (primarily borrowings) and the cash it holds, including liquid assets (defined in the Budget as '*the sum of borrowings and deposits held and advances received less the sum of cash and deposits, advances paid, and investments, loans and placements*').²⁶⁰

The level of borrowings also influences the amount of interest expense recognised in the operating statement. Interest expense includes both interest on cash borrowings and a component of the agreed payments for PPP projects.

The budget papers indicate that the public non-financial corporations (PNFC) sector is expected to deliver 48 per cent of the State's capital expenditure program in 2013-14 and the forward estimates period.²⁶¹ To understand the impact of this, this section therefore discusses trends for borrowings and net debt for both the general government sector and the PNFC sector.

259 Hon. M. O'Brien MP, Treasurer, 2013-14 budget estimates hearing, transcript of evidence, 10 May 2013, p.8

260 Budget Paper No.2, *2013-14 Strategy and Outlook*, May 2013, p.44

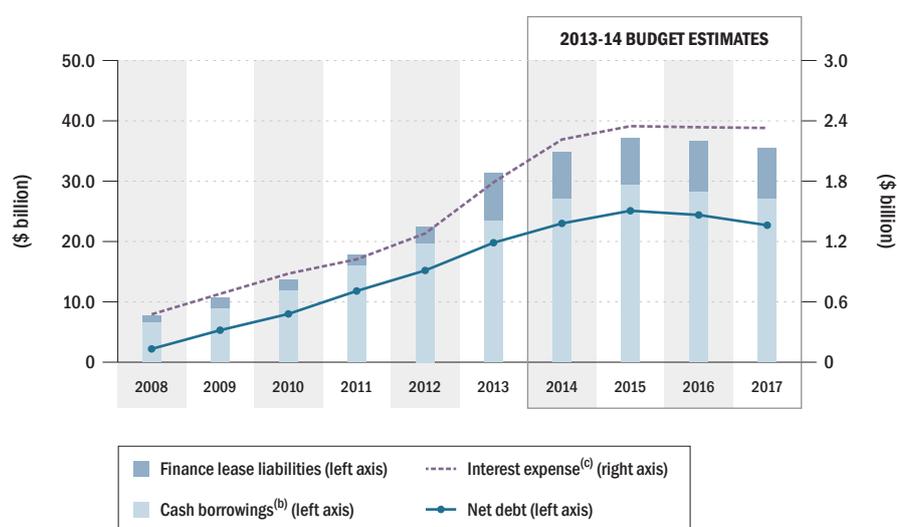
261 *ibid.*, p.68

5.3.1 General government sector borrowings and net debt

The general government sector includes departments and agencies which provide services with either no charge to the user or with charges significantly below cost. Net debt for the general government sector is projected to increase by \$3.2 billion during 2013-14 to \$23.0 billion. Similarly, borrowings are expected to increase by \$3.3 billion to \$34.8 billion. The Government estimates that it will incur \$2.2 billion in interest expenses during 2013-14.²⁶²

Figure 5.1 shows the Government's estimate for net debt, borrowings and interest expense for the general government sector from 2008 to 2017 (see Appendix A5.1 for a detailed break-down). Borrowings are disaggregated into cash borrowings and finance lease liabilities (mostly PPPs).

Figure 5.1 General government sector borrowings^(a) net debt and interest expense, 2008 to 2017



(a) 'Derivative financial instruments' are also included in borrowings, but are too small an amount to be shown in the figure above.

(b) Listed in the financial statements as 'domestic borrowings'.

(c) For the financial year ended on 30 June of the indicated year.

Sources: Department of Treasury and Finance. 'Consolidated Comprehensive Operating Statement' data set, <[www.budget.vic.gov.au/CA257B16002775DE/WebObj/OperatingStatementGG2013-14 Budget7May2013/\\$File/OperatingStatementGG2013-14Budget7May2013.XLS](http://www.budget.vic.gov.au/CA257B16002775DE/WebObj/OperatingStatementGG2013-14%20Budget7May2013/$File/OperatingStatementGG2013-14Budget7May2013.XLS)>, accessed 14 June 2013; Department of Treasury and Finance, Financial Report for the State of Victoria, 2008-09 to 2011-12; and Budget Paper No.5, 2013-14 Statement of Finances, May 2013, pp.5-7, 38

The Government expects net debt to peak at \$25.1 billion in 2015 and then decrease during the last two years of the forward estimates period to \$22.7 billion in 2017. Likewise, the Government expects borrowings to peak in 2015 at \$37.1 billion and then decrease to \$35.5 billion in 2017. Interest expense is expected to remain steady at \$2.3 billion per year between 2014-15 and 2016-17.

As noted in Section 5.1, the Government expects net debt to increase to 6.6 per cent of GSP in 2015 and then decrease during the last two years of the forward estimates period to 6.1 per cent in 2016 and to 5.4 per cent in 2017 (see also Figure 2.3).

According to the budget papers, '*estimates for borrowings are based on the ability to repay maturing debt and the need to finance capital expenditure. The forecast for finance lease liabilities across the forward estimates period relates primarily to the expected commissioning of public private partnerships*'.²⁶³

Borrowings increased significantly in 2012-13 to an estimated \$31.5 billion, with finance lease liabilities increasing by \$5.3 billion. This change relates primarily to the finance arrangement for the Victorian Desalination Plant. This PPP arrangement increases the general government sector's borrowings but has no impact on its net debt as a result of the back-to-back agreement with Melbourne Water to cover the general government sector's costs.²⁶⁴ This arrangement is not typical of PPP projects, which generally increase both borrowings and net debt.

The Government's forward estimates for borrowings have been developed on the basis of only one PPP project being commissioned (that is, commencing operations) during the forward estimates period. The Victorian Comprehensive Cancer Centre is expected to add \$1,050.4 million to borrowings (and net debt) in 2015-16.²⁶⁵ However, there are a number of other PPP projects that may also be commissioned during the forward estimates period.²⁶⁶ As the details have not been finalised for these projects, their impact on borrowings has not been factored onto the forward estimates. These projects will lead to the actual finance lease liabilities being higher than the current estimates.

In 2015-16 and 2016-17, the Government expects to be able to reduce its level of cash borrowings, as the Government expects the general government sector to have more revenue than it will spend on operating expenses and asset investment in these years. This can be seen from the net lending/borrowing indicator, noted in Section 2.8 of this report, which shows the Government moving from a net borrowing position to a net lending position in those years.

The Committee notes that the budget papers do not provide any discussion of the net lending/borrowing indicator. As this indicator provides an understanding of the Government's ability to repay debt, the Committee considers that it would be informative to discuss it in future budget papers.

FINDING: The Government anticipates that net debt for the general government sector will reach its highest level in 2015 at \$25.1 billion (6.6 per cent of GSP) and decrease to \$22.7 billion (5.4 per cent of GSP) in 2017. The expected change is primarily driven by a planned reduction in cash borrowings, while one PPP project has been factored into the forward estimates.

263 Budget Paper No.5, *2013-14 Statements of Finances*, May 2013, p.21

264 See further details in Public Accounts and Estimates Committee, *Report on the 2011-12 Financial and Performance Outcomes*, May 2013, p.24

265 Budget Paper No.2, *2013-14 Strategy and Outlook*, May 2013, p.67

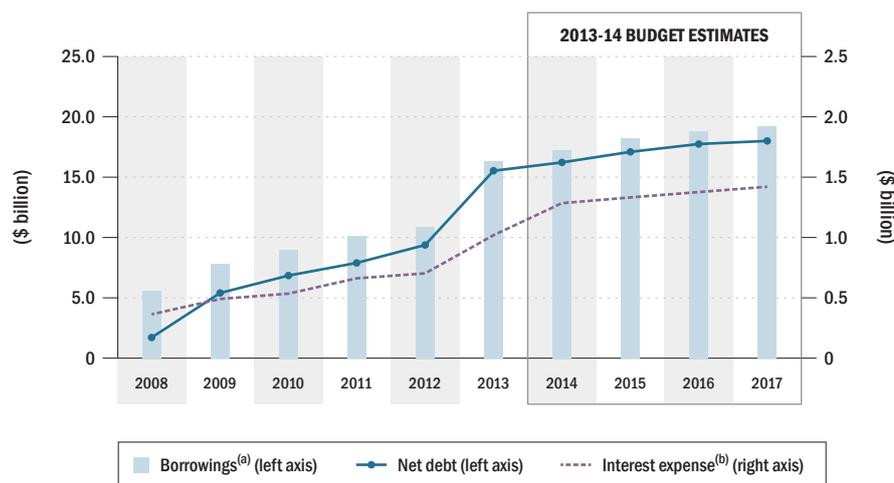
266 Budget Paper No.4, *2013-14 State Capital Program*, May 2013, p.8

5.3.2 PNFC sector borrowings and net debt

The PNFC sector comprises agencies which charge for their services such as water, housing and transport.²⁶⁷ As noted in Section 5.3, the PNFC sector is forecast to deliver 48 per cent of the State's infrastructure program over the forward estimates period.²⁶⁸ This level of asset investment is expected to have a significant impact on the PNFC sector's financial position.

Figure 5.2 shows the Government's forecasts for the PNFC sector's net debt, borrowings and interest expense from 2008 to 2017 (see Appendix A5.2 for a detailed break-down).

Figure 5.2 PNFC sector borrowings, net debt and interest expense, 2008 to 2017



(a) Disaggregation into cash borrowings and finance lease liability is not available for the PNFC sector.

(b) For the financial year ended on 30 June of the indicated year.

Sources: Department of Treasury and Finance, Financial Report for the State of Victoria, 2008-09 to 2011-12; and Budget Paper No.5, 2013-14 Statement of Finances, May 2013, pp.45,7

The PNFC sector's borrowings are estimated by the Government to be \$17.3 billion in 2014, with an associated interest expense of \$1.3 billion. PNFC sector net debt is projected to be \$16.2 billion for the same year. Borrowings are expected by the Government to increase by an average of 3.6 per cent per year over the forward estimates period,²⁶⁹ reaching \$19.2 billion in 2017. Net debt is forecast to increase at a similar pace (an average of 3.5 per cent over the same period) to \$18.0 billion in 2017. Interest expense is expected to increase from \$1.3 billion in 2014 to \$1.4 billion in 2017 (see Appendix A5.2).

The Committee notes that the increase in net debt in 2013 by \$5.9 billion is largely associated with the Victorian Desalination Plant PPP arrangement. As noted in Section 5.3.1, this has no effect on net debt for the general government sector. However, it forms part of the PNFC sector's net debt. Over the forward estimates period, the Government expects that the PNFC sector will continue to require additional borrowings each year. This is a result of the sector being expected to be in deficit throughout the forward estimates period²⁷⁰ as well as undertaking a substantial asset investment program. However, a reduction in the planned level of asset investment in 2015-16 and 2016-17 mean that the rate of additional borrowing is expected to decrease at the end of the forward estimates period.

267 Budget Paper No.2, 2013-14 Strategy and Outlook, May 2013, p.63

268 *ibid.*, p.68

269 Compound annual growth rates between 2014 and 2017

270 Budget Paper No.5, 2013-14 Statement of Finances, May 2013, p.46

The Committee notes that disaggregation of borrowings into cash borrowings (that is, ‘domestic borrowings’) and finance lease liabilities is not available for the PNFC sector. The Committee considers that the disclosure of this information in future budget papers would facilitate better understanding of the drivers of the PNFC sector’s borrowings over the forward estimates period.

The Committee notes that the PNFC sector’s net debt as a percentage of GSP will increase to 4.5 per cent in 2015 and then marginally decrease to 4.3 per cent in 2017, as GSP increases at a faster rate than net debt.

The Committee notes that the budget papers provide specific discussion of the financial position and outlook for the general government sector and the non-financial public sector (which incorporates the general government sector and the PNFC sector). Because the general government sector is the largest component of the non-financial public sector, net debt for that sector is expected by the Government to decline over the forward estimates period (as a result of the decline within the general government sector) and this decline is discussed in the budget papers. The fact that net debt in the PNFC sector is forecast to keep increasing can only be seen from the financial statements and is not discussed in the more accessible budget papers. The Committee considers that an explicit discussion of the PNFC sector’s expected financial performance in future budget papers would provide a more complete picture of the Government’s financial position.

The Committee notes that operating results for the PNFC sector specifically are discussed for the first time in the 2013-14 Budget Paper No.2.²⁷¹ The Committee welcomes this disclosure and encourages the same pattern to be followed for net debt figures.

FINDING: PNFC sector borrowings and net debt are expected to increase over the forward estimates period in dollar terms, though they will reduce as a percentage of GSP after 2015. Net debt is estimated to increase by an average of 3.5 per cent per year, reaching \$18.0 billion in 2017.

The Government as an active shareholder of public sector entities

The Committee notes that the Government has committed to increasing its role as ‘an active shareholder of public commercial entities’ with the purpose of ensuring that these entities provide value for the community in general. As stated by the Government, this includes an intention to:²⁷²

- *strengthen the State’s focus as a shareholder to more actively manage public sector commercial entities. This will include providing clarity on the relevant responsibilities of independent directors and nominee directors, along with clarity on the matters at the direction and discretion of management, board or the shareholder;*
- *establish clear savings and efficiency targets for entities in line with the Sustainable Government Initiative efficiencies set for government departments. This will include benchmarking to best practice in both service delivery and financial performance; and*

271 Budget Paper No.2, 2013-14 Strategy and Outlook, May 2013, pp.65-6

272 Victorian Government, *Securing Victoria’s Economy*, December 2012, p.50

- *explicitly articulate the investment preference for broader community service obligations.*

The Victorian Auditor's General Office, in its assessment of the 20 water entities in the PNFC sector (which account for approximately 95 per cent of the PNFC sector's net debt in 2014, see Appendix A5.3 for a detailed breakdown), pointed out that:²⁷³

Most entities are in the low and medium-risk categories for financial sustainability, however, the data shows a deteriorating trend for the industry as a whole over the five-year period to 2011-12. The number of entities with a poor underlying result has doubled over the five-year period ...

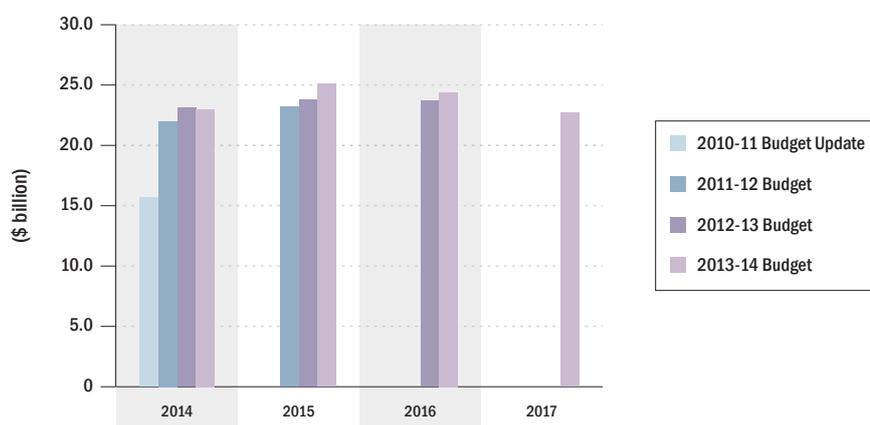
It is unclear to the Committee if the planned increasing participation of the Government includes ensuring that PNFC entities perform better financially. Increased discussion of the PNFC sector's financial outlook in future budget papers may be helpful in understanding the Government's plans and expected results.

FINDING: The Government plans to increase its participation in managing public commercial entities to ensure they provide value to Victorians. This may include improving their financial position.

5.4 Comparison to previous estimates

Figure 5.3 compares the 2013-14 budget estimates for net debt for the general government sector to the forecasts in previous budgets since the 2010-11 Budget Update (this Government's first budget).

Figure 5.3 Net debt compared to previous forward estimates, 2014 to 2017



Sources: Department of Treasury and Finance, *2010-11 Victorian Budget Update*, December 2011, p.21; Budget Paper No.5, *2011-12 Statement of Finances*, May 2011, p.10; Budget Paper No.5, *2012-13 Statement of Finances*, May 2012, p.7; Budget Paper No.5, *2013-14 Statement of Finances*, May 2013, p.7

The 2010-11 Budget Update projected a net debt of \$15.7 billion in 2014, significantly below the estimate in the 2013-14 budget papers (\$23.0 billion).

273 Victorian Auditor's General Office, *Water Entities: Results of the 2011-12 Audits*, November 2012, p.vii

Overall, the Government has been revising its net debt estimates upwards since the 2010-11 Budget Update. The latest revisions, compared to the 2012-13 budget papers, decrease net debt by \$139.0 million in 2014, but increase it by \$1,262.1 million in 2015 and by \$689.5 million in 2016.

The Committee notes that borrowings follow a similar pattern (see Figure 5.4). The Government has been revising borrowings upwards since the 2010-11 Budget Update. Compared to the estimates in the 2012-13 budget papers, borrowings estimates increased by \$236.1 million in 2014, by \$1,424.9 million in 2015 and by \$657.8 million in 2016.

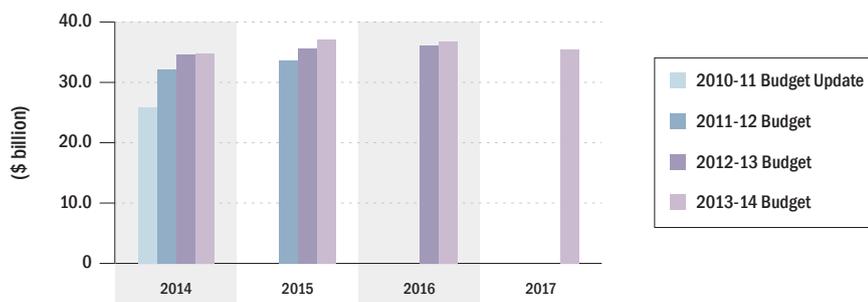


Figure 5.4 Borrowings compared to previous forward estimates, 2014 to 2017

Sources: Department of Treasury and Finance, 2010-11 Victorian Budget Update, December 2011, p.21; Budget Paper No.5, 2011-12 Statement of Finances, May 2011, p.10; Budget Paper No.5, 2012-13 Statement of Finances, May 2012, p.7; Budget Paper No.5, 2013-14 Statement of Finances, May 2013, p.7

The Committee approached the Department of Treasury and Finance regarding the factors or assumptions in the 2013-14 budget papers that have led to changes to the estimates of net debt and borrowings over the forward estimates period compared to the 2012-13 budget papers. The Department advised that:²⁷⁴

General Government net debt is projected to increase by \$689 million by 30 June 2016 relative to the estimates at 2012-13 Budget. The increase is primarily driven by the decrease in GST revenue forecasts reflecting slower growth in the GST national pool and a cut in Victoria’s share of the pool as well as a reduction in expected land transfer duty.

This has been offset by savings and revenue measures which have exceeded the Government new spending on output initiatives.

FINDING: In the last three budgets, the Government has generally revised its net debt and borrowing estimates upwards compared to previous budget estimates.

5.5 Superannuation liability

The defined benefits superannuation scheme guarantees beneficiaries a defined income for life. This superannuation scheme is partially funded by financial assets owned by the Government. Costs in addition to the funding from this source must be met by the Government from other sources. These future unfunded costs are recognised by the Government as a liability.

²⁷⁴ Department of Treasury and Finance, response to the Committee’s 2013-14 Budget Estimates Questionnaire, received 9 May 2013, p.28

As noted in Section 5.2.2, the Government plans to fully fund the unfunded superannuation liability by 2035, as part of its medium-term fiscal strategy.²⁷⁵ The unfunded superannuation liability, as noted above, is not part of the Government's net debt or borrowings. However, it forms 49 per cent of the Government's expected net financial liabilities in 2014,²⁷⁶ an indicator which is considered by Standard & Poor's when assessing the State's credit rating.²⁷⁷

According to the budget papers, superannuation liabilities '*are estimated by the actuaries of the various defined benefit superannuation plans. These estimates are based on a number of demographic and financial assumptions.*'²⁷⁸ The Government quantifies the following assumptions in the budget papers:²⁷⁹

- the discount rate, which is used to calculate the present value of the liability (based on the Commonwealth bond rate);
- wages growth; and
- the inflation rate.

However, the Committee notes that the demographic assumptions are not disclosed in the budget papers.

Figure 5.5 shows the estimated unfunded superannuation liability from 2013 to 2017, along with actuals from 2008 to 2012.

Figure 5.5 General government sector unfunded superannuation liability, 2008 to 2017



Sources: Department of Treasury and Finance, Financial Report for the State of Victoria, 2008-09 to 2011-12; and Budget Paper No.5, 2013-14 Statement of Finances, May 2013, p.7

The budget papers state that variations in the unfunded superannuation liability '*are primarily due to movements in the discount rate*'.²⁸⁰ As seen in Figure 5.5, the unfunded superannuation liability reached \$32.6 billion in 2012. The increase between 2011 and 2012 was primarily driven by a reduction in the discount rate, which alters the present value of the liability (conversely, a higher discount rate will result in a lower present value). After a forecast fall in 2013 of \$3.7 billion, mainly caused by a rise in the discount rate from 3.3 per cent²⁸¹ to 4.0 per cent,²⁸² the unfunded superannuation liability is expected to reduce from \$28.7 billion in 2014 to \$27.7 billion in 2017 (based on the Government's assumption of a constant

275 Budget Paper No.2, *2013-14 Strategy and Outlook*, May 2013, p.8

276 *ibid.*, p.58

277 Standard & Poor's, *Ratings Direct, Victoria (State of)*, November 2012, p.10

278 Budget Paper No.5, *2013-14 Statement of Finances*, May 2013, p.20

279 *ibid.*

280 Budget Paper No.2, *2013-14 Strategy and Outlook*, May 2013, p.58

281 Department of Treasury and Finance, *2012-13 Victorian Budget Update*, December 2012, p.58

282 Budget Paper No.5, *2013-14 Statement of Finances*, May 2013, p.20

4.0 per cent discount rate over the forward estimates period).²⁸³ The reduction is expected to be achieved through the Government's assets growing at a faster rate than the total defined benefit obligation.²⁸⁴

The Committee notes that the unfunded superannuation liability is expected by the Government to reduce over the forward estimates period.

Towards the Government's target date of 2035, the value of the unfunded liability will be increasingly driven by changes in the number of eligible beneficiaries.

FINDING: The unfunded superannuation liability accounts for 49 per cent of the general government sector's net financial liabilities. The unfunded liability is expected to reduce from \$28.7 billion to \$27.7 billion between 2014 and 2017.

RECOMMENDATION 10: Future budget papers include, when explaining superannuation liability assumptions, information on the estimated numbers of eligible superannuation beneficiaries over the forward estimates period.

283 *ibid.*

284 *ibid.*, p.28

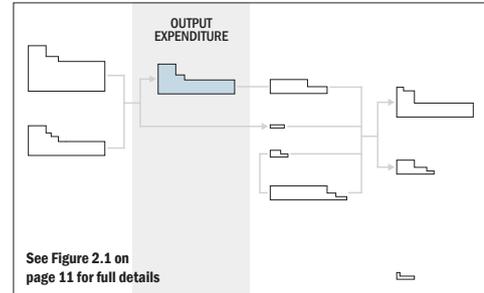
CHAPTER 6 OUTPUT EXPENDITURE

6.1 Introduction

Government expenditure is made up of funding for outputs (that is, goods and services provided), as well as funding for asset investment (that is infrastructure and other assets).

This chapter examines the Government's plans for output expenditure over the period to 2016-17. In doing so, it will address the following issues:

- What is the Government's strategy for output expenditure? (Section 6.2)
- How much does the Government plan to spend on delivering outputs over the next four years? Has this changed from previous plans? (Section 6.3)
- What does this level of expenditure mean for Victoria? (Section 6.4)
- What goods and services will be funded? (Section 6.5)
- What new output initiatives were released with the 2013-14 Budget? (Section 6.6)
- How is the Government funding these new initiatives? (Section 6.7)



Some spending on public private partnership (PPP) projects is classed in the Government finances as output expenditure. However, as in previous Committee reports, this will be included in the discussion of asset investment in Chapter 8.

6.2 The Government's strategy

One of the targets in the Government's medium-term fiscal strategy is:²⁸⁵

A net operating surplus of at least \$100 million and consistent with the infrastructure and debt parameters.

As set out in Section 2.4.2, the Government's infrastructure parameter is a level of investment (which newly includes PPP expenditure²⁸⁶) equal to 1.3 per cent of gross state product (GSP) (on a five-year rolling average).²⁸⁷

The Government's debt target is to reduce general government net debt as a proportion of GSP over the decade to 2022.²⁸⁸ The Government estimates that net debt will begin decreasing during 2015-16.²⁸⁹

To achieve both these targets, the operating surplus will have to increase significantly. This means that expenditure will have to grow significantly more slowly than revenue.

285 Budget Paper No.2, *2013-14 Strategy and Outlook*, May 2013, p.8

286 Budget Paper No.4, *2013-14 State Capital Program*, May 2013, p.9

287 Budget Paper No.2, *2013-14 Strategy and Outlook*, May 2013, p.8

288 *ibid.*

289 *ibid.*, p.58

To achieve this, the Government has both implemented measures to increase revenue (see Section 3.2.1 of this report) and has adopted a policy of restraining expenditure growth:²⁹⁰

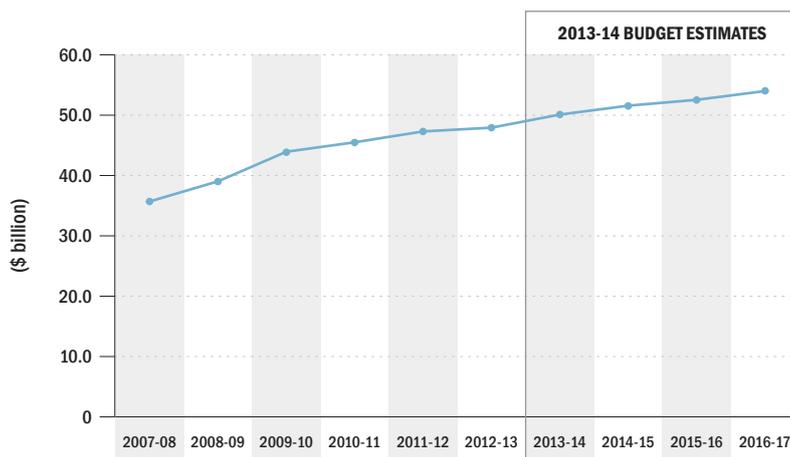
... the Government will continue to focus on achieving a strong financial position by constraining public sector growth to areas of frontline services, providing incentives to drive efficiencies in non-frontline services, [and] reallocating existing resources ...

FINDING: The Government intends to increase the operating surplus over the forward estimates period. One of the methods the Government intends using to achieve this is to constrain the growth of output expenditure.

6.3 Output expenditure over the forward estimates period

The Government’s estimates for output expenditure over the forward estimates period are shown in Figure 6.1.

Figure 6.1 Output expenditure, 2007-08 to 2016-17



Source: Department of Treasury and Finance, 'Consolidated Comprehensive Operating Statement 2013-14' data set, <www.budget.vic.gov.au/CA257B16002775DE/pages/financial-data-sets-financial-statements>, accessed 6 June 2013

Expenditure growth

Figure 6.1 shows that the Government expects expenditure to grow by less in the forward estimates period than previously.²⁹¹ The average growth rate over the forward estimates period²⁹² is predicted by the Government to be 3.0 per cent, below the average growth rate for the four years ending in 2012-13 (5.3 per cent). This is consistent with the Government’s strategy of constraining the growth rate of expenditure.

290 Budget Paper No.3, 2013-14 Service Delivery, May 2013, p.6

291 This may also be a result of accounting standards, which encourage conservative estimates. This results in forecasts usually being lower than eventual actual growth rates.

292 Beginning with the (revised) 2012-13 figure.

Table 6.1 Output expenditure growth rate, 2012-13 to 2016-17

2012-13 ^(a)	2013-14 ^(a)	2014-15	2015-16	2016-17
1.3	4.5	2.9	1.9	2.8

(a) Calculation based on the revised estimate for 2012-13.

Source: Department of Treasury and Finance, 'Consolidated Comprehensive Operating Statement 2013-14' data set, <www.budget.vic.gov.au/CA257B16002775DE/pages/financial-data-sets-financial-statements>, accessed 6 June 2013

Table 6.1 shows the Government's estimates for the year-on-year expenditure growth rates for 2012-13 (based on the revised estimate) and the forward estimates. The large growth rate in 2013-14 is partly a result of a changed accounting treatment (AASB 119) (see Section 6.3.1). After 2013-14, the changed standard has little effect.

The Committee notes that growth rates for forecasts have historically been conservative, and actual outcomes have shown higher rates.²⁹³ This has led to upward revisions in past budget estimates, although the Committee notes that the most recent revisions have been downward²⁹⁴ suggesting that the recent forward estimates of growth may be more accurate than in previous years.

FINDING: The budget estimates predict a slower growth rate for expenditure over the four years to 2016-17 than for the previous four years.

FINDING: A changed accounting standard (AASB 119) is expected to raise the apparent expenditure growth rate for 2013-14. After 2013-14, the change has little effect on growth rates.

6.3.1 Comparison to previous estimates

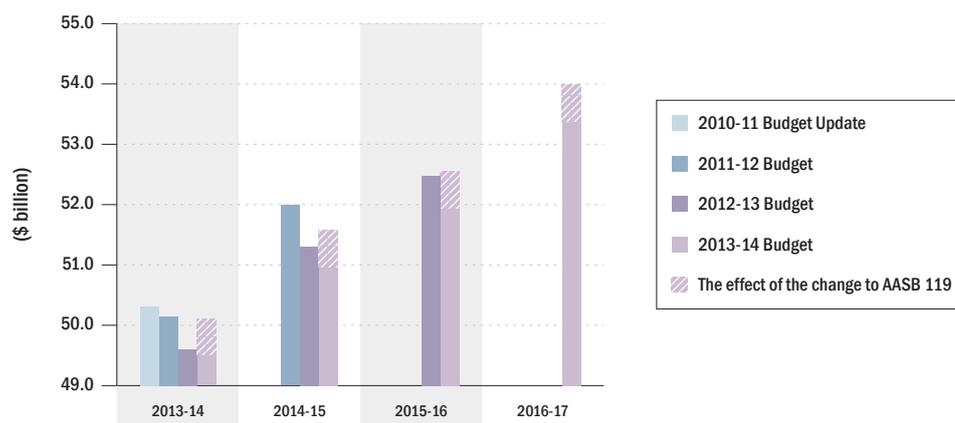
Figure 6.2 shows that estimates for expenditure over the forward estimates period have been revised up in the 2013-14 Budget compared to the previous two budgets. However, a large portion of this revision is a result of the changes to the accounting standard AASB 119 (discussed later in this section).

Excluding the effects of the change to AASB 119, the 2013-14 Budget predicts lower expenditure than previous budget estimates. This continues a pattern of revising estimates down seen over the last few years.

The lower expenditure figures (that is, excluding the AASB 119 change) and the effects of the change to AASB 119 are shown in Figure 6.2.

293 Department of Treasury and Finance, response to the Committee's 2011-12 Financial and Performance Outcomes questionnaire on the Annual Financial Report, received 28 February 2013, pp.13-15; see Appendix A3.4

294 Budget Paper No.2, *2013-14 Strategy and Outlook*, May 2013, p.49; Department of Treasury and Finance, *2012-13 Victorian Budget Update*, December 2012, p.24

Figure 6.2 Expenditure over the forward estimates period, 2013-14 Budget compared to previous budgets

Note: The impact of the change to AASB 119 is shown at the top of the 2013-14 Budget series.

Sources: Budget Paper No.5, 2011-12 Statement of Finances, May 2011, p.9; Budget Paper No.5, 2012-13 Statement of Finances, May 2012, p.5; Budget Paper No.5, 2013-14 Statement of Finances, May 2013, pp.5-6

FINDING: Excluding the effect of the change to AASB 119, the Government has reduced the forecasts for expenditure over the forward estimates period.

Table 6.2 shows the drivers of the changes to the forward estimates since the 2012-13 budget papers.

Table 6.2 Variation between 2012-13 budget estimates and 2013-14 budget estimates^(a)

	2013-14	2014-15	2015-16
Estimated expenditure, 2012-13 budget papers	49,597.6	51,308.4	52,473.8
<i>Add:</i>			
– New initiatives	973.6	978.4	824.5
– Other additional expenses	208.5	54.3	262.1
– Other policy decision variations	4.0	12.0	13.0
– Impact of change to AASB 119	593.2	606.8	617.3
<i>Less:</i>			
– Savings	-256.4	-443.1	-586.2
– Reprioritisation and adjustments	-192.6	-160.8	-114.6
– Release of contingencies	-542.8	-551.8	-773.0
– Other administrative variations	-282.1	-228.2	-170.4
Net impact	505.4	267.6	72.7
Estimated expenditure, 2013-14 budget papers	50,103.0	51,576.0	52,546.6

(a) Figures are aggregates of the 2012-13 Budget Update and the 2013-14 Budget.

Sources: Budget Paper No.5, 2012-13 Statement of Finances, May 2012, p.5; Department of Treasury and Finance, 2012-13 Budget Update, December 2012, p.24; Budget Paper No.2, 2013-14 Strategy and Outlook, May 2013, p.49

New output initiatives and other additional expenses²⁹⁵ have added to total expenditure (see Section 6.6 of this report). The change to AASB 119 has also added to what is recognised as expenditure in the operating statement. These have been offset by:

- savings initiatives (see Section 6.7.1);
- reprioritisation and adjustments of existing funding (see Section 6.7.2);
- the release of contingencies (see Section 6.7.3); and
- other administrative variations, such as changes in superannuation expenses related to changes in bond rates.

Change to AASB 119

Under this altered standard, governments are required to apply a single discount rate when forecasting expenditure and revenue from superannuation funds.²⁹⁶

Previously, governments predicted revenue from superannuation investments using an expected market rate, but predicted expenses using the required (and lower) government bond rate. The higher rate on investments partially offset interest expenses, and resulting in a lower net interest expense.²⁹⁷

The change does not affect the amounts expected to be received from investments, but alters the way they are entered in the accounts. Amounts received above the government bond rate are no longer able to be used to offset interest expense on superannuation, increasing the amounts reported in the expenditure line item ‘net superannuation interest expense’.²⁹⁸ Hence total expenditure has been increased by the same amount.

The additional amounts earned on superannuation investments are now included in ‘other economic flows – other comprehensive income’ as ‘remeasurement of superannuation defined benefit plans’.²⁹⁹

In the recent budget estimates hearings, the Treasurer informed the Committee that:³⁰⁰

The effect of that on our accounts is pretty much to take about \$600 million off our operating result from 2013–14 and beyond.

...

... it is simply an accounting treatment, but it does mean that our operating result is around \$600 million less than it might otherwise have been. ... If people want to compare what we had forecast last year, under the old accounting standards, with what we are delivering this year, under the new accounting standards, the government’s fiscal result would be the appropriate measure to do that.

295 Such as variations in expenditure driven by Commonwealth grants and in departments’ expenditure associated with their own-source revenue. Examples of these include the Kew Residential Services land sales schedule and changes to hospital third-party expenditure (Budget Paper No.2, *2013-14 Strategy and Outlook*, May 2013, p.52).

296 Budget Paper No.5, *2013-14 Statement of Finances*, May 2013, p.19

297 *ibid.*, p.26

298 *ibid.*, p.19

299 *ibid.*, pp.5, 20

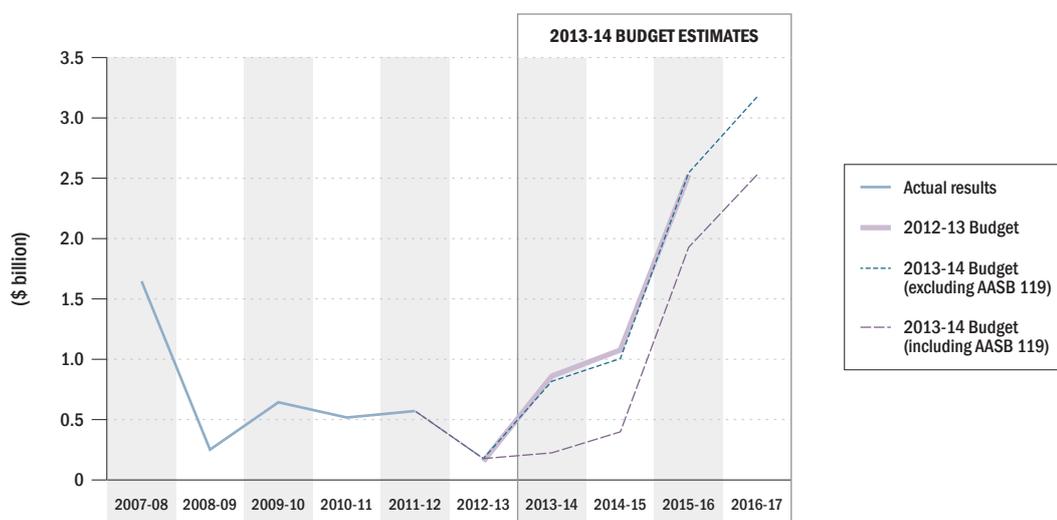
300 Hon. M. O’Brien MP, Treasurer, 2013-14 budget estimates hearing, transcript of evidence, 10 May 2013, p.3

FINDING: The change to AASB 119 has increased ‘net superannuation interest expense’ and consequently the total expenditure for 2013-14 onwards. This has lowered the operating surplus by the same amount. The Government fiscal result reports the operating surplus excluding this change in accounting methodology.

Previous operating surplus forecasts

The Committee examined how the forecasts for the operating surpluses have changed since the 2012-13 Budget. The current and previous forecasts are shown in Figure 6.3, including and excluding the impact of the changes to AASB 119.

Figure 6.3 Comparison of operating surpluses to previous estimate



Source: Budget Paper No.5, 2013-14 Statement of Finances, May 2014, pp.5-6, 233; Budget Paper No.5, 2012-13 Statement of Finances, May 2013, p.5; Department of Treasury and Finance, ‘Consolidated Comprehensive Operating Statement 2013-14’ data set, <www.budget.vic.gov.au/CA257B16002775DE/pages/financial-data-sets-financial-statements>, accessed 6 June 2013

Figure 6.3 shows that, after removing the effect of the change to AASB 119, the Government’s forecasts for the surpluses have not changed significantly since last year’s budget estimates.

FINDING: Excluding the effect of the change to AASB 119, the overall forecast for the operating surplus over the forward estimates has not changed since the 2012-13 budget papers.

6.4 Impact of the total expenditure on the State

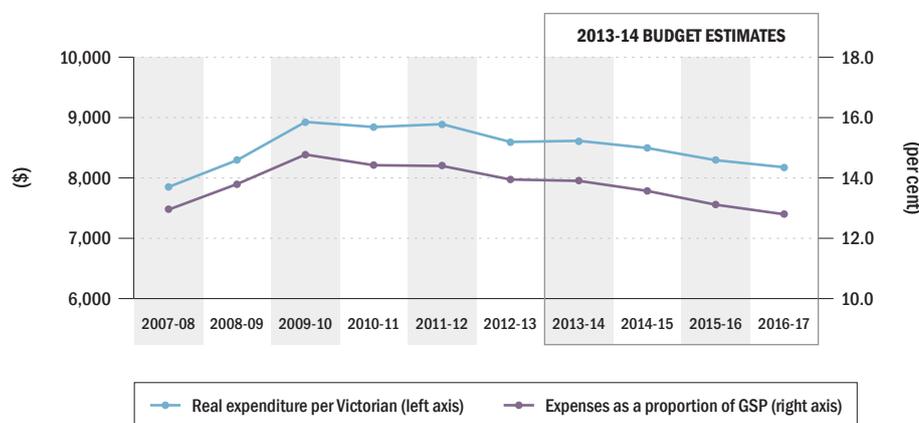
6.4.1 Perspectives for total output expenditure

As noted above, the dollar (nominal) value of output expenditure is expected to grow throughout the forward estimates period. As in past reports, to understand the estimates for expenditure over time, the Committee has looked at the following two indicators:

- output expenditure in real terms (that is, adjusted for inflation) per Victorian; and
- output expenditure as a proportion of gross state product (GSP).

Figure 6.4 shows these indicators.

Figure 6.4 Expenditure in real terms per Victorian and as a proportion of GSP, 2007-08 to 2016-17



- (a) Figures include the effects of the change to AASB 119.
- (b) Real expenditure is calculated using the price deflator implicit in the Department of Treasury and Finance's calculation of real and nominal GSP. Figures are provided in 2013-14 terms..
- Source: Calculated by the Committee based on: Department of Treasury and Finance, 'Consolidated Comprehensive Operating Statement 2013-14' data set, <www.budget.vic.gov.au/Publications/Victoria-Economy-publications/Financial-statements>, accessed 6 June 2013; Department of Treasury and Finance, 'Macroeconomic indicators 2013-14' data set, <www.dtf.vic.gov.au/Victoria-Economy-publications/Macroeconomic-indicators>, accessed 6 June 2013

Figure 6.4 clearly shows that expenditure has been reducing after peaking in 2009-10. This peak was a result of increased government expenditure following the Global Financial Crisis.³⁰¹ The estimated further reductions over the forward estimates period are consistent with the Government's strategy of expenditure constraint.

FINDING: Expenditure, both as a proportion of GSP and in terms of real expenditure per Victorian, is forecast by the Government to decline over the forward estimates period. This is consistent with the Government's strategy of expenditure constraint.

6.4.2 Service delivery and community outcomes

The Government's performance measurement system is intended to provide some understanding of the impact that these changes to expenditure have on service delivery and community outcomes.³⁰²

As discussed in Chapter 7 of this report, the Government's performance is measured through:

- outputs, which describe the goods and services delivered; and
- objectives, which indicate the expected outcomes on the community.

301 Public Accounts and Estimates Committee, *Report on the 2012-13 Budget Estimates — Part Two*, September 2012, pp.72-3

302 For example, see Victorian Government, *Government Responses to the Recommendations of Public Accounts and Estimates Committee's 111th Report on the 2012-13 Budget Estimates — Part Two*, tabled 12 March 2013, p.9

Outputs are supported by a number of performance measures. These provide information about the quality, quantity, timeliness and cost of the goods and services delivered.³⁰³ With the 2013-14 budget papers, a separate set of measures has been introduced for the listed objectives. These measures are referred to in the budget papers as ‘objective indicators’ or ‘indicators’ and are intended to identify whether departments are achieving their stated objectives.³⁰⁴

The Committee notes that the Government has made a number of recent changes to the performance measurement system and that additional changes are being considered.³⁰⁵

While each government department has provided objective indicators, no targets for these have been included in the 2013-14 budget papers. In addition, some objective indicators are not quantifiable. As a result of these factors, the Government’s expectations of the impact of the changes in output expenditure on the achievement of objectives could be made clearer. This is discussed further in Section 7.4 of this report.

With respect to performance measures, Table 6.3 shows that, overall, more non-cost performance measures had their targets increased in 2013-14 compared to their 2012-13 targets than had their targets decreased.

Table 6.3 Change in targets for non-cost performance measures,^(a) 2012-13 to 2013-14 budgets

	Decrease	No change	Increase
Number of measures	103	688	211

(a) This analysis excludes measures where the target for either 2012-13 or 2013-14 is absent or undisclosed; and measures with targets expressed as dates, ratios or levels. Targets expressed as a range were assessed at the mid-point of the range.

Source: Committee calculations based on Budget Paper No.3, *2013-14 Service Delivery*, May 2013, Chapter 2

However, interpreting this information is not always straightforward. While in most cases an increased target indicates increased or improved service delivery, in some cases it indicates the opposite. In addition, performance measures in some cases may not be comprehensive, meaning that changes to output delivery may not be visible through changes to targets.

The Committee has noted in previous reports that the current system of output performance measures could be improved in a number of ways.³⁰⁶ The Government has made a number of improvements recently, and the Committee intends to examine this further as part of a future report.

In the recent budget estimates hearings, the Treasurer remarked that:³⁰⁷

... we will run our public sector as efficiently as possible while protecting and, in fact, enhancing front-line service delivery.

A number of departments have also informed the Committee that they do not expect expenditure reductions through savings initiatives to result in reduction of service delivery (see Section 6.7.1 of this report)

303 Budget Paper No.3, *2013-14 Service Delivery*, May 2013, Chapter 2

304 *ibid.*

305 Victorian Government, Government Responses to the Recommendations of Public Accounts and Estimates Committee’s 111th Report to Parliament – *Report on the 2012-13 Budget Estimates — Part Two*, tabled 12 March 2013, pp.13-15

306 Public Accounts and Estimates Committee, *Report on the 2011-12 Financial and Performance Outcomes*, May 2013, pp.51-5

307 Hon M. O’Brien MP, Treasurer, 2013-14 budget estimates hearing, transcript of evidence, 10 May 2013, p.14

To assess departments' success in reducing expenditure in real terms per Victorian while protecting front-line service delivery, a comprehensive and robust performance measurement system will be required.

FINDING: Between the 2012-13 and 2013-14 budgets, more targets for non-cost performance measures have been increased than decreased. However, further improvements to the performance measurement system will be required to enable a clear picture of whether changes in output funding have led to changes in service delivery or community outcomes.

6.5 What the expenditure pays for

6.5.1 Base funding and initiative funding

Funding for output expenditure can be separated into the following:

- base funding (which funds ongoing activities that departments provide continually); and
- initiative funding,³⁰⁸ which is made up of funding (allocated in the latest or past budgets) for programs or projects with fixed terms.

Each year, according to the Departmental Funding Model, base funding is '*escalated to maintain alignment with movements in the rate of inflation*'.³⁰⁹ Each budget also funds a number of initiatives (see Section 6.6). Increases in base funding and new initiatives are, however, partially mitigated by other factors, including expenditure reduction initiatives such as efficiency dividends (see Section 6.7).

As it did last year, the Committee approached departments for details about base funding, initiative funding for the year from previous budgets and initiative funding for the year from new initiatives. The responses are summarised in Table 6.4, with further detail available in Appendix A6.2.

Table 6.4 Base and initiative funding for departments, 2012-13 and 2013-14

	2012-13	2013-14	Increase	
	\$ million	\$ million	\$ million	per cent
Base funding	39,999.4	41,767.3	1,767.9	4.4
Initiative funding	3,037.1	2,204.9	-832.2	-27.4

Source: Departmental responses to Committee's 2012-13 Budget Estimates Questionnaire; Departmental responses to Committee's 2013-14 Budget Estimates Questionnaire

308 For the purposes of this section, the term 'initiative funding' will apply to funding from initiatives that have fixed terms, rather than ongoing initiatives, which add to base funding for departments.

309 Department of Treasury and Finance, *Business and Financial Management Guidances*, 'BFMG-06 Departmental Funding Model – Output Pricing', October 2007, p.133

Initiative funding for 2013-14³¹⁰ has decreased from the previous year. Base funding, on the other hand, has increased from 2012-13.

FINDING: Initiative (non-base) funding for departments in 2013-14 is expected to be \$2.2 billion. This is a \$0.8 billion (27 per cent) decrease from 2012-13. Base funding reported by departments increased by \$1.8 billion (4.4 per cent) to \$41.8 billion.

The Committee has recommended in the past that the level of base funding be detailed and explained in the budget papers.³¹¹ The Government responded that:³¹²

The Government publishes explanations for all decisions that impact on departments' funding. The explanation is published in the year decisions are made and outlines the future impact of these decisions.

For 2013-14 the Committee understands that the escalation to align with inflation is 2.5 per cent, unchanged from the previous year. This would account for almost \$1 billion of the \$1.8 billion increase, although the escalation will be partly reduced by expenditure reduction initiatives such as the two efficiency dividends. 'Ongoing'³¹³ initiatives add to base funding but only four output initiatives, with a total expenditure of \$40.1 million for 2013-14, were identified as ongoing in the 2012-13 Budget Update and the 2013-14 Budget.³¹⁴ The Committee also understands that expenses related to the Victorian Desalination Plant may also have increased base funding.

The 2013-14 budget papers do not include any discussion of changes in base funding for departments.

FINDING: Some information was provided to the Committee about base funding by departments. Changes to base funding have not been discussed or explained in the budget papers.

RECOMMENDATION 11: The budget papers include a discussion and explanation of changes in base funding for departments.

310 Initiative funding for 2013-14 is made up of \$940.2 million in funding from the 2013-14 Budget and \$1,264.3 million from previous budgets (departmental responses to Committee's 2013-14 Budget Estimates Questionnaire).

311 Public Accounts and Estimates Committee, *Report on the 2012-13 Budget Estimates — Part Two*, Recommendation 16, September 2012, p.67

312 Victorian Government, Government Responses to the Recommendations of Public Accounts and Estimates Committee's 111th Report to Parliament — *Report on the 2012-13 Budget Estimates — Part Two*, tabled 12 March 2013, p.8

313 'Ongoing' initiatives add to base funding for departments, as the initiative has no end date. Only initiatives with fixed terms add to initiative funding.

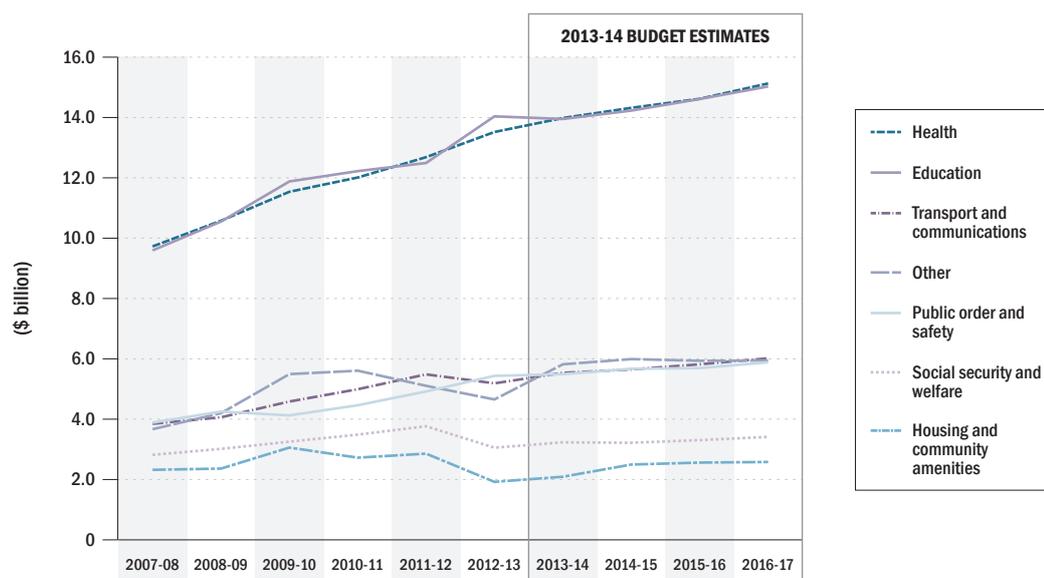
314 *Support for Mental Health Beds; Individualised Support for People with a Disability, their Families and Carers, Supporting Victoria Legal Aid; and Healing the Stolen Generations* (Budget Paper No.3, 2013-14 Service Delivery, May 2013, pp.20, 27, 33, 39). There were no ongoing output initiatives identified in the 2012-13 Budget Update.

6.5.2 Government purpose

The Government breaks down its expenditure into a number of ‘government purposes’ defined by the Australian Bureau of Statistics.³¹⁵ This is independent of which department or agency actually funds the project or program, meaning that, for example, if the Department of Health carries out training of staff, that expenditure is classed as ‘education’.

Figure 6.5 shows trends in government purpose expenditure since 2007-08 and the expectations over the forward estimates period. Table 6.5 shows the growth of each category over the forward estimates, including the annual average growth rate.

Figure 6.5 Expenditure by major government purpose classification, 2007-08 to 2016-17



Source: Department of Treasury and Finance, ‘Consolidated government purpose classification data 2013-14’ data set, <www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Financial-statements>, accessed 8 May 2013

Table 6.5 Growth of different expenditure categories, 2013-14 to 2016-17

	Growth, 2013-14 to 2016-17	
	(\$ million)	(average per cent per year)
Education	1,078.2	2.5
Health	1,145.6	2.7
Public order and safety	394.9	2.3
Transport and communications	481.7	2.8
Social security and welfare	179.1	1.8
Housing and community amenities	488.2	7.3
Other	124.7	0.7
Total output expenditure	3,892.4	2.5

Source: Budget Paper No.5, 2013-14 Statement of Finances, May 2013, p.31

315 Budget Paper No.5, 2013-14 Statement of Finances, May 2013, p.31; Australian Bureau of Statistics, Cat. No. 5514.0

Figure 6.5 shows that the health and education categories are expected to remain the most important in terms of expenditure.

Education is the only government purpose category that is not expected to grow in 2013-14. As can be seen from Figure 6.5, this follows a large growth in the education area in 2012-13 and the forward estimates appear to show a return to trend. Expenditure in education is expected to fall by 0.6 per cent in 2013-14. This is consistent with the 0.7 per cent fall in the expected expenses for the year for the Department of Education and Early Childhood Development.³¹⁶

The primary reason for this is the reduction expected in the *Higher Education and Skills* output, which has been reduced by \$169.5 million (7 per cent). The budget papers indicate that this:³¹⁷

... primarily reflects the funding profile of the *Refocusing Vocational Education in Victoria* initiative announced in the 2012-13 Budget.

That is, the *Refocusing Vocational Education in Victoria* initiative included in the 2012-13 Budget added \$359.6 million to the output in 2012-13 but \$225.3 million in 2013-14.³¹⁸

Expenditure on 'housing and community amenities' is expected to increase by \$170.5 million (9 per cent) in 2013-14.³¹⁹ This is primarily a result of increases in the Department of Human Services' *Disability Services* and *Child Protection and Family Services* outputs, which have had a combined budget increase of \$166.6 million.³²⁰ The increase is primarily a result of:

- three new initiatives for the Department;³²¹ and
- the effect of a raft of *Protecting Victoria's Vulnerable Children* initiatives from the 2012-13 Budget.³²²

Over the forward estimates, 'housing and community amenities' is forecast to have the highest average annual growth rate (7.3 per cent).

Expenditure in 'public order and safety' is expected to rise 1 per cent between 2012-13 and 2013-14. This follows a large (11 per cent) rise to 2012-13, and reflects the Government's recruitment of new Protective Service Officers during 2012-13.³²³

The increase in the 'other' category is mostly driven by the 'other purposes' classification in the budget papers, which is expected to rise by \$926.8 million (39 per cent) in 2013-14 from \$2.3 billion in 2012-13 (according to the 2012-13 Budget Update).³²⁴ The budget papers contain no discussion of this very significant rise. The Department of Treasury and Finance explained to the Committee that:³²⁵

316 *ibid.*, p.83

317 Budget Paper No.3, *2013-14 Service Delivery*, May 2013, p.90

318 Budget Paper No.3, *2012-13 Service Delivery*, May 2012, p.17

319 Department of Treasury and Finance, 'Consolidated government purpose classification data 2013-14' data set, <www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Financial-statements>, accessed 8 June 2013; Budget Paper No.5, *2013-14 Statement of Finances*, May 2013, p.31

320 Budget Paper No.3, *2013-14 Service Delivery*, May 2013, p.151

321 *ibid.*, p.25. One of these initiatives, *Transitional National Partnership Agreement on Homelessness*, does not contribute to the two outputs mentioned above, but still contributes to the 'housing and community amenities' purpose.

322 Budget Paper No.3, *2012-13 Service Delivery*, May 2012, pp.3-4

323 Hon. T. Mulder MP, Minister for Public Transport, 2013-14 budget estimates hearing, transcript of evidence, 15 May 2013, p.4

324 Department of Treasury and Finance, 'Consolidated government purpose classification data 2013-14' data set, <www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Financial-statements>, accessed 8 June 2013; Department of Treasury and Finance, *2012-13 Victorian Budget Update*, December 2012, p.70

325 Department of Treasury and Finance, correspondence received 17 September 2013

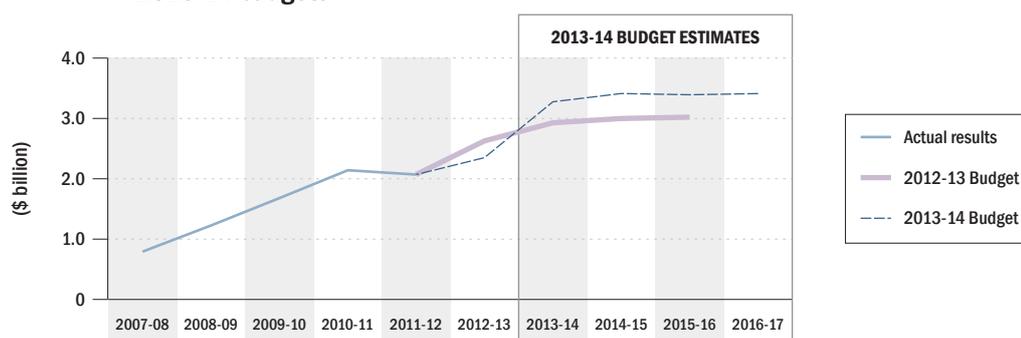
The 'other purposes' classification captures a diverse range of expenses which cannot be readily allocated to the other specific purpose categories, including interest related to public debt and superannuation interest expenses.

Accordingly, the variation between the 2012-13 revised estimates and the 2013-14 estimates in the main reflects the impact of expected changes (between December 2012 and April 2013) in financial markets on financing costs, and changes in the general government sector operating environment.

Interest expense is expected to increase by \$446.4 million in 2013-14 (from \$1,226.9 million estimated for 2012-13 in the 2012-13 Budget Update).³²⁶ Superannuation interest expense is expected to increase by \$682.9 million (from \$446.3 million estimated for 2012-13 in the 2012-13 Budget Update).³²⁷ This is partly as a result of the change to AASB 119 (see Section 6.3.1 of this report).

Figure 6.6 shows the 2013-14 Budget forecast for 'other purposes' compared to the forecast included in the 2012-13 budget papers. It is clear from the figure that these forecasts are markedly different. The Committee notes that no discussion of the updated forecast has been included in the budget papers.

Figure 6.6 Forecasts of expenditure classified in the Budget as 'other purposes', 2012-13 and 2013-14 budgets



Source: 2007-08 to 2011-12: Department of Treasury and Finance, Financial Report for the State of Victoria, 2008-09 to 2011-12; 2012-13: Department of Treasury and Finance, 'Consolidated government purpose classification data' data set, <www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Financial-statements>, accessed 16 July 2013; 2013-14 to 2016-17: Budget Paper No.5, 2012-13 Statement of Finances, May 2012, p.29

FINDING: The largest areas of Government expenditure are, and will continue to be, health and education. Expenditure on housing and community amenities is expected to increase by 9 per cent in 2013-14.

FINDING: Expenditure in the 'other purposes' classification is expected to increase by \$926.8 million in 2013-14. The forecast for 'other purposes' has also changed since the 2012-13 Budget. These movements have not been discussed in the budget papers.

326 Budget Paper No.5, 2013-14 Statement of Finances, May 2013, p.5; Department of Treasury and Finance, 2012-13 Victorian Budget Update, December 2012, p.45

327 *ibid.*

RECOMMENDATION 12: Consistent with other forecasts, significant variations in forecasts for government purpose expenditure classifications from one year to another be discussed and explained in the budget papers.

6.5.3 Operating statement items

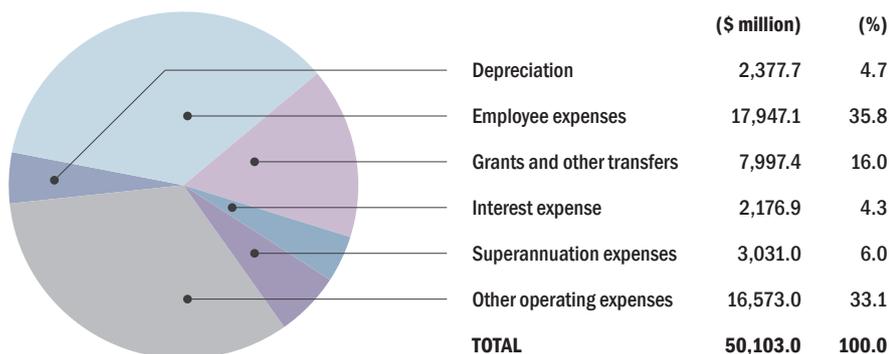
Figure 6.7 breaks estimated output expenditure in 2013-14 down according to the line items in the operating statement. The 2013-14 amounts are compared to previous years and the forward estimates in Appendix A6.1.

Figure 6.7 shows that the largest components are:

- employee expenses;
- grants and other transfers; and
- other operating expenses.³²⁸

Significant changes have also been occurring in recent years in the amount of interest expense.

Figure 6.7 Components of expenditure, 2013-14



Source: Budget Paper No.2, 2013-14 Strategy and Outlook, May 2013, p.45

Employee expenses

Employee expenses are the largest component of the Government’s expenditure each year, and are expected to account for \$17.9 billion in 2013-14 (36 per cent of total expenditure).³²⁹ These expenses include wages, redundancy costs and some costs associated with superannuation.³³⁰ They cover the Victorian public service and other staff employed as part of the general government sector (such as public hospital staff, teachers at government schools and police).

The budget papers estimate that employee expenses will rise over forward estimates period, but at varying rates in the different years, as can be seen from Table 6.6.

328 Other operating expenses are mostly made up of the purchases of supplies and consumables and the purchases of services by departments. These two items make up nearly 90 per cent of the ‘other operating expenses’ category (Budget Paper No.5, 2013-14 Statement of Finances, May 2013, p.29).

329 Budget Paper No.5, 2013-14 Statement of Finances, May 2013, p.5

330 Department of Treasury and Finance, 2011-12 Financial Report, October 2012, p.193

Table 6.6 Employee expenses, 2012-13 to 2016-17

	2012-13 revised estimate	2013-14 Budget	2014-15 estimate	2015-16 estimate	2016-17 estimate
Employee expenses (\$ million)	17,546.3	17,947.1	18,667.7	19,292.7	19,860.4
Growth from previous year (per cent)	2.5	2.3	4.0	3.3	2.9

Source: Budget Paper No.2, 2013-14 Strategy and Outlook, May 2013, p.45

In explaining the growth of employee expenses and superannuation expenses, the budget papers indicate that:³³¹

This growth reflects the counter-veiling impacts of increased staffing for ongoing service delivery, moderated wage increases due to the Government's wages policy and savings measures aimed at improving the efficiency of back office functions.

In other words, the cost of employee expenses is primarily driven by two factors: the number of employees and the cost of wages.

In terms of wage costs, enterprise bargaining agreements 'covering the significant majority of public sector employees' have recently been agreed.³³² The budget papers explain that, 'employee expenses are adjusted for approved wage agreements, with allowance made for further adjustments consistent with wages policy beyond the period of the agreements'.³³³ The Government's wages policy allows for increases of 2.5 per cent per annum plus any additional 'bankable' productivity gains related to workforce reform.³³⁴

The agreements generally provide for relatively smooth increases in wage costs, meaning that the more variable growth rates must be primarily explained by changes in employee numbers. The 2.3 per cent growth in employee expenses between 2012-13 and 2013-14 is less than the Government's wages policy increase of 2.5 per cent. This may be partly explained by reductions in the number of Victorian public service employees. Employee numbers for the Victorian public service are forecast to decline in 2013-14 due to the *Maintain a Sustainable Public Service* initiative³³⁵ and other savings measures.

However, it is not clear what factors are expected to increase the growth rate in 2014-15 or why the rate is estimated to decline after then. The Committee notes that the explanation in the budget papers for the growth in employee expenses describes the overall change across the forward estimates period but does not provide any detail about why it changes from one year to another.³³⁶ Given that employee expenses are a large proportion of expenditure and therefore have a significant impact on the total expenditure, the Committee considers that a more detailed explanation of the assumptions underlying the estimates in future budget papers would be of benefit to the Parliament and community.

331 Budget Paper No.2, 2013-14 Strategy and Outlook, May 2013, p.47

332 *ibid.*, p.41

333 Budget Paper No.5, 2013-14 Statement of Finances, May 2013, p.18

334 Budget Paper No.2, 2013-14 Strategy and Outlook, May 2013, p.16; Department of Treasury and Finance, *Public Sector Workplace Relations Policies*, December 2012, p.7

335 Department of Treasury and Finance, *2011-12 Victorian Budget Update*, December 2011, pp.6, 113-4

336 Budget Paper No.2, 2013-14 Strategy and Outlook, May 2013, p.47

FINDING: Employee expenses are the largest component of output expenditure, accounting for \$17.9 billion in 2013-14. The rate of growth for employee expenses across the forward estimates varies from 2.3 per cent to 4.0 per cent. The causes of the changing growth rate are not detailed.

RECOMMENDATION 13: In future budget papers, the Department of Treasury and Finance explain variations in the growth rate between individual years within the forward estimates period for employee expenses and other significant line items.

Grants and other transfers

Patterns of grants vary from department to department and depend mostly on the activities of each portfolio. Overall, 'grants and other transfers' are expected to increase by \$0.3 billion (4 per cent) to \$8.0 billion in 2013-14.³³⁷ Over the forward estimates, this line item is expected to grow by an average of 3 per cent annually.

The Committee asked departments for details of changes in this item between 2012-13 and 2013-14. The Committee accepts that the recent machinery-of-government changes have made this task difficult for departments.

Significant changes reported by departments include:

- the Department of Justice expects to increase grants by \$594.8 million, mostly due to '*a net \$578 million for the introduction of the new Fire Services Property Levy*';³³⁸
- the Department of Transport, Planning and Local Infrastructure plans an increase of \$191.3 million (9 per cent), but has not disclosed reasons for this;³³⁹ and
- the Department of Health expects an increase in grants and other transfers of \$148.2 million, '*primarily due to increased funding in 2013-14*'.³⁴⁰

Other operating expenses

This item is principally made up of the purchases of supplies, consumables and services.³⁴¹ This is expected to increase by \$0.3 billion (2 per cent) to \$16.6 billion in 2013-14 before being constrained to a slower annual growth rate (1 per cent) over the forward estimates.

337 Budget Paper No.5, *2013-14 Statement of Finances*, May 2013, pp.5, 233

338 Department of Justice, response to the Committee's 2013-14 Budget Estimates Questionnaire, received 8 May 2013, p.8

339 Department of Transport, Planning and Local Infrastructure, response to the Committee's 2013-14 Budget Estimates Questionnaire, received 9 May 2013, p.11

340 Department of Health, response to the Committee's 2013-14 Budget Estimates Questionnaire, received 13 May 2013, p.8

341 Budget Paper No.5, *2013-14 Statement of Finances*, May 2013, p.29

Significant changes reported by departments for other operating expenses include:

- a large increase for the Department of State Development, Business and Innovation is ‘*primarily related to the Kew Residential Redevelopment project being brought forward and expected to be completed in 2013-14*’, and ‘*due to re-phasings of some fixed-term Energy initiatives from 2012-13 to 2013-14*’;³⁴²
- a decrease of \$141.6 million for the Department of Education and Early Childhood Development, ‘*primarily due to implementation of productivity efficiencies and decreased National Partnerships funding from the Commonwealth*’;³⁴³ and
- an increase of \$155.1 million for the Department of Human Services, entirely made up of ‘*purchase of externally provided services from the sector*’,³⁴⁴ which ‘*reflects the impact of additional funding provided in the 2013-14 Budget and the full year effect of prior year initiatives*’.³⁴⁵

Interest expense

This item has been growing very strongly (an average of 30 per cent per annum between 2007-08 and 2011-12³⁴⁶) since 2007-08 and is expected to continue growing strongly to 2013-14 (see Appendix A6.1). However, the Government expects it to grow more gradually in 2014-15, peaking at \$2,309.8 million, before reducing in 2015-16 and 2016-17. This correlates with the Government’s forecast levels of net debt (see Section 5.3 of this report).³⁴⁷

The Committee understands that public private partnership investments (see Section 8.3.2) and the changes to accounting standard AASB 119 (see Section 6.3.1) have also increased amounts reported under interest expenditure.

6.5.4 Non-output expenditure for departments

As part of its Inquiry into the 2011-12 Budget Estimates, the Committee noted variations for a number of departments between:

- total expenses from transactions (from the departmental comprehensive operating statements in Budget Paper No.5); and
- total output costs (from the output summaries in Budget Paper No.3).

The Committee recommended that differences between these two items be quantified and explained in the budget papers.³⁴⁸ The Government supported the recommendation³⁴⁹ and, as part of the 2012-13 Budget, included such explanations in online data.

342 Department of State Development, Business and Innovation, response to the Committee’s 2013-14 Budget Estimates Questionnaire, received 10 May 2013, p.8

343 Department of Education and Early Childhood Development, response to the Committee’s 2013-14 Budget Estimates Questionnaire, received 8 May 2013, p.6

344 Department of Human Services, response to the Committee’s 2013-14 Budget Estimates Questionnaire, received 8 May 2013, p.8

345 *ibid.*

346 Committee calculation based on Department of Treasury and Finance, ‘Consolidated Comprehensive Operating Statement 2013-14’ data set, <www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Financial-statements>, accessed 6 June 2013

347 Budget Paper No.5, *2013-14 Statement of Finances*, May 2013, p.7

348 Public Accounts and Estimates Committee, *Report on the 2011-12 Budget Estimates — Part Three*, September 2011, Recommendation 66, p.185

349 Victorian Government, Government Responses to the Recommendations of Public Accounts and Estimates Committee’s 102nd Report on the 2011-12 Budget Estimates — Part Three, tabled 14 March 2012, p.34

In the 2013-14 budget papers, differences totalling \$1.4 billion for 2013-14 were reported between expenses from transactions³⁵⁰ and output costs³⁵¹ (see Appendix A6.3). A high-level explanation was provided for one department in the budget papers, which explained the difference as due to ‘*additional expenses in Budget Paper No.5*’.³⁵²

FINDING: The budget papers show a \$1.4 billion difference between total expenses from transactions for departments and their total output costs. Past budgets have included explanations for such variances in online datasets, but this practice has not been continued in 2013-14.

RECOMMENDATION 14: The Government reinstate the practice of explaining variances between total expenses from transactions for departments and departmental total output costs.

6

6.6 New initiatives for 2013-14

The 2013-14 Budget released new output initiatives with a value over the forward estimates period of \$3.5 billion.³⁵³ This is less than the amount released in the previous two budgets (see Figure 6.8).

Figure 6.8 Funding for new initiatives, 2007-08 to 2013-14 budgets



Notes: Values shown are the totals for the five years detailed in each budget paper (that is, the prior year, the budget year and the following three years) and therefore the estimates from one budget refer to expenditure made in different years to the estimates in another budget.

Funding released in prior years’ budget updates has been removed from the totals given in Budget Paper No.3 for 2007-08 to 2010-11 to avoid double counting.

Sources: Budget Paper No.3, 2007-08 to 2013-14; Victorian Budget Update 2007-08 to 2012-13; Department of Treasury and Finance, 2010-11 Pre-Election Budget Update, November 2010

350 Budget Paper No.5, 2013-14 Statement of Finances, Chapter 3

351 Budget Paper No.3, 2013-14 Service Delivery, May 2013, Chapter 2

352 ibid., p.151

353 ibid., p.2

6.6.1 Initiatives over \$100 million

Table 6.7 shows the new initiatives from the 2013-14 Budget with expenditure over the forward estimates of greater than \$100 million.³⁵⁴

Table 6.7 Output initiatives over \$100 million released in the 2013-14 Budget

Department	Initiative name	Total (\$ million) ^(a)
Health	Securing Victoria's Health System – Treating More Patients	751.3
Health	Securing Victoria's Health System – Elective Surgery	420.6
Health	Training the Future Health Workforce – Undergraduate	193.9
Health	Home and Community Care	140.0
Transport, Planning and Local Infrastructure	Road Safety Strategy 2013-2022	109.3
Human Services	Individualised Support for People with a Disability, Their Families and Carers	106.9

(a) Total expenditure from 2012-13 to 2016-17

Source: Budget Paper No.3, 2013-14 Service Delivery, May 2013, Chapter 1

Health initiatives

The largest four output initiatives released in the 2013-14 Budget are all delivered through the Department of Health. These initiatives provide a total of \$1.5 billion in funding over the forward estimates period, including \$356.2 million in 2013-14.³⁵⁵

The *Securing Victoria's Health System – Treating More Patients* initiative provides \$176.3 million of funding for 2013-14,³⁵⁶ and 'includes Commonwealth funding under the National Health Reform Agreement'.³⁵⁷ The funding is:³⁵⁸

... provided to enhance the capacity of health services to meet and manage growth in demand for essential hospital services.

The budget papers indicate that this initiative contributes to increases in four of the Department's outputs.³⁵⁹ The Department advised the Committee that performance measures for three of these outputs will increase as a result.³⁶⁰ However, the Department did not identify any performance measures in the *Drug Prevention and Control* output that will increase.

The *Securing Victoria's Health System – Elective Surgery* initiative will provide \$101.3 million in 2013-14³⁶¹ for a pool of funding that:³⁶²

354 No output initiatives over \$100 million were released as part of the 2012-13 Budget Update

355 Budget Paper No.3, 2013-14 Service Delivery, May 2013, p.16

356 *ibid.*

357 *ibid.*, p.17

358 *ibid.*, p.18

359 *ibid.*

360 Department of Health, response to the Committee's 2013-14 Budget Estimates Questionnaire, received 13 May 2013, p.22

361 Budget Paper No.3, 2013-14 Service Delivery, May 2013, p.16

362 *ibid.*, p.18

... will be allocated on a competitive basis to drive efficiencies in elective surgery, meet increasing levels of demand and treat more Victorian elective surgery patients sooner.

The intent of the initiative is to address the number of patients on elective surgery waiting lists. During the budget estimates hearing for the Health portfolio, the Minister remarked that:³⁶³

... there is a significant challenge in growth of demand. There is a significant challenge in delivering for our community in that regard, and we are certainly working very hard to do that.

The Government has also indicated that changes to Commonwealth funding have impacted on elective surgeries (see Section 4.5.3). The Department advised the Committee that five performance measures will be affected by the initiative.³⁶⁴ Targets for all five measures have been increased for 2013-14.

The *Training the Future Health Workforce – Undergraduate* initiative provides \$44.9 million for healthcare students in 2013-14.³⁶⁵ This ‘will support an increase of more than 20 per cent in clinical placement days over the next four years.’³⁶⁶

The Department of Health has advised the Committee that this initiative does not contribute to increased targets for any performance indicators.³⁶⁷ Although the Department tracks a number of relevant internal measures, the budget papers do not report clinical placement or graduate targets.

The Committee notes, however, that despite the initiative, the total cost for the *Acute Training and Development* output is expected to decrease from \$313.0 million for 2012-13 to \$287.0 million for 2013-14.³⁶⁸ The budget papers explain that this is primarily caused by:³⁶⁹

... changes to classification of specified teaching/training payments. These payments are now included in admitted services activity payments as a result of national hospital funding reforms. However State funding component has increased.

The *Home and Community Care* initiative provides \$33.7 million in 2013-14,³⁷⁰ which:³⁷¹

... will provide increased support for older and younger people with a disability to remain in their home and help reduce the pressure on hospital services.

The Department has advised the Committee that this initiative will fund the increase of both the ‘Home and community care service delivery hours’ and ‘Clients receiving home and community care services’ performance measures in the *Home and Community Care* output.³⁷²

363 Hon. D. Davis, MLC, Minister for Health, 2013-14 budget estimates hearing, transcript of evidence, 14 May 2013, p.25

364 Department of Health, correspondence received 15 July 2013

365 Budget Paper No.3, *2013-14 Service Delivery*, May 2013, p.16

366 *ibid.*, p.19

367 Department of Health, correspondence received 15 July 2013

368 Budget Paper No.3, *2013-14 Service Delivery*, May 2013, p.127

369 *ibid.*

370 *ibid.*, p.16

371 *ibid.*, p.19

372 Department of Health, response to the Committee’s 2013-14 Budget Estimates Questionnaire, received 13 May 2013, p.22

Other initiatives

The *Road Safety Strategy 2013-2022* output initiative funds output activity related to the asset initiative of the same name (see Section 8.5.3). This initiative provides funding, which will be sourced from the Transport Accident Commission, of \$19.9 million in 2013-14.³⁷³ This contributes to a \$1 billion strategy over the next 10 years,³⁷⁴ which ‘*will enable upgrades of the State’s highest risk roads and intersections and other road safety initiatives*’.³⁷⁵

In the budget estimates hearing for the Roads portfolio, the Minister indicated that the primary purpose of these road safety initiatives is to support the Government’s:³⁷⁶

... target to reduce deaths and serious injuries by more than 30 per cent on our roads by 2022. The target would mean a road toll below 200, and fewer than 3850 serious injuries by that time.

These targets are consistent with those included in *Victoria’s Road Safety Strategy 2013-2022*.³⁷⁷

According to the Department of Transport, Planning and Local Infrastructure, the *Road Safety Strategy 2013-2022* (which includes asset funding as well as output funding) will be supported by the ‘Road safety projects/initiatives completed: safe roads’ performance measure. The Committee notes that this measure has a lower target for 2013-14 than 2012-13.³⁷⁸ The budget papers explain that ‘*an acceleration of the safer road infrastructure program*’³⁷⁹ resulted in some projects scheduled for completion in 2013-14 being completed in 2012-13. For 2013-14, the budget papers state that:³⁸⁰

The lower 2013-14 target reflects the number of projects that are expected to be delivered in 2013-14.

The *Individualised Support for People with a Disability, their Families and Carers* initiative provides \$25.2 million in 2013-14.³⁸¹ This initiative will increase (by up to 720) the number of individual support packages ‘*available to provide essential care and support services for people with a disability, their families and carers*’.³⁸²

The Department of Human Services has advised the Committee that this will specifically fund an increase in the ‘Clients receiving individualised support’ performance measure which is expected to increase by 716 clients in 2013-14 compared to the expected outcome of 14,208 in 2012-13.³⁸³

FINDING: The four largest output initiatives from the 2013-14 Budget are delivered through the Department of Health. Other large initiatives are for road safety and disability support.

373 Budget Paper No.3, *2013-14 Service Delivery*, May 2013, p.48

374 *ibid.*, p.58

375 *ibid.*

376 Hon T. Mulder MP, Minister for Roads, 2013-14 budget estimates hearing, transcript of evidence, 15 May 2013, p.11

377 Victorian Government, *Victoria’s Road Safety Strategy 2013-2022*, n.d. p.10

378 Budget Paper No.3, *2013-14 Service Delivery*, May 2013, p.248

379 *ibid.*

380 *ibid.*

381 *ibid.*, p.25

382 *ibid.*, p.27

383 *ibid.*, p.153

6.7 Funding new initiatives

Table 6.2 earlier in this chapter shows that the impact of the new initiatives for 2013-14 is offset in a number of ways, including:

- savings measures;
- reprioritisation and adjustments of existing funding; and
- the release of contingencies.

In addition to these, revenue initiatives can provide additional revenue that may be used to fund output initiatives. Revenue initiatives are discussed in Chapter 3.

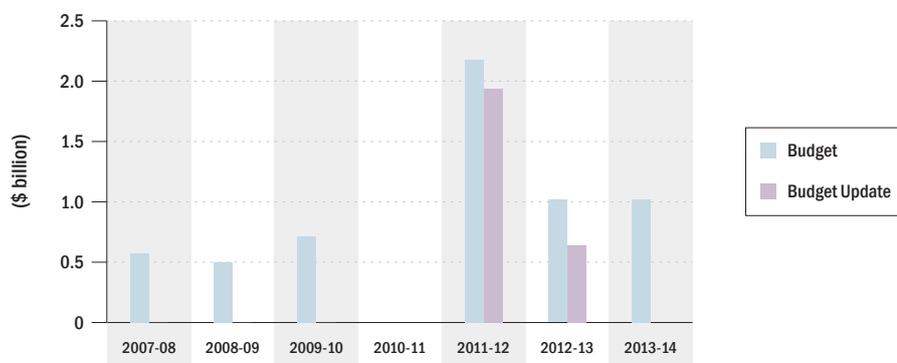
6.7.1 Savings measures

‘Savings’ measures reduce expenditure either through finding efficiencies in service delivery or by reducing the services delivered.

Since the 2012-13 Budget, the Government has introduced \$1.7 billion in efficiency and expenditure reduction measures (\$639.1 million in the 2012-13 Budget Update³⁸⁴ and \$1,019.1 million in the 2013-14 Budget³⁸⁵). This is less than some recent budgets (see Figure 6.9).

Figure 6.9 shows the value of savings measures that have been released in successive budgets and budget updates (showing the estimated value of the savings for the five years covered by each budget).

Figure 6.9 Savings measures, 2007-08 to 2013-14 budgets



Note: Values shown are the totals for the five years detailed in each budget paper (that is, the prior year, the budget year and the following three years) and therefore the estimates from one budget refer to savings made in different years to the estimates in another budget.

Sources: Budget Paper No.3, 2007-08 to 2013-14; Victorian Budget Update 2007-08 to 2012-13; Department of Treasury and Finance, 2010-11 Pre-Election Budget Update, November 2010

There were four measures released in the 2012-13 Budget Update or the 2013-14 Budget that lowered expenditure by more than \$100 million over the forward estimates, as set out in Table 6.8. Further details about each measure are contained in the budget papers.³⁸⁶ Amounts

384 Department of Treasury and Finance, *2012-13 Victorian Budget Update*, December 2012, p.124. These measures were referred to as ‘efficiency measures’ in the 2012-13 Budget Update.

385 Budget Paper No.2, *2013-14 Strategy and Outlook*, May 2013, p.54

386 Budget Paper No.3, *2013-14 Service Delivery*, May 2013, pp.63-4; Department of Treasury and Finance, *2012-13 Victorian Budget Update*, December 2012, pp.124-5

expected to be saved in the budget year and over the forward estimates period from 2013-14 Budget initiatives are shown in Table 2.6 in Chapter 2.

Table 6.8 Efficiency and expenditure reduction measures over \$100 million released since 2012-13 Budget

Source	Initiative name	Total ^(a) (\$ million)
2012-13 Budget Update	Application of an Efficiency Dividend to Non-Frontline Departmental Expenditure	290.0
2012-13 Budget Update	Early Progress of Sustainable Government Initiative	125.0
2013-14 Budget	Retargeting the First Home Owner Grant	413.2
2013-14 Budget	Adjusting the Efficiency Dividend to Non-Frontline Departmental Expenditure	400.0

(a) Savings are summed across the prior year, budget year and the forward estimates, 2012-13 to 2016-17 for 2013-14 Budget initiatives and 2012-13 to 2015-16 for 2012-13 Budget Update initiatives.

Source: Budget Paper No.3, *2013-14 Service Delivery*, May 2013, p.62; Department of Treasury and Finance, *2012-13 Victorian Budget Update*, December 2012, p.124

Efficiency dividends applied to non-frontline departmental expenditure

Since the 2012-13 Budget, the Government has introduced two initiatives involving an efficiency dividend:

- as part of the 2012-13 Budget Update, the Government replaced the existing freeze on non-wage cost indexation with an annual reduction in funding of 2 per cent ‘*applying to non-frontline wage and non-wage costs*’;³⁸⁷ and
- in the 2013-14 Budget, the Government increased this dividend to 2.5 per cent.³⁸⁸ The budget papers note that the increased dividend will be applied to the same ‘*non-frontline wage and non-wage costs*’.³⁸⁹

An efficiency dividend is a measure that reduces overall funding to departments. The departments are expected to produce the required goods and services with this reduced funding, finding internal savings in order to do so.

To understand the efficiency dividend more fully, the Committee sought details of how the estimated savings were calculated.

The budget papers note that the first general efficiency dividend replaced an earlier savings initiative that included a ‘*freeze on indexation of non-wage costs*’.³⁹⁰ The Department of Treasury and Finance explained to the Committee that this is a reference to the *Capping Departmental Expenditure Growth* initiative from the 2011-12 Budget Update.³⁹¹

387 Department of Treasury and Finance, *2012-13 Victorian Budget Update*, December 2012, p.124

388 Budget Paper No.3, *2013-14 Service Delivery*, May 2013, pp.62-3

389 *ibid.*

390 Department of Treasury and Finance, *2012-13 Victorian Budget Update*, December 2012, p.124

391 Department of Treasury and Finance, correspondence received 17 September 2013

The budget papers do not indicate the value of the initiative which the efficiency dividend is replacing. The Treasurer explained to the Committee that the savings estimate from the first general efficiency dividend ‘*is the net impact of the efficiency dividend, offset by the provision of indexation*’.³⁹²

The Department of Treasury and Finance informed the Committee that it ‘*calculated the expenditure considered as front-line based on data provided by the State Services Authority*’.³⁹³ The Committee understands that there are a series of exemptions and reimbursements that adjust savings required of individual departments. These are determined between the Department of Treasury and Finance and individual departments. These details are also not included in the budget papers.

FINDING: In the 2012-13 Budget Update, the Government introduced an efficiency dividend to be applied to non-frontline wage and non-wage costs. In the 2013-14 Budget, this dividend was increased from 2.0 to 2.5 per cent.

FINDING: The basis of the calculation of the amounts saved through the ‘efficiency dividend’ initiatives has not been made clear in the budget papers.

RECOMMENDATION 15: When one savings initiative partially or fully replaces an earlier savings initiative, the description given in the budget papers for the new initiative include a statement quantifying relevant savings already made and savings yet to be made in the old initiative.

Cost savings and efficiency

In previous inquiries, departments have indicated to the Committee that they always achieve cost savings requirements imposed by the Government. However, departments have also advised the Committee that savings targets have not necessarily been achieved in the ways detailed in the budget papers.³⁹⁴

When a savings measure is released that affects a department, the department’s funding is reduced by that amount. The details of how the department reduces expenditure are determined internally. The department can:

- produce a similar level of output at a lower cost;
- produce a higher required level of output at an unchanged cost (where the savings measure is offset by new funding through new initiatives); or
- produce a lower amount of output at a lower cost.

392 Hon. M. O’Brien MP, Treasurer, response to a question on notice, correspondence received 9 July 2013, p.4

393 Department of Treasury and Finance, correspondence received 17 September 2013

394 Public Accounts and Estimates Committee, *Report on the 2011-12 Financial and Performance Outcomes*, May 2013, pp.56-7

Only the first two options are demonstrable efficiency improvements, the latter being a reduction in service delivery.

As part of its questionnaire, the Committee asked departments how they intend to achieve cost reductions scheduled for 2013-14.³⁹⁵ Departments indicated that a range of methods will be used.

Some departments have indicated specific methods to achieve targets, such as:

- ‘*the department will achieve this through changes to its concessions program*’;³⁹⁶ and
- ‘*The Portfolio will undertake a range of measures to constrain expenses by consolidating activities and minimising duplication and waste in administration, corporate and management functions*’.³⁹⁷

On the other hand, some departments have not indicated specific methods. For example:³⁹⁸

The Department of Treasury and Finance is committed to continually finding efficiencies to continue delivering services through its allocated resources.

Most departments indicated that they intend no change in service delivery resulting from these measures.³⁹⁹ However, some departments indicated that levels of service delivery may change. The Department of Premier and Cabinet indicated that: ‘... *in relation to Arts agencies, decisions of their independent boards may be relevant*’.⁴⁰⁰ The Department of Education and Early Childhood Development indicated that, while the *Cease the Trade Bonus* initiative would lower provision of payments to apprentices, the effect of this would be ‘*negligible – research has demonstrated limited effectiveness of incentives such as the Trade Bonus*’.⁴⁰¹ In the recent budget estimates hearing, the Minister for Higher Education and Skills indicated that other training areas are growing strongly, and that:⁴⁰²

The construction industry involves more than apprentices. There are other qualifications which those in the construction area undertake as well. If I look at some of those, just for the information of the committee, in the area of building and construction the diploma of building and construction showed a 33 per cent increase between 2011 and 2012. That is not an apprenticeship area; that is a diploma in building and construction. Certificate IV in plumbing gained a 21 per cent increase. So what I am saying is that not all activity in the construction area would be reliant on new apprenticeships. There is more than apprenticeship training which adds to work in a construction area.

The Committee considers that, as long as cost reductions do not result in a reduction in service delivery, savings measures can be effective in improving efficiency in the public sector.

395 Including both cost reductions released in the 2013-14 Budget and also those scheduled for 2013-14 from initiatives released in previous budgets.

396 Department of Human Services, response to the Committee’s 2013-14 Budget Estimates Questionnaire, received 8 May 2013, p.11

397 Department of Premier and Cabinet, response to the Committee’s 2013-14 Budget Estimates Questionnaire, received 8 May 2013, p.8

398 Department of Treasury and Finance, response to the Committee’s 2013-14 Budget Estimates Questionnaire, received 9 May 2013, p.16

399 Departmental responses to question 12 of the Committee’s 2013-14 Budget Estimates Questionnaire

400 Department of Premier and Cabinet, response to the Committee’s 2013-14 Budget Estimates Questionnaire, received 8 May 2013, p.8

401 Department of Education and Early Childhood Development, response to the Committee’s 2013-14 Budget Estimates Questionnaire, received 8 May 2013, p.9

402 Hon. P. Hall MP, Minister for Higher Education and Skills, 2013-14 budget estimates hearing, transcript of evidence, 21 May 2013, p.7

The Committee considers that an appropriate and transparent oversight process could examine cost reductions and resulting changes in service delivery. Such a process would ensure that departments demonstrate that savings measures result in efficiency improvements and not reductions in service delivery.

FINDING: Departments have indicated a range of methods intended to achieve the savings targets for 2013-14.

RECOMMENDATION 16: The Department of Treasury and Finance update the model report to require departments to list expenditure reduction methods along with data indicating whether expenditure reductions have been achieved through efficiency gains or reductions in service delivery.

Effects of expenditure reduction measures on departments

The Committee considers that a comprehensive explanation of the effects of expenditure reduction measures is an important contribution to transparency. This includes the effects on departments as well as the general government sector as a whole.

As noted in Section 2.4.4, the expenditure reduction measures included in the 2013-14 budget papers have been presented on a whole-of-government basis. That is, the effects on individual departments have not been disclosed in the budget papers. This is in contrast to the 2011-12⁴⁰³ and 2012-13⁴⁰⁴ budget papers, both of which detailed departments' shares of expenditure reduction measures in the departmental output initiatives tables.

Responding to a past Committee recommendation,⁴⁰⁵ the Government noted that:⁴⁰⁶

Any efficiency approved by Government will be published and broken down into components and departments in the budget papers.

The Committee considers that future budget papers should include both the effects of expenditure reductions measures on a whole-of-government basis and the effects of each measure on departments.

FINDING: Efficiency and expenditure reduction measures included in the 2013-14 budget papers have been presented as programs, and aggregated to a whole-of-government level. The effects of these programs on specific departments have not been set out.

403 Budget Paper No.3, *2011-12 Service Delivery*, May 2011, Chapter 2

404 Budget Paper No.3, *2012-13 Service Delivery*, May 2012, Chapter 1

405 Public Accounts and Estimates Committee, *Report on the 2010-11 Budget Estimates — Part Three*, September 2010, Recommendation 14, p.84

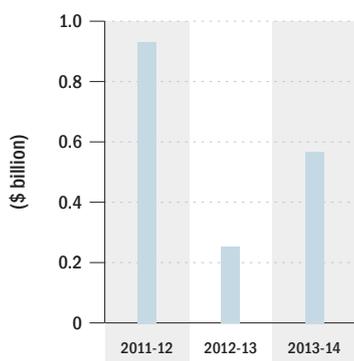
406 Victorian Government, Government Responses to the Recommendations of Public Accounts and Estimates Committee's 96th Report on the 2010-11 Budget Estimates — Part Three, tabled 16 March 2011, p.6

RECOMMENDATION 17: Future budget papers indicate both the total impact of savings measures and the impact of each measure on each department.

6.7.2 Reprioritisation and adjustments

Figure 6.10 shows (four-year total) amounts sourced from ‘reprioritisations and adjustments’ over the last three budgets (this figure was not separately disclosed before the 2011-12 Budget). As can be seen from the figure, the amounts reprioritised have varied significantly over the three budgets.

Figure 6.10 Funding from reprioritisations and adjustments



Source: Budget Paper No.2, *2011-12 Strategy and Outlook*, May 2011, p.30; Budget Paper No.2, *2012-13 Strategy and Outlook*, May 2012, p.47; Budget Paper No.2, *2013-14 Strategy and Outlook*, May 2013, p.54

The cumulative effect of these budgets on 2013-14 is that \$460.4 million of funding that had been expected to be spent during 2013-14 has been reprioritised to fund other initiatives.⁴⁰⁷

The Committee sought details from departments on these amounts.

Only five departments provided quantified responses, and, of these, only two⁴⁰⁸ identified projects or programs that were the unambiguous sources of reprioritised funds.⁴⁰⁹

The other departments’ responses were either ‘*not applicable*’ or general statements, such as:⁴¹⁰

... departments are funded on a global basis in the annual appropriation acts and ministers have the ability to reprioritise funding within their portfolio department.

The details provided by departments are set out in Appendix A6.4. As can be seen, funding has been reprioritised from both base funding and fixed term initiatives.

⁴⁰⁷ Budget Paper No.2, *2011-12 Strategy and Outlook*, May 2011, p.30; Budget Paper No.2, *2012-13 Strategy and Outlook*, May 2012, p.47; Budget Paper No.2, *2013-14 Strategy and Outlook*, May 2013, p.54

⁴⁰⁸ The departments of Environment and Primary Industries and State Development, Business and Innovation.

⁴⁰⁹ The Department of Human Services provided programs that were beneficiaries in reprioritisations; the Department of Justice’s response was ambiguous as to whether programs listed were reduced or funded by the reprioritisation; and the Department of Education and Early Childhood Development did not identify the projects or programs that had been reprioritised.

⁴¹⁰ Department of Health, response to the Committee’s 2013-14 Budget Estimates Questionnaire, received 13 May 2013, p.12

FINDING: Reprioritisation and adjustments are highly variable over time. Amounts reprioritised can be sourced from base or initiative funding. Responses from departments did not provide sufficient detail to fully identify what projects or programs had been reduced in order to provide funds for higher priority projects or programs.

Existing resources

A new feature of the 2013-14 budget papers is the addition of a new line item for each department entitled ‘existing resources’.⁴¹¹ This item identifies a portion of each department’s share of reprioritisation and adjustments. The Committee considers that this additional disclosure is valuable for the reader to better understand the impact of ‘reprioritisation and adjustments’.

The departmental shares are totalled in Table 6.9.

Table 6.9 ‘Funding from reprioritisation and adjustments’ and ‘Existing resources’, 2013-14 to 2016-17

	2013-14 (\$ million)	2014-15 (\$ million)	2015-16 (\$ million)	2016-17 (\$ million)
Funding from reprioritisation and adjustments	192.6	160.8	114.6	98.7
Existing resources ^(a)	155.0	147.1	97.9	78.1

(a) sum of departments’ ‘existing resources’ savings items

Sources: Budget Paper No.2, *2013-14 Strategy and Outlook*, May 2013, .p.54; Budget Paper No.3, *2013-14 Service Delivery*, May 2013, Chapter 1.

As Table 6.9 shows, the ‘existing resources’ lines only identify part of the amount gained through reprioritisation and adjustment. The remaining portion relates to other adjustments. The Treasurer advised the Committee that:⁴¹²

The majority of these other adjustments relate to depreciation and Capital Assets Charge for asset initiatives. Other minor adjustments include adjustments for payroll tax, minor revenue offsets, expenditure to support asset investment and resources provided by the Commonwealth Government.

As can be seen from Table 6.9, these ‘other adjustments’ can be as much as 20 per cent of the funding from reprioritisation and adjustments. For this reason, the Committee considers that the provision of information relating to this undisclosed amount would add to transparency for the budget papers.

FINDING: The new line item ‘existing resources’ details departmental shares of a portion of the funding reprioritised and adjusted from existing resources. The Treasurer has indicated that the remaining portion relates to adjustments to depreciation and Capital Assets Charges for asset initiatives, as well as a range of other minor adjustments.

411 Budget Paper No.3, *2013-14 Service Delivery*, May 2013, Chapter 1

412 Hon. M. O’Brien MP, Treasurer, response to a question on notice, correspondence received 9 July 2013, p.4

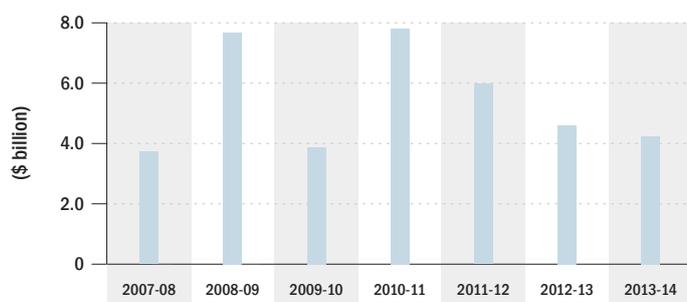
RECOMMENDATION 18: Future budget papers include a reconciliation between reprioritisation and adjustments and departmental 'existing resources' line items.

6.7.3 Output contingencies

The forward estimates include money set aside to fund output expenditure in future budgets for which the exact programs and projects have not yet been determined.⁴¹³ These funds are referred to as 'contingencies not allocated to departments'. They include amounts for both unforeseen circumstances⁴¹⁴ and new output initiatives released in future budgets (see Section 2.9 of this report).

The Committee notes that totals of output contingencies fluctuate significantly from one budget to another, although they have been decreasing consistently since the 2010-11 Budget (see Figure 6.11).

Figure 6.11 Contingencies not allocated to departments, four-year totals, 2007-08 to 2013-14 budgets



Sources: Budget Paper No.4, 2007-08 to 2010-11; Budget Paper No.5, 2011-12 to 2013-14

Having a lower amount reserved as output contingency means that the Government will have less money with which to fund new output initiatives in future budgets from this source. This may mean that the Government will release fewer output initiatives in future budgets. Alternatively, the Government may increase the funding for new initiatives from other sources, such as:

- revenue streams currently not expected;
- measures to reduce expenditure elsewhere; or
- reducing the surplus.

The Committee approached the Department of Treasury and Finance for reasons behind the movements in contingency provisions over time. The Department responded that:⁴¹⁵

413 Budget Paper No.5, *2013-14 Statement of Finances*, May 2013, p.32

414 Such as the population growing at a rate higher than predicted or bushfires – Budget Paper No.2, *2013-14 Strategy and Outlook*, May 2013, p.60

415 Department of Treasury and Finance, response to the Committee's 2013-14 Budget Estimates Questionnaire, received 9 May 2013, p.7

Variations in these provisions budget to budget reflect the impact of Government policy decisions, variations to departmental expenditure estimates and assumptions for the likely growth in Victoria's population, and consequent derived demand for government services.

As mentioned in Section 2.9, the Committee has not formed a view on what constitutes an appropriate level of output contingency. However, the Committee has previously recommended that more discussion and explanation of contingencies be included in the budget papers.⁴¹⁶ The Government supported the recommendation, commenting that: '*DTF will explore opportunities to enhance discussions around the basis and role of contingencies*'.⁴¹⁷ Additional discussion is yet to be added to the budget papers.

FINDING: Total contingencies set aside for future output initiatives have been declining over the past four budgets.

FINDING: The Government has supported a previous recommendation to provide a more detailed explanation for its contingency calculations. However, this has not yet been implemented.

RECOMMENDATION 19: In future budget papers, the Department of Treasury and Finance improve its discussion of the basis, role and calculation of output contingencies, including a discussion of the reasons for and implications of fluctuations in amounts set aside for future expenditure.

416 Public Accounts and Estimates Committee, *Report on the 2011-12 Budget Estimates — Part One*, June 2011, Recommendation 8, p.31

417 Victorian Government, Government Responses to the Recommendations of Public Accounts and Estimates Committee's 102nd Report on the 2011-12 Budget Estimates — Part One, tabled 24 November 2011, p.5

CHAPTER 7 PERFORMANCE MEASUREMENT

7.1 Introduction

This year the Committee has observed a significant amount of change in the performance information included in Budget Paper No.3 (2013-14 Service Delivery). This has mostly come about because of:

- machinery-of-government changes;
- changes made by departments to their objectives and outputs;
- the introduction of departmental objective indicators; and
- changes to the programs and projects funded.

The Committee notes that new requirements and processes have been progressively introduced by the Department of Treasury and Finance to improve the quality and usefulness of performance information in recent budgets. According to Budget Paper No.3:⁴¹⁸

The Government is continuing to reform departmental performance statements, building on reforms in previous years to improve the accountability and transparency of performance reporting including enhancing the role of the Public Accounts and Estimates Committee to review all proposed discontinued performance measures and the provision of budget papers and historical performance measures online in readily usable formats.

The Committee notes that new features and modifications have been introduced in this year's budget papers and that the machinery-of-government changes that occurred late in the budget preparation process required a number of changes to be made (see Section 1.5.2 of the report).

This chapter examines:

- What are the elements of the performance measurement system in Victoria and how are they related? (Section 7.2)
- What changes have been made to departmental objectives in 2013-14? (Section 7.3)
- Do the new departmental objective indicators clearly and effectively measure and report on departmental objectives? (Section 7.4)
- Do departments' outputs and performance measures support clear reporting of service delivery? (Sections 7.5 and 7.6)
- Are any of the performance measures that have been proposed for discontinuation still valuable for reporting performance? (Section 7.7)

The Committee has identified some possible changes that it considers would assist the clarity and usefulness of the performance information. These changes would further capitalise on the recent improvements to the performance measurement system.

The Committee intends to further examine matters connected with performance measurement in more detail in a future inquiry.

418 Budget Paper No.3, 2013-14 Service Delivery, May 2013, p.67

7.2 Background

Performance measurement is a tool used by the Government to understand and shape departments' performance. It serves a number of functions, including:

- communicating the service delivery priorities of departments and the Government;
- allowing the Parliament and the wider community to assess the effectiveness of departments in delivering planned services and achieving stated objectives;
- allowing departments to monitor program and project implementation against pre-determined targets and to identify required adjustments;
- coordinating cross-agency service delivery through the alignment of performance measures; and
- encouraging continuous improvement in service delivery.

The ability to assess the effectiveness of budget allocations in achieving the Government's priorities relies on high quality, robust and timely performance information.

As shown in Figure 7.1, the performance measurement framework includes five key components:

- the priorities and outcomes established by the Government;
- mission statements and objectives identified by departments to support the achievement of the Government's priorities and intended outcomes;
- objective indicators to monitor progress towards the objectives;
- outputs which summarise the planned goods and services that contribute to the achievement of objectives; and
- output performance measures and targets to measure and report on the degree of success at delivering outputs.

The last four of these components are set out for each department in Budget Paper No.3 (2013-14 Service Delivery).⁴¹⁹

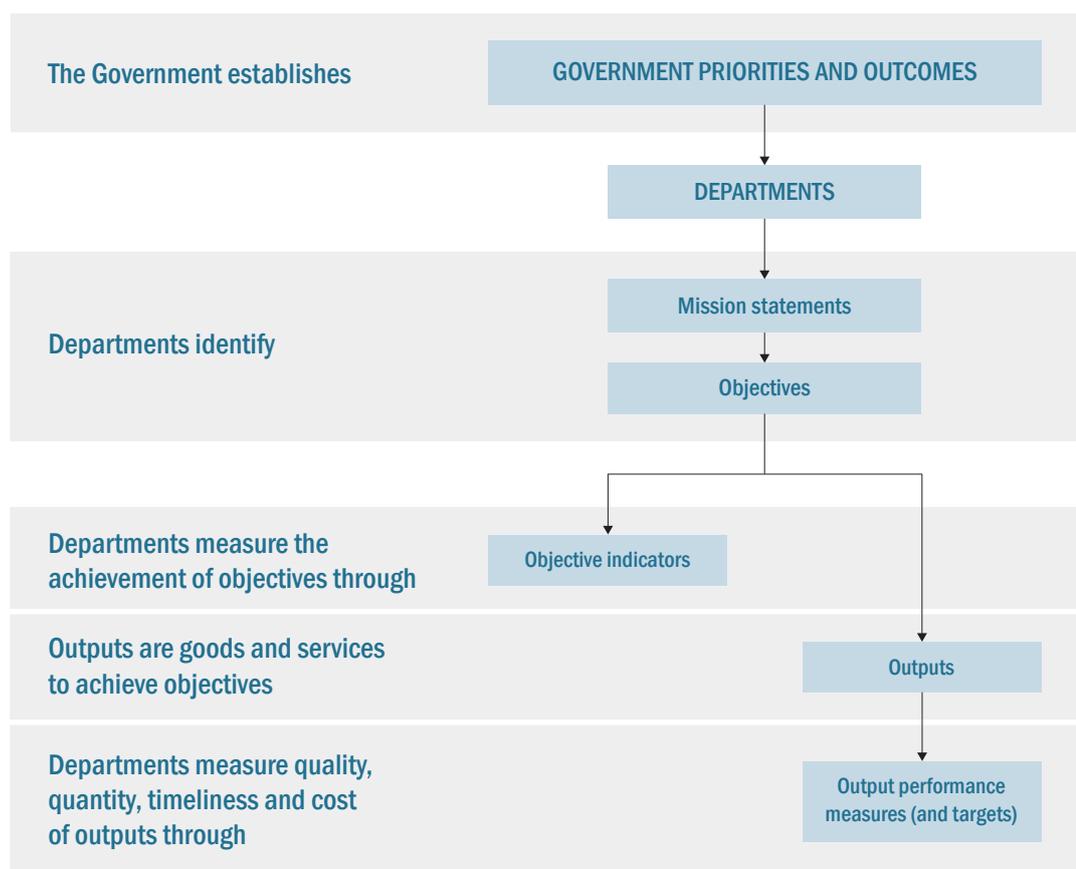
7.3 Departmental objectives

The Department of Treasury and Finance sets requirements for departments to select and develop objectives in the Budget and Financial Management Guidances. The Guidances recommend that departments should:⁴²⁰

Express the objective as the impact on the community that a group of outputs can reasonably achieve... They should clearly identify what is to be achieved, rather than what outputs are delivered or what processes are followed.

419 *ibid.*, Chapter 2

420 Department of Treasury and Finance, *Budget and Financial Management Guidances*, 'BFMG-08 Departmental Objectives and Departmental Objective Indicators', May 2013, p.104

Figure 7.1 Performance measurement system

Source: Compiled by the Committee based on Department of Treasury and Finance, *A Guide to Corporate and Long Term Planning*, August 2012, pp.3, 13; Department of Treasury and Finance, *Budget and Financial Management Guidances, 'BFMG-02 Performance Management Framework'*, July 2012, pp.97-8

The Guidances further indicate that the objectives should provide:⁴²¹

- *clear identification of achievements;*
- *clear identification of beneficiary;*
- *clear identification of the desired quality of the achievement [that is, the standard of expected service delivery]; and*
- *clear medium-term timeframe.*

7.3.1 Changes to objectives

The Committee understands that there may be sound reasons to modify departmental objectives from time to time. The Committee notes that this is the second year in which departmental objectives have been included in the budget papers. A number of changes have been introduced in the 2013-14 budget papers which appear to be a result of improving the objectives as the system becomes established. Machinery-of-government changes have also necessitated some modifications.

421 *ibid.*

As objectives relate to medium-term goals, it is also important that a department's objectives continue through the medium term as far as possible so that their achievement can be fairly assessed. The Department of Treasury and Finance explains:⁴²²

The objectives of a department should generally remain relatively constant over time but may change slightly in response to changes in:

- *executive Government and the Government's focus or priorities;*
- *legislative and administrative arrangements; and*
- *community trends and expectations.*

Changes during the establishment period of a new system are unsurprising. In future years, however, greater stability, fewer changes and better explanations are desirable.

In future, where changes are necessary, the Committee believes that the changes should be accompanied by notes in the budget papers to highlight where changes have been made, explain the reasons for these changes and detail any impacts these may have on service delivery. This is similar to the requirements currently in place for changes to outputs and performance measures.

The Committee has identified changes to the objectives of most departments in 2013-14. Overall, the number of objectives has changed from 62 in 2012-13 to 57 in 2013-14.⁴²³

Three departments made particularly wide-spread changes to their objectives in 2013-14:

- the Department of Justice;
- the Department of Education and Early Childhood Development; and
- the Department of Health.

The Department of Justice changed all of its objectives between the 2012-13 and 2013-14 budget papers.⁴²⁴ In general, the new objectives are focused on community outcomes.

The Department of Education and Early Childhood Development previously had eight objectives that followed its operational structure. These objectives have now been replaced by a new set of four objectives that all outputs contribute to.⁴²⁵

The Department of Health has now introduced clear objectives in the same format as other departments, after previously only providing a broader statement of its activities and aims.⁴²⁶ The Department has added three objectives and a list of seven areas that the objectives and indicators as a whole focus on.⁴²⁷ The focus areas are expressed in a similar form to the objectives, but are not linked to particular objectives and do not have any objective indicators to measure them. The inclusion of goals as separate focus areas rather than incorporating these goals into objectives makes the Department of Health's system different from all other government departments.

422 Department of Treasury and Finance, *Budget and Financial Management Guidances*, 'BFMG-02 Performance Management Framework', July 2012, p.97

423 Committee calculations based on Budget Paper No.3 in 2012-13 and 2013-14. These figures includes 12 objectives listed for Parliament (including VAGO) and 6 for the Department of Health in 2012-13, though objectives for these departments were provided in a different format to other departments.

424 Budget Paper No.3, *2013-14 Service Delivery*, May 2013, pp.171-2; Budget Paper No.3, *2012-13 Service Delivery*, May 2012, pp.170-1

425 Budget Paper No.3, *2013-14 Service Delivery*, May 2013, pp.72-3; Budget Paper No.3, *2012-13 Service Delivery*, May 2012, p.96

426 Budget Paper No.3, *2012-13 Service Delivery*, May 2012, p.118

427 Budget Paper No.3, *2013-14 Service Delivery*, May 2013, pp.117-8

The introduction of clear objectives by the Department of Health, supported by objective indicators, brings the Department into line with the Department of Treasury and Finance's guidance. The Committee considers that the Department could further enhance its objectives by incorporating the focus areas into the list of objectives and thereby expanding the list. Given that the Department's output expenditure is expected to exceed \$14.3 billion in 2013-14,⁴²⁸ the Committee considers that more than three objectives would be appropriate.

Two departments, the Department of Transport, Planning and Local Infrastructure, and the Department of Environment and Primary Industries, have been particularly heavily affected by the machinery-of-government changes in 2013-14 (see Section 1.5.2 of this report).

Of the Department of Transport, Planning and Local Infrastructure's eight objectives in the 2013-14 budget papers, three refer to activities previously undertaken by the Department of Transport and five are related to outputs that were transferred from the former Department of Planning and Community Development. The four objectives associated with the Department of Transport in the 2012-13 budget papers were consolidated into three objectives in 2013-14. Added to these were five new objectives related to outputs transferred from the former Department of Planning and Community Development.

The Department of Transport, Planning and Local Infrastructure notes that, '*These are interim objectives, indicators and outputs and will be subject to changes following machinery of government changes effective 1 July 2013.*'⁴²⁹ The Department was the only department to indicate that its objectives had not been finalised by the time of the 2013-14 Budget. The Committee appreciates that the Department experienced significant machinery-of-government changes shortly before the 2013-14 Budget and looks forward to the objectives being finalised.

The Department of Environment and Primary Industries retained most of the functions of the Department of Sustainability and Environment and gained a number of outputs from the former Department of Primary Industries. As a result, it retained the four measures from the Department of Sustainability and Environment with minor changes and added two new measures related to the functions formerly undertaken by the Department of Primary Industries.

The budget papers do not currently discuss the changes to objectives detailed in this section.

The Committee considers that future budget papers should identify and explain changes to objectives, as is currently required for changes to outputs and performance measures.

FINDING: Most departments modified their objectives between the 2012-13 and 2013-14 budget papers. Particularly substantial changes were made to three departments. The rationale or impact of these changes is not currently discussed in the budget papers.

428 *ibid.*, p.119

429 *ibid.*, p.238

RECOMMENDATION 20: The Department of Treasury and Finance, through its guidance materials, require changes to departmental objectives made in the budget papers to be supported by text that provides the rationale for the change and indicates any impacts on departmental service delivery.

RECOMMENDATION 21: The Department of Health incorporate its focus areas into its list of objectives in the 2014-15 budget papers, increasing its number of objectives from three.

7.4 Departmental objective indicators

This year the departmental objectives have been supported by the addition of departmental objective indicators for the first time.⁴³⁰ These indicators are intended to be ‘*data series that demonstrate progress towards the achievement of a departmental objective*’.⁴³¹ The development of the objective indicators by departments has been guided by the Budget and Financial Management Guidances, which state that good quality objective indicators:⁴³²

- *provide a link between a single departmental objective and its supporting outputs;*
- *indicate the impact that delivery of outputs is having on the community and thereby helping to achieve departmental objectives;*
- *indicate results of Government action rather than external factors;*
- *remain relevant over the medium term so progress can be tracked and compared;*
- *be free of perverse incentives and balanced with other departmental objective indicators;*
- *ideally rely on existing, regularly updated data streams; and*
- *avoid overly burdensome reporting processes.*

All government departments have included objective indicators in the 2013-14 budget papers.⁴³³ The number of indicators chosen by each department varies from seven to 19. The number of indicators for an objective varies between one and six, with an average of 2.5. This is broadly in line with the Department of Treasury and Finance’s guidance that:⁴³⁴

In general, there should be no more than three indicators for each departmental objective and, in most circumstances, a small set of indicators for each objective will best demonstrate results and avoid misinterpretation of results.

430 *ibid.*, Chapter 2

431 Department of Treasury and Finance, *Budget and Financial Management Guidances*, ‘BFMG-08 Departmental Objectives and Departmental Objective Indicators’, May 2013, p.106

432 *ibid.*, pp.106-7

433 Budget Paper No.3, *2013-14 Service Delivery*, May 2013, Chapter 2

434 Department of Treasury and Finance, *Budget and Financial Management Guidances*, ‘BFMG-08 Departmental Objectives and Departmental Objective Indicators’, May 2013, p.106

FINDING: All government departments have provided departmental objective indicators in the 2013-14 budget papers to measure progress toward meeting their objectives.

7.4.1 Outcomes focus

As noted above, the Department of Treasury and Finance has stated that objective indicators should ‘*indicate the impact that delivery of outputs is having on the community*’⁴³⁵ (that is, ‘outcomes’). The Department further explains that objective indicators should identify ‘*what was achieved rather than what outputs are delivered or what processes are followed*’.⁴³⁶ This is an essential difference between objective indicators and performance measures.

Many of the objective indicators in the 2013-14 budget papers meet these criteria and provide clear, relevant measures of the impacts on the community of departments’ activities. However, the Committee considers that some indicators could be improved, as they measure outputs or processes rather than impacts on the community. Examples of these indicators are included in Appendix A7.1. The Committee believes that replacing these indicators with more outcomes-focused indicators would better enable stakeholders to understand the extent to which the stated objectives have been achieved.

FINDING: Objective indicators are intended to demonstrate progress towards objectives by demonstrating the impact on the community of departments’ activities. While many indicators have been provided in an appropriate form, some indicators are focused on outputs and processes instead of impacts on the community.

RECOMMENDATION 22: The Department of Treasury and Finance work with departments to ensure that all objective indicators included in the budget papers clearly identify and measure impacts on the community rather than outputs or processes.

7.4.2 Clearly quantifiable indicators with comparative data

The Department of Treasury and Finance recommends that departments:⁴³⁷

Ensure that progress towards achievement of the objective can be measured/quantified with departmental objective indicators over the medium term.

Many of the indicators in the 2013-14 budget papers have been structured in such a way that they will be easily measurable and quantifiable. Some measures clearly state what will be measured, such as:

435 *ibid.*

436 *ibid.*, p.107

437 *ibid.*, p.105

- ‘Year 12 or equivalent completion rates of young people’,⁴³⁸ or
- ‘Property loss from structure fire (current year dollars per person)’.⁴³⁹

It is not clear to the Committee, however, how some indicators could be measured or quantified. For example:

- ‘DPC [the Department of Premier and Cabinet] leads policy development on key priority issues’,⁴⁴⁰ and
- ‘Effective financial risk management and prudential supervision of Public Financial Corporations and Public Non-Financial Corporations.’⁴⁴¹

The budget papers do not currently include any information about how the objective indicators will be measured, although they indicate that ‘progress figures’ will be included in each department’s 2012-13 annual report.⁴⁴²

FINDING: Objective indicators are intended to be measurable and quantifiable. Some clearly state how they will be measured, a small number of measures do not.

RECOMMENDATION 23: Departments in future budget papers ensure that all objective indicators are clearly quantifiable or measurable.

In many cases, the indicator includes words such as ‘reduce’, ‘increase’ or ‘improve’, or it is clear from the context that the department intends to reduce or increase what the indicator measures. However, very few measures include baselines against which future results could be compared. Without this information, it will be difficult for members of Parliament and the community to understand whether departments’ performance has been as effective as intended.

Similarly, the Committee considers that it is important for departments to provide performance data over several years to enable a more meaningful understanding of any one year’s result. As noted above, the Department of Treasury and Finance has indicated that good objective indicators enable progress to be tracked and compared over the medium term.⁴⁴³ This is only possible if multiple years’ data are provided.

FINDING: One of the intended purposes of objective indicators is tracking departments’ performance over time. The Committee considers that this would be facilitated by providing data about past performance.

438 Budget Paper No.3, *2013-14 Service Delivery*, May 2013, p.72

439 *ibid.*, p.172

440 *ibid.*, p.201

441 *ibid.*, p.277

442 *ibid.*, p.68

443 Department of Treasury and Finance, *Budget and Financial Management Guidances*, ‘BFMG-08 Departmental Objectives and Departmental Objective Indicators’, May 2013, p.106

RECOMMENDATION 24: Future budget papers and annual reports include at least five years' past performance data for each objective indicator, where possible.

7.4.3 Reporting

The 2013-14 budget papers advise that each department will publish progress figures for its objective indicators in its 2012-13 annual report.⁴⁴⁴

However, the 2012-13 Model Report for Victorian Government Departments (produced by the Department of Treasury and Finance) does not require departments to report on their objective indicators. There is also no guidance in the model report to assist departments to report on their objective indicators in a clear and consistent manner.

In contrast, the model report includes a statement that the presentation of a department's performance against objectives and outcomes is at the discretion of the department.⁴⁴⁵

Given the different nature of the activities carried out by each department, the presentation of information about objectives and outcomes is left to the discretion of preparers. Some departments consider it appropriate to provide a financial summary (or other similarly titled item) of a department's operating results, financial position, and other statistics or measures that indicate performance for the year.

This guidance appears to be at odds with the commitment made in the budget papers to report on departmental objective indicators in each department's annual report.

The Committee considers that this situation should be resolved by future model reports clearly stating that objective indicators should be reported on, as this is a desirable requirement. Departments would also be assisted by further support and direction from the Department of Treasury and Finance on how best to report progress on departmental objective indicators

FINDING: The 2013-14 budget papers include a commitment that departments will report on objective indicators in their 2012-13 annual reports. However, this requirement has not been reflected in the 2012-13 Model Report for Victorian Government Departments.

RECOMMENDATION 25: The Department of Treasury and Finance update the Model Report for Victorian Government Departments to require departments to report on their actual results for all objective indicators stated in the budget papers. The model report should also include a recommended format for presenting this information.

⁴⁴⁴ Budget Paper No.3, 2013-14 Service Delivery, May 2013, p.68

⁴⁴⁵ Department of Treasury and Finance, 2012-13 Model Report for Victorian Government Departments, April 2013, p.10

7.5 Outputs

Departments' outputs vary from year to year as departments and the Government respond to changing priorities and reassess how they measure and report performance.

Overall, the 2013-14 budget papers have seen a reduction in the total number of outputs from 127 to 116 (a 9 per cent change).⁴⁴⁶ This has been driven by a combination of machinery-of-government changes and restructures to departments' performance measurement systems.⁴⁴⁷

The machinery-of-government changes (see Section 1.5.2 of this report) required the movement of a substantial number of outputs from one department to another, including the movement of all outputs from the former Department of Planning and Community Development and Department of Primary Industries to other departments.

In some cases, outputs newly acquired by departments have been consolidated into existing outputs. In the case of the Department of Environment and Primary Industries, three outputs were transferred to the Department from the former Department of Primary Industries, but these three were consolidated into one new output.⁴⁴⁸ These consolidations have reduced the total number of outputs.

Departmental reviews have also led to a number of outputs being consolidated. In particular, the Department of Human Services consolidated eight of its outputs into three.⁴⁴⁹ The Department explained that the consolidations reflected either:⁴⁵⁰

- '*the new model of disability services delivery through the National Disability Insurance Scheme*'; or
- '*the department's delivery of better outcomes for clients in a more flexible way*'.

This has resulted in some large outputs, including the new *Disability Services* output encompassing \$1.6 billion of funding⁴⁵¹ and the new *Child Protection and Family Services* output covering \$795.3 million worth of activities.⁴⁵²

FINDING: In 2013-14, there was a significant movement in the arrangement and number of outputs as a result of both machinery-of-government changes and unrelated departmental decisions.

446 Budget Paper No.3, *2013-14 Service Delivery*, May 2013, p.70

447 *ibid.*, pp.68-70

448 *ibid.*, p.98

449 *ibid.*, p.150

450 *ibid.*

451 *ibid.*, p.156

452 *ibid.*, p.159

7.5.1 Output descriptions

To understand the desired objectives and how the outputs are intended to achieve them, it is important that the nature of what is expected to be delivered is clear. Guidance material for the 2013-14 budget papers states that output descriptions are required.⁴⁵³

The Committee notes that all departments with the exception of the Department of Environment and Primary Industries have included output descriptions in the 2013-14 budget papers.⁴⁵⁴ The impact of the lack of information for that department is magnified because the Department has also significantly changed its outputs. The Department has both discontinued previous outputs and introduced new outputs this year⁴⁵⁵ and therefore information about the expected deliverables from these outputs is of particular interest.

FINDING: The Department of Environment and Primary Industries has not included descriptions for any of its outputs, despite making significant changes to them.

RECOMMENDATION 26: The Department of Environment and Primary Industries provide descriptions for all its outputs in future budget papers.

7.5.2 Output titles

Output descriptions assist the reader in looking at the budget papers in detail. However, broader readability and understanding rely on the use of clear output titles. Good output titles do not rely on an intimate knowledge of the field or of current Government priorities. A good output title encapsulates what is being delivered and to whom. Table 7.1 provides examples of titles that the Committee considers to be clear. These outputs are able to be understood quickly and easily distinguished from other outputs.

The Committee also observed a number of output titles that could be improved by:

- ensuring the title describes a deliverable rather than an issue;
- increasing the amount of detail; and
- eliminating abbreviations, jargon and technical language.

Examples have been included in Table 7.2.

⁴⁵³ Department of Treasury and Finance, *Budget Papers Guidance – General Government Sector*, n.d. (accessed August 2013), p.2

⁴⁵⁴ Budget Paper No.3, *2013-14 Service Delivery*, May 2013, Chapter 2

⁴⁵⁵ *ibid.*, pp.97-8

Table 7.1 Examples of clear output titles

Department	Output title
Education and Early Childhood Development	Support for Students with Disabilities
Environment and Primary Industries	Effective Water Management and Supply
Human Services	Concessions to Pensioners and Beneficiaries
Human Services	Housing Support and Homelessness Assistance
Health	Psychiatric Disability Rehabilitation and Support Services (PDRSS)
Justice	Prisoner Supervision and Support
State Development, Business and Innovation	Regional Economic Development, Investment and Promotion
Transport, Planning and Local Infrastructure	Ports and Freight Network Improvements and Maintenance
Parliament	Provision of Information and Resources to Parliament

Source: Budget Paper No.3, 2013-14 Service Delivery, Chapter 2

Table 7.2 Examples of output titles which could be made clearer

Department	Output title
Describing a deliverable could improve clarity	
Human Services	Youth Affairs
Premier and Cabinet	Aboriginal Affairs
Environment and Primary Industries	Public Land
Transport, Planning and Local Infrastructure	Planning, Building and Heritage
State Development, Business and Innovation	Energy and Resources
Providing more detail could improve clarity	
Health	Health Advancement
Health	Health Protection
State Development, Business and Innovation	Employment
Not using abbreviations, jargon or technical language could improve clarity	
Treasury and Finance	GBE Performance Monitoring and Financial Risk Management
Health	HACC Primary Health, Community Care and Support
Health	Admitted Services

Source: Budget Paper No.3, 2013-14 Service Delivery, Chapter 2

FINDING: Many output titles clearly communicate the types of the goods and services delivered and distinguish the output from others. Some titles could be improved to allow the reader to more easily understand the nature of the deliverables.

RECOMMENDATION 27: The Department of Treasury and Finance assist departments to review their output titles to ensure they are clear.

7.6 Performance measures

For each output, the budget includes a number of performance measures which set targets for:

- the quantity of goods and services delivered;
- the quality of the goods and service delivered;
- the timeliness of their delivery; and
- the cost of their delivery.

Changes are made to the suite of performance measures each year to reflect alterations to programs, changes in the way services are delivered and variations in external circumstances (such as population growth or ageing). The changes include modifying measures, altering the targets, adding new measures and discontinuing previous measures.

7.6.1 Changes to performance measures

This year's budget papers include a total of 1,186 performance measures, a reduction of 29 measures since 2012-13.⁴⁵⁶ This continues a trend that has been occurring for a number of years. However, the Committee notes that the 2013-14 budget papers also introduce 111 new objective indicators to complement the performance measures (see Section 7.4 of this report).

A summary of the changes in performance measures in 2013-14, broken down by department, is provided in Table 7.3.

Significant movements have occurred for some departments as the result of machinery-of-government changes.

The Department of Business and Innovation was identified in last year's estimates report as having a particularly low number of measures,⁴⁵⁷ and the Government supported a recommendation to develop a number of new measures for the 2013-14 budget papers.⁴⁵⁸ In the 2013-14 budget papers, the Department of State Development, Business and Innovation has 89 measures, in contrast to the Department of Business and Innovation's 48 in 2012-13. This has primarily come about through adding 39 measures related to the outputs transferred to the Department from departments other than the Department of Business and Innovation. The outputs associated with the Department of Business and Innovation last year have only had a net increase of two measures.

⁴⁵⁶ However, the Committee has recommended that four of them not be discontinued (see Section 7.7.3). In addition, the Government has indicated that it will reinstate two measures from the 2011-12 Budget and introduce one new measure before the 2014-15 Budget (see Section 7.7.4).

⁴⁵⁷ Public Accounts and Estimates Committee, *Report on the 2012-13 Budget Estimates — Part One*, June 2012, pp.32-7

⁴⁵⁸ Victorian Government, Government Responses to the Recommendations of Public Accounts and Estimates Committee's 111th Report to the Parliament – *Report on the 2012-13 Budget Estimates — Part One*, tabled 29 November 2012, p.9

Overall there has been a reduction in the total number of performance measures between 2012-13 and 2013-14. Only two of the current departments reduced their total number of performance measures compared to 2012-13. However, 18 of the 83 measures previously used by the Department of Planning and Community Development were discontinued in 2013-14.

Table 7.3 Performance measures, 2011-12 to 2013-14

Department	Performance measures in 2011-12 ^(a) (number)	Performance measures in 2012-13 ^(a) (number)	Performance measures in 2013-14 (number)	Change, 2012-13 to 2013-14 (per cent)
Business and Innovation	73	48	-	n/a
Education and Early Childhood Development	100	85	85	-
Environment and Primary Industries	-	-	112	n/a
Health	185	182	181	-0.5
Human Services	102	97	93	-4.1
Justice	112	152	155	2.0
Planning and Community Development	88	83	-	n/a
Premier and Cabinet	108	110	121	10.0
Primary Industries	64	65	-	n/a
State Development, Business and Innovation	-	-	89	n/a
Sustainability and Environment	85	86	-	n/a
Transport	187	172	-	n/a
Transport, Planning and Local Infrastructure	-	-	209	n/a
Treasury and Finance	94	93	99	6.5
Parliament	44	42	42	-
Total	1,242	1,215	1,186	-2.4

(a) Includes measures reinstated in budget updates for the year.

Source: Budget Paper No. 3, *2011-12 Service and Delivery*, May 2011, Chapter 3; Budget Paper No. 3, *2012-13 Service and Delivery*, May 2012, Chapter 2; Budget Paper No. 3, *2013-14 Service and Delivery*, May 2013, Chapter 2; Department of Treasury and Finance, *2011-12 Victorian Budget Update*, December 2011, Appendix B; Department of Treasury and Finance, *2012-13 Victorian Budget Update*, December 2012, Appendix B

FINDING: The number of performance measures has reduced from 1,215 in 2012-13 to 1,186 in 2013-14. This has been largely driven by 18 measures from the former Department of Planning and Community Development not being continued in 2013-14 following the machinery-of-government changes.

7.6.2 Use of quality measures

To ensure that departments can demonstrate the effectiveness and efficiency of their outputs, it is important to balance the mix of quality, quantity, timeliness and cost-based measures. This also helps to guard against performance reporting that distorts or drives perverse outcomes that do not contribute to departments' objectives.

In response to the Committee's assessment of quality measures in the 2011-12 Budget, the Government committed to '*aim to ensure that there is at least one measure that assesses the quality of service delivery in each of its output categories for 2012-13*'.⁴⁵⁹

The Committee conducted an assessment of measures proposed in the 2012-13 budget papers and found that 12 outputs did not have any quality measures allocated to them.⁴⁶⁰

In the 2013-14 budget papers, the number of outputs without quality measures has reduced from 12 to seven. This reduction has been achieved through:

- the re-instatement of measures that had been proposed to be discontinued in 2012-13 which the Committee recommended be retained; and
- the amalgamation of outputs having no quality measures with outputs that already had quality measures.

There remain seven outputs that do not have any quality measures, with a combined value of \$799.5 million in 2013-14 (see Table 7.4). The five outputs from the Department of Health were identified in the Committee's *Report on the 2012-13 Budget Estimates — Part Two* as not having quality measures at that time, and the two outputs in the Department of Transport, Planning and Local Infrastructure are new outputs formed from outputs previously identified by the Committee.

Table 7.4 Outputs without quality measures in the 2013-14 Budget

Department	Outputs	Output funding (\$ million)
Health	Acute Training and Development	287.0
	Aged Care Assessment	53.9
	Public Health Development, Research and Support	7.2
	Small Rural Services — Home and Community Care Services	35.2
	Small Rural Services — Primary Health	17.0
Transport, Planning and Local Infrastructure	Integrated Transport System Planning	26.7
	Statewide Transport Services	372.5
Total		799.5

Source: Budget Paper No.3, *2013-14 Service Delivery*, May 2013, Chapter 2

459 Victorian Government, Government Responses to the recommendations of Public Accounts and Estimates Committee's 102nd Report on the 2011-12 Budget Estimates — Part Two, tabled 7 February 2012, p.4

460 Public Accounts and Estimates Committee, *Report on the 2012-13 Budget Estimates — Part Two*, September 2012, pp.109-13

FINDING: The number of departmental outputs without any quality-based output measures has reduced from 12 to seven. The remaining seven outputs represent \$799.5 million of funding in the 2013-14 Budget.

7.6.3 Performance reporting for new initiatives

The Department of Treasury and Finance's budget papers guidance indicates that '*performance measures are required for every major initiative approved by BERC for the 2013-14 Budget...*'⁴⁶¹

The Committee approached departments for information on performance measures that were affected by new initiatives worth \$20 million or more in the 2013-14 Budget. Not all departments responded comprehensively.

Five departments advised the Committee that some initiatives have no performance measures associated with them other than output costs. These are listed in Table 7.5.

Table 7.5 Initiatives where departments disclosed that there were no performance measures associated with the initiative other than output costs

Department	Initiative name	Initiative type	Initiative cost ^(a) (\$ million)
Education and Early Childhood Development	TAFE Structural Adjustment Fund	Asset	100.0
Environment and Primary Industries	Macalister Irrigation District 2030	Asset	32.0
Health	Training the Future Health Workforce – Undergraduate	Output	193.9
	Improving Health Outcomes for Aboriginal Victorians	Output	61.8
Justice	Supporting Courts	Output	47.7
	Asset Confiscation Scheme	Output	27.7
	Bushfire Response – Emergency Services	Asset	56.0
	New and Upgraded Police Stations	Asset	26.6
Transport, Planning and Local Infrastructure	West Gate Bridge Maintenance	Output	31.7
	East Werribee Employment Precinct Preliminary Infrastructure	Asset	32.7
	Metro Level Crossing Blitz Program	Asset	52.3
	Ringwood Station and Interchange Upgrade	Asset	64.0

(a) Costs for asset initiatives are total estimated investment. Costs for output initiatives are the five-year totals in the 2013-14 budget papers.

Sources: Departmental responses to the Committee's 2013-14 Budget Estimates Questionnaire; Department of Health, correspondence received 15 July 2013

461 Department of Treasury and Finance, *Budget Papers Guidance – General Government Sector*, n.d. (accessed August 2013), p.3

FINDING: Although the Department of Treasury and Finance's guidance requires performance measures for every major initiative in the 2013-14 Budget, departments indicated that some initiatives have no performance measures associated with them other than output costs.

RECOMMENDATION 28: The Department of Treasury and Finance work with departments to ensure that they follow the guidance requiring them to have performance measures reflecting all major initiatives released in future budgets.

7.7 Discontinued performance measures

Each year since the 2011-12 Budget, the Committee has been asked to review the measures that are proposed to be discontinued with each budget. The 2013-14 budget papers state:⁴⁶²

To strengthen accountability and transparency associated with output performance management, the Public Accounts and Estimates Committee (PAEC) has again been invited to review these performance measures to ensure that those measures that are substantially changed or proposed to be discontinued receive a high level of scrutiny.

The majority of the Committee reached an agreement that four of the proposed measures should be retained in 2013-14. A list of the measures was provided to the Minister for Finance on 3 July 2013, and is discussed in this section.

7.7.1 Assessment criteria

The Government has developed five criteria for determining when it is appropriate to substantially change or discontinue a measure:⁴⁶³

- *where a current measure can be replaced by a more appropriate measure and the new measure will provide significantly more meaningful information to the Parliament and the public;*
- *it is no longer relevant due to a change in Government policy or priorities and/or departmental objectives;*
- *milestones, projects or programs have been completed, substantially changed, or discontinued;*
- *funding is not provided in the current budget for the continuation of the initiative; and*
- *Parliament and the public can judge the success of output delivery without the measure.*

462 Budget Paper No.3, 2013-14 Service Delivery, May 2013, p.311

463 Department of Treasury and Finance, *Budget and Financial Management Guidelines*, 'BFMG-09 Output Specification and Performance Measures', July 2012, pp.117-8

These criteria are similar to criteria identified by the Committee in previous reviews.⁴⁶⁴

The Committee accepts these as good general guiding principles and has used these in making its recommendation. The Committee has recommended that measures be re-instated where:

- proposed replacement measures do not provide more or better information about the relevant activities of the department;
- after the change, the suite of measures that describes the output is less comprehensive; or
- measures are still relevant, as the activities they reflect are still occurring or may still occur in 2013-14.

The Committee's assessment has been primarily based on the explanations provided in Appendix A of Budget Paper No.3. The Committee relies on these explanations to make an informed assessment. Where the explanations do not demonstrate that the performance measures meet the criteria for discontinuation, the Committee has generally recommended that the measures be retained.

7.7.2 Results of the review

Measures to be re-instated

The Government listed 106 measures in Appendix A of Budget Paper No.3 which it proposed discontinuing.⁴⁶⁵ The majority of the Committee formed the view that four of the measures should be retained (see Table 7.6). It was considered that discontinuing these measures would reduce the comprehensiveness of the suite of measures in the relevant outputs. In two cases, the Government proposed discontinuing a measure because possible future changes would make it no longer relevant.⁴⁶⁶ As a principle, the Committee considers that a measure should be retained until it is definite that changes will be introduced that make it no longer relevant.

In one case, the explanation did not indicate to the Committee's satisfaction why the measure was no longer relevant.⁴⁶⁷ The Committee therefore will not support its discontinuation without further information.

FINDING: The Government identified 106 performance measures which it proposed discontinuing with the 2013-14 Budget. After reviewing these measures, the Committee considers that 102 of these measures should be discontinued, but four measures should be retained.

RECOMMENDATION 29: The Government not discontinue the measures listed in Table 7.6 of this report.

⁴⁶⁴ Public Accounts and Estimates Committee, *Report on the 2011-12 Budget Estimates — Part Two*, June 2011, p.25; *Report on the 2012-13 Budget Estimates — Part One*, June 2012, p.24

⁴⁶⁵ Budget Paper No.3, *2013-14 Service Delivery*, May 2013, pp.311-35

⁴⁶⁶ 'Assessments of model of cover completed prior to fire season to assess resources available and requirement for the upcoming fire season' and 'Transport safety regulation: delivery of recreational boating safety education seminars'.

⁴⁶⁷ 'Racing and gaming applications and initiatives completed within elapsed time benchmark'.

Table 7.6 Performance measures proposed to be discontinued in 2013-14 which the Committee considers should be retained

Output	Performance measure	Government's reasons for discontinuation	The Committee's rationale for retaining the measure
DEPARTMENT OF ENVIRONMENT AND PRIMARY INDUSTRIES			
Land and Fire Management	Assessments of model of cover completed prior to fire season to assess resources available and requirement for the upcoming fire season	This performance measure is proposed to be discontinued as it is no longer relevant. This measure is reflective of an operational planning tool that is likely to be superseded as the Department transitions to a larger planned burning program.	The reason for discontinuation is that the tool is 'unlikely to be superseded'. No new measure was added to the output to replace this one. The Committee believes that, until the tool has been superseded and a new measure created, the performance measure should be retained.
DEPARTMENT OF JUSTICE			
Gambling and Liquor Regulation and Racing Industry Development	Racing and gaming applications and initiatives completed within elapsed time benchmark	This performance measure is proposed to be discontinued as it is no longer appropriate following structural changes leading to the creation of the Office of Liquor, Gaming and Racing, including the establishment of the Victorian Responsible Gambling Foundation (VRGF) and the VCGLR [Victorian Commission for Gambling and Liquor Regulation].	This measure appears to be useful and meaningful. The explanation does not indicate how the structural changes make the measure no longer relevant. In the absence of further information, the Committee is not persuaded that this measure should be discontinued.
DEPARTMENT OF TRANSPORT, PLANNING AND LOCAL INFRASTRUCTURE			
Planning, Building and Heritage	Community Support Grant Projects funded through the Community Support and Recreational Sport Package	This performance measure is proposed to be discontinued as it has been replaced by the 2013-14 performance measure 'Funded Community Support Grant projects contribute to planning and delivery of community infrastructure or improving economic development and productivity'.	The <i>Planning, Building and Heritage</i> output includes four measures related to Community Support Grant projects. All measures report the proportions of projects meeting certain standards. No measure provides any information about the overall scale of the grants program. In order to provide context to the other measures, and to understand the changes to this program over time, the Committee considers that this measure of the number of projects is essential and should be retained.
Transport Safety Regulation and Investigations	Transport safety regulation: delivery of recreational boating safety education seminars	This performance measure is proposed to be discontinued as it is dependent on the funding from Boating Safety and Facilities Program (BSFP). Funding is not confirmed for this activity in 2013-14. This measure is a sub-activity of a range of educational initiatives via the BSFP.	The explanation indicates that funding is 'not confirmed' rather than that there is definitely no funding. Until the funding is definitely discontinued, the Committee considers that the measure should be retained.

Source: Budget Paper No.3, 2013-14 Service Delivery, May 2013, Appendix A

7.7.3 Issues arising from the review

The relationship between discontinued measures and the measures designed to replace them is not clear in some cases. Table 7.7 provides examples of discontinued measures that were replaced by new measures, where the explanations in the budget papers do not clearly indicate for each measure which former measures the new ones are replacing and which new measures are replacing the discontinued ones.

Table 7.7 Measures being replaced by new measures where the relationship is not clear

Measures	Department	Explanation in the budget papers
NEW MEASURES		
Establishment or renewal of whole of Government ICT contracts	State Development, Business and Innovation	This is a new performance measure which replaces the ICT component of the DTF 2012-13 performance measure 'Establishment or renewal of whole of government contracts'.
Evaluation and decision on existing or potential whole of Victorian government contracts within agreed timelines	Treasury and Finance	This performance measure is proposed to replace the 2012-13 performance measure 'Establishment or renewal of whole of government contracts'.
DISCONTINUED MEASURES		
Establishment or renewal of whole of government contracts	Treasury and Finance	None provided
Whole of government contracts renewed within agreed timelines	Treasury and Finance	This performance measure is proposed to be discontinued as it is more appropriately merged with a new measure 'Evaluation and decision on existing or potential whole of Victorian government contracts within agreed timelines'.

Source: Budget Paper No.3, 2013-14 Service Delivery, May 2013, pp.230, 294, 335

In its previous report on the budget estimates, the Committee recommended that the Department of Treasury and Finance evaluate its processes for reviewing performance measures proposed to be discontinued, including its quality assurance processes.⁴⁶⁸ The Government supported the Committee's recommendation.⁴⁶⁹ The Committee considers that further work in this area would be beneficial.

FINDING: The relationship between new and discontinued performance measures requires clarification.

RECOMMENDATION 30: The Department of Treasury and Finance continue to review its quality assurance processes to ensure clarity in the relationship between new and discontinued performance measures.

468 Public Accounts and Estimates Committee, *Report on the 2012-13 Budget Estimates — Part One*, June 2012, Recommendation 5, p.38

469 Victorian Government, Government Responses to the Recommendations of Public Accounts and Estimates Committee's 111th Report on the 2012-13 Budget Estimates — Part One, tabled 29 November 2012, p.9

7.7.4 Measures discontinued with the 2012-13 Budget

Re-instated measures

Following the 2012-13 Budget, the Committee recommended that 25 measures be retained. Twelve measures were re-instated in the 2012-13 Budget Update.

The Government did not support the re-instatement of 11 measures. Two additional measures which the Committee recommended be continued related to the Victorian Auditor-General's Office. The Auditor-General did not support the re-instatement of these measures and explained why in correspondence to the Committee.⁴⁷⁰

In its responses to the Committee's report, the Government provided additional reasons why the 11 measures which it did not support re-instating should be discontinued. The Government also noted that it intended to discuss the matter further with the Committee.⁴⁷¹

In April 2013, the Minister for Finance wrote to the Committee providing further information. The Minister requested further comment from the Committee, though the Committee was unable to respond prior to the preparation of the budget papers.

After consideration of this further information, the Committee wrote to the Minister of Finance indicating that it would be appropriate for nine of the 11 measures to be discontinued. This reflected the majority view of the Committee.

For two measures relating to the Department of Justice, the additional information provided to the Committee did not address the issues raised by the Committee in its report. The Committee recommended that these be retained. The Committee also noted that its acceptance of the discontinuation for one measure for the Department of Human Services was contingent on the fact that the Department had advised that it was examining more suitable measures for the 2013-14 budget papers. No new related measures were adopted.

On 26 June 2013, the Minister for Finance replied, stating that:⁴⁷²

I have written to the Minister for Police and Emergency Services, the Hon Kim Wells MP, requesting the Minister ensure that the two outstanding Department of Justice performance measures relating to emergency management capability are reinstated and that these measures will be published online on the 2012-13 and 2013-14 Budget websites. This is consistent with past practice.

I have also confirmed with the Minister for Housing, the Hon Wendy Lovell, MLC that the Department of Human Services will adopt a new performance measure in the 2013-14 Budget in relation to maintenance work in social housing. This measure will be published online at the 2013-14 Budget website.

The Committee anticipates that these measures will be included in the 2013-14 Budget Update.

FINDING: Following advice from the Committee, the Government has indicated that it intends to introduce a new measure to replace one discontinued with the 2012-13 Budget and re-instate a further two measures discontinued with the 2012-13 Budget.

470 Mr D. Pearson, Auditor-General, correspondence received 22 November 2012

471 Victorian Government, Government Responses to the Recommendations of Public Accounts and Estimates Committee's 111th Report to the Parliament – *Report on the 2012-13 Budget Estimates — Part One*, tabled 29 November 2012, p.4

472 Hon. R. Clark MP, Minister for Finance, correspondence received 4 July 2013

CHAPTER 8 ASSET INVESTMENT

8.1 Introduction

In 2013-14 the Government plans to spend \$6.1 billion on assets (such as hospitals, roads, railways and schools).⁴⁷³ The Government expects its expenditure to increase in 2014-15 before reducing in the last two years of the forward estimates period.

The Government's planned levels of expenditure include projects announced in previous budgets, projects announced in the 2013-14 Budget and an allowance for projects to be announced in future budgets.

The new asset initiatives announced in the 2013-14 Budget are estimated by the Government to cost between \$8.5 and \$10.5 billion over the life of the projects (which will extend beyond the forward estimates period). The most substantial new project is the *East West Link – Stage 1* (estimated at \$6.0-8.0 billion).⁴⁷⁴

This chapter explores the following questions:

- What strategies does the Government have in place for asset investment? (Section 8.2)
- How much does the Government expect to spend on asset investment over the forward estimates period? What changes are expected in each of the major components? (Section 8.3)
- What does that level of expenditure mean for Victoria? (Section 8.4)
- What new initiatives are in the 2013-14 Budget? (Section 8.5)
- What new disclosures have been made in the 2013-14 budget papers and what additional disclosure would be beneficial in the future? (Section 8.6)

8.2 The Government's strategy

One of the four targets of the Government's medium-term fiscal strategy (see Section 2.4.2 of this report) is:⁴⁷⁵

Infrastructure investment of 1.3 per cent of GSP [Gross State Product] (calculated as a rolling five-year average).

This target is the same as in the 2012–13 budget papers, but the definition of 'infrastructure investment' has changed in the 2013-14 budget papers. In contrast to 2012-13, 'infrastructure investment' has been varied to:⁴⁷⁶



473 Budget Paper No.2, *2013-14 Strategy and Outlook*, May 2013, p.3; Budget Paper No.4, *2013-14 State Capital Program*, May 2013, p.11

474 Budget Paper No.2, *2013-14 Strategy and Outlook*, May 2013, p.56

475 *ibid.*, p.8

476 *ibid.*, p.3; Budget Paper No.4, *2013-14 State Capital Program*, May 2013, pp.9, 11

- exclude projects funded by the social housing component of the Commonwealth's *Nation Building – Economic Stimulus Plan* and the *Building the Education Revolution* component; and
- include 'cash flows from PPP [public private partnership] payments'.

The Government has also identified 'building major infrastructure' as a component of its Economic and Fiscal Strategy (see Section 2.4.2). The budget papers explain the Government's approach:⁴⁷⁷

High-quality economic infrastructure reduces business costs, attracts new private investment, and improves workforce participation and productivity.

The Government is facilitating major transformational infrastructure projects and investing in the capacity and quality of road, rail and other key economic and social infrastructure. The 2013-14 Budget delivers Government infrastructure investment in 2013-14 of \$6.1 billion, which aligns with the Government's medium-term fiscal parameter for infrastructure investment of 1.3 per cent of GSP (calculated as a five-year rolling average).

The budget papers also indicate the Government's intention to invest in infrastructure to:⁴⁷⁸

- '... improve the efficiency and scale of freight and logistics to better link people, products and markets'; and
- '... meet the needs of a growing population and to maintain economic growth and liveability.'

The Government has indicated that it has introduced a number of changes to the way that infrastructure projects are procured and delivered, including reforms to PPP policies and the merging of previous departments to create the Department of Transport, Planning and Local Infrastructure.⁴⁷⁹

8.3 Expenditure over the forward estimates period

8.3.1 Overall trend

Assets in Victoria are generally delivered in three ways:

- direct investment, where departments fund and manage the construction of the asset;
- investment through other sectors, where the Government provides funds to bodies in the public non-financial corporations sector⁴⁸⁰ to manage the construction of the asset and retain the asset after construction; and
- public private partnerships (PPPs), where the private sector finances and constructs an asset and the Government generally pays for it over a defined period of time.

⁴⁷⁷ Budget Paper No.2, *2013-14 Strategy and Outlook*, May 2013, p.34

⁴⁷⁸ *ibid.*

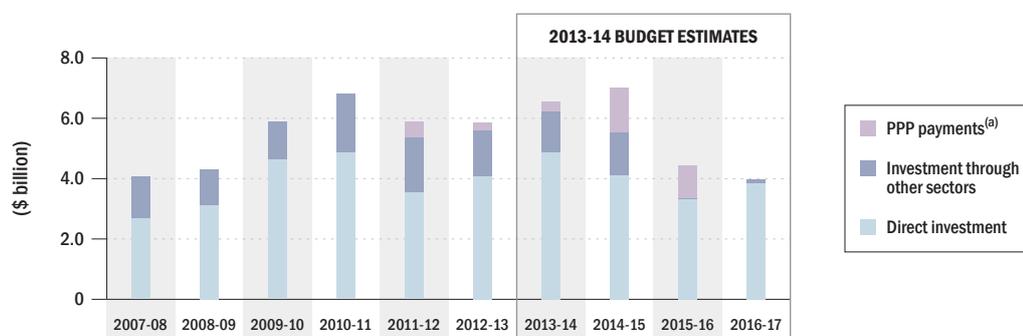
⁴⁷⁹ Budget Information Paper No.2, *2013-14 Infrastructure Investment*, May 2013, pp.34-6

⁴⁸⁰ Primarily VicTrack, the Port of Hastings Development Authority and the Director of Housing in 2013-14 (Budget Paper No.4, *2013-14 State Capital Program*, May 2013, p.12)

The terms used above (and throughout this report) differ from those used in the budget papers. To see the relationship between these terms and the terms in the budget papers, see Table 2.2 in Chapter 2 of this report.

Figure 8.1 shows the expected amounts for these three components over the forward estimates period and in previous years. The data for this figure can be seen in Appendix A8.1.

Figure 8.1 Expenditure on infrastructure and other physical assets, 2007-08 to 2016-17



(a) Data only available from 2011-12 onwards.

Sources: Department of Treasury and Finance, 'Consolidated Cash Flow Statement 2013-14', <www.dtf.vic.gov.au/files/7304b706-c487-4fff-a65e-a1d200e7d9ed/CashFlowHistoricalGG2013-14Budget7May2013.xls>, accessed 22 July 2013; Hon. M. O'Brien MP, Treasurer, 2013-14 budget estimates hearings, response to questions on notice, received 9 July 2013

Figure 8.1 shows that total infrastructure expenditure is expected to increase in 2013-14 and 2014-15 and then decline in the last two years of the forward estimates period. All three components contribute to this change. Each of the components is discussed in more detail in Section 8.3.2 below.

FINDING: The Government expects infrastructure investment to rise in 2013-14 and 2014-15 and then reduce in 2015-16 and 2016-17. Not all of the major factors causing this pattern are detailed in the budget papers.

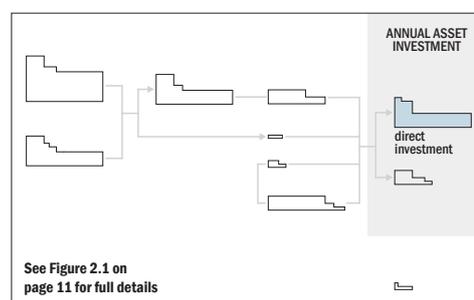
8.3.2 Components of asset investment

Direct investment

As Figure 8.1 and Appendix A8.1 show, direct investment is expected to peak in 2013-14, decline in each of the following two years and then increase in 2016-17 (compared to the previous year).

Part of the peak in 2013-14 is a result of direct investment being less than budgeted in 2012-13.

The Committee has identified over 100 direct investment projects which are estimated to have spent less in 2012-13 than originally budgeted,



with a combined reduction of expenditure of almost \$750.0 million.⁴⁸¹ A portion of this expenditure may now occur in 2013-14 and beyond.⁴⁸²

Expenditure estimates from 2014-15 to 2016-17 are comprised of three components:

- projects specified in this budget;
- projects specified in previous budgets; and
- an allowance for projects that will be specified in future budgets (referred to as a contingency – see Section 2.9 of this report).

As is typical, the estimated expenditure on projects already specified reduces over the forward estimates period as projects are scheduled to be completed (see Table 8.1). As is also typical, the contingency allowance increases over the forward estimates.

Table 8.1 Funding included in direct investment estimates that has not been allocated to departments and projects^(a)

	2014-15 (\$ million)	2015-16 (\$ million)	2016-17 (\$ million)
Funding for new projects released in the 2013-14 Budget	875.4	452.6	269.8
Funding for projects released in previous budgets ^(a)	2,960.3	2,073.0	1,559.4
Contingency allowance for projects to be released in future budgets ^(b)	301.0	819.1	2,022.7
Total	4,136.7	3,344.7	3,851.9

(a) Calculated as a residual by the Committee.

(b) Includes funding expected to be underspent.

Source: Calculated by the Committee using Budget Paper No.3, *2013-14 Service Delivery*, May 2013, Chapter 1 and Budget Paper No.5, *2013-14 Statement of Finances*, May 2013, p.37

The majority of budgeted expenditure in 2016-17 (53 per cent) is contingency allowance for projects that have not yet been finalised.

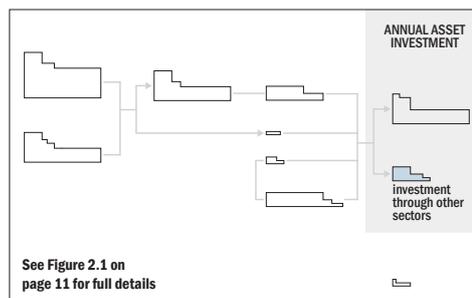
FINDING: Direct investment is expected to decline each year between 2013-14 and 2015-16 and then increase in 2016-17 compared to the previous year.

481 Committee calculation based on a comparison of expected expenditure by the end of 2012-13 (as identified in the 2013-14 Budget Paper No.4) to the actual expenditure to the end of 2011-12 (as advised by departments in response to the Committee's 2011-12 Financial and Performance Outcomes Questionnaire) plus the estimated expenditure in 2012-13 (in the 2012-13 Budget Paper No.4). This technique will not identify all underspends in the year.

482 For eight projects that are expected to underspend in 2012-13, the total estimated investment (TEI) was also decreased, indicating that some or all of the underexpenditure will not be carried forward. The total change in TEI of these eight projects was \$24.4 million, meaning that underspends as a result of TEI changes account for, at most, 3 per cent of the underspends.

Investment through other sectors

Investment through other sectors is expected to decline from \$1.4 billion in 2013-14 and 2014-15 to \$47.2 million in 2015-16 and \$112.8 million in 2016-17 (see Figure 8.1 and Appendix A8.1).⁴⁸³ The bulk of the expenditure (90 per cent) in 2013-14 relates to the *Regional Rail Link* project.⁴⁸⁴ The reduction over the forward estimates is in large part due to the completion of that project, which is expected to be completed in 2016 or 2017.⁴⁸⁵



However, the Committee notes that \$1,573.6 million is expected to be spent on the *Regional Rail Link* project after 2013-14.⁴⁸⁶ This is more than the total of investment through other sectors between 2014-15 and 2016-17 (\$1,559.4 million).⁴⁸⁷

FINDING: Asset investment through other sectors is expected to be \$1.4 billion in 2013-14 and 2014-15, largely reflecting the *Regional Rail Link* project. As this project reaches completion, investment through other sectors is expected to reduce to \$47.2 million and \$112.8 million in the final two years of the forward estimates period.

PPP payments

The 2013-14 budget papers introduce a new indicator related to PPP payments, referred to as 'cash flows from PPP payments'.

As shown in Table 8.2 and Figure 8.2, the Government expects these payments to increase substantially in 2014-15 and 2015-16 and then fall to zero in 2016-17.

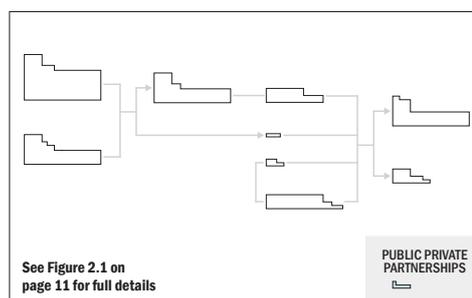


Table 8.2 PPP payments, 2011-12 to 2016-17

	2011-12 (\$ million)	2012-13 (\$ million)	2013-14 (\$ million)	2014-15 (\$ million)	2015-16 (\$ million)	2016-17 (\$ million)
PPP payments	496.1	238.7	310.1	1,465.0	1,078.6	0.0

Source: Hon. M. O'Brien MP, Treasurer, 2013-14 budget estimates hearings, response to questions on notice, received 9 July 2013

483 Budget Paper No.5, *2013-14 Statement of Finances*, May 2013, p.8

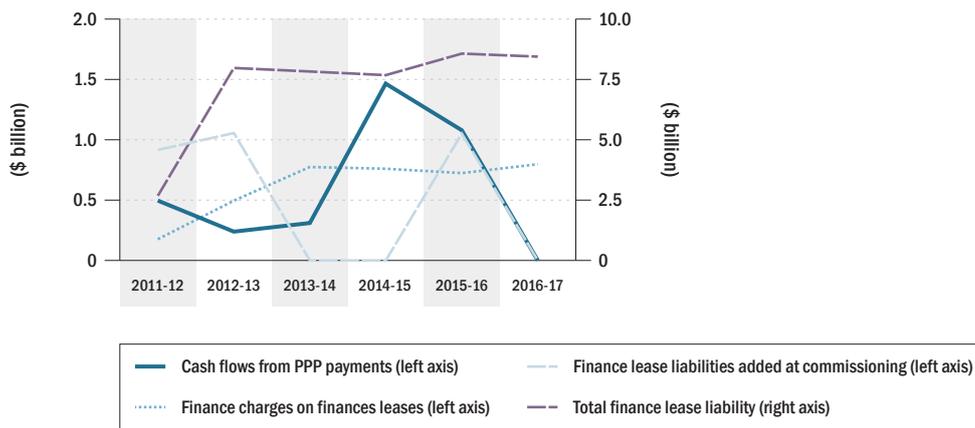
484 Budget Paper No.4, *2013-14 State Capital Program*, May 2013, p.12

485 2016: Department of Treasury and Finance, *2013-14 Budget Overview*, May 2013, pp.9, 15; Budget Information Paper No.1, *2013-14 Regional and Rural Victoria*, May 2013, pp. 6, 19; Budget Information Paper No.2, *2013-14 Infrastructure Investment*, May 2013, pp.7, 8; 2017: Budget Paper No.4, *2013-14 State Capital Program*, May 2013, p.125

486 Budget Paper No.4, *2013-14 State Capital Program*, May 2013, p.125

487 Budget Paper No.5, *2013-14 Statement of Finances*, May 2013, p.8

Figure 8.2 Cash flows from PPP payments, 20011-12 to 2016-17



Note: The figure for 'finance charges on finance leases' in 2012-13 is the 2012-13 budget estimate. All other figures are actuals or estimates from the 2013-14 budget papers.

Sources: Hon. M. O'Brien MP, Treasurer, 2013-14 budget estimates hearings, response to questions on notice, received 9 July 2013; Department of Treasury and Finance, 2011-12 Financial Report, October 2012, pp.77, 104; Budget Paper No.5, 2012-13 Statement of Finances, May 2012, p.28; Budget Paper No.5, 2013-14 Statement of Finances, May 2013, pp.29, 38, 55; Budget Paper No.2, 2013-14 Strategy and Outlook, May 2013, p.55

The Committee sought details from the Treasurer about the reasons for the change in amounts from one year to the next. His response was that.⁴⁸⁸

The year to year variations reflect the different cash flow profiles across projects.

FINDING: The 2012-13 budget papers disclose figures for PPP payments for the first time. According to the measure used in the budget papers, PPP payments are expected to rise significantly by over \$1 billion in 2014-15 before reducing to zero in 2016-17. The budget papers do not currently include an explanation of the components of this item, or an indication of the factors contributing to the year-to-year variations.

RECOMMENDATION 31: Future budget papers include an explanation of how the 'cash flows from PPP payments' item is calculated, including whether amounts included in that figure are also included in line items of the financial statements and, if so, which ones.

RECOMMENDATION 32: The causes of variations in the value of 'cash flows from PPP payments' from one year to the next be explained in future budget papers.

488 Hon. M. O'Brien MP, Treasurer, 2013-14 budget estimates hearings, response to questions on notice, received 9 July 2013

8.4 Understanding the level of expenditure

To understand what the Government's planned level of asset investment means for Victoria, the Committee has examined three measures:

- infrastructure investment (including all three types of expenditure) compared to the Government's target;
- infrastructure investment per Victorian, adjusted for inflation (that is, in real terms); and
- direct investment compared to depreciation.

8.4.1 Infrastructure investment and the Government's target

As discussed in Section 8.2, the Government's medium-term fiscal strategy includes a target for infrastructure investment to equal 1.3 per cent of gross state product on a five-year rolling average.

In the 2013-14 budget papers, the Government developed a new measure to be used with this target. 'Government infrastructure investment' is calculated according to the following formula:⁴⁸⁹



$$\text{Government infrastructure investment} = \text{direct investment} + \text{investment through other sectors} + \text{PPP payments} - \text{proceeds from asset sales} - \text{certain one-off payments from the Commonwealth}^{(a)}$$

(a) Specifically, funding provided through the social housing component of the *Nation Building – Economic Stimulus Plan* and *Building the Education Revolution*.

This formula differs from last year's measure, which included the Commonwealth payments but not the PPP payments.

Some of the components of the new formula were not disclosed for years prior to 2011-12 and the Committee is unable to measure the Government's expected results compared to its target except in the last two years of the forward estimates period (see Table 8.3). However, a chart in the budget papers shows that the target has been achieved every year since 2006-07 and is expected to be achieved throughout the forward estimates period (see Figure 8.2).

As can be seen from both Table 8.3 and Figure 8.3, the Government's current plans for infrastructure investment, if achieved, would meet the target.

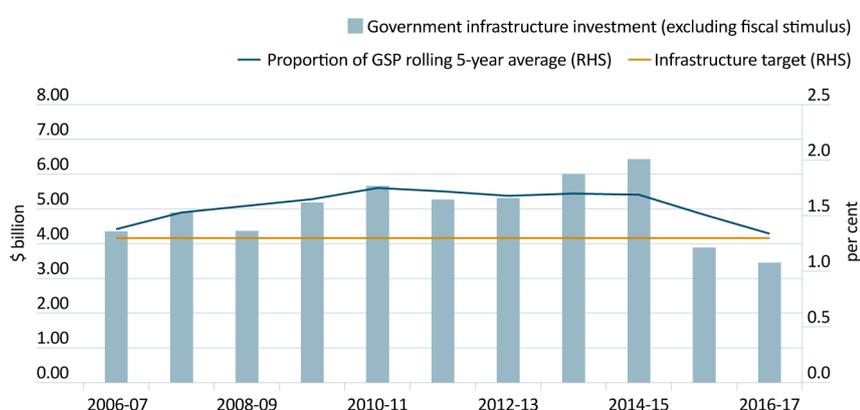
489 Budget Paper No.2, *2013-14 Strategy and Outlook*, May 2013, p.44; Budget Paper No.4, *2013-14 State Capital Program*, May 2013, p.11; Hon. M. O'Brien MP, Treasurer, 2013-14 budget estimates hearings, response to questions on notice, received 9 July 2013

Table 8.3 Government infrastructure investment

	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Value (\$ million)	5,380.7	5,426.2	6,136.1	6,566.8	3,969.6	3,527.8
As a proportion of GSP within that year (per cent)	1.6	1.6	1.7	1.7	1.0	0.8
Five-year rolling average (per cent)	n/a	n/a	n/a	n/a	1.5	1.3

Sources: Committee calculations based on Hon. M. O'Brien MP, Treasurer, 2013-14 budget estimates hearings, response to questions on notice, received 9 July 2013; Department of Treasury and Finance, 'Macroeconomic Indicators 2013-14' data set, <www.dtf.vic.gov.au/files/a28fd234-8931-4513-8096-a1d200e5f3b6/MacroeconomicIndicators2013-14BudgetMay2013.xlsx>, accessed 22 July 2013

Figure 8.3 Government infrastructure investment and the infrastructure investment target (Government calculations)



Source: Replicated from Department of Treasury and Finance, 2013-14 Budget Overview, May 2013, p.2

FINDING: The Government expects to meet its infrastructure investment target throughout the forward estimates period, based on its new 'Government infrastructure investment' measure.

The 2013-14 budget papers disaggregate the Government infrastructure investment figure for 2013-14, indicating the value of each high-level component and reconciling most of these values with similar figures used elsewhere in the budget papers.⁴⁹⁰ This provides an understanding of how this measure has been calculated.

This break-down is only provided for 2013-14. This disclosure could be further enhanced by quantifying the components of this key measure for years other than the budget year. This would help readers to understand what is driving the Government's anticipated performance in this area.

490 Budget Paper No.4, 2013-14 State Capital Program, May 2013, p.11

To help stakeholders understand actual performance, the Government could also include details of the actual results for all components in the Annual Financial Report for the State, including a discussion of the reasons for any significant variance between the budget estimate and actual figure and variations from the previous year.

FINDING: The ‘Government infrastructure investment’ measure is broken down into its high-level components for 2013-14 and these components are generally reconciled with other related figures.

RECOMMENDATION 33: To enable an understanding of how the Government is achieving its infrastructure investment target, future budget papers disclose the individual components used in calculating the ‘Government infrastructure investment’ measure across the forward estimates period.

RECOMMENDATION 34: Future Annual Financial Reports for the State disclose actual figures for all components of the ‘Government infrastructure investment’ measure in the reporting year and compare these to forecasts in the budget papers and the previous year’s actual results.

8.4.2 Infrastructure investment in real terms per Victorian

Figure 8.4 shows the planned amount of infrastructure investment for the general government sector in real terms per Victorian – that is, accounting for inflation and changes in Victoria’s population.

The figure shows that the Government expects an increase in 2013-14 and 2014-15, with infrastructure investment estimated to equal \$1,082 per person in 2014-15 (in 2013-14 dollars). In the following two years, however, investment in real terms per Victorian is expected to halve, reaching \$534 in 2016-17 (in 2013-14 dollars).

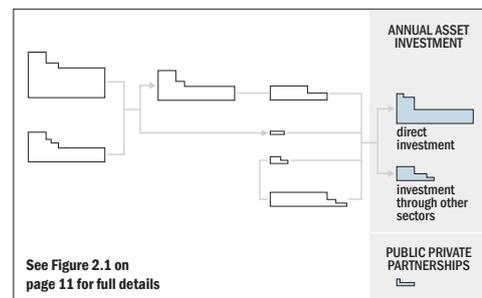
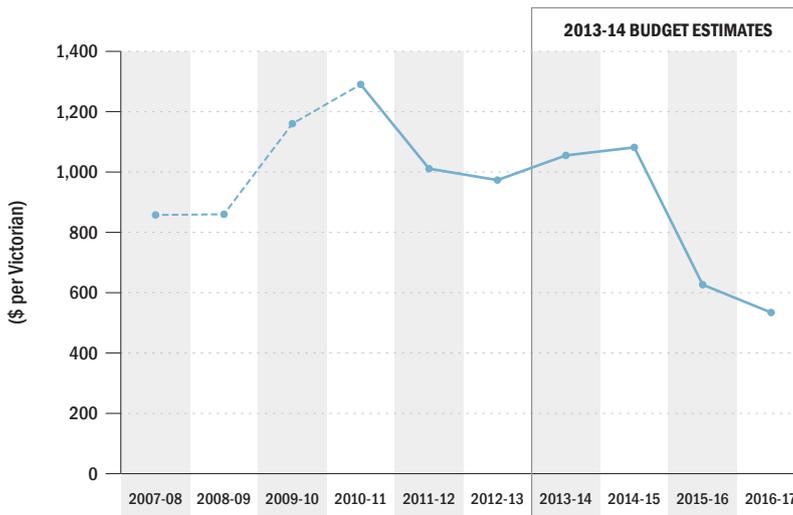


Figure 8.4 Infrastructure investment in real terms per Victorian, 2007-08 to 2016-17



Notes: Real investment is calculated using the price deflator implicit in the Department of Treasury and Finance’s calculation of real and nominal GSP. Figures are provided in 2013-14 terms.
 Figures for 2007-08 to 2010-11 do not include PPP payments and include certain Commonwealth funding which is not included in later years.
 Source: Calculated by the Committee based on Department of Treasury and Finance, ‘Consolidated cash flow statement 2013-14’, data set, <www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Financial-statements>, accessed 6 June 2013; Department of Treasury and Finance, ‘Macroeconomic indicators 2013-14’ data set, <www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/ Macroeconomic-indicators>, accessed 6 June 2013

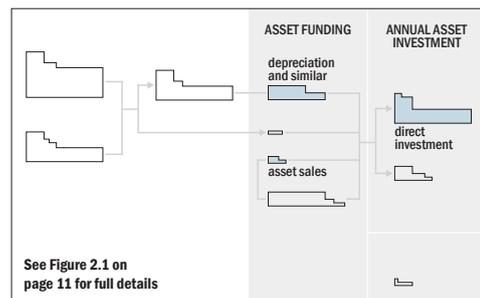
FINDING: When adjusted for population growth and inflation, infrastructure investment is expected to peak at \$1,082 per Victorian in 2014-15 before reducing to \$534 in 2016-17 (in 2013-14 dollars).

8.4.3 Direct investment and depreciation

Figure 8.5 compares the level of net direct investment (direct investment less proceeds from asset sales)⁴⁹¹ to depreciation for the general government sector and PNFC sector. That is, it compares the level of expenditure on assets to an estimate of the amount that would be required to keep the same level of assets as last year.

A result above 1.0 means that the Government is investing at a faster rate than is required to maintain its existing level of assets. A result below 1.0 indicates that the sector’s asset base is depreciating faster than it is being replaced.

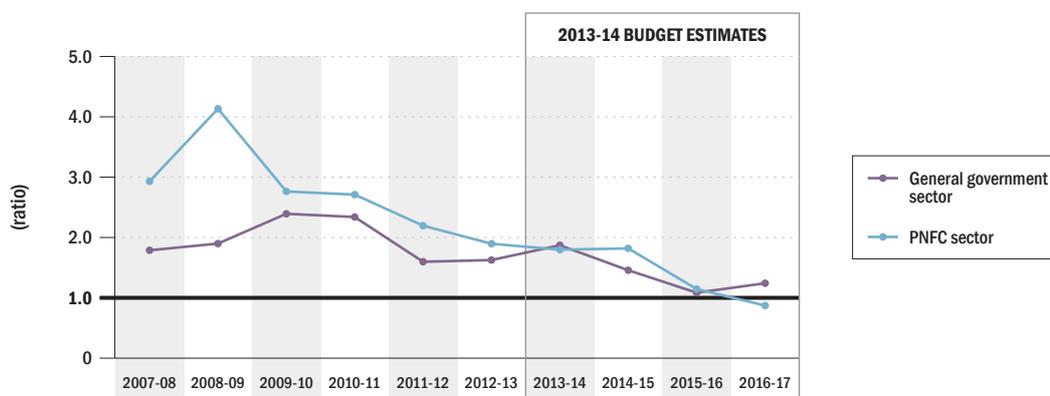
The figure shows that net direct investment in the general government sector is expected by the Government to remain above the 1.0 figure throughout the forward estimates period. This is a change from the estimates in the 2012-13 budget papers, which predicted that direct



491 Referred to in the budget papers as ‘cash flows from investments in non-financial assets’.

investment would drop below depreciation in 2014-15.⁴⁹² The change has primarily come about through an increase in the level of direct investment planned for that year.

Figure 8.5 Ratio of net direct investment^(a) to depreciation, 2007-08 to 2016-17



(a) 'Net direct investment' is direct investment less asset sales and does not include investment through other sectors or PPP payments. It is listed in the cash flow statement in the budget papers as 'cash flows from investments in non-financial assets'.

Sources: Annual Financial Reports for the State of Victoria, 2008-09 to 2011-12; Budget Paper No.5, 2013-14 Statement of Finances, May 2013, pp.5, 8, 45, 48

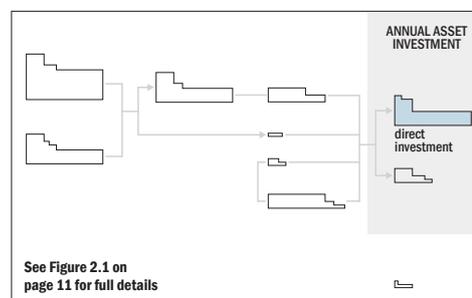
In the PNFC sector, however, the Government expects net direct investment to drop below 1.0 in 2016-17. This is a result of the sector's planned level of direct investment sharply declining in 2015-16 and 2016-17. This is largely driven by the estimated reduction in these years in the general government sector's investment through other sectors (see Section 8.3.2 of this report). Funding from the general government sector has provided at least \$1 billion each year to the PNFC sector since 2007-08 and is expected by the Government to continue at over \$1 billion until 2014-15, after which it is expected to decline to \$47.2 million.⁴⁹³

FINDING: The level of direct asset investment planned for the general government sector is estimated to be greater than the level at which existing assets depreciate across the forward estimates period. The level of direct asset investment for the PNFC sector is expected to exceed depreciation in all years except 2016-17.

8.4.4 What the expenditure pays for

As with output expenditure (see Section 6.5.2 of this report), the Government provides a break-down of direct investment by the 'government purpose classifications' established by the Australian Bureau of Statistics (see Figure 8.6).

The 'transport and communications' and health categories are expected to be the biggest areas of expenditure in 2013-14. A large portion of the

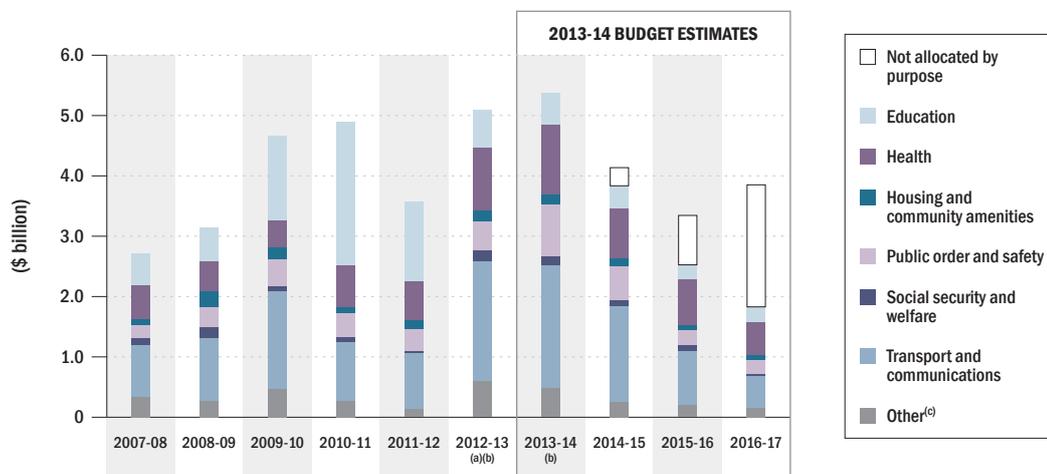


⁴⁹² Public Accounts and Estimates Committee, *Report on the 2012-13 Budget Estimates — Part Two*, September 2012, p.129

⁴⁹³ Budget Paper No.5, 2013-14 Statement of Finances, May 2013, p.8

planned asset investment in the forward estimates period has not yet been allocated to specific projects. The way in which this funding is allocated in future budgets will have a substantial effect on the break-down of expenditure in future years.

Figure 8.6 Direct investment by government purpose classification, 2007-08 to 2016-17



- (a) Revised estimate from the 2012-13 Budget Update.
- (b) Does not include the negative contingency which has been applied to the total expenditure but not broken down by purpose (\$788.4 million in 2012-13 and \$500.3 million in 2013-14).
- (c) Includes the Australian Bureau of Statistics categories 'general public services', 'recreation and culture', 'fuel and energy', 'agriculture, forestry, fishing and hunting', 'mining, manufacturing and construction', 'other economic affairs' and 'other purposes'.

Sources: Annual Financial Reports for the State of Victoria, 2007-08 to 2011-12; Department of Treasury and Finance, 2012-13 Victorian Budget Update, December 2012, p.76; Budget Paper No.5, 2013-14 Statement of Finances, May 2013, p.36

Investment through other sectors is not broken down by government purpose classification. However, the vast majority of funding provided this way in 2013-14 relates to transport projects.⁴⁹⁴

8.5 New initiatives for 2013-14

8.5.1 Total estimated investment of projects released in the 2013-14 Budget

The total estimated investment (TEI) of a project includes the total cost of constructing or acquiring the asset, usually across a number of years. Figure 8.7 shows the TEI of all new asset initiatives released in the 2013-14 Budget compared to previous budgets. This figure includes projects delivered both traditionally and through PPPs. It also includes direct investment and investment through other sectors.

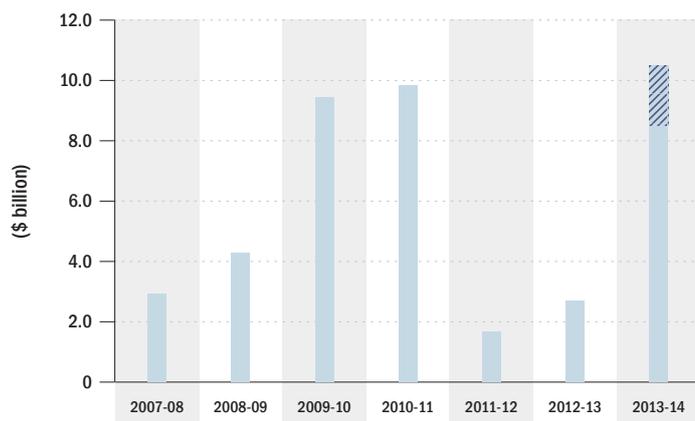
The TEI of all new asset investment projects released in the 2013-14 Budget is \$8.5-10.5 billion.⁴⁹⁵ This is more than most other recent budgets. The major cause of this is the *East West Link – Stage 1* project, which has a TEI estimated at \$6.0-8.0 billion⁴⁹⁶ (71-76 per cent of the total TEI of all new projects released in the 2013-14 Budget).

494 Budget Paper No.4, 2013-14 State Capital Program, May 2013, p.12

495 Budget Paper No.2, 2013-14 Strategy and Outlook, May 2013, p.56

496 Budget Paper No.3, 2013-14 Service Delivery, May 2013, p.52

Figure 8.7 Total estimated investment of new asset initiatives released in budgets, 2007-08 to 2013-14



Note: Includes some projects released in prior budget updates for some years. Due to the TEI of the *East West Link - Stage 1* project being provided as a range, the total TEI for the 2013-14 Budget has been presented as a range.

Sources: Budget Paper No.3, *Service Delivery*, 2007-08 to 2013-14

The high TEIs in 2009-10 and 2010-11 are largely a result of Commonwealth stimulus funding and the *Regional Rail Link* project. *Regional Rail Link* was estimated to have a TEI of \$4.3 billion in the 2010-11 Budget.⁴⁹⁷

FINDING: The 2013-14 Budget released new asset initiatives with a combined estimated expenditure of \$8.5-10.5 billion. This is largely a result of the *East West Link - Stage 1* project, which accounts for \$6.0-8.0 billion of that amount.

8

8.5.2 Key projects in 2013-14

In his presentation to the Committee, the Premier identified three asset projects as ‘*game-changing*’.⁴⁹⁸ These projects are of particular significance to the State. These were:

- the East West Link;
- the Melbourne Metro Rail Tunnel; and
- the Port of Hastings development project.

The Premier noted in his presentation that these:⁴⁹⁹

... are all projects of importance to Melbourne and Victoria, and they are all projects that we want assistance from the federal government with.

The budget papers also note that all three projects will require Commonwealth funding.⁵⁰⁰

497 Budget Paper No.3, *2010-11 Service Delivery*, May 2010, p.353

498 Hon. Dr D. Napthine MP, Premier, 2013-14 budget estimates hearing, transcript of evidence, 10 May 2013, p.3

499 *ibid.*

500 Budget Paper No.3, *2013-14 Service Delivery*, May 2013, p.257; Budget Information Paper No.3, *2013-14 Federal Financial Relations*, May 2013, p.8

The Commonwealth announced its intention to fund the Melbourne Metro Rail Tunnel with the 2013-14 Commonwealth Budget (see Section 4.2.2), but did not provide funding for the construction of the other projects. The State Government has provided planning funding for all three projects, but only construction funding for the East West Link.

The Committee notes that all three projects have been identified as High-Value, High-Risk projects, meaning they will be given enhanced scrutiny during their planning phases.

East West Link – Stage 1

The *East West Link – Stage 1* project is a new initiative in the 2013-14 Budget. The project provides a road link, mostly as a tunnel, between the end of the Eastern Freeway in Clifton Hill and the CityLink at Parkville.⁵⁰¹

According to the Minister for Roads, the *East West Link* project is expected to:⁵⁰²

... take pressure off the M1 and the West Gate and generate enormous efficiencies for motorists, commercial vehicles and road freight. The project will also ease pressure on buses, trams and cyclists that are forced to compete for road space with the east-west traffic.

The total cost of the project has been estimated by the Government as between \$6.0 and \$8.0 billion.⁵⁰³ The Government anticipates that the project will be delivered as a public private partnership and expects to go to market in late 2013.⁵⁰⁴ The road will be subject to tolls, which will ‘partly defray the costs of the project over the longer term’.⁵⁰⁵ However, the budget papers indicate that:⁵⁰⁶

... tolling revenue will not recover the full cost. Therefore, significant investment is required by the State and Commonwealth Governments, and the private sector.

At the budget estimates hearings, the Treasurer informed the Committee that:⁵⁰⁷

If the commonwealth does not back the project with \$1.5 billion, it will inevitably delay the project and it will increase the cost of the project. If we delay this, it will increase the cost.

The Minister for Roads made a similar comment⁵⁰⁸ and the budget papers state that the project requires Commonwealth funding.⁵⁰⁹ Prior to the 2013 Federal election, the Federal Coalition indicated that it intended to provide \$1.5 billion of funding for this project between 2013-14 and 2015-16.⁵¹⁰

501 Budget Paper No.3, *2013-14 Service Delivery*, May 2013, p.55; Budget Information Paper No.2, *2013-14 Infrastructure Investment*, May 2013, p.11

502 Hon. T. Mulder MP, Minister for Roads, 2013-14 budget estimates hearing, transcript of evidence, 15 May 2013, p.2

503 Budget Paper No.3, *2013-14 Service Delivery*, May 2013, p.52

504 Budget Paper No.4, *2013-14 State Capital Program*, May 2013, p.7; Budget Information Paper No.2, *2013-14 Infrastructure Investment*, May 2013, p.11

505 Budget Information Paper No.2, *2013-14 Infrastructure Investment*, May 2013, p.11

506 *ibid.*, p.13; Budget Information Paper No.1, *2013-14 Regional and Rural Victoria*, May 2013, p.8

507 Hon. M. O’Brien MP, Treasurer, 2013-14 budget estimates hearing, transcript of evidence, 10 May 2013, p.16

508 Hon. T. Mulder MP, Minister for Roads, 2013-14 budget estimates hearing, transcript of evidence, 15 May 2013, p.4; cf. Budget Information Paper No.2, *2013-14 Infrastructure Investment*, May 2013, p.11

509 Budget Paper No.3, *2013-14 Service Delivery*, May 2013, p.257; Budget Information Paper No.3, *2013-14 Federal Financial Relations*, May 2013, p.8

510 ‘Fiscal Budget Impact of Federal Coalition Policies’, 5 September 2013, p.2

The State budget papers provided \$294.0 million ‘to complete detailed planning, and commence procurement and early works construction’ during 2013-14 and 2014-15.⁵¹¹ In addition, \$12.0 million in output funding was spent in 2012-13 developing the business case for the project.⁵¹²

The project is expected to be complete in late 2019.⁵¹³

Melbourne Metro Rail Tunnel

The Melbourne Metro Rail Tunnel will provide a nine kilometre rail tunnel that connects the Sunbury and Dandenong rail lines. The project includes five new stations, including two in the Melbourne central business district.⁵¹⁴ According to the Minister for Public Transport:⁵¹⁵

Melbourne Metro is Victoria’s no. 1 public transport project submitted to the commonwealth for funding consideration.

The project is expected to boost the capacity of the metropolitan rail system⁵¹⁶ and ease pressure on the St Kilda Road tram corridor.⁵¹⁷ The project is also expected to result in reduced road congestion by increasing overall traffic in the rail system.⁵¹⁸

Planning for the project has been underway since 2009. The first phase consisted of \$40.0 million, which was provided in the 2009-10 Budget Update.⁵¹⁹ This project was ‘seed funding [which] was provided by the federal government’.⁵²⁰

The 2012-13 Budget announced a further \$49.7 million over four years to continue ‘planning and development to enable the project to proceed to delivery when construction funding becomes available from the Commonwealth Government’.⁵²¹ This includes \$10.2 million which is expected to be spent in 2013-14.⁵²²

The 2013-14 Commonwealth Budget, which was delivered after the State Budget, announced \$3.0 billion of Commonwealth funding to build this project,⁵²³ of which \$75.0 million was allocated in the forward estimates. However, no further details were provided. The Commonwealth Budget also provided \$3.2 million for that government to engage external expertise on funding agreements for this (and one other non-Victorian project) in 2013-14 and 2014-15,⁵²⁴ as the Commonwealth budget papers state that:⁵²⁵

511 Budget Information Paper No.2, *2013-14 Infrastructure Investment*, May 2013, p.13; Budget Information Paper No.1, *2013-14 Regional and Rural Victoria*, May 2013, p.8; cf. Budget Paper No.3, *2013-14 Service Delivery*, May 2013, pp.52-3

512 Budget Paper No.3, *2013-14 Service Delivery*, May 2013, p.48

513 Budget Paper No.4, *2013-14 State Capital Program*, May 2013, p.40

514 Budget Information Paper No.2, *2013-14 Infrastructure Investment*, May 2013, p.19

515 Hon. T. Mulder MP, Minister for Public Transport, 2013-14 budget estimates hearing, transcript of evidence, 15 May 2013, p.3

516 Budget Information Paper No.2, *2013-14 Infrastructure Investment*, May 2013, p.19

517 Hon A. Albanese MP, Commonwealth Minister for Infrastructure and Transport, ‘Melbourne Metro: It’s Time to Get It Done’, media release, 19 May 2013

518 Public Transport Victoria, ‘Benefits’, <ptv.vic.gov.au/melbournemetro/about-melbourne-metro/benefits>, accessed 30 July 2013

519 Department of Treasury and Finance, *2009-10 Budget Update*, November 2009, p.153

520 Hon T. Mulder MP, Minister for Public Transport, 2013-14 budget estimates hearing, transcript of evidence, 15 May 2013, p.8

521 Budget Paper No.3, *2012-13 Service Delivery*, May 2012, pp.70, 73

522 Budget Paper No.4, *2013-14 State Capital Program*, May 2013, p.124; Budget Information Paper No.2, *2013-14 Infrastructure Investment*, May 2013, p.19

523 Commonwealth Budget Paper No.3, 2013-14, *Australia’s Federal Relations*, May 2013, p.12

524 Commonwealth Budget Paper No.2, 2013-14, *Budget Measures*, May 2013, p.265

525 *ibid.*

... these projects have opportunities for innovative financial agreements between the Commonwealth, state and the private sector as a means to encourage greater private sector involvement.

The current Commonwealth Government indicated, prior to the change of government in September 2013, that it intended not to provide the previously allocated Commonwealth funding (\$75.0 million) for the Melbourne Metro Rail Tunnel.⁵²⁶

Port of Hastings Development

The 2013-14 Budget provides \$110.0 million over four years for planning a new container port at Hastings.⁵²⁷ The Government expects that the increased container capacity provided by the project will meet the State's needs after the Port of Melbourne reaches its capacity in the mid-2020s.⁵²⁸

According to the Minister for Ports, the project funds:⁵²⁹

... the early planning work and will help us make a lot of decisions on the preferred scope, design and position of the works.

This asset initiative follows an output initiative from the 2012-13 Budget⁵³⁰ of \$8.0 million in output funding⁵³¹ for planning.

FINDING: The Government has identified three key asset investment projects – East West Link, the Melbourne Metro Rail Tunnel and the Port of Hastings development. Funding has been provided for planning of all three projects.

8.5.3 Other new asset initiatives

In addition to the three key projects, the 2013-14 Budget provides funds for a range of other large projects, primarily in the education, health, transport and housing areas.

Education projects

The *Schools Capital Program* initiative has a total estimated expenditure of \$203.0 million in 2013-14 and 2014-15.⁵³² The initiative is broken down into four separate asset programs, funding projects in the following categories:⁵³³

- land acquisition (\$23.6 million);

526 'Fiscal Budget Impact of Federal Coalition Policies', 5 September 2013, p.2

527 Budget Paper No.3, *2013-14 Service Delivery*, May 2013, pp.52, 57

528 Hon. D. Hodggett MP, Minister for Ports, 2013-14 budget estimates hearing, transcript of evidence, 14 May 2013, p.7

529 *ibid.*, p.6

530 Budget Paper No.3, *2012-13 Service Delivery*, May 2012, p.66

531 Funds allocated in the 2012-13 Budget were \$4 million plus further funds 'to be advised'. The 2013-14 budget papers identify the total amount provided as being \$8 million (Budget Paper No.4, *2013-14 State Capital Program*, May 2013, p.112) but do not specify when the funds are to be spent.

532 Budget Paper No.3, *2013-14 Service Delivery*, May 2013, p.10

533 Budget Paper No.4, *2013-14 State Capital Program*, May 2013, p.15

- modernisation or redevelopment of schools (\$118.6 million);
- new schools (\$56.0 million); and
- relocatable classrooms (\$4.8 million).

According to the Minister for Education, these projects will be in growth areas of the State, and:⁵³⁴

... will fulfil all of our election commitments and purchase land, upgrade buildings and also purchase portable classrooms and construct more portable classrooms.

The *TAFE Structural Adjustment Fund* initiative provides a total of \$100.0 million of asset funding over four years for TAFE institutions.⁵³⁵ According to the Minister for Higher Education and Skills, the initiative was the response to:⁵³⁶

... a recommendation of the TAFE reform panel that assistance be provided to those TAFE institutes that may require some assistance to build their business to one which is sustainable into the future.

The Minister added that a condition of funding would be:⁵³⁷

... a requirement to fully explore areas where they might collaborate with other institutes or even other providers to develop those facilities.

This forms half of the \$200.0 million Structural Adjustment Fund. The balance is output funding intended to support ‘operational matters’.⁵³⁸

Health projects

There are two new major asset initiatives administered by the Department of Health:⁵³⁹

- the *Monash Children’s Hospital* initiative; and
- the *Royal Victorian Eye and Ear Hospital Redevelopment* project.

Both projects are intended to provide health care facilities in areas of specialisation where demand is increasing. Specifically, the Monash Children’s Hospital in Clayton will meet the demand arising from the:⁵⁴⁰

... significant population growth in the south east of Melbourne that needs to be met, including a demand for children’s services.

The Royal Victorian Eye and Ear Hospital will address ‘current and future demand for specialist adult and paediatric ophthalmology and ear, nose and throat services’.⁵⁴¹ The Minister for Health informed the Committee that demand for these services is rising:⁵⁴²

534 Hon. M. Dixon MP, Minister for Education, 2013-14 budget estimates hearing, transcript of evidence, 17 May 2013, p.4

535 Budget Paper No.3, *2013-14 Service Delivery*, May 2013, pp.8, 10

536 Hon. P. Hall MLC, Minister for Higher Education and Skills, 2013-14 budget estimates hearing, transcript of evidence, 21 May 2013, p.4

537 *ibid.*

538 *ibid.*

539 Budget Paper No.3, *2013-14 Service Delivery*, May 2013, p.21

540 Hon D. Davis MLC, Minister for Health, 2013-14 budget estimates hearing, transcript of evidence, 14 May 2013, p.17

541 Budget Paper No.3, *2013-14 Service Delivery*, May 2013, p.23

542 Hon. D. Davis MLC, Minister for Health, 2013-14 budget estimates hearing, transcript of evidence, 14 May 2013, p.18

... particularly with an ageing population and the need for greater support for vision initiatives and vision-related services.

The Minister also commented that research facilities for the Centre for Eye Research Australia will be included in the rebuilt hospital.⁵⁴³

To facilitate a better outcome from the tendering process, the Government has not disclosed the TEI for either project.⁵⁴⁴ The Committee notes that, although a number of recent hospital projects have been delivered through PPPs, the Government has not indicated an intention to deliver these projects through PPPs.

Transport projects

The 2013-14 Budget releases a *Road Safety Strategy 2013-2022* asset initiative with a TEI of \$368.4 million.⁵⁴⁵ The asset initiative complements an output initiative of the same name (see Section 6.6.1 of this report).⁵⁴⁶

The initiative represents part of the ten-year, \$1.0 billion *Road Safety Strategy 2013-2022*, of which \$500.0 million will be asset funding.⁵⁴⁷

The strategy is intended to reduce the number of deaths and serious injuries on Victoria's roads. The Government intends to achieve this through individual projects to enhance safety. According to the Minister for Roads:⁵⁴⁸

... these are projects that will be picked up targeting and engineering out sections of road where we believe there is a potential for someone to be seriously injured or killed in a motor car accident.

The initiative will be funded from the Transport Accident Commission, and includes funding previously announced as stage 3 of the *Safer Roads infrastructure Program* in the 2006-07 Budget.⁵⁴⁹

The *Bayside Rail Improvements* initiative includes work on shelters, passenger information and disability access on the Frankston line, along with infrastructure enhancements to allow the newer X'Trapolis trains to run on the Frankston, Werribee and Williamstown lines.⁵⁵⁰ The Treasurer remarked that the initiative will ensure that, '*... people who use that line [Frankston] every weekday will get a much better service, a more punctual service, a cleaner, safer, better service*'.⁵⁵¹ The budget papers state that \$100.0 million has been allocated to this project over three years, starting with \$10.0 million in 2013-14.⁵⁵²

543 *ibid.*

544 Budget Paper No.3, *2013-14 Service Delivery*, May 2013, p.22

545 *ibid.*, p.53

546 *ibid.*, p.48

547 *ibid.*, p.58; Budget Paper No.4, *2013-14 State Capital Program*, May 2013, p.41

548 Hon. T. Mulder MP, Minister for Roads, 2013-14 budget estimates hearing, transcript of evidence, 15 May 2013, p.11

549 Budget Paper No.4, *2013-14 State Capital Program*, May 2013, p.41; Budget Paper No.3, *2006-07 Service Delivery*, May 2006, pp.309, 312

550 Budget Paper No.3, *2013-14 Service Delivery*, May 2013, p.54

551 Hon. M. O'Brien MP, Treasurer, 2013-14 budget estimates hearing, transcript of evidence, 10 May 2013, pp.18-19

552 Budget Paper No.3, *2013-14 Service Delivery*, May 2013, p.52

The *Southland Station* initiative will provide a railway station on the Frankston line at the Southland Shopping Centre. In his budget estimates hearing, the Minister for Public Transport stated that the new station:⁵⁵³

... will improve accessibility to the Southland principal activity area for residents and shoppers, and it will facilitate further development in the area once we have completed the project.

The budget papers contain limited information about this initiative ‘*due to commercial sensitivities*’,⁵⁵⁴ as the project is to be located on land owned by third parties, and therefore the details are ‘*subject to negotiations with owners of Southland Shopping Centre*’.⁵⁵⁵ However, the Minister stated that:⁵⁵⁶

... there is an allocation of funding that has been placed in contingency.

The *New Trains for Melbourne Commuters* initiative will provide eight ‘*additional X’Trapolis trains and associated infrastructure*’.⁵⁵⁷ The Minister for Public Transport explained that:⁵⁵⁸

The new trains will allow Public Transport Victoria to add to the more than 1000 extra weekly train trips added to the metropolitan train timetable since 2010.

These trains will be assembled in Ballarat, and the \$178.1 million tranche is expected to be complete by mid-2016.⁵⁵⁹

Housing projects

The Director of Housing is administering a new \$160.0 million initiative, replacing 600 public housing properties in Heidelberg.⁵⁶⁰

According to the Minister for Housing, the:⁵⁶¹

... Olympia housing initiative [replaces homes that] were built as temporary housing to house athletes for the Olympic games 57 years ago. They have served the state well for 57 years, but many of them are now at the end of their usable lifespan.

The properties are anticipated to be complete by mid-2022.⁵⁶²

553 Hon. T. Mulder MP, Minister for Public Transport, 2013-14 budget estimates hearing, transcript of evidence, 15 May 2013, p.31

554 Budget Paper No.4, *2013-14 State Capital Program*, May 2013, p.123

555 *ibid.*

556 Hon T. Mulder MP, Minister for Public Transport, 2013-14 budget estimates hearing, transcript of evidence, 15 May 2013, p.31

557 Budget Paper No.3, *2013-14 Service Delivery*, May 2013, p.57

558 Hon. T. Mulder MP, Minister for Public Transport, 2013-14 budget estimates hearing, transcript of evidence, 15 May 2013, p.7

559 Budget Paper No.4, *2013-14 State Capital Program*, May 2013, p.123

560 *ibid.*, p.85

561 Hon. W. Lovell MLC, Minister for Housing, 2013-14 budget estimates hearing, transcript of evidence, 22 May 2013, p.4

562 Budget Paper No.4, *2013-14 State Capital Program*, May 2013, p.85

8.6 New disclosures in the budget papers

The Committee notes that a number of improvements to the level of disclosure in Budget Paper No.4 (*State Capital Program*) were made with the 2013-14 Budget, including:

- a table reconciling different figures provided through the budget papers for asset investment;
- quantification and description of each department's capital projects not listed individually in the budget paper;
- a list of major projects funded through investment through other sectors;
- the addition of estimated completion dates for every project; and
- expansion of the glossary.

The Committee welcomes all of these improvements. Sections 8.6.1-8.6.3 identify ways that some of these new additions might be further enhanced.

8.6.1 Investment through other sectors

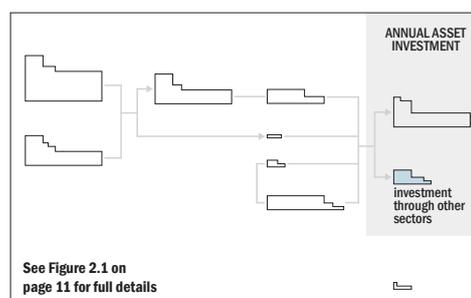
The 2013-14 Budget Paper No.4 includes, for the first time, a table listing the major projects funded by investment through other sectors.⁵⁶³ The table includes the names of projects, estimated expenditure on each project in 2013-14 and the policy purposes which the project contributes to.

The Committee considers this to be a valuable improvement to the budget papers.

In most cases, the project titles and details in this table correlate with the titles and details included in Chapter 3 of Budget Paper No.4, where additional information can be found about each project. In two cases, however, the relationship is not clear:

- the expected expenditure in 2013-14 on regional rolling stock set out in the table (\$45.7 million) does not correspond to the expenditure on either of the relevant *Regional Rolling Stock* projects listed under Victorian Rail Track (\$59.5 million and \$19.8 million);⁵⁶⁴ and
- it is not clear to which of the projects listed under the Director of Housing⁵⁶⁵ the item in the table labelled 'equity investment in Director of Housing' corresponds.

The Committee considers that this new table could be improved by ensuring that readers can clearly connect the line items in the table with the projects listed in Chapter 3 of Budget Paper No.4 and explaining any differences in the expected expenditure between the table and Chapter 3.



563 *ibid.*, p.12

564 There are two projects providing regional rolling stock: '*Regional Rolling Stock*', and '*Regional Rolling Stock – New Tranche*' (Budget Paper No.4, *2013-14 State Capital Program*, May 2013, p.125)

565 Budget Paper No.4, *2013-14 State Capital Program*, May 2013, pp.85-6

FINDING: The budget papers have newly included a table that lists the major projects funded by investment through other sectors. The relationship between the table and information elsewhere in the budget papers could be clarified in some cases.

RECOMMENDATION 35: In future budget papers, the Department of Treasury and Finance build on the list of projects funded by investment through other sectors ('investments in financial assets for policy purposes'), by ensuring that:

- (a) line items in that list can be readily connected to projects listed in Chapter 3 of Budget Paper No.4; and
- (b) any differences between the estimated expenditure in the list and the estimated expenditure in Chapter 3 are explained.

8.6.2 Estimated completion dates

Estimated completion dates have been added for each project listed in Budget Paper No.4 for the first time in 2013-14. The Committee considers that this provides important additional transparency around the Government's intentions.

The Committee considers that a possible improvement to this disclosure would be to align the expected completion dates with financial years. Currently, the completion dates are listed according to one of three divisions of the calendar year, with one division covering May, June, July and August.⁵⁶⁶ These four months cover two financial years, making reconciling the estimated completion dates with budget estimates (which are provided in financial years) difficult.

FINDING: The 2013-14 budget papers include, for the first time, estimated completion dates for all projects listed in Budget Paper No.4. This is an important improvement to the transparency of asset delivery.

RECOMMENDATION 36: Estimated completion dates for projects in future budget papers be aligned with financial years, so that it is clear to the reader which financial year a project is expected to be completed in.

566 *ibid.*, p.146

8.6.3 Glossary of terms

In its *Report on the 2011-12 Budget Estimates*, the Committee noted the large number of terms used for asset investment and recommended either that different terms not be used interchangeably or that terms be explained in a glossary.⁵⁶⁷

The Government supported the recommendation but noted that ‘*the use of differentiating terms is required for accuracy of meaning (for example, not all assets are infrastructure)*’.⁵⁶⁸ A glossary was added to Budget Paper No.4 in the 2012-13 budget papers.⁵⁶⁹ Following further feedback from the Committee,⁵⁷⁰ this glossary was expanded substantially in the 2013-14 budget papers.⁵⁷¹

The expanded glossary does not include all terms recommended by the Committee but includes a number of terms in addition to those suggested by the Committee. The Committee welcomes the additional transparency provided through the expanded glossary.

Importantly, the glossary makes a distinction between ‘infrastructure’ and ‘capital’, in which capital appears to be a broader term, as it is defined as including ‘*infrastructure and other physical assets*’.⁵⁷² The terms ‘infrastructure investment’ and ‘capital investment’ are defined differently, one being expenditure on infrastructure and one being expenditure on capital.⁵⁷³ However, in practice, the terms are used interchangeably. For example, Table 3 in Budget Paper No.4 is titled ‘Infrastructure investment by TEI – summary’ and referred to in the text with the comment that, ‘*Table 3 summarises the 2013-14 Victorian public sector capital program*’.⁵⁷⁴

Similarly, both ‘assets’ and ‘capital’ are defined as relating to ‘infrastructure and other physical assets’, but the definition of ‘assets’ also includes the detail that they provide future economic benefit.⁵⁷⁵ As capital does not include this detail, it could be assumed by a reader that assets are a sub-category of capital projects, being those capital projects which provide future economic benefit. The Committee does not believe that the Department of Treasury and Finance intended such a distinction.

The Committee considers that the Department of Treasury and Finance could also build on its glossary to include further terms. Some of the terms that the Committee has previously recommended be included were not included.

In addition, two key terms were introduced in the 2013-14 budget papers that were not included in the glossary:

- ‘Government infrastructure investment’; and
- ‘cash flows from PPP payments’.

The Committee considers that future expansion of the glossary will help to make the budget papers more transparent and accessible.

567 Public Accounts and Estimates Committee, *Report on the 2011-12 Budget Estimates — Part Three*, September 2011, Recommendation 25, p.101-2

568 Victorian Government, Government Responses to the Recommendations of Public Accounts and Estimates Committee’s 102nd Report on the 2011-12 Budget Estimates — Part Three, tabled 14 March 2012, p.14

569 Budget Paper No.4, *2012-13 State Capital Program*, May 2012, p.143

570 Public Accounts and Estimates Committee, *Report on the 2012-13 Budget Estimates — Part Two*, September 2012, Recommendation 45, pp.144-5

571 Budget Paper No.4, *2013-14 State Capital Program*, May 2013, pp.145-6

572 *ibid.*, p.145

573 *ibid.*

574 Budget Paper No.4, *2013-14 State Capital Program*, May 2013, pp.4-5

575 *ibid.*, p.145

FINDING: The Department of Treasury and Finance expanded the glossary in Budget Paper No.4 in 2013-14, adding a substantial number of terms. In some cases, terms which are used interchangeably have different definitions, which may suggest to readers that there are differences. There are also a number of key terms which could be added to the glossary in future years.

RECOMMENDATION 37: The Department of Treasury and Finance revise its definitions in Budget Paper No.4 to explicitly identify terms that are used interchangeably and avoid the potential confusions noted in this report.

RECOMMENDATION 38: The Department of Treasury and Finance continue to expand the definitions in Budget Paper No.4, including adding definitions of 'Government infrastructure investment' and 'cash flows from PPP payments'.

CHAPTER 9 THE GOVERNMENT'S RESPONSES TO THE COMMITTEE'S REPORT ON THE 2012-13 BUDGET ESTIMATES

9.1 Introduction

The Committee's *Report on the 2012-13 Budget Estimates* made 59 recommendations in its two parts. The Government responded to the five recommendations included in Part One on 29 November 2012, and to the 54 recommendations included in Part Two on 12 March 2013.

This chapter examines issues arising from those recommendations, such as:

- How did the Government respond to the Committee's recommendations? (Section 9.2)
- How many recommendations have been implemented to date? (Section 9.3)

The Government supported⁵⁷⁶ 32 of the 59 recommendations (54 per cent). At the time of this report, the Committee has been able to identify 13 (41 per cent) of these recommendations as having been fully or partially implemented.

The Committee also examined the recommendations from its *Report on the 2011-12 Budget Estimates*, considering:

- How many of the recommendations from the *Report on the 2011-12 Budget Estimates* have now been implemented? (Section 9.4)

The Government is currently reviewing its *Guidelines for Submission and Responses to Inquiries*. The Committee welcomes this review and recommends some additional issues for consideration in Section 9.5 of this chapter.

Full responses by the Government to the Committee's recommendations are published on the Committee's website (www.parliament.vic.gov.au/paec). These responses include any actions taken by the time of the response and further actions intended with respect to each recommendation.

In response to the Committee's questionnaire, departments provided an update on the implementation of recommendations from the *Report on the 2012-13 Budget Estimates*. These responses are also available from the Committee's website.

9.2 Responses to recommendations

Of the 59 recommendations in the *Report on the 2012-13 Budget Estimates*,⁵⁷⁷ 32 (54 per cent) were supported. In addition, five recommendations were classed as 'under review'.⁵⁷⁸

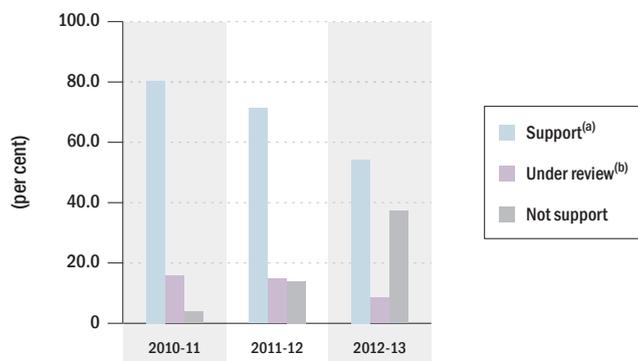
576 For the purposes of this discussion, 'supported' recommendations include the responses 'support', 'support in principle' and 'support in part'.

577 The report was tabled in two parts, with Part One containing five recommendations and Part Two containing 54 recommendations. Most of these recommendations were made to the Government, although two recommendations were made to the Victorian Auditor-General's Office.

578 This includes the responses 'under review' and 'for further consideration'.

Figure 9.1 compares the responses to the *Report on the 2012-13 Budget Estimates* to those for the previous two reports. Appendix A9.1 provides this information in more detail.

Figure 9.1 Government responses to the Committee’s recommendations from reports on the budget estimates, 2010-11 to 2012-13



- (a) Includes the response types 'support' 'support in principle' and 'support in part'.
- (b) Includes the response types 'under review', 'for further consideration' and 'no response'.

Sources: Victorian Government, Government Responses to the Recommendations of Public Accounts and Estimates Committee’s 96th Report on the 2010-11 Budget Estimates, tabled 16 March 2011; Government Responses to the Recommendations of Public Accounts and Estimates Committee’s 102nd Report on the 2011-12 Budget Estimates, tabled 24 November 2011 (Part One), 7 February 2012 (Part Two), and 14 March 2012 (Part Three); Government Responses to the Recommendations of Public Accounts and Estimates Committee’s 111th Report on the 2012-13 Budget Estimates, tabled 29 November 2012 (Part One), 12 March 2013 (Part Two)

Figure 9.1 shows that the proportion of recommendations that were supported has fallen since the Committee’s *Report on the 2010-11 Budget Estimates*.

Figure 9.1 also shows that the proportion of recommendations that were not supported has increased since the *Report on the 2010-11 Budget Estimates*.

One reason for this shift may be a change in practices with respect to classification. In previous responses to its reports, there have been instances where recommendations were classified as ‘support’, but where the response also indicated that there was no intention to implement the recommendation or the recommendation was still being considered.⁵⁷⁹ This type of indication was not observed in responses to the *Report on the 2012-13 Budget Estimates*.

The Committee considers that the responses to the *Report on the 2012-13 Budget Estimates* are more indicative of the Government’s intention to implement recommendations. The Committee considers this to be an improvement.

There were 22 recommendations from the Committee’s *Report on the 2012-13 Budget Estimates* that were not supported by the Government.

Details for these recommendations, including the individual reasons the Government gave for not supporting them, can be found on the Committee’s website (www.parliament.vic.gov.au/paec).

579 Public Accounts and Estimates Committee, *Report on the 2011-12 Budget Estimates — Part Three*, September 2011, pp.236-7; *Report on the 2012-13 Budget Estimates — Part Two*, September 2012, p.157

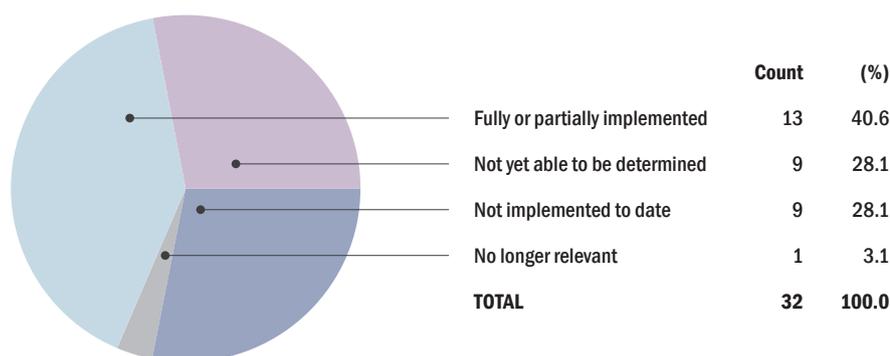
FINDING: Of the 59 recommendations made by the Committee in its *Report on the 2012-13 Budget Estimates*, 32 (54 per cent) were supported (including 'support in principle' and 'support in part'). The proportion of recommendations receiving a positive response has fallen since the *Report on the 2010-11 Budget Estimates*. This may be partly a result of changing practices in classifying responses.

9.3 Implementation of recommendations from the *Report on the 2012-13 Budget Estimates*

9.3.1 Supported recommendations

There were 32 recommendations in the Committee's *Report on the 2012-13 Budget Estimates* that were supported. The Committee investigated what progress has been made at implementing these recommendations to date (see Figure 9.2).

Figure 9.2 Implementation status of recommendations from the *Report on the 2012-13 Budget Estimates* that were supported



Source: Public Accounts and Estimates Committee

Figure 9.2 shows that 13 (41 per cent) of the recommendations that were supported have been fully or partially implemented to date.

In nine cases (28 per cent) an opportunity to implement the recommendation has arisen, but the recommendation has not yet been implemented. Departments in their questionnaires indicated that, in many of these cases, implementation will occur in the future.

For three of these nine recommendations, the departments indicated that they considered the recommendation to be implemented. However, the Committee considers that the changes implemented may not fully address the issues that led to the recommendation. These recommendations are shown in Appendix A9.2, along with the Committee's comments. This is discussed further in Section 9.5.1.

The Committee found nine (28 per cent) recommendations that were supported but were unable (to date) to be assessed. This is mainly due to:

- the circumstances that gave rise to the recommendation not being repeated; or
- publications, such as annual reports, not having been prepared since the recommendation was responded to.

In one of these cases, evidence was not available to the Committee. The recommendation concerned the liaison between the State and Commonwealth treasuries. The Department of Treasury and Finance advised the Committee that it:⁵⁸⁰

... has continued to engage with the Commonwealth on its GST national pool forecasts at the officer and senior official level.

The remaining recommendation was not assessed by the Committee. In this case, the issue had been resolved prior to the Government responding to the recommendations, and therefore implementation is no longer relevant.

FINDING: Of the 32 recommendations in the Committee's *Report on the 2012-13 Budget Estimates* which were supported, the Committee considers that:

- 13 (41 per cent) have been fully or partially implemented to date;
- nine (28 per cent) have not yet been implemented;
- the Committee was not yet able to assess the implementation of nine recommendations (28 per cent) at this time; and
- one recommendation was resolved prior to the Government's response.

9.3.2 Recommendations under review

There were five recommendations from the Committee's *Report on the 2012-13 Budget Estimates* where the Government indicated that the recommendation was 'under review' (or 'for further consideration') at the time of the Government's response.

The Committee has subsequently been informed that:

- the Department of Premier and Cabinet is considering three of the recommendations as part of its review of the *Guidelines for Submissions and Responses to Inquiries* (see Section 9.5 of this report);⁵⁸¹
- one recommendation was still being considered at the time of the Budget Estimates Questionnaire;⁵⁸² and
- the Government does not support implementing one recommendation.⁵⁸³

None of these recommendations has been implemented to date.

FINDING: Of the five recommendations from the *Report on the 2012-13 Budget Estimates* which were under review at the time of the Government's initial response, four are still being considered and one is not supported.

580 Department of Treasury and Finance, response to the Committee's 2013-14 Budget Estimates Questionnaire, received 9 May 2013, p.44

581 Recommendations 50-2 of Part Two – Department of Premier and Cabinet, response to the Committee's 2013-14 Budget Estimates Questionnaire, received 8 May 2013, pp.22-3

582 Recommendation 27 of Part Two – Department of Treasury and Finance, response to the Committee's 2013-14 Budget Estimates Questionnaire, received 9 May 2013, p.46

583 Recommendation 2 of Part One – Hon. R. Clark MP, Minister for Finance, correspondence received 3 April 2013, Attachment, pp.2-3

9.4 Implementation of recommendations from the *Report on the 2011-12 Budget Estimates*

In last year's report on the budget estimates, the Committee noted that, overall, 46 of the 130 recommendations had been either fully or partially implemented after one year.⁵⁸⁴

9.4.1 Supported recommendations

There were 92 recommendations from the *Report on the 2011-12 Budget Estimates* that were supported. Of these, 42 recommendations (46 per cent) had been either fully or partially implemented after one year.

The remaining 50 recommendations either had not been implemented by that time, or it was not possible to assess whether the recommendation had been implemented. The Committee examined subsequent budget papers and other relevant evidence to determine whether these recommendations have now been implemented. The Committee was able to identify eight of these recommendations which it now considers to be implemented. The Government indicated that one recommendation is no longer supported.⁵⁸⁵

The Committee notes that, for a number of the supported recommendations that remain unimplemented, the Government's initial response was that '*no further action is required*'.

There are a number of cases where departments consider the recommendations to have been implemented but the Committee considers that the actions taken may not fully address the issues which led to the recommendation. The Department of Treasury and Finance indicated to the Committee that all recommendations from the *Report on the 2011-12 Budget Estimates* that were supported by the Government have now been implemented.⁵⁸⁶ This is discussed further in Section 9.5.1.

FINDING: The Government expressed support for 92 of the recommendations from the Committee's *Report on the 2011-12 Budget Estimates*. After one year, the Committee considered that 42 recommendations had been fully or partially implemented. After a second year, eight additional recommendations have been implemented.

9.4.2 Recommendations under review

There were 18 recommendations from the *Report on the 2011-12 Budget Estimates* that were 'under review' at the time of the Government's initial response. The Committee's examination found that four of these had been at least partially implemented after one year. The Committee considers that one further recommendation that was initially under review has now been implemented.

584 Public Accounts and Estimates Committee, *Report on the 2012-13 Budget Estimates — Part Two*, September 2012, p.149

585 Victorian Government, Government Responses to the Recommendations of Public Accounts and Estimates Committee's 111th Report on the 2012-13 Budget Estimates — Part Two, tabled 12 March 2013, pp.22-3

586 Department of Treasury and Finance, response to the Committee's 2013-14 Budget Estimates Questionnaire, received 9 May 2013, p.52

FINDING: The Government indicated that 18 of the Committee's recommendations from the *Report on the 2011-12 Budget Estimates* were under review in the initial Government responses. Four of these had been fully or partially implemented after one year. One additional recommendation has been implemented subsequently.

9.5 The Government's review of processes for responding to and implementing recommendations

The Government has indicated that it intends to review the *Guidelines for Submissions and Responses to Inquiries* during 2013.⁵⁸⁷ The Government has also indicated to the Committee that '*issues raised by PAEC [the Public Accounts and Estimates Committee] are being considered as part of this review*',⁵⁸⁸ including:

- a mechanism for assigning responsibility for the implementation of recommendations;
- processes for monitoring the implementation of positively received recommendations; and
- a system for reporting on the implementation of positively received recommendations.

The Committee welcomes this review, and has included some recommendations below about matters that could also be considered as part of that review.

9.5.1 Implementation of recommendations

In Section 9.3.1, the Committee referred to three cases where departments had advised the Committee that recommendations from the *Report on the 2012-13 Budget Estimates* had been implemented, but where the Committee considers that the department's actions may not fully satisfy the intent of the recommendation.

Similarly, the Department of Treasury and Finance informed the Committee that it considers all supported recommendations from the *Report on the 2011-12 Budget Estimates* to be implemented.⁵⁸⁹

The Committee considers that these different views may be a result of there being no stated definition of what should be counted as implementation.

In a number of cases, the disagreements occurred because the department had taken some action related to the recommendation, but not specifically what was recommended.

The Committee considers that the current review is an opportunity for the Government to define the conditions under which actions taken by departments constitute the implementation of a recommendation.

587 Victorian Government, Government Responses to the Recommendations of Public Accounts and Estimates Committee's 111th Report on the 2012-13 Budget Estimates — Part Two, tabled 12 March 2013, p.25

588 Department of Premier and Cabinet, response to the Committee's 2013-14 Budget Estimates Questionnaire, received 8 May 2013, p.22

589 Department of Treasury and Finance, Response to the Committee's 2013-14 Budget Estimates Questionnaire, received 9 May 2013, p.52

FINDING: In some instances, departments have considered that recommendations have been implemented where the Committee considers that the actions taken have not fully addressed the issues.

RECOMMENDATION 39: As part of its review of guidelines for responding to inquiries, the Department of Premier and Cabinet provide a clear definition of the conditions under which a recommendation should be considered to be implemented.

9.5.2 Decisions on recommendations classified as 'under review'

The Government has responded to a number of the Committee's recommendations by stating that the recommendations are 'under review'. The Department of Treasury and Finance advised the Committee that this indicates:⁵⁹⁰

... that the Government is still considering its position in relation to the recommendation. Where possible, details of the nature of the review will be provided as well as expected timelines.

In March 2012, the Government notified the Committee that:⁵⁹¹

The Department of Treasury and Finance is investigating options to update the PAEC on responses that are "under review" to advise PAEC about the status of any actions being taken in relation to the recommendation, and provide an update on their expected timeframe where necessary.

The Committee anticipates that this investigation will result in a system for communicating decisions on recommendations once they have been made by the Government.

The Committee also anticipates that any system developed by the Department of Treasury and Finance will become part of the new guidelines developed by the Department of Premier and Cabinet.

FINDING: Currently the Committee is not informed when the Government has come to a position on recommendations which are initially responded to as 'under review'. The Department of Treasury and Finance is examining options to address this.

RECOMMENDATION 40: Following its investigation, the Department of Treasury and Finance implement a system to inform committees about the ultimate decisions on all recommendations initially classified as 'under review'.

590 Victorian Government, Government responses to the Recommendations of the Public Accounts and Estimates Committee's 102nd Report on the 2011-12 Budget Estimates — Part Three, tabled 14 March 2012, p.45

591 *ibid.*, p.44

RECOMMENDATION 41: The Department of Premier and Cabinet liaise with the Department of Treasury and Finance to ensure that any new guidelines for responding to inquiries incorporate any system developed by the Department of Treasury and Finance to inform the Committee about recommendations initially responded to as ‘under review’.

9.5.3 Altered responses to previous recommendations

As part of its normal activities, the Government may change its position on recommendations received from the Committee.

In its *Report on the 2012-13 Budget Estimates*, the Committee recommended that the Government notify the Committee if there were any recommendations that it had previously supported, but no longer supports.⁵⁹² In response, the Government notified the Committee that it had altered its response to two recommendations that it previously supported.⁵⁹³

There is no formal procedure in operation that ensures that the Committee is informed when the Government changes its view on a recommendation. The Committee considers that such a procedure should be included in the review by the Department of Premier and Cabinet.

FINDING: Currently there is no procedure that ensures that the Committee is informed when the Government changes its response to a recommendation.

RECOMMENDATION 42: As part of its review of guidelines for responding to inquiries, the Department of Premier and Cabinet develop a procedure to inform committees when the Government changes its response to a recommendation prior to implementation.

592 Public Accounts and Estimates Committee, *Report on the 2012-13 Budget Estimates — Part Two*, September 2012, Recommendation 49, p.152

593 Victorian Government, Government Responses to the Recommendations of the Public Accounts and Estimates Committee’s 111th Report on the 2012-13 Budget Estimates — Part Two, tabled 12 March 2013, pp. 22-3

APPENDICES TO CHAPTER 1 INTRODUCTION

Appendix A1.1 Return dates of the 2013-14 Budget Estimates Questionnaire (distributed on 21 March 2013)

Department	Due date	Extension granted until	Received
Education and Early Childhood Development	8 May 2013	-	8 May 2013
Environment and Primary Industries	8 May 2013	16 May 2013	16 May 2013
Health	8 May 2013	-	13 May 2013
Human Services	8 May 2013	-	8 May 2013
Justice	8 May 2013	-	8 May 2013
Premier and Cabinet	8 May 2013	-	8 May 2013
State Development, Business and Innovation	8 May 2013	-	10 May 2013
Transport, Planning and Local Infrastructure	8 May 2013	-	9 May 2013
Treasury and Finance	8 May 2013	-	9 May 2013
Parliamentary Departments	8 May 2013	-	8 May 2013

Source: Public Accounts and Estimates Committee

Appendix A1.2 Return dates of questions on notice from the 2013-14 budget estimates hearings (distributed on 20 June 2013)

Portfolio	Due date	Extension granted until	Received
Agriculture and Food Security	12 July 2013	15 July 2013	1 August 2013
Assistant Treasurer	12 July 2013	–	17 July 2013
Attorney-General	12 July 2013	–	29 July 2013
Bushfire Response	12 July 2013	–	25 July 2013
Community Services	12 July 2013	–	18 July 2013
Consumer Affairs	12 July 2013	–	12 July 2013
Corrections	12 July 2013	–	12 July 2013
Disability Services and Reform	12 July 2013	–	18 July 2013
Employment and Trade	12 July 2013	–	17 July 2013
Energy and Resources	12 July 2013	–	22 July 2013
Environment and Climate Change	12 July 2013	–	19 July 2013
Finance	12 July 2013	–	29 July 2013
Health	12 July 2013	–	12 July 2013
Higher Education and Skills	12 July 2013	–	12 July 2013 ^(a)
Industrial Relations	12 July 2013	–	29 July 2013
Liquor and Gaming Regulation	12 July 2013	–	12 July 2013
Major Projects	12 July 2013	–	29 July 2013
Minister responsible for the Aviation Industry	12 July 2013	–	22 July 2013
Multicultural Affairs and Citizenship	12 July 2013	22 July 2013	23 July 2013
Planning	12 July 2013	–	29 July 2013
Police and Emergency Services	12 July 2013	–	12 July 2013
Ports	12 July 2013	–	11 July 2013
Presiding Officers	12 July 2013	–	12 July 2013
Public Transport	12 July 2013	–	22 July 2013
Racing	12 July 2013	–	12 July 2013
Regional and Rural Development	12 July 2013	26 July 2013	6 August 2013
Sport and Recreation	12 July 2013	26 July 2013	24 July 2013
State Development	12 July 2013	26 July 2013	6 August 2013
Treasurer	12 July 2013	–	9 July 2013
Water	12 July 2013	–	1 August 2013

(a) Further details were supplied on 31 July 2013.

Source: Public Accounts and Estimates Committee

APPENDICES TO CHAPTER 3 REVENUE

Appendix A3.1 Components of revenue^(a), 2007-08 to 2016-17 (\$ million)

	2007-08 actual	2008-09 actual	2009-10 actual	2010-11 actual	2011-12 actual	2012-13 revised estimate	2013-14 Budget	2014-15 estimate	2015-16 estimate	2016-17 estimate
Taxation	12,862.9	12,626.9	13,740.5	14,857.5	15,026.9	15,621.4	16,454.4	17,514.5	18,299.4	19,262.0
• Taxes on employers' payroll and labour force	3,844.8	3,979.7	4,055.8	4,354.0	4,695.8	4,815.9	5,110.9	5,407.7	5,721.8	6,040.2
• Land transfer duty	3,705.6	2,801.0	3,603.9	3,909.9	3,307.0	3,172.1	3,459.5	3,708.6	3,931.1	4,168.9
• Motor vehicle taxes	1,343.0	1,323.8	1,436.9	1,503.3	1,589.6	1,828.2	1,900.8	1,982.1	2,068.4	2,158.3
• Landfill Levy, CityLink, Liquor Licence and Port Licence Fees	79.1	100.3	99.5	163.0	201.9	291.1	294.1	304.1	303.9	305.0
• Levies on statutory corporations	61.5	69.4	69.4	69.4	69.4	70.2	117.5	116.3	114.7	-
• Other taxation (including land tax) ^(b)	3,828.9	4,352.7	4,475.0	4,857.9	5,163.2	5,444.1	5,571.8	5,995.8	6,159.5	6,590.2
Interest	451.6	378.2	333.5	420.1	412.6	672.6	867.0	867.3	862.9	857.4
Dividends, income tax and rate equivalent revenue	759.9	490.4	485.6	404.0	939.1	1,232.7	671.5	634.8	778.4	740.8
• Dividends	360.0	344.6	309.1	243.3	665.2	1,094.9	449.4	407.4	542.5	507.8
• Other dividends, income tax and rate equivalent revenue ^(b)	399.9	145.8	176.5	160.7	273.9	137.8	222.1	227.4	235.9	232.9
Sales of goods and services^(c)	4,488.3	4,940.5	5,289.5	5,944.2	6,267.2	6,916.7	6,949.5	7,085.2	7,336.8	7,422.1
Grants received	17,210.1	18,970.0	22,717.8	22,425.6	22,599.8	21,693.0	23,310.5	23,937.0	25,199.6	26,230.7
• General purpose grants	9,263.1	9,319.0	10,043.3	10,630.9	10,380.2	11,024.5	11,297.2	11,784.0	12,634.8	13,655.7
• Specific purpose grants for on-passing	2,063.5	2,232.8	3,099.4	2,493.1	2,781.4	2,501.8	2,977.9	3,190.5	3,447.6	3,673.2
• Grants for specific purposes	5,775.3	7,159.6	9,448.0	9,163.7	9,309.5	8,039.2	8,904.6	8,831.7	9,005.5	8,789.4
• Other contributions and grants ^(b)	108.1	258.5	127.1	137.8	128.7	127.4	130.7	130.8	111.8	111.9
Fines	434.3	470.5	538.1	528.1	548.0	699.4	714.9	744.2	760.5	777.0
Fair value of assets received free of charge or for nominal consideration	76.7	131.3	161.6	34.2	268.9	3.1	1.8	1.8	1.7	1.9
Other current revenue^(b)	1,056.5	1,277.2	1,318.7	1,413.2	1,819.8	1,266.7	1,357.8	1,190.0	1,235.0	1,251.8
Total Revenue	37,340.3	39,284.8	44,585.3	46,026.9	47,882.3	48,105.6	50,327.5	51,974.7	54,474.3	56,543.4
Revenue growth (per cent)	7.0%	5.2%	13.5%	3.2%	4.0%	0.5%	4.6%	3.3%	4.8%	3.8%
Average annual growth rate (2007-08 to 2016-17)^(c) (per cent)	4.7%									

(a) Further disaggregation is found in budget papers. Figures may not agree with published sources due to rounding.

(b) Calculated as a residual.

(c) Compound annual growth rate

Sources: Department of Treasury and Finance, 2007-08 Financial Report for the State of Victoria, October 2008, Chapter 4; Department of Treasury and Finance, 2008-09 Financial Report for the State of Victoria, October 2009, Chapter 4; Budget Paper No.5, 2011-12 Statement of Finances, May 2011, Chapter 4; Budget Paper No.5, 2012-13 Statement of Finances, May 2012, Chapter 4; Budget Paper No.5, 2013-14 Statement of Finances, May 2013, Chapter 4

Appendix A3.2 Revenue initiatives and revenue foregone since the 2011-12 Budget, 2011-12 to 2016-17 (\$ million)

		2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
2011-12 Budget	Revenue initiatives	35.0	65.0	66.7	68.5	n/a	n/a
	Enhanced tax compliance						
	Landfill levy	11.9	11.2	10.3	9.9	n/a	n/a
Revenue foregone	Reform of land rich duty	-	51.0	76.0	76.0	n/a	n/a
	Ambulance services – 50 per cent cut to ambulance membership fees	-52.1	-57.3	-63.1	-69.4	n/a	n/a
	50 per cent Land Transfer Duty concession for first home buyers of properties valued up to \$600 000	-71.0	-86.0	-121.0	-166.0	n/a	n/a
	Extend Land Transfer Duty relief for eligible seniors	-10.8	-10.9	-11.5	-12.1	n/a	n/a
	Land Transfer Duty concession for farmers under 35 years of age	-3.0	-3.0	-3.0	-3.0	n/a	n/a
	Liquor licence fee reduction	-2.5	-2.7	-2.9	-3.1	n/a	n/a
	Receipt of dividends from the Victorian WorkCover Authority	147.0	126.5	87.5	110.5	n/a	n/a
	Shorten land transfer duty payment period	47.0	0.0	0.0	0.0	n/a	n/a
	Increase motor vehicle registration fee	37.0	158.0	166.0	175.0	n/a	n/a
	Increase new passenger motor vehicle duty	-	33.0	35.0	35.0	n/a	n/a
2012-13 Budget	Revenue initiatives	-	5.0	5.0	5.0	5.0	n/a
	Abolish stamp duty exemption for grants of Crown land	-	-	-	-	-	-
	Contributions for specific bus services	-	0.2	0.2	0.2	0.2	n/a
	Enhanced revenue compliance	-	16.3	8.8	8.9	8.9	n/a
	Environmental Contribution Levy	-	70.2	117.5	116.3	114.7	n/a
	Increased penalty unit value	-	72.3	73.9	74.9	74.9	n/a
	Working With Children Check application and renewal fees	-	7.6	6.9	6.6	6.3	n/a
	Liquor Control Reform	-0.2	-0.2	-0.5	-1.5	-2.7	n/a
	Align driver licence fees more closely with other jurisdictions	-	8.4	33.6	34.4	32.8	n/a
	Fire Services Property Levy	-	0.0	587.3	593.1	596.5	n/a
2012-13 Budget Update	Revenue foregone	-	0.0	-599.2	-604.5	-609.9	n/a
	Abolished insurance and local council contributions	-	-	-	-	-	-
	Introducing standard board and lodging fees for disability accommodation	-	-	11.0	11.0	11.0	11.0
	Enhancing the asset confiscation scheme	-	-	16.3	13.5	25.8	27.8
	Land tax compliance	-	-	18.8	32.5	33.3	5.5
	Recasting the Congestion Levy	-	-	44.2	45.3	46.4	47.5
	Retargeting the Driver Reward scheme	-	-	14.8	12.8	12.0	9.1
	TAC revenue to fund Road Safety Strategy 2013-22	-	-	25.7	22.8	29.2	100.0
	Accelerating First Home Buyer stamp duty concessions	-	0.0	-10.8	0.0	0.0	0.0
	2013-14 Budget	Revenue initiatives	-	-	-	-	-
Revenue foregone		-	-	-	-	-	-
Abolished insurance and local council contributions		-	-	-	-	-	-
Introducing standard board and lodging fees for disability accommodation		-	-	-	-	-	-
Enhancing the asset confiscation scheme		-	-	-	-	-	-
Land tax compliance		-	-	-	-	-	-
Recasting the Congestion Levy		-	-	-	-	-	-
Retargeting the Driver Reward scheme		-	-	-	-	-	-
TAC revenue to fund Road Safety Strategy 2013-22		-	-	-	-	-	-
Accelerating First Home Buyer stamp duty concessions		-	-	-	-	-	-

Sources: Budget Paper No. 3, 2011-12 Service Delivery, May 2011, pp.148, 91; Department of Treasury and Finance, Victorian Budget Update 2011-12, December 2011, p.114; Budget Paper No. 3, 2012-13 Service Delivery, May 2012, p.79; Department of Treasury and Finance, Victorian Budget Update 2012-13, December 2012, p.126; Budget Paper No. 3, 2013-14 Service Delivery, May 2013, p.61

Appendix A3.3 Revenue estimates and actual figures, 2004-05 to 2011-12 (\$ million)

Budget	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
2004-05	28,984.9	29,755.0	30,595.6	31,724.6									
2005-06		30,623.6	31,454.5	32,257.0	33,502.4								
2006-07			32,442.1	33,462.9	34,594.7	35,499.8							
2007-08				34,269.2	35,420.5	36,381.0	37,676.0						
2008-09					37,810.0	39,320.8	41,116.8	42,646.4					
2009-10						42,388.3	42,602.1	43,269.3	44,390.0				
2010-11							45,759.3	46,595.5	49,169.1	50,400.1			
2011-12								47,439.2	48,806.9	50,310.8	52,170.8		
2012-13									48,356.7	50,458.7	52,384.9	55,001.6	
2013-14										50,327.5	51,974.7	54,474.3	56,543.4
actual	29,825.1	31,972.0	34,885.7	37,340.3	39,284.8	44,585.3	46,026.9	47,882.3	n/a	n/a	n/a	n/a	n/a
Variation (earliest estimate to actual)				5,615.7	5,782.4	9,085.5	8,350.9	5,235.9	n/a	n/a	n/a	n/a	n/a
Variation (budget year to actual)	840.2	1,348.4	2,443.6	3,071.1	1,474.8	2,197.0	267.6	443.1	n/a	n/a	n/a	n/a	n/a

Source: Budget Paper No.4, 2004-05 Statement of Finances, May 2004, p.8; Budget Paper No.4, 2005-06 Statement of Finances, May 2005, p.10; Budget Paper No.4, 2006-07 Statement of Finances, May 2006, p.9; Budget Paper No.4, 2007-08 Statement of Finances, May 2007, p.9; Budget Paper No.4, 2008-09 Statement of Finances, May 2008, p.10; Budget Paper No.4, 2009-10 Statement of Finances, May 2009, p.10; Budget Paper No.4, 2010-11 Statement of Finances, May 2010, p.10; Budget Paper No.5, 2011-12 Statement of Finances, May 2011, p.9; Budget Paper No.5, 2012-13 Statement of Finances, May 2012, p.5; Budget Paper No.5, 2013-14 Statement of Finances, May 2013, p.5

Appendix A3.4 Expenses estimates and actual figures, 2004-05 to 2011-12 (\$ million)

Budget	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
2004-05	28,439.9	29,249.6	30,065.0	31,048.9									
2005-06		30,258.9	31,135.2	31,944.0	32,951.5								
2006-07			32,125.3	33,157.5	34,263.4	35,188.0							
2007-08				33,944.9	34,986.3	35,991.1	37,229.2						
2008-09					36,982.4	38,469.6	40,210.7	41,683.7					
2009-10						42,223.2	42,406.8	42,979.1	43,827.9				
2010-11							44,887.4	45,945.1	47,781.5	48,906.9			
2011-12								47,298.8	48,657.1	50,150.2	51,989.7		
2012-13									48,201.8	49,597.6	51,308.4	52,473.8	
2013-14 ^(a)										49,509.8	50,969.2	51,929.3	53,369.6
actual	29,030.2	31,147.5	33,551.2	35,693.8	39,033.7	43,941.7	45,509.6	47,311.0	n/a	n/a	n/a	n/a	n/a
Variation (earliest estimate to actual)				4,644.9	6,082.2	8,753.7	8,280.4	5,627.3	n/a	n/a	n/a	n/a	n/a
Variation (budget year to actual)	590.3	888.6	1,425.9	1,748.9	2,051.3	1,718.5	622.2	12.2	n/a	n/a	n/a	n/a	n/a

(a) These figures exclude the effect of AASB 119 on total expenses.

Source: Budget Paper No.4, 2004-05 Statement of Finances, May 2004, p.8; Budget Paper No.4, 2005-06 Statement of Finances, May 2005, p.10; Budget Paper No.4, 2006-07 Statement of Finances, May 2006, p.9; Budget Paper No.4, 2007-08 Statement of Finances, May 2007, p.9; Budget Paper No.4, 2008-09 Statement of Finances, May 2008, p.10; Budget Paper No.4, 2009-10 Statement of Finances, May 2009, p.10; Budget Paper No.4, 2010-11 Statement of Finances, May 2010, p.10; Budget Paper No.5, 2011-12 Statement of Finances, May 2011, p.9; Budget Paper No.5, 2012-13 Statement of Finances, May 2012, p.5; and Budget Paper No.5, 2013-14 Statement of Finances, May 2013, p.5

Appendix A3.5 Dividends paid by major contributing entities, 2007-08 to 2011-12 (\$ million)

	2007-08 actual	2008-09 actual	2009-10 actual	2010-11 actual	2011-12 actual
City West Water	24.5	38.6	32.0	15.7	45.2
Melbourne Water	99.4	72.0	79.8	26.5	118.4
Port of Melbourne Corporation	6.7	29.6	67.8	13.4	34.4
Rural Finance Corporation	7.5	8.6	9.6	11.6	13.8
South East Water	37.6	28.9	37.7	16.7	50.0
Transport Accident Commission	133.0	139.3	0.0	100.0	140.0
Treasury Corporation of Victoria	21.7	0.0	48.6	36.2	52.6
Victorian WorkCover Authority	0.0	0.0	0.0	0.0	147.0
Yarra Valley Water	21.4	14.1	26.6	12.4	56.1
Total dividends paid by major contributing entities	351.8	331.1	302.1	232.5	657.5
Total dividends revenue	360.0	344.6	309.1	243.3	665.2

Sources: Agencies' annual reports; Department of Treasury and Finance, *2008-09 Financial Report for the State of Victoria*, October 2009, p.83; Department of Treasury and Finance, *2009-10 Financial Report for the State of Victoria*, October 2010, p.81; Department of Treasury and Finance, *2010-11 Financial Report for the State of Victoria*, October 2011, p.71; Department of Treasury and Finance, *2011-12 Financial Report for the State of Victoria*, October 2012, p.71.

APPENDICES TO CHAPTER 5 BORROWINGS, DEBT AND LIABILITIES

Appendix A5.1 General government sector net debt, borrowings and interest expense, 2008 to 2017 (\$ million)

	2008 actual	2009 actual	2010 actual	2011 actual	2012 actual	2013 revised estimate	2014 Budget	2015 estimate	2016 estimate	2017 estimate
Net debt	2,150.0	5,291.7	7,963.6	11,836.8	15,236.9	19,840.4	22,983.1	25,052.6	24,385.3	22,695.6
Cash borrowings ^(a)	6,479.9	8,909.9	11,860.9	15,897.5	19,679.2	23,448.0	26,959.6	29,418.7	28,167.0	26,994.5
Finance lease liabilities	1,319.2	1,722.3	1,746.1	1,835.1	2,678.7	7,974.7	7,829.0	7,677.4	8,570.4	8,444.3
Derivative financial instruments	0.0	8.5	5.5	1.6	36.0	36.0	36.0	36.0	36.0	36.0
Interest expense ^(b)	438.5	642.4	843.3	985.6	1,242.6	1,750.6	2,176.9	2,309.8	2,299.0	2,291.8

(a) Listed in the financial statements as 'domestic borrowings'.

(b) For the financial year ended on 30 June of the indicated year.

Sources: Department of Treasury and Finance. 'Consolidated Comprehensive Operating Statement' data set <www.budget.vic.gov.au/CA257B16002775DE/WebObj/OperatingStatementGG2013-14> Budget7May2013/\$File/OperatingStatementGG2013-14Budget7May2013.XLS>, accessed 14 June 2013; Department of Treasury and Finance, Financial Report for the State of Victoria, 2008-09 to 2011-12; and Budget Paper No. 5, 2013-14 Statement of Finances, May 2013, pp.5-7, 38

Appendix A5.2 PNFC sector borrowings, net debt and interest expense, 2008 to 2017 (\$ million)

	2008 actual	2009 actual	2010 actual	2011 actual	2012 actual	2013 revised estimate	2014 Budget	2015 estimate	2016 estimate	2017 estimate
Net debt	1,710.3	5,401.2	6,843.7	7,892.3	9,376.9	15,304.6	16,221.3	17,094.7	17,745.7	18,001.6
Borrowings ^(a)	5,615.7	7,618.2	8,946.6	10,097.9	10,867.7	16,349.8	17,250.5	18,187.7	18,842.2	19,200.4
Interest expense ^(b)	363.3	490.6	534.7	661.3	702.7	1,019.0	1,284.6	1,332.1	1,376.3	1,420.3

(a) Disaggregation into cash borrowings and finance lease liability is not available for the PNFC sector.

(b) For the financial year ended on 30 June of the indicated year.

Sources: Department of Treasury and Finance, Financial Report for the State of Victoria, 2008-09 to 2011-12; Budget Paper No. 5, 2013-14 Statement of Finances, May 2013, pp.5-7, 38; Budget Paper No. 5, 2013-14 Statement of

Appendix A5.3 Break-down of net debt for the PNFC sector, 2013 to 2017 (\$ million)

	2013 revised estimate	2014 Budget	2015 estimate	2016 estimate	2017 estimate
Melbourne Water Corporation	8,490	8,553	8,752	8,845	8,876
Yarra Valley Water Ltd	1,883	2,071	2,220	2,369	2,517
South East Water Ltd	1,054	1,237	1,405	1,537	1,652
City West Water Ltd	955	1,132	1,258	1,356	1,457
Victorian Rail Track	903	828	735	639	545
Barwon Region Water Corporation	489	540	553	567	574
Coliban Region Water Corporation	430	481	501	517	531
Port of Melbourne Corporation	350	437	660	901	969
Urban Renewal Authority Victoria (Places Victoria)	299	355	361	328	241
Other ^(a)	1,052	1,140	1,263	1,312	1,355
Total	15,305	16,221	17,095	17,746	18,002

(a) Calculated by the Committee as a residual. Includes PNFC entities with net debt levels below \$250 million in 2014.

Sources: Committee calculations based on the Department of Treasury and Finance, response to the Committee's 2013-14 budget estimates questionnaire, p.27; and Budget Paper No.5, 2013-14 Statement of Finances, May 2013, p.47

APPENDICES TO CHAPTER 6 OUTPUT EXPENDITURE

Appendix A6.1 Components of expenditure, 2006-07 to 2016-17 (\$ million)

	2007-08 actual	2008-09 actual	2009-10 actual	2010-11 actual	2011-12 actual	2012-13 revised estimate	2013-14 Budget	2014-15 estimate	2015-16 estimate	2016-17 estimate
Employee expenses	13,239.4	14,296.9	15,404.8	16,374.8	17,120.1	17,546.3	17,947.1	18,667.7	19,292.7	19,860.4
Superannuation expenses ^(a)	1,648.0	2,013.9	2,394.5	2,627.2	2,632.4	2,369.4	3,031.0	3,034.5	3,047.3	3,048.4
Depreciation	1,416.2	1,515.8	1,869.7	2,010.0	2,126.5	2,264.9	2,377.7	2,541.2	2,620.7	2,750.1
Interest expense	438.5	642.4	843.3	985.6	1,242.6	1,750.6	2,176.9	2,309.8	2,299.0	2,291.8
Grants and other transfers	7,046.9	7,366.3	9,174.5	8,547.4	8,233.8	7,703.7	7,997.4	8,344.8	8,522.4	8,773.8
Other operating expenses	11,904.7	13,198.4	14,254.9	14,964.6	15,955.6	16,293.7	16,573.0	16,678.2	16,764.6	17,271.4
Total expenses ^(a)	35,693.8	39,033.7	43,941.7	45,509.6	47,311.0	47,928.6	50,103.0	51,576.0	52,546.6	53,996.0
Less: effect of changes to AASB 119							593.2	606.8	617.3	626.4
Total expenses^(b)	35,693.8	39,033.7	43,941.7	45,509.6	47,311.0	47,928.6	49,509.8	50,969.2	51,929.3	53,369.6

(a) After effect of change to AASB 119.

(b) Excluding effect of change to AASB 119.

Sources: Department of Treasury and Finance, 'Consolidated Comprehensive Operating Statement 2013-14' data set, <www.dtf.vic.gov.au/Publications/Victoria-Economy-publications/Financial-statements/>, accessed 6 June 2013; Budget Paper No.5, *2013-14 Statement of Finances*, May 2013, p.6

Appendix A6.2 Base and initiative^(a) funding, 2012-13 and 2013-14

Department	2012-13		2013-14		Increase in base funding (per cent)	Increase in initiative funding (per cent)
	Base funding (\$ million)	Initiative funding ^(b) (\$ million)	Base funding (\$ million)	Initiative funding ^(b) (\$ million)		
Business and Innovation	253.3	367.7				
Education and Early Childhood Development	11,133.5	413.6	10,073.1	175.1	-9.5	-57.7
Environment and Primary Industries ^(d)			1,538.1 ^(c)	181.3		
Health	13,236.7	446.9	13,771.2	573.7	4.0	28.4
Human Services	3,338.5	112.6	3,533.6	112.8	5.8	0.2
Justice	4,369.5	165.6	5,246.7	140.8	20.1	-15.0
Planning and Community Development	160.5	341.4				
Premier and Cabinet	488.0	54.4	579.2	36.0		
Primary Industries	300.6	153.6				
State Development, Business and Innovation			298.7	759.8		
Sustainability and Environment	541.0	844.0				
Transport, Planning and Local Infrastructure			6,365.7	204.4		
Treasury and Finance	223.1	11.0	225.4	20.3	1.0	84.5
Transport	5,834.9	126.3				
Parliament	119.8	0.0	135.6	0.3	13.2	-
Total	39,999.4	3,037.1	41,767.3	2,204.9	4.4	-27.4

(a) 'Initiative funding' applies to funding from initiatives that have fixed terms, rather than ongoing initiatives, which add to base funding for departments.

(b) Initiative funding for the year is made up of funds allocated for initiatives released in the latest budget plus funding allocated to initiatives from past budgets.

(c) Some funding for projects lasting beyond the forward estimates period was included in base funding.

(d) Updated figure received from department subsequent to questionnaire.

Source: Departmental responses to Committee's 2012-13 Budget Estimates Questionnaire; Departmental responses to Committee's 2013-14 Budget Estimates Questionnaire; Department of Environment and Primary Industries, correspondence received 10 July 2013

Appendix A6.3 Departments with significant differences between expenses from transactions and output costs, 2013-14

Department	Expenses from transactions ^(a) (\$ million)	Output costs ^(b) (\$ million)	Variance (\$ million)	Explanation provided for the 2013-14 variation ^(c)
Health	15,481.3	14,344.9	1,136.4	None
Human Services	3,665.6	3,646.4	19.2	Total output expense may not equate to the total expense reported in Budget Paper No.5, Chapter 3, Departmental Financial Statement due to additional expenses in Budget Paper No.5 that are not included in departmental output costs.
Premier and Cabinet	671.3	661.7	9.6	None
Transport, Planning and Local Infrastructure	6,575.1	6,570.1	5.0	None
Treasury and Finance	460.0	245.7	214.3	None

Sources:

- (a) Budget Paper No.5, *2013-14 Statement of Finances*, Chapter 3, departmental comprehensive operating statements
(b) Budget Paper No.3, *2013-14 Service Delivery*, Chapter 2, departmental output summary tables
(c) Budget Paper No.3, *2013-14 Service Delivery*, Chapter 2, notes to departmental output summary tables

Appendix A6.4 Funding reprioritised or adjusted, 2011-12 to 2013-14

Department	Budget in which funding was reprioritised or adjusted	What the reprioritised and adjusted funding was initially provided for	How much of the Department's funding was reprioritised or adjusted (\$ million)
Environment and Primary Industries	2011-12	Forests and Parks Output base funding	4.60
		Forests and Parks Output base funding	0.15
		Biodiversity Output base funding	0.70
		Corporate support for Agriculture and Food Security programs.	1.40
	2012-13	None	-
	2013-14	Energy Efficient Rebates for Low Income Homes	3.10
		Rebates for Water Efficient Items and Appliances	25.90
		Agricultural and Food Security programs, including the Marketing Co-operative grant program	4.90
	Total		40.75

Department	Budget in which funding was reprioritised or adjusted	What the reprioritised and adjusted funding was initially provided for	How much of the Department's funding was reprioritised or adjusted (\$ million)
Justice	Budget Initiatives Announced in 2011-12	Graffiti Prevention and Removal Strategy	0.24
		Independent Freedom of Information Commissioner	0.27
		VicSES Funding Boost – Valuing Volunteers	0.25
	Budget Initiatives Announced in 2012-13	A Specialist Response to the Management of Serious Sex Offenders	1.75
		Implementing Victoria's Integrity System Reforms	1.06
	Budget Initiatives Announced in 2013-14	Additional Prison Beds	24.49
		Remediation of Fiskville and Regional Training colleges	6.54
Total		34.60	
State Development, Business and Innovation	2011-12	General Recurrent expenditure.	0.80
	2012-13	The Energy Technology Innovation Strategy (ETIS)	8.80
		Restructuring of funding for a range of Tourism, Manufacturing and International programs.	7.70
	2013-14	The Energy Technology Innovation Strategy (ETIS)	8.90
		Business Victoria Online	2.40
Total		27.80	
Education and Early Childhood Development	2011-12	The Department reviews its overall base budget to reprioritise appropriate funding to BERC initiatives as part of the budget process.	0.15
	2012-13	Nil	-
	2013-14	The Department reviews its overall base budget to reprioritise appropriate funding to BERC initiatives as part of the budget process (approx. \$6.3m). In 2013-14, \$0.8m of supplementary equipment funding was redirected to the TAFE structural adjustment fund.	7.10
	Total		7.25
Human Services	2011-12	Nil	-
	2012-13	Initiatives receiving reprioritised funding:	
		• Mansfield Autism Statewide Service	0.25
		• Vulnerable People in Emergencies	0.23
	• Opening Doors – Co-ordinating services for people experiencing or at risk of homelessness	1.70	
2013-14	Initiatives receiving reprioritised funding:		
	• Accommodation options for families	1.00	
	• Gas heater servicing in public housing properties	1.84	
• Kids Under Cover	1.09		
Total		6.11	

Source: departmental responses to the Committee's 2013-14 Budget Estimates Questionnaire

APPENDIX TO CHAPTER 7

PERFORMANCE MEASUREMENT

Appendix A7.1 Examples of objective indicators that are focussed on outputs and processes

Department of Environment and Primary Industries
Area of public land treated through planned burning (hectares)
Area of public land prepared for prescribed burning (hectares)
Department of Human Services
Efficient management of housing stock (including occupancy rate and turnaround time)
Disability clients receiving individualised support to live in the community
Department of Justice
Law reform projects completed
Accuracy of the births, deaths and marriages register
Responsive Gamblers Help services
Anti-corruption and Freedom of Information (FOI) education activities (FOI and IBAC)
Department of Premier and Cabinet
DPC leads policy development on key priority issues
Victoria's cultural venues and state-owned facilities are maintained to provide continuously improving services to Victorians
Capacity building activities undertaken with Aboriginal community groups: cultural heritage management
Services provided to the State relating to the development, drafting, publication and implementation of legislation are comprehensive, integrated and of a high-quality
Department of State Development, Business and Innovation
Business skills needs assisted
Collaborations assisted
Businesses engaged and assisted
Department of Transport, Planning and Local Infrastructure
Level of satisfaction of key stakeholders with State Planning Strategies
Number and type of reforms implemented to increase the efficiency of Victoria's planning, building and heritage system
The quality of the built environment has significant cultural and public value contributing to an enriched sense of place for all Victorians

Source: Budget Paper No.3, 2013-14 Service Delivery, May 2013, Chapter 2

APPENDIX TO CHAPTER 8 ASSET INVESTMENT

Appendix A8.1 Asset investment by type, general government sector, 2007-08 to 2016-17 (\$ million)

	2007-08 actual	2008-09 actual	2009-10 actual	2010-11 actual	2011-12 actual	2012-13 revised estimate	2013-14 Budget	2014-15 estimate	2015-16 estimate	2016-17 estimate
Direct investment	2,709.0	3,146.8	4,661.2	4,886.3	3,564.9	4,088.5	4,868.9	4,136.7	3,344.7	3,851.9
Investment through other sectors	1,367.4	1,168.5	1,236.6	1,937.5	1,831.1	1,521.7	1,377.3	1,399.4	47.2	112.8
PPP payments	n/a	n/a	n/a	n/a	496.1	238.7	310.1	1,465.0	1,078.6	0.0
Total^(a)	4,076.4	4,315.3	5,897.8	6,823.8	5,892.1	5,848.9	6,556.3	7,001.1	4,470.5	3,964.7
Government infrastructure investment	n/a	n/a	n/a	n/a	5,380.7	5,426.2	6,136.1	6,566.8	3,969.6	3,527.8

(a) This total differs from the 'Government infrastructure investment' measure, as that measure excludes certain amounts included in this total.

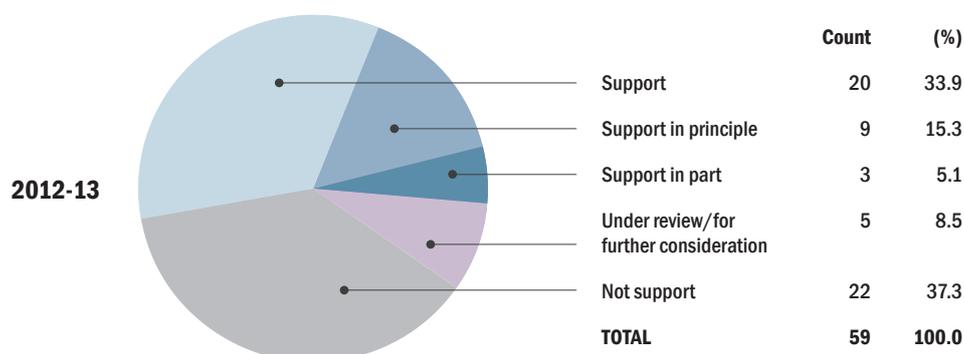
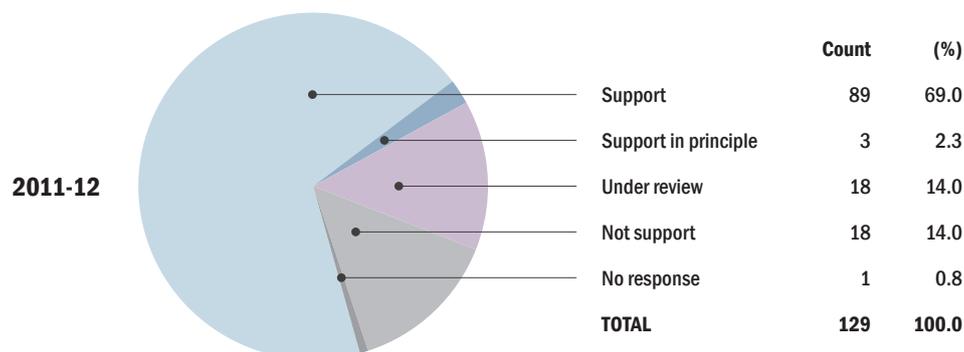
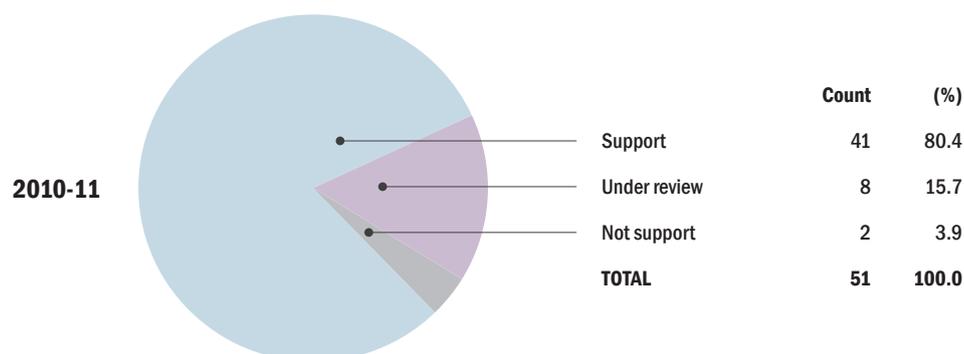
Sources: Department of Treasury and Finance, 'Consolidated Cash Flow Statement 2013-14', <www.dtf.vic.gov.au/files/7304b706-c487-4fff-a65e-a1d200e7d9ed/CashFlowHistoricalGG2013-14Budget7May2013.xls>, accessed 22 July 2013; Hon. M. O'Brien MP, Treasurer, 2013-14 budget estimates hearings, response to questions on notice, received 9 July 2013

APPENDICES TO CHAPTER 9

THE GOVERNMENT'S RESPONSES TO THE COMMITTEE'S REPORT ON THE 2012-13 BUDGET ESTIMATES

Appendix A9.1 Government's classification of its responses to the Committee's recommendations, 2010-11 to 2012-13 Budget Estimates Reports

In responding to the recommendations in Committee reports over the past three years, the Government has provided an increasing number of response types. These are shown for the three reports in the figure below.



Note: The Government has altered its response to two recommendations from the *Report on the 2011-12 Budget Estimates*. One response has been changed from 'support' to 'not support', and the other has been changed from 'support' to supporting only part of the recommendation (Victorian Government, Government Responses to the Recommendations of Public Accounts and Estimates Committee's 111th Report on the 2012-13 Budget Estimates – Part Two, tabled 12 March 2013, pp.22-3). The figures above show the initial responses, and do not factor these changes in.

Sources: Victorian Government, Government Responses to the Recommendations of Public Accounts and Estimates Committee's 96th Report on the 2010 11 Budget Estimates, tabled 16 March 2011; Government Responses to the Recommendations of Public Accounts and Estimates Committee's 102nd Report on the 2011 12 Budget Estimates, tabled 24 November 2011 (Part One), 7 February 2012 (Part Two), and 14 March 2012 (Part Three); Government Responses to the Recommendations of Public Accounts and Estimates Committee's 111th Report on the 2012 13 Budget Estimates, tabled 29 November 2012 (Part One), 12 March 2013 (Part Two)

Appendix A9.2 Recommendations from the *Report on the 2012-13 Budget Estimates* where actions taken to implement them do not fully address the issue

Recommendation	Departments' description of actions taken and location of changes	Committee comment
7. In future budget papers, the Department of Treasury and Finance provide explanations when significant variations for revenue components are predicted over the forward estimates period.	A detailed discussion of the revenue outlook is included in Budget Paper 2, Chapter 4 and Budget Paper 5, Chapter 4. The former also includes a discussion of major variations in the outlook since the previous publication. Budget Paper 2, Chapter 4 and Budget Paper 5, Chapter 4.	Discussion in Budget Paper No.2, Chapter 4 and Budget Paper No.5, Chapter 4, is restricted to discussion of 2013-14 and a general description of the forward estimates period. No discussion is included regarding, for example, a peak in dividends in 2015-16 (BP5, p.180), or large growth in the sales of goods and services in 2015-16 (BP2, p.47).
36. Future budget papers should include a comparison between net direct investment and depreciation in the general government sector.	The Government will continue to include in future budget papers, net direct investment and depreciation in the general government sector in Budget Paper 5, Chapter 1, Estimated Financial Statements and Notes in Note 15, Net acquisition of non-financial assets from transactions. Budget Paper 5, Chapter 1, Estimated Financial Statements and Notes.	While the table (BP5, p.33) includes the required figures, there is no discussion of the indicator.
46. The Department of Treasury and Finance ensure that new asset initiatives announced in budget updates are treated consistently in the papers of the following budget.	Budget Papers 3 and 4 have been prepared from a position of ensuring all new asset initiatives are presented consistently. Where there are divergences in treatment a footnote has been used to explain the reasons for the differential treatment. Budget Papers 3 and 4.	Some asset initiatives from the 2012-13 Budget Update are reported in the 2013-14 Budget Papers as 'existing' projects and others are reported as 'new' projects (BU, pp.133, 139; BP4, pp.26, 44).

Sources: Victorian Government, Government Responses to the Recommendations of Public Accounts and Estimates Committee's 111th Report on the 2012-13 Budget Estimates – Part Two, tabled 12 March 2013; Departmental responses to the Committee's 2013-14 Budget Estimates Questionnaire

LIST OF PEOPLE AND DEPARTMENTS PROVIDING EVIDENCE AT THE PUBLIC HEARINGS AND RESPONSES TO THE BUDGET ESTIMATES QUESTIONNAIRE

People providing evidence at the public hearings

10 May 2013	Portfolio: Treasurer	Department of Treasury and Finance
	Mr M. O'Brien, Treasurer	
	Mr G. Hehir, Secretary	
	Mr D. Webster, Deputy Secretary, Commercial	
	Ms M. Skilbeck, Deputy Secretary, Budget and Finance	
	Mr B. Flynn, Deputy Secretary, Economic	
	Portfolio: Premier	Department of Premier and Cabinet
	Dr D. Napthine, Premier	
	Mr A. Tongue, PSM, Secretary	
	Ms J. de Morton, Deputy Secretary, Government and Corporate Group	
	Portfolio: Regional Cities	Department of Premier and Cabinet; Department of State Development, Business and Innovation; and Department of Transport, Planning and Local Infrastructure
	Dr D. Napthine, Minister for Regional Cities	
	Mr A. Tongue, PSM, Secretary, Department of Premier and Cabinet	
	Mr L. Bruce, Chief Executive Officer, Regional Development Victoria, Department of State Development, Business and Innovation	
	Mr G. Forck, Chief Finance Officer, Department of Transport, Planning and Local Infrastructure	
	Ms L. Healy, Executive Director, Policy and Planning, Department of State Development, Business and Innovation	
	Portfolio: Racing	Department of Justice
	Dr D. Napthine, Minister for Racing	
	Mr G. Wilson, Secretary	
	Mr S. Condron, Chief Finance Officer	
Mr R. Kennedy, PSM, Executive Director, Liquor, Gaming and Racing		
13 May 2013	Portfolio: Parliament	Parliamentary Departments
	Mr K. Smith, Speaker of the Legislative Assembly	
	Mr B. Atkinson, President of the Legislative Council	
	Mr P. Lochert, Secretary, Department of Parliamentary Services	
	Mr R. Purdey, Clerk of the Legislative Assembly	
	Mr W. Tunnecliffe, Clerk of the Legislative Council	
	Portfolio: Corrections	Department of Justice
	Mr E. O'Donohue, Minister for Corrections	
	Mr G. Wilson, Secretary	
	Ms J. Shuard, Commissioner, Corrections Victoria	
	Ms J. Griffith, Executive Director, Corrections, Health and Crime Prevention	
	Ms L. Strong, Director, Justice Health	

13 May 2013	Portfolio: Crime Prevention	Department of Justice
	Mr E. O'Donohue, Minister for Crime Prevention	
	Mr G. Wilson, Secretary	
	Ms J. Griffith, Executive Director, Corrections, Health and Crime Prevention	
	Ms J. Brennan, Director, Community Crime Prevention	
	Portfolio: Liquor and Gaming Regulation	Department of Justice
	Mr E. O'Donohue, Minister for Liquor and Gaming Regulation	
	Mr G. Wilson, Secretary	
	Ms C. Carr, Director, Liquor and Gaming Policy	
	Mr R. Kennedy, PSM, Executive Director, Liquor, Gaming and Racing	
Ms M. Amiridis, Director, Gaming Licences Transition Project		

14 May 2013	Portfolio: Health	Department of Health
	Mr D. Davis, Minister for Health	
	Dr P. Philip, Secretary	
	Mr P. Fitzgerald, Executive Director, Strategy and Policy	
	Mr L. Wallace, Executive Director, Finance and Corporate Service	
	Ms F. Diver, Executive Director, Hospital and Health Service Performance	
	Portfolio: Ageing	Department of Health
	Mr D. Davis, Minister for Ageing	
	Dr P. Philip, Secretary	
	Ms J. Herington, Director, Aged Care, Wellbeing, Integrated Care and Ageing	
	Mr L. Wallace, Executive Director, Finance and Corporate Service	
	Mr P. Fitzgerald, Executive Director, Strategy and Policy	
	Portfolio: Ports	Department of Transport, Planning and Local Infrastructure
	Mr D. Hodgett, Minister for Ports	
	Mr D. Yates, Secretary	
	Mr T. Garwood, Executive Director, Freight Logistics and Marine Division	
	Mr R. Oliphant, Chief Finance Officer	
	Portfolio: Major Projects	Department of State Development, Business and Innovation
	Mr D. Hodgett, Minister for Major Projects	
	Mr H. Ronaldson, Secretary	
	Mr P. Noble, Acting Deputy Secretary, Investment and Major Projects	
	Mr T. Bamford, Executive Director, Major Projects Victoria	
	Portfolio: Manufacturing	Department of State Development, Business and Innovation
	Mr D. Hodgett, Minister for Manufacturing	
Mr H. Ronaldson, Secretary		
Mr J. Hanney, Deputy Secretary, Trade and Industry Development		
Mr J. Strilakos, Director Of Finance		

15 May 2013	Portfolio: Public Transport	Department of Transport, Planning and Local Infrastructure
	Mr T. Mulder, Minister for Public Transport	
	Mr D. Yates, Secretary	
	Mr R. Oliphant, Chief Finance Officer	
	Mr I. Dobbs, Chair and Chief Executive Officer, Public Transport Victoria	
	Mr N. Gray, Director Network Operations, Public Transport Victoria	
	Portfolio: Roads	Department of Transport, Planning and Local Infrastructure
	Mr T. Mulder, Minister for Roads	
	Mr D. Yates, Secretary	
	Mr R. Oliphant, Chief Finance Officer	
	Mr G. Liddle, Chief Executive, VicRoads	
	Mr R. Freemantle, Chief Operating Officer, VicRoads	
	Portfolio: Innovation, Services and Small Business	Department of State Development, Business and Innovation
	Ms L. Asher, Minister for Innovation, Services and Small Business	
	Mr H. Ronaldson, Secretary	
	Mr J. Hanney, Deputy Secretary, Trade and Industry Development	
	Mr G. Mailes, Deputy Secretary, Innovation and Trade	
	Mr J. Strilakos, Director of Finance	
	Portfolio: Employment and Trade	Department of State Development, Business and Innovation
	Ms L. Asher, Minister for Employment and Trade	
Mr H. Ronaldson, Secretary		
Mr J. Hanney, Deputy Secretary, Trade and Industry Development		
Mr J. Strilakos, Director of Finance		
Portfolio: Tourism and Major Events	Department of State Development, Business and Innovation	
Ms L. Asher, Minister for Tourism and Major Events		
Mr H. Ronaldson, Secretary		
Mr L. Harry, Chief Executive Officer, Tourism Victoria		
Mr J. Dalton, Director, Strategy and Policy, Tourism Victoria		
Mr J. Strilakos, Director of Finance		
16 May 2013	Portfolio: Police and Emergency Services	Department of Justice
	Mr K. Wells, Minister for Police and Emergency Services	
	Mr G. Wilson, Secretary	
	Mr N. Robertson, Executive Director, Police and Emergency Management	
	Commissioner C. Lapsley, Fire Services Commissioner, Fire Services Commissioner of Victoria	
	Chief Commissioner K. Lay, Victoria Police	
	Portfolio: Bushfire Response	Department of Justice
	Mr K. Wells, Minister for Bushfire Response	
	Mr G. Wilson, Secretary	
	Mr N. Robertson, Executive Director, Police and Emergency Management	
Commissioner C. Lapsley, Fire Services Commissioner, Fire Services Commissioner of Victoria		

16 May 2013	Portfolio: Attorney-General	Department of Justice
	Mr R. Clark, Attorney-General	
	Mr G. Wilson, Secretary	
	Mr G. Hill, Executive Director, Courts and Tribunals Service	
	Ms M. De Cicco, Executive Director, Strategic Policy and Legislation	
	Ms C. Gale, Executive Director, Community Operations and Strategy	
	Portfolio: Finance	Department of Treasury and Finance
	Mr R. Clark, Minister for Finance	
	Mr G. Hehir, Secretary	
	Ms M. Skilbeck, Deputy Secretary, Budget and Finance	
	Mr D. Webster, Deputy Secretary, Commercial	
	Mr B. Flynn, Deputy Secretary, Economic	
	Portfolio: Industrial Relations	Department of State Development, Business and Innovation; and Department of Treasury and Finance
	Mr R. Clark, Minister for Industrial Relations	
	Ms M. Skilbeck, Deputy Secretary, Budget and Finance, Department of Treasury and Finance	
	Ms V. Harris, Acting Director, Public Sector Workforce Management Group, Department of Treasury and Finance	
	Mr J. Hanney, Deputy Secretary, Trade and Industry Development, Department of State Development, Business and Innovation	
	Ms L. Zass, Acting Director, Private Sector Workplace Relations, Department of State Development, Business and Innovation	

17 May 2013	Portfolio: Education	Department of Education and Early Childhood Development
	Mr M. Dixon, Minister for Education	
	Mr R. Bolt, Secretary	
	Dr S. Sharp, Deputy Secretary, Early Childhood and School Education Group	
	Mr J. Miles, Deputy Secretary, Infrastructure and Finance Services Group	
	Ms S. Christophers, Executive Director, International Education Division	
	Portfolio: Regional and Rural Development	Department of State Development, Business and Innovation; and the former Department of Planning and Community Development
	Mr P. Ryan, Minister for Regional and Rural Development	
	Mr H. Ronaldson, Secretary, Department of State Development, Business and Innovation	
	Mr L. Bruce, Chief Executive Officer, Regional Development Victoria, Department of State Development, Business and Innovation	
	Mr B. Ostermeyer, Regional Infrastructure, Regional Development Victoria, Department of State Development, Business and Innovation	
	Mr G. Forck, Chief Finance Officer, Department of Planning and Community Development	
	Portfolio: State Development	Department of State Development, Business and Innovation
	Mr P. Ryan, Minister for State Development	
	Mr H. Ronaldson, Secretary	
	Mr J. Hanney, Deputy Secretary, Trade and Industry Development	
	Mr J. Strilakos, Director of Finance	

21 May 2013	Portfolio: Higher Education and Skills	Department of Education and Early Childhood Development
	Mr P. Hall, Minister for Higher Education and Skills	
	Mr R. Bolt, Secretary	
	Ms K. Peake, Deputy Secretary, Higher Education and Skills Group	
	Mr J. Miles, Deputy Secretary, Infrastructure and Finance Services Group	
	Ms M. Lourey, Executive Director, TAFE Transition Taskforce	
	Portfolio: Responsibility for the Teaching Profession	Department of Education and Early Childhood Development
	Mr P. Hall, Minister responsible for the Teaching Profession	
	Mr R. Bolt, Secretary	
	Ms M. Dawson, Deputy Secretary, People and Executive Services Group	
	Mr J. Miles, Deputy Secretary, Infrastructure and Finance Services Group	
	Mr T. Bugden, Executive Director, Human Resources Division	
	Portfolio: Sport and Recreation	Department of Transport, Planning and Local Infrastructure; and the former Department of Planning and Community Development
	Mr H. Delahunty, Minister for Sport and Recreation	
	Mr D. Yates, Secretary, Department of Transport, Planning and Local Infrastructure	
	Mr P. Hertan, Deputy Secretary, Department of Planning and Community Development	
	Mr G. Forck, Chief Finance Officer, Department of Planning and Community Development	
	Ms S. George, Director, Community Sport and Recreation, Department of Planning and Community Development	
	Portfolio: Veterans' Affairs	Department of Premier and Cabinet; and the former Department of Planning and Community Development
	Mr H. Delahunty, Minister for Veterans' Affairs	
Mr A. Tongue, Secretary, Department of Premier and Cabinet		
Mr P. Hertan, Deputy Secretary, Department of Planning and Community Development		
Mr D. Roberts, Manager, Veterans Unit, Department of Planning and Community Development		
Mr G. Forck, Chief Finance Officer, Department of Planning and Community Development		
Portfolio: Planning	Department of Transport, Planning and Local Infrastructure; and the former Department of Planning and Community Development	
Mr M. Guy, Minister for Planning		
Mr D. Yates, Secretary, Department of Transport, Planning and Local Infrastructure		
Mr J. Gardner, Executive Director, Statutory Planning and Heritage, Department of Planning and Community Development		
Mr J. Ginivan, Acting Executive Director, State Planning Building Systems and Strategy, Department of Planning and Community Development		
Mr G. Forck, Chief Finance Officer, Department of Planning and Community Development		
22 May 2013	Portfolio: Energy and Resources	Department of State Development, Business and Innovation
	Mr N. Kotsiras, Minister for Energy and Resources	
	Mr H. Ronaldson, Secretary	
	Ms S. Denis, Deputy Secretary, Energy and Earth Resources	
	Mr C. Brooks, Executive Director, Earth Resources and Development	
	Mr M. Feather, Executive Director, Energy Sector Development Division	

22 May 2013	Portfolio: Multicultural Affairs	Department of Premier and Cabinet
	Mr N. Kotsiras, Minister for Multicultural Affairs	
	Mr D. Speagle, Deputy Secretary, Federalism, Citizenship and Climate Change	
	Mr M. Duckworth, Executive Director, Citizenship and Resilience	
	Mr H. Akyol, Director, Office of Multicultural Affairs and Citizenship	
	Portfolio: Aboriginal Affairs	Department of Premier and Cabinet; and the former Department of Planning and Community Development
	Mrs J. Powell, Minister for Aboriginal Affairs	
	Mr A. Tongue, PSM, Secretary, Department of Premier and Cabinet	
	Mr G. Forck, Chief Finance Officer, Corporate Services, Department of Planning and Community Development	
	Ms A. Singh, Executive Director, Office of Aboriginal Affairs Victoria, Department of Planning and Community Development	
	Ms A. Andriotis, Assistant Director, Strategic Policy and Coordination, Office of Aboriginal Affairs Victoria, Department of Planning and Community Development	
	Portfolio: Local Government	Department of Transport, Planning and Local Infrastructure; and the former Department of Planning and Community Development
	Mrs J. Powell, Minister for Local Government	
	Mr D. Yates, Secretary, Department of Transport, Planning and Local Infrastructure	
	Ms K. Pope, Acting Executive Director, Department of Planning and Community Development	
	Mr M. Grant, Acting Director, Sector Development, Local Government Victoria, Department of Planning and Community Development	
	Mr G. Forck, Chief Finance Officer, Corporate Services, Department of Planning and Community Development	
	Portfolio: Children and Early Childhood Development	Department of Education and Early Childhood Development
	Ms W. Lovell, Minister for Children and Early Childhood Development	
	Mr R. Bolt, Secretary	
Mr M. Maher, Executive Director, Programs and Partnerships Division		
Dr S. Sharp, Deputy Secretary, Early Childhood and School Education Group		
Mr J. Miles, Deputy Secretary, Infrastructure and Finance Services Group		
Portfolio: Housing	Department of Human Services	
Ms W. Lovell, Minister for Housing		
Ms G. Callister, Secretary		
Mr S. Phemister, Executive Director, Policy and Strategy Group		
Mr J. Higgins, Executive Director, Corporate Services Group		
Mr A. Rogers, Deputy Secretary, Design and Implementation Group		
23 May 2013	Portfolio: Agriculture and Food Security	Department of Environment and Primary Industries
	Mr P. Walsh, Minister for Agriculture and Food Security	
	Mr A. Fennessy, Secretary	
	Mr C. O'Farrell, Chief Financial Officer	
	Mr M. Clancy, Chief Financial Officer	
	Prof. G. Spangenberg, Executive Director, Biosciences Research	
	Dr C. Noble, Chief, Science and Technology	
	Mr H. Millar, Executive Director, Biosecurity Victoria	

23 May 2013	Portfolio: Water	Department of Environment and Primary Industries
	Mr P. Walsh, Minister for Water	
	Mr A. Fennessy, Secretary	
	Ms J. Doolan, Deputy Secretary, Water	
	Mr M. Clancy, Chief Finance Officer	
	Mr P. Sammut, General Manager Capital Projects	
	Mr S. Want, Head of Office, Office of Living Victoria	
	Portfolio: Community Services	Department of Human Services
	Ms M. Wooldridge, Minister for Community Services	
	Ms G. Callister, Secretary	
	Mr J. Higgins, Executive Director, Corporate Services Group	
	Mr A. Rogers, Deputy Secretary, Design and Implementation Group	
	Ms K. Haire, Deputy Secretary, Community and Executive Services	
	Portfolio: Disability Services and Reform	Department of Human Services
	Ms M. Wooldridge, Minister for Disability Services and Reform	
	Ms G. Callister, Secretary	
	Mr J. Higgins, Executive Director, Corporate Services Group	
	Mr A. Rogers, Deputy Secretary, Design and Implementation Group	
	Ms K. Haire, Deputy Secretary, Community and Executive Services	
	Portfolio: Mental Health	Department of Health
Ms M. Wooldridge, Minister for Mental Health		
Dr P. Philip, Secretary		
Mr P. Smith, Executive Director, Mental Health Drugs and Regions Division		
Mr L. Wallace, Executive Director, Finance and Corporate Services		
Mr P. Fitzgerald, Executive Director, Strategy and Policy		
24 May 2013	Portfolio: Assistant Treasurer	Department of Treasury and Finance
	Mr G. Rich-Phillips, Assistant Treasurer	
	Mr G. Hehir, Secretary	
	Mr A. Todhunter, Deputy Secretary, Market Engagement and Corporate, Department of Treasury and Finance	
	Ms D. Cosgrove, Chief Executive, Worksafe Victoria	
	Ms J. Dore, Chief Executive Officer, Transport Accident Commission	
	Portfolio: Technology	Department of State Development, Business and Innovation
	Mr G. Rich-Phillips, Minister for Technology	
	Mr H. Ronaldson, Secretary	
	Mr G. Mailes, Deputy Secretary, Innovation and Technology	
Mr J. Strilakos, Director of Finance		

24 May 2013	Portfolio: Responsibility for the Aviation Industry	Department of State Development, Business and Innovation
	Mr G. Rich-Phillips, Minister responsible for the Aviation Industry	
	Mr H. Ronaldson, Secretary	
	Mr A. Ferrington, Executive Director, Aviation	
	Mr J. Strilakos, Director of Finance	
	Portfolio: Environment and Climate Change	Department of Environment and Primary Industries
	Mr R. Smith, Minister for Environment and Climate Change	
	Mr A. Fennessy, Secretary	
	Mr M. Clancy, Chief Finance Officer	
	Mr A. Goodwin, Chief Fire Officer	
	Mr P. Smith, Deputy Secretary, Land, Fire and Environment	
	Portfolio; Youth Affairs	Department of Human Services
	Mr R. Smith, Minister for Youth Affairs	
	Ms G. Callister, Secretary	
	Ms K. Haire, Deputy Secretary, Community and Executive Services	
	Mr H. Klein, Director, Youth, Disability and Women's Affairs	
	Ms J. McCabe, Director, Community and Economic Participation	
	Portfolio: Women's Affairs	Department of Human Services
	Ms H. Victoria, Minister for Women's Affairs	
	Ms G. Callister, Secretary	
	Mr J. Higgins, Executive Director, Corporate Services Group	
	Ms K. Haire, Deputy Secretary, Community and Executive Services	
	Mr H. Klein, Director, Disability, Women and Youth	
	Portfolio: Consumer Affairs	Department of Justice
	Ms H. Victoria, Minister for Consumer Affairs	
	Mr G. Wilson, Secretary	
	Dr C. Noone, Executive Director, Consumer Affairs	
	Mr S. Condron, Chief Finance Officer	
Mr P. D'Adamo, Director, Services and Support Division		
Portfolio: Arts	Department of Premier and Cabinet	
Ms H. Victoria, Minister for the Arts		
Ms P. Hutchinson, Director, Arts Victoria		
Mr G. Andrews, Deputy Director, Policy and Programs, Arts Victoria		
Mr M. O'Leary, Deputy Director, Agencies and Infrastructure, Arts Victoria		
Ms L. Fleet, Deputy Director, Strategic Communications and Marketing, Arts Victoria		

Responses received to the Committee's 2013-14 budget estimates questionnaire

Department of Education and Early Childhood Development
Department of Environment and Primary Industries
Department of Health
Department of Human Services
Department of Justice
Department of Premier and Cabinet
Department of State Development, Business and Innovation
Department of Transport, Planning and Local Infrastructure
Department of Treasury and Finance
Parliamentary Departments

EXTRACT FROM THE MINUTES OF PROCEEDINGS

Report on the 2013-14 Budget Estimates – Part Two

Consideration and adoption of draft report for tabling

Monday 16 September 2013

Motion: That the finding in *Chapter 4 – Commonwealth Funding* with the text: ‘Revisions to data used to calculate Commonwealth funding during 2012 resulted in a significant reduction in health funding to Victoria. The Department of Health has indicated that this resulted in a reduction to the number of elective surgeries’ be deleted.

Moved: Martin Pakula MP

Seconded: Robin Scott MP

The Committee divided on the motion.

Ayes

Robin Scott MP

Martin Pakula MP

Noes

David O’Brien MLC

Neil Angus MP

David Morris MP

Motion negatived.

Motion: That *Chapter 4 – Commonwealth Funding* be agreed to and adopted.

Moved: David O’Brien MLC

Seconded: Neil Angus MP

The Committee divided on the motion.

Ayes

David O’Brien MLC

Neil Angus MP

David Morris MP

Noes

Robin Scott MP

Martin Pakula MP

Resolved in the affirmative.

Monday 14 October 2013

Motion: That in *Chapter 6 – Output Expenditure*, the text ‘However, it is not clear to the Committee what has caused a large proportion of the \$1.8 billion increase’ be deleted.

Moved: David O’Brien MLC

Seconded: Neil Angus MP

The Committee divided on the motion.

Ayes

David O’Brien MLC

Neil Angus MP

David Morris MP

Noes

Robin Scott MP

Martin Pakula MP

Resolved in the affirmative.

Motion: That in *Chapter 6 – Output Expenditure*, on deletion of the text ‘However, it is not clear to the Committee what has caused a large proportion of the \$1.8 billion increase’, that the following text be inserted:

However, the Department of Treasury and Finance advised that ‘it is not possible for the Department of Treasury and Finance to provide an answer to the question above as the Department does not have access to the information that departments have provided individually to PAEC’ (quote source: Department of Treasury and Finance, correspondence received 17 September 2013).

Moved: Martin Pakula MP

Seconded: Jill Hennessy MP

The Committee divided on the motion.

Ayes

Martin Pakula MP

Jill Hennessy MP

Noes

David O’Brien MLC

Neil Angus MP

David Morris MP

Motion negatived.

Motion: That subject to amendments *Chapter 6 – Output Expenditure* including Appendix be agreed to and adopted.

Moved: David O’Brien MLC

Seconded: Neil Angus MP

The Committee divided on the motion.

Ayes

David O’Brien MLC

Neil Angus MP

David Morris MP

Noes

Robin Scott MP

Martin Pakula MP

Resolved in the affirmative.